

Scenario Development

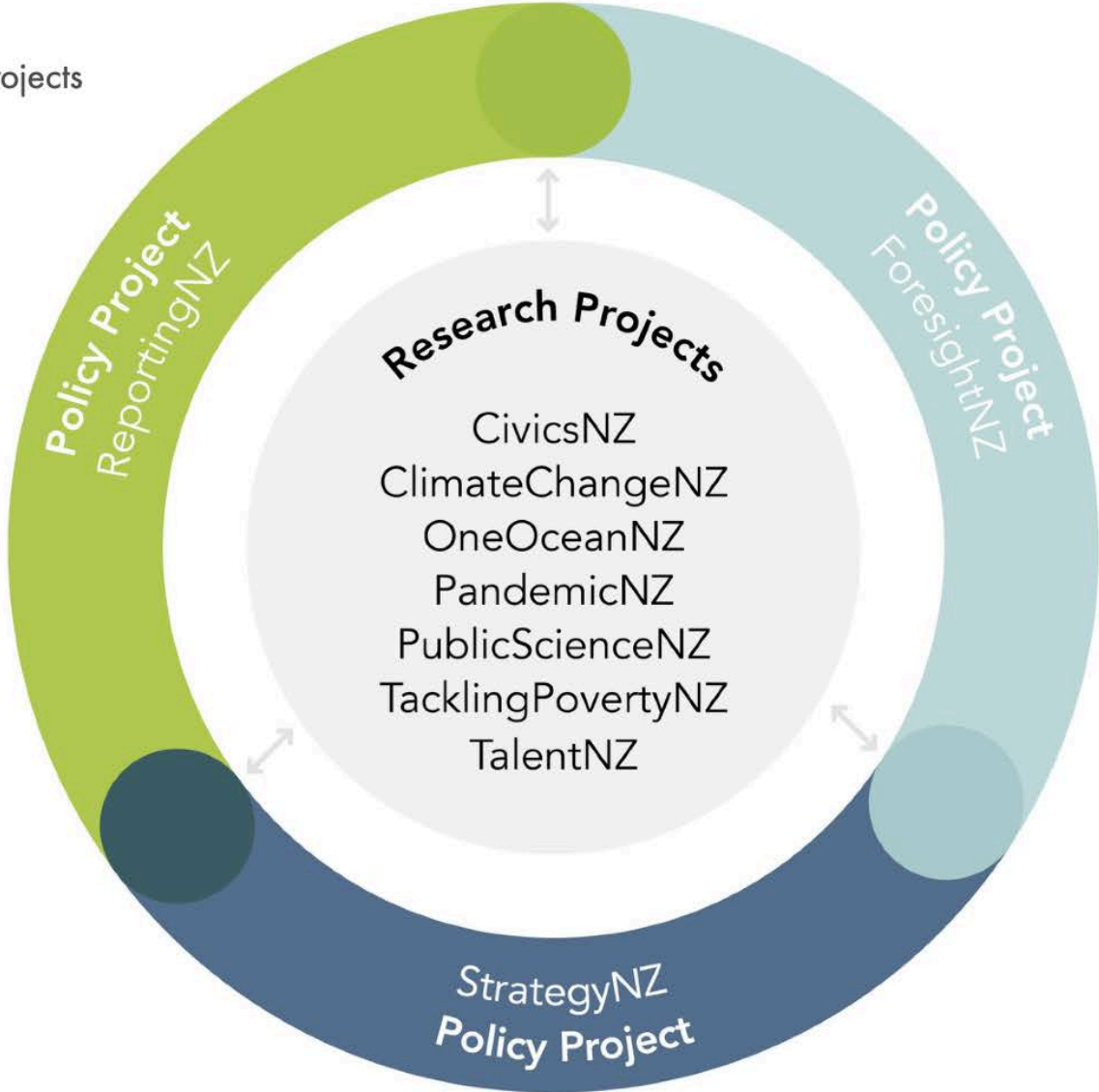
Victoria University of Wellington

“The intuitive mind is a sacred gift and the rational mind is a faithful servant. We have created a society that honors the servant and has forgotten the gift”
- Albert Einstein

Takeaways

- The difference between strategy and foresight?
- The difference between probability and magnitude?
- The difference between scenarios and models?
- The difference between trends and implications?
- The difference between 'data and information' and 'information and knowledge'?
- The difference between a strategy and a plan?
- Why timelines are so important?
- Have clarity over who is your audience and how the scenario/s is intended to be used?

Figure 1: Illustrating the links between McGuinness Institute policy and research projects



Cone of Plausibility

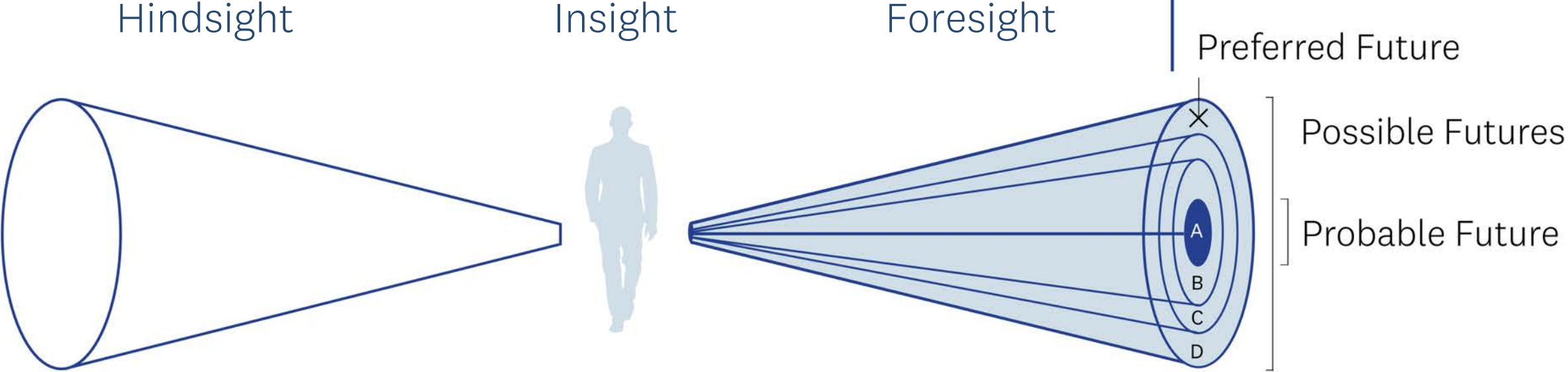
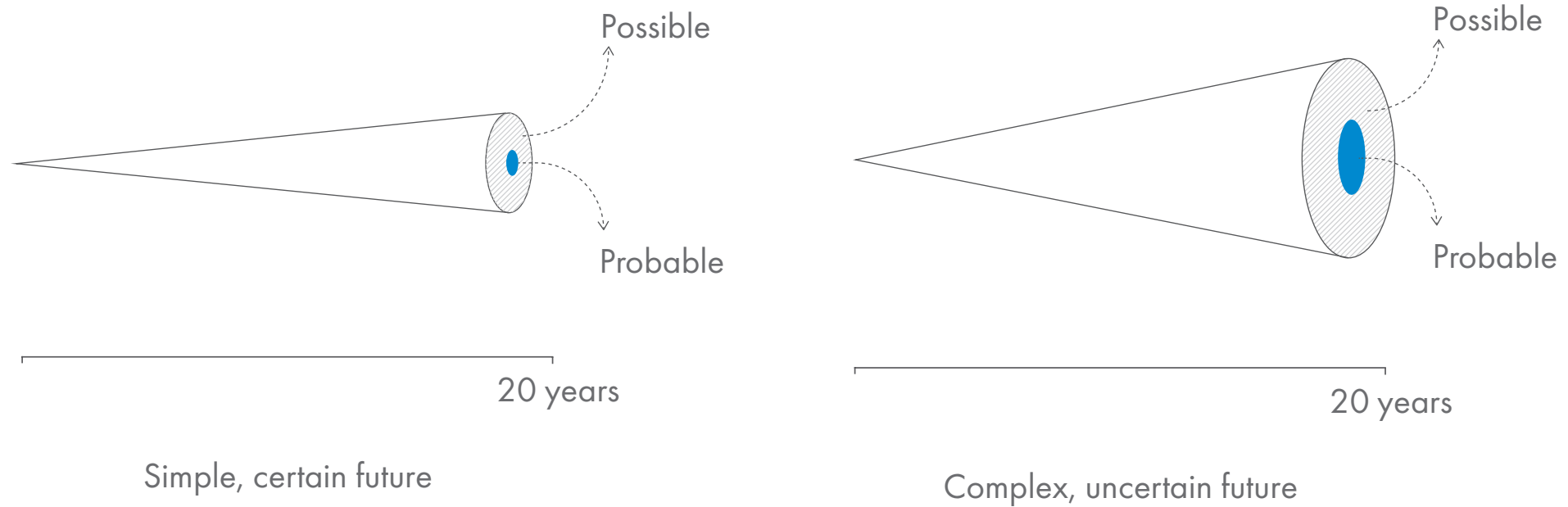
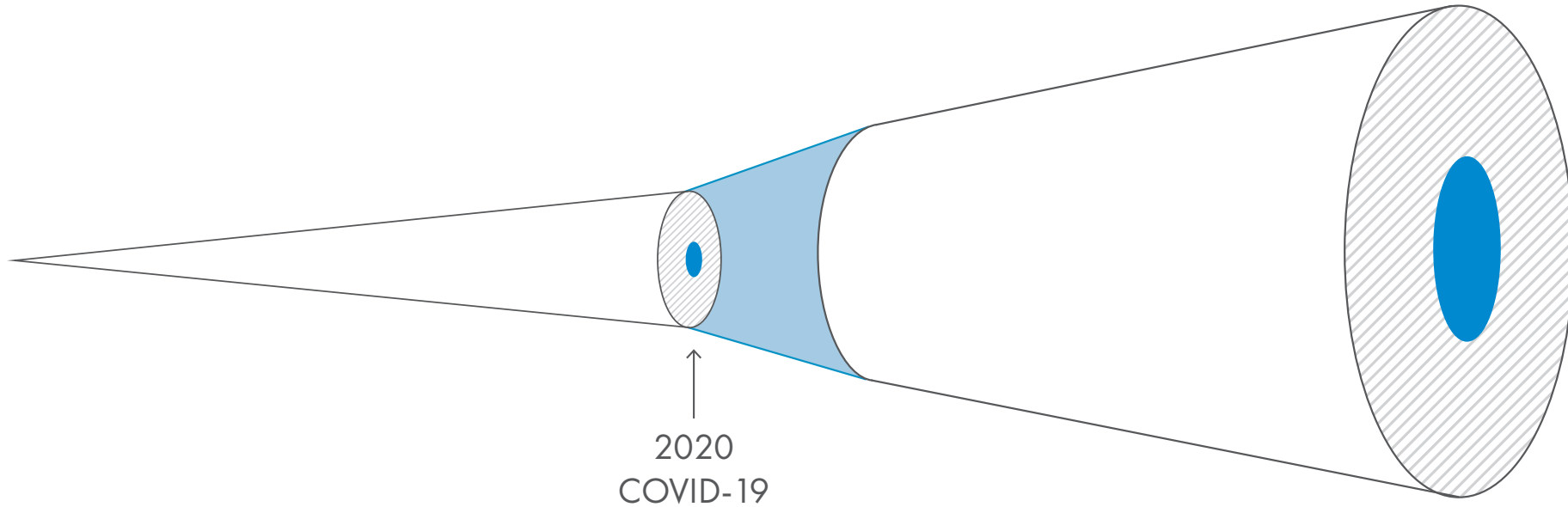


Figure 6: Comparing the possible futures of a simple and certain world with the possible futures of a complex and uncertain world



Implications of COVID-19: More uncertainty over the probable and possible futures



ForesightNZ Playing Cards



Foresight Playing Cards

Futures thinking resource

(April 2016)



Learn more: <https://www.mcguinnessinstitute.org/events/workshops/foresightnz-workshop-2/>

Link to purchase: <https://mcguinnessinstitute.bigcartel.com/product/2016-foresightnz-playing-cards>

Figure 3: Illustrating the three eras of the reporting framework's recent evolution

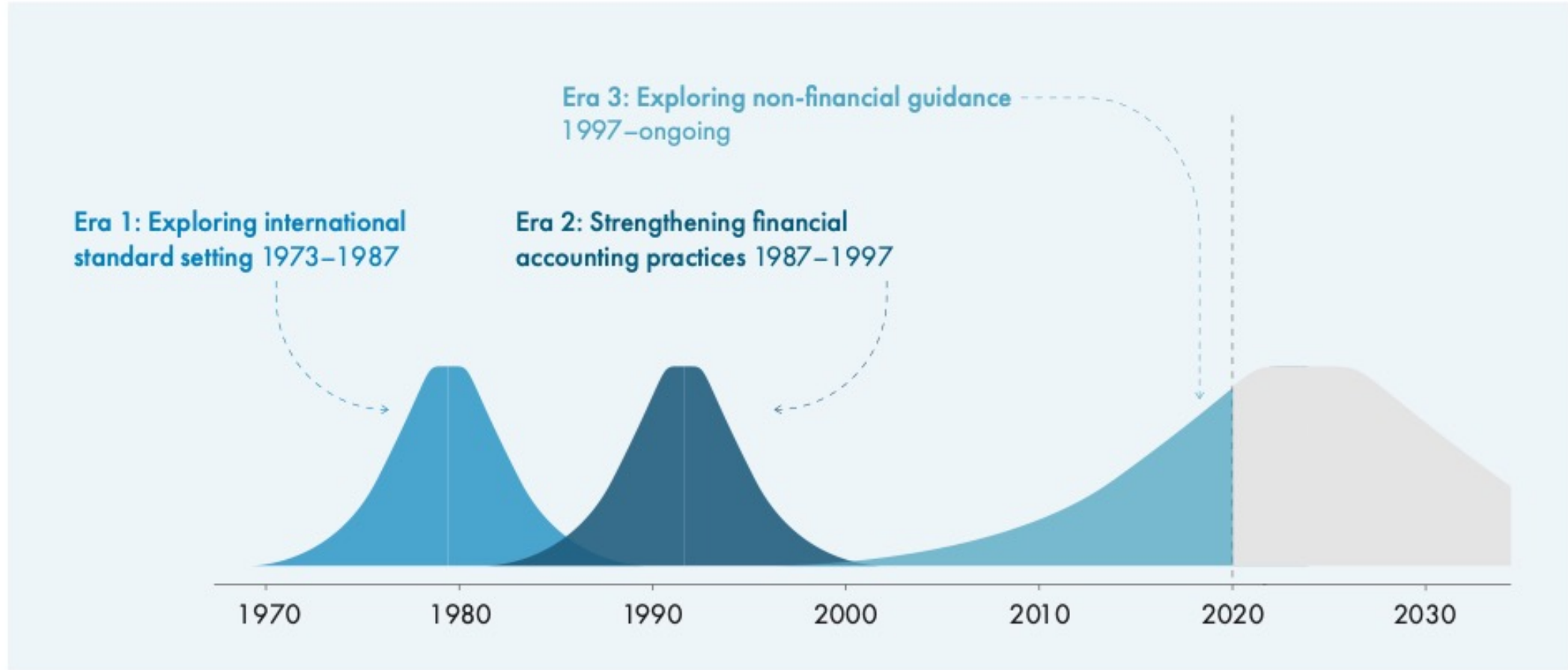
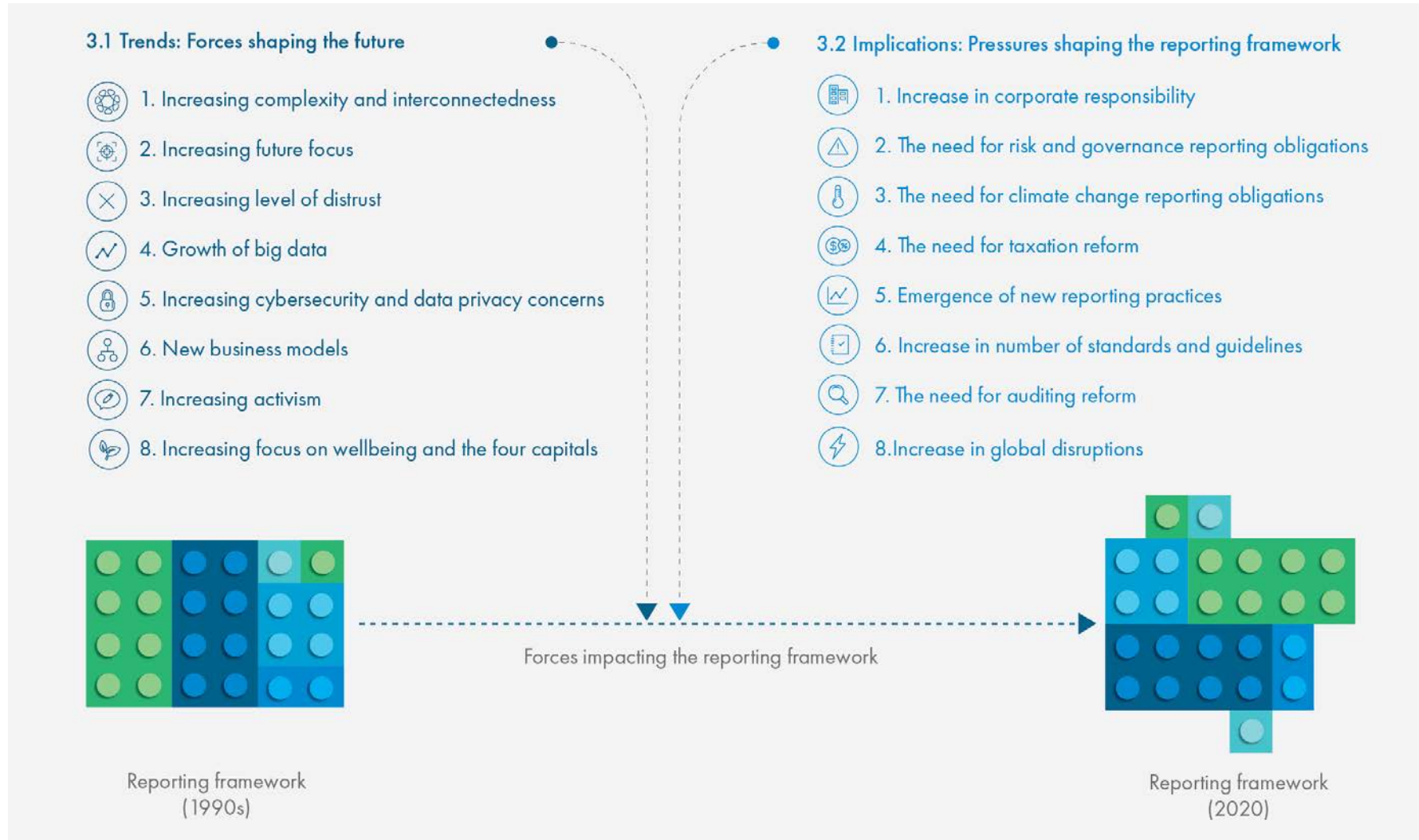
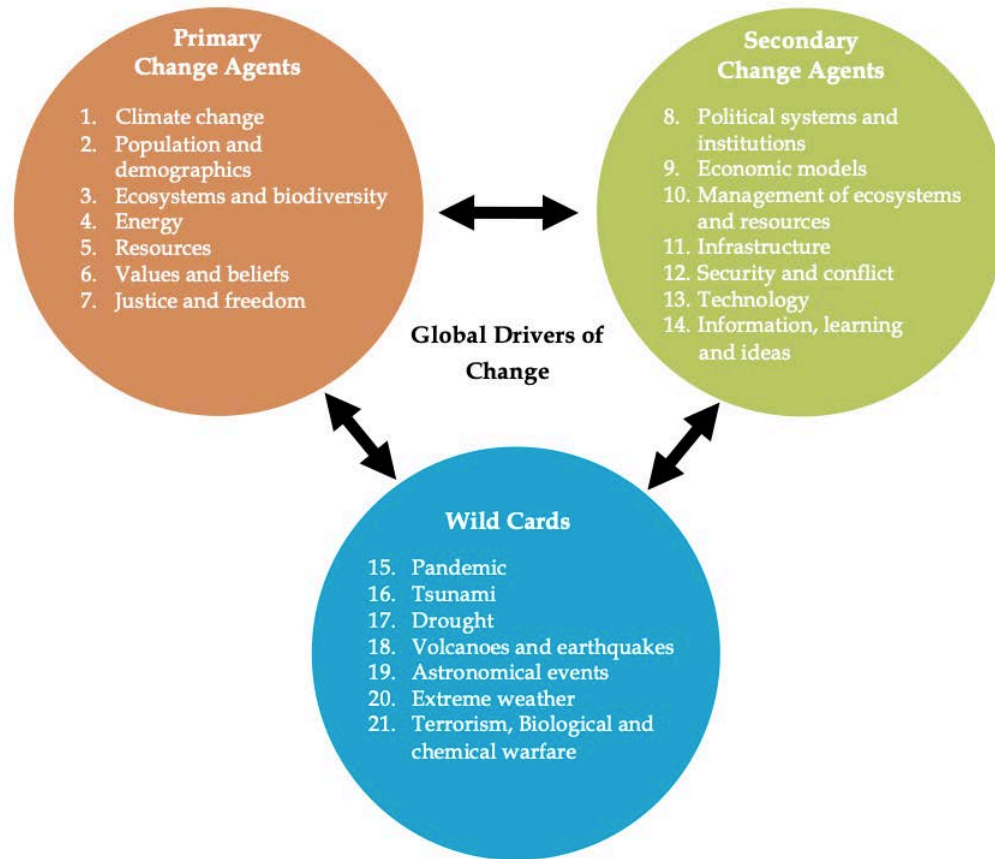


Figure 4: Illustrating the trends and implications shaping the reporting framework



Project 2058: Report 6

Figure 1 Global Drivers of Change



Project 2058: Report 6

Table 1 The Four Scenarios Matrix

	The world does manage its strengths, weaknesses, opportunities and threats	The world does not manage its strengths, weaknesses opportunities and threats
New Zealand does manage its strengths, weaknesses, opportunities and threats	Scenario 1: Power to the People New Zealand ✓ World ✓	Scenario 2: An Island Paradise New Zealand ✓ World ✗
New Zealand does not manage its strengths, weaknesses, opportunities and threats	Scenario 3: Missed the Global Bus New Zealand ✗ World ✓	Scenario 4: All Over Rover New Zealand ✗ World ✗

Table 2 The Essence of the Four Scenarios

	The world does manage its strengths, weaknesses, opportunities and threats	The world does not manage its strengths, weaknesses, opportunities and threats
New Zealand does manage its strengths, weaknesses, opportunities and threats	Scenario 1: Power to the People Concepts such as global unity and balance are no longer myths. Intolerance is a thing of the past, as diverse cultures coexist peacefully, all partaking in one global community. Sustainability, once a determined lifestyle choice, is now the norm. The climate change and peak oil crises are under control as the world embraces innovative, sustainable technologies and systems. The New Zealand public is educated, diverse and informed, choosing to stay in New Zealand where infrastructure is of an excellent standard and the lifestyle is unmatched. The burning question for New Zealanders in 2058 is: How do we maintain peace and prosperity?	Scenario 2: An Island Paradise – but Back to the Jungle Everyone wants a piece of what we have got, and despite our desirable lifestyle, there is increasing tension with the outside world that requires constant management. To stand up to this pressure, New Zealand has cultivated a resilient national identity and robust infrastructure, and has been among the first countries to make some tough decisions. There is particular pressure on our resources and immigration policy, and as we fend off those countries once considered to be superpowers, we look for allies in countries that are similarly positioned. The burning question for New Zealanders in 2058 is: How do we protect what we have?
New Zealand does not manage its strengths, weaknesses, opportunities and threats	Scenario 3: Missed the Global Bus Our isolation is more pronounced than ever, as we lag behind politically, economically and in the management of our resources and environment. To make up for these shortfalls, our government grasps at unsuccessful ‘quick fixes’, fuelling rather than rectifying the nation’s downward spiral. Corruption, diminished cultural identity, an increase in slums and local terrorism have forced many educated New Zealanders elsewhere. The burning questions for New Zealanders in 2058 are: What happened? What can we do?	Scenario 4: All Over Rover It is the end of the world as we know it. As each country embarks on a policy that is characterised by short-term goals designed to meet the self-interest of a few, the only international interaction is conflict-based and is fuelled by fear, an arms race and nuclear proliferation. As climate change, resource shortages, biodiversity depletion, population growth and inequality escalate, these global problems spiral out of control. The burning question for New Zealanders in 2058 is: Do we have another 50 years?

Project 2058: Report 6

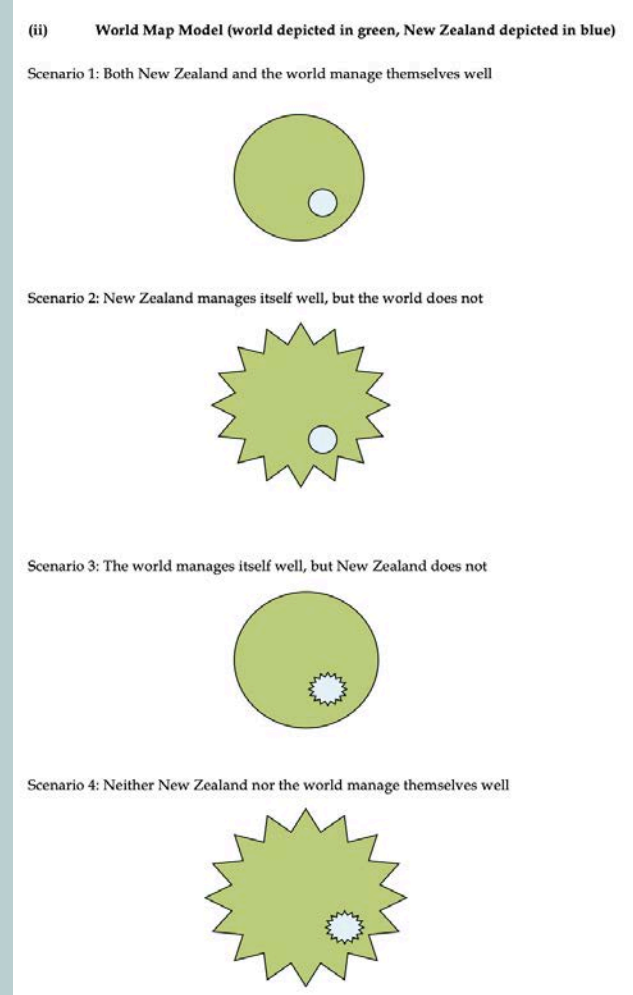
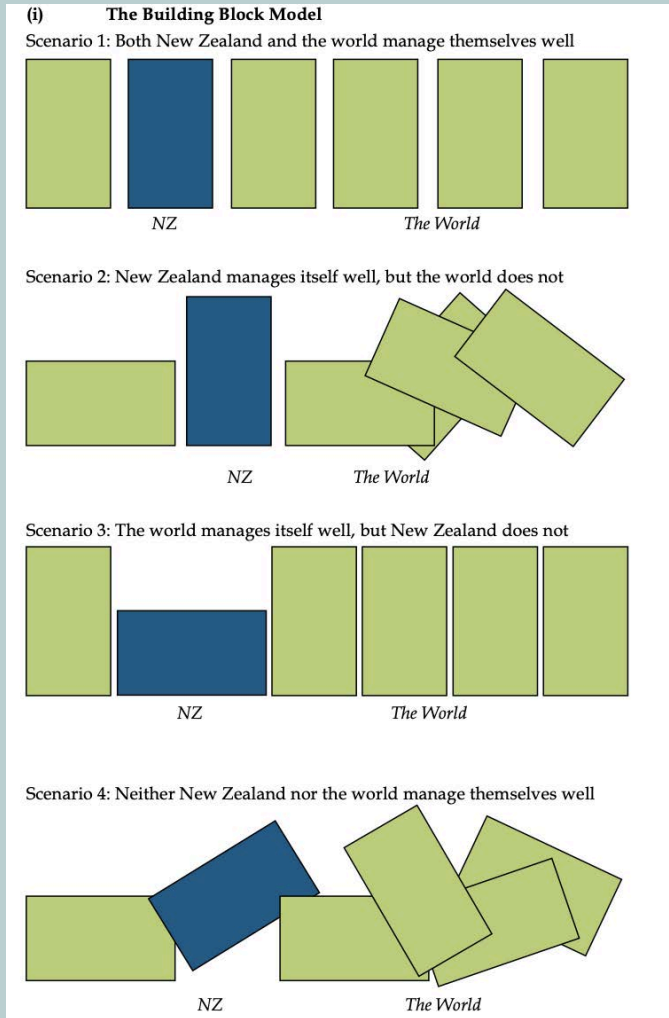
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Project 2058: Report 6



Project 2058: Report 6

Our scenario exercise makes it clear that New Zealand needs to:

1. Be seen to deliver on all of our international agreements and legal obligations under the United Nations and international law.
2. Design and apply indicators that measure progress in a comprehensive and integrated manner.
3. Identify, investigate, reflect and consider the implications of all available strategic options in an open and transparent manner. Such an approach will not only deliver the best decisions, but just as importantly, gain the commitment of New Zealanders to actively deliver on those decisions.
4. Focus more on what is 'important' rather than what is 'urgent'.
5. Respond appropriately, rather than over-react, under-react or not react at all. In periods of crisis, it will be those who understand not only the change agents, but how they interact over time, who will be able to deliver positive change.
6. Support and engage in thinking long-term about the future.
7. Develop a dynamic, creative and effective strategy for sustainable development that not only propels this country into an exceptional position internationally, but does so in such a way that other countries emulate our practices.
8. In other words, New Zealand must lead by example.

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4.3 What Should We Be Looking For?

One of the difficulties in any future studies work is to identify with any certainty the current global drivers that will shape the future. Consequently, many futurists keep careful watch, scanning the present to assess the future. But in practice futurists can use scenarios to do more than just explore the future; they can create a list of things to watch that indicate which of the futures is likely to prevail.

Lessons learnt from the scenarios indicate things to watch for include:

- A fortress mentality versus a desire to work with others, both between individuals and between countries.
- Disparities in wealth, health, education and technological adoption within societies and between countries.
- The type of leadership style, in particular whether it is proactive and forward thinking or complacent and reactive.
- The extent to which privacy and secrets are accepted norms in government, or whether transparency and public accountability are the more common ethic.

Example slides

Research highlights of Report 17 – Building a Reporting Framework Fit for Purpose

RESEARCH HIGHLIGHTS

Results from quantitative research undertaken by the McGuinness Institute looking at the annual reports of New Zealand's most significant organisations.

EXTENDED EXTERNAL REPORTING (EER) SURVEYS (2017)

SECTION 4.1

43%

of preparers' believed that their entity did not prepare any EER information in the annual report.

Preparers' identified the following four challenges in preparing EER information:

- Generating new information in-house
- Sensitivity of information
- Time constraints
- Gathering available information in-house

63% of users of EER considered this type of information difficult to obtain.

53% of preparers' thought that it should be mandatory for annual reports to be filed on the Companies Office.

Across all disclosure types of information, users considered the disclosures to be more important than preparers (see Figures 12–15).

Disclosures

Preparers

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) SURVEY (2019)

SECTION 4.1.2

Government departments

56% of all respondents thought that it will become mandatory for government departments to include TCFD disclosures in their annual reports before 2022.

24%

of all respondents thought that it will become mandatory for livestock organisations to include TCFD disclosures in their annual reports before the financial year of 2022.

49%

of respondents ranked the TCFD disclosure Metrics & Targets c) as 'very difficult' to prepare and report against.*

Oil, gas, and coal

54% of all respondents thought that it will become mandatory for oil, gas, and coal 'users' (such as airline companies or power stations) to include TCFD disclosures in their annual reports before 2022.

52% of all respondents thought that it will become mandatory for oil, gas, and coal 'companies' (such as extractors, importers or distributors) to include TCFD disclosures in their annual reports before 2022.

48% of respondents ranked the TCFD disclosure Strategy c) as 'very difficult' to prepare and report against.*

*See Figure 17 for the list of TCFD disclosure recommendations.

60% of respondents considered 'annual revenue' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

91% of respondents considered 'total emissions' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

56% of respondents considered 'total assets' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

70% of respondents ranked the TCFD disclosure Governance b) as 'not difficult' to prepare and report against.

MANDATORY REPORTING FRAMEWORK

SECTION 4.2

Annual reports

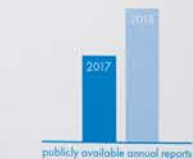
In 2019, 13 of the Top 200 companies applied the concessions available under s 211 (3) Companies Act 1993, which enables reduced disclosures in the annual report.

83 of the Top 200 companies applied this concession in their 2016 annual report.

51-100

Between 51–100 pages was the average length of the 2019 annual reports of NZSX-listed companies.

There was a significant jump between 2017 and 2018 in terms of the number of publicly available annual reports of companies listed on the Top 200.



In 2017, 59% of the companies made their annual report publicly available. In 2018, the number increased to 81%.

Accessibility

92% of significant entities made their 2018 annual reports publicly available. In 2019, this dropped by 14% to 78% due to the impact of COVID-19.

In 2019, 51% of the Top 200 companies voluntarily filed their annual report (including financial statements) on the Companies Office.

58% of 2017 Deloitte Top 200 companies filed their annual reports (instead of just their financial statements) on the Companies Register.

VOLUNTARY REPORTING FRAMEWORKS

SECTION 4.3

The Institute has assessed eight types of entities for three consecutive years on the uptake of internationally recognized voluntary reporting frameworks. While the numbers have increased moderately, there are still very few entities who have adopted voluntary reporting frameworks.

Most commonly mentioned frameworks among all entities are:

- GRI (Global Reporting Initiative) [36]
- ISO 14000 family [40]
- UN SDGs (United Nations Sustainable Development Goals) [43]
- CEMARS (Certified Emissions Measurement and Reduction Scheme) [37]
- IIRC (International Integrated Reporting Council) [48]

Overall, entities operating in the private sector (NZSX and Top 200 companies) employed significantly more frameworks in their reporting practices than public sector entities. Top 200 entities mentioned more voluntary frameworks than NZSX-listed companies (however, companies listed on the Top 200 who adopted a voluntary framework were likely to also be NZSX-listed companies).

CLIMATE-RELATED INFORMATION

SECTION 4.4.2

There has been a steady increase in disclosures of climate-related risks in annual reports between 2017–2019 (among entities that made any form of climate-related disclosures).

20 out of **424**

New Zealand organisations mentioned the TCFD recommendations in their 2019 annual reports.

7 organisations more than 2018.



41% of New Zealand's most significant organisations did not disclose any climate-related disclosures.



- In 2017, 10% of entities disclosed risk.
- In 2018, 21% of entities disclosed risk.
- In 2019, 28% of entities disclosed risk.



Local authorities, as an entity type, appear to be making the most progress in terms of incorporating climate-related information into best reporting practices. See Appendix B.

GENDER DIVERSITY

SECTION 4.4.3

22%

of boards have only male directors (no companies have only female directors) or a female majority.

There has been little change between 2017 and 2019 in numbers of female executive and board members. Majority male boards increased by 18% between 2017 and 2019.



73% have female directors but a male majority.



6% have an equal number of male and female directors.



HEALTH & SAFETY

SECTION 4.4.4

83%

In 2019, 83% of NZSX-listed companies disclosed health and safety statistics, practices and/or targets.

POLITICAL DONATIONS

SECTION 4.4.5

12

companies specifically disclosed a statement on political donations in 2017. All 12 companies reported zero political donations (see Figure 42[e]).

INTANGIBLE ASSETS

SECTION 4.4.6

In 2017, the NZSX had an average tangible asset value of 41% and average intangible asset value of 59%.



ASSURANCE

SECTION 4.4.7

72%

of NZSX-listed companies have engaged the same auditor for five consecutive years (2012–2016).

REPORT 17 IS PART OF THE MCGUINNESS INSTITUTE'S PROJECT 2058

Figure 7: KPMG's research comparing strategy discussions in UK annual reports with strategy discussions in global annual reports 2016

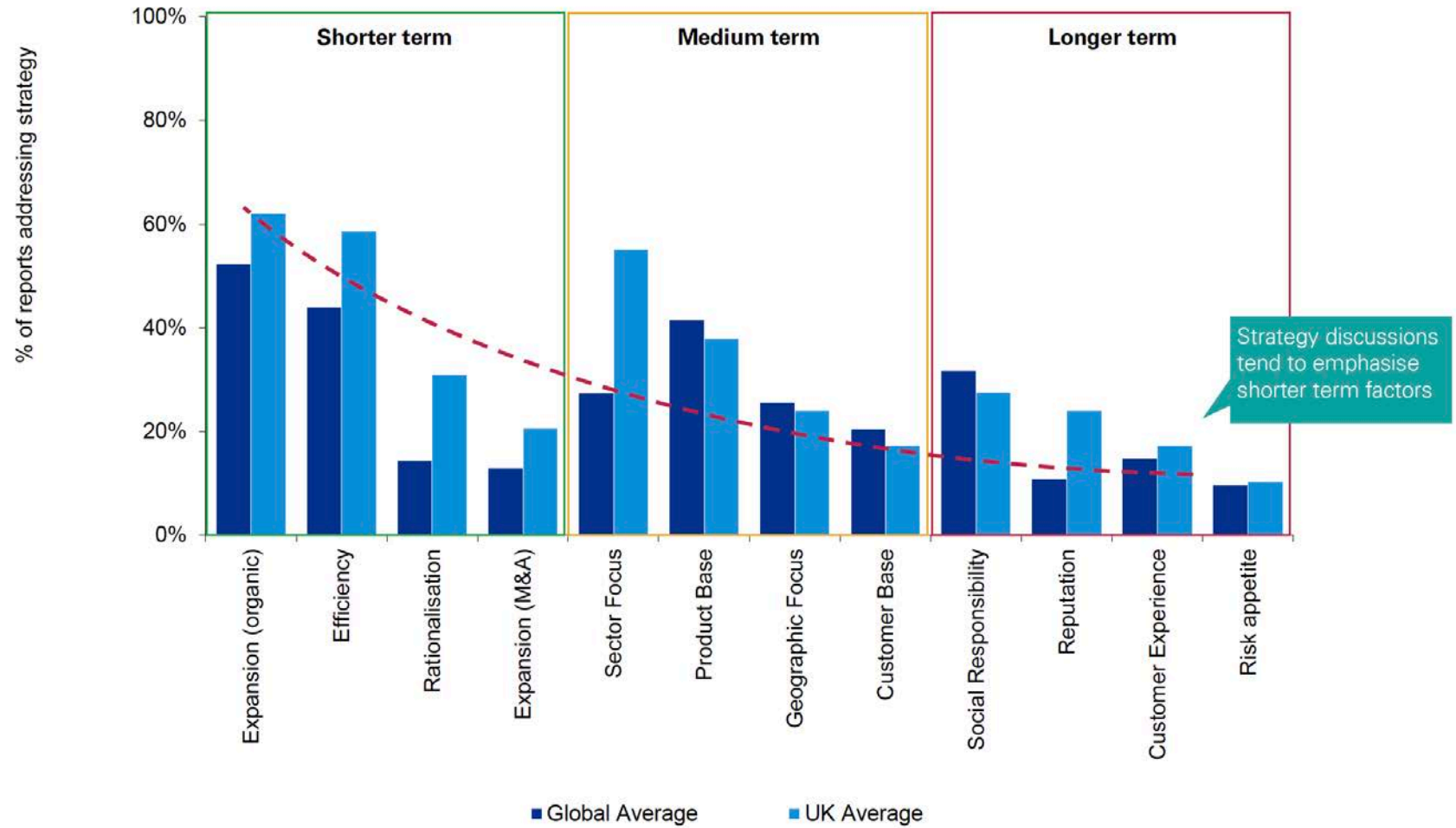
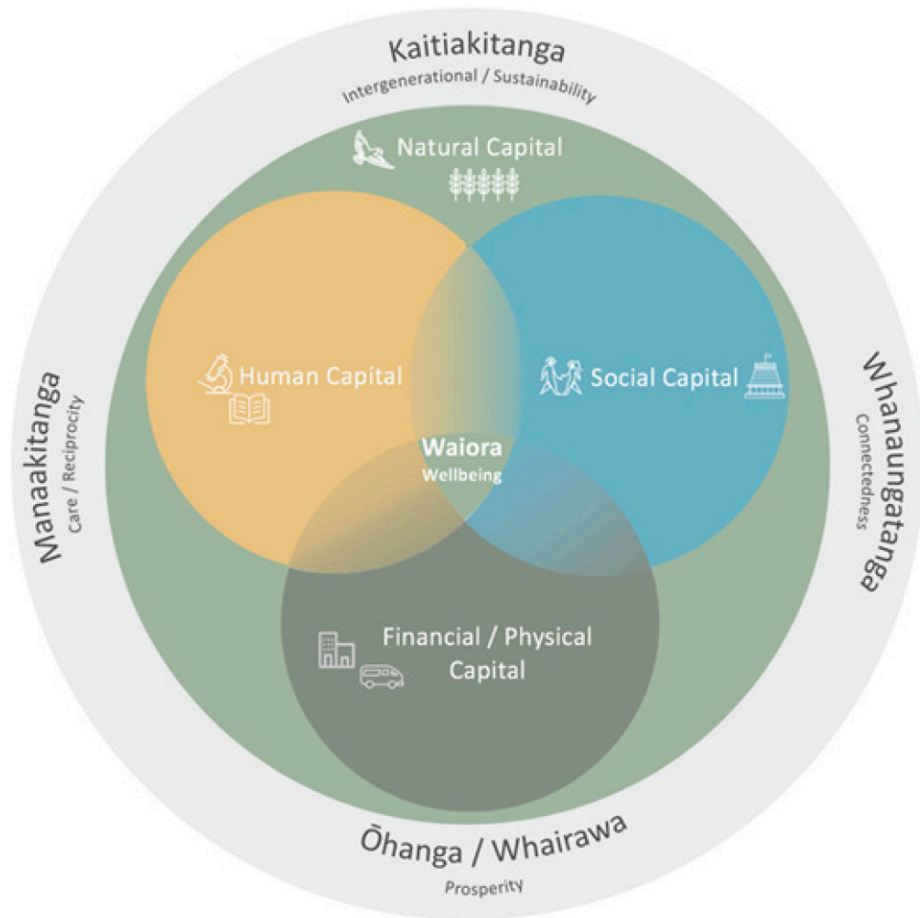


Figure 9: The New Zealand Tax Working Group brings together Te Ao Māori perspectives with Treasury's Living Standards Framework



Natural Capital

This refers to all aspects of the natural environment needed to support life and human activity. It includes land, soil, water, plants and animals, as well as minerals and energy resources.

Social Capital

This describes the norms and values that underpin society. It includes things like trust, the rule of law, cultural identity, and the connections between people and communities

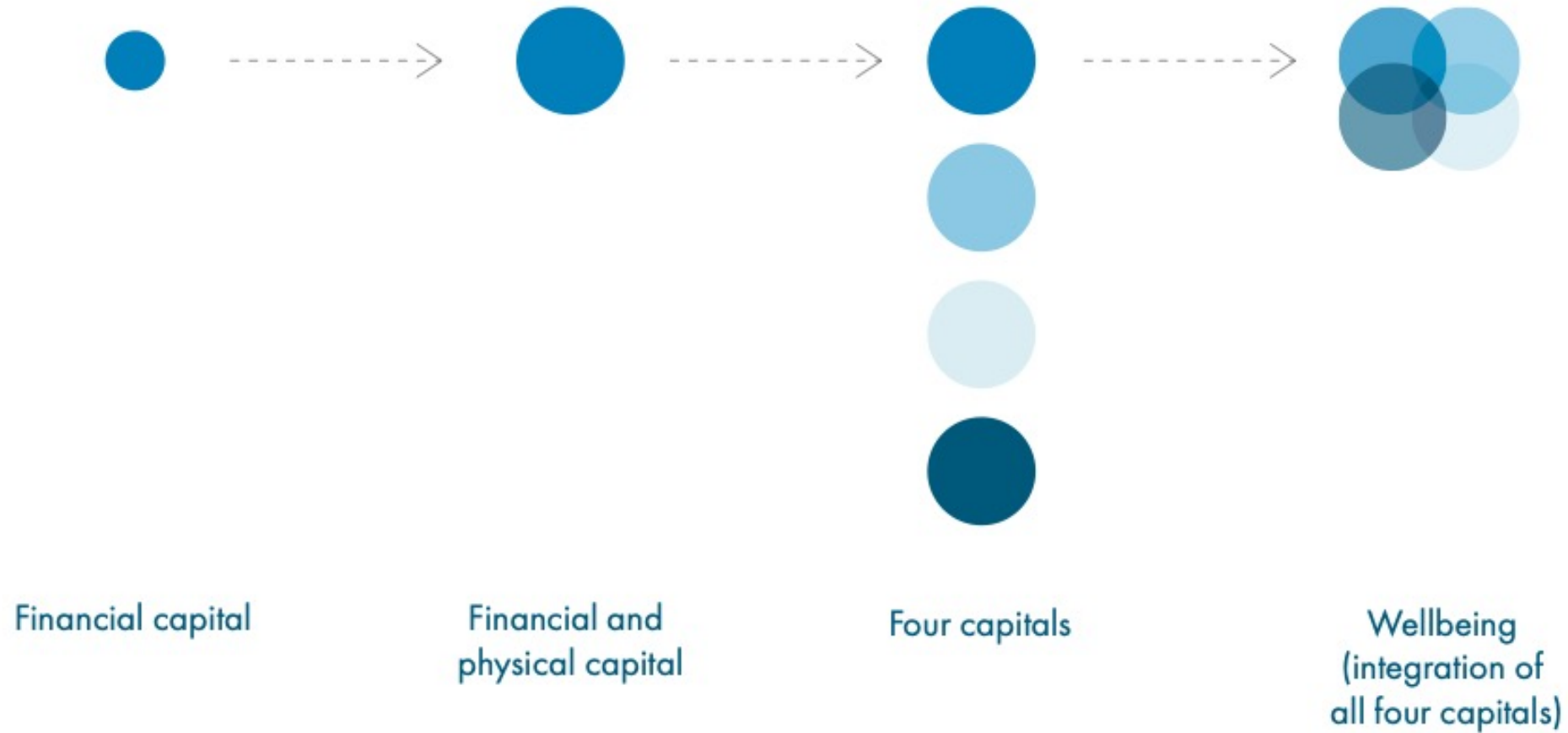
Human Capital

This encompasses people's skills, knowledge and physical and mental health. These are the things which enable people to participate fully in work, study, recreation and in society more broadly.

Financial/Physical Capital

This includes things like houses, roads, buildings, hospitals, factories, equipment and vehicles. These are the things which make up the country's physical and financial assets which have a direct role in supporting incomes and material living conditions.

Figure 10: Illustrating the move away from a 'financial capital-only focus' towards a more 'integrated wellbeing focus'



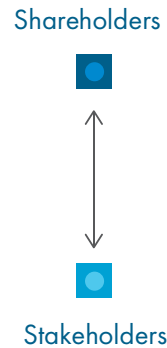
Section 6

Policy knots shaping the reporting framework

1

Who should the reporting framework be designed for: shareholders or stakeholders?

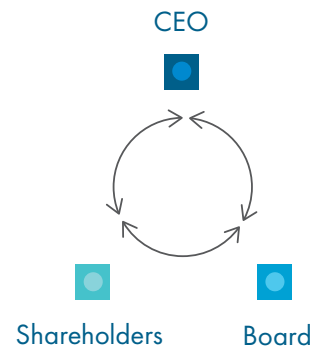
6.1 Tensions between reporting audiences:



2

Who is in control – the CEO, the board or the shareholders – and who are they being held accountable to?

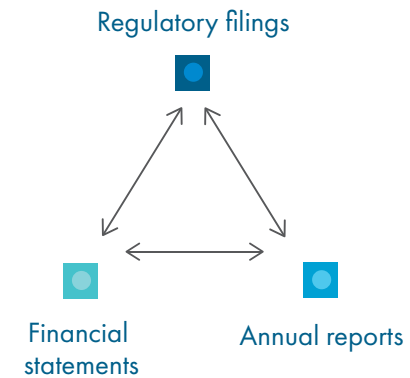
6.2 Tensions over who is in control and who is accountable:



3

Which policy instruments should be used for which type of organisation: financial statements, annual reports and/or regulatory filings?

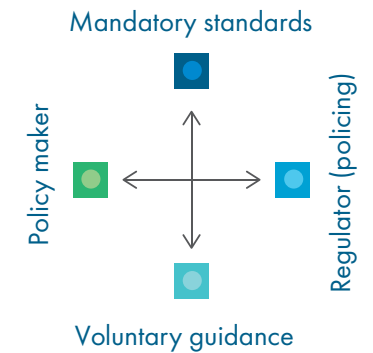
6.3 Tensions between reporting instruments:



4

Who should write and regulate reporting and assurance policy, and which disclosures should be mandatory?

6.4 Tensions over who writes and who regulates

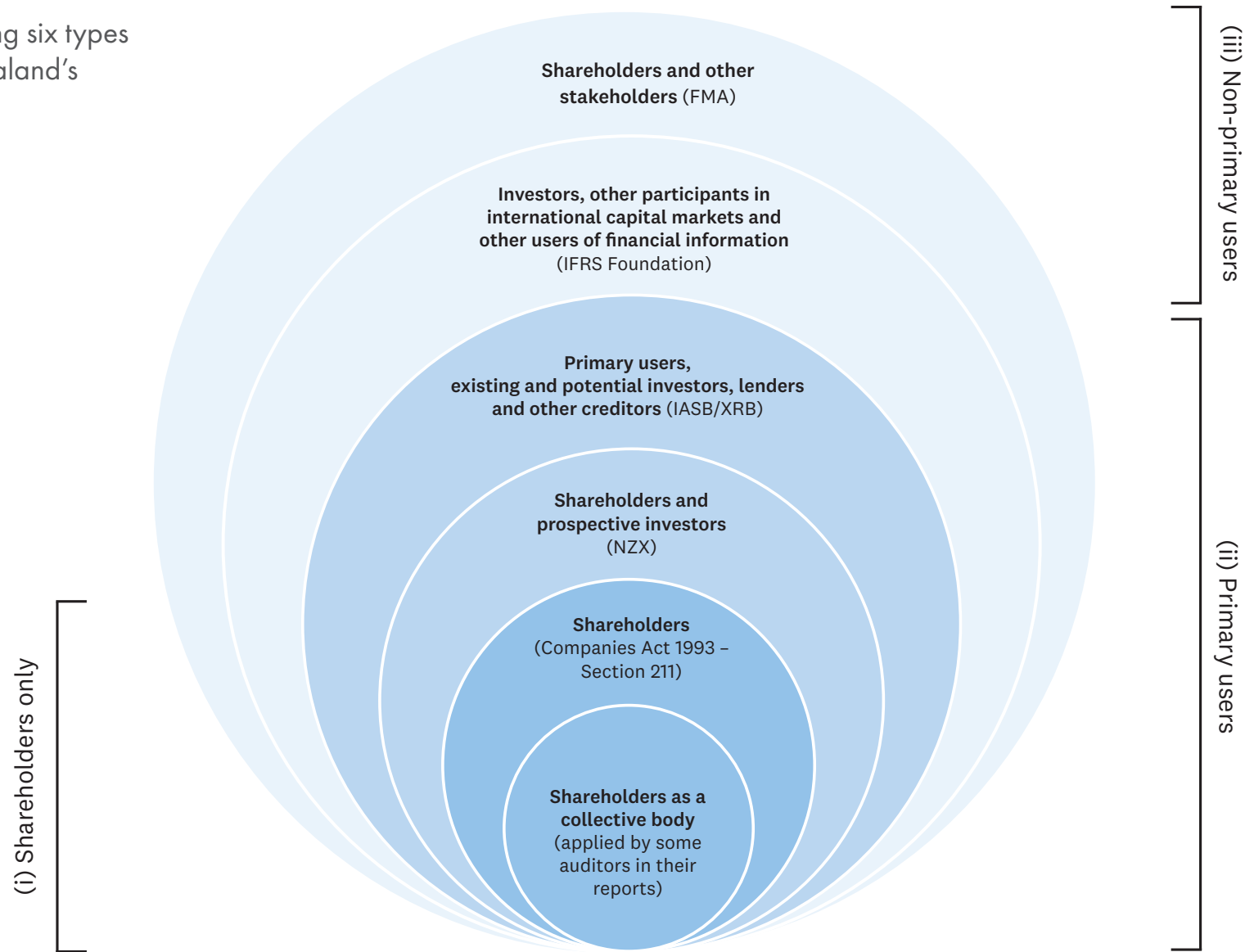


The Data Sets

Table 4: Annual reports found and analysed of eight types of entities from 2016–2019

Entity type	2016	2016 (%)	2017	2017 (%)	2018	2018 (%)	2019	2019 (%)
Deloitte Top 200 companies*	N/A	N/A	118 of 200	59%	161 of 200	81%	101 of 200	51%
NZSX-listed companies	126 of 129 ¹	98%	126 of 129	98%	123 of 124	99%	120 of 132	91%
Crown agents and Crown entities	N/A	N/A	63 of 63	100%	63 of 63	100%	57 of 63	91%
Government departments	N/A	N/A	29 of 31	94%	30 of 32	94%	32 of 32	100%
Crown Research Institutes	N/A	N/A	7 of 7	100%	7 of 7	100%	7 of 7	100%
State-owned enterprises	N/A	N/A	13 of 14	93%	12 of 14	86%	9 of 14	64%
Local authorities	N/A	N/A	78 of 78	100%	78 of 78	100%	78 of 78	100%
District health boards	N/A	N/A	20 of 20	100%	20 of 20	100%	20 of 20	100%
Totals	N/A	N/A	454 of 542	84%	494 of 538	92%	424 of 546	78%

Figure 36: Illustrating six types of users in New Zealand's regulatory regime



Takeaways

- The difference between strategy and foresight?
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Thank you

