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Scenario Planning

A Tactical Approach to Planning for Tomorrow and Beyond

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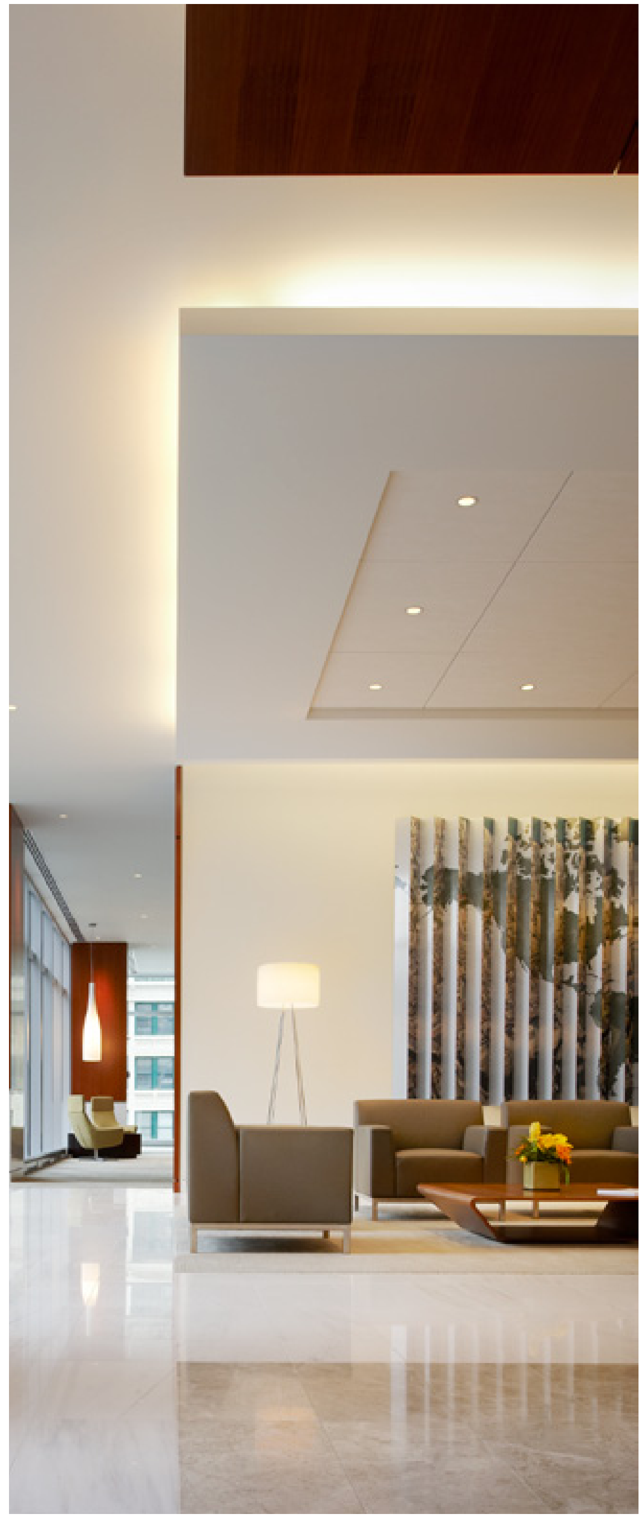
If only we could know the future! In November of 2009, the Wall Street Journal reported that a financial firm had returned to its lenders the keys to properties purchased in 2007, for $6.5 billion. The write-down was $951 million. In 2007, no one thought the value of these properties could ever fall below purchase price. Before making such massive investments, sophisticated asset managers routinely considered possible scenarios to anticipate future negative developments. But no one thought about transition strategies or foresaw the magnitude of losses to come. With hindsight, we now know that there always needs to be a *transition strategy* with a high probability of success to remedy a negative scenario or to withdraw entirely.

The unbridled optimism of 2007 created an exuberance that blinded even the most astute commercial real estate investors. Such enthusiasm should have signaled caution, the necessity for tactical planning, and assessment of the value of investments against various scenarios. Had that been done, the need for caution – so easily ignored when there seemed no end to the upward spiraling real estate market – would have been apparent.

Before the economy spiraled downward in 2008, most companies focused exclusively on a strategic planning process to determine goals and set a course to achieve them. But strategic, goal-focused planning is by nature a linear thought process that can lead to a dead end. The financial crisis of 2008 and the ensuing Great Recession have caused forward-looking decision-makers to transition from strategic planning to scenario planning, which provides a more non-linear, tactical approach.



Photographs by Christopher Barrett

Mesirow Financial Headquarters

Scenario planning provides multiple options for avoiding dead-ends and enables firms to:

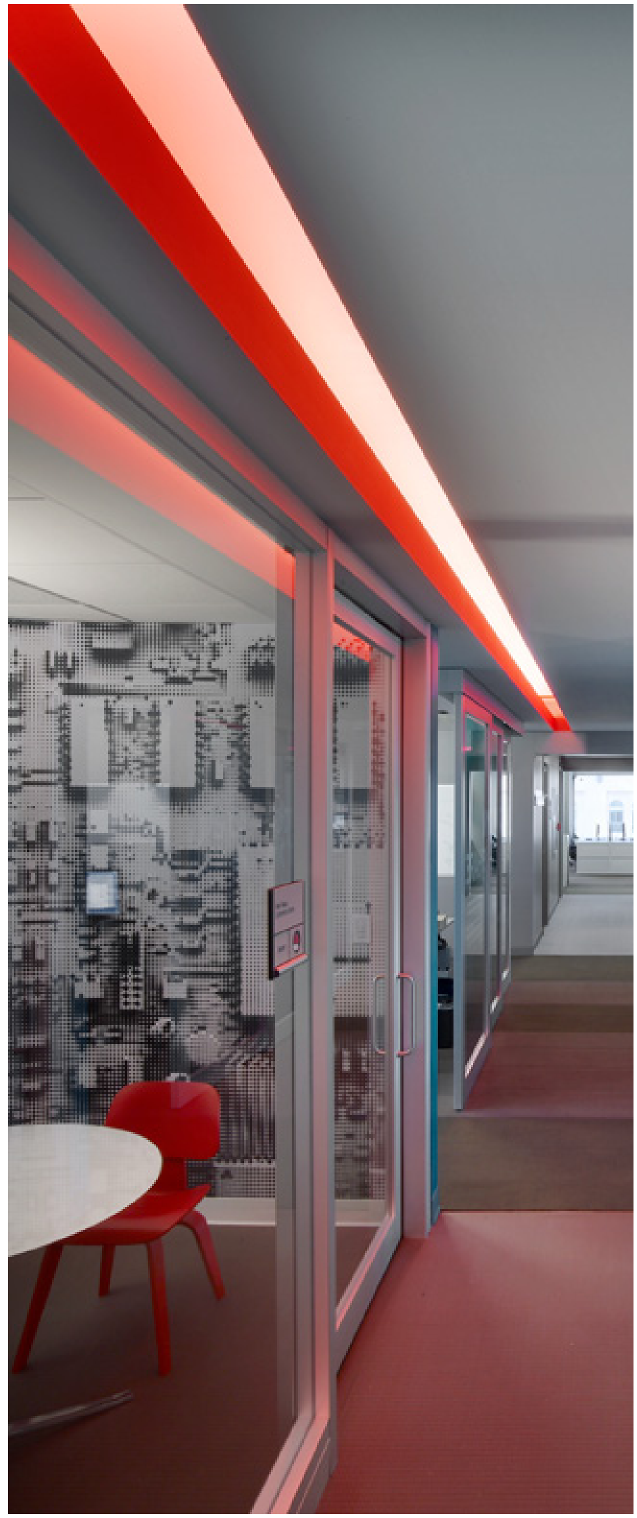
- achieve a new equilibrium when thrown off track,
- exercise flexibility to handle changing circumstances,
- maximize return-on-investments and minimize risk,
- allow for adjustments to employment options,
- expand paradigms about how to work,
- enable quicker decision-making, and
- increase organizational options.

Also called scenario thinking, scenario planning is a structured process of thinking that anticipates the unknown future, without claiming to predict the future or influence the environment in a major way. Instead, it allows for navigation through uncertainties and around the driving forces that impact the future. The objective is to examine possible future developments that *could* affect organizations, societies, or individuals, and provide direction for decisions that will insure the most benefit no matter how the future unfolds.
(See: www.scenariothinking.org).

An organization that wants to be successful will project a variety of future scenarios in order to envision positive opportunities and to fend off hostile changes that could affect its core business. Through scenario planning, a firm's stance will be proactive and optimistic, yet also defensive and even preemptive. This methodological approach defines salient possibilities and permits the assignment of probability to those possibilities with the objective of identifying and exploring useful plans of action (strategies) under various circumstances. A useful action is any organizational action that favorably affects the firm's services and products to enhance value through profit or increase stakeholder satisfaction.

Scenario planning takes into account the many forces driving change in the current business environment: politics, economic volatility, changing demographics, the integration of technology, sustainability, and the evolution of work. It also deals with the key challenges facing decision-makers at most organizations today:

- reducing costs,
- providing effective environments,
- consolidating/rightsizing facilities,
- managing risk,
- maintaining and building brand,
- improving space utilization,
- optimizing real estate portfolios,
- leveraging services and service providers,
- creating a sense of place,
- demonstrating corporate responsibility, and
- providing for the future.



Photograph by Eric Laignel

Red Hat

Such planning also helps firms respond to current trends and anticipate future trends. In today's workplace, existing trends suggest that future organizations and workspaces will:

- be less place dependent,
- provide a variety of types of spaces for doing work,
- provide a higher degree of customization,
- de-emphasize individual workspace,
- emphasize function, not hierarchy,
- focus on collaboration,
- make connecting easier,
- provide branding opportunities,
- be environmentally responsible, and
- provide a view, not just access to daylight.

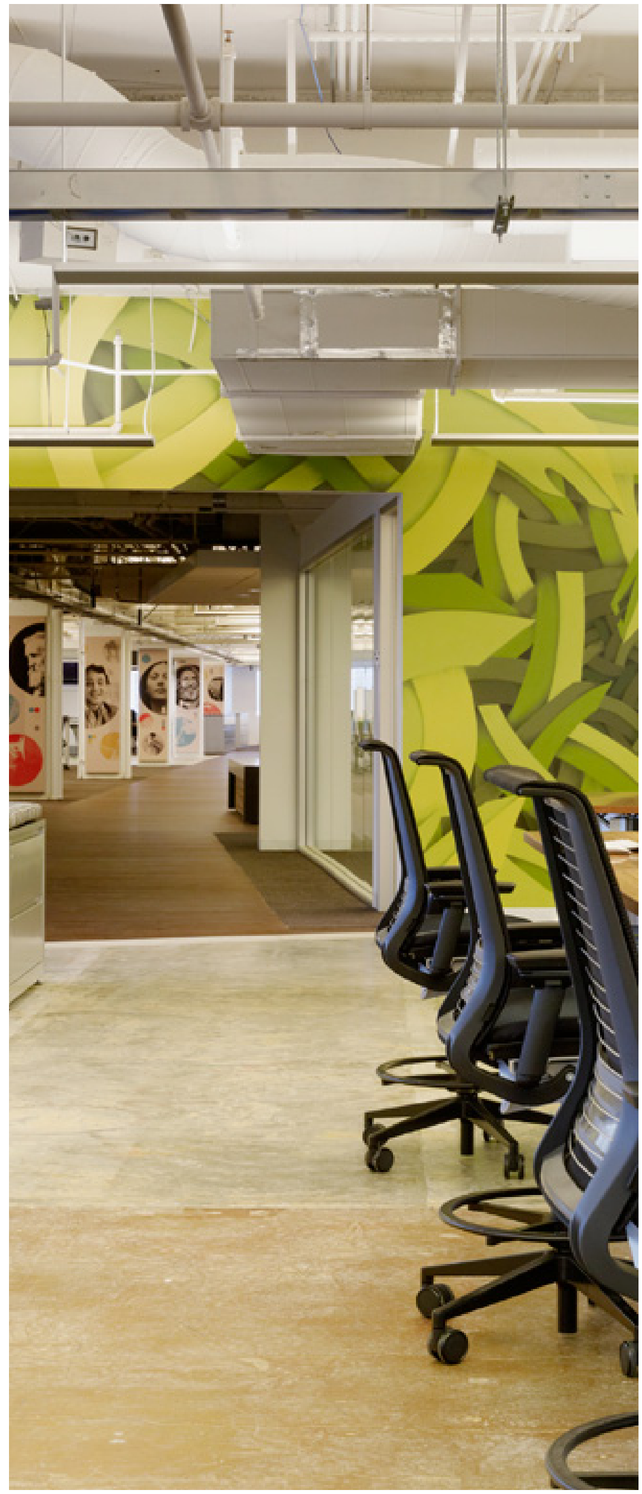
As a tactical methodology, scenario planning also prompts an organization to know itself in terms of corporate culture, survival needs, and stakeholders' demands and expectations. The self- aware organization will benefit most from scenario planning. An organization that wants to plan for the future will do more than "guesstimate." Using scenario planning, it will prepare for and take advantage of opportunities for beneficial change.

What does the self-aware organization look like? What are its key initiatives? A self-aware organization:

- recognizes the potential needs/expectations of its internal and external stakeholders,
- understands the impact of those needs/expectations on the current marketplace,
- knows its corporate identity and existing culture,
- understands its aspirations,
- sets goals and objectives,
- recognizes its strengths and weaknesses,
- identifies potential threats and risks,
- identifies opportunities,
- develops planning contingencies,
- incorporates agility and flexibility into its planning,
- rethinks, reassesses, and refreshes, and, most importantly,
- is prepared to change!

A Short Hypothetical Case Study Using Scenario Planning

A services firm needs to improve productivity and employee morale and retention. The firm's leadership is self-aware and accepts responsibility for bringing creative processes into its service model. In the current economy, with its existing staff and work processes, the firm is just breaking even. The CEO recognizes that staff morale is low and that customers are not satisfied with what appears to be a diminishing quality of services. The CEO must act within one fiscal year, otherwise, shareholders of this closely held firm may become dissatisfied with the firm's financial performance and might dismiss the CEO.



Young & Rubicam

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With these simple facts, the CEO uses scenario planning to project and evaluate four scenarios:

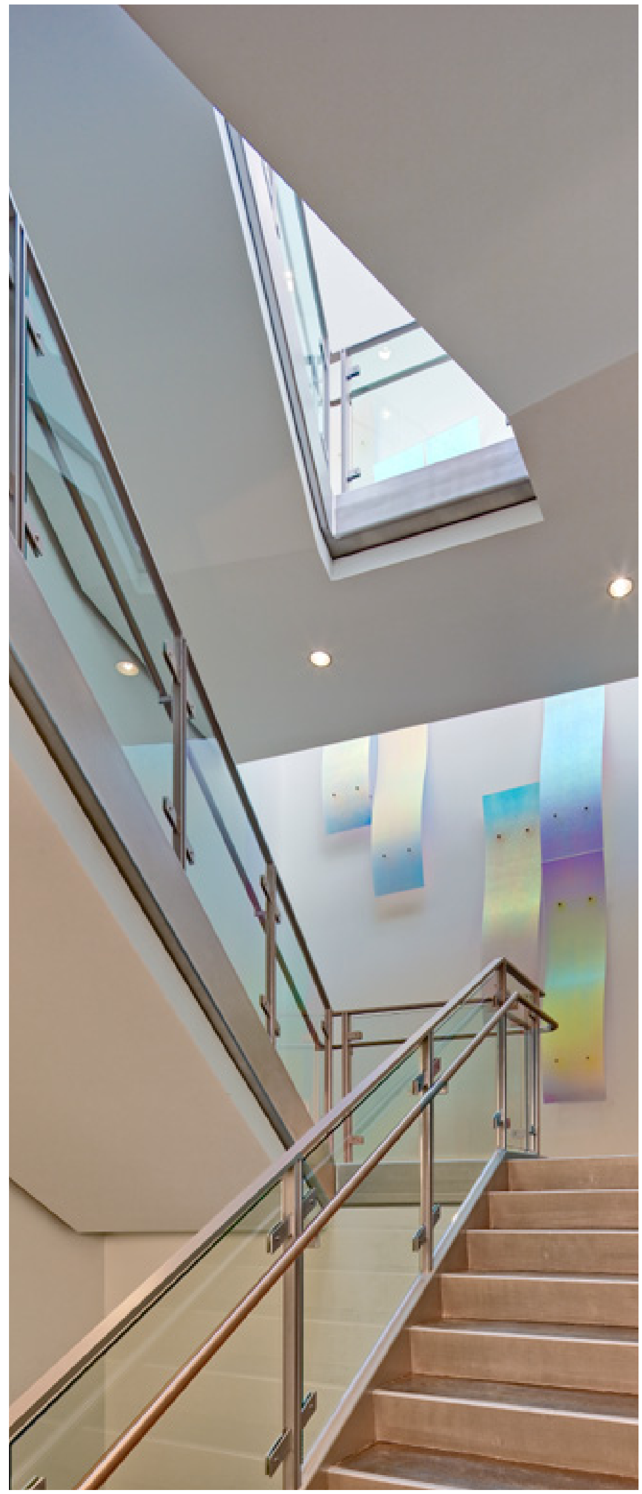
- **Scenario 1:** Do more with fewer employees.
- **Scenario 2:** Maintain current staff levels but manipulate the tools and environment to enhance productivity.
- **Scenario 3:** Reorganize and add staff to create more productive service processes.
- **Scenario 4:** Do nothing and allow macro-economic improvements to trickle down through the organization.

The first scenario will likely create a negative effect on morale, which may further reduce the quality of services (for example, missed deadlines and errors in service). The second scenario will require creative and perhaps risky changes to manipulate existing tools, possibly incorporate new tools, and adapt to the environment. The third scenario may create chaos in the current organization and conflict between “old-timers” and newcomers, while enforcing new processes that may or may not work. And the fourth scenario, the path of least resistance, may fail if the economy takes an unexpected downward turn.

Despite the risks inherent in any one of these scenarios, each could yield benefits. The CEO will develop written descriptions and plans around each scenario, a process that will generate new potential narratives for the firm. The CEO must then choose the narrative (scenario) that has the greatest chance of succeeding within one fiscal year.

All of the scenarios will be treated seriously. Which scenario would you probably choose? The CEO singles out the second scenario as the most salient for the firm’s situation and thinks it could work out like this:

The firm’s lease will expire in four years. The CEO will exercise an option to lease an adjacent suite at a favorable rental rate. In the new suite, tenant improvement money and some cash reserves will be used to build out a new workplace that reflects employee responses to a series of surveys and workshops about how staff works and would like to work in the future. The new suite design incorporates hotelling, flexibility, mobile technology, and direct daylight views for all employees. If this design works (for example, productivity and service quality improve along with morale), the firm will hopefully see an increase in the value produced, which will lead to higher revenues.



Photographs by Sherman Takata

Harmonic

The following facts, all of which are essential for effective scenario planning, were assumed:

- The leadership is self-aware (things have to change or the CEO may be out of a job).
- There is a defined time frame (one fiscal year).
- There are defined goals: improve productivity, improve morale, and enhance revenues.
  Each of these can be more tightly defined through the application of metrics. For example, improve productivity by 5%, improve morale measured by fewer employees leaving within a year, and improve revenue by 7%.

The CEO will also need to evaluate and measure the costs associated with the scenario against the goals that define success. The intrinsic value of scenario planning is apparent in this case study. The CEO is able to define and evaluate the risks, potentialities, and tactical maneuvers required if the environment of the firm were to change. The CEO can adopt any one of the four scenarios and now has the appropriate information to choose and implement the scenario that will most benefit the organization or project, or to explore additional scenarios suggested by the scenario planning already accomplished.

But what about a transition strategy that would have benefited that financial services firm? All scenario plans should include a course of action responsive to the most negative scenario in a fully developed plan. In our hypothetical case study, all four of the possible scenarios could have a negative outcome. What then? The following is a matrix of the CEO's scenario planning.

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Scenario	Implementation/Action	Possible Outcomes +/-	Transition Strategy
Scenario 1: Do more with fewer employees.	-Attrition and layoffs right-size the firm.	*+ Productivity and profits improve.* *- Low morale and overextended staff leads to poor service, and lost customers and revenue.*	*CEO develops plan for controls to ensure consistent service. Introduces incentive programs to keep remaining employees engaged in their work.*
Scenario 2: Maintain current staff levels, but manipulate the tools, environment, and processes to enhance productivity.	-New systems and equipment implemented. -Rent reductions achieved with new office location. -Modernized workplace culture reflects new business processes.	*+ Productivity, morale, and profits improve.* *- New systems are sabotaged by staff resistant to change. New business processes are less effective than expected. Customers depart due to changes.*	*CEO devises competitive rewards for employees who adapt first and increase profits. Retains employees who have difficulty adapting. Terminates employees who fail to adapt.*

Scenario	Implementation/Action	Possible Outcomes +/-	Transition Strategy
Scenario 3: Reorganize and add staff to create more productive service processes.	-Newly hired strategic employees, who are expert at implementing new processes, lead existing staff through a retraining effort.	+ *New and old employees create a new culture that enhances productivity. Customer response is favorable to new processes. Profits rise.* - *Jealousy and infighting between new and old employees sabotage new processes. Customer service deteriorates and customers are lost.*	 *CEO is forced to choose between old and new employees. May terminate troublemakers, who are most resistant to change. CEO insists on implementation of new processes and reinvents corporate culture.*
Scenario 4: Do nothing and allow macro-economic improvements to trickle down through the organization.	-Existing employees, culture, systems and processes are maintained.	+ *Economy improves and demand and profits increase at the same growth rate as the general economy.* - *Double-dip recession and unexpected social develop-ments cause customers to stop purchasing services.*	 *Board removes CEO or CEO leaves company before termination.*

It is obvious that each exit strategy can itself give rise to multiple new scenarios. For example, in the last exit strategy, the board could dismiss the CEO and hire a new CEO, who might immediately begin to implement a new course of action that reflects a fresh and different scenario. One can stop the scenario planning process at any point. Hopefully, the process is stopped at a point where a viable outcome or a desirable exit strategy is anticipated. In our case study, some scenarios and exit strategies are more desirable than others. Wise leaders must assume some risk and choose a scenario that appears to offer the greatest likelihood of success. Reducing risk and increasing rewards are always the rational goal of any business plan. Scenario planning helps decison-makers to avoid the irrational by looking at future possibilities and avoiding decisions that could lead to the most negative consequences.

To flourish in today's volatile business environment, decision-makers must have the vision to evaluate what may lie ahead and identify the best course of action. Scenario planning allows an organization not only to avoid dead-ends but also, more importantly, to ensure equilibrium in an off-balance economy, to think through change, and to choose the way forward with quicker and more complete and accurate decision-making for success.

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