

Exploring and learning from the future: five steps for avoiding strategic surprises

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Why do organizations get blindsided by market transformations that could have been anticipated? After all, scenario planning has been a widely used strategic management tool for decades and most managers are familiar with the process of considering how they would operate in alternative futures. The reason most organizations get surprised by game-changing events, in my experience, is not that their planning methods are bad. The problem is that many firms undertake strategic planning processes like scenario development without seeing them as a unique opportunity for learning about and exploring the future. In some cases this is because management lacks sufficient appreciation for the uncertainty and ambiguity their organizations face. More often, however, management is fully aware of the uncertainty of their situation but is seemingly powerless to prepare to adapt to new business realities, especially unpleasant ones.

To help planners avoid strategic surprise, Monitor 360 has created a five-step strategic planning process that has been tested in interactions with leaders in the military, intelligence community, and corporations. By systematically incorporating plausible but challenging future scenarios into their learning processes, decision makers can both mitigate risk and decrease the likelihood of not being prepared for discontinuities. This approach overcomes the paralysis that sometimes happens when people see all the uncertainty their organization faces, as well as the denial that happens when they don't.

Multiple futures

When thinking about the future, many strategic planners make the mistake of asking, "What will the future be?" Because the future is the net result of so many complex and interdependent issues, the question is daunting, and perhaps unanswerable.

A more realistic question is, "What are the possible challenging futures?" Exploring multiple possible ways the future could unfold, each requiring the organization to radically adapt, enables leaders to better prepare for a wide range of contingencies, and to manage the consequences more effectively when surprises do occur.

Scenario analysis can provide planners with a systematic way of imagining the future and identifying winning long-term strategies that respond to the many ways the future could play out. It helps individuals and their organizations identify and challenge their entrenched mental models and assumptions about what the future might hold, while helping bound the uncertainties they face.

Instead of attempting to predict what is going to happen, the scenario methodology offers a way to see the forces as they are taking shape and not be blindsided when they lead to major changes. Anticipating the future gives decision-makers the ability to look in the right place for game-changing events, to rehearse the appropriate responses and to systematically track indicators of change.

Five mindsets for managing uncertainty

Scenario thinking is the foundation of our five-step toolkit because of the unique ways it allows leaders to explore and exploit the unknown, and because it offers managers a methodology to consider alternatives in the face of uncertainty. To make scenario planning more effective, we've identified five discrete steps in the process, each of which should be undertaken with a distinct mindset. It is important to take these steps one at a time and in order, rather than skipping right away to decision-making (Exhibit 1).

1. Create scenarios – unleash your imagination

Scenarios are plausible narratives about futures that are distinctly different from the present. If they are well prepared, they allow for a thorough exploration of future risks and opportunities. Scenario thinkers begin at the same place as traditional risk managers, skillfully making an inventory of what is known about the future. After exploring issues such as demographics as well as aspects of industry structure and customer behavior, scenario thinkers turn to the unknown, the unknowable, and the perceptions that should be challenged. Following a rigorous analytical process aimed at articulating the range of uncertainties an organization could face and all of the relevant outcomes, scenario thinkers design a number of cogent narratives about relevant futures.

Scenarios are written as plausible stories – not probable ones. Traditional risk management is based on probabilities, actuary tables, and other known and measurable quantities. But scenarios are intended to provoke the imagination and provide a more comprehensive view of risk, so that the results can shed light on critical strategic decisions.

It is important to note that scenario developers create multiple futures, rather than just one. This allows for a more complete exploration of the future, thus avoiding getting wedded to specific set of assumptions about how uncertainties will unfold. The process of developing multiple scenarios helps to increase the possibility that leaders will not be surprised, because it allows them to rehearse multiple unique futures. Importantly, it also grounds decision-makers in the reality that, in most circumstances, they cannot accurately predict the future. Rather than falsely assuming one outcome will happen, leaders learn that they must make decisions in light of the true uncertainty they face.

As an example of this process, the US Navy developed a set of scenarios that would help guide the development of the first unified strategy of all the country's maritime forces in "A cooperative strategy for 21st century seapower" released in October 2007.[1] The first step was to develop four working scenarios. These were discussed and refined in a series of eight working sessions around the country with people from the business, government, and academic sectors who could provide valuable insight about issues the Navy needed to address in the future. The participation of these experts, and their feedback, helped to test the validity of scenarios, which were then refined for publication and dissemination.

The scenarios had a significant impact on the future strategy of the Navy. For example, the scenarios helped to provide a new mission for the Navy in its response to humanitarian crises. The report concluded: "Building on relationships forged in times of calm, we will continue to mitigate human suffering as the vanguard of interagency and multinational efforts, both in a deliberate, proactive fashion and in response to crises. Human suffering moves us to act, and the expeditionary character of maritime forces uniquely positions them to provide assistance."

Exhibit 1

<i>Action</i>	<i>Mindset</i>
Create scenarios	Imagination
Determine required capabilities for each scenario	Creativity & objectivity
Assess current capabilities	Realism
Identify gaps	Analysis
Make choices	Decision-making

“Exploring multiple possible ways the future could unfold, each requiring the organization to radically adapt, enables leaders to better prepare for a wide range of contingencies, and to manage the consequences more effectively when surprises do occur.”

2. Determine required capabilities for each scenario – give your creativity free rein

The second step of the process is to identify what it takes to be successful in each of the futures identified. After the scenario process has imagined distinctly different future worlds that the organization's leaders have acknowledged are plausible, relevant, and important, what would a high-performing organization look like in each of these worlds? That is, if an organization were dealt the card of one scenario, what would it need to do in order to be successful?

To answer this question, planners need to make a list of key success factors and capabilities. Key capabilities for militaries or intelligence agencies might be the ability to project force rapidly abroad or the ability to collect and process open-source information. Capabilities often start with “the ability to . . .” For companies these might be the ability to build brands that address customer needs and inspire loyalty as well as the ability to launch products quickly.

As a case in point, a major software company needed to determine where to invest its limited resources to succeed in a market roiled by new competitors. In one scenario, the company needed good relationships with its value-added resellers and excellent customer service. In another scenario, it needed an entirely different set of capabilities, including low cost, operating system integration.

It's important to address the capabilities question as if it were a set of independent problems: what it would take to be a winner in a given scenario? Doing so encourages bold, creative thinking, and avoids the trap of limiting the alternatives to those that are doable with current capabilities and resources. By keeping this step separate from the next one, assessing current capabilities, planners are not hobbled by only thinking about what they are good at today or nor do they have to struggle with imagining themselves in four different worlds at the same time.

It is often a wrenching experience for leaders to simply look for the absolutely best strategic posture for their organization in each scenario. This is one measure of how hard it is for them to imagine doing business in any future that has totally different success factors from the current environment.

3. Assess current capabilities – be painfully realistic

Separate from the critical examination of the capabilities needed for success in each scenario, planners must ask: What are we good at right now? The answers could be human capital, relationships, or operational efficiency. These capabilities are generally described as competitive assets that cannot be bought and sold on the free market. Organizations can't just say, “We'll invest \$100 million next month, and then we'll have that ability” or “We want to do that.” They have to build the capability over time.

Often outside perspective – for example, based on detailed discussions with customers – can be helpful in getting an unbiased evaluation of what capabilities an organization excels in.

4. Identify gaps – provide honest analysis

Next an organization should compare its own capabilities with the capabilities needed to succeed in the scenarios. Such capability maps will not only highlight what capabilities it

needs to develop – the capability gaps – but also what capabilities it has already invested in that may become redundant.

5. Make choices – consider your options

Once organizations have analyzed the gap between their strengths and the capabilities needed in each scenario, they face some big decisions. There could be capabilities that they need in all the scenarios imagined but that they don't currently have. As a first step, an organization might safely develop these. We call those "no-regrets moves."

Other moves are what we call "big bets." These are capabilities needed in a particular scenario or a small number of scenarios, but not in others. Organizations make bets consciously after systematically thinking through the types of capabilities, their relationship to the environment around them, or the futures that they feel are likely to occur. They can adjust their decision when more data is collected or events unfold in the world. This process is based on the theory of real options, which suggests an organization can gain an advantage by making many small bets, and as information accumulates, start to increase or decrease those bets accordingly.

The crucial questions for organizations to ask when making choices are: What would be the risk if a scenario happened and we didn't have this capability? And what would be the risk if a scenario didn't happen and we did have it?

What's clouding the future?

It's painfully difficult for individual leaders to keep their minds open to multiple futures and to follow a systematic process like the one described above. IBM's famous story illustrates this all-to-common tendency.

In 1980, the personal computer represented a tiny niche market. When IBM was considering developing a computer for the masses, it convened a working group to forecast its potential market. The team projected that the market for PCs would total a mere 241,683 units over the next five years, and that demand would peak after two years and then trend downward. They believed that since existing computers had such a small amount of processing power, people would not want to purchase a second one.

As a result, IBM determined that there was no potential in the marketplace and effectively killed its effort to dominate the personal computer market, ceding the operating system to Microsoft and the processor to Intel. IBM lost out on a \$240 billion market, one in which nearly every household in the developed world would eventually want one or more of the machines and then would want to upgrade them every few years.

But what if someone in the room had asked, "What if people want a PC on every desktop? What if individuals start carrying PCs in their pockets? What if PCs develop a communications capability? What if they are widely used to play games? Maybe we should think of a different scenario where the market would be more like 20 million units?" These would have been completely off-the-wall, outrageous ideas at the time, but if just one person in the room had explored such different lines of thought, the futures of Microsoft, Intel and IBM might have evolved differently.

The benefits of a systematic, disciplined approach

Anticipating the future isn't just about avoiding strategic surprise or minimizing the downside risk. There's also a huge upside: You become involved in creating the future that you want and making sense of how the world may play out. Understanding your choices can be an empowering process.

When planners follow a process that systematically cuts through the barriers to effective group learning and decision-making, and combine that process with principles that give discipline and robustness to the entire endeavor, the future, and our place in it, comes into a much sharper focus.

Principles for success

The five-step process outlined in this paper offers a structured way to deal with dynamic environments. But our experience has taught us that there are some managerial principles that enhance the process. If organizations approach problems with these principles in mind, they can dramatically increase the likelihood that their scenario exercise will develop robust, future-ready strategies.

Embrace multiplicity

The point of scenario planning is to fully consider and experience what operations would be like in multiple futures. We need to see beyond one “likely” possibility. Doing scenario planning right means accepting the reality that a number of radically different futures are quite possible, and then making choices that reflect that reality.

Too many managers, however, pick a favored scenario early on and jump straight to strategy-setting and decision-making. They make an enormous investment in scenario planning, but by the time they get to the strategy part of the process, they throw away the scenarios that aren’t convenient. It’s a form of confirmation bias that undermines the strategic planning process.

Challenge the “official future”

In my experience, scenario exercises should begin with a rigorous fact-finding phase in which leaders recognize and articulate the organization’s “official” future, that is the one everyone is actually preparing for. Rather than starting by conducting research about an organization’s performance, or what the future is likely to be, the exercise first builds a story describing the assumptions that management has about the future – based on its actions and resource allocations. Experience has shown that there’s often a significant discrepancy between what leaders say their organization is doing to prepare for the future, the strategies and investments they’re actually making, and the capabilities the organization needs to be successful in various scenarios. In fact, many organizations engage in strategic planning processes that fundamentally reinforce rather than challenge their official future. But there’s no point in doing strategic planning if you’re simply reinforcing an old sets of beliefs.

Official future exercises tend to be revealing, as they make explicit the assumptions that otherwise tend to go unarticulated. Surprisingly, leaders frequently disagree with the official future when it is presented to them – that is, they reject the underlying assumptions that they themselves make implicitly as they execute their organization’s strategies. When presented systematically with a clear view of their assumptions, they frequently see for themselves where their logic breaks down. Often they then realize, without quantitative data and without sophisticated risk models, that they are not fully accounting for the risks and opportunities they face.

Incorporate diverse perspectives

To do effective strategic planning – to produce new ideas, a full range of alternatives, and to consider plausible alternatives to the official future – you need a diversity of people and methodologies. This requires a process of “outreach.”

Through outreach, organizations gain information from a network of people outside their immediate circle. A multidisciplinary network of people can help an organization understand and make sense of what’s happening today and how emerging geopolitical and national-security issues might unfold in the future.

Capture the imagination

When we are slapped in the face by a future we aren’t prepared for, we often attribute the problem to a lack of imagination. “I never thought we would see the day when U.S. enemies would successfully bomb the Pentagon while I was out on point commanding the *USS Kitty Hawk* in the North Arabian Sea,” said one Pentagon official we interviewed after 9/11. Likewise, who would have thought that a major US city like New Orleans would suffer a catastrophic flood of such staggering dimensions?

But the reality is these events were imagined long before they happened, not only inside the military and among government commissions but in popular films like *The Day After Tomorrow* and in books like Tom Clancy’s *Debt of Honor*. The trouble is key leaders were not inspired to prepare for the real-life implications of these scenarios. The job of the strategic managers therefore is to participate in the development of futures that are plausible and painfully relevant, ones that decision-makers will believe in and will use to identify appropriate short-term and long-term actions.

Note

1. www.navy.mil/maritime/MaritimeStrategy.pdf

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