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In Scenario Planning, Shell Shows the Way

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Authors Wilkinson and Kupers bring insider perspective to a model strategic approach

due to the perceived complexity of corporate environments and uncertainties in markets.

Thursday, August 15, 2013, By Katherine Heires

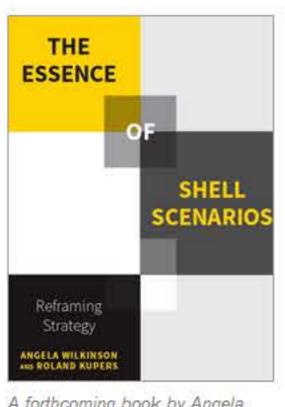
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Scenario planning — an increasingly critical tool in financial risk management and a proven contributor to strategy development and contingency planning in all types of organizations — is clearly on the upswing. According to a Bain & Co. survey released in May on management tools and trends, 70% of companies worldwide planned to utilize scenario and contingency planning this year, up from 23% in 2012, largely

Scenarios have been credited with some high-profile successes in the corporate world, none more noteworthy than Royal Dutch Shell's ability to anticipate and weather the oil supply and price shocks of the 1970s better than its competitors. Other case studies have spotlighted British Airways, Corning, Walt Disney Co., General Electric Co. and Mercedes-Benz.

But any discussions on the subject of corporate scenario planning tend to trace back to Royal Dutch Shell, where the process is currently overseen by Jeremy Bentham (see interview).

The discipline is intricate and nuanced; it runs the risk of misspent time and effort due to a lack of understanding of its capabilities and limitations. It was the \$467 billion-in-revenue energy company, based in The Hague, Netherlands, that over more than four decades has established and refined the best practices that have set a global standard.



A forthcoming book by Angela Wilkinson and Roland Kupers provides a history and overview of the Shell approach to scenario planning. That's the key message of "Reframing Strategy: The Essence of Shell Scenarios." The book, which provides a history and overview of the Shell approach, will be released by Amsterdam University Press later this year and will be in the 2014 catalogue of the University of Chicago Press.

The authors are Angela Wilkinson and Roland Kupers. Wilkinson is a counselor for strategic foresight at the Paris-based Organization for Economic Cooperation and Development. She was previously program director of the Futures Directive at University of Oxford's Smith School of Enterprise, and before that a member of Shell's scenario planning team for nearly a decade.

Kupers, currently a Netherlands-based consultant, spent 12 years with Shell and headed its Liquefied Natural Gas group.

No Magic

Wilkinson says they spent five years working on the book, with the aim of helping people understand that scenario planning is not "just a magic recipe" to advance strategic planning efforts. Nor is it a superior forecasting or model-based prediction method.

Rather, scenario planning is a way for companies, government agencies and other organizations to plan for unforeseen circumstances by bringing together a diverse team to think about various possible "futures," and then to analyze those events to develop a strategic response. The end goal is greater flexibility of thinking and better informed guidelines for dealing with change and unexpected events.

Kupers likes to define scenario planning as analyzing the influence of future possibilities to help make better decisions in the present. Borrowing from contemporary parlance, he calls it "playful crowd-sourcing."

"It's all about getting a diverse set of people to be creative together," Kupers says. "You are trying to get the opinion of a wide crowd," ultimately getting the group to think about how to address change in different ways. When done correctly, it avoids the trap of groupthink.

"The Essence of Shell Scenarios," Kupers says, also describes how scenario planning has evolved through the years. In the early days, in the 1960s and '70s, Shell's focus tended to be on long-term, global planning. Today the process is also used to inform more specific decisions and to develop relations with other actors on the energy industry stage, be they regulators, consumers or vehicle manufacturers.

To reap the full benefits of the technique, according to these authors, participants must understand all the elements that go into a successful scenario planning effort -- the book enumerates 14 -- so that they truly "learn how to cook," says Wilkinson.

"There are a lot of misconceptions about scenario planning, on both the positive and negative side," she adds, noting that many individuals signed up for her scenarios class at Oxford expecting to learn how to predict the future or create other management panaceas. In reality, Wilkinson says, "the magic takes a lot of hard work."

How It Relates to Risk

Wilkinson points out that the beginnings of scenario planning at Shell came about as a result of a change in risk philosophy. "In the '60s, the organization started to come to grips with non-technical risk — not where to find oil, but rather how to address political risk and whether or not agreements with governments would hold." Therefore, scenario planning's roots are in the recognition of a broader spectrum of risks — economic, social, political, environmental, technical and reputational.

Wilkinson views scenario planning as an essential tool for risk managers in times of uncertainty, though sometimes it is not so simple to utilize this tool.

"Culturally, scenario planning is a challenge for some risk managers" who come from a culture of VaR calculations and wanting to know the future, says Wilkinson. While "risk management is about knowledge and evidence," she continues, "scenarios are about opinions, assumptions and perceptions."

"In the Shell approach to scenario planning, we recognize the big difference between risk and

uncertainty."

Wilkinson notes that risk management conventionally is associated with measuring opportunities and threats. Then, managing the risks usually involves gathering data and making some form of quantified, informed decision.



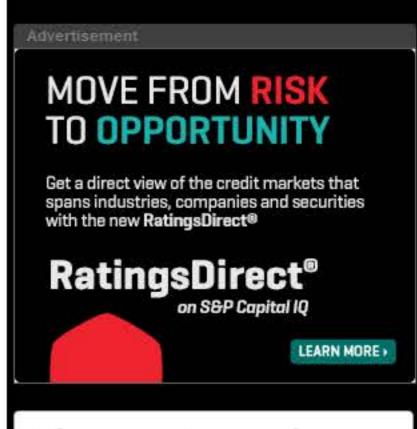
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In contrast, uncertainty does not lend itself to quantification. In a scenario planning exercise that aims to assess future possibilities, Wilkinson explains, the goal is to imagine plausible stories or future outcomes -- not probabilities -- and to use that information to prepare for different circumstances. "The approach of scenarios is not about model-based analysis and extrapolation of statistical patterns, but is all about looking at where trends will bend and where patterns will vanish," Wilkinson says.

She believes that scenario planning will only grow in usefulness and importance as risk managers tackle such difficult-to-quantify complexities as catastrophic and systemic risks. "Scenarios today relate to the new risk agenda," Wilkinson says, adding that the book will "help risk managers think through the links between risk management, scenario planning and strategic innovation."

'Not Inexpensive'

Kupers stresses that Shell scenarios are about possibilities, not probabilities. The oil company also eschews building scenarios based on two opposing sets of forces, for example, possible futures related to climate change and the economy. "You do not start a scenario planning effort by assuming opposing forces," Kupers argues. "That is what you may discover" as the process unfolds.

Although scenario planning as a management technique was almost killed off as a discipline within Shell on a few occasions, Kupers says, it proved its staying power over time. The benefits can be hard to quantify but are glaringly apparent during times of abrupt change and crisis. What's more, the energy industry needs to think long-term, has many complex issues to address and can afford the extra costs that come with scenario planning.

"This is not an inexpensive activity," he notes. "But for most multinationals and governments, this is not a big issue."

What sets the book apart from others?

"We start the history seven years before others do," says Wilkinson, "in 1965, with a new set of characters - Jimmy Davidson, Ted Newland and the Shell executive board. More conventional accounts start in 1973," after Pierre Wack's arrival.

[Note: Jimmy Davidson, head of economics and planning for Shell's exploration and production division in the 1960s, became the company's first overall head of planning in 1967. Ted Newland began to develop long-term, alternative-futures outlooks in the late 1960s, after being assigned by Davidson to launch a program in London called Long-Term Studies. In 1971, Davidson brought in Pierre Wack, an economist and former magazine editor who was head of planning for Shell Francaise, to work with Newland. Together they defined the practice of scenario planning. Wack rose to head the London-based scenarios team in the 1970s and came to be regarded as the father or inventor of scenario planning.]

Some accounts suggest that scenario teams and practitioners are somehow more clever than top management. "We do not support this idea," Wilkinson says. Instead the book works on the assumption that members of a management team are smart and can use scenarios to help themselves be smarter, sharper and make better decisions.

Coming up to the present, the book covers trends in scenario planning such as "scenario plus," melding scenario outputs with modeling techniques, as well as the combination of scenarios with visioning or sentiment analysis. In those instances, Wilkinson says, scenarios can help illuminate where the future might take you, but she hopes that these approaches will not detract from the clear-cut benefits of pure scenarios.

"We live in a world that is very complex and have to find ways to simplify that complexity in order to be able to do anything about it," Wilkinson says, adding, "I don't believe that any new data collection or modeling tool can get around the challenge of having to think better and more creatively, and that's what scenarios let you do."

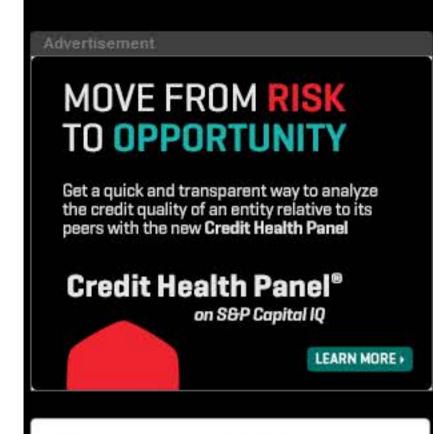
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