

THE AGILE ORGANIZATION AND THE ROLE OF STRATEGIC PLANNING: SCENARIO PLANNING IN THE GREAT FINANCIAL CRISIS OF 2007-2009

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ABSTRACT:

The concepts of scenario planning and the Agile Organization, a concept which has recently been integrated with SEAM, have become popular topics in the field of management. Scenario planning (as a concept within strategic planning), and the concept of the Agile Organization, are now making contribution to the field of organization theory and organization development, as both concepts pertain to an organization's ability to sense and respond to changes in the environment. This paper explores the success and failure of scenario planning in anticipating and responding to the Great Financial Crisis of 2007-2009. The study illustrates the hidden costs and later obvious costs in the failure of one of the most popular approaches to strategic planning.

Keywords: Agile Organization, Strategic Planning, Economic Crisis, Financial Crisis

INTRODUCTION

This paper discusses the relationship of strategic planning and the concept of Agile Organization within the context of the great economic turndown of the 1990s. The paper presents an historical description of the concept of Agile Organization, the concept of strategic planning through a presentation and analysis of data from 14 of the best known firms using scenario planning and the failure strategic planning in a majority of the organizations. Possible explanations which may help to explain the failure to respond along with a discussion of two of the 14 organizations that did respond to the crisis is presented. The result of the study is then discussed in terms of additions to the definition of Agile Organizations.

THE AGILE ORGANIZATION

One way of approaching the definition of an Agile Organization is to review the early literature in organization design, a literature which reshaped organization theory in the 1950s. This work included the research of Joanne Woodward in England and Burns and Stalker in Scotland. The work in England and Scotland was further developed in the US by Lawrence and Lorsch at Harvard (1967).

Joanne Woodward's work demonstrated that there was a clear relationship between technology and organization structure and design, that organizations characterized by mass production technology were more successful if mechanistic (bureaucratic) in design while organizations that were characterized by unit production and process-production were more successful if they were characterized by organic (agile) structures (Joanne Woodward, 1965).

Burns and Stalker (1961) added to Woodward's work with research that ultimately served as the foundation for the current thinking in Agile Organizations. Their research clearly demonstrated a link between the complexity and rates of environmental change, that organizations working in stable environments were more successful if characterized by mechanistic structures while organizations working in highly complex and changing environments were more successful if characterized by organic structure. The work of Burns and Stalker (1966) relating environmental complexity and rates of change clearly creates the foundation for current thinking regarding the Agile Organization.

Lawrence and Lorsch then reported on research that related differences in environmental conditions to internal structures presenting evidence that internal units facing different external environment required appropriate internal structures to be effective.

Today much of the work on the Agile Organization has been carried out at the Center for Organization Effectiveness at the University of Southern California. More recently the concept of Agile Organization has been combined with the SEAM concept in a case study of the French organization, Brioche Pasquier Group reported in *Becoming Agile: How the SEAM Approach to Management Builds Adaptability* authored by Worley, Zardet, Bonnet, and Savall (2015). The following definition of Agile is taken from their book, *The Agile Organization* is defined as being characterized by four routines.

...the ability to strategize in dynamic ways, accurately perceive changes in their external environment, test possible responses and implement changes in products, technology, operations, structures, systems, and capabilities. (Worley, et. al., p.18.)

SEAM

The concept of Agile as defined by researchers at the University of Southern California has recently been integrated with the Socio Economic Approach to Management (SEAM) approach to management in a case study of the Brioche Pasquire Group. Central to the SEAM approach is the concept of hidden costs. The failure of scenario planning, a function which is central to agility in terms of planning for and responding to environmental changes, would appear to be a significant hidden cost. The inability to sense and respond to an organization's environment is clearly a hidden cost which when the change in the environment is experienced as in the economic financial crisis of 2007-2009 the hidden cost becomes obvious and significant.

SCENARIO PLANNING

Briefly, scenario planning may be defined as a plan or strategy for planning for an uncertain future environment. For example, one of the first definitions was supplied by Michael Porter in 1980 as an internally consistent view of what the world will look like in the future (p. 234). Or a more recent and comprehensive definition by Chermack and Lynham in 2002:

Scenario planning is a process of positing several informed, plausible and imagined alternative future environments in which decisions about the future may be played out, for the purpose of changing current thinking, improving decision making, enhancing human and organization learning and improving performance (p. 376).

Historically there are several points worth making. Scenario planning first emerged following World War II as a method for military planning and later refined by Herman Kahn in the late 1960s followed by the work of Pierre Wack, a planner at the London offices of Royal Dutch Shell. Shell Oil was to become the most prominent and influential force in the corporate adoption of Scenario planning. It might also be noted that a parallel concept was developing in France by Gaston Berger, a French philosopher who entitled it prospective thinking or 'la propective'.

A survey by Linneman and Klein in 1983 illustrates the growth and popularity of Scenario Planning. They report that in 1974 few of the responding organizations reported using scenario planning a number which had grown by 50% of the surveyed organizations.

The process itself is described by Peter Schwartz in *The Art of the Long View* (1996, pp.241-246):

Sept One: Identify Focal Issues.

- What are the decisions to be made that will have a long-term influence on the performance of the company?

Step Two: Key Forces in the Local Environment

- Identifying key elements in the environment.

Step Three: Driving forces

- Identification of forces both predetermined and forces characterized by high uncertainty.

Step Four: Ranking of key forces

- Ranking which includes ranking by both key success factors and degree of uncertainty.

Step Five: Select Scenario Logics

- A process by which scenarios are developed with the objective of providing a limited number of scenarios, those which are most critical for organization decision makers

Step Six: Flesh out the Scenarios

- The creation of a narrative through review of the key drivers

Step Seven: Implications

- Review scenarios in terms of forming strategy

Step Eight: Select Leading Indicators and Signposts

- Selection of a scenario: If this is done properly, the company will gain a jump on the competition in knowing what the future holds for a given industry and how the future is likely to affect strategies and decisions in the industry.

METHODOLOGY

The process of selecting the organizations in this multi-case study was based on purposive sampling that identified organizations that met the criteria of the study. Fourteen cases were selected representing a mixture of organizations from different industries, location and size and represent established and most widely recognized users of scenario planning. All of the organizations selected had in common the use of Intuitive Logistics scenario planning as part of their strategic planning process.

The companies selected include:

1. Royal Dutch Shell
2. Coca-Cola Company
3. Microsoft
4. Chevron Corporation
5. United Parcel Service
6. The Walt Disney Company
7. Procter & Gamble
8. Apple
9. Intel Corporation
10. Accenture plc
11. AT&T
12. IBM
13. Herman Miller
14. General Electric

Data was collected for the years 2007 (T1), 2008 (T2), and 2009 (T3) based on the U.S. Government Accountability Office's decision to date the financial crisis as starting in 2007 and ending in 2009 (United States Government Accountability Office, 2013, p.1). The analysis is based on content analysis of company and economic data derived from the Federal Reserve, the Financial Crisis Enquiry Commission, Standard and Poors, Credit Suisse, The Economist, The Financial Times, The Wall Street Journal, The New York Times, Business Week, and Bloomberg Financial among others.

RESULTS

From a close examination of relevant public documents, six of the 14 firms in the sample (Royal Dutch Shell, United Parcel Service, Walt Disney Company, IBM, Herman Miller, and General Electric) showed evidence of having sensed (recognized the potential of) the impending crisis by 2007 (the pre-crisis period). Even though six of the 14 firms sensed the looming crisis, only Herman Miller, the smallest company in the sample by market capitalization, and GE initiated some steps in response in 2007.

DISCUSSION

The most sophisticated means for sensing and responding to environmental change, one of the most important characteristics of an Agile Organization, failed to predict one of the most significant economic changes in our environment -- a change which was of almost unimaginable magnitude. How can one possibly explain this failure?

To some extent it reminds us of Mintzberg's classic *The Rise and Decline of Strategic Planning* (1967). But from an organizational perspective, how can it be explained and what implications does this have for the model, the characteristic associated with the concept of Agile Organization. Several possible explanations are discussed including implications for the Agile Organization and the most recent illustration of Agile presented in the work with SEAM.

Three possible explanations are presented here:

1. The Cassandra Syndrome
2. Blind confidence in probability
3. Reactive approach to change

THE CASSANDRA SYNDROME

The ancient Greek story of Cassandra captures a common irrational response to intelligence -- the irrationality of desiring to know the information and yet refusing to accept it when it is offered if it contradicts what the leaders will believe. Cassandra was the beautiful daughter of King Priam of Troy. The God Apollo was smitten with her beauty and lavished upon her the gift of prophecy. Since Cassandra spurned Apollo's amorous overtures, he responded with a curse. Apollo allowed Cassandra to keep her gift of prophesy, but she would never be believed and could never affect the course of events. "You tell the truth about the future but no one believes you, over and over and over and over again" (Kleiner, 2008, p. 148).

The great financial crisis of 2007-2009 ...was not only predictable, but also predicted. (Stiglitz, 2010, p. 1). There are numerous other significant illustrations which include the decision to invade Iraq. Prior to the decision to invade Iraq, a team at the State Department created scenarios predicting the prospect of an insurgency and looting following a military victory. These negative scenarios were ignored (Oglivy, 2011, p.9).

It is not unusual for those on the ground who have knowledge of changing conditions and the need for responding to organizational changes as illustrated, for example, in the study of the SAS turnaround reported by Sorensen, Head, Scoggins and Larsen (1990). Organizations inadvertently suppress the insights of workers and they do so in ways that are ingrained and invisible. They stifle insight because of the ways in which organizations are structured and an organization culture which values routine and predictability.

BLIND CONFIDENCE IN PROBABILITY

The second reason as to why firms did not anticipate the crisis is that the predominance of model-based, quantitative and statistical risk assessment saw the decision criteria of plausibility displaced by blind confidence in probability (Van der Heijden et al, 2010, p.270).

The quant modeling-dominated culture of risk management has serious problems with creating and working with meaningful plausibility. Instead, modelers and regulators must now explore the plausible conditions under which the assumptions of the model might no longer hold. Scenario planning, if used appropriately, offers an effective way to carry out plausibility analysis because it puts probability models in different further plausible contexts. In effective scenario practices, scenarios and models are used to constructively

challenge each other. This challenges the belief that effective risk management can be based entirely on historical data and the probabilities derived from these data. We cannot expect the future is going to be like the past (Van der Heijden et al., 2010).

We have an obsession with models, both literally and metaphorically. The models are good as long as the assumptions they are based on work. In economics, with the aid of the magic wand of 'ceteris paribus' ('other things remaining the same') assumptions, the modelers and financial engineers are able to airbrush away most imperfections to create near-perfect models that are highly predictable, in equilibrium, and conform to prevailing norms. Any fact that does not fit received wisdom is considered an 'outlier,' a 'fat-tail,' a 'black-swan,' or an 'anomaly,' to a certain kind of mind, these anomalies are nothing but annoying blemishes on the perfect skin of explanation. To others, anomalies mark an opportunity to learn something very valuable (Rumelt, 2011). Many of these model builders are celebrated as heroes of financial engineering—seers who can peer into the future and predict... (pg. 189).

REACTIVE APPROACH TO CHANGE

This third possible explanation for the failure to predict and respond to the financial crisis is captured in the statement by Gary Hamel and C.K. Prahalad (1994) referring to management 'preoccupation with current operations and current problems rather than the future'.

On average senior management is devoting less than 3% of its energy to building a corporate perspective on the future. In some companies the figure is less than 1%. As a benchmark, our experience suggests that to develop a prescient and distinctive point of view about the future, a senior management team must be willing to spend about 20 to 50% of its time, over a period of several months. It must then be willing to continually revisit that point of view, and adjusting it as the future unfolds (1994, pg. 4).

IMPLICATIONS FOR AGILITY

The concept of agility both at the individual level and the level of the organization have been receiving increased attention. For example, W. Warner Burke and Debra Noumair (2015). identify the concept of agility as one of four major trends which will influence the future of the field of organization development. Along with the concept of agility, they identify positive organizational change as being one of the influential forces for the future of the field.

Christopher Worley, et. al. (2015) describes one of the central characteristics of an Agile Organization as follows: Agile organizations make effective changes because members understand and share a commitment to the strategy. This shared understanding and commitment helps people to know what changes are most important to execution. ... agile firms define leadership as an organization capacity and view anyone in the organization as capable of influencing change.

One of the two organizations responding successfully to the economic crisis, Herman Miller, is of particular interest in that it has a long-term history of creating an organization culture which meets the criteria of an Agile Organization in terms of creating shared understanding and commitment to the strategy of the organizations. Herman Miller was identified as one of America's Most Admired Companies by *Fortune* magazine in 1989. Later in 1999 Herman Miller is the topic of an article in *Human Resources Management* by McCowen, Bowan, Huselid and Becker (1999, pp. 303-308). The authors cite the *Fortune* article and that Herman Miller had recently been ranked #1 in its industry and #1 in social responsibility. The authors devoted their article to exploring how Herman Miller has dedicated its change strategy to include the following questions: How to increase the capacity of the workforce to positively respond to change? How do we create an empowered environment? How can we enforce all employees to have *courageous conversations* with each other and with their leaders? These questions are very much reflective of Worley's creating an environment of shared understanding, commitment central to an Agile Organization.

The second organization is even more interesting in the sense that it is probably one of the most cited organizations in terms of agile characteristics. The company, General Electric (GE), has been of particular interest for those in the OD field interested in organization design and the relationship of organization design to response capability in terms of increasing environmental change and uncertainty. General Electric has a long history of creating organization structure designed to increase flexibility and effectively coping with environmental change. In terms of current history, the initial changes under the previous CEO Jack Welch included decentralization, reducing hierarchy and organizational levels as just a few structural change, and strongly symbolic of GE's move to become more flexible and responsive.

GE's response to the crisis and the implications for the concept of Agile are instructive. In 2007 Jeffery Immelt, GE chairman and executive stated that that GE has always been a learning company (General Electric, 2007, Annual Report, p.7). GE has a history of innovation in management training. In 1956, the company built a 53-acre learning facility at Crotonville in New York. Soon, it was recognized as the world's first corporate business school. The objective was to build GE's competitive advantage through real-world application of cutting-edge thinking in leadership, organization development, innovation, and change management, emphasizing the intellectual property inherent in GE people and in the application of new management ideas. Jeffrey Immelt himself provided leadership training courses. In 2007 almost 10,000 employees attended various courses at Crotonville. In a major shift in thinking, Immelt stated in his letter to investors, dated February, 2008, that historically our training has focused on each individual. Today, we feel that team learning can drive most change (General Electric, 2007, Annual Report, p. 8). But perhaps the most revealing lines appeared in his letter to investors dated February, 2009, stating:

For 2009, we have sharpened our strategic process and scenario planning. We have increased the frequency and changed the agendas of our operating meetings. Each of our businesses has set up a process to identify the

'naysayers' in each of our industries to make sure their voices are heard inside GE. From top to bottom and across GE, we must and will listen more critically and respectfully to each other. (General Electric, 2008, Annual Report, p. 8).

Coming from the chairman and chief executive of GE, the birthplace of the large group intervention, known as Workout, aimed at helping employees address and solve problems without having to go through several hierarchical levels and one of the earliest adopters of scenario planning, it was an eye opener as it highlighted the need to do something about silo mentality and groupthink and the importance of dialogue -- what Van der Heijden termed strategic conversation (1996). It would have been more appropriate to term it authentic conversation.

CONCLUSION

This paper explored the relationship of Agile Organization in terms of successful responses to the economic crisis of 2007-2009. The two organizations which responded successfully have an extensive history of dedication to creating characteristics frequently associated with Agile Organizations (Worley et al, 2005). The fact that one of the organizations has also implemented Appreciative Inquiry on an international basis introduces the possibility for future research, that two of the major trends shaping the future of OD -- positive organizational change (AI) and the concept of Agile Organization -- may, in fact, be closely linked. The economic crisis, the characteristics of the two companies successfully responding, and the possibility of the inclusion of positive organizational change adds to the extension of the work adding to our understanding of Agile and the relationship of Agile to SEAM.

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