

Scenario planning after 9/11: managing the impact of a catastrophic event

Peter Kennedy, Charles Perrottet and Charles Thomas

Charles Thomas, Peter Kennedy, and Charles Perrottet, all former senior practitioners at The Futures Group, Inc. have been part of the Strategy Practice of Deloitte Consulting for the past four years. They have recently formed their own firm in Connecticut – The Futures Strategy Group, LLC (pkennedy@futurestrat.com, cperrottet@futurestrat.com, and cthomas@futurestrat.com)



For the last year, line managers and planners have been wrestling with a serious and potentially paralyzing dilemma: the extent to which corporate plans, strategies and short-term actions need to incorporate the events of September 11, 2001. As they ponder, many corporate executives, still smarting from the dot-com meltdown and ensuing recession, have deferred important decisions because of turbulence and potential risk still playing out in the marketplace. This is an understandable reaction, yet dangerous in the extreme, for it could be years before world events and markets return to anything resembling the robustness and relative predictability of the 1990s.

Managers need a framework for dealing with various kinds of risk and uncertainty that will continue to confront corporate decision makers as the 9/11 event plays out over the following months and years. It's important to put this process in place now because the lessons learned from coping with the current situation will be applicable to future events that have yet to occur. In the year and a half since terrorists destroyed the World Trade Center towers and set fire to the Pentagon, we have worked with many executives grappling with the short-, medium- and long-term decisions that have to be made in one of the most unsettling and confusing business environments since the Depression. Our own observations and the experiences of our clients point to the need to support both very short-term tactical thinking and long-term planning with a "futures" methodology that contemplates multiple alternative backdrops to decision-making.

We conclude that scenario planning can – and should – inform decision-making at each point along the decision spectrum, from short-term/tactical to long-term/strategic. We suggest an innovative scenario process, one that provides business continuity planning and medium-term operational planning with a more rigorous analytical grounding, but without overburdening the process with excessive and ultimately counter-productive complexity. In the first two of the three mini-case examples that follow, we show how the scenario process was modified to meet the more immediate operational challenges following 9/11. The third mini-case highlights a 1998/1999 scenario-based planning process that effectively contemplated the kind of external threat that the 9/11 terrorist acts have now come to characterize. (*Editor's note:* Readers new to scenario planning might want to read

case three first. It demonstrates a “classic” use of scenario planning for long-term strategy. The other two cases are innovations on this basic technique.)

Pervasive 9/11 effects

The aftermath of the 9/11 attack has been neither brief nor transitory. A year and a half later we see direct and indirect evidence of how the event continues to affect and shape the business environment. Because of 9/11, for example:

- The airline industry is, metaphorically speaking, on its knees.
- Military spending is on the rise and an entire new industry formed around “homeland security” has been born.
- Consumer and investor confidence have been seriously shaken – even more so now after the Enron and the Wall Street scandals.
- Security controls affecting cargo, shipping and logistics threaten to disturb or complicate supply chains, globally.
- Heightened and pervasive uncertainty over domestic security and war, combined with mounting US federal deficits, could lead to a 1970s-like period of prolonged economic stagnation.

For managers and planners, the important question is how to think about 9/11 – the totality of the phenomena, not merely that day’s event – in the course of developing strategy, making business plans and executing day-to-day operations. One can argue that 9/11 could turn out to be one of those “redefining events”, like the 1973 OPEC oil embargo, that has a profound and enduring impact on society, markets and the overall business environment. Alternatively, it is possible to imagine 9/11 as only a horrific event that mobilizes governments and society in the short term but fades in importance, perhaps because homeland security provisions make possible a significant return to normalcy or alternatively because even worse conditions take center stage.

Trying to anticipate one of these extremes or the other is a phony choice. Indeed, the truly agile business planner or strategist should *always* contemplate the broadest possible, yet plausible, range of future business conditions and assume the inevitability and unpredictability of change. That said, there is a real and practical need for a focused and balanced integration of “9/11 thinking” into decision-making at each stage in the decision-making process, from the very short-term and tactical, to the long-term and the strategic.

Innovations around scenario planning

Traditional scenario planning is extremely effective in working through uncertainties, probing conventional wisdoms, and exposing faulty assumptions inherent in even the most expansive planning exercises. The post-9/11 world screams out for this kind of treatment, if for no other reason that so much is still unknown. And yet, at the same time, the actual 9/11 events are not speculative; they happened and other terrorist-inspired events could happen again, almost anywhere, on a frighteningly large scale. For many companies then the need is not to simply dress rehearse big disruptive events, but actually assume one or more will occur and have ironclad continuity plans in place.

This unfortunate reality suggests a different kind of scenario planning approach. We have introduced alternative scenario-based tools to respond to this specific need for continuity assurance and near-term operations planning. As the following cases show,



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we divided our clients' needs into three areas: business continuity planning, near-term operations planning, and strategic planning. For business continuity planning (with its tactical decision focus) our clients found that a tightly focused set of scenarios using a very simple two-by-two scenario space matrix (only four possible scenarios) worked well. This was because the client's prime concern was being prepared for specific exogenous events – not anticipation of entire alternative business environments, as is typically the case in classic strategy-oriented scenario planning. Similarly, for operations planning, we found that a three-dimension matrix was adequate, but the focus shifted from the “event” to the range of plausible outcomes that follow the event. Finally, within the context of strategic planning, we have found that our standard process (and four to five dimensions) has stood the test of time.

Exhibit 1 summarizes and compares the three types of planning. Note the contrast between the relatively simple scenario framework for business continuity planning, where the focus tends to be very short-term and on specific event anticipation, versus scenario-based strategy, where the timeframe is longer, complexity is greater and therefore more rather than fewer scenario dimensions are typically used. Essentially, the dimensions represent the critical, high-level defining features of the scenario uncertainty space. The more dimensions used, the wider the angle of the scenario lens. And the further out in time one plans, the wider the lens one should use.

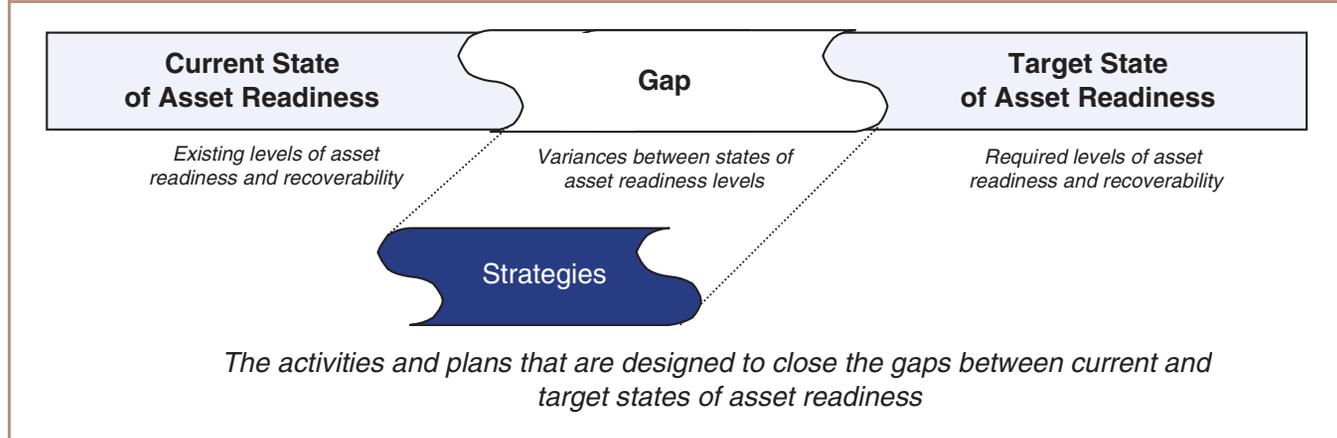
Case one: business continuity planning (BCP)

Across industries, there is heightened concern and urgency around business continuity in the wake of the September 11 terrorist attacks. And this is perhaps most true in the Wall Street-based financial service sector, which on that day lost many hundreds of experienced, talented people and suffered paralyzing disruptions in operations.

In the aftermath of that tragedy, the management of one leading global financial services firm committed to a process of identifying and remedying gaps in the

Exhibit 1 Three types of planning				
<i>Planning need</i>	<i>Scenario type</i>	<i>Scenario focus</i>	<i>Decision focus</i>	<i>Project time</i>
Business continuity	Two dimensions	Tactical; many key drivers are business model and “event” focused	Actions taken within near and medium term to ensure business continuity	Approximately 6 weeks
One-to three year operations planning	Three dimensions	Business and Industry-model focus with moderate examination of external drivers, especially those affecting reactions	Actions and plans taken to compensate for the political and economic aftermath of “an event” and the national and global reactions that followed	Approximately 6 weeks
Strategy	Four or more dimensions	The external drivers outside of client control, with relatively little attention to specific events	Develop new business model and strategies that are robust no matter how the future unfolds	4 to 6 months

Exhibit 2 Gaps in readiness and remedial steps



recoverability of its key assets. They decided that the best way to ensure truly “robust” BCP was by adopting a scenario-based approach. In essence, this meant driving toward a set of BCP strategies that was tested across a range of market environments.

The initial discovery phase of the engagement was a detailed evaluation of vulnerabilities across all asset categories in each of the firm’s major operating groups. A client-consultant team assessed risks and exposures in facilities location, business partners, technology, human resources, and vital records. Gaps were identified between target states of readiness and actual preparedness. These gaps were the subject of separate strategy workshops in New York and London.

The essential goal of the workshops was to develop strategies that would close unacceptable asset recovery gaps. To ensure creative and rigorous thinking, the team developed two very different business-environment backdrops against which workshop participants devised BCP solutions. Each of these two scenarios characterized essential financial service industry conditions and events from 2002 to 2004. One scenario included a return to relatively healthy market conditions with no new significant government intervention. The other scenario described a world with challenged markets, increasing governmental intrusion in financial services, and global conflict and instability.

Intentionally, the financial services firm limited the range of structural variability in the scenario set. The scenario “uncertainty” space was kept at a very high level, focusing mostly on underlying equity market growth and stability and government regulations. The very short-term nature of the planning task required that external complexity be limited and manageable.

Importantly, however, “wildcard” events that represented direct threats to the continuity of the firm’s operations were explicitly played out. The potential for natural

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(hurricane) and man-made (terrorist) disasters was present in each of the two scenarios. And indeed, the final stage of the BCP workshops was to stress test scenario-contingent BCP strategies against a range of different “shocks” that could directly affect operations.

Workshop participants in New York and then in London wrestled with both the challenges of the future business environments and the impacts of specific shocks. The draft strategies that emerged are, understandably, confidential to the client. At a high level, the scenario-based BCP process yielded the following value for the client:

- Confirmation around a set of “must do” actions that could be accomplished with acceptable costs and manageable disruption.
- Greater understanding of costs and trade-offs associated with more complex and potentially far-reaching decisions around, for example, facilities location, business relationships and alliances.
- The start of an important internal dialogue among the firm’s executives, business heads and business continuity managers with respect to BCP goals and priorities going forward.

Case two: medium term operational planning

A professional services firm in the weeks that followed 9/11 wanted to evaluate the plausible range of impacts on their business and operations as the US and the world decided on a course of action (whether successful, or not) and terrorist groups responded further. This firm had used scenario planning for its strategic planning in the past. Their requirements were that: (1) this exercise had to be done quickly – in a month and a half; (2) the focus had to be operational – affecting one to three year decisions; and (3) the creativity and rigor of scenario planning, as they had experienced it in the past, had to be preserved.

As with BCP, we again modified our standard approach to scenario planning. Some things remained constant, however. The critical defining features (“dimensions”) of the planning space remained factors outside of client control. The focus of the strategy effort was on how future customer demands would shift and change in the scenarios and how the regulatory environment might alter. In other words, like all good scenarios, these were still to focus on future market demands and constraints.

Some aspects of our approach were customized. First, to shorten and simplify the scenario selection process, we used only three dimensions (rather than the more sophisticated, but complex use of four or more). Thus the client had only eight possible scenarios from which to choose. Second, and more radical, we focused the scenarios and business drivers on near-term issues under the assumption that the fundamentals of the global business environment would not shift dramatically in the next few years. For long-term scenario practitioners, this was a difficult step. However, the client made clear that, while they valued scenario planning for its ability to provide solutions to the full range of future uncertainties, *this* exercise was not about that. They wanted guidance about market dynamics and the required operational changes that would result from variations on successes or failures in homeland security and the war on terrorism. While not as focused or tactical as business continuity, this planning activity was to be far more tightly targeted than a scenario-based strategy process.

Exhibit 3 Global services scenario space: post 9/11 3-year horizon

	<i>Economic dislocation</i>		<i>Perceived security threat</i>		<i>Barriers to US commerce</i>	
	<i>Limited</i>	<i>Extreme</i>	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
New normalcy	X		X		X	
	X		X			X
Water torture	X			X	X	
	X			X		X
		X	X		X	
Pyrrhic victory		X	X			X
		X		X	X	
Enduring conflict		X		X		X

The goal of the project was to gain insight into three critical aspects of the firm's business model in the aftermath of 9/11:

- New services their clients would need.
- Existing services that should be strengthened, altered or abandoned.
- New service delivery models (possibly requiring a major re-engineering of service delivery).

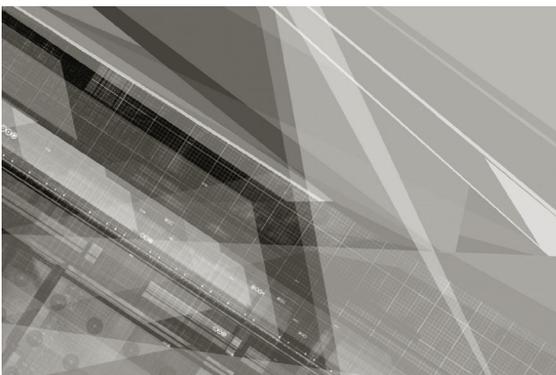
The interview and research phase was very brief for four reasons:

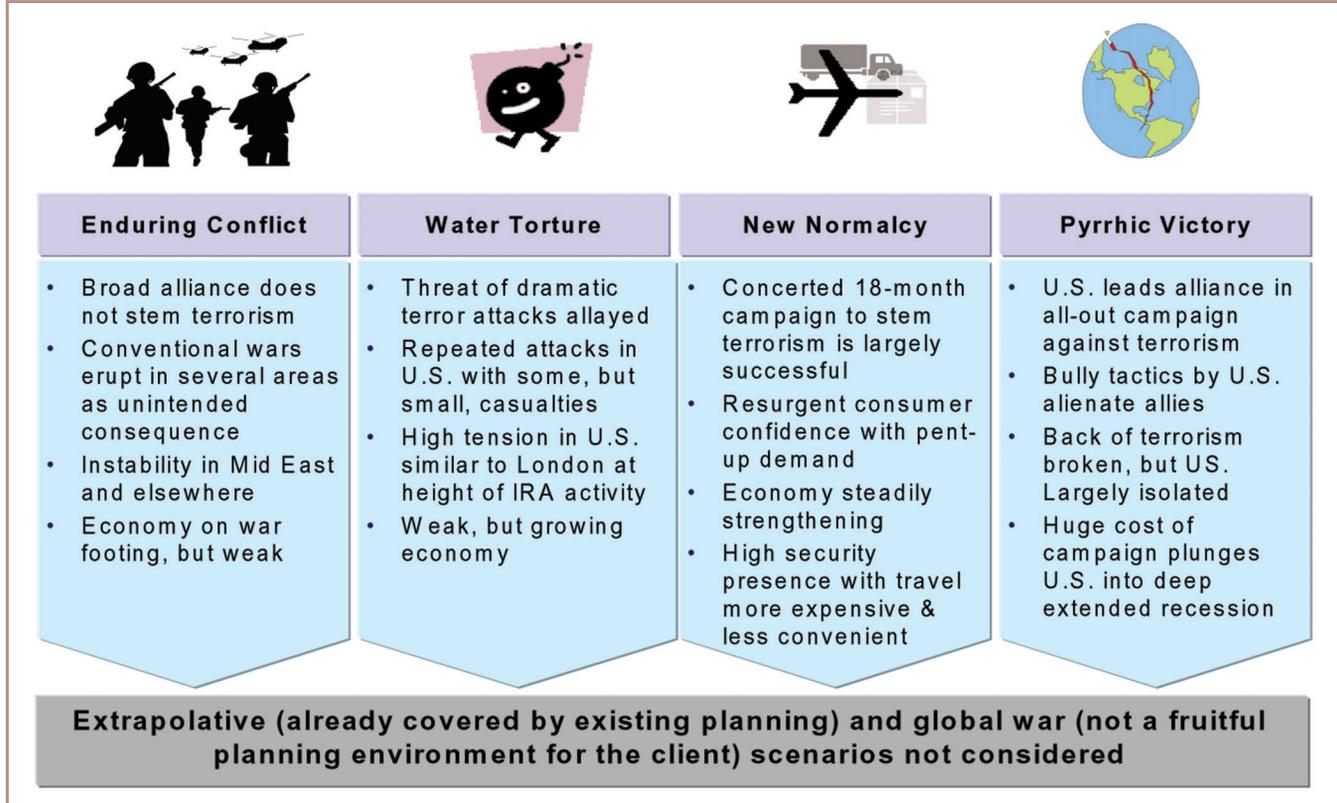
- (1) We knew the firm and its current strategies very well.
- (2) We had recently completed extensive scenario planning work for part of the Intelligence Community and were quite familiar with emerging national security issues.
- (3) We had completed scenario planning work for the US Coast Guard two years previous where both terrorism and issues of homeland security had received significant focus.
- (4) The client was already well versed in scenario planning.

Business driver identification was more focused than is typical and resulted in a list of about 75 business drivers, rather than a more typical number such as 300 (plus). Only about 30 of those drivers eventually made it into the scenario development matrix. All 75 drivers, however, contributed to the synthesis process that gave us three defining dimensions for the client's scenario planning space (see Exhibit 3). Those dimensions were: economic dislocation, perceived security threats, and barriers to global commerce.

The four named scenarios above are those selected by the client for planning purposes. It is worth remembering that these scenarios (and this matrix) were not chosen or designed to capture the full range of threats and opportunities for the client's business. They were focused on helping the client think about the impacts of the potential 9/11 aftermaths on their clients needs and their competitive position. A brief summary is shown in Exhibit 4.

The work done here helped this global services firm stress test their existing strategies against a narrowly defined overlay of additional environmental uncertainties. They looked for, and found, new opportunities as well as new vulnerabilities. Outcomes fell into three broad categories. First, our client identified three new service offerings that





their clients would need in the few years following 9/11 and the range of aftermaths that were considered. Second, our client redesigned the way the firm would staff some types of projects. (For example, hypothetical regional project management and staffing models were devised in anticipation of future restrictions in air travel.) Third, a new higher priority was assigned to one of the robust strategies from their original scenario planning work (on the strategic level). The results of the “9/11 exercise” highlighted the enduring (but more urgent) utility of that strategy.

Case three: strategic horizon

Scenario planning was developed classically to help handle the ambiguities and uncertainties of planning over a strategic time horizon. It is not about prediction; it is not about “the certainty” that events will happen nor is it about specific preparations for any event. It is about managing the range of uncertainty to be faced and the strategies you can put into place that will provide competitive advantage no matter what specific events unfold. In short, the twin goals of scenario planning are opportunity identification and risk mitigation.

The measure of success in preparing for massively discontinuous events in a strategic setting, therefore, lies in the ability of scenario planning to anticipate the impact of such disruptive events (as a class) within the larger context of all the forces for change acting within future operating environments. How is that to be done?

While there are many steps to building scenarios that will help one anticipate future market needs or missions, the critical point in the process is selecting the dimensions or boundary conditions of the planning space. Dimensions are the parameters of

one's future operating environment, the elements of future uncertainty the planner cares most about. For example, a manufacturer and marketer of infant products seeking insight into long-term market needs will want to know about future economic growth, in the US and beyond, as well as some indication of household income. This planner will also want to know about fertility trends. Insight into future distribution models might be important, as well as trade relationships and supply chain trends. These are all examples of potential dimensions. If you do not get the dimensions right, you might as well stop the process until you do. Unfortunately, the critical judgment about whether or not one has them right is not subject to rules and categories. The dimensions and the variability one chooses for them are a matter of creativity and judgment – the inventiveness and business (mission) judgment of the client project team and the creativity and experience of the consultant.

As a case example we often draw on work done for the federal government because it is a matter of public record and most details of the project do not violate client confidentiality (as they would for our private sector clients). The lessons apply to the private sector; it is just the dimensions themselves that change. Three years ago we supported the US Coast Guard in developing and using scenarios for very long range strategic planning for their Long View Project[1]. After two months of client-consultant research, interviews and workshops, we developed a scenario space from the following dimensions:

- Role of the federal government in US society.
- US economic vitality.
- Perceived threats to US society.
- Demand for maritime services.

The USCG scenario space, from which the Coast Guard chose five scenarios, is illustrated in Exhibit 5.

From these scenarios, the Coast Guard developed ten basic strategies that would be effective in all five future operating environments. The fourth strategy was “Acquire full

Exhibit 5 USCG long view scenario planning space								
	Role of federal government		US economic vitality		Perceived threats to USA		Demand for maritime services	
	Limited	Substantial	Weak	Strong	Low	High	Low	High
Balkanized America Planet enterprise	X		X		X		X	
	X		X		X			X
	X		X			X	X	
	X		X			X	X	
	X			X	X		X	X
	X			X	X		X	X
	X			X	X		X	X
Taking on water		X	X		X		X	
		X	X		X		X	
		X	X			X	X	X
Pax Americana				X	X			X
Pan American highway				X		X	X	X

maritime domain awareness”. Specifically, this set as a goal for the Coast Guard the ability to acquire, track, and identify in real time any vessel or aircraft entering America’s maritime domain. Within two years, then-Commandant James Loy and Captain Bob Ross wrote a paper highlighting this particular strategy and placing it at the center of US Coast Guard’s strategic intentions. Maritime domain awareness (MDA) turned out to be highly relevant for USCG decision making both before and after 9/11.

This is an example of how strategic scenarios are supposed to help anticipate large discontinuous events. The Coast Guard chose their scenario space successfully and developed the specific scenarios fully. The result was a set of strategies (like MDA) that heightened their preparedness for the tragic events of 9/11 and proved well suited to the new and demanding mission priorities set for the USCG in an era of heightened border and port security in the aftermath of the attack.

Observations on scenario planning as a strategic and operational tool

For planners and strategists, a common consequence of a major shock event like 9/11 is loss of perspective. The tendency to over-estimate impacts in the short-term and under-estimate (or even ignore) impacts once the immediate shock recedes is common. And yet achieving and maintaining a sense of balance in perspective is critical – all the more so with every indication that the world is headed into a prolonged period of acute turmoil and uncertainty.

We have long known that scenario planning is an effective and powerful strategy tool for dealing with long-term uncertainty. The Coast Guard example depicts a classic use of scenarios that enabled an extraordinary degree of preparedness for the events and aftermath of 9/11. While the actual 9/11 events were not, of course, predicted in the Coast Guard scenario set, a range of terrorist and homeland security threats were explored across multiple scenario worlds. This informed the ultimate scenarios that were developed and the resulting strategies, which continue in large part to be followed by the Service. It is worth noting that of all the major US federal services involved in the 9/11 response operation, the Coast Guard was singled out for its agility and preparedness.

The scenarios developed for the financial services firm and the professional services company break with classic scenario planning practices in that the uncertainty space was intentionally constrained and the outputs from the process more focused. Neither firm sought long-term, fundamental changes in strategic direction. Yet both firms recognized that assumptions around the business environment into which they were heading were important. The financial services company built its Business Continuity Plans on the basis of a highly simplified two-scenario set, but stress tested its recovery strategies with relevant and plausible wild-card events. The professional services company in case two leveraged a classic scenario-based plan by working critical operational issues through four more narrowly focused business environments to

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ensure maximum preparedness for challenges to employee mobility, project management and new business development.

In both cases, even with weighty and pressing operational agendas, the process of examining alternative assumptions and planning backdrops proved fruitful. Scenario planning brought a larger pool of executives into the decision-making process than would typically be the case and as a result plans and actions were more carefully developed. Finally, we observed that for all these reasons the scenario experience engendered significant confidence in planning outcomes, contributing important clarity and energy to subsequent implementation tasks.

We conclude that scenario planning offers not only long-term direction to the business strategists, but also guidance and support to a range of operational decisions. In fact, scenarios can greatly enhance operational efficiency by confronting ambiguity head-on and forging critical alignment around big issues. While the classic scenario building and strategy development processes need to be re-scoped and in other ways altered to meet a different set of outcomes, the added rigor and creativity that scenario planning brings is essential for executive preparedness in the face of unknowable shocks and crises. This is perhaps the best safeguard against “failures of imagination”.

Note

1. This project enjoyed the active participation of Admiral James Loy, then Commandant of the USCG, and was supervised by Captain Joel Whitehead who assembled the key requirement of a successful scenario planning project - a gifted and hard-working core team.

