



ANDREW HEDLEY, DIRECTOR, HEDLEY CONSULTING

Using scenario planning to map your firm's and your clients' risks and opportunities

We live in an increasingly uncertain world. In order to survive and prosper, firms must be nimble and adaptive. They need to develop the capability to anticipate the future in a dynamic way in order to shepherd their resources to maximum effect and select the best-fit markets on which to focus. An acid test of the efficacy of any strategy is the way in which it is able to accommodate and respond to uncertainty and unforeseen risks as they emerge over time.

There is now a general acceptance that we live in an increasingly non-linear world. However, many strategies are still constructed using a surprisingly one-dimensional model. They envisage a known start point and a desired end state, with a series of predetermined steps in-between.

Scenario-planning techniques can be invaluable in assisting strategy development in fast-changing markets and business environments. Modelling of this nature combines known facts about the market, the firm and the competition with a number of plausible future developments that would change the competitive dynamic.

The use of scenario planning within the wider strategy development mix can increase managing partners' understanding of business uncertainties. It can be used to map out responses (whether they be defensive or taking advantage of an unfolding opportunity) to a range of circumstances affecting both the firm and its clients.

Mapping the unknown

The starting point in the scenario-planning process is to gain a clear understanding of the factors that are driving uncertainty in the firm's markets and wider economic environment. Such data may be harvested from both internal and external sources; it will certainly require the firm to keep abreast of economic analysis and possibly to commission independent research.

The PESTEL acronym so loved by marketing strategists (comprising an analysis of political, economic, social, technological, environmental and legislative drivers) provide

a useful framework which can be applied at both a macro and micro level.

For firms with a client base characterised by a small number of high-importance clients, a properly-structured client listening programme will be an invaluable source of information to identify and better understand key change drivers.

“Plausibility should not be confused with predictability or probability”

Having come to a good understanding of these drivers of change, two filters need to be applied in order to inform the next stage of the scenario-planning process. The first of these is the extent to which the forces identified are critical (i.e. the extent to which they could change the competitive environment in a way that impacts on the firm's strategy). The second filter considers the levels of uncertainty surrounding each driver (i.e. how plausible it is).

However, plausibility should not be confused with predictability or probability! Events in these latter two categories should have already been factored into strategic thinking at an earlier stage. Plausibility is about stress-testing the strategy with a number of 'what ifs'. How will the firm respond to such events and the changed business risk profile that emerges?

The creation of different permutations using these facts, and then turning them into a series of possible futures against which the firm's strategy can be tested, is the basis of the scenario-planning approach. While it may be valid to select any scenario, it is often the case that those chosen tick the twin boxes of being acknowledged as plausible and accepted as uncomfortable for the firm.

The scenarios which are developed can then be tested against the firm's ability to

respond, at speed, in a way which minimises any downside, whilst seeking to gain advantage from new opportunities that are unearthed.

Three issues need to be considered as part of this process. First, there must be clarity surrounding the strategic issues which emerge. It is fundamental to a successful outcome that a clear, unambiguous understanding is forged. Next, a picture must be developed of the possible implications of these issues for the firm and its strategic direction of travel. Only then can discussions be entered into, and decisions made, about how the current strategy may need to be adjusted (or even fundamentally changed) as a result of the facts which have been unearthed and modelled.

Growth opportunities

With scenario-based thinking mastered, and skills embedded within the firm, the technique can then be deployed externally as a powerful aide to business development.

Engaging clients, perhaps in a workshop setting, in a scenario-planning exercise can be hugely powerful. It is a great way to demonstrate to clients that you seek to understand their sectors, their business situation and the key competitive forces at play for them. It is also a valuable way for your law firm to learn how it may help clients to manage their business risks and explore their growth opportunities.

The number of firms adopting a scenario-based view in their strategy formulation and resource planning remains surprisingly small. For those already using these techniques, the advantages are clear. For those not yet convinced of the benefits, it is to be hoped that the intellectual argument can be won before a high-impact scenario – which could have been anticipated and planned for – unfolds to their detriment. ■■

Andrew Hedley has been advising law firm leaders on strategy and change management for more than 15 years (www.hedleyconsulting.com)