

# Assumption-Based Planning

A Tool for Reducing  
Avoidable Surprises

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RAND



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# Contents

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Preface	<i>page xiii</i>
Acknowledgments	<i>xvii</i>
1 The essence of Assumption-Based Planning	1
How does Assumption-Based Planning work?	2
What is the value-added of ABP?	5
Who has used ABP and how did it fare?	8
What are ABP's strengths and weaknesses?	9
How do you know robust plans are better?	12
2 A taxonomy of assumptions	14
What is a planning assumption?	14
The taxonomic tree of assumptions	16
Other characteristics of assumptions	28
3 Step 1: identifying assumptions	32
Where to look for assumptions	33
General aspects of identifying assumptions	36
Techniques for identifying assumptions	37
Which technique to use when	56
How many assumptions to identify	59
4 Step 2: identifying load-bearing, vulnerable assumptions	64
Identifying load-bearing assumptions	66
Identifying vulnerable assumptions	71
Ranking the load-bearing, vulnerable assumptions	85
How many load-bearing, vulnerable assumptions will there be?	87

5	Step 3: identifying signposts	91
	Definition of <i>signpost</i>	92
	Concepts similar to signposts	94
	How important is <i>important</i> ?	96
	Techniques for identifying signposts	100
	Linking signposts and warning times	104
6	Step 4: developing shaping actions	108
	Definition of <i>shaping action</i>	109
	Types of shaping actions	111
	Identifying existing shaping actions	114
	Techniques for developing new shaping actions	115
7	Step 5: developing hedging actions	121
	Definition of <i>hedging action</i>	123
	Concepts similar to hedging actions	123
	“Selling” hedging actions	128
	Identifying existing hedging actions	129
	Developing hedging actions using scenarios	130
	Developing hedging actions without using scenarios	146
	Guarding against underhedging	148
	Integrating hedging actions into a plan	149
	Hedging actions and replanning	150
8	The art of conducting ABP	154
	Creating the general setup	155
	Identifying load-bearing, vulnerable assumptions	159
	Agreeing on signposts	169
	Introducing scenarios	170
9	Beyond ABP as a post-planning tool	172
	Why we circumscribed the role of ABP	172
	Using ABP <i>during</i> planning	173
	Assumption-Based Thinking	178
	An example of ABT—Army NCO leader development	180
	Final word	183
	Appendix: Assumption-Based Planning and the planning literature	185
	Bibliography	217
	Glossary	229
	Index	237

# Figures

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1.1	The Basic Steps and Flow of Assumption-Based Planning	2
2.1	A Taxonomy of Assumptions, Emphasizing the Main Branches	16
3.1	Highlighting Step 1 of ABP: Identifying the Assumptions Underlying a Plan	32
3.2	Logical Road Map of Chapter 3	34
3.3	Disassembling a Plan into Assumptions About the Future and Actions	43
3.4	Rationalizing a Plan—Connecting Assumptions About the Future with Actions	44
4.1	Highlighting Step 2 of ABP: Identifying the Load-Bearing, Vulnerable Assumptions	64
4.2	Logical Road Map of Chapter 4	65
4.3	Winnowing the List of Assumptions to Those That Are Load-Bearing and Vulnerable	67
4.4	Assumptions Arrayed by Importance, Uncertainty	84
5.1	Highlighting Step 3 of ABP: Identifying Signposts	91
5.2	Logical Road Map of Chapter 5	93
5.3	The Relationship Between Signposts and Warning Time	105
6.1	Developing Shaping Actions	108
6.2	Logical Road Map of Chapter 6	110
7.1	Developing Hedging Actions	121
7.2	Logical Road Map of Chapter 7	122
7.3	The Relationship Between Signposts and Warning Time	125
A.1	Simplified Dimensions of Long-Range and Strategic Planning, for Comparison	197

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## The essence of Assumption-Based Planning

You envision a romantic dinner with a special someone. You are nervous; you want to make sure nothing goes wrong. You make a list of all those steps you need to take to make that special dinner a reality. You keep adding and revising the steps as new eventualities come to mind.

A group of U.S. military officers gathers in 1940 to look into the future to identify events that could plausibly lead to conflict. One of them suggests an air attack by Japan on a U.S. Navy base in Hawaii—a suggestion that is dismissed out of hand.

We cannot know the future perfectly, but we can imagine the future and make plans for it by making some assumptions—or judgments—about what that future could be like. Some of the assumptions we make are pretty likely to come true; others are more vulnerable to uncontrollable and unforeseen events; still others seem quite unlikely. Some of the assumptions are likely to be very important to the success of the plan; others will be more peripheral. Assumption-Based Planning (ABP) is a tool designed for improving the robustness and adaptability of plans—for reducing the number of avoidable surprises in any plan or planning. It is primarily a “post-planning” tool (recognizing that planning is an iterative process) that concentrates on the assumptions in an already-developed plan that are most important to the plan’s success and that are most uncertain. Specifically, ABP works to decrease the risks that assumptions represent.

Yet, how effective a plan might be or how likely it is to succeed does not drive ABP. The driving force behind ABP is the view that it is important to confront, explicitly and honestly, the uncertainties facing an organization and its planners.

#### HOW DOES ASSUMPTION-BASED PLANNING WORK?

The five basic steps in ABP are shown in Figure 1.1.

All plans—from the plan for dinner at a restaurant, to the plans of a global corporation, to the plans of an international alliance—make assumptions about the future.

The five steps of Assumption-Based Planning can be seen even in the plan for dinner at a restaurant. Think of someone who is making a plan for dinner at a nice restaurant for the very first time. Here the planning and its assumptions are much more intentional and visible, much less automatic.

The first step in ABP is to identify the assumptions in the plan. The plan for a quiet dinner on Friday for two on the patio of a nice restaurant contains several assumptions, the foremost being the availability of the two participants on Friday and the availability of a table on the patio at the restaurant, then the weather on the patio, the traffic around the restaurant, personal finances, and so on. The plans for an interna-

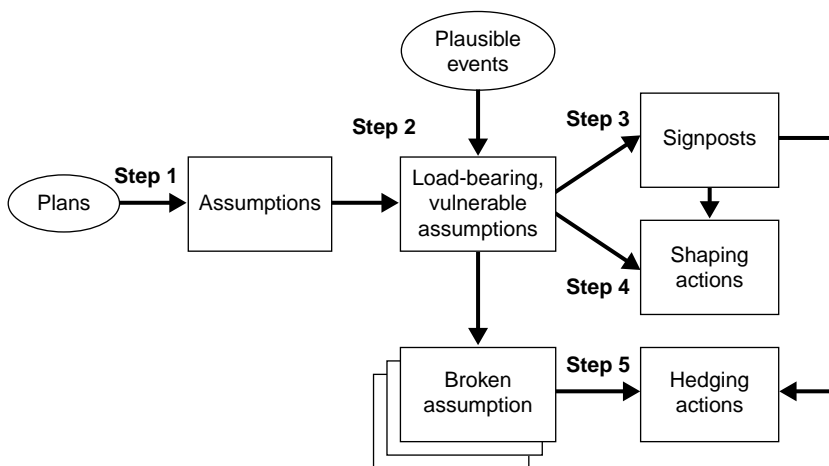


Figure 1.1. The Basic Steps and Flow of Assumption-Based Planning

tional alliance are likely to contain hundreds of assumptions at various levels of detail.

The next step in ABP is to identify the assumptions upon which the success of the plan most heavily rests—the “load-bearing” assumptions—and the assumptions that are most vulnerable to being overturned by future events. Assumptions that are both load-bearing and vulnerable are the most likely to produce nasty surprises as the plan unfolds.<sup>1</sup>

If the dinner plan contains a certain special someone, that someone’s availability is a load-bearing assumption. If the plan is for a first date, that could be a very vulnerable assumption. If the dinner plan is for your spouse’s birthday, an assumption about availability is probably pretty solid.

To deal with potential surprises, ABP produces three things: signposts, shaping actions, and hedging actions. *Signposts* are warning signs that can be used to monitor those assumptions that are most likely to produce surprises. Signposts are events or thresholds that, if detected, signify that a vulnerable assumption is broken or dangerously weak and that management or planning action is called for. In the dinner example with the special someone, a “no” response to your invitation is a clear sign that the plan is doomed and a new plan is called for. A corporation that has planned on the anticipation of a favorable future regulatory ruling faces the same kind of potentially heartbreaking signpost.

Another kind of signpost to monitor in the restaurant example would be the weather. The plan to dine on the patio undoubtedly contains an assumption about nice, warm weather—something that cannot be guaranteed beforehand or predicted with certainty. The vulnerability of that assumption can, however, be monitored through weather reports. A forecast for evening rain on the morning of the planned event would be a significant signpost. It would be a clear sign that the assumption of nice, warm weather is in trouble. If that signpost is detected, it may be time to postpone the quiet dinner to another day or to consider moving it indoors.

*Shaping actions* are intended to help shore up uncertain assumptions, to control the future as much as possible. Planners generally know how

1 In earlier documentation of ABP (Dewar and Levin 1992; Dewar et al. 1993), these were called the important, vulnerable assumptions. The reasoning behind the change is taken up in Chapter 2.



they would like an assumption to play out. Shaping actions are designed to help the assumption play out to the planners' liking. Not much can be done to control the weather, but an assumption about getting a nice table on the patio can be shored up by phoning ahead for a reservation. Similarly, an assumption about getting to the restaurant on time can be shored up by checking to be sure there is enough gas in the car.

*Hedging actions* better prepare for the possibility that an assumption will fail, despite efforts to shore it up. Hedging actions typically come from thinking through a plausible scenario in which an assumption collapses and asking what might be done now to prepare for that scenario. In the dining example, suppose the car has been acting up, but you are assuming it will get you to the restaurant. Now imagine the car breaking down. If it breaks down before you leave the house, maybe you could borrow a neighbor's car. A hedging action would be to talk with the neighbor today, explain the situation, and ask if it would be possible and permissible to borrow a car Friday night in the event yours were to break down. Now imagine the car breaking down on the way to the restaurant. One hedging action would be signing up for an auto club that could come rescue you in this situation. Insurance is a classic hedging action.

To further emphasize the difference between a shaping action and a hedging action, we view taking a balky car into the shop for repair to keep it from breaking down as a shaping action and taking steps to ensure you can get to the restaurant in the event the car *does* break down, as a hedging action. Shaping actions are usually easier to think about and generate than are hedging actions.

A planner using Assumption-Based Planning cannot hope to identify all the possible ways in which a plan could fail, nor hope to prepare a plan for any eventuality. There are any number of events that could intervene to disrupt any plan. In the dinner example, the eventual plan can still fall to a variety of events that range from common natural disasters such as mudslides, fires, or electricity outages, to man-made disasters such as a terrorist group taking over the restaurant, the kitchen crew going on strike, a family emergency, or an accident, to more fantastical disasters such as a meteorite strike or botulism scares. The primary aim of ABP is to ensure that a plan is cognizant of and responsive to the major uncertainties inherent in the assumptions that underlie it.

Many of the assumptions upon which the plan rests are voluntarily made by the planners. Those voluntarily made assumptions should be most explicitly recognized and dealt with. Surprises from the failure of those assumptions should be most avoidable.

#### WHAT IS THE VALUE-ADDED OF ABP?

Good planners confront uncertainties as a matter of course. The primary value-added of Assumption-Based Planning is in helping planners identify the important uncertainties that necessarily accompany the assumptions of any plan. What ABP adds is a double-check on the planners' awareness of uncertainties. ABP adds techniques for rooting out uncertainties that have been overlooked or forgotten, or that are buried. There are at least four ways ABP helps uncover these hidden—or implicit—assumptions.

#### *Identifying implicit assumptions in the plan*

Any significant plan contains dozens or hundreds of assumptions—most of them not explicitly stated and most of them either non-load-bearing or invulnerable. Assumptions such as “The sun will rise tomorrow” or “People will still buy electrical products” or “Life will go on pretty much as it has for the last few years” are all part of what most of us usually assume about the future. However, among all those “trivial” assumptions can lurk a hidden, implicit assumption that is both load-bearing and vulnerable and that can be dangerous.

In the dining example, the planner could well assume that the special someone would love the seafood menu at the restaurant. This is a load-bearing, vulnerable assumption that is likely to remain implicit and unconsidered. If it does, it carries with it the seeds for disaster if the other person is allergic to or hates seafood. If this assumption is recognized, planning for it becomes a rather trivial matter (make sure to check with the special someone during the invitation), and either enhances the probability for success of the plan or leads naturally to a different, more workable plan.

ABP offers specific techniques (see Chapter 3) for improving the chances of identifying the implicit, load-bearing, vulnerable assumptions of a plan.

*Bringing other minds into the planning process*

Identifying the assumptions underlying a plan provides a window into the thinking of planners, enabling other people to find implicit or hidden assumptions.

There is general agreement in the planning literature that it is important to the success of a plan to represent as many of an organization's diverse perspectives as possible in the planning process. From a practical standpoint, of course, it is not easy to get a diverse group together long enough to do planning or to figure out how to get them all talking the same language.

But planning occurs iteratively. ABP works as a "post-planning" tool that starts with the results of some planning effort.<sup>2</sup> By identifying the assumptions underlying the plan, ABP enables others to see not only what the planners came up with but the assumptions that underlie those results, making it easier for someone to come in after the fact and understand the planners' thinking. This insight into the planners' minds increases the chances for someone with a different perspective to identify implicit or hidden assumptions, particularly if a list of assumptions is presented with the caveat "These are all the load-bearing assumptions we could think of." This double-check encourages a fresh observer to add something that might seem obvious but that is not explicitly on the list. Some of the most critical implicit assumptions are found in exactly this way.

*Uncovering assumptions caused by planning*

The act of planning can itself introduce unrecognized or implicit assumptions to a plan, and ABP can help uncover them.

The typical planning process includes an analysis of the *external environment*—the part of the world that is largely beyond the control of

- 2 Post-planning is in quotes to acknowledge both that planning is never completed and the more recent view that even strategic planning needs to be viewed as a continuous process. However, even where the planning processes are supposed to be continuous, there is usually a point at which the planning is "frozen" long enough to have management give it the blessing it needs in order for the actions it recommends to be put into operation.

the organization—for threats and opportunities. Part of the planning process concentrates on producing a plan or strategy for handling those threats and opportunities. However, the process of creating the strategy or plan that addresses external threats and opportunities can introduce *new* threats or opportunities. This is a bit difficult to see in the simplicity of the dining example, so let me shift to a business example.

Suppose Company A is faced with a situation in which a major competitor has just revamped its manufacturing capabilities and is about to be able to produce what Company A manufactures, at equivalent quality and lower cost—clearly a threat to Company A. This threat becomes part of the strategy problem facing Company A, which has several ways to approach it.

Company A may decide as its strategy to revamp its own manufacturing capability in a somewhat novel way. That novelty itself may introduce new uncertainties about, say, equipment delivery that were not part of the original analysis of the external environment. Further, it may stretch the financial capabilities of Company A and introduce an implicit assumption that interest rates will stay stable for three years, a vulnerability that was not part of the original vulnerabilities and one that the company may overlook in its enthusiasm for dealing with the challenges of the novel strategy. In this way, the creation of a plan has itself introduced both explicit and implicit load-bearing, vulnerable assumptions that were not part of the original environmental analysis.

### *Revisiting old assumptions*

ABP can help an organization identify assumptions that were once explicit but that have become implicit.

All too often, an organization will create and successfully execute a strategic plan, only to forget the original assumptions that made it work. Those original assumptions can get buried and forgotten in the standard operating procedures and the culture of the organization (the habits and attitudes that define how things are done in an organization). Worse, they can become unchallengeable because they are accepted by everyone in the organization. ABP provides an organization with a tool for systematically revisiting the assumptions of even a plan that is succeeding, to make sure those assumptions are still valid.

## WHO HAS USED ABP AND HOW DID IT FARE?

ABP was developed in a military setting, and the ABP developers and others have used Assumption-Based Planning in a variety of planning settings. ABP has now been applied to U.S. Army, Navy, Air Force, and Marines planning and has been used by planners in at least two foreign militaries. ABP has been used to improve plans for public enterprises, ranging from a small nonprofit firm to a large water district. It has been applied to test plans in private businesses, ranging from a small specialty shop to a Fortune 100 company. It has been used to test plans in higher education, at individual institutions as well as at the state board level. Although those applications were often proprietary, many of the lessons learned and some of the examples in this book come directly from those experiences. Two applications of ABP can be found in Dewar and Levin (1992) and Peters, Larson, and Dewar (1998).

As to how ABP has fared, it is difficult to measure directly the number of surprises ABP has prevented. However, prevented surprises can be measured indirectly by talking about the two mechanisms of ABP that have proven especially effective.

- First, in using ABP techniques for identifying assumptions underlying an organization's plans, we *have* identified load-bearing, vulnerable, implicit assumptions—often to the amazement of the planners. In a recent application for a manufacturing company, the planning portfolio appeared to assume that the economy would continue along its ahistorical bullish way for the foreseeable future. When we suggested this as an assumption to the head of planning, he seemed a bit taken aback—which took *us* aback. On reflection, however, he agreed that thinking about a couple of downturn situations would be a prudent step. That was in late 2000. The market turned bearish before the organization had a chance to fully consider such situations. Although the organization was not entirely prepared for a downturn, it also was not entirely surprised.

Another, military application of ABP offers a contrast of no surprise. We uncovered an implicit assumption in proposed doctrine that the United States would maintain its lead in sophisticated long-range weapons. At the time, 1987, that was a reasonable, but not foreordained, assumption. It has since become a more secure (if somewhat less relevant) assumption. But in 1987, identifying it as a load-bearing, vulnerable assumption led to changes in the doctrine

that explicitly addressed the importance of the United States' maintaining its lead in long-range weapons. A typical application of ABP identifies at least one or two such implicit assumptions. At the least, planning surprises from those assumptions become less likely.

- The generation of scenarios, or alternative futures, is the other ABP mechanism of interest that demonstrates its worth. Royal Dutch/Shell (see, for example, Schwartz 1991) and others have shown that the generation of scenarios can be an effective means of avoiding planning surprise. ABP generates scenarios from broken load-bearing, vulnerable assumptions as a means of identifying hedging actions.

#### WHAT ARE ABP'S STRENGTHS AND WEAKNESSES?

Numerous applications of ABP in a variety of planning situations have given us an appreciation of both its strengths and weaknesses.<sup>3</sup> In addition to the value-added aspects described above, ABP has some arguable strengths.

#### *Strengths*

*ABP works well in very uncertain times.* In more stable times, an organization's world changes slowly and there are likely to be fewer vulnerable assumptions or uncertainties about the future. The fewer uncertainties there are about that future, the fewer are the assumptions that need to be made about that future. The fewer assumptions there are, the less likely it is that load-bearing, vulnerable assumptions will slip past planners. In a fairly stable world, ABP is not likely to uncover much of surprise or add much in robustness. The more chaotic the

- 3 In 1995, I participated in a U.S. Air Force-sponsored symposium on different strategic planning methodologies. Mine was the only presentation that included a discussion of the methodology's strengths and weaknesses. I thought it odd then, and still do, that developers of planning tools and methods do not do a better job of discussing the limitations of their approaches. I understand the desire to emphasize the strengths. My sympathies, however, are with beleaguered planners faced with a plethora of planning methodologies and tools. No one knows better than the developers of a planning method or tool what its limitations are. I consider it an abdication of responsibility (if not somewhat dangerous) to leave to others an evaluation of where a method or tool is most and least appropriate.

times and the greater the uncertainty about the future, the more assumptions planners are likely to have to make in order to develop a plan—and the more likely it is that some load-bearing, vulnerable assumptions will slip past their notice. It is here that ABP is most likely to add value.

*ABP generates relevant scenarios systematically.* Scenarios are a common means for thinking about the future during planning. However, the generation of those scenarios is generally done in an *ad hoc* manner. Often, outside consultants are asked to prepare scenarios for an organization to use in its planning. Generally wonderfully researched and detailed, these scenarios are often developed without seriously involving the requesting organization, and the resulting scenarios are often difficult to relate to the exact planning challenges of the organization. Further, the scenarios are not generally “complete”: They do not cover all the organization’s planning challenges. If, as with ABP, planners identify the major assumptions an organization is making about the future, scenarios generated from broken assumptions are *automatically* relevant to the organization. Generating scenarios in this way will not guarantee a complete set of scenarios, but starting with the heaviest load-bearing and vulnerable assumptions provides greater confidence that the most important scenarios have been considered.

*ABP can help connect environmental scanning to planning.* To try to understand business environments, businesses today do a good deal of environmental scanning to produce characteristics of the external world to which the organization wants to pay attention. But, as with the scenarios above, connecting those characteristics to the organization’s plans can be difficult. By understanding explicitly what assumptions about the world *led* to the plans, it is easier to relate the assumptions themselves more directly to the results of an environmental scan or the characteristics of a business environment.

*ABP ties actions to specific assumptions.* Using ABP allows signposts and shaping/hedging actions to be associated with specific assumptions about the future. As the vulnerability of a given assumption changes, those changes can be quickly connected to the corresponding shaping and hedging actions for that assumption. This level of traceability of actions to assumptions is rare in planning methodologies.

*ABP applies to any and all plans.* Since all plans contain *some* assumptions about the future, Assumption-Based Planning can be used to

test the robustness and adaptability of any plan to uncertainties in those assumptions.

#### *Weaknesses*<sup>4</sup>

*ABP requires an initial plan or concept.* The strength of ABP is as a tester of plans, which implies that there is an output from some planning process that is tied into ABP. The current operations or most recent plan of any ongoing organization can always serve as an input to an Assumption-Based Planning exercise. However, ABP is not particularly helpful at the “blank-sheet-of-paper” planning stage. A brand-new company, for example, will not be able to make good use of ABP until it produces some kind of planning output.

*ABP produces plan fragments, not complete plans.* ABP produces planning actions that address *individual* uncertainties about the future. The result can be a plan in which a particular shaping action seems to be working at odds with a particular hedging action. For example, a shaping action that advertised electric vehicles as the *only* sensible solution to energy and environmental concerns would seem to contradict hedging actions that continued research on fuel-cell and hybrid alternatives to electric vehicles. From a planning standpoint, both of these are defensible actions. Together, however, they ruin the coherence of the overall plan. *Coherence* is an important characteristic for an organizational leadership worried about rallying the troops and inspiring a target audience.

*ABP handles threats better than opportunities.* For risk-averse organizations, ABP’s strength is that it does a good job of identifying the threats to or vulnerabilities of a plan. The fact that it does not do as well at identifying opportunities is a weakness for more-aggressive en-

4 There is no shortage of criticism of planning methods and tools, but little in the way of systematic evaluations. Mintzberg and Lampel (1999) is the only recent categorization of planning methods I know of in the open literature. Most comparisons of methods or tools that I have seen have been in company-private documents. Chapter Twelve in Mason and Mitroff (1981) gives a brief comparison of five different strategic planning methodologies. A more in-depth comparison of a number of methodologies and tools can be found in Davis and Khalilzad (1996), which explains how different methods apply to different phases of planning.



terprises. ABP *does* help identify opportunities by presenting situations to planners that require creativity. Further, it can also be argued that few methodologies or tools are particularly good at identifying opportunities. Generally, it is fair to say that ABP underaddresses opportunities. One of Drucker's five deadly business sins is "feeding problems and starving opportunities" (1999: 49). In this sense, ABP directly feeds problems and only indirectly feeds opportunities.

*You cannot ensure that all load-bearing assumptions have been identified by ABP.* The utility of Assumption-Based Planning is based on its ability to identify the assumptions underlying an organization's plans. Therefore, it is only as good as the assumptions it can identify. As should become clear in Chapters 2 and 3, great care has been taken in developing techniques for identifying the assumptions underlying a given plan. That said, there is no guarantee that *all* the load-bearing assumptions will be identified. ABP is a means for improving an organization's ability to avoid surprises, not a guaranteed means of eliminating them.

#### HOW DO YOU KNOW ROBUST PLANS ARE BETTER?

The clear goal of Assumption-Based Planning is to make plans more robust and sophisticated in the face of uncertainty. Teisberg (1993: 3) makes a good point when she worries about robustness as a goal in planning:

The scenario analysis literature often recommends choosing a "robust" strategy, that is, a strategy that will enable the firm to do well in many different possible future scenarios. Undoubtedly, if a firm *can*, it should pursue a strategy in which it will be very successful no matter what future events occur. Unfortunately, such situations are unusual. . . . "Robust" strategies then often imply mediocre returns because firms reduce possible gains from some outcomes, while reducing possible losses from others . . . we see that pursuing a robust strategy could undermine a firm's chance for superior profits by forcing managers to avoid risky commitments with potentially high payoffs. [Emphasis in the original.]

The ultimate goal of ABP is to have an organization *understand and confront* all the load-bearing assumptions it is making in its plan. ABP makes no judgments about the risks inherent in the plan. Its application is designed to ensure that *whatever* risk is in the plan is recognized and that the shaping and hedging actions that are developed will do as much

as possible to ensure that the plan is as robust as it can be to the uncertainties and risks the plan has already accepted.

\* \* \* \*

This chapter has presented the rudiments of Assumption-Based Planning. Chapter 2 defines assumptions more precisely and develops a taxonomy of assumptions. Chapters 3 through 7 detail each of the five steps of Assumption-Based Planning. Chapter 8 describes some of the practical art that has evolved from a variety of ABP applications. Chapter 9 describes extensions of Assumption-Based Planning into planning methodologies and Assumption-Based *Thinking*.

The Appendix connects the terms and concepts of ABP with the same or similar terms and concepts in the literature. It is for readers who are familiar with the terms, concepts, and methods of planning and wonder how and where ABP fits in.