flow consulting

Lecture:
Scenario Management

Event:	**Forum of Experts on Personnel & Leadership, Hanover**
Date:	**2008-11-19**
Speaker:	**Frank Wippermann (flow)**

flow consulting gmbh
Spörckenstraße 89
D-29221 Celle

mail@flow.de
www.flow.de

Contents

Scenario and Strategy

Scenario:

A possible and complex picture of the future that is based on combinations of many interlinked parameters. No prognoses (with a statement on probability) are developed from these combinations. Instead, they are used for projections (drafts of possibilities). They serve the decision in favour of a ☞Strategy, which may be robust (i.e. include a number of scenarios) or focused (i.e. directed at one scenario).

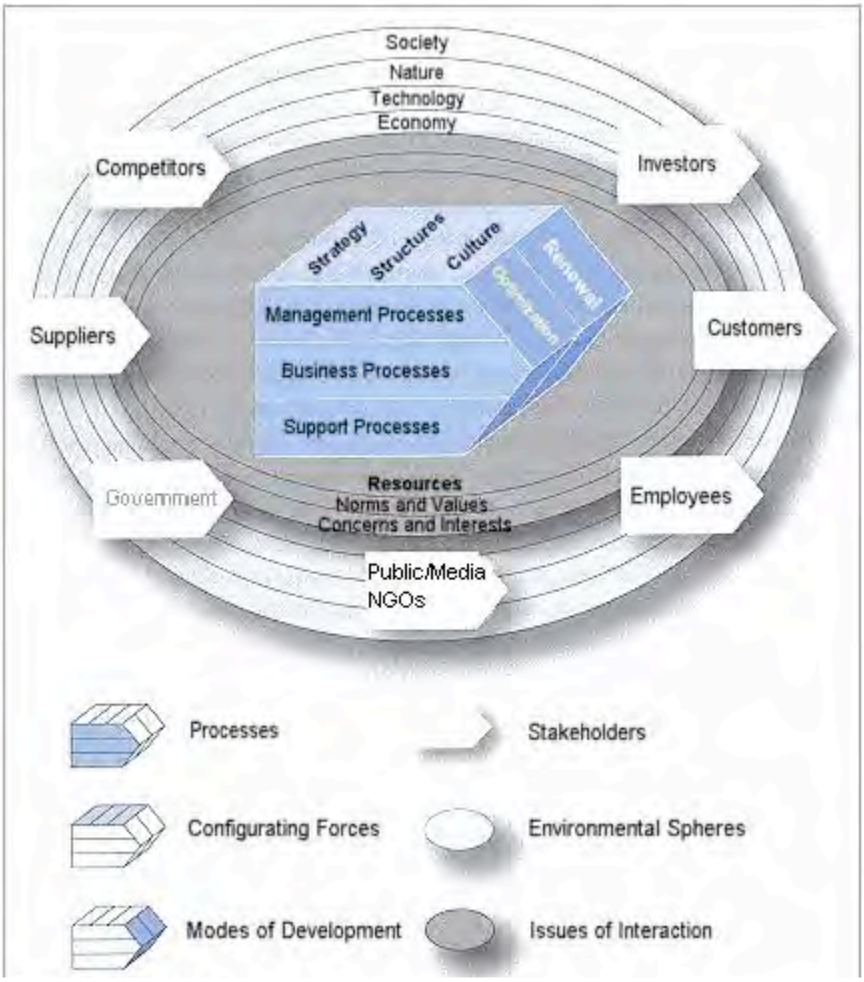
A scenario analysis is performed in seven steps: (a) Detect influencing factors, (b) Weight factors (analysis of influence), (c) Identify key factors, (d) Describe projections (these are descriptions of potential developments), (e) Develop scenarios, (f) Define courses of action, (g) Develop your strategy.

Strategy:

1. The coherent arrangement of activities that distinguishes a company from its competitors.
2. „The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals“ (Chandler)
3. The aligning function of an organisation in the form of orientation to a binding set of goals. A strategy provides information on the following five aspects as a minimum: (1) Concerns, needs and forms of communication of the stakeholders; (2) Definition of the products and/or services offered and the benefit to be achieved at the target groups; (3) Determination of the focus of the creation of value – while at the same time differentiating the products and/or services offered; (4) Definition of the fields of cooperation and selection of cooperation partners; (5) Determination of the existing / required skills and core competencies and how to develop and expand these. (NSGMM)
4. There are three types of strategies: Cost leadership, differentiation, focusing

(a) Detect influencing factors

Models, e.g. the "New St. Gallen Management Model"[1]



By way of example:

- Influencing factor: "Development of a New Technology"
- Influencing factor: "Level of Competitors"

[1] Rüegg-Stürm, J. (2004): Das neue St. Galler Management-Modell. In: Dubs, R. et al. (Ed.): Einführung in die Managementlehre. Bern, pp. 65-141.

(b) Weight the factors

to → / from ↓	1 IF1	2 Techn.	3 Comp.	4 IF4	5 IF5	6 IF6	7 IF7	8 IF8	AS
1 IF1		3	0						
2 Techn.	2		3	2	1	3	3	2	**16**
3 Comp.	2	1		1	2	3	2	1	**12**
4 IF4		2	1						
5 IF5		3	2						
6 IF6		3	0						
7 IF7		2	0						
8 IF8		3	1						
PS		**17**	**7**						

0: No influence

1: Low influence

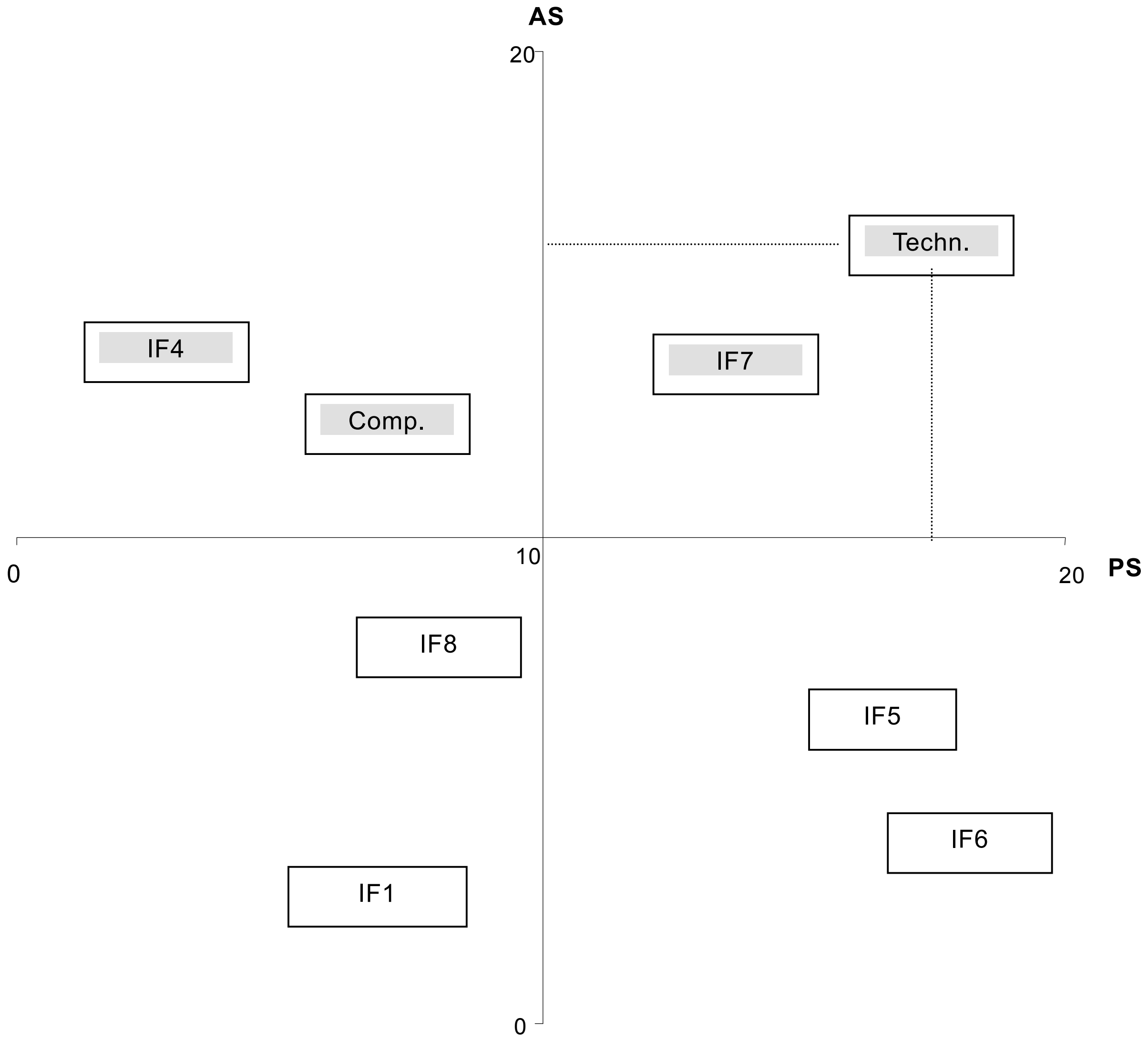
2: Medium influence

3: High influence

AS = Active sum

PS = Passive sum

(c) Identify key factors

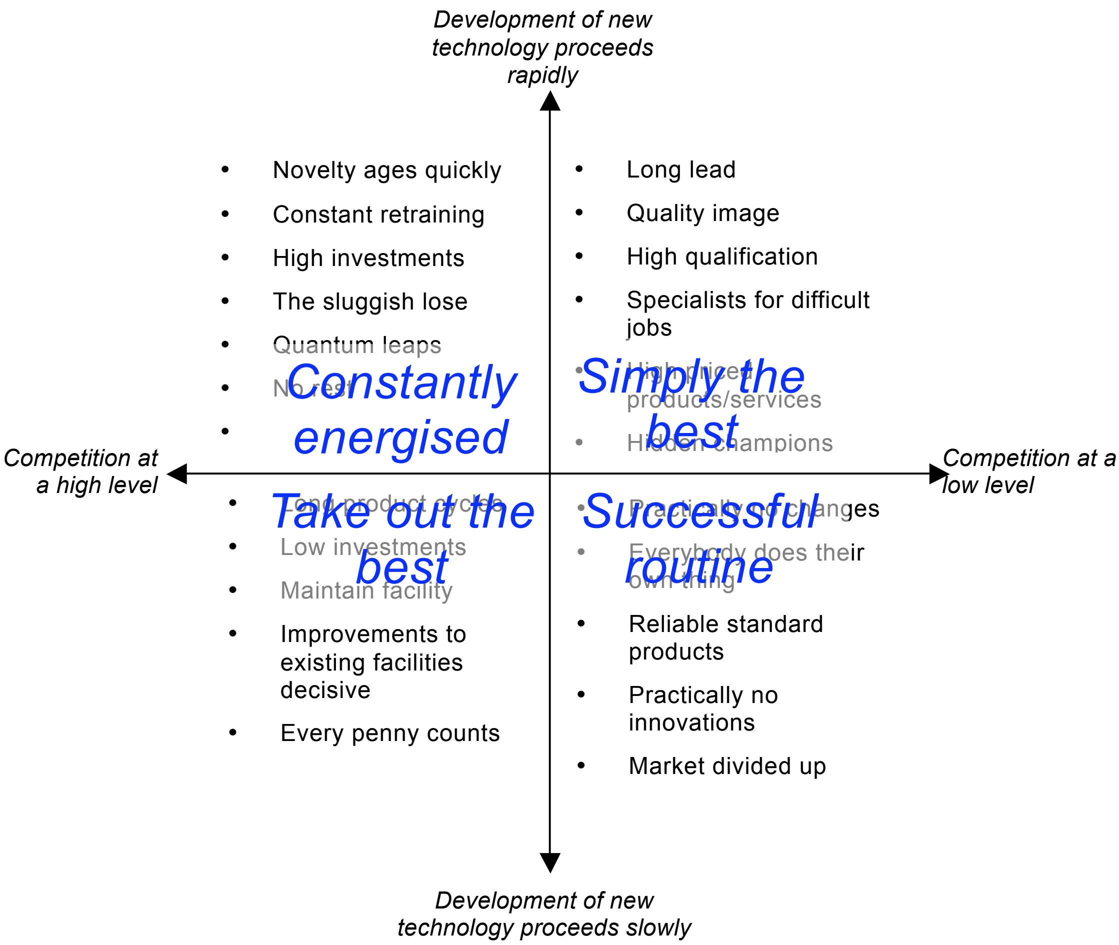


I	System nodes / "critical factors"	(high activity and high passivity)
II	Forms of leverage / "active factors"	(high activity and low passivity)
III	Independent factors / "sluggish factors"	(low activity and low passivity)
IV	Indicators / "passive factors"	(low activity and high passivity)

The key factors are in quadrants I and II.

flow consulting

(d) Describe projections



Identify projections for each pair of key factors:

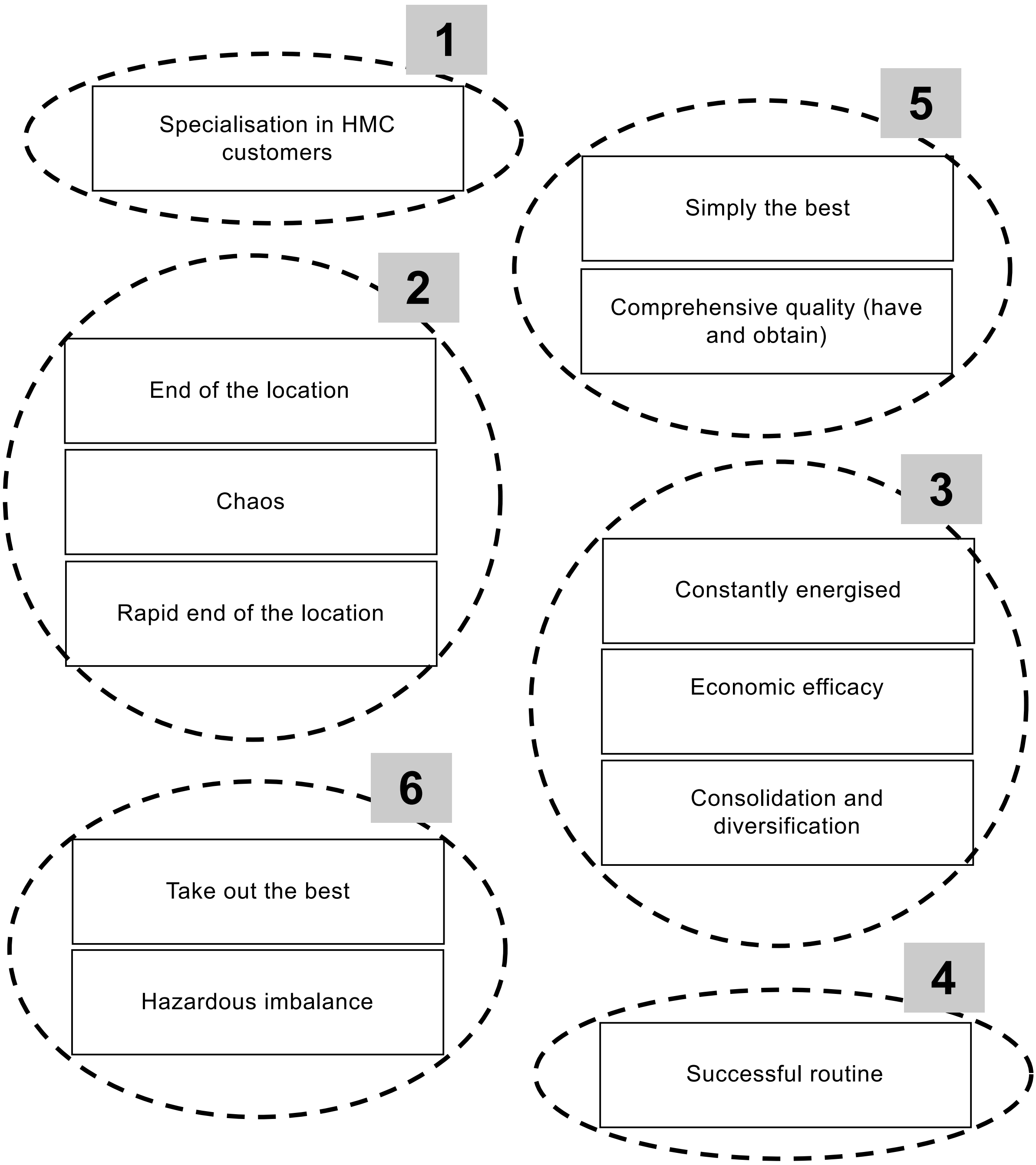
- For two key factors	one "crosshair"	4 Projections
- For three key factors	three "crosshairs"	12 projections
- For four key factors	six "crosshairs"	24 projections
- ...		

P = f(KF) = KF × (KF-1) × 2

P = number of projections / KF = number of key factors

flow consulting

(e) Develop scenarios



Describe scenarios: Picture, history, report, song, sculpture, ...

Evaluate scenarios: Opportunities, winners, risks, opportunities, indicators

(f) Define courses of action

	SC1	SC2	SC3	SC4	SC5	SC6
Activity 1	o	o	o	o	x	o
Activity 2	x	x	x	-	x	x
Activity 3	x	x	x	o	x	x
Activity 4	x	x	x	x	x	x
Activity 5	o	o	o	-	x	o
Activity 6	x	x	o	o	-	x
Activity 7	-	x	x	o	x	x
Activity 8	o	x	x	o	x	x
Activity 9	x	o	x	o	-	x
Activity 10	o	x	x	o	x	x
Activity 11	x	x	x	x	x	x

x Activity supports scenario

o Activity indifferent toward scenario

- Activity contradicts scenario

Interpretation:

- Activities 4 and 11 take effect in every scenario – a strategy that relies on these activities is a **robust** strategy.
- Activities 1 and 5 only take effect in scenario 5 – a strategy that relies on these activities is a **focused** strategy.

(g) Develop your strategy

	SC1	SC2	SC3	SC4	SC5	SC6
Activity 4	x	x	x	x	x	x
Activity 11	x	x	x	x	x	x
Activity 2	x	x	x	-	x	x
Activity 3	x	x	x	o	x	x
Activity 7	-	x	x	o	x	x
Activity 8	o	x	x	o	x	x
Activity 10	o	x	x	o	x	x

Here: the (quite robust) strategy relies on scenarios 2, 3, 5 and 6.

Reasons for this decision:

- Own strength, environment with bountiful opportunities (from: SWOT Analysis)
- Existing and new customer segments fit (from: Analysis of Industry)
- Products and innovations are promoted (from: "Stars", "question marks" portfolio)

The indicators mentioned in step "(e) Develop scenarios" must be observed in order to secure this approach of "putting your stakes" on multiple strategies: Both for the "correct" and, – what's even more important, - "wrong" scenarios (here: SC1 and SC4).

Indicator	**Reference to the scenario**
The demand for HMC products rises	1
P/L statement shows a minus for a considerable length of time	2
Number / level of quality audits rises	5
Customer loyalty rises	3

Last step: Formulate the strategy (cf. the aspects under "Strategy").

Think in terms of scenarios instead of probabilities

"That won't work – no, that simply won't work!" Whoever reasons like that is omitting possibilities, restricting the formulation of a strategy and preventing innovations. What kinds of causes – fear, cunning, a lack of imagination, etc. – are at the root of these defensive strategies is anyone's guess. What is certain: When developing a strategy, any form of thinking that argues in the form of probabilities rather than possibilities is counter-productive, especially in the initial phase. Methods using scenario management have proven very useful for going through the prospects and possibilities of strategy development mentally. This can counteract a tendency that Franz Biehal describes as follows: "Anybody conceiving of themselves as an economic partner in a zero-sum game does not ask to which new shores they might travel, but rather only how they can grab someone else's territory. This places the focus in the present rather than the future."[2] In contrast, when we look at scenarios, we see the curious, creative and willing view of all those involved becoming increasingly directed at all future possibilities.

The advantage of this approach: Before the discussions of concrete proposals end up in a dead-end street, you can work together and use scenario methods to assess the status of the organization and separate the important causes from the unimportant ones. This serves to make the discussion objective. In addition, you can think through the possibilities together without getting tied up in debates of feasibility or probability. This serves to open the discussion in terms of contents. As a result, strategy developments are discussed in a broader context, and possibilities that were outside the field of vision of the participants initially can now be taken into account.

[2] Biehal, 63.

Literature

Gausemeier, J./Fink, A./Schlake, O. (1996): Szenario-Management. Planen und Führen mit Szenarien. 2nd Ed. Munich/Vienna.

Bea, F.X./Haas, J. (1997): Strategisches Management. Stuttgart.

Biehal, F. (2005): Warum es mancher Unternehmensleitung schwer fällt, sich mit der Zukunft zu beschäftigen. In: Organisationsentwicklung (3), pp. 60-63.

Georgantzas, N. C./ Acar, W. (1995): Scenario-driven planning. Learning to manage strategic uncertainty. Westport, CT.

Kahn, H. (1976): The next 200 years. New York.

Meinert, S. (2004): Denken in Alternativen. In: Gust, M. (editor): Innovative Workshop-Konzepte, Heidelberg.

Mintzberg, H. (1995): Die strategische Planung. Munich/Vienna.

Müller-Stewens, G./Lechner, C. (2005): Strategisches Management. Wie strategische Initiativen zum Wandel führen. 3rd Ed. Stuttgart.

Pillkahn, U. (2007): Trends und Szenarien als Werkzeuge zur Strategieentwicklung. Der Weg in die unternehmerische Zukunft. Erlangen.

Reibnitz, U. von (1991): Szenario-Technik. Wiesbaden

Vester, F. (2007). Die Kunst vernetzt zu denken. Ideen und Werkzeuge für einen neuen Umgang mit Komplexität. 6th Ed. Munich.