

Unleash the Power of Scenario Planning In Your Organization

Using The Systems Thinking Approach®

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You are #1 in the world. Your products are known for their quality and safety. Your company operates hundreds of highly technical sites around the world. Your revenues are in the billions of dollars selling products the world cannot live without.

You are on top of the world. What can go wrong?
If you are Toyota or BP – a lot.

You may not operate on the same scale as these two companies but an unexpected event can be just as damaging to your future.

The impact on shareholders, stakeholders, employees, the environment, suppliers, customers, and innocent bystanders can range from inconvenience to catastrophic.

Do you really understand the implications of big decisions on your organization? Have you truly considered the various scenarios around those decisions? The quick answer is “*of course we have*”. The world is full of proof that you have not.

START WITH A PLAN

Most organizations recognize the need for crisis plans. These plans are built to respond to such things as natural disasters, terrorism, major staff disruptions, technological breakdowns or a financial crunch. In spite of these being very basic crisis plans, the daily news carries stories of organizations that have not been prepared. In some cases they had a crisis plan on paper, but it was sitting on a shelf and was useless when they needed it.

When a crisis hits, you do not want to start considering options. If you want a great example of how to successfully respond to a crisis, look at the story of Maple Leaf Foods and the outbreak of Listeria in 2008. Their immediate, well thought out response saved the company.

Having a crisis response is not enough and is not the purpose of this article.

Every organization needs a Strategic Plan. If you are trying to get by without one, you will simply not be successful and will fall victim to the inevitable surprises that every organization encounters.

The best Strategic Planning model out there today can be found with the Haines Centre for Strategic Management. The model is based on the Systems Thinking Approach® and it works for any size organization. The model stresses simplicity, clarity and speed. This is your starting point.

You are probably saying that Toyota and BP had strategic plans and look what happened. They did have plans and for the most part those plans were working just fine. What was missing?

“they let the shit hit the fan, and then they made a plan”

-Jimmy Buffett, song – A lot to drink about

First, let's be clear. Toyota is a great company, making great cars. They earned the reputation they have for quality and safety. BP did not get to reach the heights they have by being ineffective.

In both cases they suffered from the common phenomenon of believing in your invincibility and the arrogance that goes with it. If you do not stay humble as an organization and as leaders the world will quickly remind you. The financial crisis humbled many an infallible manager.

WE CAN'T PLAN FOR EVERYTHING!

Accidents happen. We can't plan for everything. This is absolutely true. We are not very good at predicting unlikely events. For an excellent book, check out *Black Swans* by Nassim Nicholas Taleb. A better approach is to focus on the consequences of any extreme events. This approach allows for the development of strategies to withstand or avoid any impacts.

By adding a rigorous scenario planning process to your strategic planning you can ensure you know and understand as many possible outcomes as possible.

Could BP have foreseen an explosion and oil leaking into the ocean? Of course. Was it likely to happen? No, there are thousands of wells operating successfully around the world. Those successes led to fatally bad decisions. They stopped sweating the small stuff. If you stop sweating the small stuff it is very likely the big stuff will jump up and bite you.

The most critical question in your strategic planning, scenario planning and day-to-day operations must be – “*what if?*”

At this point it is an important reminder that these processes must be led by the Board and senior management. If they are not engaged in asking the tough questions, do not expect anyone else in the organization to do it.

Many articles and case studies will be written about the BP adventure in the Gulf of Mexico. The Board and CEO are under a microscope. The bottom line in most reviews will be they dropped the ball on a number of decision points. In each of those cases a simple “*what if?*” would have helped. For example: “*what if?*” our efforts to cut costs on the drilling rig leads to a leak? A very basic question that was likely never asked. If it was and the answer was “*it is a risk we are willing to take*”, another set of very serious legal and ethical questions need to be asked.

From reports it appears that safety violations and other technical concerns were well known but not to senior management. If true, it would be a severe example of senior management not wanting

to know and not asking key questions. More on that later in this article. The end result was a choice made between short term cost savings and the health of the organization.

There was a report of a Toyota executive email claiming credit for saving millions by not moving to correct the faulty gas pedal. **Saving millions to lose billions in dollars and reputation.** Is your organization being penny wise and dollar foolish?

WE DON'T NEED NEGATIVE SCENARIOS

Optimism is great and must be the foundation of any strategic plan. This article advocates a balance between optimism, realism and pessimism. Most organization (and individuals) are afraid to talk about what can go wrong because they fear appearing negative. If your company is announcing a major merger it is not wise to suggest publicly that the synergies expected will not really work out. In fact, in 75% of mergers the synergies do not work out as expected. Before the announcement a great “*what if?*” would be: “*what if we do not get the estimated 25% synergy saving as expected – does the merger still make sense?*” If the answer is yes – go for it.

THE LAW OF EXPECTED SURPRISES

A common trap for managers is the belief that they can rely on managing through any unforeseen problems. They may get through it but at what cost to the organization? They may also face multiple surprises at the same time which compounds the problem. Recent examples show that the firm may survive but responsible managers do not. Most managers will claim they want no surprises but do not create an environment that ensures unexpected surprises are kept to a minimum.

A robust scenario planning process implemented with strategic planning will greatly reduce the number of unforeseen problems. We want only “*expected surprises*”. These are events that we acknowledge can happen and we can clearly answer what we are

“In scenario planning; optimism is great, but even better if combined with a splash of realism and a dash of pessimism”

- Brian J. Rhiness

doing throughout the organization to ensure they do not happen.

As a car manufacturer you can expect that you will have recalls. What are you doing at every level of the organization to ensure that it will not happen or to minimize the impact? It needs to become a *cultural response*.

If you are pumping oil from deep in the ocean an “*expected surprise*” would be a leak. Had senior management considered a worst case scenario – unstoppable leak – they would not have allowed the cheapest route as the correct course. A small amount of critical foresight will eliminate a large amount of hindsight.

“WHAT IF” WE HAD A GUSHER?

Also, watch for signals. BP had hundreds of safety violations compared to few for their competitors. That is a big red flag “*what*

if?” question for the Board and senior managers. What if those violations are a sign of bigger culture and management issues?

Implement a Law of Expected Surprises at every level of your organization. Ask the tough questions inside your organization and avoid doing it in front of television cameras.

“Skeptics Are Our Best Friends”

- Stephen Haines

There is a famous story of Saddam Hussein personally shooting a senior official who disagreed with him. That may be extreme, but every day skeptics in organizations suffer the same fate to their careers. Do you really want to question the CEO when he/she announces to the team that they moving in a certain direction?

In many cases you will need outside help to shift the culture and provide a safe environment for free flowing discussions that will implement the Law of Expected Surprises throughout the organization. It is strongly recommended that this implementation start at the Board and senior management team level. It sends a powerful message to all staff and partner organizations.

If you truly embrace skeptics they will become your best friends.

SCENARIO PLANNING IN ACTION

We are ready to do scenario planning and enforce the Law of Expected Surprises. Where do we start? It is simple. Start with the ABCDE model of strategic planning and let it be your guide.

Remember to involve as many staff, stakeholders and partners as practical in the process. People support what they help create and you can get valuable insights from interested parties outside your normal comfort zone.

Phase E: Environmental Scan

The Environmental Scan (SKEPTIC) provides the initial opportunity to review all things that could affect the organization, positively and negatively, in the future. If done thoroughly, SKEPTIC ensures that all expected and unexpected events are considered. *The object of the exercise is to have only “expected surprises”.*

How can SKEPTIC help?

Here are a few suggestions to get you started:

Social (S) and Demographic Changes:

In some cases we are past the What if’s and dealing with the “*for sure*”. How well is your organization adjusting to changes in society and globally? What if we change our market focus? How can you prosper from those changes?

Competition (K):

Where is your competition coming from – big guys, start-ups, emerging markets, new products? What if the playing field changes? Where would the changes come from?

Economics (E):

Are you ready for the next economic stress? What if the recession continues for another two years? What if projected deficits affect organization?

Ecology/Environment (E):

What if there is increased monitoring and regulations in our industry? Are there new technologies available in your industry? Can you turn these changes into a market advantage?

Political/Regulatory (P):

What is the political climate at home and in your markets world- wide? Have you taken regulatory trends into account?

Technology (T):

We are all aware of the need to be aware of the technological advancements. What if the industry or a competitor makes a big leap in your market? The iPod changed the music industry.

Industry/Supplier (I):

You need to look very carefully at your suppliers and what is happening in their world. What if there is a shift of suppliers? How will restructurings and consolidations affect your suppliers and you? If their world is changing – your world is changing.

Customers (C):

What are your customers looking for? Do they have new options? What if your customers desert you?

For more information on doing an effective environmental scan, visit www.SystemsThinkingPress.com and search for the “Scanning the Changing Environment” article.

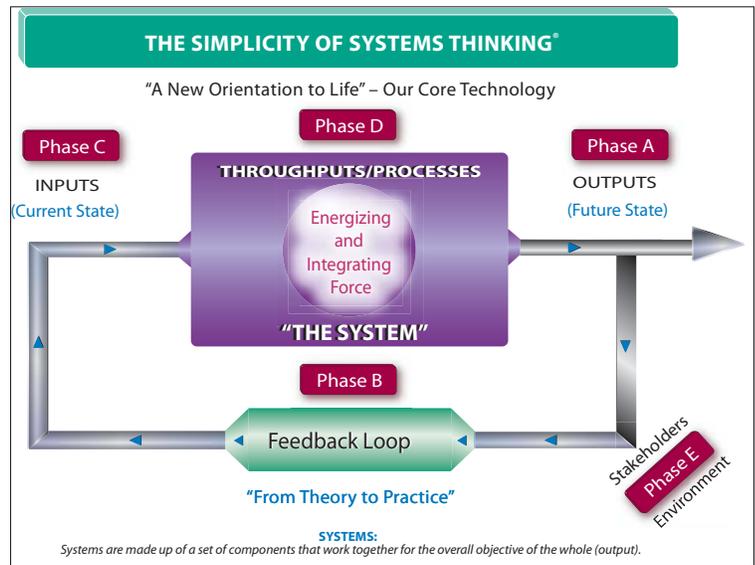
Do not be constrained by the Environmental Scan. Use it as a time to ask “*what if?*” for both challenges and opportunities. Turn challenges on their head and ask how they can be turned into opportunities, new products or new lines of business.

The Environmental Scan must be an on-going process. All staff must be focussed on the industry, competitors, customers and anything that may affect the organization. Waiting until next year’s update will be too late. Never farm the Environmental Scan out to an outside agency. No one knows your organization, your industry or your potential opportunities better than your own people. Involve them in the process. In some cases you may look to outside agencies to supply specific data.

Note: Visit www.hainescentre.com/haines1.htm and choose the TABC template for a free copy of our SKEPTIC framework.

PHASE A: DESIRED OUTCOMES

The Desired Outcomes (A) phase of the Systems Thinking model may seem like the least likely place to ask “*What if?*”. We have just decided what we want to be in the future and where we want to go – what can go wrong? As we already know – a lot!



I painfully recall a colleague during a planning session saying; “*we know where we are going, don’t confuse us with facts*”.

Unfortunately, he was serious. You can probably guess how effective the plan was.

We strongly encourage organizations to get a “*helicopter view*” of things at this stage. Detach yourself from your organization and circumstances and look at what is really going on around you. There are many other clichés that fit here such as: being able to see the forest and not just the trees. Steven Covey has a great line about being so busy cutting down the trees that no one realizes they are in the wrong jungle. Is your organization in the right jungle or just busy cutting? A view from 25,000 feet will help.

The need for well defined and clear desired outcomes demands that each proposed outcome be tested against all known and potential surprises. Optimism needs to be balanced with some really blunt *What if’s*. If the proposed outcome passes the toughest *What if’s*, you have a winner. Resist the temptation to fall back to general statements to avoid difficult discussions. “*We will grow our market share*” is not an outcome – it is a cop out. This is an ideal place to have team members take turns acting as skeptics. They will be your best friends.

Another excellent question to ask at this stage is – “*are we fighting the right battles?*”

MEASURES (B)

How will we know when we get there? A dynamic measurement system is vital. Direct linkage to the Outcomes ensures that we continue to measure the right things. Again, we must ask – What if something changes? Are we still measuring the right things? What gets measured gets done – make sure it is the right measure.

CURRENT STATE (C)

In the Current State assessment we are looking at our organization as it sits today. What resources, structures and cultures

exist today? A key question at this stage is: “*What if*” the current structures, culture and resources cannot (or will not) support the desired outcomes. This is a real problem that faces organizations and the major reason that change initiatives and strategic plans fail. Many organizations do not seriously consider the cultural and structural barriers that exist in their organizations. Look at the North American automobile companies as a prime example. Layers of management and an outdated culture led to their downfall. Remember how “*skeptics are your best friend*”? Nowhere in the strategic planning process are sceptics more important than here. There are an unlimited number of “What if” questions that must be asked and answered here.

It is difficult for organizations to be constructively critical of their current state. A lot of egos, budgets, bonuses and careers are involved. It is vital for leaders to show the way and put everything (including their egos) on the table.

STRATEGIES (D)

So, we know where we want to be and we have covered where we are today. The ABCDE model on the previous page provides for core strategies to fill the gap between the current state and the desired outcomes (the future).

These strategies really answer the question – “*how do we get there from here?*” Strategies provide clarity of direction and the activities to move the team to action. This is the Implementation phase of the model. It is also where the rubber really hits the road. An effective Strategic Plan is 20% planning and 80% implementation. **A great plan with poor execution is a failure.**

RIGOROUS SCENARIO REVIEW

If the structures and cultures clash with the plan – the plan will lose every time! A common problem for organizations – especially if they are in trouble – is to have an extremely ambitious list of activities for the first year of the new plan. They forget that they have on-going activities, set structures and possibly a culture resistant to change.

At this stage, a very rigorous scenario review is essential. All strategies must be tested against known factors and potential “*expected surprises*”. We are building strategies that are flexible enough to adjust quickly to unknown forces. **The team needs to dig deep with “What if” questions.**

LOOK FOR AND ENCOURAGE SKEPTICS: “What If?”

“*What if*” construction costs come in 50% over estimates? Does the new plant still make sense?

“*What if*” we do not get the estimated 25% synergy savings with this merger? Does the merger still make sense?

If the answer to these scenario review questions is yes, you have improved your chances of success.

A final reminder. Don’t forget your shareholders, members and existing customers. A set of “*What if*” questions around the

impact on and the concerns they have can save you a great deal of time, energy and headaches. Better still involve them in a parallel consultation process.

SUMMARY:

The rigorous use of “*What if*” at all parts of the A-B-C-D-E model process is the most effective way of improving your organization’s chances of success.

As leaders we need to call STOP at all stages of the planning process and encourage “*What if*” conversations. We need to test the thinking and help prevent groupthink, extreme optimism and unrealistic expectations. This may initially increase the overall planning time, but it is time well spent. Once it becomes part of the on-going planning process it will probably save overall time and dramatically improve results.

Strategic Planning has a bad rap because of the high incidence of failures. There are too many ill thought through strategies and actions. We can improve the success rate by adding rigorous scenario planning to the process.

10 TIPS FOR EFFECTIVE SCENARIO PLANNING

- Always use the Systems Thinking Approach®
- Remember the A-B-C-D-E model of planning
- Ask “*What if*” at all stages of planning
- Take a helicopter view
- Scan your environment
- Balance optimism with realism and pessimism
- Focus on the consequences of any potential extreme event/scenario
- Ensure a top level manager is responsible for scenario reviews
- Involve all staff – remember skeptics are your best friend
- Make strategy updates and potential scenarios a key part of management and board meetings

JUST REMEMBER:

“*One does not make a decision without disagreement.*”

-Peter Drucker

Another in the Creating Customer Value™ Series.

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