

# ENVIRONMENTAL LEADERSHIP

## Telling Stories

In the early 1970s, Pierre Wack, a strategic planner with Royal Dutch Shell, wrote two compelling stories—future scenarios—describing what might happen if the Organization of

the Petroleum Exporting Countries cut the supply of oil to Western nations that supported Israel. The stories were not merely tales of possible futures, but rich descriptions of the full ramifications.

He used these scenarios to mentally prepare Shell executives for the major actions they would need to initiate should such possibilities ever occur. In 1973, the oil embargo struck—and Shell took full competitive advantage of the fast-moving dynamics.

### Blinkered Thinking

Contrast Shell's strategic positioning success with Ford Motor's current failure to adjust quickly enough to rising oil prices. Not until 2010 will the company's plants be retooled so that it can sell many small, European-style models in the United States.<sup>1</sup> In the second quarter of 2008, the company experienced a net loss of \$8.7 billion,<sup>2</sup> the worst quarterly performance in its 105-year history.<sup>3</sup> Trucks and SUVs are heavily discounted, yet they still sit on car lots.

Meanwhile, a new Toyota Prius stays on the dealer lot for only five days. The demand for the Prius is so high that prices for used, low-mile-

### *The power of scenario planning in executive communication*

age 2008 models are averaging \$1,300 more than the selling price for new models.<sup>4</sup> Incredible!

Until relatively recently, of course, trucks and SUVs were highly profit-

able for car makers. Could this profitability have blinded management to the changing landscape? In hindsight, that appears to be the case.

### From Hindsight to Foresight

"Hindsight is a double-edged sword. Too much of it and the past seems inevitable. With too little hindsight, a panoramic perspective is impossible," says Lance B. Kurke in the preface to his book *The Wisdom of Alexander the Great*.<sup>5</sup>

To anticipate emerging issues and opportunities, we must clearly recognize the implications of the past but not be caught up in the assumption that the future will simply be an extension of what has happened before. The foresight we develop admittedly may be fuzzy, but it is an important survival technique for business.

### The Opportunity for Environmental Professionals

Environmental professionals are in a unique position to understand and integrate emerging dynamics such as global regulatory constraints, raw material

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supply restrictions, green product opportunities, changing ecosystems, public opinion shifts, and consumer trends. But all too often, we plan only for that which is immediate and in plain view.

For most environmental professionals, the focus does not extend beyond everyday issues such as regulatory compliance and the “crisis du jour.” As a result, our conversations with business executives are—at least from their vantage point—routine, boring, and nonstrategic. Admit it: The latest statistics on emission rates and compliance inspections are not fascinating to the people who are responsible for positioning the company to enhance its future profits.

**A key question for environmental professionals is how to convey essential information about the future that is powerful and of strategic value.**

### **Getting Their Attention—And Making a Difference**

Reporting on an environmental crisis or a key emerging regulation may be engaging, but it is not exactly exhilarating or career building. So a key question for environmental professionals is how to convey essential information about the future that is powerful and of strategic value.

Peter Guber, a well-known Hollywood producer and executive, wrote an intriguing article for the *Harvard Business Review* in which he revealed his secret to breaking through barriers and persuading unresponsive and uninterested stakeholders to adopt his point of view. Guber stated:

The power of storytelling is . . . central to my work as a business executive and entrepreneur. Over the years, I’ve learned that the ability to articulate your story . . . is crucial in almost every phase of enterprise management. . . . Sometimes, a well-crafted story can even transform a seemingly hopeless situation into an unexpected triumph.<sup>6</sup>

His guidelines are useful in any setting. But the technique of scenario development—a very specific type of storytelling—is ideal for environmental professionals.

This technique has the added advantage of being familiar to most executives. Given this background, the scenario building approach is not as outlandish as it may seem to some readers of this column.

### **How to Look Ahead**

If you could accurately look just five minutes into the future, you could become a millionaire at the racetrack. That’s not the kind of “looking ahead” I’m discussing here, however. Instead, my focus is on helping businesses understand what *may* happen in the future. Such understanding is essential for continued success.

*Fortune* magazine once asked Herb Kelleher, the founder of Southwest Airlines, how he had achieved his phenomenal success. Kelleher responded that he prepared for every scenario, noting, “The way I’ve always approached things is to be prepared for all possible scenarios of what might happen. I usually come up with four or five different scenarios. I do this all the time.”<sup>7</sup>

To Kelleher, scenario development seems to come naturally. For the rest of us, some instruction can help. I offer a few basic pointers on scenario planning in the discussion that follows.

### **Scenario Development Versus Forecasting**

It is important to recognize that scenario development is not the same as forecasting.<sup>8</sup> Forecasting predicts what *will* happen, while scenario development describes what *might* happen.

Scientists, economists, and mathematicians routinely make calculated estimates about what will happen based on the information they have available to them at any given time. Whether they are making forecasts about the economy or the weather, all available and known variables are factored into the analysis.

Over short time periods, these predictions can offer a reasonable degree of certainty. But as systems get more complex and the relevant time periods grow longer, prediction becomes impossible. The future is just too chaotic.

### ***Anticipating Possibilities***

Scenario development anticipates what *might possibly* occur. It does not presume that one particular scenario will definitely happen. Some scenarios may be more likely than others, but that is not the point. The true value of scenario planning lies in the challenge it presents to the organization's planning scheme. Scenario development tests whether the organization's plan is robust enough to meet all future challenges that may arise.

Scenario planning is storytelling at its finest and, as such, it differs markedly from the "normal" interactions that typically take place between company executives and environmental professionals. It does not involve factual reporting of historical metrics or project status.

Most business managers are not fully informed about key emerging issues. They tend to make decisions based on past experience. As such, they are like helmsmen who must steer their ship by looking at the wake it creates.

Scenario development offers an opportunity to look beyond the immediate horizon. It is a wonderful tool for educating managers about emerging issues and showing how they may impact business.

### **Eight-Step Process for Scenario Development**

1. Identify a focal issue or key decision to be made that is of significant importance to your organization.
2. List key factors that can affect the success or failure of the decision you make.
3. Identify driving forces that can affect these key factors.
4. Rank key factors and driving forces based on their importance and the amount of uncertainty associated with them.
5. Choose scenario schemes or "logics."
6. Elaborate on your scenarios and create narratives for them.
7. Evaluate the implications of the scenarios for your organization.
8. Select early indicators and "signposts" that you can monitor to determine whether a scenario is becoming reality.

Adapted from Schwartz, P. (1996). *The art of the long view: Planning for the future in an uncertain world*. New York: Doubleday.

### **Reference Works on Scenario Development**

The classic reference on scenario development is Peter Schwartz's *The Art of the Long View*,<sup>9</sup> which offers step-by-step guidance on building scenarios. (See the sidebar accompanying this column for a brief description of the steps involved.) But the book's greatest value is in the case studies it presents, which demonstrate how scenarios have influenced management decisions. Schwartz has supplemented this work with the more recent *Inevitable Surprises*.<sup>10</sup>

Environmental writers have also used scenarios to vividly describe what the future might hold. My favorite is *Which World?* by Allen Hammond.<sup>11</sup> Another excellent example is *Exploring Sustainable Development: Global Scenarios 2000–2050*, from the World Business Council for Sustainable Development (WBCSD).<sup>12</sup>

### **Scenario Planning Tools**

These reference works provide a good background in scenario development. However, I use a slightly different approach that works very well for individuals who are unfamiliar with scenario development theory. The basic steps involved in this approach are discussed below.

The technique outlined here is especially effective for cross-functional meetings led by environmental staff in which the participants examine future issues. Even if the total environmental staff consists of just one person, this technique can be used to bring together individuals from other areas to examine emerging environmental, health, safety, and social responsibility dynamics.

### ***Brainstorming to Identify Key Drivers***

The first step is brainstorming to identify which major external factors or drivers may enhance or threaten the group's ability to support delivery of the organization's strategy.

You should not simply focus on recognized long-term issues such as population growth, global warming, and food shortages. You do not want to concentrate your efforts on the same obvious future scenarios that your competition may be examining. Instead, you should go deeper and invest enough energy to look beyond the "usual suspects."

### ***Sorting Issues by Level of Impact and Certainty***

The drivers you identify should be clustered

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on Post-its and arranged on a two-axis, four-box matrix according to level of impact (Y axis) and certainty (X axis) from low to high.

The scenarios you develop should focus on high-impact, low-certainty drivers. By contrast, issues that fall into the category of high-impact and high-certainty should be treated as predetermined "givens." Low-impact drivers should be discussed in order to understand what factors might shift them into the high-impact category.

### ***Emergence of a Scenario Framework***

What should soon become apparent to participants are the makings of a scenario framework. You should begin to see that the future could radically shift if certain key events occur.

It is best to keep the process relatively simple: Remember that you are looking at the "big picture." I would recommend examining two key high-impact, low-certainty drivers that do not have a high degree of interdependence. For example, the emergence of global environmental performance standards on in-

dustry Z may be totally independent of a phased-in ban on chemical X, but both may have a potentially large impact on your organization. These drivers should be displayed on a 2 X 2 matrix.

### ***Telling the Story***

Next, you build the scenario logic by, in effect, telling a story of what may evolve if key events occur. You should discuss how your industry and business could be affected and how it might respond, basing your description on the predetermined elements you have identified and on credible and internally consistent interactions among the full set of change drivers.

You should do more than just recite facts and figures. You should aim to give people a vivid idea of what the future could be like if the scenario comes to pass, and encourage them to imagine how they would be forced to react.

### ***Evaluating Your Organization's Strategic Plan***

The most telling and interesting step will involve evaluating your organization's strategic plan against the scenarios you develop. Can your plan withstand any future challenge? If not, what needs to be strengthened?

### ***Identifying Early Indicators***

Finally, for each scenario, you should identify key "real world" markers that you can monitor going forward. These can serve as early indicators that the scenario you are concerned about may actually be turning into reality.

### ***Taking Scenario Development Further***

The steps outlined above represent a very basic, abbreviated version of a relatively intricate process. Scenario development can be greatly facilitated and enhanced by involving someone who is already familiar with the technique.

It is especially useful if that person can challenge old assumptions and encourage the group

to think outside the box and beyond the obvious drivers that everyone else is considering. Such discussions often stimulate follow-up meetings with business management to inform them about emerging issues.

For some businesses, the “what ifs” uncovered during scenario development sessions can be truly far-reaching. When this is the case, it may be advisable to conduct more detailed research in order to develop formal scenarios that are high quality enough to present to the organization’s board of directors for review.

To get an appreciation of how sophisticated such formal evaluations can be, I recommend that you scan the report that the World Resources Institute (WRI) prepared on the pulp and paper industry.<sup>13</sup> Scenarios served as the foundation of WRI’s investigation into environmental issues affecting the industry.

## Concluding Thoughts

Using the power of hindsight, it is easy to see how scenario development tools can come in handy. For example, we now realize that Monsanto, whose CEO, Robert Shapiro, was a vocal and early proponent of sustainability, ultimately misjudged the social and political ramifications of “tinkering with Mother Nature” through crop-biotechnology. The company’s rollout plan for this technology was revealed to be woefully inadequate.

More recently, we have seen serious controversy arise over the use of ethanol-based fuels and their impact on world food prices. Surely such pitfalls (and opportunities) could have been better understood—and planned for—through the use of scenario planning.

I recognize that far too many environmental professionals struggle just to keep up with their day-to-day tasks. But you owe it to yourself to look for ways to think and act strategically. Reacting to the crisis of the day may win tactical

battles. But in the long term, such a narrow focus can set your company up for serious future problems—as major American automakers (and many other companies) are now finding out.

The scenario planning technique suggested here takes only a few days of effort and requires expenditure of a relatively small amount of money—usually only a few thousand dollars, even if outside expertise is called in for support.

At a minimum, creating compelling stories through scenario development will open up dialogue with other functions in your organization, and help alert them to the future challenges that you (and they) face.

More importantly, for some companies, scenario planning could be the strategic move that saves the day.

## Notes

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