

Seeing through the mist

Dr Robert Davies and Sally Sanderson demonstrate how to anticipate market changes and prepare a competitive long-term strategy

Dealing with the aftermath of a recession can be a far more demanding issue for partners than ensuring the firm's survival through the downturn itself. Now that the global economy is, hopefully, entering the recovery phase, firms are left with a landscape filled with not certainty but rather clouds of uncertainty.

The questions facing international law firms include:

- Will Asia drive a prolonged market recovery?
- How will technology change business models?
- Is the era of face-to-face client contact dead?
- Will regulatory changes result in increased competition?

These are just a few of the clouds on the horizon and no one knows, with any degree of confidence, in which direction they will blow.

The real problem for managing partners is that traditional approaches to planning do not help. Established approaches focus on just one future and one action plan, concentrating upon what is known and familiar rather than the uncertain and unknown.

In this situation, the most powerful tool to use is scenario planning. It has a reputation for being expensive, resource

hungry and time consuming: this article sets out to dispel this myth.

We present here a streamlined seven-step process that managing partners can use to develop scenarios in just two or three workshop sessions.

Step 1: Define the question

The first step is to consider the area of uncertainty that you wish to explore. Ask a sample of partners – say 20 – to define their concerns.

Then, with the management committee, develop a question that will allow the most important concerns to be explored.

For example: how will technology reshape the global market for commercial legal services in 2021?

Ensure that any question gives clarity with regard to timescales and market sectors.

Generally, scenarios cover longer periods of time than business plans. This is to allow time for trends and events to come to full fruition, which is why scenarios covering 25-year periods are not uncommon.

For a first attempt, a scenario period of between 5 to 10 years is recommended.

Step 2: Choose the team

At this point, the team that will build the scenarios should be appointed.

Members must:

1. be well acquainted with the issues that the scenarios will explore, and
2. represent the breadth of expertise in the firm.

A team of six to eight partners from across the firm, led by one member of the management committee, would be a good start.

Before going any further, it is essential that the team understands what scenario planning is and the role that it plays (see box: 'Scenario planning: the basics').

The final task is for the team to clear their minds. Established views and preconceptions about 'what works around here' must not be brought into the workshops. If the team does not go through this process, the scenarios will be an extrapolation of yesterday's experiences.

Debating other scenarios is a good way of achieving this 'clearing' process. Shell's global scenarios to 2025 are an excellent starting point. These scenarios were written after the 9/11 terrorist attacks and give a range of views in respect of the future of globalisation.

Step 3: Consider driving forces

The team then needs to be clear about the forces that can drive change. The PESTEL model is helpful; this considers six forces:

1. Political
2. Economic

3. Socio-demographic
4. Technological
5. Environmental
6. Legislative

A useful initial exercise for the team is to consider how these forces have shaped change over the past 10 years.

Step 4: Identify challenges

You can now start scenario building. Set the team the task of identifying as many issues as possible that should be considered when answering the chosen project question.

Place particular emphasis upon considering events and trends that could wake one up in the middle of the night. The unexpected is, by definition, that which we do not fully understand.

Ask team members to work alone, writing ideas on sticky notes. Use different coloured sticky notes to represent each of the six PESTEL forces.

As the team is working, create the structure for a critical uncertainties matrix (see Figure 1 for an example of a simplified matrix). On a white board, draw a matrix outline, with business impact on the vertical axis and level of uncertainty on the horizontal axis. This is one of the scenario planner's most important tools.

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Then ask each team member, without comment from others, to place their notes onto the matrix. Very quickly, you will have a whiteboard with 50+ notes.

Step 5: Define the scenario themes

Now ask the team to review what is on the board. Remove duplicates and then reach an agreement on where each issue is located.

Sticky notes on the bottom half of the matrix can be removed, as these are low-impact issues. The issues in the top left of the matrix are those that your team are confident

will occur and will have a significant impact. By definition, you need to include these in any scenario.

As an example, Figure 1 shows that generation X and Y changes, the rise of Asia and the impact of back-office outsourcing must at least be included in any scenario.

The most important part of the matrix is the top right-hand corner, where the big uncertainties are located. These will form the themes for your scenarios.

At this point, there may be 30+ sticky notes in the top right-hand corner. Ask each team member, working silently, to go to the whiteboard and arrange the notes into groups that have common themes.

Before long, three to six 'super uncertainties' will appear. From these, the team must select the two or three that best address the scenario question.

For Figure 1, the following key uncertainties emerged:

- intelligent computing – or artificial intelligence that can replace expert advisers;
- IT enabled multi-sourcing – firms outsourcing large parts of their operations to specialist legal providers; and
- client acceptance of virtual solutions.

These were then grouped into one super uncertainty: technology proliferation.

Concerns regarding a double-dip recession and political instability were

Figure 1: Critical uncertainties matrix

Scenario question: *How will technology reshape the global market for commercial legal services in 2021?*

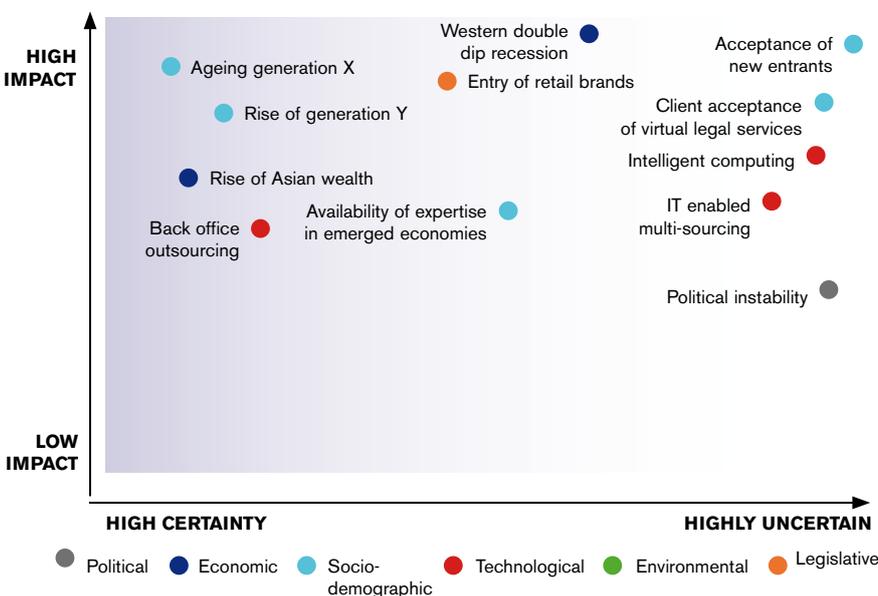
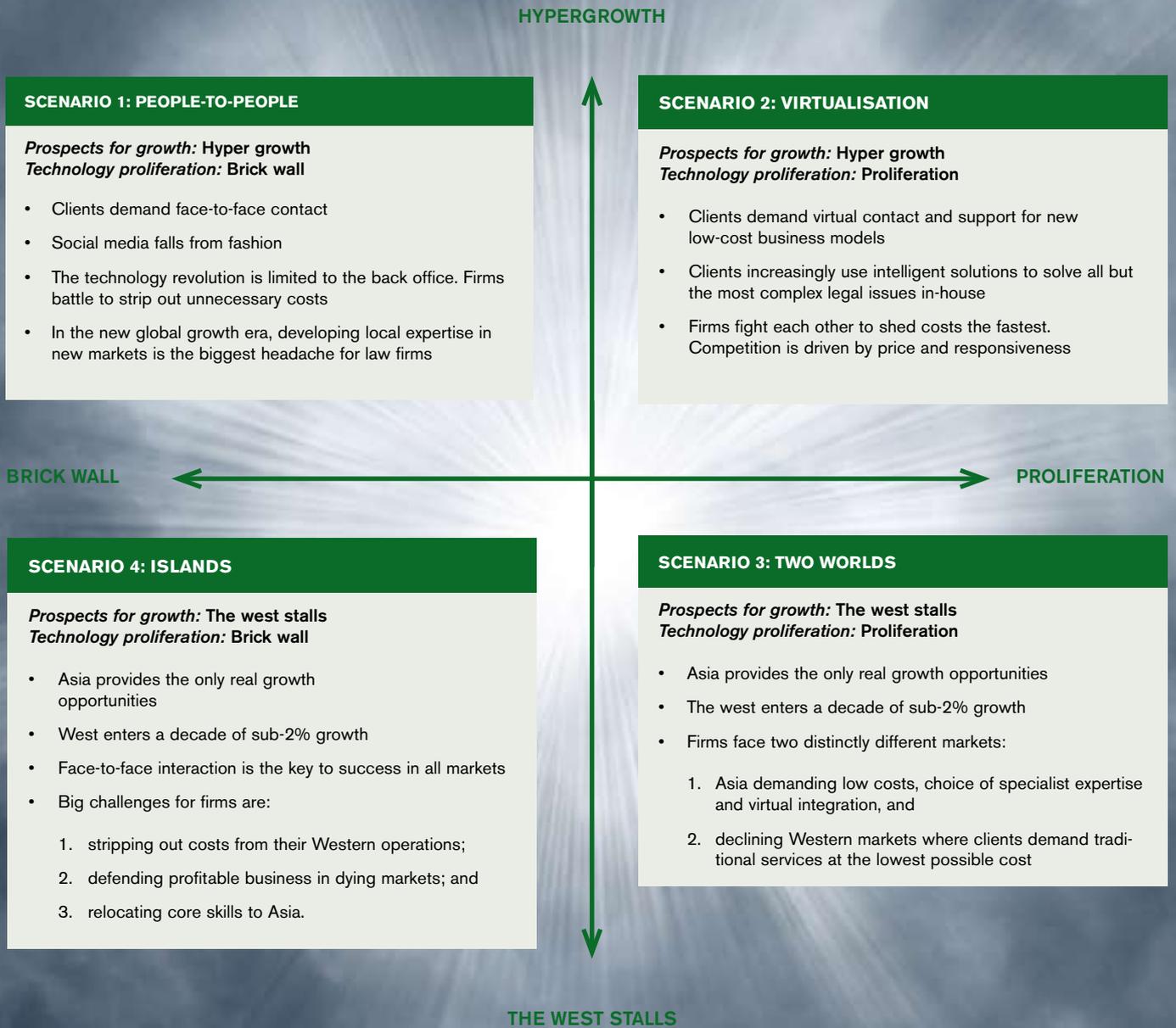


Figure 2: Scenario themes

Scenario question: How will technology reshape the global market for commercial legal services in 2021?



“Your management committee should consider a response strategy for each scenario”

SCENARIO PLANNING: THE BASICS

Scenario planning is not a substitute for business planning. It runs alongside established planning processes, but is different in at least four key ways.

- 1** Scenarios focus on uncertainties – issues that we do not fully understand. Traditional planning focuses upon certainties – the known and predictable.
- 2** Scenarios explore extremities, outside conventional ways of thinking about business and the world.
- 3** Scenarios examine multiple futures, typically between two to four, not just one.
- 4** Scenarios describe the future in qualitative, not quantitative terms. Some scenarios use quantitative projections, but using quantitative illustrations can introduce a feeling of certainty, when, in reality, none exists.

then grouped together into the super uncertainty prospects for growth.

Each of these two super uncertainties – technology proliferation and prospects for growth – can be thought of as a continuum. They will form the basis for the example scenarios.

The first super uncertainty, technology proliferation, runs from the brick wall (where new technologies become available only very slowly and clients shun change) through to proliferation (where technology is readily available and clients eagerly embrace it).

The second super uncertainty, prospects for growth, runs from the west stalls (reflecting a deep second recession) through to hyper growth (where the world enters a new era of unbounded growth).

The ends of these continua produce the themes for a set of four scenarios that together provide a 360-degree view of the future (see Figure 2 for an example). Each scenario deals with two sets of extremes – one drawn from each continuum.

Step 6: Build and communicate scenarios

The next step is to write up each of the scenarios. We need a story that unfolds in front of an audience that reveals the world as it could be in 2021.

The quickest way of doing this is to think about a description of the end state, as shown in Figure 2. Then, take an A3 sheet and divide it into rows: one for each of the PESTEL driving forces.

Put in the events that you are certain will occur. Then think of a maximum of three events that can act as catalysts for change of each of the chosen super uncertainties.

Think about how these events could ripple across into the other PESTEL driving forces to produce the end state. Ensure that the flow looks plausible, while exploring extremes. Make sure that there are no unexplained wild jumps.

You will then have a flowchart describing the events and outcomes that together produce the scenario's end state.

The team's next challenge is to communicate this and other scenarios in a captivating way to the management committee. Use an innovative approach. You could write the scenarios as magazine articles or even hire actors to present

short plays based on each scenario. Try to create surprises.

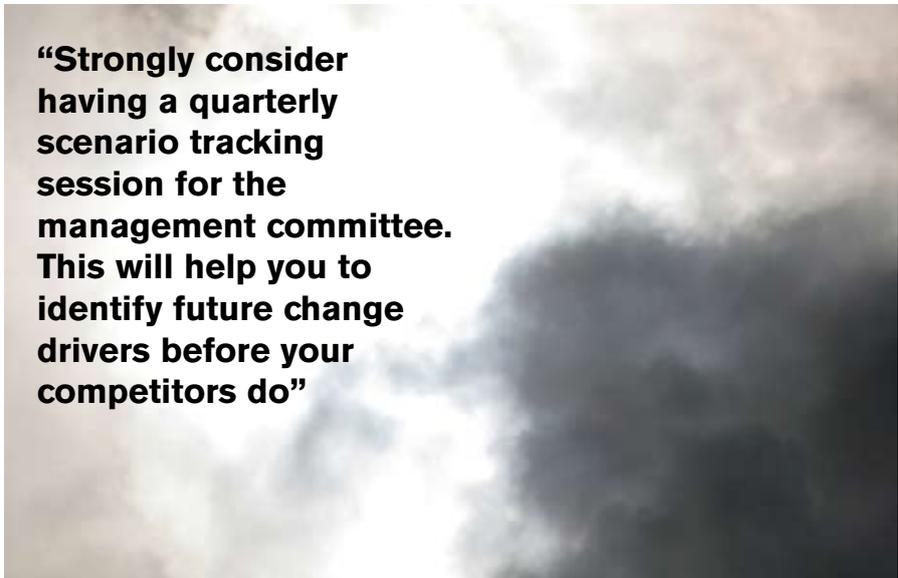
Step 7: Use the scenarios

It is essential that the scenarios are then put to good use. Here are three ways to use them.

- 1. 'What if?'** Shell famously used its scenarios to react quickly during the 1970s oil crisis. Your management committee should consider a response strategy for each scenario. Think too about what each scenario means in terms of your firm's innovations.
- 2. Robustness.** An examination of each of the response strategies will reveal common actions and implications. Ensure that these findings are incorporated into your firm's ongoing business strategy to increase robustness. Use the findings to research the new unfolding world.
- 3. Tracking.** A set of scenarios makes it a lot easier to track and make sense of disparate events on the world stage (such as the launch of new mobile networks, slowing growth in the UK and the crisis in Libya). Strongly consider having a quarterly scenario tracking session for the management committee. This will help you to identify future change drivers before your competitors do.

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