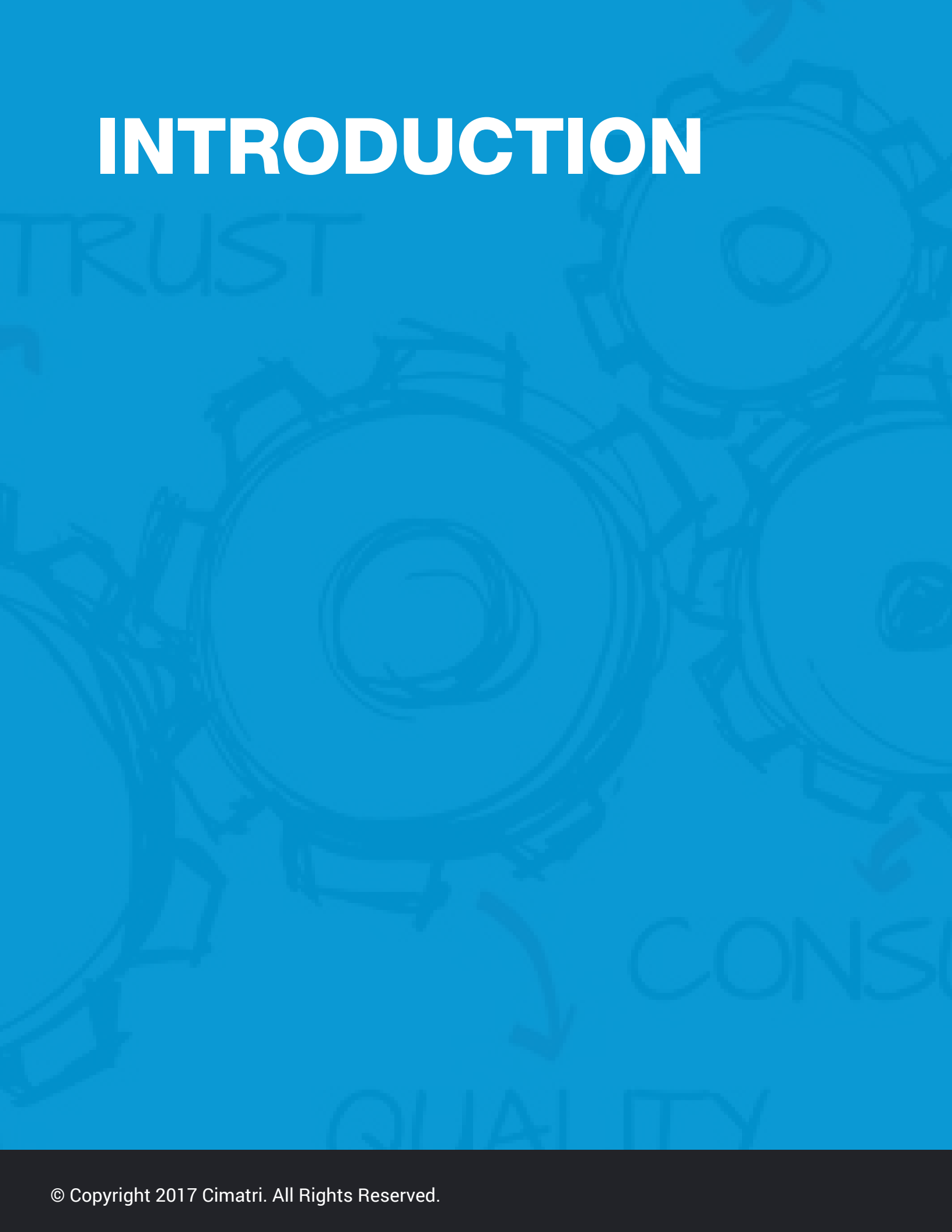


PLANNING IN AN UNCERTAIN WORLD

CIMATRI

INTRODUCTION

The background of the slide is a solid blue color. Overlaid on this background are several faint, light-blue line drawings of interlocking gears. Scattered throughout the background are also faint, light-blue words in a sans-serif font, including 'TRUST', 'CONSUMER', 'QUALITY', and 'INTEGRITY'.

PLANNING IN AN UNCERTAIN WORLD

How do you compete successfully in a rapidly changing world? Two important factors critical to success in fast-moving and complex business environments are adaptation and speed. Revisit your childhood for a moment for a poignant illustration concerning the nature of fast-moving worlds. In Lewis Carroll's story of Alice and the Queen in *Through the Looking-Glass*, Alice is not moving forward, although she is running fast. When she notices this, the Queen remarks that she must come from a very slow world.



In a fast-moving world, you have to run fast just to stay where you are, and run twice as fast in order to get anywhere.

Speed is one aspect of adaptation, and is critical to success in complex and fast-changing environments. The other aspect of adaptation is the ability to handle complexity. How do you handle the unexpected? Do you simply react, or do you respond with a well-ordered and pre-conceived process?

Imagine a scenario where Becky and Pete are leading the annual strategy planning event for their organization. Managers from each department attend and provide data from the fourth quarter of the previous year. Shortfalls are analyzed and overages are examined as the assembled team plots the course for the New Year. Becky and Pete are convinced their combined projections are based on the best historical data from each department with one eye firmly fixed on past and current environmental and financial conditions. **Their efforts are laudable and their conclusions are valid. It's just that Becky and Pete's strategy planning process is hopelessly outdated in today's fast-paced world.**

TRADITIONAL PLANNING VS. SCENARIO PLANNING

Traditional strategic planning is primarily based on an examination of past and current performance. This historical data provides the basis for forecasting future plans and possible changes. **The major weakness is that this type of planning generally assumes that past practices and external factors will continue on as before, or at the worse, deviate only a small amount.** Some forecast plans are laid for what are viewed as significant possible changes in the environment, processes, or personnel. However, these usually fall short of providing guidance for major upheavals from within or without the organization.

Scenario planning in its most basic form creates a variety of possible future scenarios to which organizations can respond in one of two ways. **A scenario is a well-worked answer to the question: 'What can conceivably happen?' Or: 'What would happen if...?' Thus it differs from either a forecast or a vision, both of which tend to conceal risks.** The scenario makes risk-management possible. Associations or organizations can analyze each scenario with a view toward how they could survive and even succeed after such an event. This approach examines current strategies and practices and seeks to discover ways they may change to weather the possible storm.

Conversely, organizations can skip the initial scenario analysis and instead focus their examination on a desired future state and what it would require to reach that level. This approach seeks to understand how the many contributing dynamics of their industry produces change and how their organization could respond in such a way as to position them favorably when that desired situation occurs. The ultimate purpose is the same for both approaches: to identify and avoid possible problems before they occur and to seek ways to capitalize on possible or desired future changes.

WHY SCENARIO PLANNING?

Scenario planning helps organizations understand that decisions are not simply about submitting numbers and creating budgets, but about recognizing a wider context of events that could happen. Scenarios are created around uncertainties in the association/organization or its environment. The goal is to move from one predicted outcome to understanding how multiple uncertainties will impact an organization. Although every organization is different, success is higher when overall strategy is correlated to changes in the environment. These changes can create opportunities for prepared organizations while creating threats to those less prepared.

In creating a scenario plan, these driving forces should be categorized into external and internal factors. **External factors could include: market forces, which shape the needs and behaviors of consumers and suppliers; cost forces, which depend on economics; government forces, which are out of the control of individual organizations but set the rules of the game; and, most importantly, competitive forces and uncertain strategic considerations.** The need to match or beat competitors can determine the opportunities and threats of an organization. Internal factors could include planning for turnover of critical personnel, responding to major accidents, or significant changes in prices.

One pitfall of scenario planning is that organizations tend to make scenarios too broad or too narrow. When scenarios are too broad, they are not taken seriously because people feel the scenarios are unrealistic or highly improbable. When they are too narrow, scenarios are usually minor variations of the existing strategy and therefore redundant and useless.



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COMPARING TRADITIONAL PLANNING AND SCENARIO PLANNING

TRADITIONAL PLANNING	SCENARIO PLANNING
Uses only a partial perspective, considering everything to be equal	Attempts to adopt an overall perspective, including everything possible, where nothing is equal.
Considers only known quantitative variables	Seeks to consider qualitative variables, including the unknown, hidden, or subjective.
Considers only those relationships represented by statistical, stable structures	Considers relationships represented by dynamic, emerging structures.
Seeks to explain present realities in light of past events	Sees the future as the most important reason for the present.
Views the future as certain, stable and mainly safe	Views the future as a panorama of multiple and uncertain opportunities.
Uses economic methodologies with quantitative models	Uses qualitative methodologies that include intention and systems analysis.
Has a passive or adaptive attitude toward the future (what will be, will be)	Has an active and creative attitude toward the future (the future is what we make of it).



HOW TO IMPLEMENT SCENARIO PLANNING INTO YOUR ASSOCIATION/ ORGANIZATION

STEP 1: IDENTIFY THE FOCAL ISSUE

Successful scenario planning begins by determining the vital decisions to be dealt with and then designing a series of steps that progress outward. What question concerning the future is your organization/association facing?

The time horizon is as essential as the focal question. If you look just a few years ahead, there will probably be very little difference. If you look 20 years ahead, much may have changed. The uncertainty may be too large to find answers that can give any guidance for the organization. The time horizon for scenarios must be short enough to create scenarios that are probable, but long enough to imagine that important changes with an impact on the future of business can take place.

For example, with Becky and Pete's organization, their primary question stems from an uncertain future due to impending cuts in federal funding. For them, the question would be something like, "Should we lay off personnel and find additional ways to cut back expenses, or should we seek to double or even triple our investment into donor recruitment and development?"

Now that Becky and Pete have identified the primary question for this scenario exercise, they can conduct a series of discussions directed at finding solutions and proposing alternate future goals. **The aim is to avoid purposeless speculation and instead focus on plausible solutions.**



STEP 2: LIST THE KEY FACTORS THAT IMPACT THE ISSUE

Identify the key factors that will determine the success or failure of the question being considered. In other words, figure out what you don't know but must know in order to resolve the issue in question.

- ➔ What information is needed in order to resolve this issue?
- ➔ What vital assumptions are necessary?
- ➔ How will you determine success or failure?
- ➔ What conditions and/or events will determine success or failure?
- ➔ What assumptions provide the logic for how success or failure is determined?

For example: In Becky and Pete's organization, they need to know how the coming changes in federal and state health and welfare policies will affect their ability to help clients. They should also explore how the local business community plans to adapt to the coming changes over the next few years. **It would also be wise to explore whether other similar organizations facing the same crisis would be willing to investigate options for a cooperative response.**

As the process unfolds Becky and Pete will uncover lots of questions. Their next task is to determine which of the items above are the most important concerning the decision they must make (e.g.: "Should we lay off personnel and find additional ways to cut back expenses, or should we seek to double or even triple our investment into donor recruitment and development?" brought about by an impending cut in federal funding). **They should choose three or four top uncertainties on which to focus their efforts. More than five risks the team getting bogged down.**

STEP 3: LIST THE DRIVING FORCES INFLUENCING THE KEY FACTORS

Identify the driving forces in the environment in which your organization operates that drive the key factors you listed in step 2. Driving forces often originate in the following areas:

- ➔ Public opinion
- ➔ Political factors
- ➔ Economic factors
- ➔ Market behavior
- ➔ Customer behavior
- ➔ Technology
- ➔ Innovation
- ➔ Industry competitive structures
- ➔ Your organizational capabilities
- ➔ Your core competencies

Separate the forces that are predictable or predetermined from those which are unpredictable. **Creating plausible scenarios requires knowing what is certain and what is open to influence or change.** This process may require an extensive amount of research.

For Becky and Pete's organization, they may want to meet with trained and/or renowned observers of state and Federal politics, including their representatives in Congress and the state legislature.

STEP 4: RATE THE KEY FACTORS AND DRIVING FORCES BY IMPORTANCE AND UNCERTAINTY

This identifies the key factors and forces that are the most important and the most uncertain. Rank each in two categories:

- ➔ Degree of importance for the success of the issue under consideration
- ➔ Degree of uncertainty surrounding the listed factors and forces

This ranking process will identify the two or three factors or trends that are the most important and the most uncertain. The predictable and predetermined will not present a crisis of decision, and therefore are not considered in this process.

For Becky and Pete's organization, the degree of highest uncertainty, and the degree of most importance, lies with the nature of the federal funding cuts. Where will these cuts be made? How much in actual dollars will be lost? When can they expect to feel the losses? How will their client population be affected?

This ranking helps to identify the factors and forces that Becky and Pete will use as they create a set of scenarios to be examined.



“This ranking process will identify the two or three factors or trends that are the most important and the most uncertain.”

STEP 5: CREATE PLOTS FOR ALTERNATE FUTURES THAT COULD IMPACT THEIR DECISION

This is generally the most important part of the process, and the one that demands the most creativity. Becky and Pete must develop a series of possible and plausible scenarios in which the differences all affect the decision under consideration. The main characters in each plot are either organizations or driving forces. Each scenario seeks to describe how the organization or driving force might react in different situations, or when faced with different obstacles or advantages.

These scenarios will portray possible futures. For example, one scenario may show the state of things to come if some current major trend continues unchecked. Another scenario could portray events if some unanticipated change reshuffles every state of the current reality. Yet another could draw the picture of “things just keep getting worse.” They may also include a scenario where things stay the same as before.

Becky and Pete’s organization narrowed their choices down to two opposing scenarios for consideration:

- ➔ A New Wave of Generosity
- ➔ Hard times

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STEP 6: EVALUATE THE DECISION IN EACH PROPOSED SCENARIO

Simulate each scenario with your team as if it were actually occurring. Strive to place yourself in the situation in order to give an unbiased evaluation of the decision facing the organization. Use “What if . . .” reasoning to think through the consequences of the alternative choices you face. Consider how each strategic choice will play out in each of the scenarios you’ve constructed.

Let’s look again at the scenarios Becky and Pete’s organization settled on:

A New Wave of Generosity - A new wave of generosity sweeps over the land and Becky and Pete’s organization is well situated to reap the benefits due to their choice of heavy donor investment and cultivation. As new people seek new ways to give, their organization is ready to tap into and profit from this new era of volunteerism and generosity. If Becky and Pete had chosen instead to curtail donor cultivation efforts, they would not be in a position to reap the benefits of this unparalleled opportunity.

Hard Times - Becky and Pete’s organization could no longer be in existence if they had chosen to cut back on donor recruitment and cultivation. With severely curtailed government funding, organizations such as theirs depend in large measure on private support. Becky and Pete’s earlier decision to invest in donor development has positioned their organization well to compete for available funds, even in Hard Times.

What kind of analysis might Becky and Pete’s organization make from these basic scenarios?

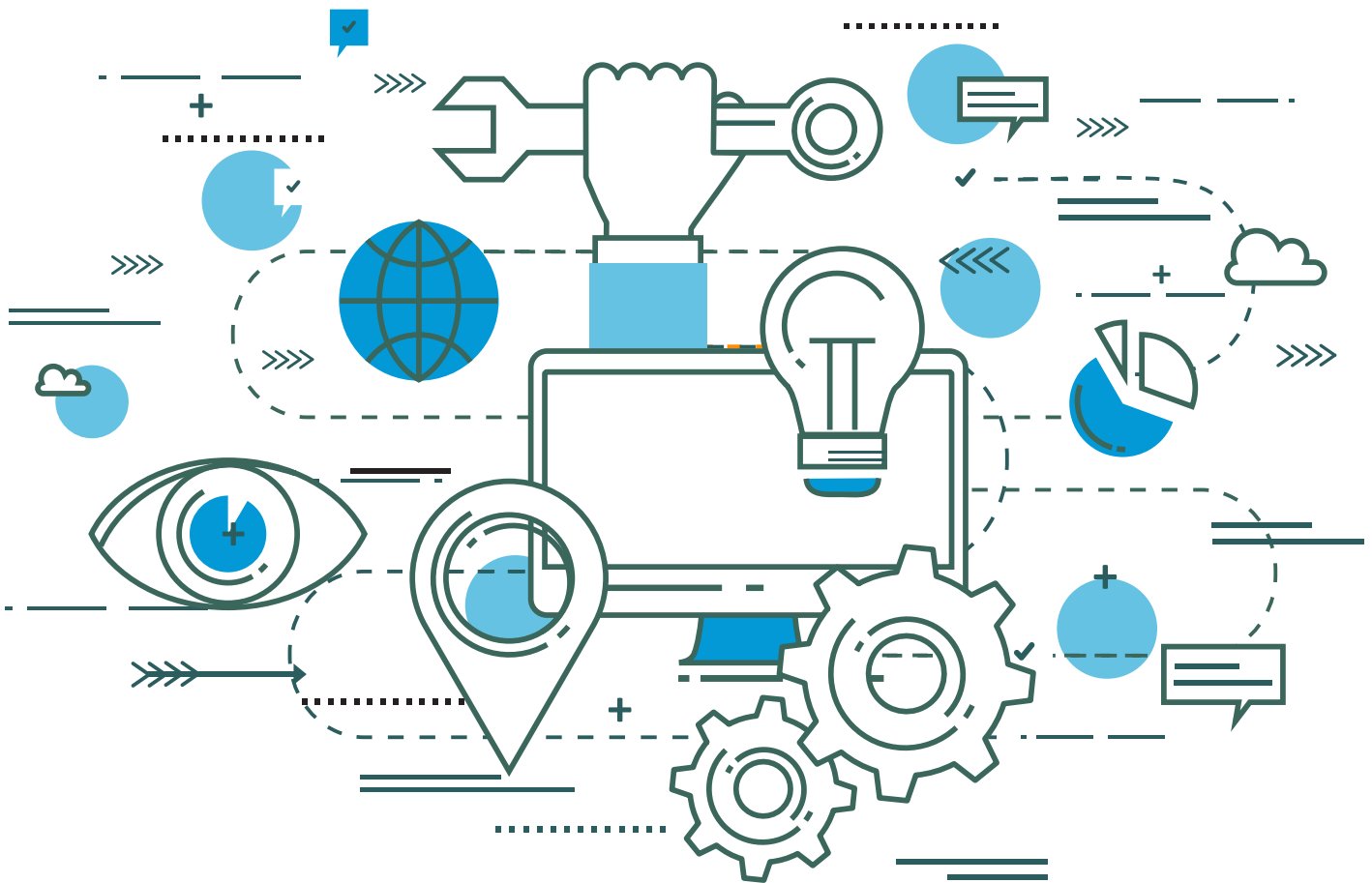
Under the two scenarios Becky and Pete’s organization chose to examine, the best choice is clear. The best they can hope for from a cut-it-to-the-bone budgeting strategy is sheer survival. Only investing in a major donor development effort will allow Becky and Pete’s organization to not only survive but flourish.

STEP 7: SELECT INDICATORS FOR EACH SCENARIO

Indicators serve as signposts that provide advanced insight into which particular scenario is actually unfolding in real time. Any advance notice of anticipated change provides a significant competitive advantage over others. Knowing what the future holds and being prepared to make advantageous moves will position your organization in favorable circumstances.

Selecting indicators is an important step of the scenario planning process.

It forces organizations to recognize the future is not fixed and that many different scenarios are possible, even probable. With this new understanding of the future and its opportunities, organizations become more sensitive to the events that shape their future and how to deal with them creatively.



WHAT CONSTITUTES A GOOD SCENARIO?

There are in short, seven criteria for a good scenario set for strategy purposes:

- ➔ **Decision-making power.** Each scenario in the set, and the set as a whole, must provide insights useful for the question being considered.
- ➔ **Plausibility.** The developed scenarios must fall within the limits of what future events are realistically possible.
- ➔ **Alternatives.** Each scenario should be at least to some extent probable, although it is not necessary to define the probabilities explicitly. The ideal is that the scenarios are all more or less equally probable, so that the widest possible range of uncertainty is covered by the scenario set.
- ➔ **Consistency.** Each scenario must be internally consistent. Without internal consistency the scenarios will not be credible. The logic of the scenario is critical.
- ➔ **Differentiation.** The scenarios should be structurally or qualitatively different. It is not enough for them to be different in terms of magnitude, and therefore only variations of a base scenario.
- ➔ **Memorability.** The scenarios should be easy to remember and to differentiate, even after a presentation. Therefore it is advisable to reduce the number to between three and five. Vivid scenario names help.
- ➔ **Challenge.** Scenarios must really challenge the organization's received wisdom about the future.

FROM SCENARIOS TO STRATEGY

Scenarios alone do not determine strategy any more than a forecast determines the weather. A strategy must be developed in response to a set of scenarios. Think of scenarios as different hands of cards you might be dealt; strategies are the way you would play those cards.

After constructing a set of scenarios, there are several routes you can travel from scenarios to strategy. Instead of picking one scenario and betting the organization, it is far better to choose a strategy that is durable across the range of scenarios. Sometimes the relevant scenarios are sufficiently diverse so that no single strategy will prevail across all of them. In that case it is best to have a strategy appropriate to each scenario, then pay close attention to early indicators that can tip you to the likelihood of one scenario over the others.

Help with Scenario Planning

Scenario planning is not beyond the realm of most people or organizations. A good deal of common sense is involved in scenario planning. But there are many ways to go wrong and many mistakes that can be made. As with many practices, experience is a good teacher. Skilled facilitation by an experienced practitioner is a must. [Contact the business professionals at Cimatri to start transforming your association and creating your scenarios.](#)

**LET'S START MY SCENARIO
PLANNING NOW**