

Scope Out Scenarios to Inspire Confidence During Disruption



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The prospect of a recession, loss of a key funding source, or other downside event, should inspire a commitment to pause and reflect. None of us know how and when the most mission-impactful risks will materialize. But any planning we do now will serve us well when an economic crisis or disruption begins.

In his timeless book, *The Prediction Trap*, author Randy Park writes that "...by anticipating different possibilities for the future, you can sleep well knowing things will be taken care of no matter what happens." The reminder to consider "different possibilities" is invaluable; as Park explains in the book, when we focus narrowly on a "single path to the future" we are likely to overlook potential off-ramps and detours, from wonderful possibilities to dangers.

There is no value in unproductive worry. To harness helpful anxiety about the future, risk leaders and nonprofit executives should turn to a tried and true planning tool for help. Scenario planning exercises can be very helpful to teams who want to position their nonprofits to survive and thrive in the future, including when that future includes a recession.

Scenario Planning in Three Steps

In its <u>Guide to Scenario Planning for Functional Leaders</u>, the firm Gartner offers a familiar four-square template with quadrants to fill with potential outcomes under four different scenarios. To use this tool, begin by identifying two significant uncertainties facing your nonprofit this year. For example:

- Demand for/participation in our core services
- Ability to fully staff core programs
- Variance in the needs of our clientele/participants/constituents
- Turnover on the team
- Cost and availability of the supplies and materials we need to deliver services
- Volume of individual donations
- Success raising new corporate donations
- Landing new foundation grants
- Partnership/merger negotiations with another nonprofit
- Outcome of a lawsuit filed against us

• Attendance at our major event(s)

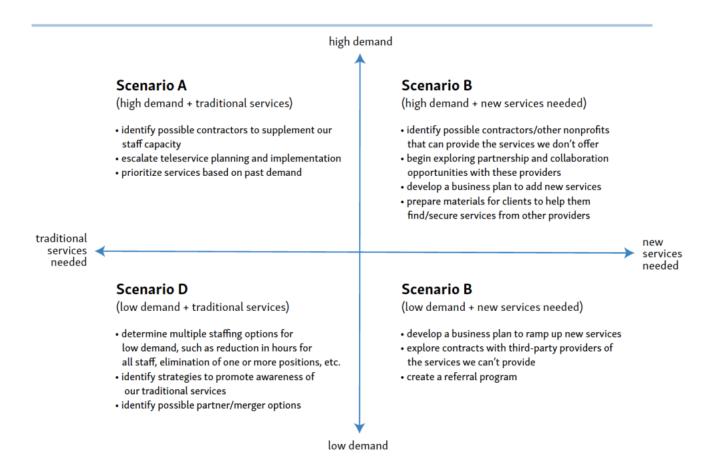
After 1) choosing 2 significant uncertainties (from the list above, or issues that make mission sense to your team), 2) identify the extreme ends of each uncertainty. For example:

Uncertainty #1: Demand for/participation in our core services:

- Extreme Outcome A demand is sky high
- Extreme Outcome B demand is very low

Uncertainty #2: Variance in the needs of our clientele/participants/constituents

- Extreme Outcome A clients come to us for the support we have traditionally offered: help finding social and support services in the community
- Extreme Outcome B clients have co-occurring conditions; we do not have the staff expertise to advise these clients



Step 3 using this approach is to use the space in the chart to describe, in bullet form, the circumstances related to extreme outcomes of each uncertainty on both ends of each axis.

Following the example above you will have 4 scenarios:

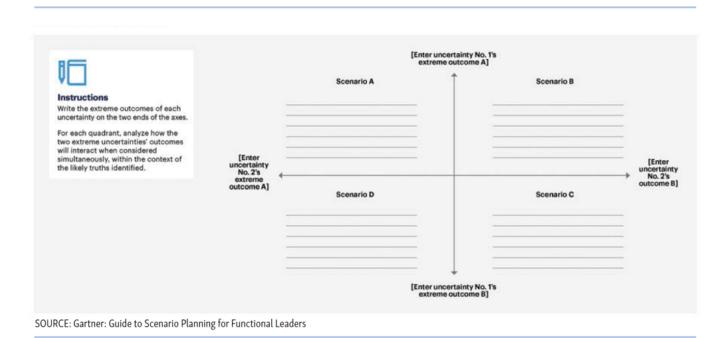
- Scenario A (demand is sky high + clients come to us for the support we have traditionally offered: help finding social and support services in the community)
- Scenario B (demand is sky high + clients have co-occurring conditions; we do not have the staff expertise to advise these clients)
- Scenario C (demand is very low + clients have co-occurring conditions; we do not have the staff expertise to advise these clients)
- Scenario D (demand is very low + clients come to us for the support we have traditionally offered: help finding social and support services in the community)

For each of the above scenarios, brainstorm practical steps your organization could take to cope. Helpful

question prompts for your team might include:

- What can we do now to best prepare for this possibility?
- What changes in policy or protocols will be required?
- How will we operate differently if this scenario comes to pass?

Below is an example of a completed four-square chart based on the above 4 scenarios.



Battle Bias as You Plan

In the McKinsey & Company article, <u>"Overcoming Obstacles to Effective Scenario Planning,"</u> the authors point out cognitive biases that reduce the effectiveness of scenario planning exercises. They offer practical tips for recognizing and countering 3 biases relevant to any planning exercise.

Availability Bias: This bias draws us to rely on information we already know and miss the opportunity to name and discover what we don't. To counter this bias, ask early on: what assumptions are we making? Or: What don't we know about this scenario that we should before finalizing plans?

Stability Bias: Described as "the trap of extrapolation" in the book *The Prediction Trap*, this bias leads us to believe the future will look like the past. Humans crave stability, consistency, and familiar surroundings. The truth for all nonprofits is that the future—even in a recession similar in some fashion to one you've lived through—will likely be very different from the past. To counter this bias, begin the exercise with a list of distinct, significant uncertainties. Build the scenarios by combining extreme outcomes of two uncertainties. Avoid the temptation to focus on a simple, mild-stretch scenario, such as "we experience a 10% drop in demand." When you develop action steps in response to the extreme reaches of uncertainty, the actions you take will help if reality is not as extreme as you imagined.

Optimism/Overconfidence Bias: After navigating the COVID pandemic, many nonprofit leaders found new confidence about their ability to navigate and thrive in the face of a highly disruptive event. Many leaders tell us they are proud of how their missions weathered the initial shock of work-from-home orders and how staff teams quickly adapted to new ways of working. Your success managing through the pandemic could lead to overconfidence that your mission can survive any disruptive event. Counter optimism bias by taking the time to work through multiple scenarios, versus focusing on the scenario that seems most likely.

Rolling in the Deep: Tips for Productive Scenario Planning

Focus on possibilities, not probabilities. In their book Warnings: Finding Cassandras to Stop

Catastrophes, Richard A. Clarke and R.P. Eddy remind us that "If data is in short supply, don't worry about probability. Probability is not likely to be a useful measure when dealing with the risk of a disaster that has never occurred before, or only happened at great intervals." In NRMC's experience, many risk teams get bogged down trying to sort and resort their unwieldy risk registers based on wild guesses about the likelihood or probability of never-experienced, dire future risk events. What do the most worrisome risks at a typical nonprofit have in common? They are possible future events: the organization hasn't yet faced the circumstances and downside consequences that nightmares are made of. These seemingly improbable outcomes are the ideal focus for productive scenario planning workshops.

Face your inconvenient truths. What facts, possibilities, or turns of events would make it very difficult—or impossible—to achieve your #1 strategic priority? What circumstances—triggered by an economic recession—represent your mission's Achilles' Heel?

Search for sentinel intelligence. An individual with "sentinel intelligence" can see clearly through a "fog of indicators." Rally team members who can sort the signals from the noise to join the risk team for scenario planning exercises and risk action planning. Your mission will benefit from their foresight, and this example will encourage your team members to speak out in the future.

Don't be frugal. Rushed, poorly envisioned, or haphazard scenario planning exercises are unlikely to yield action-oriented plans that will protect your mission from disaster. Take time to recruit a diverse group of colleagues to participate in the exercise, determine a format that suits your circumstances, and do the prep needed to make the effort worthwhile. If the approach described in this article feels like a poor fit, review the exercises described in the resources listed below.

Embrace and celebrate progress. In his book, Essentialism, Greg McKeown writes that "Research has shown that of all forms of human motivation the most effective one is progress. Why? Because a small, concrete win creates momentum and affirms our faith in our further success." After completing the exercise described in this article, your team will have a list of "to-do" items for each of 4 scenarios. Depending on the uncertainties you choose, the extremes of those uncertainties, and the amount of time allotted for brainstorming, your lists could be substantial. Before wrapping up the exercise, take time to prioritize those lists, eliminate steps that feel impractical in a one-year timeframe, and ask participants in the exercise to verbalize a personal commitment to keep the ball rolling. Question prompts to help identify next steps include:

- Which action step or strategy are you willing to champion or lead?
- Who on our broader team would you lift up as a possible champion or lead for any of the action steps we identified?
- What additional information or insights do we need before we can act? What are the possible sources we can turn to for that information?

Question prompts to celebrate the progress made include:

- What was your 'a-ha' moment in today's exercise?
- How has this exercise changed your level of confidence about our ability to weather an economic storm?
- What assumptions were dispelled today?

In their book See Sooner, Act Faster: How Vigilant Leaders Thrive in an Era of Digital Turbulence, George S. Day and Paul J. H. Schoemaker write:

"The words no board or investor ever wants to hear about an organization's leaders are 'they ignored the warning signs' or 'they missed the boat.' Boards don't expect prescience, but they do rightly rely on the leadership team to see and act on early warning signs of trouble or opportunity."

Scenario planning is a powerful tool to identify and act on 'early warning signs' of trouble. As financial markets, economic conditions, and federal policy changes continue their volatile trajectories, every nonprofit leadership team should be attuned to the possibilities that could steer a charitable mission away from its intended course. Scenario planning is not a 'check the box' activity; the outcomes of the exercise could infuse your mission with resilience to withstand an economic—or other—storm.

Melanie Lockwood Herman is Executive Director of the Nonprofit Risk Management Center. She welcomes your

questions about scenario planning and creating practical risk action plans at 703-777-3504 or Melanie@nonprofitrisk.org.

Scenario Planning Resources

There are many approaches to scenario planning. The approach described in this article was inspired by the first article below, from Gartner. Risk leaders interested in designing and facilitating productive scenario planning exercises should take time to review the additional materials listed below. Each resource offers an approach and tips that could help your team prepare for a recession or other disruptive event.

What Functional Leaders Should Know About Scenario Planning - Gartner

<u>Scenario Planning for Nonprofits Amid Covid-19</u> – The Bridgespan Group (this downloadable tool includes a fillable worksheet)

Making Sense of Uncertainty: Nonprofit Scenario Planning - The Bridgespan Group

How One Organization Used Scenario Planning to Think Through Its Covid-19 Future - Independent Sector

Scenario Planning Playbook-Georgia Center for Nonprofits (includes a worksheet)

Ready and Resilient: Use Scenarios to Plan for What's Ahead - PWC

Overcoming Obstacles to Effective Scenario Planning - McKinsey & Company

<u>Scenario Planning and Strategic Forecasting</u> – Forbes (outlines the process in 8 steps, includes sample scenario matrix)

<u>Scenario Planning Produces Better Benefits Strategies</u> — SHRM (specific to the context of employee benefits)

NRMC Articles on Resilience and Related Topics

"Facility Agility: Planning for Facility Emergencies," RISK eNews

"How to Handle the One Thing That's Certain: Uncertainty," RISK eNews

"How to Prepare Your Nonprofit for a Recession," RISK eNews

"Warning Signs: Channeling Cassandra to Fortify Your Mission," RISK eNews

"To Infinity and Beyond: Unleashing Imagination to Build Your Organization's Resilience," RISK eNews