

Setting the scene for success

BY GARETH BYATT



While risk managers cannot predict the future, the judicious use of scenario analysis and scenario planning can help organisations navigate through challenging times

Broadly speaking, scenario analysis and scenario planning is a process of examining and evaluating possible events – scenarios – that could occur in future, and using this analysis to inform activities to achieve our objectives. How far we look into the future with scenarios depends on the context of what we are doing.

The [Task Force for Climate-](#)

[related Financial Disclosures](#) (TCFD) says scenario analysis is a tool to enhance critical strategic thinking. In addition, it says, a key feature of scenarios is that they should challenge conventional wisdom about the future. In a world of uncertainty, scenarios are intended to explore alternatives that may significantly alter the basis for “business-as-usual” assumptions. ISO 31000:2018 (*Risk management – guidelines*)

includes the use of scenarios in describing risk analysis, as do other ISO standards such as ISO 22301:2019 (*Security and resilience – Business continuity management systems – Requirements*).

Supporting strategy and tactics

Scenario analysis and scenario planning can be combined with strategy and business planning tools, and also with

CONTEXTS AND SCENARIOS

EXAMPLE CONTEXT	EXAMPLE ASPECTS OF SCENARIOS
Organisational/business plans that stretch over a certain time horizon	<ul style="list-style-type: none"> How your external environment could change in various ways over different time horizons Signals to watch for, and which factors could be sensitive to change, for example, linking to sensitivity analysis How your internal environment could evolve over a chosen time horizon, and signals to watch for How changes could affect business planning and financial models, and SWOT analysis.
Particular strategies and areas of focus	<ul style="list-style-type: none"> How an area of focus could evolve over a time horizon. For example, how do different climate change scenarios can impact what you do? How do those changes link to supply chain scenarios and specific product scenarios?
Projects of various types, sizes and time frames	<ul style="list-style-type: none"> How a project could progress across different metrics – for example, time, scope, budget, stakeholder positions and project risks Pre-mortems and pro-mortems (as described by Dr Gary Klein) to imagine worst-case and best-case outcomes Using scenarios to inform project quantitative risk analysis (QRA) such as Monte Carlo methods.
Your organisational resilience, including your preparedness to respond to a crisis situation or a business continuity problem	<ul style="list-style-type: none"> How a crisis/organisational disruption event could unfurl in different time frames, and how you can anticipate, act and respond purposefully How to demonstrate co-operative resilience in adverse scenarios for the benefit of all your stakeholders How you may respond to a specific situation such as a cyberattack.

POINTS TO CONSIDER

ASPECT	CONSIDERATIONS
<p>Agree what you want to do and achieve with scenario analysis and scenario planning – agree the scope and extent of activities, and your objectives (which may include some form of training/skills development)</p>	<ul style="list-style-type: none"> Review and discuss ways and models of using scenario analysis and scenario planning for your scope and context. For example, is it linked into existing work you are doing/have already done – such as horizon scanning, a risk review or a series of planned reviews? Or can you use certain data and data analysis at your disposal to help review scenarios and supporting models? If the situation is urgent, such as responding to a crisis event, you may default to a pre-agreed method for response Are there preferred methods and tools for using scenarios in your organisation? (See a few examples below.) How many and which types of stakeholders do you want to involve, and in what style – for example, brainstorming and focused reviews? Do you prefer a simple or a complex approach? One example of a simple approach is to consider “<i>What is, What if and What next?</i>” as three connected aspects over an agreed time frame. If you are to review complex scenarios, for example impacts across an extensive supply chain or a portfolio of projects, will you use systems analysis to review the impacts of scenarios across an interconnected system? How do you want to apply time and velocity of change to stress-test strategies, plans or situations?
<p>Undertake the scenario-analysis and scenario-planning review</p>	<ul style="list-style-type: none"> Depending on your scope, you may have someone in a facilitator role to support the process The scenario-analysis and scenario-planning review will reflect whether it is integrated into an overall planning review, a business plan review, a business risk review or a project review If it is part of an overall review, you may stitch the scenarios into it by using existing exercises/tools such as risk prioritisation maps or models If it is being conducted in a hybrid or virtual manner, make sure you have the right interactive tools tested beforehand, and that people know how to use them.
<p>Use the outcomes to help you achieve your objectives</p>	<ul style="list-style-type: none"> After conducting the scenario-analysis and scenario-planning review, confirm how the outcomes and actions from it will help the activity/situation that it was designed to support Agree next steps and actions Share learnings on how you conducted it for others in your organisation – and perhaps other stakeholders such as suppliers.

risk management and resilience techniques and practices to stress-test objectives, strategies and plans. Such linkages include horizon scanning, pre-mortems, counterfactual analysis, crisis management and business continuity management.

While scenarios often support strategic management, they can also add value to short-term tactical reviews and needs. The process of envisaging future

possibilities helps us think through the way that different external and internal factors may evolve, and our ability to anticipate and adapt to change. Such actions can improve

decision-making and help us be alert to signals – be they strong or weak – to be ready to act and react in purposeful ways to what we see ahead of us. As such, the practice can help with avoiding a myopic

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focus, keeping biases in check and circumventing groupthink. Done properly, it can help organisations maintain a good state of resilience.

Approaches to scenario analysis and planning

The strategies and plans we work towards relate to specific aspects of what we do and our context, internally in our organisation and externally for our environment (see *Contexts and scenarios*).

Not surprisingly, a variety of ways to conduct scenario analysis and scenario planning exist. It can be done in a large-scale, detailed manner, or it can be done through a smaller, quicker approach. Your circumstances and context will inform what you do, but there are some important aspects to consider that apply to most situations (see *Points to consider*).

Getting the right balance of predictable outcomes and scenario outliers is not easy. Having a diverse team to think about scenarios helps to achieve a good balance and range. In a


2015 paper, [Overcoming obstacles to effective scenario planning](#), the consultant McKinsey pointed out some aspects to scenario planning and managing biases. Considerations include, for example, the availability bias where groups tend to make decisions on what they already know or have seen recently. Open and free debate can help overcome social biases – but there are many other biases to combat.

Links and guidance

A wide variety of tools, from simple to complex, exist to conduct scenario analysis and scenario planning (see *Linking tools*). Depending on your context and scope, you may benefit from external support and guidance. For example, support exists for climate change scenarios – a critical matter facing us all. The [TCFD](#) and the [Network of Central Banks and Supervisors for Greening the Financial System](#) both offer useful guidance.

In our fast-changing, volatile

and uncertain world, scenario analysis and scenario planning can help us to think about the future. It can help us consider in a de-biased way how different situations could affect our ability to achieve our objectives.

It can also be a valuable tool for tactical, urgent needs when we have to quickly assess and manage situations. Stitching scenario analysis and scenario planning into our way of working can help us to anticipate how situations may evolve, be aware of and adapt to changing circumstances, and think through and act on the risks to achieving our objectives. 

 **Gareth Byatt is a risk and resilience consultant operating across different industries and domains. He owns Risk Insight Consulting and is also an associate with Satarla. He is the IRM global ambassador for the APAC region.**

LINKING TOOLS

TOOL	EXAMPLE USAGE
A simple 2x2 box	<ul style="list-style-type: none"> Useful to consider four scenarios plotted against appropriate X and Y axes.
Risk prioritisation maps	<ul style="list-style-type: none"> If you have your risks mapped, you can run scenarios with them to review how these risks may change depending on different things happening, which you could link to a 2x2 scenarios box.
Three segments	<ul style="list-style-type: none"> A “<i>What is, What if and What next?</i>” as three connected segments to think through different situations in varying degrees of detail.
Decision trees	<ul style="list-style-type: none"> Review potential options for decision-making along different paths and branches to arrive at agreed approaches based on outcomes along the way.
Risk quantification	<ul style="list-style-type: none"> Quantitative risk analysis (QRA) can be linked to scenario analysis and scenario planning, when you have appropriate data.