

# What Were They Thinking?

*Using scenario development to evaluate the soundness of your company's environmental strategic plan*

*Billy Wilder, the famous screenwriter, once said, "Hindsight is always 20-20." California capped the retail market price for electricity but allowed the wholesale price to fluctuate according to the laws of supply and demand. The plan for deregulation failed miserably over a fundamental principle of economics. Today we indignantly shout, "What were they thinking!?"*

*If we can easily view the past with perfect hindsight, we should, with a little skill and effort, have the capacity not to be totally blind to the future. Foresight may be admittedly fuzzy, but it is an important survival technique for business. This month we examine techniques for scenario development, a key tool to test the robustness of your environmental plan. This article is the fourth in a series on strategic planning published in Environmental Protection this year.*

In May, I gave a presentation in Phoenix on strategic planning to one of the country's leading trade associations. I started with a survival planning exercise: What would you bring if you went out into the wilderness of Arizona during this spring weather? Since it was 104 degrees in the shade, they offered the usual assortment: water, suntan lotion, broad brimmed hat, etc. I told them to bring warm clothing so they did not die of hypothermia.

Their puzzled looks immediately changed when I explained that Flagstaff went down to 34 degrees the night before, and it snowed the previous week. I explained that old timers in Arizona never worried about the heat — everyone prepares for this. They worry about being stranded out overnight after hiking in a T-shirt on a beautiful 70-degree afternoon in high country wilderness.

All too often environmental professionals plan for that which is immediate and in plain view. Long-term issues include the usual suspects of population growth, global warming, food shortages and so on. In effect, we all are planning for the same, obvious future scenarios. Rarely is enough energy invested to look outside the box, or in my Arizona case study, beyond the hotel perimeter.

## Looking Ahead

If you could accurately look just five minutes into the future, you would become a millionaire at the racetrack. In business, peering ahead five minutes may not make or break a business, but the need to understand what may happen in the future is essential. For example, *Fortune* magazine recently asked Herb Kelleher, founder and chairman of the remarkably successful Southwest Airlines, how he achieved phenomenal success. He responded that he prepared for every scenario. "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 ... Right now I'm thinking through the scenarios of the possibility of United Airlines dividing US Airways, the scenarios of American acquiring TWA,"<sup>1</sup> he said. To Kelleher, scenario development comes naturally. For the rest of us, some enlightenment and tools can help.

First, recognize that scenario development is not the same as forecasting.<sup>2</sup> Forecasting is predicting what will happen. Scientists, economists and mathematicians make calculated estimates of what will happen based on the information at the time. Be it the economy or the weather, all available and known variables are factored into the analysis. Over short time periods there may be a reasonable degree of certainty of the prediction. But as the systems get more complex and the time periods

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longer, it becomes impossible to predict the future. The future is just too chaotic.

Second, scenario development is the anticipation of what may possibly occur. It does not presume that one particular scenario will definitely happen. Some scenarios may be more likely than others, but their true value lies in testing the robustness of the plan to meet all future challenges.

It is storytelling at its finest and, as such, is totally out of character with the normal interactions between executives and environmental professionals: factual reporting of historical metrics and project status reports. Just like steering a ship by looking at the wake, management is generally not fully informed about key emerging issues. Scenario development offers an opportunity to work with management and look beyond the ship's immediate horizon. It is a wonderful tool to educate management on emerging issues and how they may impact the business.

#### The Tools

The classic reference for scenario development is Peter Schwartz's *The Art of the Long View*.<sup>3</sup> It offers step-by-step guidance on building scenarios, but its greatest value is in the case studies that demonstrate how scenarios have influenced management decisions. Environmental writers have used scenarios to vividly describe what the future may hold. My favorite is *Which World?* by Allen Hammond.<sup>4</sup> Another excellent illustration of the use of scenarios is *Exploring Sustainable Development Global Scenarios 2000 - 2050* by the World Business Council for Sustainable Development (WBCSD).<sup>5</sup>

These references provide a good background in scenario development. I use a slightly different approach that works very well for individuals unfamiliar with the theory. It is especially effective in cross-functional meetings led by the environmental staff to examine future issues. Even if the total environmental staff consists of one person, this can be a technique to bring together individuals from other areas to examine emerging environmental, health, safety and social responsibility dynamics.

The first step is to brainstorm and determine which major external factors or drivers may enhance or threaten the group's ability to support the delivery of the company's strategy. These are clustered 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. Scenar-

ios are developed from the high impact, low certainty drivers; the high impact and high certainty drivers are the predetermined "givens." The low impact drivers are discussed relative to what it would take to shift these into the high impact category.

What should soon become apparent to participants are the makings of a scenario framework in which the future could radically shift if certain key events occur. To keep it relatively simple (remember you are looking at the "big picture"), it is generally best to examine 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 industry Z may be totally independent of a phased-in ban on chemical X. These are displayed on a two by two matrix.

Next you build the scenario logic by, in effect, telling a story of what may evolve. You discuss how your industry and business could evolve based on the predetermined elements and the credible and internally consistent interactions of the full set of change drivers. The most telling and interesting step is to evaluate your strategic plan against these scenarios. Can it withstand any future challenge? If not, what needs to be strengthened? Finally, for each scenario you identify the key markers that would serve as early indicators that the scenario is emerging.

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This is the Cliff Notes version of a relatively intricate process. The process is greatly facilitated by someone familiar with the process, especially if that person can challenge old assumptions and encourage the group to think outside of the box and beyond the obvious drivers that everyone considers. These discussions often stimulate follow-up meetings with business management to educate them on emerging issues.

For some businesses, the "what ifs" uncovered during these sessions can be truly far-reaching. Under these circumstances, it may be advisable to conduct the detailed research required to develop formal scenarios of sufficient quality to undergo review by the Board of Directors. To get an appreciation of the sophistication of these evaluations, I recommend that you scan the report on the pulp and paper industry by the World Resources Institute.<sup>6</sup> Scenarios served as the foundation of this investigation into environmental issues affecting the industry.

### Conclusions

Using the power of hindsight, it is easy to see how scenario development tools can come in handy. For example, Monsanto's CEO, Robert Shapiro, a vocal and early proponent of sustainability, totally misjudged the social and political ramifications of tinkering with Mother Nature. His rollout

plan for genetically modified crops was woefully inadequate, and the protests and consumer boycotts continue to plague the biotechnology industry today. An even more apparent example was the recall ordered by the Consumer Product Commission on hair dryers using asbestos insulators long after the danger of the asbestos was known.<sup>7</sup> Hair dryers! What were they thinking?

Far too many environmental professionals struggle just to keep pace with their day-to-day tasks. Reacting to today's crisis de jour may win the tactical battles, but in the long term it may set your company up for serious future problems, as Monsanto faced. The techniques suggested take only a few days of effort and a few thousand dollars if outside expertise is called in for support. At a minimum it will open up dialogue to other functions in your company and to the future challenges you (and they) face. It could also be the strategic move that saves the day. 

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For more information, circle 44 on card.

### References

<sup>1</sup> *Fortune*, "The Chairman of the Board Looks Back," May 28, 2001, Page 70.

<sup>2</sup> For an excellent review of forecasting techniques see Nicholas Resher, *Predicting the Future - An Introduction to the Theory of Forecasting*, State University of New York Press, Albany, NY, 1998.

<sup>3</sup> Peter Schwartz, *The Art of the Long View - Planning for the Future in an Uncertain World*, Doubleday, NY, NY, 1996.

<sup>4</sup> Allen Hammond, *Which World? - Scenarios for the 21st Century*, Island Press, Washington, DC, 1998.

<sup>5</sup> World Business Council for Sustainable Development, *Exploring Sustainable Development Global Scenarios 2000-2050*, Geneva, Switzerland, November 1997.

<sup>6</sup> R. Repetto and D. Austing, *Pure Profit: The Financial Implications of Environmental Performance*, World Resources Institute, Washington, DC 2000.

<sup>7</sup> U.S. Consumer Product Safety Commission, *CPSC Accepts Corrective Actions From Major Hair Dryer Companies*, Office of Information and Public Affairs, Washington, DC 20207, Release # 79-022, May 21, 1979.