Scenario Planning a Useful Tool In Building Strategic Intent

Properly used, scenario planning can help organizations in their strategic planning process, which in these uncertain times is both more difficult and more necessary than ever. As tools that can identify risks and possible environments, scenarios help boards and management focus on early indicators that support or conflict with their strategic direction, according to Susanna E. Krentz, vice president, Jennings, Ryan & Kolb, Chicago.

"It's easier to predict what life will be like in the year 3000 than to predict what will happen in healthcare in the next five or 10 years," said Krentz, speaking at the September meeting of the Society for Healthcare Strategy and Market Development in Denver. "But most of you are planning for those five or 10 years," she added, and scenario planning can help organizations focus on a direction while factoring in uncertainty about the future.

ASSESSING UNCERTAINTY

"Planning is always about managing risk," assessing probabilities and weighing odds, stated Krentz. It is important not to let the process become stymied by uncertainty—what we don't know. And there is a lot we don't know about healthcare in the future: what the size of the market will be, what customer preferences will be, what new products and technologies will be available, what competitors will do. Such uncertainty can paralyze decision making and strategic planning, Krentz pointed out.

Managers must make every effort to translate uncertainties into risk, and this is where research comes in. "All the information

Krentz

Constructing possible futures helps create a context for decision making, says Susanna E. Krentz of Jennings Ryan & Kolb.

you gather helps you articulate risk," said Krentz. Some trends are fairly clear: demographic changes, pressure on prices, declining utilization rates, and the introduction of new technology, for example. Other unknowns, such as the impact of a new facility in an area, may become clear through market research. What's left after compiling all possible information are "residual uncertainties," which simply cannot be known: regulatory or legislative developments, or the fluctuations of the U.S. business cycle, for example.

How does an organization address residual uncertainties in strategic development? Krentz outlined four steps:

- Identify the uncertainties' nature and build possible scenarios around them
- Define the organization's strategic intent
- Identify goals and measures of success
- Implement the plan and monitor progress

BUILDING SCENARIOS

Scenarios are *possible* futures, Krentz emphasized—plausible but not assured. They are not designed to yield expected outcomes. Most important, they are not strategic plans. They are an attempt to compensate for two common errors in decision making: underprediction and overprediction. They help to "create a context around the future," Krentz explained.

Scenarios should focus on the organization's key concerns, be internally consistent, be archetypal—that is, not be variations on the same theme—and describe a state in which the organization might exist for some time. Focus on a maximum of three or four scenarios that address the two areas of uncertainty that have the greatest impact on your organization, advised Krentz. The scenarios should challenge conventional thinking while remaining plausible and respond to issues and challenges currently facing the organization.

"QUESTIONS TO THE CLAIRVOYANT"

The first step in scenario development is to ask those participating, "If you could ask a clairvoy-

Scenario planning can also help an organization learn about its culture.

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ant only three questions, what questions would you ask?" When everyone has their questions, then ask them to answer them in two ways: If the future is a good one, happening as you wish, how would you, as a clairvoyant yourself, answer the questions? And if the future is a bad one, happening as you dread, what would the answers to your questions be?

The answers will indicate clear trends that are expected to play out in all scenarios, common themes, and major uncertainties. These will help you identify the fundamental strategic questions the organization is trying to answer.

Next, build a matrix on the two areas of uncertainty. For instance, the x axis could run from limited consumer access at one end to maximum individual choice at the other, while the y axis could run from stand-alone niche facilities to consolidated systems. Crossing these two will give you four quadrants, or scenarios, which are described according to their characteristics. Consider what the organization would need to do to be successful in each scenario as well as what makes sense to do across all the scenarios.

DEFINING STRATEGIC INTENT

Since no one scenario is likely to contain all elements of the future, in choosing its strategic response an organization must decide whether to modify its existing strategy, hedge across some or all of the scenarios, start over again with different scenarios, or pick one scenario and bet the company, explained Krentz. Many healthcare organizations, faced with a wide range of future uncertainties, will not choose one "big bet" strategy but will focus on adaptive strategies, she said.

The route chosen will depend on the organization's strategic intent, which may be to be an industry leader, which entails a large amount of risk, financial strength, and commitment; to adapt to the market, which calls for flexibility and the ability to quickly change direction; or to take a more cautious approach of slower, more incremental moves. It is important to accurately assess the organization's financial capability, because the need to maintain reserves increases as uncertainty increases. Estimate resource requirements conservatively, advised Krentz, and estimate possible costs generously. A minimum safety stock, she suggested, is two to three years' debt service coverage or two to three years' capital expenditures.

MEASURES OF SUCCESS

Important measures of success when planning in the face of uncertainty include a common articulation of the organization's desired position, and targeted goals at one and two years. If the targets are not achieved, suggested Krentz, examine the environment and how the uncertainties you were working with are actually developing. Honestly assess facts or circumstances that challenge the desired positioning; don't ignore them. And hold the organization accountable for targets and measures of success.

An additional benefit of scenario planning, Krentz pointed out, is that it can be effective in helping organizations learn and change their culture. The process itself requires openness and honesty, and a "suspension of the rules," Krentz said. "This can be a vehicle for institutionalizing change for shared learning."

—*Ann Stockho*

your organization wanted to use Web services to reach prospective women patients, the key players would be representatives from marketing, communications, and information services; the clinical and operations managers responsible for women's services; and several women from the community you wish to serve.

Are Your Employees Psychologically Ready to Move to Web Services? Web services that create value do so by changing *how* a task is done. But the "This-is-how-we've-always-done-it" mental syndrome on the part of employees often obstructs such change.

Web initiatives must, therefore, take employees' psychological preparedness into account. Before launching such an initiative, plan both technical training for the employees (especially those unfamiliar with computers) who will conduct it and "internal marketing" to motivate them to do it well. If you are creating an intranet to improve staff communications, you might want to include the human resources department in the planning for it. Whatever initiative you choose, be sure to base it on an internal communications plan that helps employees clearly understand both the changes involved and the benefits that will come from them.

Are Your Leaders Committed? None of this will work, of course, unless leaders themselves are committed. Leaders map the ways Web services will be used to further the organization's strategic and operational goals. They create the momentum that enables others to follow. And they help shift discussion away from technical issues and toward larger cultural issues, including the new skill sets Web services may require. □