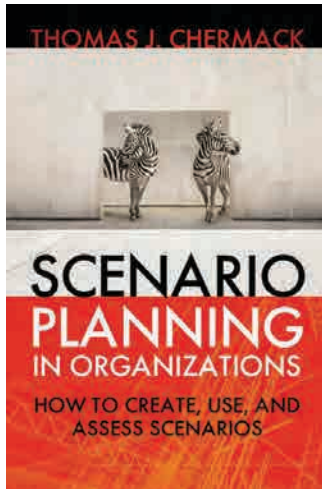




Planning for Uncertain Futures

By Shayne Kavanagh



Scenario Planning in
Organizations: How to
Create, Use, and Assess
Scenarios

By Thomas J. Chermack

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Conditions of uncertainty often defy conventional strategic planning methods. Moreover, when participants in the strategic planning process sense that the analysis and strategy are not sufficiently flexible to accommodate changing conditions, the credibility of the process can be undermined. Scenario planning can help overcome these difficulties.

Scenario planning is a discipline that involves building a set of internally consistent potential futures where plans can be played out, allowing participants to change their thinking and improve decision making, which fosters human and organization learning, and improves performance. Scenario planning represents a departure from more traditional forms of strategic planning in that scenario planning does not assume there is an optimal set of strategies that the organization should follow, and that it is the job of the strategists or planners to find it, or at least its closest approximation. Rather, the main objective of planning is to help participants imagine different possible outcomes, broaden their thinking about how the organization might make itself more adaptable, and create strategies that are robust under a variety of possible future conditions. Shell Oil is the most well-known practitioner of scenario planning (their impressive results have been widely studied and

cited), and many other private-sector companies have made extensive use of it as well.

The scenario planning approach has two parts: scenario building and scenario deployment. These two parts can be broken into five phases:

1. Project preparation
2. Scenario exploration
3. Scenario development
4. Scenario implementation
5. Project assessment

PROJECT PREPARATION

The crux of the project preparation phase is to articulate the purpose of the scenario planning project. A scenario planning process can have different purposes. It can be used to gain a new understanding of uncertainties in the organization's environment, for example, or to create an organization that is more adaptive. Notably, scenario planning is less successful when it is used to "test" a pre-existing strategy, chiefly because centering the scenario project around an existing strategy works against the broad, imaginative thinking that is the hallmark of scenario planning.

A related concept is defining the "question" that drives the project — what the organization hopes to learn by doing scenario planning. A well-defined question helps put boundaries on the

project and helps keep scenarios from being so vague that the organization isn't able to act on any of the project results. Critically, the question should address how far into the future the scenarios will look. A longer time horizon adds complexity to the process, so the horizon must be chosen with care.

Finally, a scenario planning project must be properly managed, much like any other strategic planning process. Hence, the project preparation phase includes fundamentals such as defining the schedule for the project, how the success of the project will be determined, and who is on the project team and what their roles are.

SCENARIO EXPLORATION

In this phase, the project team analyzes the organization's external and internal environments. This helps the scenario planning participants improve their understanding of the environment and gain information pertinent to the project's driving question. It also helps project participants begin to see their organization and its environment in a new light. Many of the tools used in this phase will be familiar to government planners, including SWOT (strength, weaknesses, opportunities, and threats) analysis, interviews with key stakeholders, and questionnaires.

Other analytical tools may be less familiar. Perhaps the most important of these are exercises that expose the project team's "mental models," or individual conceptual representations of a given system (such as the local government and how it creates value for citizens). Mental models encompass assumptions, values, experiences,

beliefs, and ideas about the system, so they are fundamental to forming a viewpoint on issues related to the system. Because mental models operate below people's immediate consciousness, exposing and sharing models can be an immensely valuable way to better understand other people's perspectives and perhaps even arrive at a more complete and shared model. Making models explicit allows participants in the scenario planning process to observe how the models are changing. Scenarios are powerful tools for adjusting models.

Many scenario exploration tools will be familiar.

SCENARIO DEVELOPMENT

A scenario is a movie script-like characterization of a possible future that is presented in considerable detail, with special emphasis on causal connections, internal consistency, and concreteness. The results of scenario exploration provide the raw material for fashioning scenarios. Participants in the process rank the issues the analysis uncovered according to their potential impact on the organization and the uncertainty of their future disposition. Those issues with the greatest impact and the greatest uncertainty should be the focus of the scenarios. The number of scenarios developed should be limited; Chermack suggests that four scenarios are optimal. Five or more will overwhelm planning participants. Three can also work, but could lead

to a common scenario planning trap of developing a "good," a "bad," and a "status quo" scenario, which is not as challenging to the participants' thinking because it de-emphasizes the gray areas that occur in reality in favor of more black-and-white, "good" versus "bad" thinking. Whatever the nature of the scenarios developed, they must be plausible (but not necessarily probable), challenging to participants' mental models, and relevant to participants' concerns about what the organization may face or where it might be headed. Scenarios also need to be written in a way that is engaging and memorable, which helps participants immerse themselves in the scenario analysis, expand their thinking, and perhaps change their mental models.

SCENARIO IMPLEMENTATION

In this phase, the participants answer the driving question of the scenario planning project in many different ways, using the alternative futures presented by the scenarios as a catalyst for imaginative and adaptive thinking. The term used to describe this process is "wind-tunneling" because the participants' strategies are subjected to the hypothetical turbulence described by the scenarios, just like a physical construct is subjected to hypothetical natural turbulence in an actual wind tunnel. Scenario planners use a variety of techniques to develop and test strategies. Exhibit 1 illustrates one simple approach to testing the strategies developed in response to the scenarios. After the participants have developed strategies and discussed what the organization might look like in the future, they can consider:

Exhibit I: Approach to Testing Strategies

	Scenario A	Scenario B	Scenario C	Scenario D
Strategy Viability				
Organizational Structure				
HR and Leadership Capabilities				
Organizational Culture				

- How viable the strategies are under each scenario. Do they hold up or do they fall apart under some scenarios?
- Does the organizational structure support what is needed in each scenario?
- Is the organizational culture an asset or liability in each scenario?
- Does the organization have the human resources and leadership capabilities to thrive in each scenario?

The objective is not to develop a number of strategies, each tailored to the specific concerns raised by each scenario — in other words, to develop a strategy A, B, C, and D for scenarios A, B, C, and D. Instead, the objective is to develop a strategy that holds up well under each scenario — an integrated set of strategies that perform well under scenario A, B, C, or D. This is because the scenarios can only represent a small portion of the nearly infinite possibilities that the future holds. Scenario planning is not an exercise in prediction, but rather is an exercise in becoming more adaptable and resilient.

PROJECT ASSESSMENT

The final step is assessing the project to see if the results were met and taking stock of lessons for future scenario planning exercises. This might

include measuring participants' satisfaction with the project, estimating the financial impact of decisions resulting from the scenario project, and assessing indicators of organizational learning, such as effectiveness of teams and leadership skills.

CONCLUSIONS

Chermack makes a convincing case that scenario planning is a potentially powerful tool to help organizations become adaptive in their thinking, make better decisions about the future, enhance organizational learning and imagination, and, most importantly, improve service to constituents by virtue of better decision making. However, it does require a commitment. Chermack notes that scenario planning can be developed in an iterative fashion, over time, and suggests that one-off scenario planning projects do not usually deliver results commensurate with their costs. Rather, scenario planning works best as part of a larger picture in which the organization integrates the results of the scenario project into budgeting, planning, and other decision-making processes. ■

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