

CONVERSATIONS WITH PETER SCHWARTZ AND NAPIER COLLYNS

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Any account of the rise of scenario planning in strategy is bound to recognize the importance of the pioneering work of Pierre Wack and his colleagues at Shell which enabled them to anticipate the oil crises of the 1970s. From that team came three of the founders of Global Business Network – Peter Schwartz, Napier Collyns, and Kees Van der Heijden – who have done much to bring scenario planning into widespread use. Following the Oxford Futures Forum, Peter and Napier, in a series of individual interviews, reflected on their experience of key elements of scenario planning in its original and current practice. The interviews are combined here under the main questions they addressed.

How do you describe strategy?

PS: Strategy is that pattern of actions that intervenes in the ongoing development of the organization to make desirable outcomes

more likely. Strategy is always in motion; unless you are a start-up, where you are focused on one big bet, you always have something in motion.

NC: It's making decisions about what to do next. It's very often about survival: it is commonplace that CEOs change every few years, and if a company or CEO wants to survive, they need to think strategically; without deep thought they will be swept away. Strategy is also often about options, which are given validity by scenarios.

Why do you think scenario practice has endured so well?

PS: I think the answer to that is simple and not at all profound. There are three reasons.

First is the reality of uncertainty. People just keep getting surprised. There are not a lot of organizations for which the world is a certain, predictable place. That case does not have to be made any more, especially after 9/11.

Secondly, this is really easy operationally and conceptually. The basic idea of telling a small number of consistent, yet divergent stories about the future, and building them based on driving forces is straightforward by comparison with many techniques. For instance, 'Real Options' is a powerful approach and we have worked on using it with organizations, but it's just too hard to do – most people don't get it.

Thirdly, storytelling is what people do; it is how their brains work. Even if we didn't invent the scenario approach, people would sit around having ideas and telling stories about the future. Since time began people have done this, and scenarios simply build on that innate capacity.

What are the conditions for effective use of scenarios in strategy?

PS: It's not one thing, but several conditions, in varying degrees and combinations, that make scenarios most effective.

The first requirement is that significant people in the organization who are involved in making important decisions must want to find a better way to think about their decisions. If they don't feel that need, it is going to be very hard to make scenarios work. For instance, the Chief Technology Officer says, 'If I look around the world I really wonder where the next great technological leadership is going to come from and so where should I be thinking about establishing my future labs?' That is an interesting scenario question and may lead him to look at several scenarios for national science strategy in China, India, and so on. So that is number one: people who are engaged in making meaningful strategic decisions are feeling the need to think better about their choices.

Secondly, the decision makers must be prepared to engage in new ways of thinking. That they feel the need doesn't mean they actually will do it. When confronted with the reality of what's involved, even though it's operationally easy, they may fall back on old ways of doing things. That is a very common response; the easier strategy is denial of uncertainty and convincing yourself that you really understand what's going on. Then it's a roll of the dice: you may get lucky, you may not, but it's gambling, not good decision making, at that point. Scenario planning is about avoiding gambling with the company. So, that's the second point: being willing to actually face the uncertainty and take a different approach.

Third is time. To do scenario planning well – to do it thoughtfully, to absorb the ideas, to make better decisions – all of this takes time. It takes time to do homework, to think together, to communicate, to develop options. It takes time to *absorb* new possibilities, and I think this is the most critical aspect of all. If you are really going to give somebody a new view of the world, then it requires letting go and re-absorption. That rarely happens. Even in a great 'Aha!' moment you may see a new possibility, but have you internalized it sufficiently

to act upon it? And this is one of the ways scenarios often fail. People come up with a set of scenarios and say, ‘Well we can now make a better decision; let’s meet tomorrow and make our choice.’ But then their colleagues say, ‘Well, you know . . . I’m not sure I take that scenario seriously . . . and that scenario seriously’, and so on, because they haven’t *really* absorbed the new realities. It’s not two days and it doesn’t have to be six months; but you need enough time for people to get comfortable with what the scenarios mean.

There is a demand for methods that are quicker, and cheaper to implement – where have you gone on that?

NC: When we formed Global Business Network (GBN) we worked with four or five large companies for several years, such as AT&T, Nissan, and PG&E, much as we did with Shell. AT&T, for example, gave us 150 people to work with, 12–15 of them full time, on a twenty-first-century scenario project in the late 1980s. I acted in a coaching role on these projects and I assumed that the companies would have the same experience we had in Shell. As time has gone on, and GBN has done more and more projects, there has been the need to find fast turnaround methods that might help the client in just a few days. I can’t imagine anything more different from Pierre [Wack] looking at a stone for 17 days in order to perceive a new reality!

PS: I go both ways on this. You are right that people are feeling incredible time pressure. And organizations have slimmed down. When I was in Shell I had 50 people on my staff; the current incumbent has 5. Big difference! If you want to conduct original research, run a two-year-long, in-depth process, and engage 100 people around the company and you have the team I had, you could do so easily. I had a budget of several million pounds and in those days that was a lot of money. I could do a great job because Shell gave me great resources.

And there was already a great process; when I arrived I was standing on the very tall shoulders of Pierre Wack. So for me it was relatively easy.

On the one hand, being able to do things in great depth is very important in many situations, and you wish you could do it in many more. But unfortunately the reality is that many organizations do not have the time or the resources in terms of people. And they don't have the intellectual stamina, frankly; in a lot of organizations people are not used to thinking long and hard in complicated ways. So do you say, 'Well, if you can't do it in the way I think is best, we are not going to help you; we are not going to give you any better tools than you already have; there is no way you can possibly improve the quality of your decision making without doing everything we recommend'? Well, that is not a helpful attitude, particularly because my experience tells me that starting at a more modest level is often a first step towards doing things in greater depth. People tend to find scenario thinking interesting and useful, and realize that, by delving even more deeply, they could get even more value. We've had that experience again and again in companies. So one way to think about so-called 'light' approaches is that they are opportunities to learn, to get comfortable, and to begin the process.

Moreover, in our experience, people are still better off even if they have not gone as far as we think they ought to go, particularly when dealing with really big decisions. I am appalled sometimes at the scale of decisions that people make with so little thought. Having said that, we know from experience that we can actually improve the quality of decision making with less-in-depth, lengthy approaches. And in the end the objective is a higher quality strategic conversation that enables decision makers to be more thoughtful and more adept at dealing with the risks and the opportunities, the options and the alternatives. So, my view is a very pragmatic one. If I was the strategic planner in Shell with abundant resources, as I was many years

ago, I wouldn't think twice about the depth of research and engagement. But as a person trying to get the scenario methodology used in many places and contexts, to teach it, to engage people and move them forward, I am quite prepared to begin where they are rather than where I wish they were.

Andrew Curry (one of the authors in this book) describes this as 'Getting more meaning in the room.'

PS: I like that a lot – a very nice phrase.

NC: It is a profound experience for a human being to have their certainty undermined by uncertainty. This is how skilled facilitators like Peter perform – in an afternoon he can make them feel and behave differently. It's a lifetime's practice to facilitate teams in this way.

Looking at the framework for scenario planning introduced in this book (Part I, Introduction), which elements of the practice do you think survive this transition into 'any better thinking is better thinking'?

PS: I like the framework of dimensions; there are a variety of ways to cut this and your approach is helpful and an accurate and appropriate reflection of people's real experiences. I think complexity is harder to get across the transition. If you really want to unpack complexity, it's not all that obvious, otherwise it wouldn't be complex – it would be simple! So, that often takes both time and subtle thinking. There are people and companies and organizations that are comfortable with complexity and others that are not. The other frameworks all translate well.

How do you relate this problem of reaching a deep understanding of complexity to the original emphasis in scenario practice on understanding the logic of underlying systems and predetermined elements?

PS: This is a wonderful intersection between Peter Senge and Peter Schwartz. Senge's systems-thinking tools are sufficiently widespread that people are often comfortable using some of

them in the context of scenario planning. If the culture is already comfortable with some of the better systems-thinking tools to deal with complexity, you can deal with the predetermined elements. When people are not familiar with these tools it's much harder.

NC: It is really important that you have described this as an enquiry into *practice*. The pressures to have repeatable processes can lead to scenario planning being seen as a sequence of standard steps, as if deep understanding can be achieved by a routine approach. This is anathema to Wack's practice, and as a historian, I approach it like Pierre.

Scenarios are doing history forward; doing history is always a new way of looking at the past, and scenarios are a way to understand the future in new ways. Scenarios have to have a logic to have validity as something that can plausibly happen. And so, there is a heavy emphasis on *systems thinking*. It is able to reveal when a system doesn't work, or is running into conditions that will cause profound change. The whole point of scenarios is that you can't see the future, but in a sense with predetermined elements and the guru practice you *can* see certain key elements and how they might unfold in the midst of the uncertainty. Many scenario practitioners don't really know about predetermined elements; Pierre used this phrase to indicate something very different from factors we were still unsure about. Excessive snow in the mountains predictably 'had to' result in floods in the valleys. It didn't mean the whole future was predictable; it meant that we could foresee how certain trends or developments might emerge in an overall uncertain future.

I sometimes use the word 'premonition' when talking about these predetermined elements. This is not prediction. Nor is it filling up the quadrants of a scenario uncertainty matrix. Rather it is out-of-the-box thinking that foresees a key aspect of the future when no one else can. We had a feeling of

premonition when, after Pierre's rigorous contemplation of driving forces, we felt that something was certain and no longer 'a critical uncertainty'. Not the whole future of the world but a particular key issue, such as the oil price rises of 1973 and 1979, and in Peter's case the greening of Russia and the decline of oil prices in 1986. My memory of doing this work is of feeling ill half the time because you are hit in your gut about things you hadn't thought of before and the impact they might have.

In my experience, scenario planning is an interpretive practice – it's really closer to magic than technique. That is the technical essence of what Pierre did and the impact it had on the people around him. Pierre's approach was based on his experience with Gurdjieff and his own guru, although this is not something he talked about a lot. Selin's chapter in this book goes into this background and is the result of us revisiting the archive of Pierre's papers that is now at Templeton College.

A lightweight practice that has been criticized as ineffective is where people just go for the uncertainties and draw up four scenarios in a two-by-two grid without addressing the predetermined elements. Have you seen that?

PS: I, too, see that. Unfortunately, the issue is subtle. It is less about time and more about people's discomfort with simultaneously holding two apparently contradictory ideas: 'You mean there are trends that are inevitable and others that are uncertain? If things are uncertain, isn't everything uncertain? And if there are things that are inevitable, isn't everything inevitable?' The difficulty with such simultaneity of thought is evident with scenarios that embody both predetermined and uncertain elements. I just went through this recently with a set of scenarios on Latin America in which we were dealing with the impact of certain resource commodity prices on Latin American countries. It was a real struggle to convey the

idea that actually there *was* something predetermined as well as something uncertain at the same time.

NC: The scenario two-by-two grid of uncertainties has become a sort of shorthand for scenario planning, yet it is really thinking ‘in the box’ – the grid box!

You just cannot pretend that the creation of predetermined elements is easy; you cannot get it in a quarter of an hour – it’s nonsense. So we just have to distinguish between the useful ways to free up people to investigate possibilities from the sort of insight you can only reach if you spend three months on it. It’s not something you do in a hurry. It’s done after several dreams. You suddenly know what you are going to do next. Brainstorming is not a substitute for magic. Look long enough, hard enough, and the pieces will fall into place. Magic is a very difficult thing – most people spend their whole life cutting magic out.

Turning to the impact of scenario planning, it happens that people do scenarios, and then they say ‘yes, but what does this mean?’ The process can fail to address the development of strategic options, and they are left with a set of contextual uncertainties that are just too different, too challenging, and just don’t seem to connect. Is that a failure mode you see?

NC: There is no point in doing scenarios unless they make a change in your thinking and a change in your doing. So the key is to get decision makers to expand their point of view and mental maps. There is a lot more to this than just seeing a new possibility, or even recognizing that more than one future might unfold; it’s a completely new way to understand what’s at play, and what the available information might mean. As a result, when they ask for research on a decision they ask different questions in different contexts.

Once, at the end of a scenario session I heard a couple of managers on the way out saying ‘Let’s get back to work’, as if the session belonged to a different world. To address this,

the first psychological technique was to interview the people making the decisions to find out *their* hopes and fears – to get to a different sort of being than the *rational* being. I don't know that these factors have been adequately brought out – I almost daren't say this – that's why there is so much attention on technique rather than magic. Pierre said that unless you have strong short-term knowledge of the business environment they won't trust you to talk about the long term.

PS: I think this sort of failure has mainly to do with decision-making structure and rules: for example, who gets to play and under what conditions. Let's take a hypothetical example of a company that is looking at a portfolio of products, and wants to make some decisions about new markets – whether to do more of this and less of that. So the marketing organization commissions some consultants to do a set of scenarios to look at the future of these product lines. There may be *no* connection between the marketing organization, the scenarios, and the people in the end who actually make the choices about which products to go with and which not to pursue. The actual decision makers can accept or reject the choices for one reason or another – 'I don't like that product, that's in my home town, or that has good or bad politics behind it.' The decision makers are not directly connected to the set of scenarios: it is not theirs; it is somebody else's. This is a very common situation and the cause of many failed scenario efforts.

For me, this was *exactly* the situation that pertained to Exploration and Production in Shell until 1984. E&P said they didn't need to use scenarios; they told Pierre that, and they told me that when I presented my first set of scenarios. It was, in fact, the mindset of the organization and how they saw their decision rights versus Group Planning and anybody else. It was half politics and half the engineering mindset of the person who ran E&P at the time. But he left, and someone else came in – a

great strategic thinker, who ultimately became chairman of the company. He was looking at the reality of the world and said he was worried and that we had better introduce some scenario-thinking into our leadership quickly. We did and completely transformed E&P in about two years. *But* it was because we had a change in mindset at the top.

Is it your experience that where the ownership is right, and the right people are in the room, the development of strategic options informed by the scenarios just flows quite naturally?

PS: Precisely right. Texaco's experience of scenario planning is an example from the early days that has been well documented. We started out working on natural gas and then migrated to corporate. It was a classic case of a fairly light beginning, and then doing much deeper scenarios internally and having a huge impact that was perceived by corporate. After the first scenario project they said, 'Gee, that was interesting, let's now look at a really important set of issues and do a deep dive.' We had the CEO of natural gas in the room and he was deeply engaged; he often said that one of the reasons he became so successful in the company was his experience doing scenarios. He was quite prepared to develop and think through the options, to make decisions, and to act; and so it worked. Because we had all the right conditions, we had no problem developing the options, testing, weighing, and working our way through them, dealing with the politics. In fact, we had many of the important players in the room so that the politics were in some sense embedded in the scenario options already.

How do you view the challenge of getting senior managers to think strategically while being embedded in operational demands – do they have to think in two different ways?

NC: There is a difference between being a scenario practitioner and being educated in scenario methods. We are not trying

to enable everyone to create scenarios but to understand the importance of scenario-thinking; they have to understand how these things impinge on the way they behave. My work has always been in a coaching role, influencing people.

It's a bit like maths – if you are coached you can bring it into your daily life. Scenarios are similar. Once you have taken the step and recognized that one future is not as good as thinking about uncertain futures – that is the essence – then that is the point from which you can develop preparedness. It's not easy to be a good manager unless you think scenarically, though of course some do it naturally. If Napoleon had not had scenaric capability he would not have been at the top.

PS: I see it as understanding how the manager thinks and adapts. I served three chairmen in Shell; they were all very different and I want to contrast two of them metaphorically. One thought like a long-range strategic bomber pilot. He was interested in the important targets that would really reshape the landscape over the long run. He was quite capable of thinking about the array of forces we needed to bring to bear on the targets, what the lead flight would be going forward, and so on; you had no difficulty doing good scenario thinking with him.

But I worked for a second chairman who was in some ways even better: really brilliant, a fighter pilot rather than a strategic bomber pilot. He was the most aggressive fighter out there in the world, taking on every battle every day. So what kind of scenarios could you do for him that would be useful? His question was: What kind of plane do you need to fight tomorrow's battles? If your enemy is learning from how you fight and what kind of planes you've got, you had better be developing some new planes. He understood that analysis of the situation perfectly: 'Future competition . . . what are the dimensions, how do I play, what kind of capabilities do I need to develop, what are the challenges to my existing game?' He knew he needed

to develop new competitive competences in the face of a continually learning and adapting environment. He was very good at tactical scenarios, at how you play the game in a given situation; yet, you talked to him in completely different terms than you did to the other chairman.

While you're flying that plane you are not thinking about building the next one, so do you need different discussions and to construct occasions very deliberately to get people out of flying and into designing the jet?

PS: He accepted that you needed a well-structured process that, every once in a while, forced you to stop and ask, 'What are we learning, what do we need to do that's new and different, what do we need to stop doing?' He was pretty tough-minded about it.

What have you learned about how to keep that process alive when there isn't a strategic-planning group like there was in Shell and you are supporting it from outside the organization?

PS: First, having an ongoing champion who will be engaged, and finds it helpful, and is willing to stick with it. That's what happened in Texaco: they stuck with it for over a decade and had a great impact as a result; one of the real success cases, I think, of good scenario planning. That is critically important.

On the other hand, precisely the opposite can happen when you have too much success and challenge, and people shut you down because it's too challenging. The *worst* case of scenario planning that we experienced was a mining company looking at the future price of their commodity. The CEO was betting the ranch on the price going higher. The Board was worried and one of the members had done scenarios before and brought us in. So we did a range of scenarios that showed a very low likelihood that, in the appropriate time frame, the price would rise to where he thought it would go. There was also a pretty broad consensus among the senior leadership that the balance

of probabilities was on the price being lower. So he fired seven members of the executive committee after the workshop. Basically he used it as a way of smoking out difference and killing it. We fired him as a client and gave him back his money. Using scenario planning as a way to suppress dissent can happen and kills scenarios.

In contrast at Texaco, where we had one success after another. We did great projects, which made a difference, the company learned a lot, the scenario planning was highly valued, and it just kept going.

The third factor is that the environment continues to present new challenges. In a world where the important variables for a business may be stabilizing or not perceived as high risk – demand, or price or competition – people say ‘why bother?’ And there are such situations – not everybody faces massive uncertainty. If you are doing the capital budgeting for a mass transit system in the Bay Area, nothing much is going to change in the next 10–15 years. So the question is: How quickly do I have to replace my rolling stock, the rails, and so on? There may be an uncertainty that something really tragic could happen, like a terrorist incident, to prepare for, but the organization’s basic strategy and development are pretty fixed. So there are many organizations for which scenario planning is less relevant.

And at the other end are many start-ups, where you very often have to bet the ranch on a view that this product or market, is going to take off. You may be right, and DVDs go gangbusters, and you are in business. Or 8-tracks disappear and you’re out of business.

So for incremental change they don’t have much to say, you can handle that with other tools and other methods; scenarios function strategically when there is something game-changing to explore, when . . .

PS: that’s right.