Scenario-based Strategic Planning

Developing Strategies in an Uncertain World
SCENARIO-BASED STRATEGIC PLANNING

Developing Strategies in an Uncertain World
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1. Introduction

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In an increasingly uncertain world characterized by complexity and volatility, managers must be more flexible in their strategy processes. Traditional strategic management frameworks fail to provide adequate answers in this context. Our solution is "scenario-based strategic planning", a framework for strategic management in an uncertain world. In this chapter, we introduce this approach and outline the structure of the book.

1.1 AN UNCERTAIN WORLD

The 2008 financial crisis and near-default of Greece, leading to political discussions about the future of the Eurozone, indicate clearly the extent to which management today is influenced by what is happening in the general environment. The modern business world is plagued by uncertainty. It is far more complex and volatile than 30 years ago. Planning has become more difficult. Key factors change quickly and have a major impact around the globe.

The 2008 financial crisis was unprecedented in terms of its magnitude, resulting in a decline of global GDP in 2009. However, economic disruptions of one sort or another are far more common now than in the past. A study by Bordo et al. (2001) shows that the frequency of major crises has doubled since the oil crisis of the 1970s. Economic volatility is also seen on an industry level. Product lifecycles are shortening and customer demands changing more rapidly. This leaves managers with less time to make decisions and requires greater flexibility in business systems.

Globalization has made the world more interconnected. New technology and free trade between the major economic zones have increased global growth and wealth, but they have also made management and operations more complex for organizations (Schwenker/Boetzel, 2007). This complexity, combined with the increasing volatility of industries and the general environment, adds to the levels of uncertainty in the business world. It creates new challenges for management and strategic decision-making, as future developments are less predictable than in the past.
Under these circumstances, traditional planning tools such as Porter's Five Forces or the market share-growth matrix are less and less able to meet the demands of executives and strategic planners. A major reason is that they originated in the 1960s and 1970s in a less complex and volatile world (Ansoff, 1957; Porter, 1979; Porter, 1980). Most traditional frameworks do not account for volatility. They rather provide static analyses of the current situation and lack a dynamic element that considers developments over time. Furthermore, they are generally based on the assumption of constant growth and build their normative strategic recommendations around this assumption. As we can see today, in many industries that assumption is simply no longer tenable.

Since the 1990s, traditional approaches to strategic planning and their underlying concepts have attracted considerable criticism from both researchers and practitioners (Mintzberg 1991; Mintzberg, 1994a; Prahalad and Hamel, 1994; Dye, Sibony and Viguierie, 2009). Criticism relates particularly to the core tenet of strategic planning that plans should be developed for a single future direction. Many analysts argue that the traditional concepts and frameworks of strategic planning do not meet the requirements of successful planning in a dynamic, complex and increasingly volatile business environment (Camillus/Datta, 1991; Eisenhardt/Sull, 2001; Grant, 2003).

In light of these challenges, strategic managers in today's business environment have to find answers to two key questions:

1. How can we incorporate volatility, complexity and uncertainty that we observe in many industries today into strategic planning?
2. How can we make strategies more flexible and adaptive to changing environments?

This book is an attempt to answer these questions. At the heart of the book lies the introduction of what we call "scenario-based strategic planning", a methodological framework for creating strategies in an uncertain world.

Scenario planning originated in the 1970s at the oil company Shell (Wack, 1985). It differs from earlier strategy frameworks in that it integrates uncertainty
into the strategy process, taking into consideration volatility and complexity. In particular, it analyzes different possible future developments and incorporates factors both from the industry under examination and the general environment into its framework. Moreover, by developing different strategic options, it provides a flexibility that allows companies to adapt to volatility in their environment.

However, the disadvantage of most scenario planning approaches – those of van der Heijden (2005) or Schoemaker (1995), say – is that they are complicated to apply in practice. Indeed, the amount of time and effort required puts many companies off. This is where our new approach to scenario-based strategic planning comes in. Its main advantage lies in the ease of its application thanks to its tool-based design. The approach was developed as part of a joint project between Roland Berger Strategy Consultants and HHL Leipzig Graduate School of Management to find ways to better use scenario planning in corporate practice.

1.2 SCENARIO-BASED STRATEGIC PLANNING

The HHL-Roland Berger approach to scenario-based strategic planning is an innovative framework based on six continuous process steps. These steps incorporate most of what traditional approaches do, in a structured, comprehensive process. More importantly, our approach supports each of these six process steps with a specific tool. These tools help managers apply the framework easily and consistently over time. This book describes the six steps and their supporting tools in depth, enabling business people and students to implement the approach directly and apply it to the specific strategic challenges faced by different industries (Wulf et al., 2011; Wulf et al., 2012).

The tools for each of the six process steps make developing flexible strategies based on scenarios significantly quicker than more traditional scenario-based approaches. In our experience, companies can apply our approach in just four to six weeks, compared to the five months to a year typically needed for traditional approaches (Bradfield, 2008; Moyer, 1996; Shell International, 2003). The shorter timeframe is more in line with the amount of time normally available for strategic planning in businesses (Grant, 2003; Ocasio/Joseph, 2008).
Because it is easy to apply, our approach can be used for shorter planning periods. Traditionally, companies use scenario planning for long-term planning only, with time horizons of 15 to 20 years (van der Heijden, 2005). Traditional scenario planning is not suitable for planning periods under five years due its complexity. Our approach, in contrast, is applicable for such planning horizons and therefore lays the foundations for integrating scenario planning into the strategic planning process.

The HHL-Roland Berger approach to scenario-based strategic planning builds on traditional scenario planning techniques and offers all the benefits that they provide. It takes into consideration a variety of factors from inside and outside the organization to account for complexity, and it develops multiple scenarios and strategic options to counteract volatility. In addition, it gives organizations greater strategic flexibility by providing them with different strategy options. These options are developed as part of the process and can be implemented depending on what happens in the general environment. In addition, the approach can be applied very quickly in practice, which makes it suitable for shorter planning periods than is possible with traditional strategic planning methods.

1.3 THE GOAL OF THIS BOOK

This book aims to show managers how it is possible to create robust strategies in today’s increasingly uncertain business environment. However volatile or complex the environment, companies still need to take investment decisions and develop strategies. In this book, we tackle the challenges that this presents. Our target audience is both business executives and students of management.

A large part of this book is dedicated to describing the HHL-Roland Berger approach to scenario-based strategic planning. We include detailed descriptions of each of the six process steps and their supporting tools, as well as examples of their application in corporate practice.

The book has three main messages that we believe are central for managers operating in an uncertain world:
1. Managers need to understand the fundamental impact of uncertainty on planning and decision making, as well as its consequences for strategic management in general.

2. Scenario-based planning provides a powerful methodological framework to account for uncertainty, volatility and complexity in the strategic management process.

3. Scenario planning can increase the quality of strategic decisions in uncertain environments and lead to flexible strategies that can counteract volatility.

These three messages underlie the structure of the book. Each of the book’s chapters focuses on one message and presents the reasoning behind it in greater depth. Following this introductory section, the second chapter looks at the core challenges facing strategic management in the twenty-first century. Cornelia Geißler and Christian Krys identify uncertainty as a major issue and analyze its main determinants: volatility, complexity and ambiguity. Based on many examples, the authors show how much more uncertain the world has become for managers today. They take a close look at traditional planning tools and point out their merits and limitations. Finally, they discuss different forecasting methodologies such as prediction markets or simulations that can be used to reduce uncertainty and assess the impact of potential changes.

The third chapter gives an overview of the HHL-Roland Berger approach to scenario-based strategic planning as well as the underlying concepts and ideas. Torsten Wulf, Philip Meißner, Christian Brands and Stephan Stubner describe the overall methodology and its benefits for the strategic management process. They also show how the approach can be integrated into a company’s strategic planning process. In the fourth chapter, Torsten Wulf, Christian Brands and Philip Meißner present each of the six tools used as part of the approach in detail. They also demonstrate how each tool is applied in practice based on a case study from the European airline industry. In the fifth chapter, Nicklas Holgersson and Duce Gotora show how scenario-based strategic planning can be applied in a consulting project taking one of the world’s largest multi-sector companies as an example.

The sixth chapter discusses the benefits of scenario-based strategic planning for strategic decision making. Philip Meißner analyzes the approach’s potential for
improving decision quality in the management process. He finds that scenario planning can increase comprehensiveness as well as speed, and reduce the negative effects of cognitive biases, all of which have been shown to increase decision quality. He concludes that, thanks to its positive influence on the quality of decisions, scenario planning is also likely to positively affect performance. In the seventh chapter Cornelia Geißler and Christian Krys address a second benefit of scenario-based strategic planning. They emphasize the importance of strategic flexibility and identify potential obstacles that prevent companies from achieving this capability. Finally, they analyze the influence of scenario planning on flexibility. The final chapter presents an outlook on how strategic management will evolve in the coming years and decades.

This book aims to bridge the gap between research and practice. It offers an application-oriented approach that is strongly rooted in academic research. The different case studies aim to demonstrate the relevance of scenario-based planning for the business community and show how the approach can be implemented in organizations.

Stretching the imagination and "thinking outside the box" is a crucial part of scenario planning. We hope that this book achieves this goal and helps change the way you think about strategic management.

1.4 REFERENCES


A PIONEERING BOOK FOR STRATEGIC PLANNING

"IN TIMES OF STRATEGIC TURBULENCE, IT IS ESSENTIAL FOR MANAGERS TO SYSTEMATICALLY THINK THROUGH ALTERNATIVE, PLAUSIBLE FUTURES. SCENARIO PLANNING FACILITATES THIS PROCESS AND HELPS TO GET PREPARED FOR THE UNEXPECTED."

PROF. DR. ROLF WÜSTENHAGEN, UNIVERSITY OF ST. GALLEN

"USING ROLAND BERGER’S SCENARIO APPROACH WAS AN ENORMOUS HELP IN COMING UP WITH CREATIVE PROJECTIONS OF THE FUTURE ENERGY MARKET."

PROF. DR. ULF MOSLENER, FRANKFURT SCHOOL OF FINANCE & MANAGEMENT

For further information on the book:
www.rolandberger.com/expertise/functional_issues/Scenario_planning/

Please visit our blog:
www.think-act.com/blog/

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