One of the primary concerns for business leaders everywhere is how to minimise uncertainty. Leaders have to inspire confidence in the future success of the organisation. They also have to deliver results – whatever the prevailing market conditions. It is this expectation in the face of what everyone knows to be true about the changing world that has leaders sweating at night.

The inspiration

There are competing claims for who first invented scenario planning. Some trace the origins of this innovation to the work of Herman Kahn, Leo Rosten, and others at the RAND Corporation in the 1950s and 1960s, where the emphasis was on the creation of a story and where the technique of "future-now" was introduced. This approach was driven by the Cold War which led the Rand Corporation to come up with their trademark phrase "think the unthinkable". The new technique was used to model war games, including a potential thermonuclear strike.

"These stories about the future aimed at helping people break past their mental blocks and consider the 'unthinkable' futures, which would take them by surprise if they weren’t prepared," explained management commentator Art Kleiner in The Age of Heretics. "The point was not to make accurate predictions (although like all futurists he [Kahn] gleefully loved being right), but to come up with a mythic story that brings the point home."

Another candidate for originator of scenario thinking was Stanford University, which set up the Stanford Research Institute (SRI) to offer long-term planning facilities for business as well as for the military. In 1968, for example, the SRI group took on a project for the Office of Education to develop scenarios concerning how the USA would look and how it would be operating in 2000. Similarly, SRI took on work for the Environmental Protection Agency (EPA) which resulted in the development of ten to twelve scenarios for the future.

The company that is most identified with scenario planning, however, is Royal Dutch/Shell’s Group Planning Scenario team. At the time the group was formed in 1971, Shell’s planning only had a five-year horizon. But under the new team’s celebrated head, Pierre Wack, the need for long-term planning to anticipate changes in volatile oil and gas markets was conceived and promoted. Then, when the Yom Kippur war occurred, and the first oil crisis hit home, the value of Shell’s futuristic approach was realised. The oil embargo caught most companies by surprise, but Shell had already considered the impact of an increase in oil price and thus managed to avoid the worst shocks. In fact it actually emerged after the oil crisis as the strongest player in the field.

Shell’s Group Planning Scenario team notched up other notable successes. Peter Schwartz, Wack’s protégé, and previously director of the Strategic Environment Center at SRI International, was head of scenario planning at Shell from 1982 to 1986. In 1982, Schwartz and Shell’s scenario planners speculated that oil prices could collapse to $16 a barrel. They also foresaw the collapse of the Soviet Union years before it happened.

As Schwartz explained it: “There is a recognition that big complicated methodologies and elaborate computer models are not the optimal way. It (scenario planning) is a methodology for contingent thinking, for thinking about different possibilities and asking the question 'what if?’”
Schwartz also suggests that scenario planning moves the focus of thinking away from the external world toward the internal world of the executive. “This was Pierre Wack’s big insight at Shell,” he observed. “The objective is not to get a more accurate picture of the world around us but to influence decision making inside the mind of the decision maker. The objective of good scenarios is better decisions not better predictions.”

**Experimentation**

Although scenario planning was influenced by a number of people and organisations, it was Shell’s Group Planning Scenario team which did most to bring it into the mainstream.

In the 1970s Pierre Wack’s team undoubtedly built on Kahn’s work. According to Wack, scenarios deal with two worlds, the world of facts and the world of perceptions. The purpose in the process is to gather and transform information of strategic significance into fresh perspectives. In this respect it is a creative process from which emerge real “aha” moments as existing assumptions are challenged and new contexts for viewing the future emerge.

With this as the context the Shell team developed their own version of the scenario approach as a possible answer to two questions: “how do we look up to 20-30 years ahead?” and “how can we get people to discuss the unthinkable together?”

This technique was powerful, but the Group Planning Scenario team also realised that managers needed a translation of these grand scenarios into something more recognisable. To have practical use in business, the story needs to be focused on a particular audience or issue. Learning to focus scenarios on a specific business purpose was part of the company’s contribution to the practice.

Scenarists today talk about “wind tunnelling” strategies and policies. In effect, each scenario (or story about the future) represents a different set of conditions in the wind tunnel. A policy, or strategy decision, is the prototype aircraft that must be tested in the wind tunnel to see how it performs under varying conditions. A strategy may stand up well in one scenario, the argument goes, but the wings could drop off in another.

Professor Kees van der Heijden at Strathclyde University was head of scenario planning at Shell in the 1980s. His team was responsible for developing scenarios that, among other things, looked at the impact of environmental issues on Shell’s business. “Traditional planning is based on identifying trends and extrapolating into the future,” he says. “But no matter how good the analysis, it is always a projection of the past. Yet we know the future is uncertain, and that there is more than one possible future that a company may have to operate in.”

As with traditional planning, the starting point with scenario planning is to try to identify what is predictable and what is not. But the scenario planner tries to get behind the trends or patterns to understand the driving forces. These make up what is called the causal texture, which gives a common structure for scenarios. It is possible then to develop a number of stories within that structure representing different conditions or futures.

This is a radical departure for most companies. Businesses have traditionally preferred a one solution view of strategy, taking a bet on one future and planning accordingly. Most large companies have little experience in entertaining several equally plausible futures. But once they accept that it is impossible to predict the future, the need for multi-future thinking becomes apparent.

Scenario planning is all about living with ambiguity, and it can be applied at lots of different levels. “Operational decisions should be wind tunnelled in the same way as top-level strategy,” says Professor van der Heijden. “It could relate to recruitment, reward levels, or skills training, but what you try to do is see how a decision will perform under different scenarios.”
One of the most powerful demonstrations of how scenario planning can make a
difference occurred in South Africa. In the mid-1980s, Clem Sunter, head of scenario
planning at Anglo American Corporation was asked by the De Klerk government to put
together some scenarios for what would happen following Nelson Mandela’s release.
Sunter visited Mandela in prison and talked to key members of De Klerk’s cabinet.

Based on those discussions, Sunter and other members of his team gave numerous
lectures to the public outlining scenarios for South Africa to the year 2000. The country,
they said, could all too easily revert to civil war, with tragic consequences. But at the
same time they challenged South Africans to think the unthinkable. What if all South
Africans sat down at a negotiating table to work out a new constitution peacefully
instead of having a civil war? What if sanctions were lifted and trade resumed with the
rest of the world?

Sunter says: ”By presenting a positive future for South Africa as a possibility when all
around were so utterly negative about the country’s prospects, we helped change the
direction of the national debate.”

Validation

As with most innovations, the evolution of scenario planning has been far from smooth.
Detractors point to many global changes that it has failed to predict and suggest that at
its best it is extremely inaccurate.

Shell, however, continues to prove that whatever critics might say, there are significant
advantages to be gained through scenario planning. In terms of oil, for example, they
were not only ahead of the game when the oil crises hit, but they also predicted that in
the future it wouldn’t be companies or producers setting oil prices. Instead, oil would
become a commodity with its price being set by the markets. And the scenario team
also forecast that oil prices would drop – an insight which allowed the company to sit
tight when the strategies of its competitors were to buy up oil companies when the
price was high.

As for the method itself, Arie de Geus, another former Shell scenario planner, notes in
his book The Living Company that scenario planning today ”remains surrounded by
vagueness and an air of mystery. People are unsure whether it is a process for reaching
better decisions; a way to know the future better; or a combination of both.”

In fact, many of those who use the technique say it is a way to facilitate lateral thinking
in an organisation. Although sometimes confused with disaster planning or contingency
planning, which deal with how a company should respond when things go wrong,
scenario planning is a way to identify both threats and opportunities that flow from
decisions.

Despite the changing nature of the modern business world, an important aspect of
scenario planning is the recognition that there is an element of predictability about the
future. The art is to find out how much of the ambiguity is due to ignorance and limited
perspective and how much due to inherent uncertainty.

As for the process itself, there are many companies offering their own versions of
scenario planning. Typically, these consist of a series of workshops where a group
comes together to share knowledge and where the following eight tasks are addressed.

- Task Analysis: This initial activity addresses the question “where are we now?” In
  this context it considers the goals and strategies of the company and examines existing
  strengths and weaknesses. However, the intent here is not to find solutions but to
  promote alternative ways of thinking that are currently outside the existing mind-set.

- Influence Analysis: In this phase of scenario planning the aim is to identify what
  external factors are influencing current thinking and strategy. Common factors would
  include, for example, customers, competition, legislation and technology, and, through
  this process, the degree of influence of the various factors can be estimated.
Projections: Having clarified the influencing factors, the next stage of the process describes the present and future status of each factor, but not so that it will prompt participants in any particular direction. On the contrary, projections need to be formulated in a neutral way to allow alternative futures to emerge.

Grouping Alternatives: Then the process checks the alternative developments against each other for the three principles that any scenario should incorporate – consistency, compatibility, and logic.

Scenario Interpretation: This task deals with the analysis of the chosen scenarios. This phase of the process is not easy since one is by definition dealing with a future that is dynamic and certain to have forces acting upon it that are yet to emerge. However, it leads the group to compare and contrast different scenarios and give descriptive titles to them.

Consequence Analysis: Here the group is looking at the outcomes of the various scenarios they have identified. Risks and opportunities are assessed and measured and the company's strategy is examined on a what if basis.

Analysis of Disruptive Events: It is good practice to consider disruptive events from as many directions as possible. Once such an event is identified, its impact on the company and the scenario can be assessed, and preventative and response measures can be prepared.

Scenario Transfer: In this last step of the process the opportunities and risks already identified are used to help form the corporate strategy.

**Dissemination**

In 1987, Peter Schwartz co-founded GBN (Global Business Network), a consultancy that specialised in helping organisations apply scenario planning. Now part of the Monitor Consulting Group, GBN’s clients include many Fortune 500 companies, the main US defense research agency (DARPA: Defense Advanced Research Projects Agency), and the CIA. Schwartz has also written a string of influential books and articles, including When Good Companies Do Bad Things (co-authored with Blair Gibb). More recently he has also worked as a script consultant on a number of films, including Deep Impact, War Games, and Sneakers. And he even assembled a team of futurists to envision the world in 2058 for Steven Spielberg’s film Minority Report.

By the 1990s the method had entered the mainstream, and a number of books, including Schwartz’s The Art of the Long View, The Living Company, by Arie de Geus and The Age of Heretics by Art Kleiner – all drew attention to scenario planning, placing it firmly on the management agenda. It is no coincidence, of course, that the technique came to the fore at a time when so many seemingly unassailable companies were starting to be wrong-footed by changes in their trading environments.

However, the acceptance of this innovation has not meant that the experts always get it right. Schwartz’s 1999 book, The Long Boom, co-authored with Peter Leyden and Joel Hyatt, predicted a 25-year period of uninterrupted economic growth and prosperity. The dot-com bubble, the impact of 9/11 and the continuing uncertainty of global markets have discredited this analysis and shown just how difficult it is to know what is coming our way.

**Further Reading**


