



## Scenario planning and the role of the board

What are scenarios? Simply put, they are stories—developed through a systematic and rigorous method—that describe how the world might be meaningfully different in the future. Scenarios help leaders prepare for a world that is uncertain and allow them to develop and test strategic choices under a variety of plausible futures—not just the expected future. Scenarios, which include rich narratives about the business and societal conditions in different possible futures, are broader than typical economic forecasts, which may be useful in the short run but can be limited in their ability to challenge conventional wisdom about how the future will play out.

Scenarios are built on three time-tested principles:

- **Use outside-in thinking:** Start with the broader contextual environment—what's going on in society or technology, for example—and focus on what is going on in the world rather than just within a particular industry or organization
- **Embrace diverse views:** Seek out and learn from people who see things differently and can call upon a variety of different roles, backgrounds, and experiences
- **Take the long view:** Look out beyond current events to consider how today's trends can turn into something surprising in the future


Importantly, these principles map to the roles board members can and do play in corporate governance. Independent directors bring outside perspectives and experience from other organizations or industries. Their range of backgrounds and professional history can be tapped to diversify the views and insights that inform leadership thinking. And the oversight role of boards enables them to take the long view, keeping an eye on the long-term interests of shareholders and other stakeholders.

In a recent Board Governance Dialogue webcast hosted by Deloitte and Salesforce, Deloitte Global CEO Punit Renjen discussed how boards can engage with scenarios and use them to drive towards action. Scenarios, he explained, are “a really powerful way to navigate through...a very uncertain, difficult situation. The most important aspect of scenario planning is to prepare and to come up with a playbook as to what would you do if a particular scenario came to pass.”<sup>3</sup>

## The world remade by COVID-19: Scenario planning in action

Given the uncertainty and market turbulence organizations around the world are facing, Deloitte and Salesforce collaborated to develop scenarios about how the pandemic might change the landscape of business and society over the next three to five years. The example can help explain how scenarios are developed and suggest how they can help organizations think through potential futures.

Scenario thinking starts by focusing on what's uncertain—the things we don't know, rather than what we feel sure of. There are a few fundamental uncertainties around the pandemic that we expect will have the most impact on how the world unfolds in the next few years, including:

- The overall severity of the pandemic and pattern of disease progression
- The level of collaboration within and among countries to address the pandemic and its aftermath
- The health care system response to the crisis
- The economic consequences of the crisis
- The level of social cohesion in response to the crisis 

## Five fundamental uncertainties are likely to have a significant impact post-COVID-19

- 1 The overall **severity of the pandemic** and pattern of disease progression
- 2 The **level of collaboration** within and between countries
- 3 The **health care system** response to the crisis
- 4 The **economic consequences** of the crisis
- 5 The level of **social cohesion** in response to the crisis

Source: [The world remade by COVID-19](#), Deloitte and Salesforce, April 2020

### Additional uncertainties explored

#### Society

- Levels of societal trust
- Psychological impacts after quarantine
- Impacts on different generations
- Long-term impacts on education

#### Technology

- Attitudes toward data-sharing
- Speed of technological innovation
- Long-term effects on the workplace
- Types of new technology adopted

#### Economy

- Speed of economic recovery
- Distribution of economic growth
- Impacts on inequality
- Shifts to new business models

#### Environment

- Focus on fighting climate change
- Reduction of emissions
- Investments in renewable energy

#### Politics

- Long-term impacts on governments
- Impacts on public policy and regulation
- Levels of trust in political systems
- Changes in election methodologies

3. Board Governance Dialogue, *The world remade by COVID-19 | The boardroom perspective*, June 2020.



While we view these five uncertainties as the most critical, there are others, such as the speed or focus of technological innovation and the outcomes of the current social justice movement, that could significantly impact the future in which we end up. Scenario planning enables leaders to consider multiple uncertainties such as these and integrate them into logically consistent wholes.

Scenario planning should be dynamic, constantly adapting to changes in the broader landscape. It is a tool that can be used for learning and faster adaptation to changing circumstances. As new uncertainties surface—whatever they may be—we can use scenarios to help us interpret these changes and the broader patterns of which they may be a part.

### Four visions of the future

As we considered what the postcrisis world could look like through the lens of the fundamental uncertainties listed above, we developed four different scenarios describing what the business environment of the early-to-mid 2020s might be like. Each scenario brings varying degrees of disruption, challenges, and opportunities and should

ultimately spark a number of questions around implications and next steps for organizations.

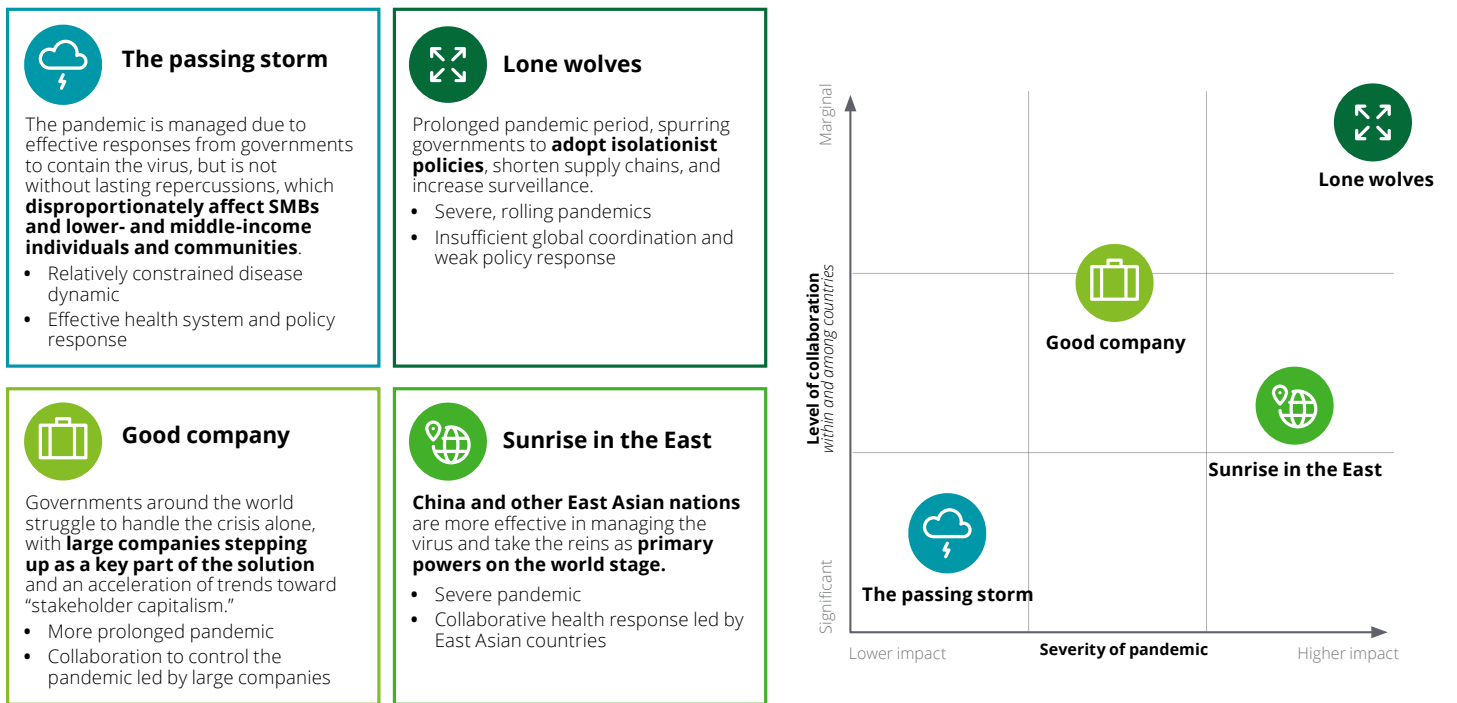
The first and best-case scenario, called **The passing storm**, imagines a world in which the pandemic is managed due to effective responses from governments to contain the virus, but is not without lasting repercussions which disproportionately affect small and medium-sized businesses (SMBs) and lower-and middle-income individuals and communities.

The second scenario, **Good company**, is a result of a more prolonged pandemic, with governments around the world struggling to handle the crisis alone. Large companies step up as a key part of the solution, and we see an acceleration of trends toward “stakeholder capitalism.”

In the third scenario, called **Sunrise in the East**, China and other East Asian nations are more effective in managing the virus and take the reins as primary powers on the world stage.

And finally, there is a scenario called **Lone wolves**, which envisions a prolonged pandemic period spurring governments to adopt isolationist policies, shorten supply chains, and increase surveillance. ➔

## Four distinct scenarios emerge based on current trends and critical uncertainties



Source: [The world remade by COVID-19](#), Deloitte and Salesforce, April 2020



**The implications of these scenarios for organizations will differ by industry, geography, and other factors, but they serve as a useful starting point for strategic conversations, starting with key questions for board members and leaders to consider asking:**

- Which of our previous expectations need to be rethought?
- What are the biggest threats to our current business in these worlds?
- Based on what we have learned from the scenarios, are there other factors that we haven't considered?
- Are there new uncertainties that have emerged or clarity on existing uncertainties that require a shift in how we think about the future?
- Which scenario best describes the world that management is preparing for, and is there any scenario they seem to be ignoring?
- What would we need to do differently if any of these scenarios becomes the future?
- Are there other scenarios that we should consider?

At Deloitte, we've seen these scenarios engage leaders in many ways and at various levels, from business units, to boards and executive teams, and even governments that are using them to consider the future of their own economies. Business leaders across sectors have been using them to drive a variety of applications, including reconsidering business development and investment opportunities, managing strategic risk, redesigning workforces, and adapting their long-term strategies.

## Big challenges, better choices

Another benefit of good scenarios is how they can illuminate critical choices that may lie ahead and allow leaders to think through the implications of today's action over time. In the recent Board Governance Dialogue, Punit Renjen emphasized the importance of identifying both offensive and defensive strategies. Effective scenario planning can help spot the choices essential to doing both well.

4. Fortune/Deloitte CEO Survey, June 2020.  
 5. NACD COVID-19 Pulse Survey, May 2020.  
 6. Fortune/Deloitte CEO Survey, June 2020.

As he observed, "We do need to play defense. We need to have adequate liquidity. We need to pull the levers around reducing discretionary spending and making sure that we can navigate [in] whatever scenario we find ourselves." Using scenarios to plan for a range of divergent future outcomes can help organizations generate a more comprehensive view of risks and can help protect the business against whatever is to come.

But Renjen also reminds us of the importance of a strong offensive strategy, which scenarios can help develop even in the face of great uncertainty. "The board should work with management to consider whether management is playing great offense . . . and [making] the contrarian moves that are available today."

At the same Board Governance event, Salesforce CEO Marc Benioff reinforced the importance of identifying strong options, noting "this a very critical moment for the transformation of organizations." The organizations that will likely thrive are the ones that see not only the challenges but also the opportunities that may be available to them. In a recent survey of CEOs, 77 percent said the crisis created significant new opportunity for their company.<sup>4</sup> Scenario planning can help leaders increase their confidence and ability to see new opportunities that may emerge in different futures, as well as make choices that position the organization for success regardless of scenario. And, scenario planning can help one think broadly and ambitiously about the implications of these choices for customers, employees, shareholders, and society. As Benioff said, "What will you stand on to say this is who we were when the world needed us most?"

By leveraging scenario planning and engaging in bold, expansive thinking about the future, boards and leaders can do more than react to events or be trapped by what Drucker warned us of, acting with "yesterday's logic." Scenarios can help leadership discover *tomorrow's* logic and adapt to a world that seems likely to be remade by current events and trends.

Leaders know that their strategies need to be dynamic and adaptable to changes in the marketplace. In a May 2020 survey, board members put "shaping a realistic post-crisis strategy" as the top governance challenge facing their board over the coming months, even above overseeing financial health.<sup>5</sup> A majority of surveyed CEOs (58 percent) agree that the crisis will bring about significant changes in their strategy.<sup>6</sup> The organizations that can leverage scenario thinking to pressure-test these newfound strategies against a range of possible futures—and not just the future they expect—will likely be the ones that are best positioned to thrive in whatever future ultimately comes to pass. ➤



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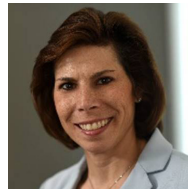


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