

NCAP Webinar

Fuzzy Futures

Managing Uncertainty with Scenario Planning

Nonprofit Risk Management Center

Find the answer here | nonprofitrisk.org

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Session Overview

- What is Scenario Planning?
- Why is it relevant to Community Action Agencies? Why now?
- Scenario Planning Basics and Insights
- Closing Thoughts and Takeaways

What is Scenario Planning?

- "Scenario planning is a strategic planning method to **develop flexible plans, based on external or internal forces**, by generating critical "what-if" situations and designing response options to mitigate or adapt to the situation."

  – Georgia Center for Nonprofits

- "[Scenario planning] offers a way to frame the discussion about hypothetical future business scenarios — and helps business leaders to **identify future uncertainties and develop suitable action plans to respond to change and capture opportunity**... Scenarios are compelling descriptions of possible futures — not necessarily the most probable ones, but plausible, coherent and substantially different ones."

  - Gartner



Why is Scenario Planning relevant to CAAs? Why now?

- The global pandemic reminded all of us that we don't necessarily control our destiny.

- "Most of us have experienced economic downturns before. None of us has ever seen such a complicated and intertwined set of factors driving a public health emergency of this magnitude — let alone the resulting economic crisis. In this environment, traditional forecasting can only take us so far.... We're in a unique landscape here, way off the map."

  – PWC, "Ready and Resilient: using scenarios to prepare for what's ahead"

Why is Scenario Planning relevant to CAAs? Why now?

- "..by anticipating different possibilities for the future, you can sleep well knowing things will be taken care of no matter what happens."

- "with the anticipation approach... you are more likely to actually seek out evidence that contradicts your current view of the world, meaning you are much less likely to be blindsided.... If you are predicting a single path to the future you are also more likely to miss unexpected opportunities...." — Randy Park, *The Prediction Trap*

Scenario Planning Basics and Insights

There are many ways to do scenario planning!

- **BRIDGESPAN:** Best, Moderate, and Worst-case scenarios anchored in ‘key drivers’
- **GA Center for Nonprofits:** Trends, Indicators, Impacts, Options
- **PWC:** Drivers, Options, Baseline Scenarios, Key Questions
- **Gartner:** Focus Issue, 2 Critical External Uncertainties, Extremes, Strategic Options for 4 Scenarios, Drivers

Bridgespan: Key Drivers + Best, Moderate and Worst-Case Scenarios

- ID drivers of “economics” and “impact”: programs, operations, funding
- Develop best, moderate and worst-case scenarios
  - ID external factors that impact your organization
  - ID impact of the external factors on the key drivers
  - Create a portfolio of actions
  - Determine key trigger points



Fillable worksheets:
https://www.bridgespan.org/bridgespan/Images/articles/nonprofit-scenario-planning/nonprofit-scenario-planning-covid-19-toolkit-pdf-editable.pdf

Step 1 Example: Identify key drivers at risk

Identify drivers of organization economics and impact			Level of importance*	Level of risk
Programs	List drivers of programmatic impact	• School contracts/partnerships	Low / Med / **(High)**	Low / Med / **(High)**
		• Students served per school	Low / Med / **High**	Low / **Med** / High
		• Mentor capacity	Low / Med / **High**	**Low** / Med / High
		• How services are delivered (i.e., in person)	Low / Med / **(High)**	Low / Med / **(High)**
Operations	List drivers of organization operations	• Mentor recruitment	Low / **Med** / High	Low / **Med** / High
		• Mentor training and support	Low / Med / **(High)**	Low / Med / **(High)**
		• Occupancy costs (office rent/utilities)	**Low** / Med / High	**Low** / Med / High
		• Central office support/administration	Low / **Med** / High	**Low** / Med / High
Funding	List drivers of organization revenue	• School contracts (60% of total revenue)	Low / Med / **(High)**	Low / Med / **(High)**
		• Corporate grants (30% of total revenue)	Low / Med / **(High)**	Low / Med / **(High)**
		• Foundation grants (10% of total revenue)	**Low** / Med / High	**Low** / Med / High

*Level of importance in this context refers to the driver's contribution to your organization's economics (e.g., percentage of revenue or expenses) and/or your mission (e.g., role in achieving target outcomes).

Step 2 Example: Develop and model scenarios

External factors that directly impact our organization	Best case	Moderate case	Worst case
Pace of economic recovery	• Sharp Q2 contraction, followed by quick economic recovery	• Repressed economic activity for up to a year, returning to normal levels in early 2021	• Prolonged recession through 2021 or beyond
School closures as mandated by government	• Schools reopen on time for 2020/21 school year	• Schools reopen in mid- 2020/21 school year	• Schools reopen for the 2021/22 school year

Key drivers at risk from Step 1		Best case	Moderate case	Worst case
Programs	School contracts/ partnerships	• 1 of 10 school contracts/ partnerships terminated	• 3 of 10 school contracts/ partnerships terminated	• 4 of 10 school contracts/ partnerships terminated
	Service delivery model	←	• Shift to virtual service delivery until schools reopen	→
Operations	Mentor training and support	←	• Shift to virtual training and support until schools reopen	→
Funding	School contracts	• School contract funding decreases 10%	• School contract funding decreases 30%	• School contract funding decreases 40%
	Corporate grants	• Corporate funding decreases 15%	• Corporate funding decreases 25%	• Corporate funding decreases 35%

Step 3: Create a portfolio of actions

Develop a set of potential actions that would enable your organization to successfully manage against each scenario, preserving both your financial viability and your ability to deliver impact. Actions typically fall into one of three categories: (1) appropriate for any scenario, (2) smaller-scale and more flexible, (3) larger and more permanent. As you identify potential actions, weigh the pros and cons of each and ensure they fall in line with any guiding decision principles agreed upon by your leadership team. Most of these actions will likely have some economic cost or benefit. Quantify the potential costs incurred and/or savings achieved for each action (over the time horizon the action would be implemented), and then calculate the total estimated costs incurred or savings achieved by each set of actions for your best-, moderate-, and worst-case scenarios.

_____ Case Scenario (create one action plan for each scenario; 'appropriate for any scenario' will be the same in each)

Category	Definition	Actions	Estimated Cost (+ or -)
Appropriate for any scenario	Actions that will positively affect the organization's ability to deliver impact and financial position under any future scenario	• E.g., Eliminate discretionary budget expenses—conference fees, travel, office supplies, etc.	$ 0.00
		•	$ 0.00
		•	$ 0.00
		•	$ 0.00
Smaller-scale and more flexible	Smaller-scale, flexible investments or cost reduction measures that can be executed quickly (and reversed) if various scenarios come to fruition	• E.g., Reduce executive-level salaries by XX%	$ 0.00
		•	$ 0.00
		•	$ 0.00
		•	$ 0.00
Larger and more permanent	Large-scale investments or cost reduction measures that may be more permanent in nature	• E.g., Layoff nonessential staff	$ 0.00
		•	$ 0.00
		•	$ 0.00
		•	$ 0.00
		Total estimated costs incurred or savings achieved	$ 0.00

Step 4: Determine key trigger points

Many of the potential actions outlined for each scenario in Step 3 (with the exception of 'appropriate for any scenario') will only make sense under certain circumstances. Determine concrete and measurable trigger points for each action in the 'smaller-scale and more flexible' or 'larger and more permanent' categories. Some actions you outline may be relevant across different scenarios. Likewise, you many find that one trigger (e.g., extension of shelter-in-place restrictions) is the best gauge for multiple actions. This worksheet will help consolidate your list of potential actions and related trigger points, serving as a dashboard for your leadership team to support continuous monitoring and rapid decision making as circumstances evolve.

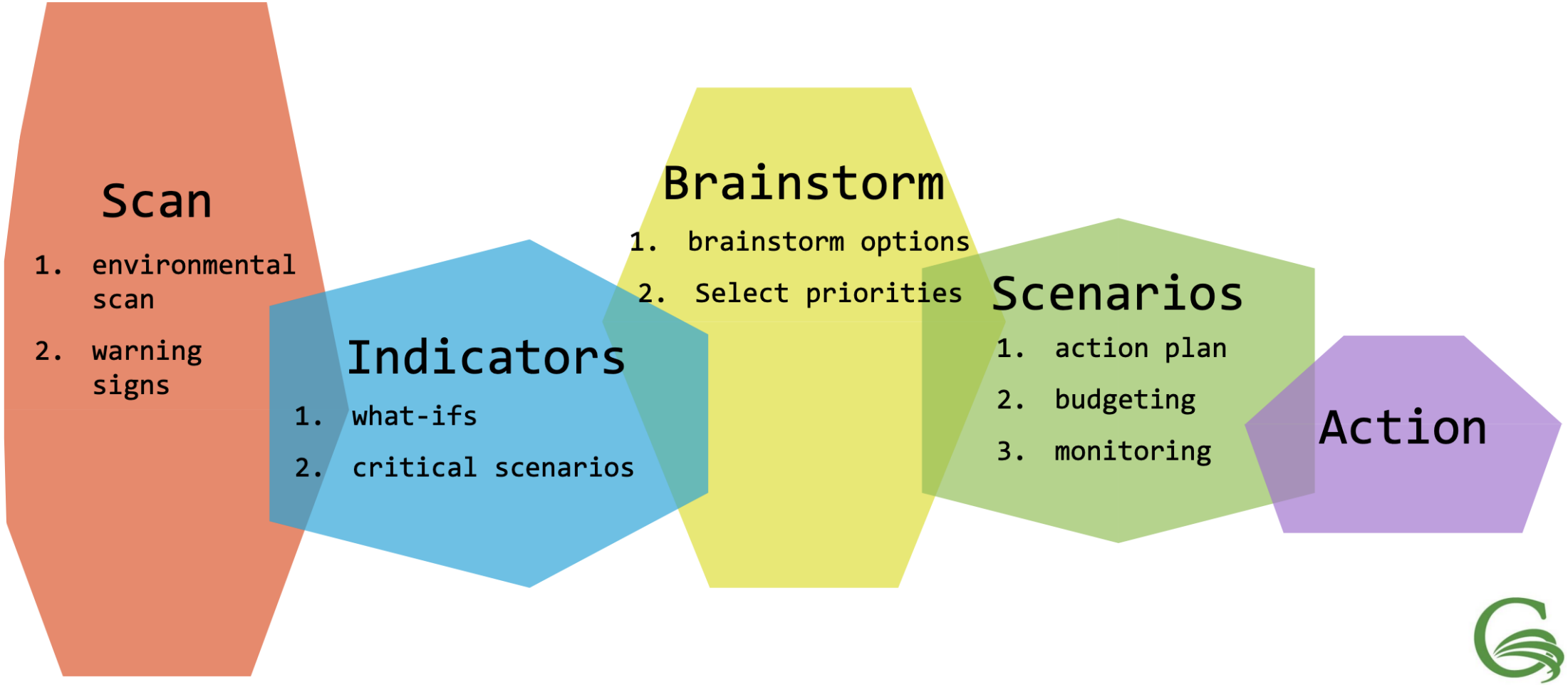
Actions	Scenarios			Key trigger points (to prompt action at the right time)
	Best Case	Moderate Case	Worst Case	
• E.g., Reduce executive-level salaries XX%				• E.g., Total projected organization revenue falls XX% below budget
•				•
•				•
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Georgia Center for Nonprofits

- **Identify trends** that are impacting your organization's clients, services, funding ("environmental scan").
- **Identify knowable unknowns** related to those trends.
- Draft **5 Key Indicators and thresholds** that would necessitate a response (e.g., 20% drop in enrollment).
- **Define the potential impact** of the indicators materializing.
- **Brainstorm possible options to adapt** to the event or change.
- Identify the **most viable response** from the list of options.
- **Create an Action Plan**: outcomes, objectives, tasks, timeline, resources.

Scenario Planning Process

Adapting the classic design thinking flow, we'll identify scenarios by broadly assessing the environment, narrowing in on the most critical scenarios, brainstorming response options, and developing specific strategic response.



PwC Approach

- Choose ‘drivers” that will impact your operating environment.
- Use best-case, moderate, and worst-case options.
- Develop baseline scenarios that represent a unique combination of drivers.
- Identify the relevant follow-up questions you need to ask and answer.

www.pwc.com

SOURCE: https://www.pwc.com/us/en/library/covid-19/pdf/pwc-wave-3-covid-scenario-planning-pdf-v4.pdf

Scenario drivers

We're watching six scenario drivers that we think will impact the operating environment early into 2021. In our view, these interconnected factors will, together, shape the future. Each driver has three possible outcomes, as shown below.

	Unsuccessful	Mixed results	Successful
Testing and social distancing	Testing supplies and/or quality is low throughout the crisis; distancing is willfully and regularly ignored.	Variable testing supply and reliability; distancing mostly holds, but there is willful ignorance of rules later in 2020.	Effective testing and distancing protocols flatten the curve, reducing COVID-19 impacts countrywide.
Supply chain resiliency	**Severe challenges** Supply chains are broken or severely curtailed for most companies, alternatives unavailable.	**Adjustments required** Many companies' supply chains are delayed or often unreliable, some alternatives are available.	**Functional** Supply chains hold, even amid some delays, and alternatives are more available as the year advances.
National/ local government response	**Insufficient** Governments are always playing catch-up to COVID-19. Cooperation is poor. Economic policy is scattered.	**Mixed results** Greater cooperation, but still regular disharmony. Economic policy is more advanced, but still lagging.	**Effective** Governance gets ahead of COVID-19, including prep for a second wave. Economic policy is timely.
Willingness of consumers to return to normal	**Shelter in place** Consumers maintain isolation for longer than needed, or expected, out of fear.	**Slow emergence** Many consumers take a cautious approach, maintaining many crisis behaviors for some time.	**Jailbreak** Long confinement leads to a rapid return to pre-COVID-19 activities, though consumers are careful.
Arrival of vaccine	**Late 2021** A vaccine becomes widely available late next year, lengthening economic and social impacts.	**Summer 2021** A vaccine becomes widely available mid next year, moderating economic and social impacts.	**Early 2021** A vaccine becomes widely available early next year, minimizing economic and social impacts.
Shape of economic recovery	**W-shaped** The economy starts to recover, then drops again following regional COVID-19 resurgences.	**U-shaped** The recovery is U-shaped, taking less time to recover but still severely impacting companies.	**V-shaped** The quickest recovery, sudden economic drops are mirrored by a steep rebound later in the year.

4 Moderate worst case scenario

Testing and social distancing
Supply chain resiliency
National/local government response
Willingness of consumers to return to normal
Arrival of vaccine
Shape of economic recovery

This scenario lays out a challenging environment for companies.

- Testing and social distancing are successful and lasting in some locations, but a plurality of jurisdictions nationwide are less careful with distancing, and testing shortfalls are not uncommon.
- Haphazard government responses throughout the crisis leave states unprepared for multiple spikes of COVID-19 cases through 2021, contributing to a W ed recovery, as offices again close and workers retreat to their homes.
- Supply chain certainty is low for many companies throughout this time, with many overseas suppliers either understaffed, closed or retooling. Alternative suppliers are hard — but not impossible — to find.
- Many consumers become attuned to sheltering in place. When a vaccine is released in summer 2021, many continue to restrict their movements.

Low Med High

2020 operating environment

Possible questions/decisions inspired by the above scenario:

- Should we restrict staff travel based on jurisdictional responses?
- Should we reopen ASAP but be prepared to close quickly, or remain closed until point X?
- Should we stock up on things we might need a year from now—if they are available now?
- Should we re-tool our policies to permit some staff to work-from-anywhere indefinitely?

SOURCE: https://www.pwc.com/us/en/library/covid-19/pdf/pwc-wave-3-covid-scenario-planning-pdf-v4.pdf



What should a functional leader know about enterprise scenario planning?

Understanding how disruption affects enterprise strategic and operational decisions helps functional leaders to make small but powerful changes to prepare their teams to act on the risk and opportunities that a time of flux can create. Enterprise scenario plan comprises five steps:

1. **Define your focal issue,** the most important planning question or consideration that you are uncertain about; e.g., how to succeed in a world disrupted by COVID-19.

2. **Identify the two most critical uncertainties among external forces that could affect the focal issue.** They must be independent from each other; e.g., duration of the combined economic and health crisis and extent of behavioral change.

3. **Identify the extremes of each uncertainty** and plot them on an x-axis and a y-axis to form a quadrant (see Page 11). Describe each quadrant to create four separate plausible future stories.

4. **Develop strategic options** for each of the four scenarios. Prioritize and decide which to pursue, assessing the risks and opportunities in each.

5. **Establish drivers for each uncertainty** and identify and monitor signposts that reveal which quadrants are emerging, then take relevant actions.

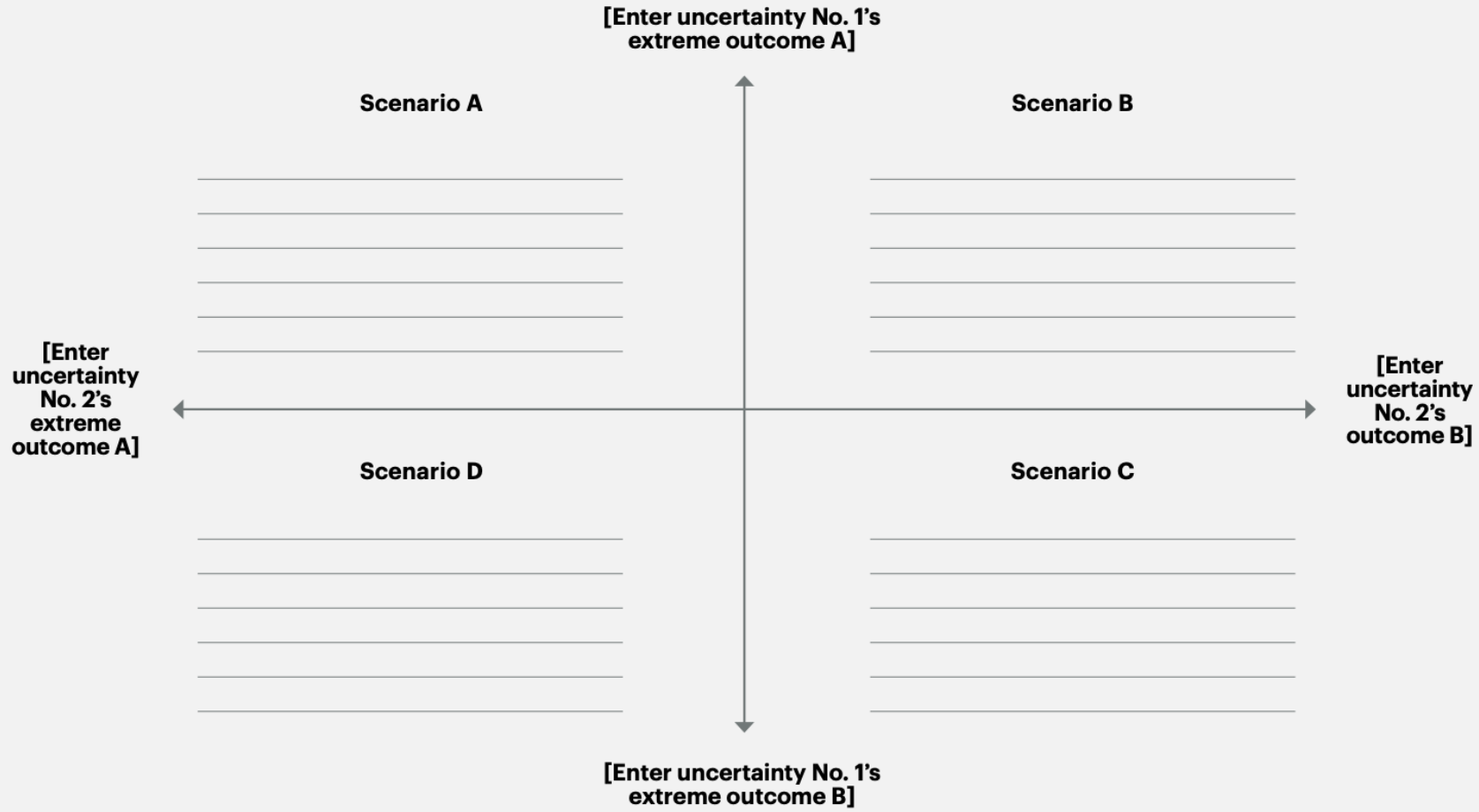
SOURCE: PWC

Scenario Planning Template

Instructions

Write the extreme outcomes of each uncertainty on the two ends of the axes.

For each quadrant, analyze how the two extreme uncertainties' outcomes will interact when considered simultaneously, within the context of the likely truths identified.



SOURCE: PWC

Scenario Development: Illustration

Write the extreme outcomes of each uncertainty on the two ends of the axes.

Availability of tech-inspired solutions
Automation & Telemetrics (etc.)

Public support for your cause
Support is Shrinking

Public support for your cause
Support is Growing

Availability of tech-inspired solutions
No automation, paper processes (etc.)

Scenario A
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum

Scenario B
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum
- Lorem ipsum

Scenario D
- Lorem ipsum
- Lorem ipsum
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Scenario C
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Write the scenarios based on how these two uncertainty outcomes interact, within the context of likely truths.

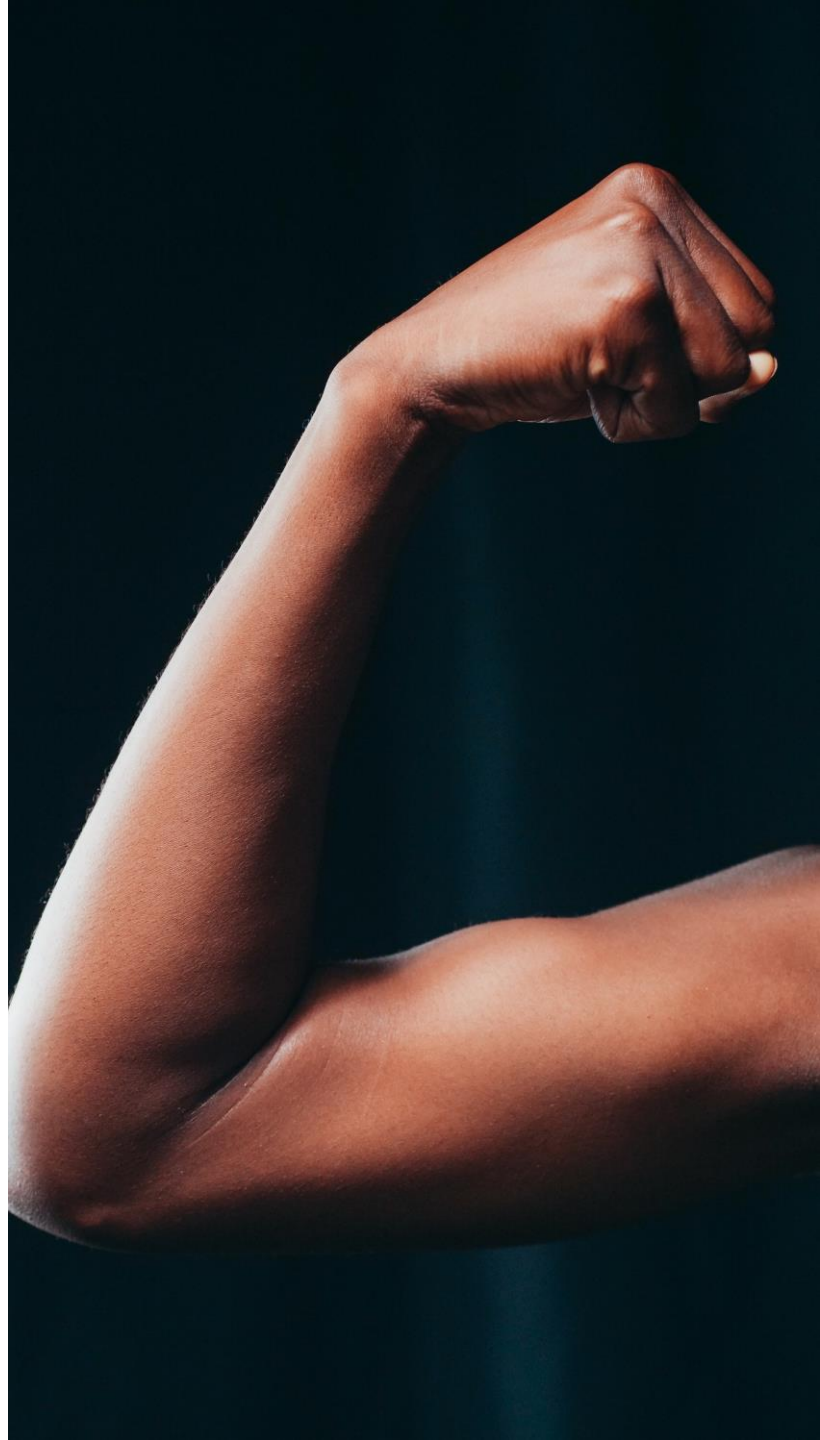
Specific scenarios come to fruition as uncertainties are resolved, making it clear which initiatives are most important and relevant and the actions a function must take to help the organization succeed in a changed environment.

Insights

McKinsey:

- use scenario planning frequently to build muscle memory
- don’t delegate scenario planning to junior teams unless you already have a high degree of psychological safety
- be wary of bias: availability, anchoring, neglecting low-probability events, and overconfidence

Overcoming Obstacles To Effective Scenario Planning – McKinsey (includes do’s and don’ts)
https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/overcoming-obstacles-to-effective-scenario-planning

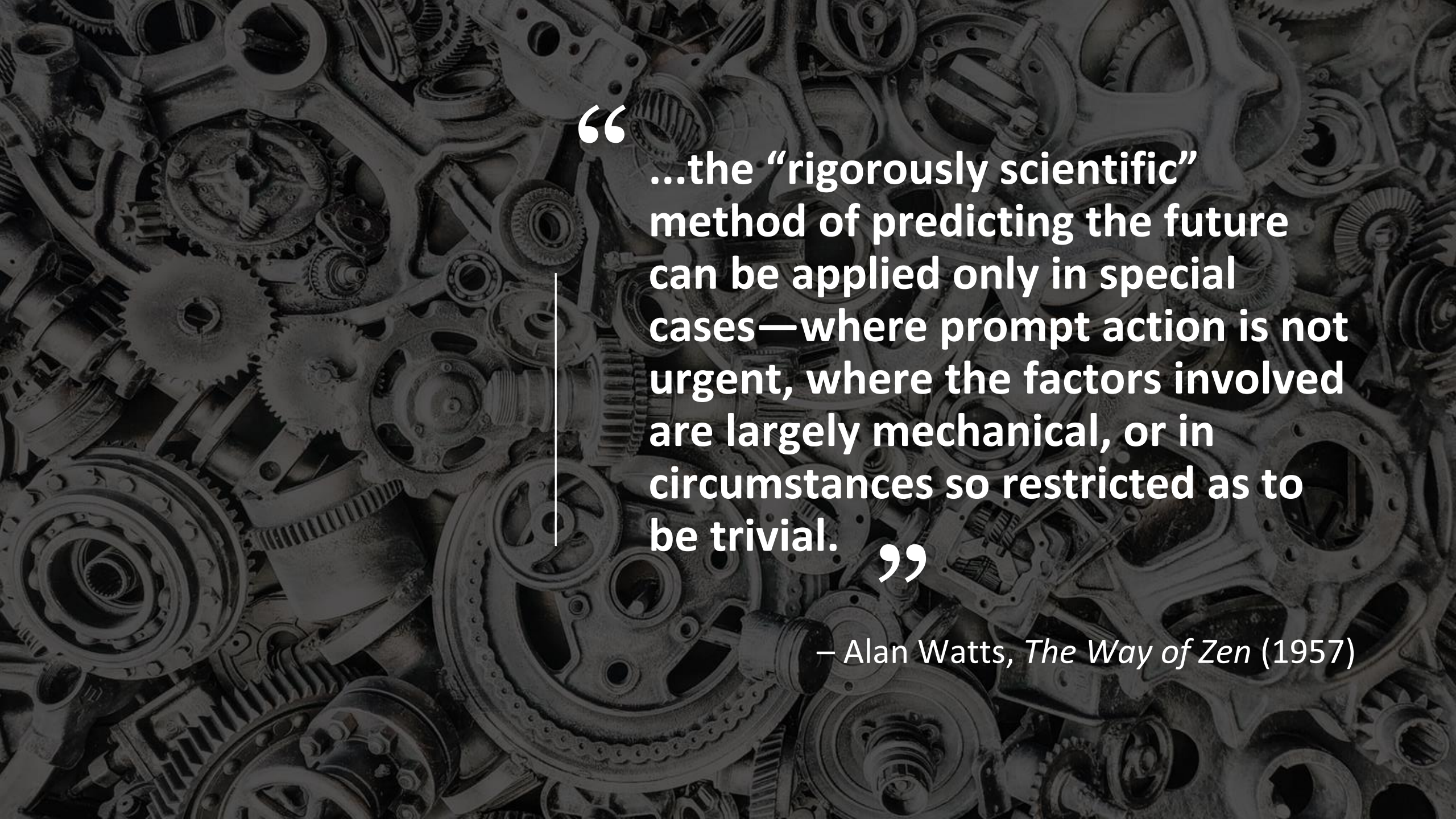


Biases in Scenario Planning

- **Availability:** we tend to make decisions using readily available information; what we already know, such as trends in our own segment of the nonprofit sector.
- **Probability neglect:** low-probability events are easily dismissed (or assigned excessive weight)! Start with qualitative assessment: could this be impactful to our mission?
- **Stability bias:** "trap of extrapolation."
  Heads up: the future won't look like the past.
- **Excessive optimism:** does your culture reward staff who speak more confidently about plans more so than those who point out how things might go wrong?

Closing Thoughts and Takeaways

- Portfolio Approach: some easy strategies and some big bets
- Easy + Flexible
- Be wary of social biases: groupthink and sunflower management
- Make dissent welcome
- Make it ok to think the unthinkable



“...the “rigorously scientific” method of predicting the future can be applied only in special cases—where prompt action is not urgent, where the factors involved are largely mechanical, or in circumstances so restricted as to be trivial.”

– Alan Watts, *The Way of Zen* (1957)



“Predicting the future is about creating and presenting one view of how the future will unfold. Anticipating and preparing for the future is about looking at multiple views of how the future might unfold.”

– Randy Park,

The Prediction Trap

“...let go of the notion that you are trying to predict what is most likely to happen and view the process as simply creating stories about alternative futures.”



“A wealth of information creates a poverty of attention. More information is not always a good thing if it leads to blinkered thinking and analysis paralysis.”

– Herbert Simon, Nobel Laureate

Resources

- Scenario Planning For Nonprofits Amid Covid-19 - The Bridgespan Group (includes downloadable tool + fillable worksheet!) - https://www.bridgespan.org/bridgespan/Images/articles/nonprofit-scenario-planning/nonprofit-scenario-planning-covid-19-toolkit-pdf-editable.pdf
- How One Organization Used Scenario Planning To Think Through Its Covid-19 Future - https://independentsector.org/news-post/how-one-organization-used-scenario-planning-to-think-through-its-covid-19-future/
- Scenario Planning Playbook-Georgia Center for Nonprofits (includes fillable worksheet!) - https://mcusercontent.com/020fc8481c18f9e7745d240b7/files/a165eb05-a40a-4e7b-ba56-a9c6876efd81/Scenario_Planning_Playbook_vhandouts_.pdf
- Ready and Resilient: Use Scenarios To Plan For What's Ahead – PwC (includes examples for different scenarios early in COVID) - https://www.pwc.com/us/en/library/covid-19/pdf/pwc-wave-3-covid-scenario-planning-pdf-v4.pdf