

THE USE OF SCENARIOS IN CORPORATE CHANGE

Notes from a meeting with Arie de Geus\* and others, January 1993

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Introduction

These notes are from a discussion of how to introduce scenario planning into a major US company seeking to become more international. During the morning before Arie de Geus had arrived, three of us had identified a number of issues facing the company. We then looked at two possible uses of scenario thinking which might be loosely described as a 'Gradual' approach and a 'Taste-It-and-See' approach.

Under the **Gradual** approach, managers would be interviewed to establish their views of the world and the company's situation. These interviews would be used to identify the management's 'Mental Maps' of the world and the key issues of concern. Once these issues were identified, scenarios would be built around them and used to generate (or review) options for the business.

Under the **Taste-It-and-See** approach, a single issue (like European Monetary Union) would be taken up and subjected to a scenario analysis. This would have three stages: 1) identify the driving forces affecting the outcome of the issue, 2) postulate several alternative outcomes, and 3) trace the implications for the business of the different futures of European Monetary Union.

**Gradual Approach**

*Interviews --- Mental Maps & Issues --- Scenarios of Issues --- Options*

**Taste-It-and-See Approach**

*'What So?'*  
*Driving Forces*

*European Monetary Union*  
*Scenarios*

*'So What?'*  
*Implications*

A Preference for the 'Gradual' Approach

On hearing a summary of this discussion, Arie de Geus's first comment was that, in the case of this US company, we must 'First make the future uncertain', to create an atmosphere which recognises the many unpredictable elements of an international business. He said that it had taken Shell ten years to accept that the future is uncertain and to learn to live with it.

The challenge, as he saw it, was to shorten the learning time for the US company as much as possible.

Against the scale of the task, Arie came down strongly in favour of a **Gradual** approach which simultaneously reviews the external world and the company's understanding and relationship to it. He recommended a process involving the following steps, structured around a single broad issue such as 'internationalisation':

- 1) Interviews with people both inside and outside the organisation.
- 2) Feedback to those interviewed, identification of the key issues.
- 3) Study groups to explore the key issues.
- 4) Scenario building using the reports from the study groups.
- 5) Option-generation/testing workshops with management teams.

### Preparation

Arie noted that for this process to take place, there must be firm support from top management. He also said that a core team of 4-5 people would be needed. These people should be selected from inside the organisation and should be among the best and brightest of the company - the high potential staff. This core team is then responsible for everything from the interviewing to the scenario building and the facilitation of the option workshops. While outside help would be needed from experts in relevant fields, this is largely an internal exercise. He also suggested that it be presented to senior management as an 'experiment' to see whether scenario building were suitable for use in the organisation.

#### An essential rule of the game:

- 1) Through the use of regular feedback sessions, management has the option of stopping the process at any time.

### Interviews

The core team should be used to conduct all interviews; first because company people are more likely to trust and communicate with 'insiders'; second to ensure that any learning from the interviews with outside experts remains inside the company. There should be about 30-50 interviews. These should include:

- top level management
- management at 3-4 levels below the top
- 'club' thinkers, innovators, eccentrics
- suppliers & customers
- academics with special knowledge
- competitors (if possible).

Two people should conduct each interview and both should take notes. All

interviews should ask questions which stimulate broad thinking and talking.<sup>1</sup>

A few rules of the game:

- 1) Define the area of interest (e.g. internationalisation) very carefully. This should be sufficiently wide and diffused to raise a variety of issues, but needs also to be highly relevant to the business.
- 2) Spend a lot of time developing the list of people to interview. Choose carefully.
- 3) All interviews are completely confidential, with anonymity guaranteed.

Feedback

When the interviews are completed, they should be written up within a day or two in the form of 'bullet statements', which are direct quotations from the interviews. Each statement should then be classified according to the subject it covers. These can then be further clustered according to the following areas:

**Natural agenda:** This is the list of key issues that are identified in the interviews and which will form the core of the scenario work.

**Axioms:** These are the assumptions being made in the company about itself.

**Dilemmas:** Dilemmas are two conflicting, contradictory propositions, both of which are true, but seemingly incompatible: e.g. our company is capable of operating anywhere in the world v. our first base and chief preoccupation is with the home market. One way to recognise a dilemma is that a management team will split down the middle in support of both arguments, often adopting confrontational postures. By emphasizing that both arguments are valid and that it is an important dilemma for the team, new solutions can be found.

A few rules of the game:

- 1) During the interviews many strategic, managerial and emotional issues will be raised. However, in feeding back the findings of the interviews, the core team will leave out discussion of these issues and instead concentrate on the external environment. In some ways, the external environment becomes a 'neutral' object through which more testing issues can be explored.

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<sup>1</sup> The following questions are useful for thinking about the future. They are taken from *Business Planning for an Uncertain World* by Roy Amara and Andrew Lipinski, Pergamon Press, 1983, ISBN: 0.08.027545.1:

**Oracle:** If you had only three questions to ask the oracle at Delphi concerning the future of your organisation, what would you ask?

**Good future:** How would you describe a good future for the company?

**Bad future:** What possible bad futures keep you awake at night? What do you worry about most?

**Epitaph:** After you retire, how would you like to be remembered?

2) Everything is supported by anonymous quotations from the interviews. This is built on the premise that 'people only recognise what they already know.' (Although no individual is identified, a distinction may be made between company comments and outsider comments.)

The actual feedback will probably involve both a written and published report, as well as presentations and discussion.

### Study Groups

While interviewing and feedback are the 'political heart' of the process, the study groups are the 'intellectual head'. These groups should be organised around the most relevant key issues (e.g. the process of privatisation in different countries, the strength of the necessary infrastructure, political stability and succession). The work of the study groups will provide the building blocks for the next stage of scenario building. Statistical, political and competitive analysis may all be important here. In each case, however, attention should be paid to unravelling the driving forces shaping each issue. E.g. what is determining the nature and pace of privatisation: government budget deficits? the strength of the company management? price controls, etc. What are these pressures and how do they work?

Each study group will issue a report and it may be valuable to have a feedback session where each group presents its principal conclusions and findings to the others. This allows for some of the interconnections between the issues to be explored.

In their work, the study groups may largely consist of outside experts, but a member of the core group from inside the organisation should also participate. This means that the study group's learning remains in the company.

### Scenario Building

There are many ways of building scenarios. Under any approach, however, it is useful to identify the following components:

- Pre-determined elements (e.g. population growth)
- Driving forces
- Major uncertainties
- Major unknowns
- Possible surprises

Some of this thinking can, and probably should, be done as a team working together. This is either the core team of 4-5 people, or the core, the experts and members of the management. My own preference is for the latter combination to ensure that inside knowledge and outside expertise combine to increase the rate of organisational learning. Arie, however, believes that at the end of the day an 'artist' needs to be in charge of the final development of the scenario stories. I agree with him, in part because team building runs the risk of creating 'a horse built by committee'.

### Rules of the game:

- 1) Scenario stories must be internally consistent.
- 2) While each scenario must be plausible, they should not be given probabilities of occurrence.
- 3) Avoid too many scenarios; 2-3 scenarios are the maximum that can be remembered in detail.

### Scenario Writing and Presentation

One of the ways scenarios can be made more effective, is to turn over the outline arguments of each scenario to a good writer who can present the ideas in an imaginative form -- e.g. a letter written in the year 2010 to a young nephew or daughter. It is important that the scenario stories themselves, together with any discussion of the scenario building blocks and driving forces, be condensed into an extremely portable form of no more than 70 pages and preferably less. The use of good graphics is also vital for embedding scenario thinking in the organisation.

In addition to the written and published forms of the scenarios (and any appendices presenting the study group material in more detail), the core team should expect to spend time presenting and defending the scenario thinking to others in the company. This part of the process might take place during the next step: 'Option generation and testing'.

### Option Generation/Testing

Having done the interviews and written the scenarios, the implications of the scenarios for the company need to be explored. One way of doing that is to hold 2-day seminars with each management team. During these workshops, the management teams debate the impact of the different scenarios on their business divisions and try to develop appropriate options for responding to alternative conditions. Each workshop should aim to develop 7-10 options for the organisation in its combined responses to all the scenarios. (Note: these workshops might also be used to test existing strategies against the scenarios.)

### Rules of the Game:

- 1) No management team is forced to participate in an option workshop.
- 2) No discussion of the probability of scenarios is allowed; instead the group must concentrate on possible responses to whichever environment unfolds.

### Conclusions/Routines

At this stage, the planning work is 'completed', even if the options are simply put into a drawer and kept for future reference. Where they become valuable, is when an opportunity arises to implement one of the options

conceived during this process. At that point, the company will have to hand a common language, argument and justification for going ahead extremely quickly. In this fashion, the management is well-equipped to respond to sudden changes in the environment because many of the key issues will have already been reviewed and become part of the collective thinking of the management team. Arie also noted that in Shell, every budget proposal is defended against the existing scenarios: i.e. what are the consequences for the proposed investment if scenario 1 or 2 or 3 comes to pass?

### Adapting the Scenario Process - Observation from B. Heinzen

The process which has just been described was used by the Rijkswaterstat in the Netherlands in order to learn how to prepare for the unexpected. The need for such a review was recognised after a dam across the Rhine, built by the Water Board, was nearly completed but never finished because of unforeseen environmental objections. Shocked by their own failure to anticipate such an event, the Board decided to undergo the scenario work just described. After the initial set of interviews the core team discovered a number of important managerial issues and diverted their attention to writing up what they had learned. As a result, the entire process took about two years to complete.

Obviously, not every organisation will want to take two years over such an exercise. It therefore needs to be adapted to the specific needs of each organisation. Shorter processes might revolve around narrower issues, fewer people to interview, or less time spent during the analysis stage of the study groups. It is my own belief, however, that the most benefit is gained by preserving the following steps:

- Interviews
- Feedback
- Scenario building and analysis
- Option discussions

This combination of activities is designed to ensure that thinking takes place within (rather than outside) a management team and that any analysis is immediately relevant to the business itself. In its essence it seeks first to define a different way of perceiving the world and its uncertainties, and second to ensure that the organisation has sufficient imagination and flexibility to respond to these uncertainties.

B.J. Heinzen

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