Scenarios as Tools to Manage Risks and Uncertainties

REDUCE OPERATIONAL AND PROGRAMMATIC EXPOSURE

IMPESTRA
Strategy & Performance

Strategy & Leadership– December 1, 2015

SCENARIOS AS TOOLS TO MANAGE RISKS & UNCERTAINTIES

News routinely shatter the comfort of our certainties, including some fundamental tenets of our belief system: oil will not go under $40 a barrel; financial markets cannot collapse; Chinese growth will fuel industrial and financial markets for decades; there is no water on Mars…

Uncertainty is a familiar territory for marketers, planners and strategist, who have developed tools and models enabling them to respond rapidly to emerging changes. Bigger changes that shake up a market or an economy, events that overwhelm a system or a corporation's capacity to respond are infrequent (luckily) and are (usually) following a series of warning signs, allowing for being prepared. They are however getting little attention, caught between a low probability of occurrence and the limited span of forecasting models.

Risks are unscheduled events or conditions that carry a negative impact. Uncertainty (or variability) proceed from the same origin, but is broader because it encompasses both positive and negative changes. Understanding variabilities regardless the sign (plus or minus) of their impact provides an opportunity to catch an early trend and reap benefits. It also helps understand the total volatility of a market or industry, when negative impacts only offer a partial view of the forces at play.

As Uncertainty becomes the new normal, risk managers are facing two categories of variabilities: risks that can be predicted, and variabilities that cannot be tagged to a specific timeline. The first category is well covered by tools and approaches, along with mitigation strategies and risk scoring. New thinking on Operational Risk Management promotes the idea that "ordinary" variability, resulting from operations, projects or other undertaking is inevitable and should be directly under the manager in charge. Exceptional and escalated risks only should be managed by a specialized team. Like running, managing a business or a program creates likelihood of stumbling or missing a step. If the fall is manageable, the best approach is to pick himself or herself up and keep going. If the damage is serious, then medical attention or emergency services might be required. Letting a Risk Committee manage risks on behalf of a manager disenfranchises the person in charge and dilutes accountability.

Risks Committees can however look at the big picture and consider the net amount of exposure a project, business or department carries. Even if all uncertainties are under control, the net amount of exposure might trigger a pro-active risk reduction intervention. Aggregating risk probabilities of occurrence creates misleading representations, eliminating fringe risks even if they are tagged with high impact; compiling the net exposure does not alter the identified risks, as their total exposure is a straight sum, providing a comparable view of the potential liabilities.

Probabilistic and forecasting models are great tools to project a future vision or an effort with a fixed term boundary (e.g.: 5 years, 10 years), which allows synching up strategies, work effort and market changes on a comparable horizon. The benefit of a consistent time scale from a planning perspective is its downfall for catastrophic risks, which are infrequent in nature. Here lays the difficulty with catastrophic risks: they might happen once in a lifetime, maybe never; but would they occur, their impact would be devastating.

The recent real estate and financial crisis illustrated how companies viewed as unmovable could collapse and go bankrupt in almost the blink of an eye. Financial services regulators and industry representatives have put in place measures to prevent the re-occurrence of the massive failures that rocked the markets. Their analysis is based on the potential impact of large, often correlated events, with little regard to their likelihood of occurrence. The question is not of the probability of occurrence of major risks scenarios, but of the readiness of organizations should they occur.

Working with scenarios has already been a best practice in strategic planning, helping compare multiple most-likely options without having to run a full scale Monte Carlo model. The Basel recommendations that followed the Economic crisis aimed at creating sufficient reserves for companies so they can withstand a major new crisis. Expanding the use of scenarios creates a tool that helps prepare for major events as well as operational uncertainties, making the business more resistant to variabilities, and in case of a major impact, more resilient.

Uncertainty is a new normal

The management of risks for an organization mainly relies on the probability (likelihood) of occurrence of a risk. The higher the score, the higher the attention, adopting the actuarial model developed by insurance companies around the world.

This approach to risk management relies on two important premises:

- The specific risk to occur must be predicted or figured out;
- The response to such risk is within the range of the organization's means.

Assuming these two aspects can be set aside for a moment, then the risk exposure based on the graded scores can trigger a solid mitigation approach.

Mature organizations collect all risks into a Risk Management Plan, providing both independent oversight and validation of the mitigation steps. Recent thinking states that the most frequent (and usually lower impact) risks should be viewed as the normal costs of doing business, managed by whoever is in charge of the activity. The rationale is that most of the risks linked to an activity, their associated warning signs and their direct mitigation should be well known by the manager in charge. In this view, less likely risks and those independent from the activity should still be handled by an independent risk structure, in collaboration.

Key risks for a new project for instance, include the unavailability of key resources, the insufficient support or engagement from the sponsors, a change-of-heart from the targeted users before the effort is completed and the imperfect deployment or adoption of the work products. Key risks for an operational activity would include unavailability and lack of knowledge from the resources, failure to perform checks and controls, supply chain errors or delays and deficit in agility against market changes.

In these cases, risk patterns, cautionary signs and mitigation or reactive actions are well known and within the capacity of a manager to handle. The unusual risks such as a sudden change to the company's priorities, of the raw material prices, or a competitor's disruption would fall outside of the purview of the line manager, and should be managed in coordination, but separately.

	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophe 5
Frequent 5	5	10	15	20	25
Often 4	4	8	12	16	20
Likely 3	3	6	9	12	15
Probable 2	2	4	6	8	10
Rare 1	1	2	3	4	5

Using the classic risk grid (Green, Yellow, Red), the "ordinary" risks are the red and possibly Yellow blocks; all others should be under a specific Risk Management structure.

The Risk Management structure is an umbrella function, which consolidates the risks analysis and mitigation handled by the line manager, in order to benefit from a 360 degree view of risks at any moment: if "operational risks" are higher than expected, or their mitigation fails to meet the objectives, an escalation or intervention might be necessary.

Operations and business activities are living through continuous changes, some predictable, others foreseen only by visionaries, and some occurring without notice. These changes are similar to the risks, with a caveat: the impact can be negative (like risks), neutral or beneficial. The main difference between variability and risk is in the appreciation of the outcome. Risk managers only focus on variances and events that carry a negative impact onto the business, initiatives under way or operational and financial performances. While this is their charter, observing all uncertainties and their occurrence regardless the positive or negative sign of their impact provides a broader view of all forces at play and their impact. The broader view helps better understand the volatility of the landscape, giving precious input to modelers and forecasters.

Uncertainty is everywhere; being prepared is no longer an exceptional effort, but should be a normal activity of any organization. A number of changes occurring might very well have a positive impact onto the business or the organization; being able to identify such changes ahead of time enables taking actions on time to reap the potential benefits.

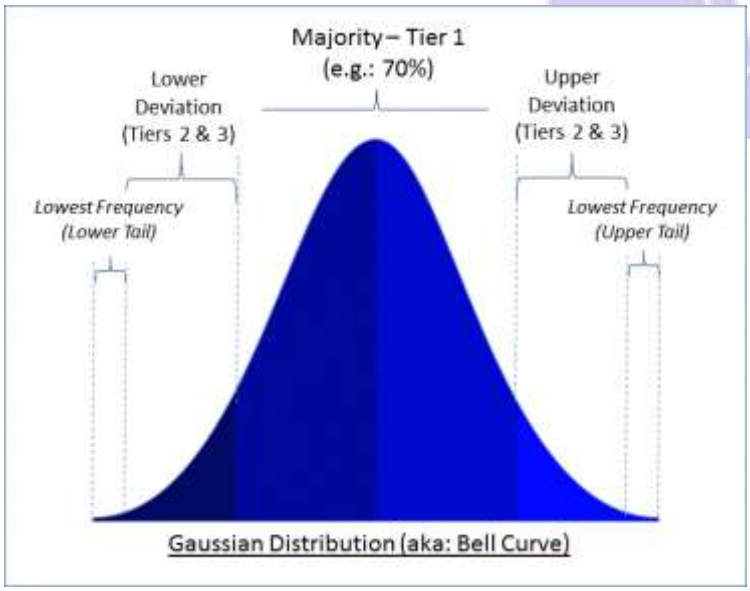
Some uncertainty however can be of massive scale or impacts, which might exceed the normal (or full) response capacity of the organization. These are major events, which total impact might exceed the financial capacity of the business, but also events which might cause a near fatal impact to a part of a business, or take years to recover from.

Uncertainty is the new normal, and a decade of global economic crisis, entire countries defaulting and collapsing has been teaching us that recognizing the ordinary, operational and catastrophic risks is the first step only. Comprehensive mitigation, management and continuity plans need to be prepared and activated as variabilities occur.

Preparedness is becoming the new operating standard.

Looking at the Big Picture

Common wisdom takes it that “risks cannot be aggregated”. This is somehow a true, but can be misleading. The common reliance of distribution models (E.g.: Bell Curves) to plot the likelihood of occurrence provides an easy, at a glance representation of how risks are distributed by likelihood of occurrence.



Distribution diagrams are essential statistical tools used for quality and defect management; they help reduce the low frequency exceptions and the span of variability. When it comes to risk plotting, the mathematical averaging implied in a bell curve (core focus is on highest probabilities) and the probability averaging leaves infrequent events on the edges.

Since the highest frequency of occurrence triggers the highest attention, infrequent events can be rapidly downplayed or even discarded as too far away from the core focus (the Mean). Key focus is on Tier 1, which in a normal distribution represents about 70% of the sampling, and on the Tiers 2 and 3, which together represent about 98% of the recorded results.

Good risk management suggests addressing the main occurrences before considering the rarest cases. The Upper and Lower Tails of the distribution being within the 1% range each would come very last in getting attention, and likely would be considered as an inconsistent result.

Rare occurrences of risks get erased from the meaningful samples in a logical and natural way, regardless their potential impact.

Risk scores being Frequency * Impact, even a significant impact would result in a low score when calculated with a probability of less than 1%. A $1M impact for instance, with a 0.1% probability would equate a raw risk score of 1,000,000 * 0.001 = 1,000, which is the same as a $5,000 impact with a 20% probability.

This leveling of the risks is useful when dealing with ordinary and core operational risks, making this model prevalent in risk management. Unfortunately, it also illustrates that major risk events need another approach that would not be driven by risk frequency, but rather by impact size.

The work-around is actually simple: while risk distribution can cause the center-based leveling of the risks, aggregating the net exposure of each risk instead of their probability escapes the issue. Considering risk exposure as the net amount of impact taking place, would the risk occur. The net amount of risk carried by a single event, is a firm, positive value (no risk would equate to a zero net impact). Adding such values to create a “total Exposure” does not alter the individual risk exposure, which is simply added to the total. The result does not provide a distribution diagram of the risks, but the sum of liabilities carried by an organization, a department or an undertaking. Such view of the aggregate exposure can be precious to compare the total exposures of projects, organizations or markets, for instance. They can also be useful in creating a baseline, which can be compared to post-mitigation actions steps, to verify how much of the exposure has been practically reduced.

Catastrophic risks and their potential to overwhelm the response capacity of the business are however not included into the above views of risks management, whether looking at the distribution or the total net exposure.

When traditional risk management focuses on high frequency risks, most of the catastrophic events that occurred over the past decades were both infrequent and carried a critically high impact. Largest impacts are carried by events that by themselves generated a high impact, but which correlation with another impactful event created catastrophic conditions. Falling off a boat can be an unpleasant and possibly dangerous situation. Navigating in seas with a high density of voracious sharks creates a dangerous situation. But if a fall occurs in shark infested waters, the combination of the two factors creates a highly lethal combination.

A Catastrophic Risk Grid does not present the risk map based on the frequency by impact, but rather on the rarity of high impact events. These are the ones carrying the most impact would they occur, and which low frequency make them unlikely to be visible in a classic risk management model

	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophe 5
Frequent 1	1	2	3	N/A	N/A
Often 2	2	4	6		
Likely 3	3	6	9	12	15
Probable 4	4	8	12	16	20
Rare 5	5	10	15	20	25

The cross-leveraging that impacted the financial community during the recent crisis was not unheard of: it was the downfall of the re-insurance companies in Australia in the early 2000’s with a combination of opaque financial instruments, rapid growth of a key player through acquisitions, excessive cross-leverage of companies covering each other’s risks. There was no dilution of the risk through new participants, in spite

of appearances of sharing the exposure. The collapse of HIH in 2001 uncovered irregularities, but also created a massive impact to the Australian financial markets.

When financial and insurance companies collateralize real estate assets to cover its risk exposure, while real estate transactions leverage mortgages by the same financial companies. Real estate portfolios being traded as financial instruments could reduce the risk, but if the buyers are peers and businesses already involved, the risk is actually not reduced: no new capital has been brought in to dilute the risk. Exposure has just been transferred and exchanged within the same group: this is cross-leveraging.

In the estimation of risks, traditional approaches have been using a probabilistic analysis, until after the "Bubble Crash" when the Basel Committee decided on a new model based on catastrophic impacts. Other industries and companies with a strong vertical consolidation might benefit from a correlated analysis of major risk events impacting them. Vertical expansion such as an ore producing business expanding into smelting, refining and possibly manufacturing finished products from raw material might get many benefits from the consolidation, including margin, self-sufficiency and less sensitivity to market changes.

The benefits' flip side however, is that a major disruption in the demand for the finished products or to the base price of the raw material could impact the entire chain, augmenting the negative impact with each aggregated layer. As the consolidation protects the business against small and moderate changes, large impacts, especially correlated, remain a major threat to the survival.

The analysis of the correlated impact relies on catastrophic scenarios, not probabilistic models. A particular scenario must be analyzed by itself, and factors worsening the situation should be added to the script as well. Doomsday scenarios might actually uncover some unforeseen threats, which can then be assessed independently.

Some of the major events cannot be dealt with without leveraging financial reserves. Just going through the scenario can trigger a number of ways to reduce the exposure or to make the business more resistant. In all cases, the process will identify key signs that a major event is occurring, possibly early warnings as well. A second level of response is how the business would respond to such occurrence: even invoking the reserves only maintains the viability of the company. But how would the business resume and continue operating under such dire circumstances? Scenario modeling can also help identify steps and measures that increase business resiliency.

The Problem with Forecasting Models

A problem with risk management is the short memory we tend to keep, in part due to the boundaries of forecasting models. 10 years is long range planning in most cases; a 25 years forward view is a faraway galaxy. While planning or defining strategic pathways, thinkers and visionaries try to stick to hypothesis that are credible, most likely to happen. Even when considering market turbulences and risks inherent to the strategic actions to be undertaken, the most likely scenarios are chosen to build the roadmap.

The Forecasting Horizons

Forecasting and planning approaches work with a finite, measurable timescale, so events which are beyond the visible horizon (practically, 10 years or less) are not factored in. Practically, they might occur sometime after the roadmap being crafted ends, making them irrelevant in the process.

The catch is that an infrequent event, such as one happening once a century, might happen in 99 years or maybe tomorrow. Low frequency does not mea that the event will take place at the end of the period of reference. After all, people win the lottery almost every week, in spite of odds of 1 in 292 million for the first prize and 1 in 11 million for the second prize.

Catastrophic risk occurrences, which have been historically causing the most severe and irrecoverable impacts on companies and economies, happen rarely and over long periods of reference. They are discounted from planning assumptions, and need to be managed separately. Regulators considering catastrophic scenarios to establish how much financial reserves a company should maintain are not working with a forecasting tool, but a worst-case scenario model, which carries no timescale. Regulatory reserves are gatekeeping measures based on a broad consensus; they also introduce the concept of catastrophic scenario as the main tool to assess the degree of exposure.

The core of the Catastrophic Scenario approach includes a radically different risk grid, where high risk red blocks replace the green blocks of low occurrence from traditional grids. The change is radical in its deliberate avoidance at using the likelihood of occurrence as a meaningful scoring mechanism. Instead, the biggest impacts are risks or events that might never occur, or only once in a century. Their occurrence however, could cause unrecoverable harm to a business and exceeds its total capital value.

A benefit of working with catastrophic and infrequent scenarios is that they escape the typical forecasting boundaries. A major risk event such as a market collapse or financial chain reactions might not occur in many years; the risk however remains the same, which is potentially overwhelming impact. Freeing the analysis from the time boundaries of probabilistic views and forecasting cycles ensures that short term priorities do not dilute the attention paid to such large events.

Common wisdom would have it that only events that can be predicted and are likely to happen should be considered in risk management and mitigation efforts. Adopting models which are not based on historical records or individual experience is key to craft scenarios which are truly based on maximum correlated variability. All other risks should be managed using the previously described probabilistic or impact correlated models.

Working with Catastrophic Scenarios

Establishing catastrophic scenarios for devising response or mitigation strategies requires considering the tenets of the business landscape and decide to ignore conventional wisdom. Unless a scientific, direct and independent reason exists, any assumption that is core to the business should be fair game. The condition or event needs to have a broad impact across the industry, and could trigger a ripple effect when combined with another event.

An example would be extreme cross-leverage (risks is being shared and divided repeatedly amongst the same players) combined with the collapse of the value of collateralized assets (like Real Estate, raw material claims or reserves, precious metal). Unbalanced reliance on a given product line, market segment or geography combined with a sudden market or geo-political disruption could also trigger a compound impact.

Using and expanding the use of scenarios such as the ones developed for regulatory purposes in the banking and financial industries provides an immediate benefit with the sobering analysis of the strategic and operational strengths and weaknesses of a business. Moreover, such analysis is based on an outward perspective, while typical SWOT analysis routinely carry the internal perception (for good reasons).

Catastrophic scenarios are exploring what would happen if the pillars of a business were collapsing, including societal, economic and industrial dimensions. Typical strategic or exploratory scenarios consider variations on the themes of organic and inorganic growth, market tensions and dynamics or competitive

forces. The economic foundations of the business are rarely, if ever, considered in the business planning assumptions; it could be difficult to plan for business development while assuming that the world as we know it will come to an end.

Catastrophic scenarios are not designed to spell out doomsday, but are tools to assess the strengths of the economic landscape and consider which events could be mitigated. Far from meteor crashing scripts bound for Hollywood, the scenarios consider severe impacts to the socio-economic landscape, such as a brutal change in currencies, interest rates, raw material, labor as well as sudden shifts of the market dynamics including disruptive innovations, regulatory changes, trade barriers or competitive pressure.

Once base scenarios have been selected, aggravating events acting as compound factors are thrown in, either undermining the recovery actions or making the impact more severe. If a scenario stitched together with a primary impact, then secondary, aggravating impacts need to be explored to assess how much of an additional impact they might generate.

What looked initially like a wild goose hunt starts to show a structure, as the number of fundamental events that could upset the business landscape is actually small. Some of the “Source” events and “compound” events can easily be interchanged, and the biggest impacts might be linked to “chain reactions”, when an event triggers another that in turn triggers another ne, etc.

The shrinking of the industrial growth in China for instance, could trigger a collapse in raw materials like copper and iron and a retreat of Chinese investors into foreign projects. Those in turn could generate a sudden halt in large projects in developing countries, put pressure on economies where Chinese financial flow helped secure debt, and incite some Asian countries to look into new or strengthened partners to make up for the lower exchanges.

Not all impacts are negative, and their analysis can provide a number of strategies to handle market volatility even if the fluctuations do not reach the level of a major shift.

Outside help can be necessary to ensure that an internal bias is not carried through the analysis. As the last financial crisis was unfolding, some companies were still operating under the belief that the complete collapse of the industry was not possible, and that the “market will regulate itself”. A strong belief remains in circles that the emergency rescue plans launched by a large number of countries were unnecessary, even after the governors of most central banks agreed that they were the only viable solution to the crisis.

The most difficult task in performing an independent analysis remains the – iconoclastic - challenge to common wisdom, certainties and beliefs that are the fabric of a company. If a business is betting its success on the launch and growth of a product or service line, how in the world could they succeed at reversing their entire thinking and challenge their own assumptions?

In times of crisis, leaders tend to rely on “guts” feelings and experiential-based responses, consistent with their comfort zone (been there before), discounting the analytical approaches that they have a harder time relating to. Emotional intelligence and cognitive scientists have established that emotions prioritize our thinking; when the intensity of the situation overwhelms the decision makers, they might discontinue managing their emotions and let them influence attention and priorities. Tools or scripted processes help structure the response to a crisis; they are the backbone of risk management plans.

The three risk models can be summarized as follows:

Category of Risks	Risks included	Analytical Model
Project and "business as usual" risks	Risks linked to activities , strategies, projects and operations	Likelihood of occurrence * impact of occurrence = Risk Score. Risk Management reduces exposure through reduction of occurrence, of impact, or both.
Aggregated risk exposure and variability	Risks and conditions linked to external changes or conditions. Can be negative (risk) or positive or neutral (variability).	Aggregation of total variability and exposure by logical unit (project, portfolio, business unit, market segment). The degree of variability is the volatility. Scenarios can explore the response to sever impacts, correlated or not.
Catastrophic events	External events which cause severe or irreparable damage. Most events reached catastrophic range when correlated with another major event.	Scenario based analysis where major events are ranked by impact level. Correlations are explored to identify catastrophic events. Mitigation includes risk reserves, reduction of exposure and early warning systems.

Major events or disruptions can be harmful to a business. But with preparation and mitigation, the fatal situation might reduce to a major-impact level, no longer challenging the sustainability of the business. Although painful, the events are likely to impact other companies in the industry, which are not as prepared; this could create opportunities for a company to bounce back through external expansion or acquisition.

Identifying Unknown Key Risks

A practical mean to achieve a critical review of beliefs and assumptions is the systemic decomposition of the success factors for a business, followed by an independent analysis of each of the "core" pillars of the scenario. Operating into a capitalistic context provides guideline however: following the creation of value, the generation of revenue and the inter-dependencies between agents of the supply, sale and distribution chains is a good starting point (follow the money).

A new medical device must be manufactured with possibly partners, technologies and possible rare or expensive materials. The adoption of a new sneaker by customers will rely on a combination of marketing efforts and a solid retail channel. The generation of the revenue for a financial services company will depend on the attractiveness of their solutions, but also on the size and accessibility of their target market.

In each case, core parameters are implicitly assumed, such as the approval decisions by government structures, raw material markets, absence of major hidden defects after launch or market dynamics. Finding out the second-tier of the parameters is the hard, but critical part; these are the parameters that would make a core parameter troubles worse. The decision of a regulatory body to stop or delay approvals for new devices in a country for instance, could harm the launching of a new product. But if this movement is followed by trade or medical administrations in countries from the same world segment, the effect could be devastating. Would this happen after large funding has been invested into marketing and promotion, and the business could be in trouble while finished products are piling up into warehouses and operating costs keep rising.

Analyzing risks implies in most cases looking at events or correlated events which together, cause a severe or critical impact to the organization. Business continuity and contingency planning best practices introduced the concept of disruption as well. A disruption is a relatively minor impact to the operations or functions of the organization. If the disruptions multiply or amplify, they can reach a level where the normal

operations of the business can no longer be sustained. Continuing to increase the density of the disruptions can cause the entire organization to be unable to operate and continue its business.

As the level of disruption raises, thresholds exist which codify the degree of severity of the disruptions, altogether. A difference with major events is that each item might be causing a minor or even negligible impact. The disruptive impact comes from the number of simultaneous events, illustrating the concept of “death from a thousand cuts”.

Smaller disruptions might not be considered as a threat as long as they are not correlated, appearing in insulation. Disruptive situations appear when many uncorrelated small events keep hitting the core operations, slowly raising the level of impact and exhausting solutions and reserves, even no nominal impact exceeds alarm thresholds.

Considering disruptions as a threat is turning around the risk model as the primary driver is the amount of operational disruption, while the source might be varied or still undetermined. A business can establish a set of thresholds to codify the impact of disruptive situations. The Maximum Acceptable Disruption (MAD) is the level beyond which a business needs to take action as the disruption creates unacceptable impacts. The second and more severe threshold is the Maximum Tolerable Period of Disruption (MPTOD) which is the accumulated amount of disruption beyond which a business can no longer sustain its activities, which resumption might not be possible.

The source of the disruptions and to a lesser extent, of major events is not always defined when the scenarios are built. The impact is the primary criteria, from which the origin of the event or disruption can be assessed or modeled. This reverse approach of the traditional risk management allows to escape the cultural (wisdom) and experiential limitations of traditional risk planning in addressing catastrophic events.

Volatile markets can be a source of major events and disruptions, which are neither driven nor impacted by the decisions of a business. Stable segments are also (counter-intuitively) good sources for disruptive innovations and harder nuts to crack as few in the industry would even consider that core market parameters might change, let alone be upset; this makes them perfect targets for unforeseen disruptions.

While regulators pursue their own agenda, mainly to preserve solvency of key operators and ensure continued market availability for customer solutions, a business carries a broader charter, like a mandate to grow and prosper. Generating shareholder value and executing their Mission come high in corporate priorities. When a regulator requires a certain level of reserves to be satisfied, a business might also consider options to reduce the potential need to tap into those reserves. This additional mandate drives the pursuit of unforeseen risks and disruptions beyond ensuring the sustainability of the activity, into reducing the most damaging impacts on operations and profitability.

Gradually releasing marketing investments as the deployment of the product unfolds, keeping a distinct market segment as a secondary target, maintaining an in-house elementary capability to supplement fragile partners are examples of mitigating the potential impact of a severe adverse market event. Well prepared, such mitigating dispositions bear a minimal impact onto the business agility and growth. Turning the mitigation of large risks into a strategic direction does not prevent catastrophic events from happening, but can greatly reduce their direct impact on the sustainability of the business.

Scenarios as a Tool

Leveraging scenarios based approaches can provide an effective tool to recognize and mitigate key risks, including catastrophic events. They also help identify early warning signs foretelling of a major event in the making, which means a longer time to prepare and find alternate solutions. A smart dashboard can both monitor key risk triggers, but also recognize the combined effect of correlated risks emerging, indicating a possible compound effect.

In absence of a particular risk event, scenarios help build more resilient business plans and strategies. Strategic planning relies on scripted stories to describe how the strategy is expected to unfold. Alternate strategies, considered in case the primary strategy does not work, are in effect key risks events applied to the strategic drivers. The difference between strategy and risk management is that strategic plans ideally combine the most likely adverse scenarios to create a more resilient roadmap. Risks management combines scenarios to prepare for the absolute worst case, creating sustainability.

Scenarios, or as they are also called, story lines or narratives, are great tools to harden business operations and strategic plans. Companies that are better prepared for unforeseen events and major impacts are likely building a more robust business, less sensitive to external factors and more capable of handling adverse situations. Over time, this becomes a competitive advantage, as the thinking gets engrained into the organization's culture.

Developing the narrative to a greater level of details is an effective tool to obtain congruence and operationalize an executive vision. When used to drill down potential operating or market disruptions, they increase the preparedness of the organization at once, shortening the time to implement a mitigation plan.

Relying on scenarios to build solid plans, mitigate adverse execution performance or increase resiliency is an often forgotten tool readily available, that requires little knowledge or practice to pay off. The reliance of scripted analysis for process optimization, forensic analysis and strategic planning are only a few of the potential uses of scenario playing and analysis; they can be applied to in many other aspects of a business, including risks, operations, marketing and transformations to name a few.

How about giving it a try?