Mastering Scenario Planning

Shell's Jeremy Bentham skillfully orchestrates debate and collaboration

Jeremy B. Bentham has been head of the scenarios practice at Royal Dutch Shell for seven years and an employee of the Netherlands-based global energy giant for more than 30 years. In addition to engaging in various types of industry analysis, research and technology assessments, he has had hands-on experience in coordinating commercial and production activities at several Shell refineries.

A vice president, Bentham heads a unit officially known as the Global Business Environment group, more informally as the scenarios team. It has been in existence over 40 years. Renowned as a leader and innovator in corporate scenario planning, the Shell team has been acclaimed for its contributions to executive decision-making, strategic planning and risk management, while grappling with the volatility and uncertainty inherent in the energy field. Its track record is documented in a forthcoming book, "Reframing Strategy: The Essence of Shell Scenarios" (see accompanying article).



Jeremy Bentham says his scenario team create a sandbox for Shell's senior leaders to play in.

Bentham, who studied physics at University of Oxford in the U.K. and has a degree in management from the Massachusetts Institute of Technology, reports to Shell's chief financial officer, Simon Henry, whom he describes as the most senior executive overseeing risk in all its forms, financial and strategic.

There is no chief risk officer title in the executive ranks: the people officially designated as risk managers are those in the trading division and others who regularly assess non-technical, non-geological risks related to social, civil and political factors. However, Bentham says that all Shell executives, in areas ranging from financial to operational to technical, have a responsibility to regularly manage and address risk and resiliency issues. At times they will call upon the scenarios team for assistance.

Bentham oversees 20 individuals in the Global Business Environment group -- the scenarios team. They include Suman Bery, the chief economist, and others with diverse analytical skills and expertise. Their concerns include energy supply and demand trends; the regulatory outlook and government policies; political risk; an analysis of resources, or what the firm calls the global water,

energy and food nexus; and urbanization and its social and cultural impacts. In July, prior to accompanying Shell CEO Peter Voser on a trip to China to present the Chinese State

Council with the results of a two-year scenarios project related to that country's energy choices, Bentham spoke with Risk Professional correspondent Katherine Heires about the workings of his team.

How do the scenarios team's efforts relate to overall strategic risk management?

The strategic risks are managed, in part, through the kinds of processes that I and my team are deeply involved in: the development of scenarios that look at both long-term and short-term risks, that continually refine and challenge the strategic assumptions that we are making about the environment in which we work, in an industry where you always have to think and plan decades in advance. To frame it more broadly, there is a strategic planning cycle that involves the executive committee and the board and other senior leaders in the company. This involves reports, conversations and formal discussions about the strategic assumptions upon which the direction and main investment thinking has been based, and whether those assumptions need to be challenged and refined. The scenarios team is very much involved in this effort.

In what way is this embedded into the strategic planning cycle?

The scenarios aspect is best known, because of the branding that it has. It involves the building of scenarios and models that are not about having a crystal ball, but about being able to ask lots and lots of "what if" questions. At the same time, and particularly in our industry, you must be able to quantify and graph many aspects of the work we are doing. My team also utilizes tools such as energy market models, econometric analyses and trend forecasting to help sense the business environment at hand, and help our executives move their mental furniture around to make more informed and rich decisions.

Another way we are embedded in strategic planning is the fact that I and one or two senior members of my team will sit down every two to three months, not in a formal executive committee session, but rather at a dinner with the executive committee after their sessions. Over a good meal and glass of wine, we will get them talking about things on their mind, their insights, but will also discuss things we are seeing. In addition, I will have one-on-one discussions on a regular basis with the 50 executives who have the most impact on the company's future.

What is the scenario planning process not? What might some people misunderstand about it?

A lot of people who have read about scenario planning have a picture of some kind of product or report that somehow gets thrown over a fence and used by executives. That's not the way it happens. Those kinds of reports are crystallized out on occasion, but it is the ongoing strategic process, and conversations that are conducted, that have the deep value for the company.

Can you give some examples of the scenario planning activities you conduct?

What is crystallized for external use and distribution are our broad-stroke findings. Lehman Brothers went down on Sept. 15, 2008. It shouldn't surprise you that by the end of September, I was in front of our executive committee talking about our recessionary recovery scenarios. That helped executives at Shell to neither under- nor over-react to what was happening. In our decision-making, we were also able to draw on scenario work that had been done a year before the events at Lehman that looked at how the energy system would react to a deep, global economic recession.

Did you see the financial crisis coming?

differ from our internal thinking.

While we did not predict the big financial crisis, we did know and understand that a deep global recession would have a big impact on our business, and we had already worked through how it would impact global energy demand and supply. When the dominos started to fall, we had something we could draw upon to assist in decision-making, along with our recovery scenarios.

Since that time, we have had the benefit of Eurozone and Arab Spring crisis scenarios in place. At Shell, when we begin to see deep uncertainties in a given area, we often think that they can be better understood and planned for in scenario terms. My team is there to help people think in those terms.

How has the scenario planning process evolved over time?

It evolves all the time because the context changes - the context of what is happening at the company, who the users are and what they are struggling with. That said, there has always been rational and systematic analysis that accompanies, or is built into, the scenario planning process. But today the granularity and sophistication of that is greater than it was a decade ago, now that we are in a world in which our computing capabilities have grown.

I have also brought my longtime experience in the company to our effort, which helps us better understand the way people think and make decisions at Shell. We -- the scenarios team -- create a sandbox for senior leaders to play in, or a journey on which they go and discover things. Some of the insights are their own, others we have put there for them to discover -- the sorts of things that have great impact when you discover them yourselves.

There is a craft in encouraging and facilitating people as they engage in the scenarios journey, and part of the craft is in knowing that very few senior leaders want to think they are being taught something. And so the craft is in how you achieve new insights and new ways of thinking, without building up resistance.

Do you have any tips for risk managers who wish to lead scenario planning efforts at their firms?

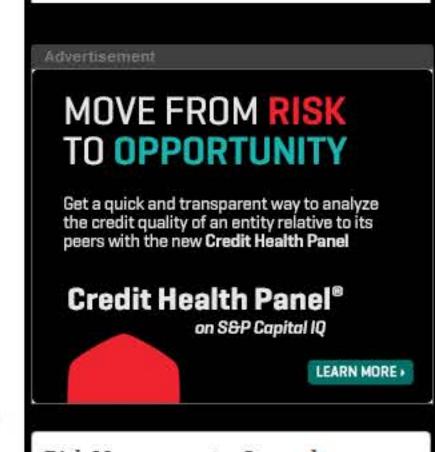
One important thing to recognize is that there is great value in the scenarios approach, but you must keep in mind it's an approach and is not about producing a report. It's about a journey that helps people to think in more resilient ways.

Executives with decision-making power whom you are trying to help need to be engaged in the process all the way through - not necessarily by attending every workshop or meeting, but through

conversations that help shape the scope of the scenarios and the ground that they cover. You certainly need people with different backgrounds involved, including, in some instances, people from within and without the company. In a workshop on global economic developments, for example, we will

bring in not only our own chief economist, but also three or four leading economists who have very different points of view, so that we hear perspectives and our scenarios take into account ideas that

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