

Head: How Ghost Scenarios Haunt Strategy Execution

Deck: Strategic planners are often blind about how the future will challenge their status quo. A scenario-planning mindset can help them see what they're missing.

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Executives engaged in strategic planning typically have a blind spot. They focus almost exclusively on possible courses of action and pay little attention to the future socioeconomic and environmental context in which those actions will play out. During our combined 70 years of research, practice, and teaching, we, as well as others, have observed that business leaders are inclined, and their organizations configured, to work with only a single implicit view of the future.¹ That view is typically deeply embedded within their strategies as a set of unquestioned assumptions about the future context. We call these sets of unexamined assumptions *ghost scenarios* because they are invisible — and because they may come back to haunt executives and companies in unanticipated and unwelcome ways.

Underpinning every ghost scenario is a small set of implicit trends that leaders project into the future without questioning whether they might change. Consider the ways in which dramatic climate have come to haunt rail services in Britain. In July 2022, temperatures above 40 Celsius (104 Fahrenheit) were recorded in the country for the first time. These high temperatures heated the rails to slightly over 62 C (143F), causing them to bend. As a result, many train trips were canceled and service on other routes slowed to 60 miles mph. The rail tracks had been engineered for a future in which air temperature did not exceed 27 C (80F). In short, the British rail network was designed and built to work not in the scenario in which it found itself in 2022 but in a scenario that made the implicit assumption that historical climate trends would continue unchanged.

Assumptions Hide in Plain Sight

Research on human perception has demonstrated that people differentiate the object of their visual focus from its background by bringing that object to the forefront of their attention while everything else recedes.² Humans can focus either on the figure or the background, but never both at the same time.

The Rubin vase illusion is a well-known example of this figure-ground (or background) perception challenge. Depending on how you look at the picture, you will see either a vase or two faces in profile. Importantly, however, you cannot see both at the same time: One or the perceptually recedes to become the background of the figure you see. To see both figures, you must alternate between them.

It's important that executives are able to recognize how people's ability to focus can also blind them to important contextual information, since leaders often fail to see the background upon which their strategies will play out – and on which the strategies depend. They may consider hard infrastructure — such as rail tracks — to be a relatively static background issue and focus their attention on trends that seem more salient to business planning, such as changes in customer preferences and habits. But that can lead executives to implement a strategy that may be unexpectedly disrupted by the unexamined assumptions about its context that are woven through its background issues.

Particularly today, given the fast pace of change, soaring uncertainty, and high levels of turbulence, failing to surface the assumptions built into strategic planning is risky, as is a failure to consider multiple possible alternative futures through scenario planning.³ Scenario planning exercises can help executives explore how their strategies might play out in

different business contexts and conditions, with an eye toward honing those strategies to be more effective.

To understand how scenario planning⁴ can keep executives from being haunted by a ghost scenario, let's look at two global organizations we recently worked with in the Oxford Scenarios Programme.

AXA Examines Its ESG Assumptions

Insurance company AXA serves 95 million clients in over 50 countries with products and services in the areas of property-casualty insurance, life insurance and savings, and asset management. One of the company's key strategic goals is to sustain its climate leadership position. Wisely, executives from AXA decided to make the future context of that goal the focus of their attention for a limited period of time so they could explore how it might change and how they might need to adapt if it did.

The company was particularly interested in understanding how future environmental, social and governance trends (ESG) might affect its stated goal. For example, what might be the impact of some U.S. states' proposed legislation that would penalize financial institutions pursuing ESG investment strategies? Or, how might the public react if companies are seen as greenwashing or misrepresenting their ESG credentials? Thus, instead of treating ESG requirements, as currently understood, be the ghost scenario, the company asked questions about the future of ESG and, more broadly, about the emerging sustainability context for corporations.

Participants and facilitators in the scenario planning exercise worked in teams to look at the future environment. One scenario imagined that stand-alone insurance companies had been

swallowed up by dominant tech platforms whose own ESG priorities superseded those of the insurers. In another scenario, governments set stringent regulations regarding ESG issues, with compliance implications for companies' strategic choices. In yet another imagined future, climate change accelerated more than expected, causing businesses to shift their priorities to urgently address climate-related crises — or to focus exclusively on reducing CO₂ emissions, abandoning social and governance agendas.

By explicitly engaging with the ghost scenario and its equally plausible alternatives, AXA came to understand that continuing to strive to deliver superior ESG performance as it is currently understood might not be the only future it should be preparing for. Within AXA, these insights have been used to inform a conversation about future ESG challenges and their implications for possible announcements and commitments to be made, when and with whom. They've prompted AXA to start preparing alternative strategies in the event that delivering great performance against current ESG expectations becomes irrelevant.

Swift Anticipates Digital Currencies

Swift (the Society for Worldwide Interbank Financial Telecommunication) is a member-owned cooperative that enables financial messaging and related services for cross-border payments around the world. It currently delivers over 30 million messages a day for more than 11,000 institutions in over 200 countries and territories. It was created in the early 1970s by 239 banks in 15 countries to solve the growing problem of clunky, slow, and costly cross-border payments communications via a new technology platform. With disruption as part of its origin story, Swift is proactive about potential changes in its context.

In 2021, Swift executives were interested in understanding how digital currencies, including those issued by central banks, might evolve in the years ahead. The category more than doubled in 2021, to more than 9000 cryptocurrencies.

Rather than assuming this unfolding and rapid growth in digital currencies to be the only possible scenario, executives at Swift paused to better understand what other developments might occur, how they might shape the future digital currency ecosystem, and how Swift might be affected. For example, economists and other experts have pointed to the lack of intrinsic value of many digital currencies, as well as concerns about the security and reliability of their underlying technologies.

Swift's own stance towards digital currencies was open and neutral. It would potentially support them if they were properly regulated and added value to the economies, businesses, and communities it served.

The scenarios developed for Swift's executives explored different ways in which trust in the technology might evolve. In some of them, trust associated with digital currencies would disappear as the opaque technology and the algorithms upon which they are based became suspect. In other scenarios, digital currencies could be manipulated, and thus the authenticity of what was being exchanged could no longer be guaranteed. And in another scenario, a more generalized lack of trust in for-profit financial institutions would spread to providers of digital currencies, leading segments of society to hesitate to engage with either, with related consequences.

For the Oxford participants envisioning these scenarios, it was not clear that the values held by those promoting the technology, or the values that the technology supposedly enabled,

would be accepted by governmental regulators or by those in society at large in all imaginable future contexts. Swift's executives have since explored those scenarios, which provided rich and divergent insights about the ways digital currencies might pan out. Those insights have helped them avoid relying on oversimplistic views of the future — and from being swayed by hype.

How to See a Ghost Before It Haunts You

Based on our experience leading scenario planning exercises for AXA, Swift, and many other organizations, we have developed the following suggestions for executives who want to bring their ghost scenario into view and make the figure-ground reversal a key part of their strategy practice.

Use scenario planning to acknowledge implicit assumptions. Recognize that every organization's strategy presumes a future scenario that often remains unquestioned. That is, every executive engages in a form of implicit scenario planning, whether they are conscious of it or not. Making scenario planning a regular part of the strategy-making process achieves two important goals: It alerts leaders to how turbulent conditions could change the context within which they work and compete, and it acknowledges the reality that current conditions themselves present a hypothetical future scenario, not a fixed reality.

Recognize the figure-ground dilemma. Acknowledge that the figure that is attended to (most often the organization's strategy) and the background that is so often ignored (the unexamined ghost scenario) cannot successfully be the focus of attention at the same time. Instead, executives need to flexibly and sequentially shift between the two to investigate each fully and avoid the trap of making implicit assumptions about the other. AXA took the time to deliberately explore the future of ESG rather than assuming there would be no changes to

how it is currently used and understood. Swift purposefully focused on understanding the potential future contexts of digital currencies rather than just implicitly assuming subsequent options from the existing trends.

Dedicate executive time and resources to the problem. Organizations must intentionally create a time and space for leaders to explore how relevant economic, political, technological, social, and environmental factors might be changing. Contrast a small set of future scenarios with the ghost scenario to pinpoint where current strategy may need to be adapted to be well-positioned for the range of ways the context might develop. Some organizations even have dedicated units such as the Global Business Environment scenarios team at Shell International. Policy Horizons Canada plays this role for the Canadian Government.

For all of these efforts to be truly useful, scenario planning outputs must be fed back into strategic decision-making rather than written up in a report and placed on a shelf. They should also be disseminated more widely in an organization so people at all levels and functions can consider possible implications from their own perspective – implications that may not occur to leadership. For a strategy to be successful when the context changes, executives need to have a balanced approach—recognizing both figure and ground as important areas for discernment. That is, they must recognize the importance of the background or ground upon which their actions will play out, even as they plan their next move. Savvy executives know they must both envision and embrace change. The trick is learning to adeptly shift one’s attention between the figure and the ground, to see how the context might unfold, so it doesn’t leave your strategy ungrounded.

Sidebar: Where the Ghosts Hide in Common Strategic Planning Processes

- In a **SWOT analysis**, leaders consider their organization's strengths, weaknesses, opportunities, and threats in relation to only the current scenario and to known competitors, suppliers, customers, regulatory rules, and the like. When identifying and analyzing risks, executives implicitly assume that there is only one scenario. However, in another context (a different scenario) risks might evaporate and new opportunities might arise.
- In **stakeholder mapping**, leaders make an assessment about the attention and power of stakeholders now and in one expected future. An implicit scenario is the background to this assessment. But the importance of stakeholders could change significantly if the context unexpectedly changes.
- In **game theory and war-gaming**, competitors' moves are considered within the context of a ghost scenario, and war games typically get conducted with no consideration of a different future other than the one that is underway. However, changing scenarios could require new tactics and surface unforeseen future combatants.

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¹ Schoemaker, P. 1993. Multiple scenario development: its conceptual and behavioral foundation. *Strategic Management Journal*, 14(3): 193-213

² Nelson, R. and Palmer, S. 2007. Familiar shapes attract attention in figure-ground displays. *Perception & Psychophysics*, 69(3): 382-392.

³ Ramirez, R. and Wilkinson, A. 2016. *Strategic Reframing: The Oxford scenario planning approach*. Oxford: Oxford University Press.

⁴ Ramírez, R., Churchhouse, S. and Palermo, A. 2017. Using scenario planning to reshape strategy, *MIT Sloan Management Review* 58(4): 31-37.