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Strategic Foresight: Dynamic Scenario Planning in Action

Abstract

Automotive manufacturers in Europe are in a state of uncertainty and change. In this context, the usefulness and application of scenario planning and the value of having a strategic conversation were explored. The author argues that scenario planning as synthesis, i.e. in conjunction with a strategic conversation, can be a powerful means to create strategic foresight as it generates not only a deliberate process (planning and learning), but also an outcome (strategic options) interrelated to a common language and understanding.

1 Introduction

The role of senior executives in shaping, executing or changing strategies in a time of uncertainty is vital to business success. But how do top management teams make sense of the changing business environment and what business tools and frameworks can they use to shape strategy and create strategic foresight? The introduction of the new Block Exemption Regulation[1] (BER) is one of the key drivers for change within the automotive industry. Moreover, legislative changes and the general erosion of BER in Europe are shifting the balance of power between automotive manufacturers, importers and dealers. The notion of scenario planning and strategic conversation is outlined herein. With an outlook of 10 years, scenarios were developed with a scenario team in a first workshop and then discussed and debated with executive management in a second strategic conversation workshop.

> **Changing strategies in a time of uncertainty is vital to business success.**

2 Scenario Planning

Scenario planning has been used for many years. The numerous recent publications of scenario planning articles and books suggest that scenario planning is more popular than ever before and "that companies are finding value as never before in planning for an uncertain future" (Rigby and Bilodeau, 2007, p. 22). Wack (1985b, p. 146) notes that "scenarios serve two main purposes. The first is protective: anticipating and understanding risk. The second is entrepreneurial: discovering strategic options of which you were previously unaware". In essence, using the scenario method means to write three or four in-depth stories about the future, evolving around different combinations of a number of plots or logics (Schwartz, 1996). Each story or scenario should be internally consistent (Wack, 1985a). According to Ralston and Wilson (2006, p. 16), scenarios are stories in the sense that "they describe the evolving dynamics of interacting forces rather than the static picture of a single end-point future". All scenarios evolve around the same issue: to gain insight about and/or decide upon. However, the starting point is to isolate and formulate a strategic question or focal issue with which to build the scenarios (Schwartz, 1996, Ringland, 1998, Van der Heijden 1996, 2005). This can be a question or decision concerning an organisation, a society or any other subject of interest.

> **Scenario planning is a powerful tool for managing change.**

It is important to emphasise that scenarios are neither forecasts nor visions (Lindgren and Bandhold, 2003, Frommelt, 2008). Godet (2001, p. 63) notes that "a scenario is simply a means to represent a future reality in order to shed light on current action in view of possible and desirable futures". Scenarios help to perceive different futures in the present (Wack 1985a, Schwartz 1996, Schoemaker, 1995, 2002, Van der Heijden, 1996, Lindgren and Bandhold, 2003). The scenario approach is based on the assumption that the future is unpredictable. According to Wack (1985a, p. 73), "the future is no longer stable; it has become a moving target". Therefore, it is necessary "to accept uncertainty to understand it and make it part of reasoning" (Wack, 1985a, p. 73). Through the creation of a few pathways into the future, which take the form of stories (scenarios), the complexity of uncertainty is reduced to manageable proportions and it is structurally incorporated in strategic thinking. As Schwartz (1996) postulates: stories are a way of organising knowledge and appending a psychological dimension, which empirical data lack, explicitly, meaning. They offer a more all-round elucidation of why things could happen in a certain way. This is an essential facet of understanding future worlds. Furthermore, stories permit simultaneous perspectives on the meaning of events from diverse dispositions. In other words: "stories help people cope with complexity" (Schwartz, 1996, p. 38). Writing scenarios is writing myths of the future: you try to imagine the attitudes of key players (that can be organisations, groups, individuals, etc.) who will influence the shape of future events. Lindgren and Bandhold (2003, p.xi) state that "scenario planning is a powerful tool for anticipating and managing change on an industry or environmental level, and scenario thinking is the strategic perspective necessary in today's turbulent business environment". In this vein, scenarios are used not only to envision the future, but also to embrace uncertainty (Schoemaker, 2002, Courtney, 2001).

Scenario planning provides an important potential link between future thinking and strategic action, between creative, innovative and imaginative futurising and the more hands-

on strategic planning. Lindgren and Bangold (2003, p. 25) emphasise that "thinking in scenarios helps to understand the logic of developments and to clarify driving forces, key factors, key players and our own potential to exert an influence". Van der Heijden et al (2002) found that scenario planning is particularly effective in: making sense of a puzzling situation, developing strategy, anticipation and last but not least adaptive organisational learning.

3 Strategic Conversation

"People at resilient companies continually hold strategic conversations about the future" (Schwartz, 1996, p. 221).

A strategic conversation brings an organisation and its people towards a shared understanding of its competitive situation and the future outlook. Moreover, Ringland (1998) and Van der Heijden (1997) postulate that strategic conversation can be used to windtunnel scenarios. Van der Heijden et al (2002, p. 167) state that scenario planning is valuable as it "provides a framework for combining the formal and informal elements of strategic conversation". "The process forces managers to examine a wide range of information, to articulate and argue the logic of their understanding of the present, and they articulate their assumptions as to how and why the future may evolve in particular ways. The result of the scenario process is the creation of space (tolerance) for alternative views, and a new and more sophisticated language that is an essential condition for high-quality strategic conversation to take place" (Van der Heijden et al., 2002, p. 291). This process, when the managers' recipes or mental models (Senge, 1990) are put into question, leads to a common understanding (Wack, 1985b) and accommodation that leads to joint action (Van der Heijden, 1996). According to Van der Heijden (1996, p. 274), "organisational structure exists in action and interaction. The interaction takes place through conversations, some formal but mostly informal. Conversations lead to action, illustrated in the learning loop[2]". "Such systems of interactive loops behave rather differently to what static models based on hierarchical structure would imply. Because of the dynamic nature of systems of loops, organisations are systems of change. The situation is dynamic, not static. Organisations dwell in conversations, which lead to action, which evolves the organisation, and the associated conversation in an ongoing loop" (Van der Heijden, 1996, p. 274). Schwartz (1996, p. 221) notes that "a strategic conversation is a carefully thought-out but loosely facilitated series of in-depth conversations for the key decision makers throughout an organisation. Strategic conversations do not exist in addition to existing planning efforts: they are effective ways of framing the planning efforts that already take place, to further illuminate the decisions that are already being made". Scenarios are the best language for the strategic conversation as it allows both differentiations in views, but also brings people together towards a shared understanding of the situation, making decisions possible when the time has come to take action (Schwartz, 1996, Van der Heijden, 1996).

> The interaction takes place through strategic conversations.

"Strategic conversations are the cradle of a company's strategy" (Von Krogh and Roos, 1995, p. 392) and a means to share uncertainty (Critchley and Casey, 2004). Schwartz (1996, p. xvi) states that understanding "the value of strategic conversation will take the scenario work to another dimension, as it will no longer be project specific/oriented to particular events. It will be part of an ongoing organisational learning process, robust and flexible enough to keep the organisation from being blindsided by unexpected events, but intimately interwoven with the organisation's existing practices and relationship". In this vein, strategic conversation is an enabler "to become involved in the social process of developing strategy" (Eden, 1992, p. 804).

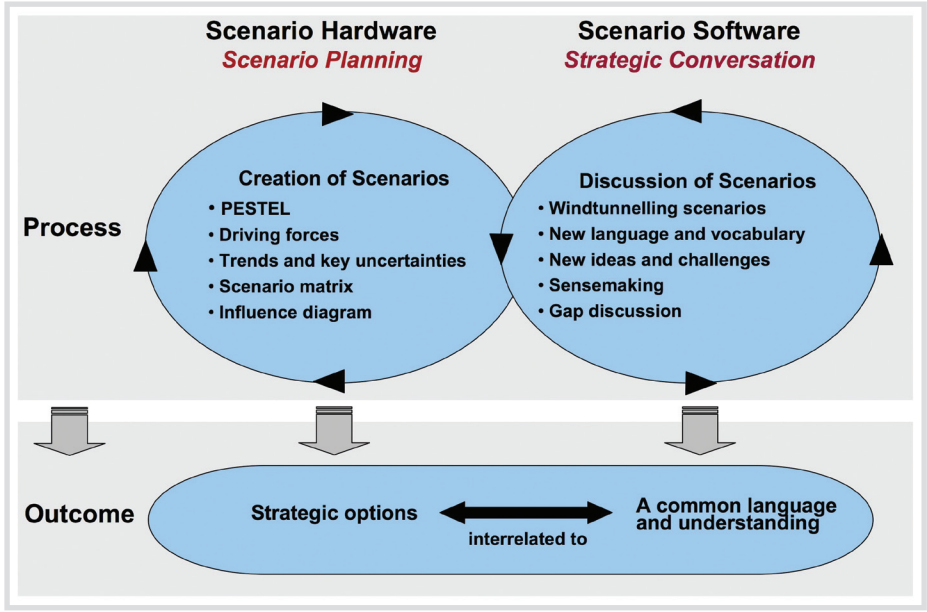


Figure 1: Scenario planning as synthesis: A scenario-based strategic conversation

4 Dynamic Scenario Planning in Action

It is argued that the creation of scenarios can be seen as the hardware whereas the discussion of scenarios, i.e. having a strategic conversation, as the software. This dynamic process of combining the "Scenario Hardware" and "Scenario Software" (Figure 1) can also lead to a valuable outcome: to discuss strategic options[3] which ultimately can generate a future vision and strategy that is interrelated to a common language and understanding.

The author terms this dynamic approach "scenario planning as synthesis". However, it is important to note that scenario planning as synthesis should be an ongoing continuous foresight process and not a one-off once per year event.

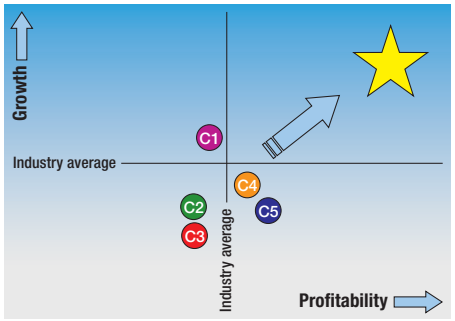
4.1 Scenario Planning Workshop

In order to test the usefulness and application of these business tools and frameworks, two workshops were conducted: a scenario planning and a strategic conversation workshop (Frommelt, 2008). The scenario planning workshop was used to develop as a minimum of four different scenarios for the future organisation and network structure within the automotive truck industry. The focal issue (Figure 2) to answer was: "What is the

most appropriate business model to create a significant competitive advantage for Truck Manufacturer X[4] (TMX)?"

The workshop was planned for one day. The objective of the scenario creation process is to design the path in order to generate the scenario view which will be used to discuss and debate with senior management and to have a strategic conversation. The scenario creation process consists of seven process steps (Schoemaker, 2002) which are described in the following section in more detail. It is worth noting that the scenario workshop process was followed closely by Schoemaker (2002). However, the suggestions of Ringland (1998) and Schwartz (1996) for running a workshop were also taken into consideration. In addition, Wack (1985a/b), Porter (1985), Van der Heijden (1996, 2005), Van der Heijden et al., (2002), Godet (2001), Hodgkinson and Wright (2002), Bandhold and Lindgren (2003) suggested scenario planning methods which have been analysed prior to generate this scenario process.

Process step 1 outlines the scope of the scenarios by determining the timeframe (how many years the scenario should cover), by establishing the boundaries and by identifying the stakeholders. The *next process step* is about defining important questions and gathering information, i.e. the raw material for scenarios. What information will help to develop viable alternatives for the future. A strategic future questionnaire and its findings are crucial input for this process. The scenario group got a summary of the interviews and its outcome. The summary and outcome is used as input and to identify the dominant external forces that are driving change *(process step 3).* The scenario group examines the forces that are shaping the future environment from a political, economic, societal, technological, environmental, and legislation (PESTEL) perspective. This leads to a PESTEL summary. By



Note: Cx means competitor #

Figure 2: The focal issue

collecting all this information and identifying the forces, the scenario group begins to get a better sense what is known about the future. The core of scenario planning is to determine what you know and what we do not know (Schoemaker, 2002). What we do not know are the key uncertainties. Trends and key uncertainties *(process step 4)* are important factors building up a scenario. Schoemaker (2002, p. 202) notes if there are doubts about whether a certain force is a trend or an uncertainty, it is important to "consider the evidence that supports it".

Once the key uncertainties are surfaced, a range of possible outcomes is projected. The range which is thought as a subjective confidence range is generally wider the further the scenario group looks into the future. A correlation matrix is constructed showing the extent to which each uncertainty is correlated with every other key uncertainty. The matrix allows for a consistency test about the group's underlying beliefs. Moreover, it will help to identify which uncertainty is central (tied to all others) and which are peripheral and isolated. Through this process, the two most important uncertainties are identified which are considered in the developing the initial scenarios. These top two uncertainties are used to define an initial set of four initial scenario themes. The scenarios are defined by the boundary outcomes for each uncertainty,

creating a two-by-two matrix *(process step 5a - scenario matrix).* The four scenarios (Figure 3) may seem like an overly simplistic way to represent a rather complex situation. However, the scenario matrix is only the starting point to develop the scenario blueprint *(process step 5b).* By incorporating the other trends and uncertainties into the four core scenarios more detailed stories and blueprints are developed for each scenario. Once the blueprint is developed, the group goes back and assesses the internal consistency and plausibility of each one. The questions, for instance, are: how well does the scenario hang together, are there fundamental inconsistencies, etc? It is also important to make sure that these new scenarios bracket a wide range of possible future outcomes. The scenarios are not static but unfold according to certain paths. A lot of profit will be made or lost on the way to the five or ten year snapshot (scenario view) of the future. There are potential pitfalls and detours along the way. An influence diagram *(process step 6)* is used to look at how the driving forces unfold over time within each scenario. The diagram portrays the dynamic logic of the scenario. It is useful in identifying the critical points along the path to the scenario that will determine whether and how it unfolds. Considering the scenario blueprint and influence diagram implications, a final scenario view *(process step 7)* is created which is used for strategic conversation with senior management.

Figure 3: Scenario matrix for TMX

U2: Impact of IT on products & services?	U1: BER? Incremental change in competition ...	U1: BER? Step change in competition / free market ...
Radical change in product offerings ...	**Scenario 1: "Field of Dreams"**	**Scenario 1: "He Who Dares Wins"**
Incremental change in product offerings ...	**Scenario 3: "Death by 1000 Cuts"**	**Scenario 4: "Truck Supermarket"**

4.2 Strategic Conversation Workshop

Having completed the scenario workshop, the next step was to organise and conduct a strategic conversation workshop with senior management of TMX. Prior to the workshop, management got an extensive briefing including the scenario view, which was summarised as follows:

Scenario 1 is coined "Field of dreams", because the impact of BER is incremental, therefore manufacturers are still able to control the implementation of radical technology developments and to maximise their return on investment (ROI). The scenario 2 "He who dares wins" is characterised by short product live cycles. Significant investment in research and development (R&D) is required. Software retunes components. Drive-by-wire is common. In scenario 3, there is ruthless focus on efficiency and cost cutting. This leads to a "Death by a 1000 cuts". As far as scenario 4 goes, super retailers emerge adopting a multi-branding strategy. "Truck supermarkets" exert supply chain muscle adopting Wal-Mart strategies.

The strategic conversation process consists of the following six process steps: *process step 1* outlines the objective, i.e. to have a strategic conversation about the scenario planning workshop outcome and the scenarios which were generated. Moreover, it is envisaged to capture verbatim how the company responds and discuss any other likely scenarios. Also tested was what the company thinks about scenario usage as a business tool. The next step *(process step 2)* presented the background and overview of the scenario planning workshop as well as scenario planning as a business approach. The notion of scenario planning as synthesis was explained and potential value highlighted. In *process step 3a,* the animated scenarios are discussed with focus on its outcome, and most

importantly, the issue of addressing whether the team identified all of the key uncertainties and whether the most important uncertainties are identified. What is more, in *process step 3b* the four developed scenarios are discussed and how the senior management responds to the scenario planning outcome is explored and debated. The questions raised are whether the scenarios make sense and whether they are relevant. Moreover, it is discussed whether the scenarios seem robust in terms of assessing all the relevant information, knowledge and imagination of participants. As far as *process step 4* is concerned, additional new scenarios are considered and evaluated as to whether there are any other sources of information, knowledge or imagination that have not yet tapped in. Any wildcards[5] or "abrupt discontinuity" (Van Notten, 2004, p. 67) are to consider, before rating how probable the scenarios (S_1 – S_x) are. In *process step 5*, scenario planning process as a tool was debated. The question of whether scenario planning can be a tool for future strategy of TMX was analysed. Finally, in the last process step, the workshop participants reflected on its strategic options, the generation of strategic insight and the value of a scenario-based strategic conversation.

A scenario-based strategic conversation should turn into a normal procedure.

5 Conclusion

The learning outcomes discussed and agreed by workshop participants at the end of the session were captured by the facilitator. Lessons learned were that scenario planning is a powerful tool as input for strategy formulation. The process of scenario planning provides a company with concepts and language objects "used by the members of the organisation to make the strategic conversation both skilful and meaningful" (Van der Heijden, 1996, p. 293). Scenario planning in conjunction with strategic conversation makes an organisation more sensitive to what is going on outside. Shared scenarios and options then allow it to come to shared conclusions, and therefore, adapt faster. The strategic conversation can drive a strategic debate and generate foresight as input for the future strategy (strategy as might be).

What to do differently: be more radical (consider discontinuity (Ayres, 2000, Burmeister et al., 2004, Drucker, 1968, Van Notten, 2004), create wildcard scenarios, allow more time and consider to involve customers and stakeholders in the workshop. The scenario team had some difficulties to distinguish between trends and uncertainties. Moreover, it was found that developing scenarios utilising the "wrong" key uncertainties will lead to "wrong" scenarios. Finally, it is important to note that having developed scenarios the "so what?" question is not answered automatically.

The scenario planning as synthesis framework (Figure 1) is one of the outcome of TMX's case study for understanding the dynamics between a structured process and conversation. Combing scenario planning (Scenario Hardware) with a strategic conversation process (Scenario Software) was found to be helpful to discover potential strategic options in a changing business environment. Holding a strategic conversation creates a certain style of strategic thinking and discussing that prepares oneself for the future. A scenario-based strategic conversation should turn into a normal procedure. Whereas a lot of research can be found about scenario planning, little has been done regarding strategic conversation and in combining both.

Literaturverzeichnis

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[1] Exemption from Article 85 of the Treaty of Rome for certain types of anti-competitive agreements that fall within the scope of special EU regulations that have direct effect in the EU. Block exemptions exist in a number of different areas, including agreements relating to exclusive distribution and purchasing, motor-vehicle distribution, franchising, research and development, specialisation, and technology transfer. The Regulation („block exemption") allows manufacturers to prohibit a dealer operating sales of more than one make of new vehicle from the same premises and within a defined area.

[2] The "learning loop" or the cycle of learning is an integrative learning model that was developed by Kolb (1984). According to Kolb (1984, p.42), the structural foundations of the experiential learning process consist of four stages: concrete experiences, reflective observation, abstract conceptualisation and active experimentation.

[3] Scenarios can be used to generate strategic options (Godet and Roubelat, 1996, Godet, 2001, Schoemaker 1995, 2002).

[4] Truck Manufacturer X (TMX) is disguised for confidentiality purposes. However, it is a leading truck manufacturer in the global business arena.

[5] A wildcard is a future development or event with relatively low probability of occurrence but likely high impact on the conduct of the business (Burmeister et al., 2004). Wildcards are considered outliners (Saffo, 2007).

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Biography

Dr. Otto C. Frommelt, MBA is Managing Director of Volvo Austria GmbH and General Manager of Volvo Truck Center in Austria. He has senior management expertise and significant international experience within the automotive industry. His senior executive roles have been diverse and include those of Chief Financial Officer (CFO), Chief Information Officer (CIO), Head of Aftermarket, Sales - and Marketing Manager and Chairman/Board Member of dealerships, truck leasing company (financial services), truck rental company, parts sales company and non-profit organisations (Economic and Social Research Council (ESRC), UK).

He has also enjoyed several lifelong learning interludes at Harvard, Wharton, Kellogg, Oxford universities etc., including his Doctor of Business Administration (DBA) at Nottingham University Business School (NUBS), the University of Nottingham, UK and his Master of Business Administration (MBA) at Warwick Business School (WBS), the University of Warwick, UK.

His current positions of trust include business Board Memberships in Poland and Slovakia. Dr. Frommelt is a member of the Founders' Association (one of WBS's boards that helps to shape WBS' strategy to ensure sufficient funding to realise its aims). He is also an international scenario planning expert, mentor, guest speaker, Forum Member of Freightvision 2050 (an EU funded foresight project), lecturer at the University of Applied Sciences, Vienna and the Institute for Management (IFM), Salzburg in Austria.

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