

Decision Making and Problem Solving

Session 6- Scenario Planning

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What is Scenario Planning

- Scenario planning is a foresight methodology – it helps make sense of an uncertain future.
 - It helps the decision maker imagine how the future might unfold
 - The focus is on making better decisions as it compensates for two common mistakes in decision making:
 1. Under prediction and
 2. Over prediction of change
- Schoemaker (1995)

So, why consider scenarios?

- The world is more complex and challenging
- The future is uncertain
- Decisions taken today will have effects years into the future, but in what sort of world?
- It is increasingly difficult to discern trends and to make well-informed decisions today!
- The future is not pre-determined or predicted
- Full information about the future is never available

Why Scenario Planning?

- Critical to success in a fast moving and complex business environment are **adaptation and speed**
- To compete successfully you need “**Strategic Flexibility**”

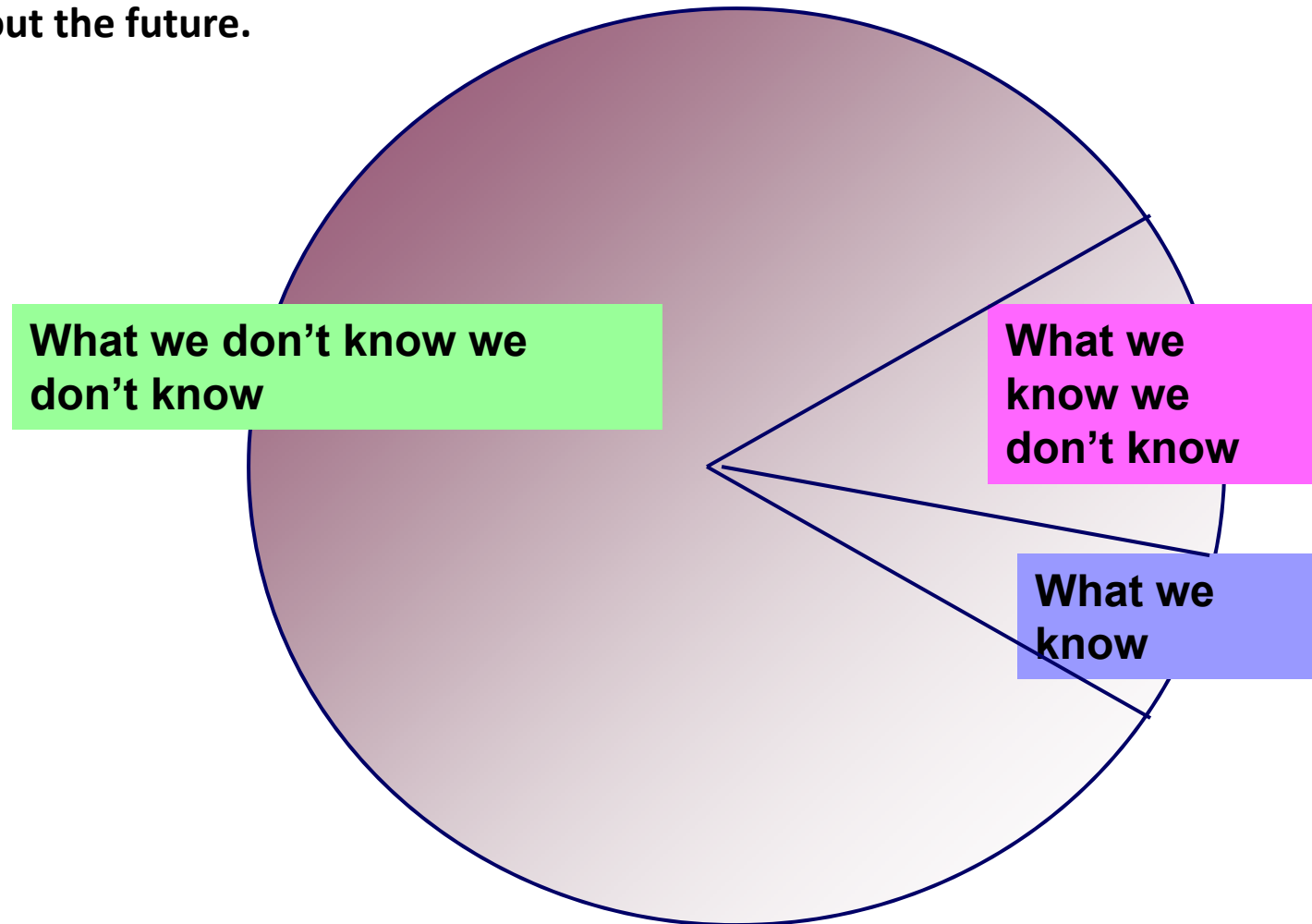
<i>Concept</i>	<i>Source</i>
Strategic manoeuvring	D’Aveni (1994)
Strategic response capability	Bettis and Hitt (1995)
Dynamic core competencies	Lei, Hitt <i>et al.</i> (1996)
Dynamic capabilities	Teece, Pisano <i>et al.</i> (1997)
Repeated innovation	Chakravarthy (1997)
Strategic flexibility	Hitt, Keats <i>et al.</i> (1998); Hamel (2000)
OODA cycle	Haeckel and Nolan (1993); Blaxill and Hout (1998)
Strategy innovation	Hamel (1998)
Competing on the edge	Brown and Eisenhardt (1998)
Robust adaptiveness	Beinhocken (1999)
Funky business	Nordström and Ridderstråle (1999)
Strategic resilience	Hamel and Valikangas (2003)
Karaoke capitalism	Nordström and Ridderstråle (2004)
Blue Ocean strategy	Kim and Mauborgne (2005)
Strategy dynamics	Rumelt (in Lovoallo and Mendonca, 2007)
Management innovation	Hamel (2007)

What is Foresight?

- All our knowledge is about the past, but all our decisions are about the future.
- We create our future by what we do or don't do today; it makes sense to try and understand as best we can what that future might be like before we act.
- ***Foresight is not prediction!*** It is about getting an idea about what *plausible* futures might look like.
- We are good at learning from the *past*; we need to learn from the *future* as well – we need to develop a 'history of the future' as we do a 'history of the past'.

Why think about the future?

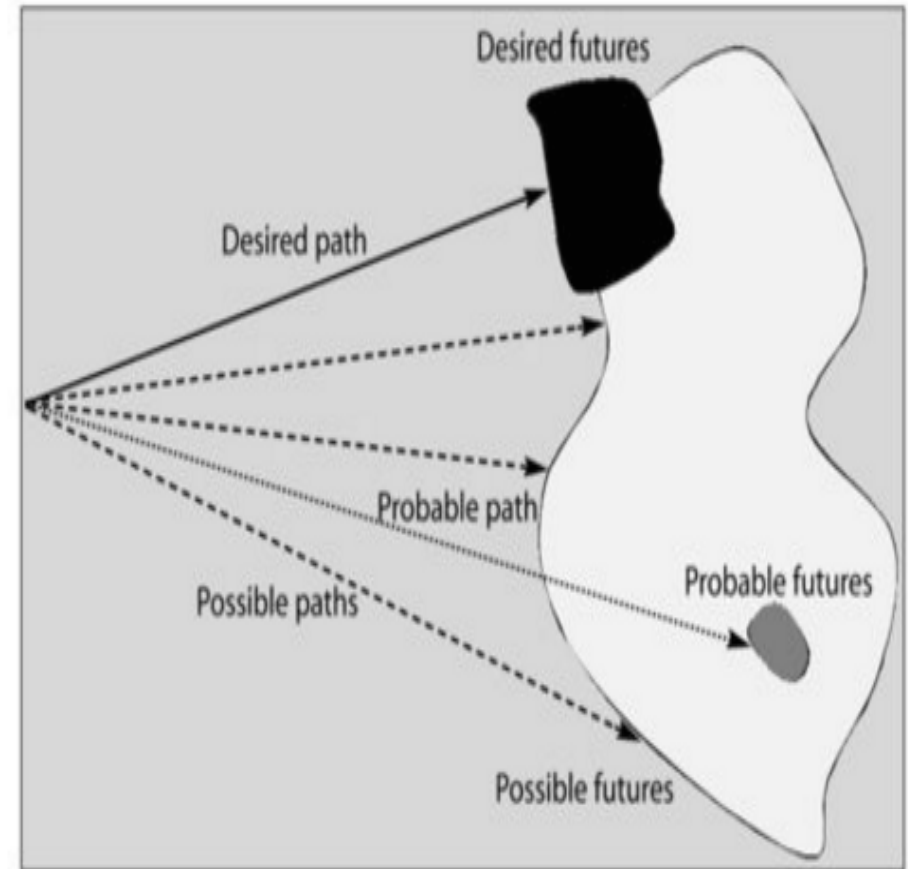
All our knowledge is about the past, but all our decisions are about the future.



Most of what we need to know to make good decisions today is outside our comprehension: we don't even know it's there.

Types of Futures

- Possible - “might” happen (future knowledge)
- Plausible – “could” happen (current knowledge)
- Probable - “likely to” happen (current trends)
- Preferable - “want to” happen (value judgements)



Lindgren And Bandhold (2009)

What are Scenarios?

- Scenarios are stories (narratives)
- Employ past and present information to assist future strategic judgements
- **Scenarios do not predict the future, but they do illuminate the drivers of change.**

<i>Scenarios</i>	<i>Forecasts</i>	<i>Visions</i>
Possible, plausible futures	Probable futures	Desired future
Uncertainty based	Based on certain relations	Value based
Illustrate risks	Hide risk	Hide risk
Qualitative or quantitative	Quantitative	Usually qualitative
Needed to know what we decide	Needed to dare to decide	Energizing
Rarely used	Daily used	Relatively often used
Strong in medium to long-term perspective and medium to high uncertainties	Strong in short-term perspective and low degree of uncertainty	Functions as triggers for voluntary change

Lindgren And Bandhold (2009)

Why Scenarios?

- Scenarios strengthen a manager's strategic management tool box:
 - traditional methods focus on the past
 - scenario planning focuses on the future
- Combining both the past and the future makes thinking about strategy stronger and promotes:
 - responsiveness
 - flexibility
 - competitive advantage
- Present future opportunities

SCENARIOS – Examples in T&T

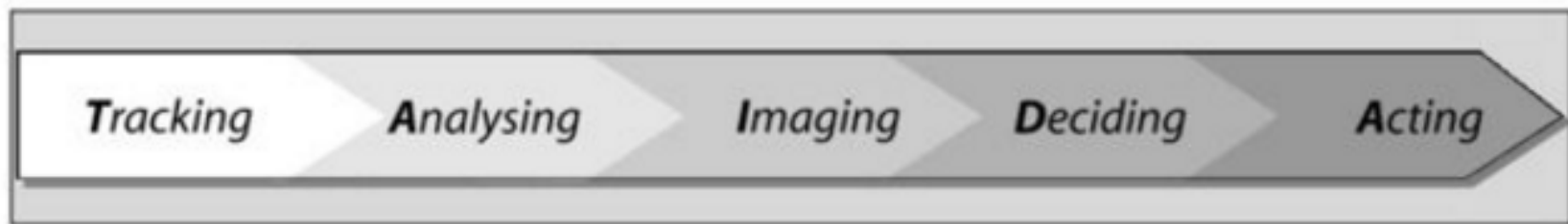
- No Foreign Exchange
- Removal of Fuel Subsidy
- Rising Crime
- Rising taxation
- Unemployment

CLASS TASK

- Imagine you are in a senior executive group meeting.
- As a group, you are now considering what you think will be the most important, but uncertain, external forces (drivers of change) that will affect your organization over the next 10 years.
- What are the top 3 drivers of external change on your list?

TAIDA Model

Lindgren And Bandhold (2009)



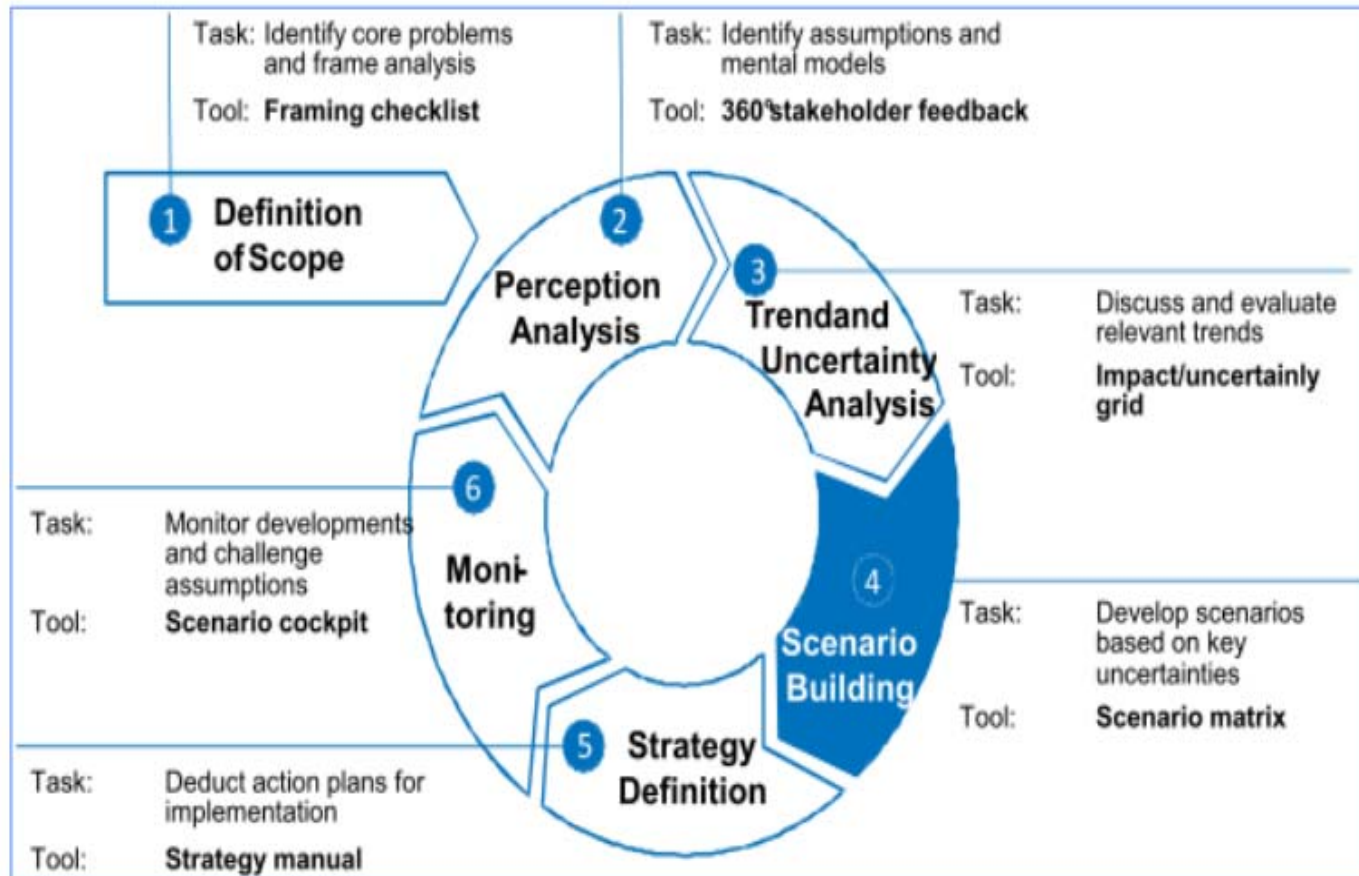
- **Tracking-** identify and describe changes in the surrounding world
- **Analyse-** analyse changes and generate scenarios i.e. plausible futures
- **Imaging-** create images of desired future i.e. visions
- **Deciding-** identify development areas and strategies to meet threats and achieve visions
- **Acting-** implementing the plans derived from the decision

Shoemaker (1995) – Process of Developing Scenarios

1. Define the scope
2. Identify the stakeholders
3. Identify basic trends
4. Identify key uncertainties
5. Construct initial Scenario Themes
6. Check for consistency and plausibility
7. Develop learning scenarios
8. Identify research needs
9. Develop Quantitative Models
10. Evolve towards Decision Scenarios

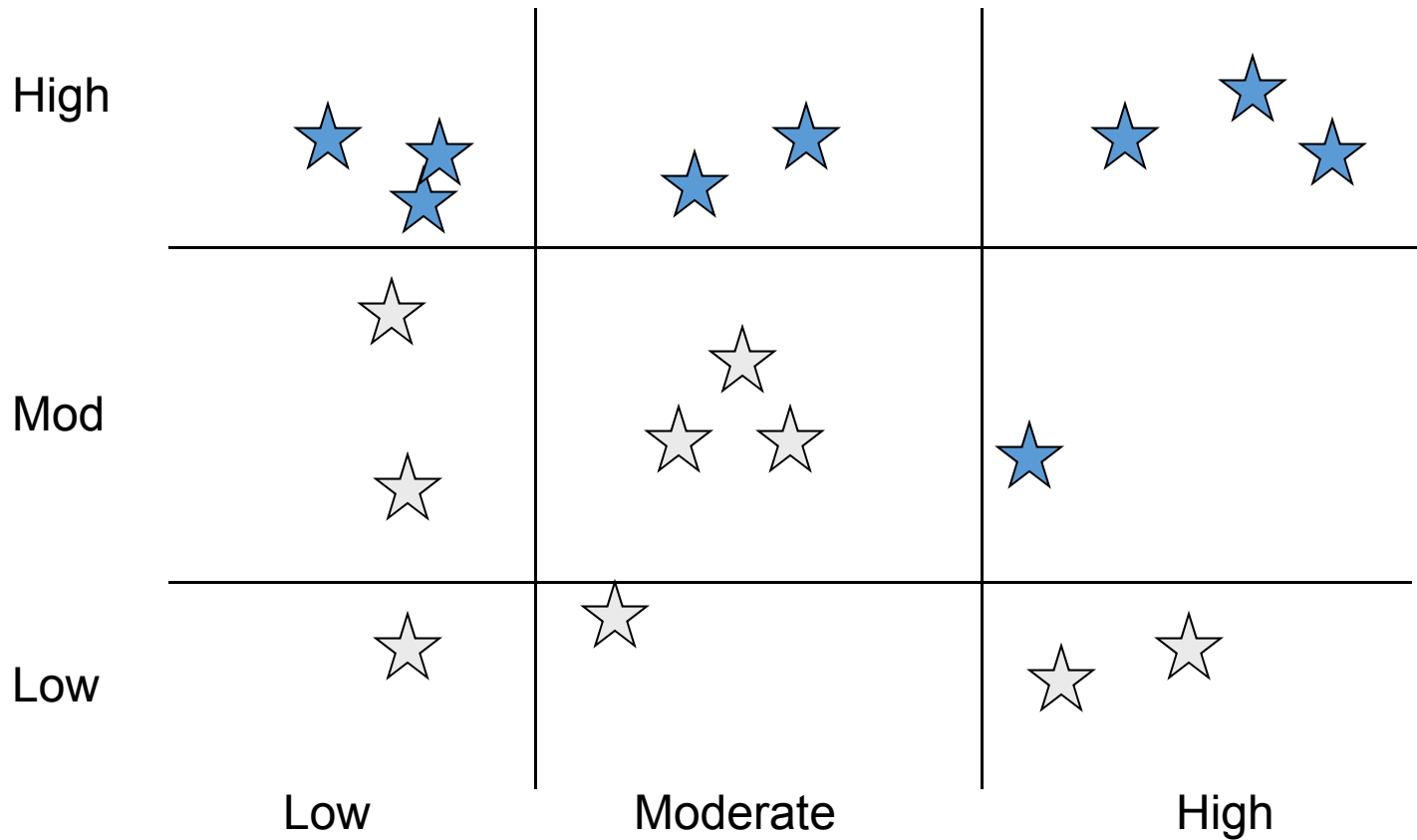
Six-Step Scenario-based Approach to Strategic Planning

Wulf, Brands and Meissner (2010)



Impact-Uncertainty Classification

**I
m
p
a
c
t**



Uncertainty

What is “Uncertainty”?

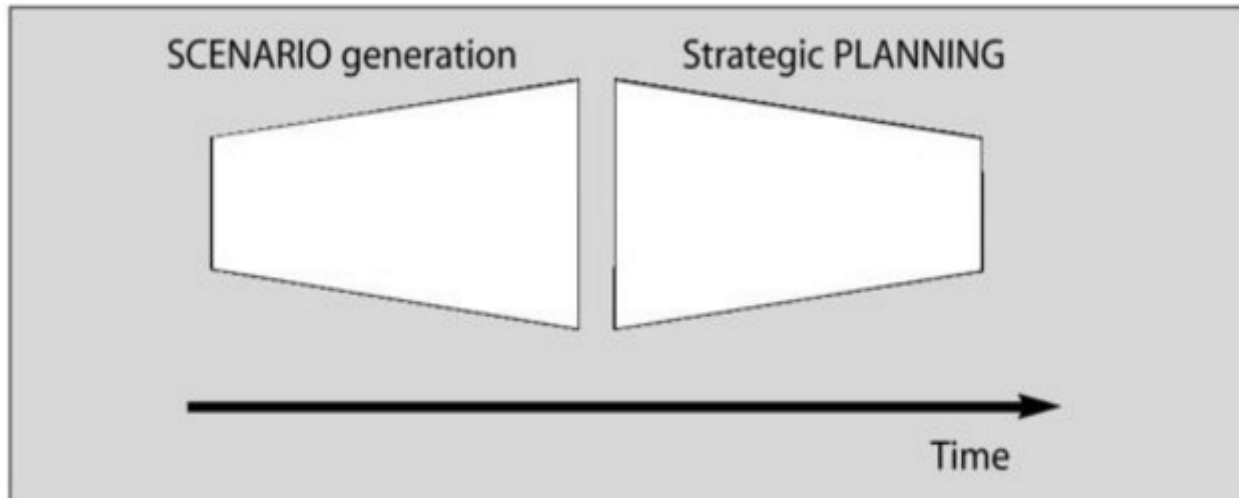
- “**Low**” means we are reasonably certain that it will play out or continue in ways that are fairly well understood
 - eg. population
- “**High**” means that we have no clear idea which of a number of plausible ways it might go
 - eg. government legislation and policy
- “**Mod**” means “somewhere in between”

Building the Scenario Matrix

- High Impact, Low Uncertainty = “**predetermined elements (or trends)**”
 - should be present in every scenario
- High Impact, High Uncertainty = “**critical uncertainty**”
 - choose the two most uncertain of these to create the scenario matrix
- **Low-probability, High-impact = “Wild Cards”** they are events that are:
 - wide in scope and directly affect the human condition
 - potentially disruptive (negatively and/or positively)
 - intrinsically beyond the control of any single institution, group or individual
 - E.g.: asteroid impact; stock market collapse; terrorist attack; disrupted water, gas or electricity supply

From Scenarios to Strategy

- Main Uses for Scenarios:
 - A common language for “strategic conversations” - ongoing future-oriented discussions
 - Strategy Evaluation - existing strategy
 - Strategy Development - new strategy



Lindgren And Bandhold (2009)

SCENARIO OUTPUTS TO TACKLE SUDDEN SHOCKS

- Does your organisation's existing strategy stand up to all of the future worlds presented in these scenarios?
- What rationale would you have for pursuing various strategic options in each scenario? What can you influence?
- What early indicators will we monitor?
- After considering the strategic implications of the scenarios, what actions might we recommend?
- Deciding on an implementation plan.

Reference List

- Lindgren, M. and Bandhold, H. (2009): Scenario Planning – The Link Between Future and Strategy, Palgrave Macmillan: Houndmills
- Wulf, T., Brands, C., Meissner, P. (2010) Scenario-based Approach to Strategic Planning Tool Description – Scenario Matrix, Leipzig Center for Scenario Planning – Roland Berger Research Unit

Available at:

http://www.scenarioplanning.eu/fileadmin/user_upload/imported/fileadmin/user_upload/Tool_Description_Scenario_Matrix.pdf

- Schoemaker, P. J. H. , (1995) Scenario Planning: A Tool for Strategic Thinking, Sloan Management Review; 36:2 Winter 1995