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Using scenarios to explore strategic options

In order to respond to fast changing and dynamic markets, any strategy needs to be able to accommodate unpredictable changes to future market and economic conditions. It is curious, therefore, that while most would accept that we live in an increasingly non-linear world, many strategies are still constructed using a surprisingly one-dimensional model. They work from a known start point to an envisaged end state with a series of largely predetermined steps in between.

Looked at from the outside, it seems that the underlying assumption is that 'nothing will get in the way of us achieving our goals', even though the level of control that any firm has over its environment is limited at best and non-existent in nearly all cases. When the norms of business are changing on an almost daily basis, how valid is an approach that targets goals that may be wholly inappropriate, unrealistic or just plain silly when viewed in the context of new rules of competition and economics?

Strategic planning

One alternative approach to strategy is found in the theory of logical incrementalism. This views successful strategy in a dynamic environment as being inherently about flexibility and the taking of incremental steps towards a desired 'end state'. It links strategy and implementation in a continuous improvement cycle, with learning from each step being fed into the decision-making model for the next.

There are clear advantages for naturally risk-averse firms in taking such an approach and in proving the good sense of their strategies by using a 'toe in the water' philosophy. An unpredictable and turbulent market makes the veracity of the approach even stronger.

A powerful technique which can assist strategy development in just such fast-changing markets and business environments is scenario planning. This approach combines known facts about the

market, the firm and the competition with a number of plausible future developments that would change the competitive dynamic.

These alternatives will generally be developed using macro-analysis tools and competitive frameworks, taking as rounded a view as possible of how change might impact. The creation of different permutations, together with a series of possible futures against which the firm's strategy can be tested, is the basis of the scenario-planning approach.

"Plausible should not be confused with predictable or probable"

While it is valid to select any scenario, it is often the case that those chosen are acknowledged as plausible and accepted as challenging for the firm. However, plausible should not be confused with predictable or probable. Events in these categories should already have been factored into strategic thinking at an earlier stage.

This approach 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? In scenario planning, an understanding of the drivers of change allows them to be considered in terms of their criticality and the levels of uncertainty surrounding them.

It is the combination of criticality and uncertainty that creates scenarios to which any strategy should be able to respond. The appropriate response will be dictated by drawing out the implications of each scenario and developing a headline plan to deal with them. Such plans, of course, need to be reviewed on a regular basis to ensure that they remain relevant and that market developments are fully integrated.

Surviving turbulence

Historically, the investment of time in considering how one might respond to events that may never happen may have been looked upon with disdain.

However, the years since the start of the great recession have demonstrated just how dramatic and far reaching the impact can be when unlikely, but plausible, scenarios come to fruition.

When the world's financial markets unravelled, impacting dramatically on law firms, many found themselves without a credible Plan B when Plan A was no longer fit for purpose. When change happens, the ability to retool and realign the business at pace is critical.

The use of scenario planning as part of a rounded strategy process provides the opportunity to evaluate these risks in advance and to draw up contingency plans should such events unfold.

Worryingly, it remains the case that scenario planning is underused in many firms and, at worst, does not figure at all. Yet, it offers leaders a powerful means by which to evaluate the relative risks and opportunities of different strategic options as well as how to respond to change. By understanding these better, firms put themselves in the best position to manage the unknowns associated with market turbulence.

Whatever the future holds, the pace of change will only increase and business paradigms will continue to be redefined. In such a context, the use of scenario planning as a core element of strategy formulation should be welcomed as firms work hard to better maximise their potential opportunities and mitigate the business risks they face. ■■

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