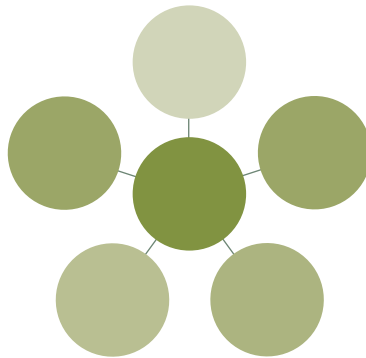


PART ONE

Introduction





1.1

Organizational Planning and Analysis

Introduction

Imagine jumping into a time machine and transporting yourself five, 10 or 15 years into the future. Imagine being able to view and understand your business at these future points: how it has adapted to societal changes, megatrends and technological innovations; what your customers' needs are, how this has impacted the design of your organization and the people and capabilities needed to deliver on future business goals. Now imagine hopping back in your time machine to the present day, armed with these powerful insights. Such a concrete understanding of how your organization will need to adapt in the future in response to disruptive change would allow you to stay two steps ahead, making changes (large or small) to your organization design *before* the market and evolving environment demanded them. You wouldn't have to predict the future, you would know it, and your competitors wouldn't stand a chance.

Of course, what I'm asking you to imagine is impossible; we can't ever know for certain what the future holds. But that doesn't mean we shouldn't try to understand what lies ahead. Adopting a future-focused, **'What-If' mindset** is essential for organizations to adapt at speed and survive in a world of disruptive change. We may not have a time machine, but we do have tools and techniques which we can use to model and plan. We can continually ask 'What-If' questions to understand the impact that various options available to us might have and be ready to adapt and capitalize on opportunities when they present themselves. This is **scenario modelling**, a valuable tool which enables businesses to evaluate the impact of unexpected

changes and future events. Done well, it gives organizations a window into best- and worst-case scenarios, aiding decision-making around immediate actions as well as longer-term plans.

In most organizations, scenario modelling is the preserve of the Finance function, and specifically the area of finance devoted to **Financial Planning and Analysis (FP&A)**. Chief financial officers (CFOs) use scenario modelling to estimate the impact of events on cash flow and the value of a business. I believe that limiting this type of modelling and planning to finance is short-sighted. This book argues for a new core capability called Organizational Planning and Analysis (or OP&A for short). This capability could sit within the People function, although it may also sit within Transformation or even FP&A. Wherever it sits, it ought to form a core part of an organization's central nervous system, working in unison with FP&A to enhance the precision of activities such as scenario modelling. In just the same way as the Finance function has a need for both backward-looking operational and forward-focused planning capabilities, the same is true for the People function. Leveraging many of the modelling techniques used by FP&A, OP&A allows businesses to ensure that both the organization system and the required workforce are in place to execute strategy on a perpetual basis.

This book is a sequel to my first book, *Data-Driven Organization Design*, in which I explain how and why organizations can use data and analytics to design their organization system. There is an important distinction to make between *designing* an organization at a specific point in time and *planning* one over time. Planning an organization over time – the subject of the book that you now hold in your hands – involves optimizing the performance of the organization's system on an ongoing basis against a set of shifting targets. Elements of what you will find in these pages were incorporated in a short chapter at the end of the second edition of *Data-Driven Organization Design*, but there wasn't sufficient room to delve into the level of detail necessary to implement the advice in practice. That is what this book seeks to do. My aim is to help you to find the right critical questions to ask and answer them so that you can respond to strategic goals:

- Where are we underperforming and why is this happening?
- Where is investment required and at what point?
- Where are efficiencies needed and at what point to hit our financial targets?
- Where do we need to maximize productivity?

Change and uncertainty are constants, and they are not easy conditions in which to lead. This chapter begins by looking at today's disrupted world (while making the point that disruption is not new) and some of the factors to consider when operating within this context. I then go on to look at the importance of planning, and why planning still matters in a volatile and uncertain world. I introduce a tool which was presented to me at a conference: Duke Corporate Education's Agile Dashboard, at the centre of which is a four-point model which helps leaders to adopt agile ways of thinking and make confident decisions. As part of this discussion, I look at scenario modelling and Real Option Pricing and explain the concept of volatility. There is a need to think of the range of possible outcomes rather than just the expected, as the expected will always be wrong. The remainder of the chapter is dedicated to the role of OP&A in helping organizations to navigate these uncertain times, and the lessons that can be learned from FP&A colleagues. The chapter ends with an introduction to the work of OP&A.

Navigating disruption and change

The first thing to say about disruption is that it shouldn't be feared. The second thing to say – and contrary to how it is so often written about and discussed – is that disruption is not new. To claim that it is shows an ignorance of history and a lack of empathy for past generations. Austrian-American economist Joseph Schumpeter popularized the term 'creative disruption' back in 1942 when he argued that the constant evolution of industries revolutionizes the economic structure they are part of, thereby creating a new one. The brilliant Richard Rumelt has argued that there has been less change between 1970 and 2020 than there was between 1870 and 1920.¹ Businesses have always needed to adapt to change. It is a fact of business life and our economic system. Yes, the past 50 years have seen the rise of information technology, globalization, the rise of China and the fall of the Soviet Empire, but between 1870 and 1920 there was the advent of electricity, transportation and urbanization. Pick any period since the beginning of the Industrial Revolution and you will see evidence of massive intergenerational change. In 1840, my great-grandfather took his family on a four-month voyage to New Zealand, which was the start of radical change for his family. His world changed as much as, if not more than, mine has. We should not talk about change as something new and surprising. We just need to learn to deal with it. If rapid, transformational change did at some point cease, *then* we'd be talking about unprecedented times.

The most successful organizations are those able to adapt to this ongoing change. They are not static, but dynamic, ever-changing systems. Back in the year 2000, General Electric (GE) released their annual report in which Jack Welch, the Chief Executive Officer (CEO) at the time, said: ‘We’ve long believed that when the rate of change inside an institution becomes slower than the rate of change outside, the end is in sight. The only question is when.’² The story of GE can be used to illustrate this point. Four years after it was formed in 1892, the company became part of the Dow Jones Industrial Average, and was one of the original 12 companies to be included. It was there, on and off, until 2018, when it became the last of those companies to leave.³ After Welch stepped down from being CEO in 2001, the company hit troubled times. The fact that GE has fallen so far in the past few years makes his statement even more resounding.

Today the powerful forces we see, such as industry transformation; emerging economies; major economic or political movements; digital innovations like automation; and megatrends like environmentalism can bring enormous opportunity. Harnessing this opportunity requires business leaders to be both informed about the future possibilities for their organization and brave enough to embrace necessary change at speed. Those that manage it can reap enormous rewards (think of Apple, Amazon or Tesla). Those that fail to innovate in response to change often do so at their peril. Nowhere is this shown more clearly than in the number of times firms have remained in the Standard and Poor 500 (S&P 500) Index over the last few decades. The index, brought to life in a biennial Corporate Longevity Report from Innosight, shows a steady decline in corporate lifespans and an increasing churn rate of companies, due to either a decline in market value or an acquisition. In the late 1970s, S&P 500 companies had an average tenure of 30 to 35 years. According to Innosight’s 2021 report, this is likely to drop to 15 to 20 years by 2030. Added to this, in 2015 there were 12 US-based, venture-backed private companies valued at \$5 billion or higher, but in 2020 there were 28.⁴

The report also highlights that the Covid-19 pandemic led to accelerated innovation in certain industries, especially in sectors which saw the most disruption. This disruption was already happening before Covid struck, but Covid accelerated innovation and led to the growth of three ‘hybrid industries’:

- 1 digital healthcare (seeing a convergence in healthcare, biotech and pharma – think of all the Zoom consultations with doctors)

- 2 retail-tainment (in which retail, consumer and entertainment came together)
- 3 e-mobility (incorporating energy, utilities and transportation sectors)

Unsurprisingly, these three broad sectors saw the most innovation and the highest levels of churn on the S&P 500 Index between 2018 and 2020. Consider these figures highlighted in the 2021 report:

- In healthcare, biotech and pharma, eight companies exited the Index and seven joined.
- In the energy, transportation and utilities sector, 14 companies exited the Index and six joined.
- During the same time period in the retail, consumer and entertainment sector, 12 exited the Index and six joined.

The key takeaway for me is that business leaders need to work harder to adapt. Like many before us, we're operating in a world of Volatility, Uncertainty, Complexity and Ambiguity (VUCA), which are uncomfortable contexts for human beings to cope with. We're not particularly cut out for making decisions under these circumstances, especially decisions which could lead to failure and ultimately reflect badly on ourselves. For many people, the natural inclination is to either stick their head in the sand or overthink a situation to minimize the chance of making a mistake. This might take the form of amassing too much information and becoming overwhelmed by data. This can lead to analysis paralysis, inaction and missed opportunities. The good news is that by adopting the right mindset, having the right tools at your disposal and the right capability within your organization, it is possible to feel comfortable and even confident within these seemingly uncomfortable circumstances. Later in the chapter I'll discuss the importance of having the right capability and tools to do this effectively, but first I'll look at the mindset needed to succeed. A large part of this is understanding **systems thinking** and the impact interconnected relationships can have on the evolution of organizations over time. This is also important to understand when performing scenario modelling so that you can adapt and innovate in line with emerging trends.

The importance of systems thinking

One of my favourite examples of systems thinking is a phenomenon named Dutch Disease. In 1959, natural gas was discovered in the Netherlands.

You'd be forgiven for assuming this would have been great for the Dutch economy – after all, gas means money, better business opportunities and more jobs. But this wasn't the case. After the gas was discovered, unemployment increased. Why? Because the discovery led to an appreciation of the Dutch currency, and the price of exports went up. The markets couldn't afford the increases, so Dutch businesses lost out. This, in turn, meant cuts and job losses. One part of the system (in this case, the economics system – the oil and gas industry) had a hidden connection with another part of the system (the manufacturing industry).

An organization is not dissimilar to an economy. Both are volatile, and difficult to manage and understand as a whole; and both have tangible and intangible drivers. Like an economy, how an organization evolves over time is best understood from a systems perspective and an appreciation of how a change in one part of the system affects something elsewhere. The world is continually changing, and without adopting a future-focused mindset which also seeks to understand cause and effect, businesses will fail to keep up with the ever-increasing pace of disruption.

In mid-2021, I had the honour of chairing a conference for the Corporate Research Forum (CRF), during which I heard Dave Snowden, a management consultant and researcher in the field of complexity science and knowledge management, discuss considerations for businesses operating in the modern-day environment. He talked about his well-known Cynefin framework, which helps decision makers make sense of their business contexts and understand cause and effect so they can tailor their actions accordingly. I was struck by the emphasis Snowden puts on the need for businesses to differentiate between *complicated* contexts and systems, and *complex* contexts and systems.

Snowden's Cynefin framework is comprised of five domains which describe the different contexts in which an organization operates:

- 1 Clear – If a context is clear, the cause and effect relationship is predictable and easy to understand. You can know with certainty that if you do x, you will get y. The result is always the same and you can be very sure of the outcome.
- 2 Complicated – If a context is complicated, there is still a relationship between cause and effect, but that relationship is much less obvious, and expertise is needed to understand it. Those experts perform analysis and gather insight to work out the relationships. In this domain there may be several solutions to the challenge. Insight can be used to inform future outcomes.

- 3 Complex – Complex contexts and complicated contexts are often understood to be the same thing, but they are different. In complex contexts, cause and effect relationships become intertwined and non-linear. It is only possible to understand outcomes in hindsight and impossible to predict using foresight. If you replayed a scenario time after time, it is likely you would get a different outcome each time.
- 4 Chaotic – In chaotic contexts there is no perceivable relationship between cause and effect and it is impossible to make sense of outcomes, even in hindsight.
- 5 Disorder – In disordered situations, it's difficult to see which of the other four domains applies.⁵

For each domain, Snowden recommends that a different problem-solving approach is applied. For example, in simple contexts it should be obvious what action to take, whereas in complicated contexts decisions can't be made without performing some degree of analysis first. Many organizations operate as if their business contexts are either simple or complicated. Experts perform backward-looking analysis to understand why things are the way they are, and this insight informs future actions. But in a world of VUCA, this isn't enough. VUCA plunges businesses into the third, complex domain, where situations or problems must be probed to uncover the unknowns, to gain an understanding of how x has led to y.

The difference between complicated and complex contexts can be understood in terms of chess and poker. Chess is complicated, but it is all-knowable, and you can work to understand it. It can be solved by creating algorithms, and a certain amount of it comes down to rote learning and memorizing patterns. Poker, on the other hand, is complex and unpredictable. It's a game of uncertainty, of calculating probabilities and adapting to constant change each time a new card is played. In poker you place your bets without having all the information to hand. Too often, people see business as a chess board rather than a poker game. They produce linear plans based on previous experience and get taken by surprise if something unforeseen comes along and derails that plan. They fail to factor in uncertainty, apply systems thinking or consider a range of potential future conditions which could impact the organization. In turn, they are ill prepared to act quickly when disruption comes knocking. Planning matters, and it should be done for a range of different scenarios.

Why planning matters: Be adept at adapting

Against the backdrop of our VUCA world, you may wonder if there's any point planning for the future. If things are so uncertain and volatile, is it necessary to devise a plan that's likely to get knocked off course? **Agile methodology** is becoming increasingly orthodox, so can't organizations simply leverage these methods to react to changing circumstances, using the information available to them at the time? The truth is that disruption increases the importance of planning. It's not only about having the capability to pivot, but foreseeing the need, and pivoting faster than everyone else. In our global world, speed matters in an increasing number of markets. If you can prepare your business for a range of possible contingencies, and understand the implications of each one, you can take quick and decisive action with a high level of confidence. Planning is what helps you to see change through as quickly as possible and gives you the best chance of beating your competitors to succeed in your markets.

I'm a huge sports enthusiast. I love to play it, watch it, and for many years I've coached a junior rugby team. I am endlessly struck by the parallels which can be drawn between the worlds of business and sport. In rugby, not only is there a need for a sound game plan (known as a playbook) but also to react and adapt as circumstances evolve during a game. Predicting these circumstances is difficult as so much depends on the other team: what they bring to the game on that day, how they react to you and how you react to them. Some sports are continuous, such as soccer, and some have structured set plays (meaning that the game is stopped for a period before the ball is returned to open play). In American football the game is stopped in between plays so the team can regroup and decide how to approach the next one based on what is going well, and what isn't. It's very similar to a game of chess. The coach decides which players should be on the field and the moves they should be making. These decisions can be made while the ball is out of play. Conversely, soccer is a continuous game with no set plays. Players on the pitch have a game plan but they need to constantly react to evolving circumstances.

Rugby is a game of both. There are structured set plays but, in between, the game is continuous, and the players make decisions in real time. This is one of the hardest things to coach in rugby. Players need to scan the space ahead of them and see threats and opportunities so that they can make a great decision in milliseconds. It is known as 'heads-up rugby'. The idea is to exploit the opposing team's weaknesses. Many people struggle to put their heads up and see the space, and it is the same in business.

Another difficult thing to coach in rugby is how to communicate what you see to others. We call this information sharing, and the speed of play makes it a tricky thing to do. Barking out words isn't the same thing as communication. Kids will often shout 'pass' or call out the name of the person with the ball. If you're that person, all you hear is white noise and it can be completely debilitating. But if you hear someone shout 'on your left' or 'space left', that's useful *information*. They are not just words that make your head buzz. You can then make a decision and act. The same is true in business. A meaningful language is needed so that swift and decisive action can be taken.

A good rugby player who scans the space seems to have more time to make decisions. A great rugby player seems to have all the time in the world. They see space early and work hard off the ball to get to where the ball is going to be before everyone else. The question is, how do you give yourself more time in business? As play breaks down and things become unstructured, how do you maintain a **heads-up mindset** to see what is in front of you and make confident decisions so that you can win? How do you act like a great quarterback and decide not to do a set play because you've seen something ahead of you? The analysis provided by a great OP&A Team should give senior management more time and space to see what's ahead and react faster. The methods, techniques and tools I explain throughout this book are intended to give you the confidence to be able to react quickly, making better decisions earlier, and with a level of belief that means you can sleep at night. One such tool was introduced to me by Joseph Perfetti while I was chairing the CRF conference: Duke University Corporate Education's Agile Dashboard.⁶

The Agile Dashboard

The Agile Dashboard is a tool used to encourage leaders to adopt agile ways of thinking and leading to enable fast decision-making in uncertain times. At its heart is the SUDD model, which consists of four parts:

1. CAN I SCAN THE ENVIRONMENT TO SEE THE ROAD AHEAD?

Scanning the horizon to understand the road ahead relates to much of what I've discussed so far in this chapter. Organizations need the capability to collect data related to the external market system and track **leading indicators**. They also need the capability to effectively plan, spot trends, understand likely technological innovations and predict how their customer needs and

behaviours will change over the next five years. Might your customers look elsewhere for more sustainable or convenient solutions, or could you be overlooking a new set of customers who would not have found you before?

It's also important to consider who your competitors are likely to be in five years' time. A great point made in the Innosight report is that 'Your new competitive landscape depends not on your history but on your strategy'. Think about your strategy and how you intend to innovate and adapt in response to emerging trends in your market. Where will that take you, and what will your new competitive landscape look like when you get there?

2. CAN I UNDERSTAND WHAT I AM LOOKING AT AND MAKE SENSE OF THE INFORMATION?

There's no point in data for data's sake. It needs to be understood to gain **actionable insight**. This involves getting into the 'why': the root causes of why the data you are looking at is showing what it is showing. In Chapter 4.2 I explain the importance of using hypotheses to investigate and get to the 'so what' of any data uncovered.

3. CAN I DISCERN THE CHOICES BY CREATING OPTIONS AND FLEXIBILITY?

The third point on the Agile Dashboard is the one that excites me the most: that of optionality. To fully understand the choices available to you, scenario modelling can be performed to create **options**. Probability can be attached to those options to understand the most likely outcomes of your actions and decisions that you make.

Scenario modelling is all about asking 'What-If' questions across a range of possible future scenarios to ensure that your organization is better prepared to react quickly in the face of disruption. It involves thinking through all the possible eventualities which could have an impact on your plan, and what your best course of action would be if those eventualities occurred. In the film *Avengers: Infinity War*, Dr Strange uses the Time Stone to model millions of alternative future scenarios (14,000,605 in fact). His head whips from left to right at supersonic speed, and in doing so he views 'all the possible outcomes' of the battle with the enemy Thanos.⁷ In all those millions of outcomes, he sees only one in which the Avengers win, so he knows for certain how he needs to proceed. Sadly, none of us has a Time Stone or Dr Strange's superpower any more than we have a time machine to help us zip to the future, but we can work out the probability that if we do x, y will happen, and we can work this out over a range of possible scenarios. Working out probability in a complex world is difficult, but you can give it your best shot.

I'll illustrate this with an example of an economic technique I learned over 20 years ago: that of **Real Option Pricing (ROP)**. In finance terms, an option is essentially a contract which gives the buyer the right to buy an asset at a specified time in the future, at a price determined at the time the option is sold. It's a game of risk and taking bets, and I've always loved it. I'm a fan of its counterintuitive nature, and after learning about it I experienced a paradigm shift in how I thought about investment. At the heart of the technique is the idea that there is never one single outcome of investing in an option, but a range of potential outcomes. These outcomes can be used to calculate the level of risk in different scenarios. When investing, you communicate an expected return, but also provide a range of outcomes which demonstrates the level of risk. In a fast-moving, uncertain market environment, defining the range of uncertainty is critical to understanding the risk of a decision.

The greater the level of uncertainty and volatility of an outcome, the greater the level of risk; and the greater the level of risk, the greater the option value. In other words, uncertainty and volatility drive up the value of an option. Understanding the options and the level of risk attached to each helps you to see where to place your bets. This is where you need to think like a poker player, assessing probabilities, reacting quickly by making small bets and investments. Some bets you'll win and some you'll lose, but that's how you learn so that you can be better prepared next time around. The most important thing, in my view, is to guard against being too risk averse. Many businesses are held back and miss out on opportunities because they fall into this trap. Experience has shown me that the larger the organization, the harder it is to persuade people to go for it. This is why start-ups often have such a strong chance in uncertain markets. Having comparatively few decision makers means they can assess the level of uncertainty and risk at speed and reach decisions far more quickly.

4. CAN I **DECIDE** AND ACT WITH IMPERFECT INFORMATION?

How much information do you need to make a decision? Colin Powell, the late US secretary of state, famously had a 40/70 rule. This involved putting off decision-making until you have at least 40 per cent of the available information, while not waiting until you have over 70 per cent. Less than 40 per cent and you'll be relying too heavily on guess work, but over 70 per cent is likely to delay you beyond the point where the decision needs to be made. I see this in a friend of mine who is a venture capitalist. His experience is such that he can make an investment decision within an hour. He competes with speed, writing

term sheets on the spot, and submitting them to the companies he wants to invest in while others are probably stuck doing the analysis. He's an extreme example – his experience is such that he automatically knows which data is relevant and which isn't. Less experienced venture capitalists can't make such lightning-fast decisions, but success depends on being able to deal with a level of ambiguity and acting with imperfect information. This is true for any type of business. I love data. It runs through my blood, and I get a kick out of using it to analyse, understand, predict and plan. But there is no point in analysis for analysis's sake, or in getting so embroiled in it that it slows you down to the point of missing out to a faster competitor.

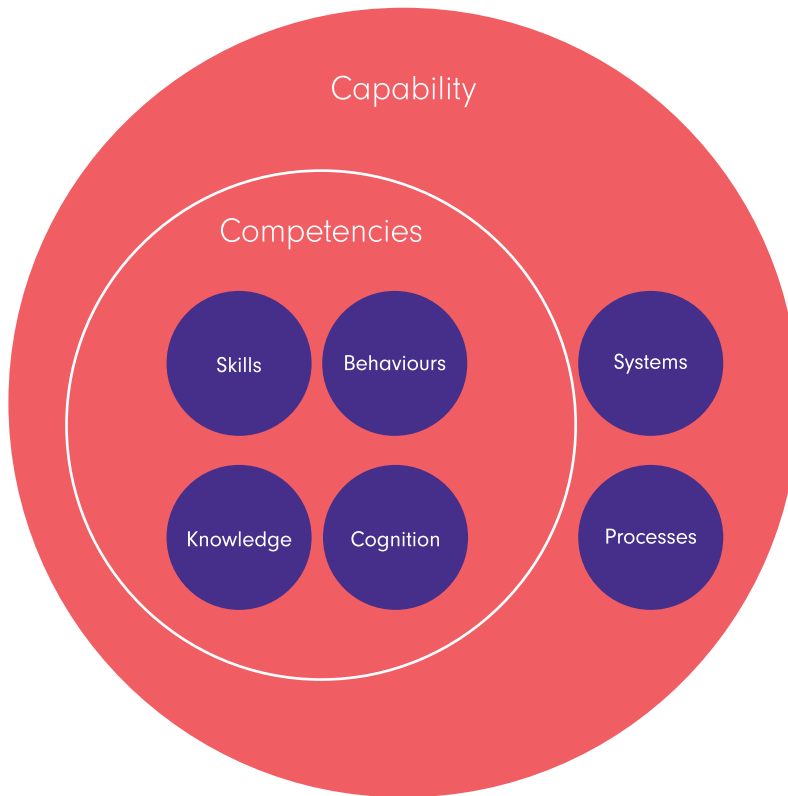
The importance of organizational capabilities

A crucial point to make about the Agile Dashboard is that organizations need the right capabilities to employ its principles well. Capability is needed to collect data, track leading indicators, perform analysis and create actionable insight. The right skills and technology are also needed to perform scenario modelling. The importance of organizational capabilities is also at the heart of Dave Snowden's thinking, specifically the relative significance of organizational *capabilities* over individual *competencies*. For him, **interface design** and how people connect and interact within the organization system are far more important than who people are as individuals, and the competencies that they hold. I couldn't agree more. In fact, everything put forward in this book as well as its prequel is about seeing the whole and understanding connections to maximize performance. One of my favourite quotes of all time is from Dave Ulrich, a professor, author and management consultant who I greatly admire: 'People can be champions, but organizations win championships... it's not talent or people which provide competitive edge, but organization systems. The key question is how to build an organization as a system to win in the marketplace.'⁸

I want to be clear about the difference between **competencies** and **capabilities**. While individual people have competencies, organizations have teams and capabilities in which processes, systems, culture and people (with the right competencies) come together to execute organizational strategy. As Figure 1.1.1 shows, in a core capability, you need the right people, with the right competencies to do the work. Competencies include people's skills, behaviours, knowledge and cognition (for more on competencies see Chapter 1.2). You also need the

right systems and processes to enable that work to be done. A future-focused mindset and culture is also important for setting expectations about how work should be carried out within the capability.

FIGURE 1.1.1 The components of a core capability



A new core capability is needed: OP&A

This book puts forward the case for a new core, strategically focused capability to manage and track the performance of the organization system on an ongoing basis, to perform organization design work, to plan the size and cost of the workforce and maintain strategic alignment. I am therefore not only arguing for the need to see past individual competencies to organizational capabilities, but also for a new capability to be introduced, the job of which is to maximize the spectrum of capabilities within the organization.

Despite commentators maligning the People function for years for not being sufficiently strategic and future-oriented, the problem has not yet been satisfactorily solved. In most organizations, the People function's focus is still firmly fixed on historical data, looking backwards rather than forwards. In fact, based on hundreds of organizations I have worked with, and asked the question of, and dozens where I have performed activity analysis, at least 98 per cent of time is spent on transactional tasks. Consider these facts:

- 82 per cent of HR executives don't have the right people to execute their strategy⁹
- 65 per cent of children entering school now will work in jobs that don't yet exist¹⁰

Research carried out in 2019 by the Centre for Economics and Business Research into the economic benefits of workforce planning and analytics revealed that productivity growth rate is twice as high for organizations that invest in people planning capabilities.¹¹ For the UK economy that equates to £10.4 billion, and for the US economy it equates to \$92.2 billion. These figures are not only significant at an individual business level, but at a macroeconomic one too. To me, the introduction of an OP&A capability into organizations is a no-brainer, and yet the amount of time a typical People function spends on activities such as organization design, workforce planning and people analytics is between zero and 2 per cent. The simple truth is that most People functions currently don't have the tools and capabilities necessary to help organizations proactively prepare for disruption and change. Two things are clear:

- 1 Operational Human Resources (HR), which is concerned with the immediate needs of the workforce (as opposed to planning for the future), is no longer sufficient to meet the needs of the modern organization.
- 2 There is an ever-increasing requirement for the People function to become more data-driven, and for those within it to adopt a more future-oriented mindset, allowing for activities such as people analytics, ongoing organization design and workforce planning, workforce visualization and analysis, scenario modelling, transition management and succession planning. These activities are not nice-to-haves but are vital for future proofing business in the face of disruptive change. Without them, organizations can find themselves in a cycle of event-based and large-scale reactive transformation.

After a period of interviewing candidates for a CFO role, I had become accustomed to hearing about the same topic – that of the need to separate the Finance Team into those with responsibility for FP&A, conducting activities such as scenario modelling, and those with responsibility for day-to-day financial operations. This key message made me think: how can future-focused FP&A be truly effective without a real understanding of *organizational* needs both now and in the weeks, months and years ahead? Surely, for FP&A to provide a truly accurate picture, it should work in tandem with analysis and planning from the People function to understand how Roles, Positions and People in organizations are likely to change over the short, medium and long term and impact on the bottom line? And then it dawned on me: the answer is staring us in the face. To better serve the organization, the People function needs look no further than Finance for a well-established blueprint to follow to form its own strategically focused capability.

FP&A: A blueprint for OP&A to follow

As a function, Finance is broadly broken into two pieces: there are those who deal with transactional, operational tasks such as payroll; financial control; accounting and financial reporting; and operational management reporting. These activities make up around 78 per cent of the work of the Finance function and are integral to the day-to-day running of a business.¹² Without them, businesses couldn't survive. The remaining 22 per cent is comprised of forward-looking planning, monitoring and analysis which falls under the umbrella of FP&A. The mindset of those performing FP&A activities is vital for the success of the function. The CFO is the FP&A Leader, and they think like futurists. They budget and forecast financial performance. They perform analysis; they model and plan and pull the levers that add value to the business, generating actionable insight to allow quick and accurate decision-making. In their analyses they don't only look at **lagging indicators** such as revenue but also leading indicators such as how many leads there are in the sales funnel or sales funnel conversion rates. The FP&A Leader speaks a language that senior management understands (everyone gets the concept of a bottom line) and is therefore a much-valued advisor to the Executive Team, particularly when reformulating strategy from a financial perspective. In many organizations, they are seen to have the greatest insight into organizational needs and the capability of the business to perform now, and in the future. In truth, they rarely have access to the level of detail necessary to truly understand the work and the workforce. This is where OP&A comes in.

Taking lessons from the Finance function, the People function can be divided similarly. The core, day-to-day tasks associated with the People function are essential to the very existence of organizations and should take up around 75 per cent of the work that the function does. These include tasks such as talent acquisition and employee onboarding, Learning and Development, employee lifecycle management, dispute resolution and compensation and benefits. But, as Figure 1.1.2 shows, the work of the People function should not stop there. The remaining 25 per cent should be focused on OP&A:

- organization design
- workforce planning
- **position lifecycle management** (managing current and future total size and cost of the workforce based on positions opening and closing)
- advanced and predictive analysis
- scenario modelling
- transition management
- succession planning
- tracking and monitoring organizational performance

FIGURE 1.1.2 Finance provides a model for the People function to adopt



Successful People Teams consider leading indicators such as the number of employees churning within three months, the number of CVs being submitted to the company and the quality of new hires. In short, the support provided by OP&A helps with vital tasks which prepare the business for the future. OP&A Leaders need a place in the boardroom alongside FP&A, influencing and advising the Executive Team about strategic options based on insight gained from analysis of data.

How this book will help you

This book sets out the case for implementing OP&A in your organization. It takes you through the work of the capability when it is both ‘business as usual’ and at times of large-scale transformation. It also explains how to get the capability up and running in your own organization.

It is my strong belief that OP&A will change the way that the People function serves organizations, both now and in the future. You might consult in this field, or work within an organization’s People function. You might be an HR Business Partner, a Chief People Officer (CPO), or work as part of an Organizational Effectiveness Team. You may be one of a growing number of organizational planning analysts. You might be a CFO working in FP&A and wanting to understand how you can work better with the People function to form a more complete view of the future organization. If you are involved in any way with people data, ongoing organization design, or workforce planning, this book will help you to navigate the path ahead.

My aim is to help you to identify crucial business questions to ask such as:

- 1 Are we executing our strategy? How can we improve on our ability to deliver our strategy from an organization design perspective? Are we fit for purpose?
- 2 What is our people cost today and how is it likely to look in the future? Does this track against plan? Is the plan right?
- 3 How do we know who’s doing what work and who should be doing it? What skills are we lacking?
- 4 Where can we make efficiency savings in headcount, processes or by location to support our long-term goals?

- 5 How can we make decision-making less bureaucratic and streamline the work we need to do to sustain the business?

Answering these sorts of questions is easy if you have the right capability. The difficult part is knowing which ones to ask. This book will help you to develop the right mindset so that you can isolate the right questions.

Structure of the book

This book takes you through the work performed by the OP&A function: organization design, transformation and continual optimization, workforce planning and analysis, and culminates with advice on how to put the systems, processes and technology in place to enable OP&A capability.

The remainder of Part One consists a resumé of my first book, *Data-Driven Organization Design*, as the concepts discussed therein are essential to understand to fully grasp the work of OP&A. Next, I look at the work of FP&A, as well as the mindset needed to do it. My intention is to arm you with the tools and language necessary to work collaboratively with your FP&A colleagues.

In Part Two I look at the work performed by the OP&A function in terms of making organization redesigns real and optimizing those designs over time. I take you through a four-step process: 1. Prepare to execute; 2. Assess impacts and plan communications; 3. Manage talent transitions and consultation; 4. Ongoing optimization.

Part Three looks at the six steps for workforce planning: building an as-is baseline; top-down supply projections; top-down demand planning; bottom-up position planning; finalizing budgets and targets; and analysing and monitoring.

Part Four looks at the different types of analysis that can be done as well as the challenges faced in both the analysis and the reporting of that analysis. I consider common statistical traps which are easy to fall into, as well as dashboard design and the necessity to get the amount of data ‘just right’ to be able to tell the story you want to tell.

Finally, in Part Five, I look at how to make OP&A real in your own organization. The chapters in this part serve as a case study for how to implement the advice given throughout *Data-Driven Organization Design* and this book.

To help bring the discussion to life, I have included a case study throughout based on a fictional organization named Hokupaa. This is a continuation of the case study in *Data-Driven Organization Design*. While inspired by my own experiences, I have changed many details to protect people and simplify the story.

Final thoughts

OP&A is all about integrated thinking. It's about understanding how one thing impacts another in an organization, and about bringing together siloed planning for greater alignment and understanding. There are seven points of integration which I will explain throughout this book.

The first is time horizons. When designing an organization, you do it for a single photographic snapshot in time, but when planning an organization, you do it to maintain organizational health *over time*. This requires you to think with different time horizons: short, medium and long term. When taking a short-term view, you look to the next month or quarter. A medium-term view involves looking 12 to 18 months ahead (a good example of this is an annual budget). Planning over the long term requires a multi-year outlook. These different time horizons are applied both when scenario planning and when workforce planning.

The second point of integration is demand and supply. Workforce planning is about the demand and supply of the workforce over time. By integrating the demand (the planned workforce) with the supply (the actual workforce) you can understand the likely cost of your workforce over time as well as the competencies that your organization is likely to need into the future. You can also identify headcount and competency gaps between demand and supply. Once you know the gaps, you can work to find the root cause for why they exist to get the supply of workers back on track. The chapters of Part Three cover workforce planning in detail.

The third point of integration is **top-down** and **bottom-up** thinking. These terms are spoken about a lot generally in business. When it comes to OP&A, they are applied to workforce planning. Top-down helps you to get started – it sets the direction and provides high-level guestimates to anchor your thought. Bottom-up planning brings a reality check. Do those high-level guestimates make sense? It involves validating, iterating and learning as you iterate. OP&A brings together top-down budgeting and business planning assumptions done by workforce planners and bottom-up position planning

done by individual teams. The top-down assumptions are based on business drivers and targets and provide a model plan. The teams then outline what they think they need to be able to execute this plan. Part Three looks at the difference between these two activities.

The fourth point is the integration of high-level aggregation and individual-level detail. Activities such as talent mapping and succession planning require data at an individual level to understand who the potential candidates are for a role and where people might move to in the organization at a future date. As the role of OP&A is also to understand trends and make predictions and assumptions, data also needs to be aggregated: gathered and presented in a summarized form. There are a great many ways in which data can be aggregated to understand how the organization system is functioning and predict how it can expect to function in the future.

OP&A also integrates planning and the employee and position lifecycles. The employee lifecycle model helps employers to understand how the people they hire engage with their organization. Much like the customer lifecycle, employees go through a journey consisting of six steps – attraction; recruitment; onboarding; development; retention; separation – and they experience the organization differently at each one of them. OP&A can help businesses understand how the employee lifecycle impacts on the supply of workers by giving an integrated view of factors which contribute to flight risk and attrition, such as the employee experience, flexibility and reward. I explain the position lifecycle in Chapter 3.3. In its lifecycle, a position also transitions through six steps from being planned to being closed. OP&A tracks positions through their lifecycles to understand the number of open positions at any one time, closing them or keeping them open as necessary, depending on the need identified in top-down and bottom-up workforce planning.

The last two points relate to the integration of people. As already explained, OP&A brings together Finance and HR to build a cohesive workforce plan. With the right technology, OP&A can work in tandem with FP&A to create true alignment and collaboration on the overall business goals. OP&A can provide a comprehensive understanding of the cost of the workforce over time, as well as the required headcount and competencies over time to execute strategy. It can also provide insight into the divergence of actuals from targets. I describe the interface between FP&A and OP&A in more detail in Chapter 5.3.

Finally, OP&A is all about integrating business operations and people. As I explain in Chapter 1.2, the organization system is comprised of six inter-related components, each of which forms a dataset: **objectives; activities;**

competencies; roles; positions; and people. OP&A ensures that the workforce is fully integrated with the needs and goals of the business. Data brings transparency to the hidden truths of the organization to give a clear picture of how work in the organization is carried out and the performance of the workforce.

These seven points are brought to life throughout the chapters of this book. They build on the principles discussed in *Data-Driven Organization Design*. To help you recap, the next chapter provides a whistle-stop tour of the main concepts. These are vital to understand before getting to grips with the work of OP&A.

REMEMBER THIS

- 1 Disruption is not new. It's been around since at least 1840.
- 2 Organizations with the capability to plan for disruptive change and make rapid, confident decisions related to the organization and the workforce will outperform their competitors.
- 3 Model scenarios and continually ask 'What-If' questions to understand the impact of various available options. This enables organizations to be 'adept at adapting' and capitalize on opportunities when they present.
- 4 Maintain a heads-up mindset to scan the horizon and see the space in front of you.
- 5 The concept of volatility can be understood through Real Option Pricing.
- 6 A new core capability is needed: Organization Planning and Analysis (OP&A), to anticipate changes and prepare the organization for the future.

Notes

- 1 Rumelt, R (2012) *Good Strategy/Bad Strategy: The difference and why it matters*, Profile Books Ltd.
- 2 General Electric (2000) *Annual Report 2000*. www.annualreports.com/HostedData/AnnualReportArchive/g/NYSE_GE_2000.pdf (archived at <https://perma.cc/3F39-SA4Z>)

- 3 Reuter, D (2018) A look back at General Electric's 129-year journey from American manufacturing icon to fallen giant, *Business Insider*. www.businessinsider.com/the-rise-and-fall-of-general-electric-2019-8?amp (archived at <https://perma.cc/TUG4-7PAB>)
- 4 Viguerie, P, Calder, N and Hindo, B (2021) 2021 corporate longevity forecast, *Innosight*. www.innosight.com/insight/creative-destruction/ (archived at <https://perma.cc/A5PN-R2C4>)
- 5 For more on the Cynefin Framework, visit <https://thecynefin.co/about-us/about-cynefin-framework/> (archived at <https://perma.cc/M5FT-F5CC>)
- 6 For more on Duke Corporate Education's Agile Dashboard, visit www.dukece.com/insights/closer-look-at-agile-dashboard/ (archived at <https://perma.cc/D847-45XB>)
- 7 *Avengers: Infinity War* (2018) Directed by Anthony Russo and Joe Russo [feature film], Walt Disney Studios Motion Pictures.
- 8 Ulrich, D (2019) The role of the HR Business Partner in a digital age, MyHRFuture, 27 August. www.myhrfuture.com/digital-hr-leaders-podcast/2019/8/27/role-of-the-hr-business-partner-in-a-digital-age (archived at <https://perma.cc/8HCY-MWBT>)
- 9 SHL (2018) Global assessment trends report. www.shl.com/en/assessments/trends/ (archived at <https://perma.cc/4LMG-VNZN>)
- 10 World Economic Forum (2016) *The Future of Jobs: Employment, skills and workforce strategy for the Fourth Industrial Revolution*. www3.weforum.org/docs/WEF_Future_of_Jobs.pdf (archived at <https://perma.cc/2EMC-TA5U>)
- 11 Centre for Economics and Business Research (2019) Large firms underinvesting in raising productivity say leading economists. www.orgvue.com/news/large-firms-underinvesting-in-raising-productivity-say-leading-economists (archived at <https://perma.cc/SC7P-VGFW>)
- 12 Driscoll, M (2015) Metric of the month: How finance people spend their time. www.cfo.com/budgeting/2015/12/metric-month-finance-people-spend-time (archived at <https://perma.cc/Q4EL-Y5CJ>)