THINKING ABOUT THE FUTURE:
THE VALUE OF SCENARIO PLANNING

INTRODUCTION

It is worth recalling the extent of the political changes through which the world has passed in less than a century. Here, then, are some instances in which there have been major changes in world affairs:

- On June 28 1914 Austrian Archduke Franz Ferdinand was assassinated in Sarajevo; this was not seen as a major issue for western European governments and so politicians went ahead with their summer vacation arrangements during July - but they were at war with each other in August.

- In the late 19th Century Karl Marx had predicted that the industrialized country Germany would be the first one to turn communist in the inexorable movement toward communism but the first country to do so was Russia (a backward agricultural society in 1917 which leapfrogged the series of steps laid down by Marxist theory).

- The League of Nations was created at the end of World War I - which was then the most ambitious attempt to get governments (including traditional opponents like the UK and France, France and Germany) to work together to maintain international peace and security.

- The League of Nations was effectively dead by 1938 - and yet within seven years the United Nations emerged, full of hope and with a much larger agenda.

- In 1940 the US army was smaller than the Greek one and yet within five years the US had largely shrugged off its tradition of isolationism to become the world's most important military power.

- In 1941 the British Prime Minister Winston Churchill said that he had not become the "King's first minister in order to preside over the liquidation of the British Empire" - but within two decades most of the empire had achieved independence or was on the way to doing so.

- In 1974 US officials in Saigon were still confident that South Vietnam could continue its independent existence (I was there speaking to them at the time) - but the US was forced out of the country in a humiliating defeat on April 30 1975 and North Vietnam won the conflict.

- In 1979, the Shah of Iran (who was modernizing his country) was overthrown and replaced by conservative Islamic clerics (who, among other things, detained US diplomats for a year).

- In 1983 President Reagan (with a long history of hostility to communism) spoke of the USSR as the "evil empire" - but four years later he negotiated the first ever US-Soviet nuclear disarmament agreement (on intermediate nuclear forces).

- 1991 the US-led coalition defeated Iraq's Saddam Hussein in his occupation of Kuwait - but he was still in power a decade later (by which time all the political leaders who had opposed him were out of office).

- On September 11 2001 the most effective aerial hi-jacking in aviation history (in terms of the number of aircraft taken over) resulted in the destruction of the two World Trade Center Towers in New York and part of the Pentagon.

The list could go on. In each case, politicians and commentators were taken by surprise by the turn of events. By contrast, the process of globalization has been evolving with less drama over a longer period of time. It has not been a secret process. There has been no sinister force at work (despite what some anti-globalization protesters and conspiracy theorists may claim). But the process has still been a surprise for most politicians and commentators. Globalization has not been a surprise, of course, for people working in transnational corporations because they have seen the process at work each day.

The challenge, then, for politicians and commentators is to recognize the need to take a long view of global change and to have contingency plans in place. Thus, this chapter examines scenario planning.

Scenario planning is a business management technique that can help us to think about the future of globalization and so enable us to be better prepared for it. The future cannot be predicted with any precision. But we can be sure that it will be different in many ways from the present. We are living in a period of rapid change. Many things we have taken for granted are changing. But some things remain the same. The challenge is to be prepared for the changes and continuations, and this requires a significant investment in time and resources

Scenario planning helps us to rethink our worldviews. It encourages us to think about the future differently. It liberates us from our prison of perception.

✔ SCENARIO PLANNING

Scenario planning is a technique to help us prepare for the future. The technique is not so much about predicting the future as such (since that is impossible) as in providing new ways of thinking about the future. The key issue is how we view the present and the future. This is called our "mental model" or "worldview". A "worldview" is a set of presuppositions (or assumptions) which we hold (consciously or unconsciously) about the basic make up of our world. It filters out some information and focuses on other information. What may be "obvious" to some people is not necessarily "obvious" to others.

Another name for "worldview" is "paradigm", as popularized by Thomas Kuhn in 1962 . He set out to investigate the reluctance of scientists to scrap old theories when new information was eroding the validity of those theories. He argued that when scientists had accepted a theory as satisfactory they were deeply unwilling to admit that there was anything wrong with it and so defended it against the onslaught on new information. Kuhn himself preferred the term to be used to explain the process of change in the natural and physical sciences. But the term has also become very popular in the social sciences because it is so useful .

People can look at the same object or event at the same time and yet "see" different objects or events. We are prisoners of our perceptions. We assume that there is only one way of looking at the world. "How could they have been so stupid to have done that?" This is a common reaction when looking back upon an event. But to the people involved at the time, it did not appear stupid to them - they were prisoners of their perception. It seemed quite rational to them. Humans will not believe what does not fit in with their plans or suit their own way of thinking.

One value of scenario planning is its speed and flexibility. At a time of rapid change, it is unwise to wait until a trend has been validated before it becomes the basis of action. It may be too late. The window of opportunity may have closed or the problem has become too large.

Second, the technique keeps an organization alert to change. Change often begins at the margins, rather than at the top. Therefore, any person at any level in an organization may be the first to detect a new development that could affect the organization. Thus, the completed scenarios have to become living documents known to all staff within an organization - and not a detailed but largely unread strategic plan gathering dust on a book shelf.

Third, scenario planning is not so much about forecasting the future as in making sure that an organization has contingency plans in place to cope with any eventuality. Therefore, the document is more one of narrative than tables and graphs. The narratives need to be well written

and memorable. They should be easily absorbed so that they become second nature to the staff. They then become alert to the possibility of change - and the risks of not making changes in time.

An example of this process was the work done in the early 1980s by Clem Sunter on the future of apartheid and South. This was commissioned by AngloAmerican, the largest South African company. It had concerns about the future viability of apartheid, not just on ethical grounds but on practical ones: there was a growing shortage of skilled white managers and so African managers were being appointed to supervise staff (some of whom were white) and this was contrary to the apartheid policy. Sunter gave a series of public talks about two scenarios: "High Road" and "Low Road". Under the "High Road". Nelson Mandela (then the world's longest serving political prisoner) would be released, a multi-racial South Africa would be created, and Nelson Mandela would be elected President and so steer South Africa on a new path. This shocked many white audiences, who said that this would never happen; Mandela would rot in prison. Sunter then explained the "Low Road" which would entail an increasingly violent South Africa, in which the whites could not keep winning because they were outnumbered and surrounded by Africans (not least in their own households as cheap labor) and so they could be murdered in their sleep. At this point, white audiences would ask for more information about the "High Road". These talks helped white South Africans change their worldviews for the 1990 release of Nelson Mandela by President Frederik de Klerk (who in due course became Vice President to President Mandela) .

Finally, scenario planning encourages interdisciplinary co-operation. It is not the preserve of any one particular academic discipline. It draws on a variety of them. It thus gets away from the tyranny of academic disciplines by encouraging a wholistic approach to (in this book's example) world events.

THE EVOLUTION OF SCENARIO PLANNING

The Practice of Scenario Planning

Scenario planning began after World War II as a method for military planning, particularly within the US Air Force. The intention was to imagine what the US's opponents might do. Military thinkers have been doing this for millennia - what was new was the attempt to make this process more systematic and less intuitive. This was an outgrowth of Operations Research (OR), pioneered by the UK and US in World War II, in which scientific techniques were used, for example, to deploy radar, bombers and convoys more cost-effectively .

The most well known example from that era was the work of Herman Kahn, who examined how a nuclear war could begin. The US and USSR were building nuclear weapons but

there had been little public debate as to exactly how such weapons could be used in a conflict. Kahn "thought the unthinkable": how could World War III come about. His books sold well and phrases such as "thinking about the unthinkable" and "escalation" entered the popular vocabulary . They also helped trigger the anti-nuclear movement because people could now see that a nuclear war was not distant possibility but how it could take place (such as over a local dispute in the then divided city of Berlin).

Within the civilian sector, the person most credited with developing scenario planning was Pierre Wack . He began working at Royal Dutch/ Shell in London in the 1960s, in the newly formed department called Group Planning (probably the world's first "strategic planning unit" in a transnational corporation). He encouraged Royal Dutch/ Shell to "think about the unthinkable": a dramatic increase in the price of oil as one possible scenario. This was contrary to the worldview of the entire oil industry (not just Royal Dutch/ Shell). The post World War II economic boom was based partly on cheap oil. Wack was told by the corporation's directors that any government that tried to increase the price of oil would be removed by the US government.

However, Wack persisted and encouraged Shell have contingency plans in place for an eventual oil price rise. He had no way of predicting the 1973 Arab-Israeli conflict, with the resulting use of oil as a weapon by the Organization of Petroleum Exporting Countries (OPEC). He could not predict the cause but his persistence ensured that Royal Dutch/ Shell could cope with the effect: a dramatic increase in the price of oil. His corporation was the only oil company thus prepared. Royal Dutch/ Shell, previously regarded as the least profitable of the leading oil companies, now outperformed its rivals. Group Planning has since become a good training place for a number of people who have applied their scenario planning skills, not least in books . (One of Wack's projects in retirement was being part of the team that developed the "High Road" and "Low Road" scenarios in South Africa).

Scenario planning has now become an accepted management tool in transnational corporations. It is also being used by non-governmental organizations, for example, the Global Scenario Group was convened by the Stockholm Environmental Institute as an independent, international and interdisciplinary body to examine the requirements for sustainability at global and regional levels . Also worth mentioning is the Washington DC-based Millennium Project of the American Council for the United Nations University, which is a global participatory futures research think tank of futurists, scholars, business planners and policy makers who work for international organizations, governments, corporations, NGOs, and universities. Its website contains many scenarios.

✓ Not Used in Politics

Unfortunately, the tool has not been used much in government . Even the South African "High Road" and "Low Road" example was more a matter of changing public worldviews first - and then letting the change flow through into the political system. In Chapter 1 we encountered Peter

Schwartz , one of the Royal Dutch/ Shell team who went on to create his own scenario planning company (Global Business Network). That chapter recalled his failure in 1984 to encourage the Reagan Administration to have a contingency plan to cope with a possible Soviet surrender without firing a shot. Thus, the US was take by surprise by the Soviet surrender under its new leader Mikhail Gorbachev who came to power in 1985. In the early 1990s, the US did not know how to make the most of its victory - or how to provide a safety net for the transition of the USSR from enemy to friend. The US had spent trillions of dollars on defense against the USSR and had a variety of plans on how to destroy it - but not one plan on how to help Russia shift to democracy and a market economy.

By the same token, the US's "official view" meant that not enough attention was given to detecting signs of change within the USSR to a post-Cold War posture. The "official view" saw the USSR as the US's principal enemy. The intelligence and diplomatic services were not, then, looking for any Soviet officials who could emerge as potential allies in a new era of US-Soviet co-operation. The "official view" was that there was no such era likely to emerge and so it would be a waste of time looking for signs of one. Change often begins at the margins but the US was blind to those changes .

Most mainstream politicians in the large political parties in democracies deal with the here and now immediate issues. They seem almost temperamentally unable to cope with events that could occur on the other side of an election. Such events are too far away. There is also the risk that long-term projections may be contain implications that would be counter to their current worldviews. Thus they prefer to stay in their comfort zones. This approach means that they are often taken by surprise.

For example, a 1984 US contingency plan to cope with a Soviet surrender would presumably have had to include a reduction in US military expenditure, a conversion of some of the US military to civilian work, and preparations for providing foreign aid to the USSR to ease its transition into a modern industrial state with some semblance of democracy. Such a contingency plan would certainly have run counter to the Reagan Administration's prevailing worldview of the USSR as the "evil empire". But that is what ought to have been done. The world would be a different place now if such a plan had been created and then implemented in due course.

✓ THE PROCESS OF SCENARIO PLANNING: AN INTRODUCTION

Scenario planning is the development of a number of stories which describe quite different but plausible futures. It is important to develop scenarios that are mutually exclusive, with each scenario highlighting different facets of the possible future situation. Each scenario should be plausible, compelling and relevant. The scenarios are possible futures. They describe the futures and interpret them. They are not predictions. Nor are they based on extrapolating current trends.

Scenario planning is used in business, first, because it helps people to think about the future. The mere act of scenario planning obliges people to lift their eyes beyond the immediate tasks occupying most of their thoughts most of the time. Second, scenario planning helps people think specifically about how they make decisions. Many decisions are determined by factors at the sub-conscious level. Perceptions - rather than explicit, conscious thinking - do the thinking. Scenario planning makes those perceptions more explicit. Third, scenarios do not predict what is going to happen but they do help people to better understand today what may happen tomorrow. Fourth, it helps people make better decisions about what they ought to do or avoid doing. The end result is not an accurate picture of tomorrow but better decisions about the future. Fifth, it is a learning experience. It encourages people to go into a subject in more depth and so they will get to know what they did not know. They get a better feel for what might be beyond their immediate perception. Finally, it reduces the risk of being taken by surprise.

There is no one set recipe for scenario planning. Most scenario planning runs along the following steps:

1. *Work out the basic issue*. Scenario planning is done in response to the perception that there is a "problem" to be solved. It is important that the right "problem" be identified. (In the following chapter, the "problem" is taken to be the ways in which the erosion of the nation-state and the process of globalization could evolve).

2. *Understand the organization that has commissioned the scenario planning*. How does the organization perceive its business? Why has it decided on that "problem" to be investigated? What is the "official perception" of the future (namely the party line laid down by the board or CEO)? How do they see that future changing? What are their hopes and fears? What is its future strategy? What are its stated values? Are they implemented in practice? Who are the stakeholders?

3. *Work out the driving forces.* The forces can be broadly grouped into five areas:
   - Social
   - Technological
   - Environmental
   - Economic
   - Political

4. *Rank the driving forces in order of importance.* Many of the driving forces will be of interest to the scenario planning project but some will be more important than others. Also look for factors about which there is uncertainty.

5. *Work out the Scenario Logic.* The drivers are then used as the axes along which the eventual scenarios will differ. There should be at least two scenarios. The maximum number is best kept at four because it gets a bit too complicated to go beyond that number in terms of recalling the scenarios and making use of them. These are (up to) four different worlds. The task is not to pick winners and decide which is the most likely - that will become obvious in due course.

Conversations with "remarkable people" may be useful here. These are people who are outside the current scenario planning project and have different perceptions from what the scenario planning team may be thinking. "Remarkable people" are acknowledged experts in a particular field - but not the one under examination for the scenario planning project. They help guard against "group think" and narrow perceptions. They can also suggest new matters to examine.

6. *Make the Scenarios Come Alive.* Each scenario needs to be compelling. There has to be sufficient detail in each story to make it easy to follow. A scenario may be uncomfortable but it needs to be believable. Each scenario should have a memorable name. People need to live within each scenario and become fully familiar with it. They will then be well positioned to gauge which of the scenarios is coming into play and have the contingency plans ready. If the scenarios are commissioned by a large organization, then they should be discussed at the various levels of it so that staff can think through what each scenario means for their own area of work. The scenarios may represent a new world for them and so it is necessary to get their reactions. Change often begins at the margins and so junior staff may be best placed to detect it first (rather than the heads of companies, who may have a psychological bias in maintaining the status quo which they know).

7. *Identify the Leading Indicators.* The future will determine which scenario was "right" in the sense that it was closest to what actually happened. It is important to have indications as quickly as possible which scenario is coming into play. An initial source of the indicators are the driving forces. Each axis will have a "high" and "low" end, and so the indicators can be drawn from the way in which ends of the axes start to come into play. For example, in the next chapter one axis is the strength/ weakness of the nation-state and so indicators can be based on seeing how nation-states thrive or collapse in the coming years.

8. *Work out the Implications of the Scenarios.* We now return to the original problem identified by the organization. What do the scenarios mean for the organization? What are the implications for the organization's current strategy? What contingency plans need to be in place? What are the options for the stakeholders?

Keith Suter

NOTES

1. Thomas Kuhn The <u>Structure of Scientific Revolutions</u>, Chicago: University of Chicago Press, 1962.

2. For example, there are conflicting paradigms among some historians on what is "history". According to one paradigm, it was primarily (often entirely) narrative: "What happened?" "How did it happen?" Now there is a paradigm that history should be more (often entirely) analytic: "Why did it happen?" See: Gertrude Himmelfarb The <u>New History and the Old: Critical Essays and Reappraisals</u>, Cambridge, MA: Harvard University Press, 1987, p 34.

3. In August 2000, I was a member of a seminar with Nobel Peace Prize Winners in Taiwan, and Frederik de Klerk acknowledged that the Sunter talks helped prepare the ground for his policy changes.

4. See: Agatha Hughes and Thomas Hughes (Editors) <u>Systems, Experts and Computers: Systems Approach in Management and Engineering, World War II and After</u>, Cambridge, MA: MIT Press, 2001.

5. Herman Kahn <u>Thinking About the Unthinkable</u>, New York: Horizon, 1962; Herman Kahn <u>On Escalation: Metaphors and Scenarios</u>, New York: Hudson Institute, 1965.

6. Pierre Wack <u>Scenarios: The Gentle Art of Re-Perceiving (One Thing or Two Learned While Developing Planning Scenarios for Royal Dutch/ Shell)</u>, Cambridge: Harvard Business School, 1984.

7. For example: Kees van der Heijden <u>Scenarios: The Art of Strategic Conversation</u>, New York: Wiley, 1996.

8. P Raskin et al <u>Bending the Curve: Toward Global Sustainability</u>, Stockholm: Stockholm Environment Institute, 1998.

9.   www.geocities.com/~acunu

10. For example, aged care is a major issue in Australia but the national and state governments are reluctant to look at the long-term future of aged care; they prefer to deal with only immediate issues. The first use of scenario planning for Australian aged care has been conducted by a non-governmental organization (which is one of the country's main providers of aged care): Keith Suter and Steve England Alternative Futures for Aged Care, Sydney: Uniting Church in Australia, 2001.

11. Peter Schwartz <u>The Art of the Long View: Planning for the Future in an Uncertain World</u>, New York: Doubleday, 1991.

12. www.gbn.com

13. See: Peter Pringle and William <u>Arkin SIOP: Single Integrated Operational Plan: Nuclear War from the Inside</u>, London: Sphere,   1983.

14. To her credit, the British Prime Minister Margaret Thatcher was quicker off the mark. In 1984, as a rising young Soviet minister, Gorbachev travelled to London and he and Raisa handled the British media and politicians very well. Mrs Thatcher said: "I like Mr Gorbachev. We can do business together". Donald Morrison (Editor) <u>Mikhail S Gorbachev: An Intimate Biography</u>, New York: Time, 1988, p 129.