

Scenario planning – a strategic approach for engaging the future

Interview with Rafael Ramirez, Director of the Oxford Scenarios Programme and Professor of Practice, and Trudi Lang, Senior Fellow in Management Practice, of the Saïd Business School, University of Oxford

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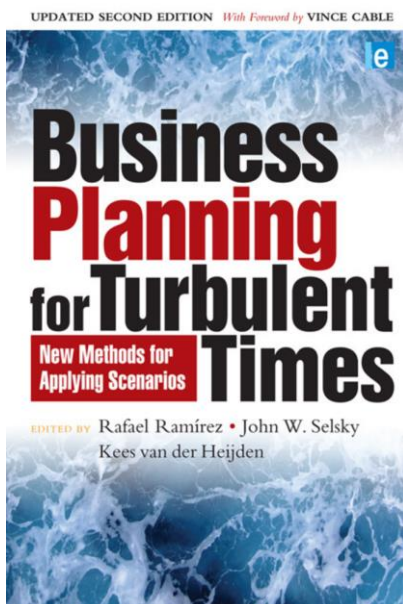
What is scenario planning? How does it relate to strategy development and what does a scenario planner actually do? And why is it relevant for any organisation, including those in the public sector such as public audit institutions? To find out we had a ‘dual interview’ with Rafael Ramirez, Professor of Practice and one of the world’s leading experts on scenario planning, author of several publications on this topic and advising various organisations and governments regarding strategy and scenario planning. And with his colleague Trudi Lang, who has extensive experience in strategy and strategic foresight (World Economic Forum and OECD) and whose research includes the role of scenarios to build new social capital as part of developing strategy. Foresight, scenario planning and strategy development...distinct but very much interrelated activities, all aiming for the same goal: to effectively engage with the complexity and deep uncertainty of our world to deliver the best outcomes for our organisations and communities.

Scenarios - not only in theory...

Scenario planning is not totally new for the ECA Journal. And the ECA Journal is not new for Rafael Ramirez. In 2018, he contributed, together with two other experts working at the International Monetary Fund, to the ECA Journal with an [article](#) explaining how the IMF works on long-term trends and deals with uncertainties. In that article, they also described how the IMF concretely prepares for possible scenarios, including health disasters -

in that case for a possible Ebola outbreak in poor countries. The IMF used scenario planning to get insights on how the IMF can help stop a non-economic trigger like a pandemic from causing a global snowball effect on economic growth and stability. Unfortunately, with the consequences of the COVID-19 pandemic in mind, we now know how realistic this scenario was.

Together Rafael Ramirez and Trudi Lang have worked for what together now is over 60 years using scenarios. Before coming to Oxford, Rafael was part of the Shell's – yes, the oil company – scenarios team and Professor of Management in Paris. He is co-editor of the book: *Business Planning for Turbulent Times – New Methods for Applying Scenarios* and co-author of the book: *Strategic Reframing, The Oxford Scenario Planning Approach*. Trudi Lang was a Director of Strategic Foresight at the World Economic Forum and a consultant in this area at the OECD before joining the Saïd Business School at the University of Oxford. She teaches on the Oxford Scenarios Programme, co-directs the Oxford View of Strategy Programme, and works with leaders around the world to support them in the pursuit of their strategic objectives.



Cover of one of the publications of Professor Rafael Ramirez.

Where you stand shapes what you see

What is scenario planning actually and what does a scenario planner do? Trudi quickly defuses the idea that it is to do with trying to tell the future. 'For us in the Oxford approach to scenario planning, it is about working with leaders to help them *reframe* their strategic situation. Every strategy or decision has framed the future in a certain way - often as a set of tacit assumptions - yet given the complexity and deep uncertainty of most strategic situations, working with a couple of other frames or scenarios can be invaluable, providing new perspectives and options.

She makes a parallel to perceptual art. 'If you go to a gallery displaying perceptual art installations such as the work by Michael Murphy or the Nelson Mandela outdoor installation at Howick, South Africa you realise where you stand shapes what you see. Stand in front of an installation or close to it and you see one thing, move to the side or further away and you see something else. For her that is what scenario planning does. 'In our case, we are using different points in the conceptual future to provide different and informative perspectives on the present. And it is these alternative perspectives that are designed and developed to be so useful to decision

makers and policy makers, useful because they provide alternative ways of seeing which can transform current understanding. This provides people with the opportunity to do things differently in the present.

Rafael concurs with her. 'Regarding the way we think about scenario planning it is important to realise that it is not about foresight – not about anticipating the future. Instead, it is about informing and improving strategy here and now. Some people believe that scenario planning is part of foresight. Others believe that foresight should be an element of scenario planning. In the approach that we have developed in Oxford, it is about strategy, not about foresight. That is a very important distinction!'

Scenario planning successes – the tip of the iceberg?

When discussing the use of scenario planning by companies and governments, and how successful scenario planning is for organisations, Rafael explains that a lot of the scenario planning organisations do is confidential and thus stays below the radar of what the public can see. 'Most often a lot of very successful scenario planning remains secret or confidential. Imagine this – totally theoretical – example. Say you have Boeing and Airbus, the world's largest aircraft producers. Boeing is never going to tell Airbus that it does scenario planning. And the other way around. Because the moment they know that you are doing scenario planning that says quite a lot how you are thinking about your future context and how it might inform your strategy.' According to Rafael, many companies that do that do scenario planning will not publish the scenarios. 'Most often they will not even say that they do scenario planning so that their competitors do not understand that that is the way they are thinking about strategy.'

Rafael thinks that the same situation applies to different government departments. 'I have worked with government departments that do not necessarily want the next government department to know that they are doing scenario planning. Because, of course, then they might be seen as someone who is going to take the bigger part of the pie of money, resources, etc. than somebody else.' He points out that one of the difficulties researchers have is to know how much scenario planning is actually being done. 'The answer is: nobody knows because a lot of it is confidential. I can only answer about things that are in the public domain. And some of the most successful scenario planning we have heard about is not in the public domain.'

How much certainty one can attribute to the outputs of scenario planning is not only an abstract question, there is also a legal component to it. Rafael: 'From a legal point you may argue that scenarios are not facts but basically well-structured, well-researched, opinions. It goes back to pretty fundamental things that Trudi and I cover in the scenarios programme we give and which (your colleague) Derek took recently: what exactly is knowledge about the present as seen from the future when there are no facts in the future?' He gives the example of the scenario that London might flood in three years from now. 'But it does not mean it will flood. But if it does flood within that time-period, you having imagined that it might have done so is not a prediction, as would be the case if you were working on actuarial tables in an insurance company calculating premiums for flood insurance.'

He continues with the flooding example to give context to what governments have to deal with regarding scenarios. 'I was once told that 10% of the housing stock in the UK is built in flood lanes. The flood insurance for these homes is not as if they were located in Bermuda, where my understanding is that there is no government subsidy for flood insurance. So there must be an accord between government and the insurance industry about what is affordable flood insurance for the homeowner, and what part should be taken on by the public as a government expenditure or guarantee.' He explains that if you do scenarios which suggest that more climate

change, more violent storms, higher tides and more floods, presumably the East of England or Holland will flood more often. 'If that scenario is considered useful, there would be flood insurance implications about it, affecting both the public and private purses. How much of these possibilities are the public domain I do not know. because a bad way of engaging this with the public and the insurance industry by the State could lead to horrific, unaffordable home insurance or even panic at being unable to sell your house. Of course, using the scenarios badly can also promote bad policy.' He underlines that how scenarios are used in strategy that is informed by scenario planning is crucial. He has several times seen aspects that are imagined with scenario planning that can inform strategic choices but which are not in public domain even when they were done by public institutions, 'perhaps because there is a concern that one might have the wrong policy coming out of that rather than the right policy.'

Rafael and Trudi make clear that to identify success in scenario planning you have to know why you are doing the scenarios in the first place and for whom. When relating this to the ECA Rafael says: 'If we were doing scenarios on the future of the ECA, we might investigate how audits are going to be carried out and how this affects the ECA's daily work and procedures. If the work was going to be used by the ECA President and the ECA board to consider what kind of 'insurance' they should take up, the scenario set would be different than if they were to assess what kind of skills they should build or buy to become resilient, etc.' For him the value of doing of these scenarios would be assessed in terms of the quality of the conversation it has enhanced in a not too far away board meeting, and how richly the scenarios would have informed ECA 'smanagement about capital expenditure, human resource shifts, etc.. 'Then we know if the scenarios were actually used in the sense that they were meant to be used. Then it is successful scenario planning. Whereas if you do scenario planning because it is a very interesting thing to do but you have no user and no use, then the whole thing is going to be useless.'

It is also important to distinguish scenarios from strategies. In the Oxford approach to scenario planning, strategies are what your organisation chooses to do in pursuit of its strategic objectives, while scenarios are assessments of the possible future contexts (of the external environment) within which your strategies will live. Trudi explains that scenarios themselves therefore don't include the organisation and its strategy, but instead provide a way to test and develop the organisation's strategy. 'This means that when I am involved in developing scenarios, I am always focused on providing the right sort of contextual information that will help leaders step into the scenarios and determine for themselves what is the best strategy or policy for their organisation.' Both scenario planners give some examples of public sector organisations that have used scenario planning, ranging from the IMF to the International Atomic Energy Agency, to the InterAmerican Development Bank, to the European Commission, to UNAids, to the European Patent Office, the EPO. On the latter Trudi explains: 'Their particular scenario work was really valuable in developing new relationships with a lot of external partners. What they were doing in developing and using the scenarios was convening an invaluable strategic conversation about the future of patenting which at the time was characterised by so many uncertainties related to innovation, trade, the amount of patents being filed, social issues around patents., etc.' According to Trudi the EPO scenario planning was successful in the sense that it provided a shared understanding of what was going on and a language to talk about it. 'For the EPO it built thought-leadership and new social capital with people and organisations across the sector and beyond'.

Engaging at possible futures in multiple ways

Since 2004, when Rafael and several colleagues started the programme at the University of Oxford, over 1200 people have graduated from the programme. An important element is to make the issue of plausibility

scientifically viable. Both scenario planners do not think there is a big difference between scenario planning for a public organisation or a private company. Trudi: 'More important is clarity about the specific purpose and application of the scenario work.' Rafael adds: 'The bigger difference is also the professional training of the people you are working with. It is very different if you are doing it with medical doctors or natural scientists than it is to do it with economists, than it is to do it with lawyers, than it is to do it with MBAs. Professional training does make an important difference.'

When putting scenario planning in the current time frame of the pandemic, the interest in assessing how much more preventive health care actions should be invested in to prevent what might later on prove to be much higher costs in health treatment measures. To do so it helps to work across disciplines. Rafael gives an example of this - 'Some years ago a colleague and I were working with an association looking into the future of Alzheimer's. We found out that if you ask a particular medical specialist what would be the future of their field, they would normally say "We do not know; that is why we are doing research." But if you ask the same person - what do you think this other field could do for your research in the future? (for example, What would AI, nanotech, etc. be able to do for you?). Then they would say: "I hope that they can do X, Y, Z, because then I would then be able to do this kind of research which at the moment I can't do." As Trudi said already, creating this common language across the participants, with others both inside but for sure also outside your field does provide this kind of spectroscopy.' For Rafael this is one of the key added values: scenario planning allowing you to look at things or engage in a different way - which means you have to have different people in the room, with different perspectives.

Both Trudi and Rafael come back to one of the essential things scenario planning creates: a platform on which experts and remarkable people from many different areas, can come together and exchange perceptions (remember there are no facts about the future) and develop a shared understanding of what is going on and of what the future may hold. Trudi identifies a common thread: 'Scenarios are helpful here because they are plural (coming in sets of two to four) that accommodate different views in situations of deep uncertainty. It helps that you do not have to agree. The focus of scenarios on the future also provides an imaginative, well structured, and safe space to explore divergent views without these views having to be linked to decisions on action'.

She refers to a situation she saw in her research with the EPO. 'There were two groups who at the time were at loggerheads about the future of patenting. By taking each of their perspectives to their logical conclusions into the future in the scenarios both parties learnt more about not only the other's perspective, but also their own. This in turn opened the opportunity to subsequently work more constructively together on new options.

Rafael recalls another aspect related to EPO. 'They were very good at saying how different their work is from that of everybody else. And in a sense they are right- patenting is a unique setting where the private and the public meet. In the German tradition, patent assessors are basically judges; whereas in the French and British tradition they are industrial experts. Having these two identities in the same house doing what to an external party such as myself appears to be the same job. The public good and private good spheres means they are strategizing in a pluralistic setting, where disagreement has to be marshalled as an asset and not treated as a liability. The scenarios articulated this constructive disagreement productively from the future, not just in the present..' His experience is that everybody tells you that they are unique in what they do. 'Which is true, in many ways. Everybody is different in some way. For Trudi and I, and our students - including your colleague Derek - it is to see how we can adapt the methodology to be pertinent and be bespoke for the specific issues.'

Scenario planning - offering a common space...also for public auditors

Rafael and Trudi definitely believe that scenario planning could be of help for public auditors, looking at some substantial differences between supreme audit institutions, including in the EU. Rafael and Trudi think the way forward is to focus the conversation informed by different views of the future. Rafael says these might include, depending on the intended user and use: 'What are your challenges for auditing as a profession, if machine learning becomes important? For many good legal reasons, there is a lot of legacy that you have to consider in Tort law. But in the Napoleonic tradition, it is the rule and not the precedent which matters more. So a consideration in a given audit in the future is what the right balance might be between precedent and the rule if these are not aligned.'

Scenarios might also be deployed to ascertain the power different factions within the profession *could have*. 'Are there important differences relating to how the profession will look like in 5, 10 or 15 years from now? 'This not only in terms of relating to Block chain, to AI, etc. but also in terms of links with other professions that you might want to relate to, for example modellers.' Different groups tend to have different scenarios about the future, not only different priorities for the immediate present. 'I would hope that when the *Oxford approach* is used in the ECA it focuses the disagreements about what kind of future different groups are expecting rather than what tradition they come from in the past, making these disagreements a rich asset to inform strategic choices!'

It is clear that in the Oxford approach, scenario planning is a collaborative process. As to the question of who and how to engage people in the organisation and beyond, Trudi brings up again the term *social capital*. 'Who is involved and how depends on the new networks and resources you want to create through the scenario planning. People think they are just accessing information when they are engaging with people in developing and using scenarios without realising they are leaving a footprint in the form of a network. This network and the resources available in and through it can be absolutely vital for an organisation as research shows that the ability to build new social capital regularly over time is correlated with an organisation's success. So, when considering who to involve and how in scenario planning, think about what networks you want to build, the resources you want to access, the collaborative opportunities you want to create to help your organisation achieve its strategic objectives into the future.'

Rafael underlines that an important question you would have in this process is: what is your role in relation to auditing in the EU, and indeed beyond? He refers to what a president of EPO said on this. 'He said: "If I do not shape the conversation on future of my context, then instead of me convening the table, I will be on the menu of somebody else."' Rafael thinks that the ECA could consider having the ambition to be the convener of the conversation on the future of auditing, rather than being subjected to somebody else setting up a conversation 'which might not necessarily go in the interest of your mission, those you serve, your activities and your staff.'

When asked whether they see potential with more scenario programming present in the political debate to create a wider platform for listening to each other, Rafael is a bit more sceptical. 'That is difficult. I was invited to the canton of Geneva where they are looking at making a tunnel across the lake to alleviate traffic. The politicians sell preferred futures. That is their stock in trade, and why they get elected. The accountants, economists, and the engineers sell probable futures: 'if the traffic is going to be this big, you need this bigger tunnel, and it is going to cost this much'. That is why their professional expertise is deployed. What scenario planners sell is plausible futures: what if the future politicians want does not happen? What if the probabilities the experts provide are wrong? What if trends one is counting on stop moving in a given direction, or clash with each other? What future context in the wider world does Geneva inhabit, and how does this affect traffic? What happens if electric cars drive themselves as a service and instead of private cars, you have fewer vehicles used

more of the time. As a result of these three types of future, you have a dance between plausible futures, probable futures and preferred futures that must clash with each other or be made to relate to each other. Many politicians do not like plausible futures questioning their preferred future, and many experts do not like their probable ones being assessed in these terms either.'

It is clear that possible, plausible and preferred futures may have different price tags and a shift between them can lead to changes in funding. Rafael gives the example of diabetes. 'I do not know about Luxembourg, but in the UK prior to pandemic the biggest disease group by expenditure was diabetes. About 22% of National Health Service expenditure was going to diabetes and going up as a percentage.' One of the persons who led the scenarios on the future of diabetes said that what was most helpful, when the pandemic hit, for them, was not only that they had rehearsed a small number of scenarios - which they had. No, it was more that because they had rehearsed those alternative paths that they could exit the one that they were planning for much faster and earlier, adapting quickly to the new conditions the pandemic pushed onto them. They had rehearsed not only entering, but also exiting. Rafael concludes that if you have only one plan you are tied to it. 'But if you have one of two or three alternatives you most likely have also thought about how to shift from one to the other, and having rehearsed the shift, you can move sooner and save a lot of money and angst.'

Scenario planning appears to be on the rise

With the severe changes people and organisations experienced in 2020, also due to the pandemic, there is also an impact for scenario planners, going beyond working remotely. Rafael: 'The course that we teach has been filling up with a waiting line for several years. There is more demand for the work than Trudi and I can do in the school.' He points out that there are more and more corporate and government clients; government clients from Australia, many countries in the Middle East and in South East Asia, Europe, and several inter-governmental organisations. 'So yes, the demand is up.'

It turns out that a first important watershed on demand increase was 9/11. Rafael: 'That appears to have been where it really became acceptable for senior people to realise for themselves as well as with their peers and those who depend on their leadership that things they had not foreseen and predicted could occur. The big financial crisis in 2008 and 2009 enhanced this sense to imagine what the future might hold so one could be better prepared to seize new opportunities and address new challenges, and now the pandemic is also proving that engaging uncertainty is becoming even a higher priority. Unpredictable uncertainty is now part of the landscape and therefore methodologies such as ours is ... there is an uptake.' But the pandemic has also its downside. 'It has made working with scenario planning for everybody and not just in Oxford more difficult: everything is on Teams or Zoom. We are all Zoom-tired, we do not meet each other in person as much as we would like to, our research has been affected. But many more interesting people come as well with interesting issues and problems.'

From linear to exponential change

While having been in scenario planning for many decades, Rafael does not see himself as a specialist in imagining the future. 'I do not think that I am better, as scenario planning professor, to image future developments as any of my students is. I do not have better imagination and I did not imagine that this pandemic would be as severe, as long lasting, etc. I am not in the business of predicting the future.'

Trudi highlights one of the impacts of the pandemic on imagining the future and scenario planning. 'Humans have a bias for thinking of change in linear terms: that is, we tend to believe that things change along a straight

line, in an additive way. What we are learning through the pandemic is how to engage with exponential change where things multiply so that the change is experienced as slow at the start but then rapidly takes off. The nature of exponential change was challenging for many policy makers at the start of the pandemic as the trajectory of the change was not initially clear'. For her talking about the future and possible scenarios, being aware of what sorts of factors in auditing might be characterised by exponential change as compared to linear change. As she and Rafael have written, 'Look for percentage increases time on time (e.g., a percentage growth in something per annum). Note positive feedback loops to see where change is amplified and novel interconnections that can drive exponential growth. Don't dismiss what appear to be small changes'.

Exploring different horizons, including the ones you do not like

When discussing which characteristics a scenario planner should have to be successful and relate to change, Rafael is quick to answer: 'Being able to link with lots of people that read lots of things that they themselves don't. You really want to convene a very diverse group of people with different interests.' He recalls an experience with one of what he calls 'the many very good scenario planners that educated me.' 'My late friend Richard Norman and I flew around Europe, in the good old days when we could still fly around Europe. He would almost always go to a newsagent at an airport and he would get a magazine on totally different subjects, such as yachts. I said "Are you going to buy yourself a yacht?" He said "No, no! I want to understand how these people think." At the next airport, it would be photography. He just widened his horizon constantly.'

He points out that if you create a scenario team at the ECA you should bring in people that disagree with each other and still can listen to each other well. He gives an example of an organisation bringing two very divergent proponents together to hold a more mature and more courageous conversation with alternative points of view. 'That is the main one – to be able to convey different points of view that often disagree with each other and to make that constructive. As Trudi said before – if you put the disagreement in the conceptual future, it is a lot safer to disagree than to put the disagreement in the present.'

Trudi adds: 'We – the scenario planners – are not the policy makers, we are not the decision makers. It is not right for us to be telling anyone what to do. Rather we see our role as creating contexts that we design to be helpful for leaders to explore things in a unique way for themselves. Whenever I am doing scenario planning, I am always thinking - is this helping the policy maker reframe, make sense, see anew, decide or do whatever they need to do? I am focused on helping people learn rather than telling people what they need to learn or what is right.' She notes that research supports this approach. 'People learn more quickly and effectively by not being told but by making sense of things for themselves. Rafael and I and our colleagues work hard to create stimulating learning experiences using scenarios.'

Rafael has some suggestions for public auditors looking for an environment where one can learn. In his view such environment will often relate to settings which initially may appear to be more challenging or with which public auditors might not feel familiar with. 'Look at where auditing happens in tougher environments than where the ECA is working in. What are they doing there? Think for example about evaluating development aid efforts with dodgy data on their return of the investment. Or issues which are not being audited at this time.' He gives the example relating to supply chain clarity and perhaps aspects which are not always 'bon ton' to speak about: 'If one fifth of the world's cotton were to be produced in an area that has forced labour camps, an audited clarity on the supply system might transform future demand.'

Other examples Rafael brings up relate to climate change – how it is going to be audited or not audited, and why. In many cases, Rafael suggests: ‘The not audited part might be more strategically interesting than the audited part.’ He refers to information he got from a former alumnus working in the UK Space Agency. ‘One estimate is that 15% of the UK economy depends on space, including the provision of GPS locations by satellites, the enabling of fast communications, etc. So things that are up there affect 15% of the terrestrial economy. How are those ‘services’ audited, and by who, in which jurisdiction?’ This can lead to opportunities for auditors. ‘If you start thinking about in space what can be deployed for auditing – the Amazon forest burning, attacks on biodiversity, etc. lots of new fields open up’ In his view the data captured by sensors in the ‘internet of things’ world opens up huge auditing opportunities – and challenges.

Speaking about data collection and the enormous capacity needed to store them, he raises another issue that might interest auditors: energy that is spent on data storage and use. ‘A large corporate group in Germany has estimated that the percentage of the global electricity spent on data is going from 10% to 20% of the total usage of energy in the next decade. Is the ECA auditing the extent to which data is contributing to climate change?’ Regarding climate issues, Rafael concludes that there are many natural conditions that are being taken for granted. ‘But I can imagine auditors being called upon for holding people accountable for changing these conditions.’

Trust as condition...also for audit

In the scenario work Trudi and Rafael have been involved, the two experts have seen another big topic: how might governments report on inequality and trust, and how will public auditors deal with these issues? Rafael: ‘What is the future of democracy? What is the future of trust? For example, in the US a large majority of the Republican voters are certain that the last election for the US Presidency was stolen from them. How do these developments affect the EU? Is trust decreasing? How do you conduct your audit work without trust?’ He points out that these are not hypothetical scenarios topics. ‘This last scenario was one that the IMF looked at.’

Trudi explains that trust can also be an output of scenario planning. ‘What I found from my research is that by intensely learning together to make sense of emerging changes people can rapidly build relationships and trust. In addition, by inviting people to participate in a scenario planning process that you are convening you are signalling an openness and an inclusiveness. And that too is enormously valuable in building trust.’

Talking to people outside your comfort zone can also result in trust in the choices you make as audit institution. Rafael concludes: ‘I do not know where you become an auditor, but whoever is the Head of Department of the top 15 European schools for auditors would be very good persons for you to talk to. Because they would be educating the future auditor.’ He refers to a case in the course material Rafael and Trudi use for their students in relation to strategic framing. ‘The gastroenterologists, they did the same. When you educate a gastroenterologist for his or her future, what do you put in the curriculum today – what was key in the half-life of the Professor or what might be key in the half-life of the future gastroenterologist? You can be almost certain that the next generation of auditors will be different from ours. Scenario planning might be a source on what kind of things they may need to become competent at. It could be that part of their profession will include presenting scenarios that established public audit institutions may learn with, time and time again.’