

# Scenario-Based Strategic Planning in Times of Tumultuous Change

Complexity and volatility are creating unprecedented challenges for today's leaders. Scenario planning, properly executed, provides the tools for making strategic decisions and taking speedy corrective action.



This is a time of persistent global financial challenges, ongoing upheaval in the Middle East, spiking commodities prices, profound geopolitical shifts, and other significant dislocations. Much has been made of the need for increased organizational flexibility, greater foresight, and a stronger link between business strategy and execution. And for good reason. To an unprecedented degree, leaders face challenges arising from mounting complexity and increasing volatility. This in turn suggests the profound need for leaders to employ strategic planning tools to accurately decipher and respond to changing circumstances. In fact, research published in A.T. Kearney's 2012 Foreign Direct Investment Confidence Index indicates that 51 percent of the corporate executives surveyed intend to strengthen their strategic planning processes and tools.

Of these tools, scenario-based strategic planning has re-emerged as a critical choice for business leaders seeking to make sense of the complex drivers of global change and the implications they carry for businesses. At A.T. Kearney, scenario-based planning is nothing new or exotic. In fact, we have employed scenario planning for more than 20 years to help our clients determine how global trends and events might affect business conditions.

To remain relevant, however, scenario planning must evolve as a strategic tool to match the changing business environment around it. This evolution needs to begin with a re-orientation of scenario-planning exercises to focus on the strategic tools and benefits that the process yields.

---

## The art of scenario-based strategic planning, we believe, is to **connect the world of “what ifs” with down-to-earth decision-making processes.**

---

### Understanding Scenario Planning

Despite the growing popularity of scenario planning, a number of misconceptions remain about what it is, when it should be used in the strategy context, how it should be deployed, and what benefits organizations can hope to derive. All too often, scenario approaches deteriorate into little more than a conventional forecasting effort that involves assigning explicit probabilities to potential outcomes. Or, at the other extreme, scenario planning devolves into loosely grounded futurist musings with little if any relevance to current circumstances. Another common mistake is to cast scenario planning as an abstract exercise that may provide value in the distant future but has little or no practical application for immediate decision making.

On the contrary, scenario planning begins by providing leaders with a better understanding of the world and the macro drivers of change that are at work, which assist leaders to drill down to decision making at the operational level. The art of scenario-based strategic planning, we believe, is to connect the world of “what ifs” with down-to-earth decision-making processes. Necessarily, that suggests the requirement to translate 50,000-foot concepts into clear and compelling implications for markets, sectors, and individual companies. If done effectively—in a creative, rigorous manner with engaged, open-minded stakeholders—scenario planning can be an invaluable tool for gaining immediate impact and a longer-term advantage.

As the late management guru Peter Drucker once remarked, “The most common source of mistakes in management decisions is the emphasis on finding the right answer rather than the right question.” This highlights one of the challenges that business leaders face: an overriding desire for greater certainty and precision at a time when certainty and precision are increasingly elusive. A number of players in the business environment have contributed to this quandary by trying to measure highly complex interactions. In so doing, they are propagating the misguided notion that we can assign probabilities—sometimes even down to the decimal point—to outcomes subject to a remarkable number of variables.

In practice, as we know, the future is never certain. Anyone who recalls rosy, upward-sloping forecasts of the United States housing market in 2006 or the promise of moderating oil prices earlier in the decade needs no reminder of how wrong those assertions were. In fact, the common attribute shared by these and other spectacularly failed forecasts—aside from having been proven wrong—is that they evolved from a static view of how the future would unfold.

A review of recent history underlines how modest we should be in trying to assign precise probabilities to the future. Consider, for example, the long list of “unknown unknowns” that have materialized over the past two years. Who could have predicted the Arab Spring and the political and social transitions that have dominated the headlines for the past year? Or how the tragic earthquake, tsunami, and nuclear emergency in Japan would impede the post-recession recovery of the global economy?

Scenario planning, in contrast, does not attempt to use a series of static assumptions to predict the future. Rather, it generates a dynamic series of plausible outcomes that serve to challenge preconceptions, uncover blind spots, and help align organizations around a commonly accepted sense of direction and action. It is important to contrast the different outcomes realized by a forecast-driven approach and a scenario-driven process. Traditional forecasting encourages organizations to place a high level of value on a single outcome within which a very narrow set of strategic options is available. In Drucker’s parlance, it seeks to provide the right answers. Scenario planning challenges the biases of organizations by introducing elements of uncertainty, leading to a wide range of strategic possibilities. It seeks to identify the right questions.

While scenario planning is generally defined by the basic narrative output it produces, the process by which the narratives are generated is more important. Done well, a scenario-planning exercise involves key stakeholders from multiple levels and functions within an organization and input and insight from outside experts. Engaging diverse stakeholders in the creation of scenarios, rather than delivering forecasts to them, represents a key difference between scenario planning and traditional forecasting methods; scenario planning generates a level of buy-in and alignment lacking in a traditional planning process. In this sense, scenario planning is as much about the journey as the destination.

## The Scenario Journey

There are several schools of thought regarding the different methodologies that can be deployed for a scenario-planning exercise, and each has its supporters and detractors. The two leading schools of thought are the inductive and deductive approaches. In the final analysis, we believe, each of these approaches has value, depending on the circumstances of the scenario exercise dictating the choice.

Both approaches to scenario planning begin by identifying the forces in a firm's external environment, divided between, as noted scenario planner and author Kees van der Heijden has called them, the contextual and transactional environments. The contextual environment is made up of the broader macro forces that shape the external environment. Examples of these forces include economic growth, demographic change, and sustainability concerns. The transactional environment consists of the stakeholders outside the firm with whom the firm interacts, including customers, suppliers, regulators, and several others. Distinguishing between transactional and contextual environments can be tricky. A good rule of thumb offered by Global Business Policy Council Senior Fellow Professor Rafael Ramirez of Oxford University is that the players or forces in the transactional environment should be those that one can "shake hands with," whereas the contextual environment involves more general forces.

The interplay between the transactional and contextual environments is what makes up the moving parts of the scenario narratives they generate. However, the inductive and deductive approaches differ in the number of variables or interactions on which they focus.

The inductive approach can take into account a nearly infinite number of variables and can produce a similarly inelastic quantity of scenarios. The result is a set of scenarios that is very deep and quite comprehensive. However, considerable time and care must be taken to narrow down to a smaller number the scenarios that are brought into the planning process. In addition, the process of identifying all the interactions and interplays in the transactional and contextual environment can be time-consuming. For this reason, the inductive approach is best suited to a project that demands greater scope and complexity and has the appropriate time and resources dedicated to ensuring success.

The deductive approach, by contrast, focuses on two of the most critical drivers affecting an organization. These drivers can then be plotted on a two-by-two matrix, limiting the number of possible scenarios to four. The deductive approach is less comprehensive than the inductive but can be executed more quickly and with fewer resources. When speed is important or resources are limited, the deductive approach presents an appealing alternative to its inductive cousin.

What these approaches have in common is the presentation of multiple views of the future gained through an interactive and iterative process that challenges assumptions and drives creative thinking. Both methods produce scenario narratives that are robust and thought-provoking, but both are as vital for the journey they take in producing these scenarios as they are for the destination that is the scenarios themselves.

## Strategic Tools from Scenario Planning

While the most obvious output of a scenario-planning process is the set of scenarios that it ultimately generates, a scenario-planning exercise also yields a number of tools that organizations can use to drive both greater strategic insight and cultural change.

Scenario narratives are stories about the future business environment in which a firm will operate. They are generally presented as stories in which alternative futures are presented in a colorful and engaging fashion that illustrates the different contours and textures of each option. Scenarios can also be presented in more visual forms. In one of the more creative examples that we have seen, different scenarios were presented as the interlocking paths of an urban subway map. The principle aim in each of these media is to give scenario participants certain visions of the future with far greater depth than can be provided by standard forecasting methods.



The perspective of the scenario narrative is also a critical difference from traditional forecasting. Rather than using the present day as a starting point as traditional forecasting does, a scenario narrative begins from the perspective of the future. By starting in the future and working back to narrate the circumstances and events that led there, scenarios powerfully illustrate the different trends that drove that future, as well critical inflection points and milestones along the way.

---

## On September 14, 2008, while other firms were struggling to understand what happened at Lehman, **PIMCO's scenario-planning process had uncovered failure as a potential blind spot.**

---

The inflection points and milestones revealed by the scenario narratives can be used to create an early-warning system that tracks the critical forces at work in a business environment, monitors where they are against the backdrop of the different scenarios, and ultimately helps provide an understanding of future issues that allows corrective action to be taken.

The value of this dynamic planning protocol was dramatically demonstrated by bond giant PIMCO during the 2008 bankruptcy of Lehman Brothers. PIMCO had conducted a scenario-planning exercise to understand uncertainties surrounding major counterparties such as Lehman. Despite the seeming solidity of Lehman—a reported \$32.5 billion in liquid assets the day before its bankruptcy—PIMCO's scenario-planning process uncovered failure as a potential blind spot. On September 14, 2008, while other firms were still struggling to understand what had happened at Lehman, PIMCO had a plan in place that it was prepared to execute.

The PIMCO case also demonstrates the importance of organizational flexibility and institutional agility—the ability of individuals within a firm to be receptive to the prospect of rapid change and capable of reacting quickly and decisively. While to a large extent this is a function of planning, it is also a product of the cultural makeup of a firm. Scenario planning can be a vital tool in transforming the culture of an organization from staid and slow-moving to dynamic and agile.

The right process is vital. Simply delivering a set of scenarios to an executive team or strategy group may make for an interesting afternoon but is unlikely to create real value. To be effective, scenario planning relies on the active participation and creative input of a wide range of stakeholders within an organization. When individuals from across an organization contribute to an iterative process of defining possible futures, each becomes invested in the outcome and aligned with the final product. This common journey connects participants around both the value of dynamic thinking and multiple views of the future, with each outcome thought through for implications and consequences.

The broad involvement of stakeholders across an organization also has a corollary effect of culling a more diverse set of views and inputs than a traditional top-down forecast. The collective wisdom of an organization adds depth to a range of strategic inputs and broadens the organization's field of vision, allowing it to perceive additional risks and identify previously unseen opportunities.

# Scenario Planning Benefits

Scenario planning delivers three important tools: a series of narratives of the future, an early-warning system, and cultural change through organizational alignment and stakeholder engagement. These tools produce a number of benefits for organizations that engage in a scenario-planning process, yielding both immediate impact and growing advantage. The benefits include the following:

- A broader field of vision, gained by introducing alternative views and new processes into a traditional forecast, helping identify risks and opportunities that could be excluded by a traditional planning process
- A better and more impactful understanding of the world, both present and future, gained through the process of living the future in scenario-based exploration, thus guiding investment decisions and strategic focus
- A more robust planning process that provides better strategic options, enables more thorough contingency planning, and empowers an organization to react quickly to execute these plans

Most importantly, all three of these benefits combine to provide better decision making, both today and in the future.

**A broader field of vision.** Scenario planning expands the scope of an organization's planning process beyond a single traditional forecast to include a range of possible futures and thus broadens an organization's field of vision. This is further accomplished by leveraging the insights of a broad range of stakeholders and experts from within and outside of the firm, and by encouraging outside-the-box thinking at all stages of the scenario-building process. In the near term, firms with broader fields of vision are better able to evaluate their strategic alternatives and identify risks that would remain hidden during a narrower planning process. Over the longer term, the cultural flexibility and open-mindedness that a scenario-based planning process brings to an organization helps to avoid pernicious decision traps. For example, scenario planning helps avoid the confirming evidence trap, in which managers seek out evidence that supports a prevailing view by delivering fresh perspectives and challenging conventional wisdom.

**A better understanding of the world.** Scenario planning helps leaders understand both the present and future global business environment by elucidating the ways in which current decisions or trends lead to alternative futures. Causality is part of the scenario-building process and allows managers to understand how the choices that they make today influence their organization's positioning in a number of different futures. Causality also helps managers comprehend the ways in which they can make choices now that will mitigate future risks or provide better positioning for new opportunities in the future. Beyond improving internal clarity, scenarios can also be powerful tools in explaining to external stakeholders such as investors and analysts the rationale behind how present-day decisions lead to growing advantages in the future.

**More robust strategic planning.** A broader field of vision and better understanding of the global business environment helps create a more robust strategic planning process. When an organization understands the drivers of business conditions and the ways that these interact with the firm's actions, existing plans can be stress-tested to determine their return on investment under different scenario developments. These plans can also be altered depending on how they fare under different scenarios. By presenting a view of the future that is more dynamic and has multiple variables, scenario planning enables better contingencies to fit a wider range of possible futures. A firm can thus be alerted to the need to exercise

those contingencies through the foresight provided by scenario planning’s early warning systems. Further, organizations that engage in scenario planning are culturally better prepared to internalize strategic plans and sufficiently agile to change directions when the circumstances of their business environment dictate the need to do so.

**Better decision making.** The net result of a broader field of vision, a better understanding of the world, and a more robust strategic-planning process is the ability to make decisions that are better informed, more flexible, and more workable. Better strategic decision making affects the firm’s immediate returns and builds a growing advantage over time.

## Meeting Leaders’ Needs: Strategic Planning Tools

In an increasingly volatile world characterized by tumultuous change and sweeping transformations of the business environment, business leaders and policy makers need a set of strategic planning tools that can enable an organization to perceive and react effectively to change. Traditional forecasting methods that base future predictions on past actions and present narrow, monolithic views of the world are unequal to this task. Scenario-based strategic planning incorporates a broad range of views into a flexible, dynamic process that aligns stakeholders and offers them the perspective and foresight to make better strategic decisions—both now and in the future. This in turn gives business leaders and policy makers the tools they need to gain both an immediate impact and growing advantages.

---

### Authors



**Paul A. Laudicina**, managing partner and chairman of the board, Chicago  
paul.laudicina@atkearney.com



**Johan Gott**, manager, Global Business Policy Council, Washington, D.C.  
johan.gott@atkearney.com



**Erik Peterson**, managing director, Global Business Policy Council, Washington, D.C.  
erik.peterson@atkearney.com

The authors wish to thank Justin Shepherd for his valuable contributions to the development of this paper.

---

### About the Global Business Policy Council

A.T. Kearney’s Global Business Policy Council (GBPC), established in 1992, is dedicated to helping business and government leaders worldwide anticipate and plan for the future. Through regular publications, strategic advisory services (global foresight, boardroom briefings, scenario planning, and strategy), and world-class global meetings, the Council is committed to engaging in thoughtful discussion and analysis of the trends that affect business and governments around the globe. The GBPC’s extended network of faculty and conference participants includes some of the world’s top executives, government officials, and other thought leaders.

A.T. Kearney is a global team of forward-thinking, collaborative partners that delivers immediate, meaningful results and long-term transformative advantage to clients. Since 1926, we have been trusted advisors on CEO-agenda issues to the world’s leading organizations across all major industries and sectors. A.T. Kearney’s offices are located in major business centers in 39 countries.

Americas	Atlanta	Detroit	San Francisco
	Calgary	Houston	São Paulo
	Chicago	Mexico City	Toronto
	Dallas	New York	Washington, D.C.
Europe	Amsterdam	Istanbul	Oslo
	Berlin	Kiev	Paris
	Brussels	Lisbon	Prague
	Bucharest	Ljubljana	Rome
	Budapest	London	Stockholm
	Copenhagen	Madrid	Stuttgart
	Düsseldorf	Milan	Vienna
	Frankfurt	Moscow	Warsaw
	Helsinki	Munich	Zurich
Asia Pacific	Bangkok	Melbourne	Singapore
	Beijing	Mumbai	Sydney
	Hong Kong	New Delhi	Tokyo
	Jakarta	Seoul	
	Kuala Lumpur	Shanghai	
Middle East and Africa	Abu Dhabi	Johannesburg	Riyadh
	Dubai	Manama	

For more information, permission to reprint or translate this work, and all other correspondence, please email: [insight@atkearney.com](mailto:insight@atkearney.com).

A.T. Kearney Korea LLC is a separate and independent legal entity operating under the A.T. Kearney name in Korea.

© 2012, A.T. Kearney, Inc. All rights reserved.