

DE RUIJTER

# Chess or Go?

Strategy and scenarios: more relevant than ever



Twenty years ago, Paul de Ruijter started as a strategy consultant. He would like to grasp this opportunity to look back on four decades of scenario planning and to look ahead to the future of scenarios and strategy, together with Peter van Veen (former colleague at Shell Group planning) and Henk Alkema (former Shell strategist with almost forty years of experience in scenario thinking).

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***Scenarios are sensitive to fashion. Sometimes they are in fashion, sometimes almost nobody is interested in them. Paul de Ruijter, Peter van Veen and Henk Alkema however believe that scenario thinking is always useful. In the end, short term thinking is not effective, which was proved once more by the credit crisis. Thinking ahead using scenarios is still as necessary as before the first oil crisis. The fact that the credit crisis showed up as a surprise for many of the central figures, demonstrates that a lot of people insufficiently thought ahead in the previous years. To stimulate scenario thinking, De Ruijter, Van Veen and Alkema gladly share their vision on the need of renewed action, drawing on decades of experience.***

### **The origin of scenario thinking**

Scenario thinking became famous with its use within the oil company Shell. In 1971, even before the first oil crisis, the Group Planning division of Shell was asked: 'What will the oil prices do in the longer term, after the expiry of the Teheran Agreement (1971-1976)? Henk Alkema, who had just been transferred from Research to Group Planning, was given the task to formulate an answer. As a newcomer, he was not blinded by the dominating views. This enabled Alkema and his colleagues to design scenarios outside the usual horizon of Shell: three controversial scenarios in which the oil price would go up, even at almost four times. These scenarios were supported by an analysis of OPEC strategies.

Although, in the first place, these visions of the future met with a lot of resistance within the organisation, within some years it already shown how valuable it had been to think about the future. When the first oil crisis broke out in 1973, Shell was prepared for this. Within Shell, the aforesaid scenarios were the first scenario exercise, which is since then a

fixed part of the strategic planning of the company. Ever since, scenario thinking has gained ground worldwide and the method is regularly used by governments and businesses to put the future on the agenda.

Since the end of the nineties, the Dutch bank Rabobank has also continuously thought about possible futures, by means of several scenario projects. Paul de Ruijter has conducted this thinking process since 2001. Before the introduction of the Euro, possible consequences were considered; before 9/11 Rabobank already imagined a scenario with a drastic fall of stock exchanges; and in 2005, Rabobank performed extensive thinking on possible Japan and Great Depression crisis scenarios. Several times, this helped Rabobank to notice risks swiftly and to seize opportunities in time. Last year, Rabobank made a record high profit, in contrast to other Dutch banks, which could only survive thanks to support of the state. Just like at Shell, it turned out to be possible to make profit in times of crisis.

The credit crisis can be entered in the list of crises in which also appear the first oil crisis of 1973, the dotcom bubble of 2001 and the recession after 9/11: events that came as a surprise for a number of protagonists, but that in other organisations had already been suggested as a possible future and that had been taken into account when drafting the strategy.

### **Current uncertainties**

Alkema worries about the fact that the world of thought in which our scenarios for the further course of the credit crisis take place is too limited. 'At this moment, I see several "type case" scenarios in the media for the expected recovery of the credit crisis: a V-scenario, a W-scenario... The differences between these scenarios are blown up, but in fact, they are

very much alike: “Everything will be all right”. The only difference between the scenarios is the way in which the economy will recover. However, it is so important to think out of the box! It is dangerous to only take into account a world that does not change fundamentally.’ De Ruijter agrees: ‘If people think that the only uncertainty consists of the differences between the type case scenarios, they forget that there are also worlds of thought that contain what if’s, which can lead to paradigm shifts like in the seventies.’

That is why, according to Alkema, we should also think in another dimension; in a new scenario space. For the course of the credit crisis, that could be a scenario in which no recovery occurs, but in which we enter a new crisis phase, similar to the nineties in Japan or the Argentinean economic crisis around 2000. In the type case, this would be an L scenario: for the time being, things will not be all right.

***‘It is dangerous to only take into account a world that does not change fundamentally’***

De Ruijter introduces a category that does not belong to the type case: ‘We could imagine that, as a result of the crisis, the traditional antagonism between market and government gives way to a situation in which the government acts as a market party, for example in the nationalisation of banks.’ Peter van Veen calls this state capitalism. ‘In, for example, France and China, you can clearly observe elements of state capitalism. In the field of the third generation of mobile communication and CO<sub>2</sub>-emission rights we also see that the government does not oppose the market, but instead creates markets. In fact, the traditional contrast between market and government no longer exists.’ Alkema calls it not

impossible that the credit crisis will lead to the shift to a new and alternative paradigm than that of the capitalist market economy: an End-of-Capitalism-as-we-know-it-scenario. De Ruijter: ‘Our current world is addicted to cheap money. In the end, that is not a sustainable system.’

### **People planet profit**

Now that the fashionable word “sustainable” has been mentioned, the gentlemen look at this term: also in the field of sustainability, we must look beyond our normal world of thought. The fear of high oil prices could lead to a scenario in which sustainability and anti-fossil policies constitute the new paradigm. That could imply the bankruptcy of oil companies, and with that the collapsing of a number of economies, of OPEC-countries and in the rest of the Middle East. In such a sustainable world, short term profit is not important, but long term profit is: *people planet profit*. Alkema: ‘That is an example of entirely different world, that lies outside the type case scenarios and that has big consequences, both positive and negative.’

Alkema identifies a strange trend in the field of sustainability and energy: we do not look realistically at the best, most economic technologies. Instead, from the point of view of climate policy, governments jump all at the same time on new anti-fossil paradigms and lose sight of the fossil economy. ‘Governments play the part of the society and businesses and create a new market, while they have not yet reflected upon the consequences and side-effects. I think carbon trading for example could be the next bubble, which is now being blown up.’ Alkema feels it’s absolutely necessary that, at every level, we return to well-considered reflections concerning strategy. ‘There is a lot of noise, there are many trends. We have to try to bring those uncertainties

and possibilities together again in a structured way.'

### **Do we play chess or Go?**

De Ruijter believes that everyone who thinks about the future should ask himself which game is being played. For the question which paradigm we find ourselves in, now or in the future, concerns the core of strategy. Many occidental strategists take the free market as a starting point and think in terms of the western game of chess, in which we capture or exchange pieces, always thinking of the last, vital battle. However, taking into consideration the rise of Asia, it could well be possible that the game has changed in the oriental game of Go, in which everything revolves around the slow but sure increase of territory. State capitalism fits into such a paradigm, and this asks for a completely different strategy of both the market and the government. We must be aware of the game or paradigm in terms of which we are thinking. When shaping your strategy, it is of vital importance to think in terms of different paradigms. That is the reason why Alkema and his colleagues, when developing the oil price scenarios, thoroughly researched not only technological developments, but also the world of thought of OPEC.

Introducing what if-scenarios related to other paradigms, such as state capitalism or sustainability, can be valuable to verify your strategy. It offers a counterbalance for scenarios that describe a world in which nothing really changes fundamentally. Van Veen warns us, however, that these two scenarios do not take us there yet. 'As a facilitator, it is important not to cross the dangerous lines of prophet or trend guru. You can only do this in certain cases, to arouse the client's curiosity.' Alkema agrees to that: 'When you only present one scenario, you are in fact forecasting. There-

fore, you must explicitly present this forecast as a what if.'

### **Steersman, Captain or Admiral**

So it is important to take account of the future when shaping your strategy, and scenarios are a useful instrument for this purpose. De Ruijter notices that it is important for organisations to navigate not only on the basis of figures of the previous quarter or year, but also on the basis of forward looking information. However, at this point we encounter a problem: in many organisations, it is not clear who is responsible for this. On a ship, the captain and steersman should never be the same role. Nonetheless, this is often exactly what happens in companies: most managers are primarily steering the wheel, and too little is spent shaping the common course. De Ruijter: 'It matters a lot whether you take the part of steersman, who continuously has to steer, or the part of captain, who can walk around the ship freely and who can reflect upon its course. And perhaps you consider yourself to be the admiral of a fleet. Our Michiel de Ruyter was a strategist who stood in front of the lines and sailed along with his men. He commanded dozens of ships and as an admiral he shaped the strategy. Within this strategy, the captains and steersmen had their own room to manoeuvre. And in quiet times, along the way to, for example, the United Kingdom, he and his fleet practised several scenarios. Numerous situations were considered and simulated, so that no time was lost during the battle.' Van Veen: 'In organisations, too, the top must protect themselves as much as possible from operational worries, in order to be able to stay in front of the lines and to keep in touch with both the inner and the outside world. This way, they will see changes coming and they will be able to act quickly if necessary.'

Like De Ruijter and Van Veen, Alkema thinks that strategy should receive more attention within organisations, and preferably within management teams. 'In my experience, separate strategy departments are vulnerable and in danger of being put aside when their message is considered to be threatening. For this reason, strategy must be an inherent component of the top of the organisation. Employees should be encouraged to think critically and to constantly be alert. Everyone must be aware of possible futures and be able to put themselves into those futures.'

***'In many organisations, it is not clear who is responsible for shaping the strategy'***

The three gentlemen agree that the collective Executive Board should formulate the strategy. In this process, it makes all the difference which type of manager is at the head of the organisation. Van Veen: 'Is the CEO a conductor, who adopts a coordinating role, or a rock star? Rock stars have a big ego. In organisations they head, a personality cult can arise. Successful rock stars are found less frequently than conductors. Apple's Steve Jobs is an exceptional example of a rock star-CEO who succeeds. When this last type of CEO heads an organisation, the risk exists that strategy is shaped on the basis of ego. Van Veen: 'To overestimate yourself is the biggest mistake to make as a manager. Many strategy guides start by defining an ego-driven objective, and you often see that organisations all have the same objective; for example, being the number 1 in their sector. But we cannot all be the number 1. Instead, you must look at the overlap of the competencies of your organisation and the needs in society; then we create a bigger pie and everyone can win. Because what we can do is optimally contribute to tomorrow's society, using our unique identity.' Alkema adds: 'For this purpose, you need

people that are prepared to run that extra mile and as an organisation, you need to work on your competencies.' How the organisation organises the strategy shaping process, can differ strongly: in dialogue with all people concerned, or within a small, select circle. De Ruijter: 'Rabobank chose the first way, fitting their cooperative character: around 1,600 people were involved in the strategy process and jointly made responsible for the strategy.'

**See and not perceive**

Once the organisation has decided to put the future on the agenda, there are still some obstacles to take. A large stumbling-block is, according to Alkema, the fact that people often try to explicitly map all uncertainties and tend to forget that the things they implicitly consider as certainties are sometimes not certainties. 'Organisations frequently "see and not perceive": they look, but they do not see anything, just like the supervisors of the financial markets last year. Supervisors must concentrate on facts and can intervene only then when a problem occurs. The idea of scenarios and strategy, on the other hand, is to intervene before anything happens, and before empirical facts are available.

Alkema recalls the eighties, when as a head of strategy at Shell Chemicals he came to the conclusion that the number of business divisions of the chemical branch had to be reduced, because Shell was not a top player in all of the business divisions. Since Alkema was not involved directly, he had an independent position, he could objectively judge and he was not blinded by wishful thinking.

The current situation of the world economy shows the disastrous impact wishful thinking can have. As an example, De Ruijter calls to mind the risk models that were used before the credit crisis: 'On the basis of historical

data, those risk models calculated that the chance that the house prices would decrease was 0, because they had been increasing for 10 years already. This may be correct from a statistical point of view, but whoever believes this, is ignorant.’ Alkema: ‘The idea that, within a certain space of time, economy always grows is a false certainty. Theoretically, many more futures are possible. As long as these futures are plausible, we should fully consider their consequences.’

### **There should always be doubt**

Therefore, it is very important for every organisation to be sensitive to signals that come from outside their usual world of thought and to consider whether they had expected those signals to appear. This, however, is easier said than done. Whether the organisation really engages in absorbing signals from the outside world and interpreting them, depends on the culture and the structure of the organisation. In organisations that highly value strategy, people have an internal motivation to work on strategy and they feel free to share not only the good, but also the bad news. Alkema: ‘When everybody agrees on a complex, contentious issue, it is likely that everybody is wrong. When more than two sensible people are together, it is impossible that they always agree. There should always be doubt!’ To illustrate this, De Ruijter recalls the auction of UMTS-frequencies – Universal Mobile Telecommunications System is one of the third-generation mobile telecommunications technologies – in The Netherlands. ‘At the end of the nineties, the official vision was that UMTS were *the* future of mobile communication. Therefore, all telecommunication companies were trying to get hold of a UMTS-license, at any price: this involved amounts up to 1.5

billion Dutch guilders per license. At lower levels of several of my clients’ organisations, however, plenty of other visions of the future existed. Together with Daniël Erasmus of the Rotterdam School of Management, I designed scenarios for a telecommunications world player, from which other, less favourable prospects for UMTS emerged. Nevertheless, it turned out to be impossible to discuss this with the top of the organisation in question: they were fooled by their own false certainties, blinded by foresight. Today, we know that UMTS never brought the big success expected.’

### ***‘The idea of scenarios is to intervene before something happens’***

Famous examples have shown the advantages that can be taken of thinking ahead. Shell’s success during the first oil crisis was already mentioned, just like the fact that Rabobank was prepared for the credit crisis. Alkema: ‘The people who best absorb large shocks, are those who had already thought of the possibility of those shocks. That is the power of scenario: by thinking about threats and opportunities, you take those possibilities into consideration, either implicitly or explicitly, and you are one step ahead of your competitors who have not reflected upon the future. For this reason, scenarios are a unique instrument.’ De Ruijter: ‘The people who have thought about future scenarios, realize that something is going on more rapidly and recognise what is happening a lot earlier.’ Alkema: ‘Many organisations are struggling to handle uncertainty. It’s up to the strategist to open the uncertainty to discussion, so that the organisation can act upon it in a proactive and conscious way.’

**Paul de Ruijter** (MSc. in Business Engineering from the University of Twente) is the Managing Director of De Ruijter Strategy and he is based in Amsterdam. He has designed and implemented scenario- and strategy projects on a full time basis since 1992. In the past years, Paul de Ruijter has conducted foresight projects in organizations like Rabobank, Holland Shipbuilding Association, Food and Consumer Product Safety Authority, Ministry of Interior Affairs, Ministry of Defense and the World Business Council for Sustainable Development. He developed his expertise at Shell Group Planning in London, Global Business Network Europe and at the Dutch Foresight Steering Committee at the Royal Dutch Academy of Art and Sciences. Paul de Ruijter is a member of the Oxford Futures Forum, and (co)author of the forum's latest book on scenario planning: *Scenarios for Success - Turning insights into action*. Paul has also authored or co-authored several books on innovation and scenario planning in Dutch. Spring 2010 his newest book will be published.



In cooperation with:

**Henk Alkema** holds a PhD degree in Chemicals from Groningen University. After 10 years in Shell Research (Amsterdam), he joined Shell's new Group Planning division in 1971. He joined Ted Newland to work on Long-Range Planning and Technology Forecasting. Their work in 1971-1972 produced controversial high-price scenarios for the period 1971-1985, that were subsequently build into the first set of Shell Scenarios of December 1971. Supporting Individual Producer Government Take/Production Strategies were completed in 1972 but had already played a key role in the reasoning behind the price scenarios. This early work has caused a continuing interest in strategic planning throughout his further Shell career and his subsequent work for Booz-Allen & Hamilton and Andersen Consulting (1994-2000). Presently Henk Alkema cooperates with De Ruijter Strategie.



**Peter van Veen** is a Director of De Ruijter Strategy and runs the International Office out of London. He grew up in The Netherlands, Brazil, Singapore and New Zealand. He has undergraduate and masters degrees in economics and politics and a Postgraduate Diploma in Corporate Governance and Business Ethics. Peter van Veen is also a Fellow of the Chartered Management Institute and a Member of the Chartered Institute of Personnel and Development. Prior to joining De Ruijter Strategy as a Director, Peter van Veen worked as an Economist at Shell Group Planning and Shell Chemicals, as a Strategy Consultant at Accenture and SRI Consulting and ran a consulting and services division of Bertelsmann in the UK



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