

Human Resources Analytics

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HRM 623

Lecture 5



SCENARIO PLANNING: PREPARING FOR UNCERTAINTY

Chapter
04

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MAIN TOPICS



**Succession Planning—scenario Planning: Preparing For
Uncertainty— The Playbook Concept—quality Employee
Engagement Measurement & HUCAMETRICS**

SUCCESSION PLANNING

- Succession planning is the process of identifying the critical positions within your organization and developing action plans for individuals to assume those positions. Taking a holistic view of current and future goals, this type of preparation ensures that you have the right people in the right jobs today and in the years to come.



PLANNING PRACTICES OF SURVEYED COMPANIES

Figure 4.2. Planning practices of surveyed companies—selected questions.

1. For what percentage of your company's managerial positions do you have a replacement currently ready to backfill the position?	23%
2. Have you identified "A" players?	19
3. Is an annual succession-planning review included in your company's management staff planning program?	15
4. What percentage of your company's managerial positions are filled internally?	15
5. Do you maintain coaching or mentoring programs?	14
6. What percentage of your professional's personal objectives are expressed quantitatively and linked directly to corporate goals?	13

ADVANCED SUCCESSION PLANNING SYSTEM

- **Given these findings, they have developed an advanced succession planning system built around four imperatives:**
 - 1. Responsibility.** Assign a senior executive the primary responsibility for managing the system. This person must have the organizational power to keep the system on track and people being developed according to the needs of the organization and the prescribed plan.
 - 2. Identification.** Identify high-potential managerial and technical personnel as far down the organization as possible. As organizations become more complex, every manager and professional will be delegated greater discretionary power and faced with higher-risk decisions.

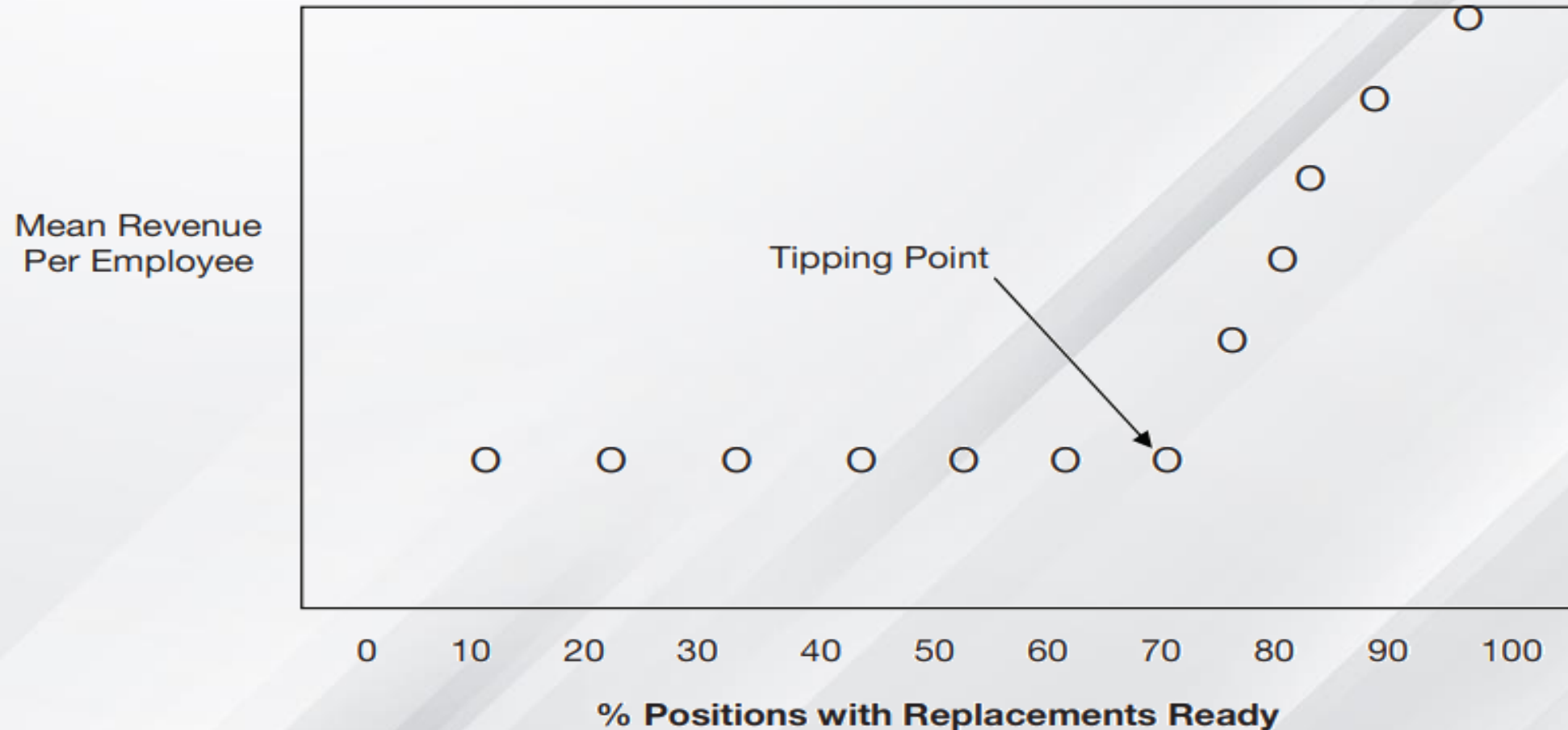
ADVANCED SUCCESSION PLANNING SYSTEM

3. Design. Develop personal growth programs, and review and update the Hi-Pos' progress at least annually. Strategic capability implies that these people be exposed to a broad range of on-the-job experiences, as well as formal learning opportunities. Because the market is moving so rapidly, continual review and revision are necessary.

4. Effectiveness. Monitor advancements and their effect on top-line growth and accelerate development where necessary.

SUCCESSION PLANNING AFFECTS REVENUE GROWTH.

Figure 4.3. When succession planning affects revenue growth.



MANAGEMENT SUCCESSION IS A CRITICAL DRIVER OF SUSTAINABILITY

- CEOs accountable for ensuring a continual flow of capable executives, managers, and high-skill professionals.
- Research has shown repeatedly a positive correlation between organizational performance and the CEO's commitment to management development.
- In the final analysis, the only corporate resource that matters is people; all other resources are depreciating assets.

SCENARIO PLANNING: PREPARING FOR UNCERTAINTY

- Scenarios are stories about the future that, when taken together, describe a range of plausible future states of an industry, its markets, and a particular business.
- Scenarios are a tool for dealing with rapid change, uncertainty, and inherent unpredictability.
- Scenarios are not predictions of the future; rather, they are images of possible futures, taken from the perspective of the present

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SCENARIO PLANNING

1. Scenario planning, encourages a creative tolerance for ambiguity;
2. It enables an organization to consider what skills and resources it would need to compete effectively in each of the imagined alternative futures.
3. It enables how it would have to change current practices to survive in that world.

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4. scenario planning provides executives with a sense of what events or patterns to look for as early warning signs that one or more of the projected scenarios might actually be starting to occur.

This early sense of how the future is beginning to unfold amounts to a form of “anticipatory insurance.”

BUILDING SCENARIOS

The things you know you don't know

Identify the most critical and potentially impactful unknowns

Two uncertainties that are essentially independent variables.

Select two of the most critical of those unknowns

Look at four possible combinations

The third step is to set up a 2x2 matrix

Example of 2X2 matrix for building Scenarios

Data Privacy Regulation	LOW	HIGH
LOW Competitor Emergence	Scenario One Open Data/Low Competition	Scenario Two Restricted Data/Low Competition
HIGH Competitor Emergence	Scenario Three Open Data/High Competition	Scenario Four Restricted Data/High Competition

BUILDING SCENARIOS

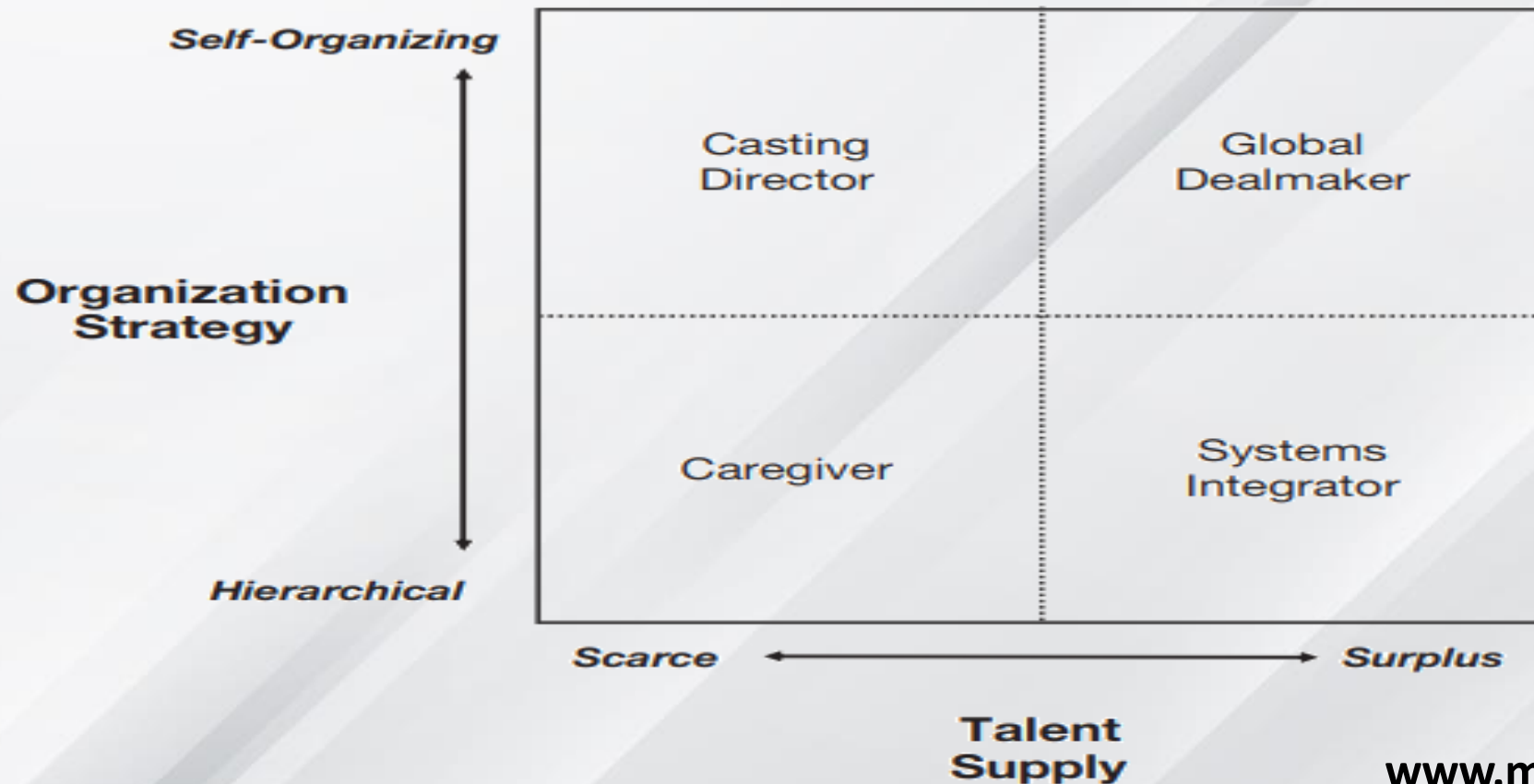
EXAMPLE

The scenario planners selected two aspects of the future economy that they believed were indeterminable:

1. The prevailing kind of organizational strategy, either self organizing or a more traditional, hierarchical approach
2. The global supply of talent, either scarce or in abundance

EXAMPLE

Each of the four hypothetical roles for the CHRO is spelled out this way to enable senior executives and HR professionals to imagine the world in which that role would be appropriate. *Figure 4.5. Four possible worlds for the CHRO.*



FROM SCENARIOS TO PLAYBOOKS

- Once you have developed several plausible scenarios, what can you do with them?
- Scenarios are not an end in themselves, and if misused they can actually increase organizational risk.
- To avoid that, they recommend building a “playbook” containing alternative scripts or action plans for the different futures you have described in your scenarios.

THE PLAYBOOK CONCEPT

- Professional teams in most major team sports—especially those in time-based sports like football, basketball, and soccer—have used playbooks for years.
- A playbook contains a series of different offensive and defensive plays that have been developed for a variety of different conditions.
- An effective playbook takes into account the unique strengths (and weaknesses) of the team.

THE CONTENTS OF A BUSINESS PLAYBOOK

Playbook includes six basic “chapters

1. Analyzing the “Game.” The opening chapter includes a basic analysis of the company’s business environment, focusing on the fundamental drivers of change, including those strategic uncertainties whose combinations lead to a set of plausible alternative futures

2. Assessing the Competitive Position. This chapter includes a thorough examination of the company’s capabilities and limitations, with a particular focus on its position and power in its current channels. What is your present value proposition? Why do your customers buy from you and not your competitors? What are your capabilities and resources?

THE CONTENTS OF A BUSINESS PLAYBOOK

3. Scenarios—Envisioning the Future. This chapter contains documentation of the alternative futures that come out of the critical uncertainties defined by the scenarios you have created. Detailed economic analyses, customer profiles, and channel structures also described and discussed. The opportunities for changing the rules of the game can be identified.

4. Plays—Setting Our Options. These are the specific strategic moves that can be made within each scenario. In addition, indicators are identified—environmental factors that can act as signals that one or more of the alternative worlds may actually be occurring, or are becoming more likely.

THE CONTENTS OF A BUSINESS PLAYBOOK

5. Executing the Plays. This chapter lays out the action steps required to execute each plausible or desirable strategic move. Here, the resources needed to execute each play are defined, as are the managerial accountabilities for ensuring resource availability and actually executing the plays.

6. Tracking, Anticipating, and Acting. This chapter includes the ongoing documentation of the plays as they are executed, and it contains updated environmental assessments as well as any new plays or counter plays as they are developed.

THE PROCESS FOR CREATING A PLAYBOOK



PHASE ONE—BACKGROUND RESEARCH AND SCENARIO DEVELOPMENT

Phase One corresponds to chapters 1 and 2 of the playbook structure described previously, plus the groundwork for chapter 3.

Phase One includes asking questions like these:

- What is changing today about our customers, our competitors, our marketplace?
- What is our current position within our supply chain? What is keeping us where we are in the chain?
- What forces are changing our channel power relative to our suppliers, our customers, and—if applicable—the ultimate end consumers?
- What core business processes drive our industry and channel today?
- What kind of channel player do we want to be going forward? What are our ambitions?

PHASE TWO—DEVELOPMENT OF STRATEGIC OPTIONS

Phase Two, corresponding to chapters 3 and 4 of the playbook structure, should be completed within four weeks, if at all possible.

The playbook team develops the scenarios in much greater detail, and for each scenario the team asks,

- “If this world actually happens, what do we need or want to do?
- What capabilities and resources are required to be successful?”
- What impact would each scenario have on our existing resources, market position, and channel partners?
- How might our competitors react to each scenario? What opportunities and threats would their reactions create for us?

PHASE THREE—ACQUISITION OF NECESSARY RESOURCES AND BUILDING OF THE CAPABILITY TO EXECUTE

- **Phase Three, corresponding to chapter 5 of the playbook structure, is also best completed within another four to six weeks.**
- It consists primarily of working through the resource requirements and execution capabilities surrounding each of the strategic options that have come out of the scenario-building process in Phase Two.
- It is the same as resource planning; it is sorting through the implications and consequences of each possible scenario. What makes this process different, however, is that no final or formal commitments have been made to any particular strategic move.

THE STRENGTHS OF SCENARIO PLANNING

1. **Plausibility.** The focus is on the logic of the scenario, not on what someone believes will or should happen, but what can happen and why.
2. **Creativity.** The brainstorming approach actively encourages out of-box thinking.
3. **Tolerance for Ambiguity.** scenarios teach managers that it is all right not to know “the” answer about the future. The most important value of scenarios is that they shift the debate from “what will be” to “what if.”
4. **Seeing the Big Picture.** In laying out a range of possible futures, we become more adept at considering multiple variables. On the other hand, scenario planning introduces new kinds of risk into the way people think about the future.

THE LIMITATIONS OF SCENARIO PLANNING

1. **Oversimplification.** You can't cover all the key uncertainties in complete detail.
2. **Team Composition Interacting with Content.** The team members and their interaction during scenario building inevitably affect the visions the team produces.
3. **Insight Versus Action.** The scenario technique works best in generating new ideas and leaps in understanding. But their only value lies in the way the company acts on the information and ideas the scenarios generate.

QUALITY EMPLOYEE ENGAGEMENT MEASUREMENT

HUCAMETRICS

So what is **HUCAMETRICS** and what in the world does quality employee engagement measurement have to do with predicting outcomes?

- **HUCAMETRICS** (hew-ca-MET-rix) is the new science of tracking and applying human capital data to predict employee and business performance and cause and effect.

HUCAMETRICS

Refer here to the basic HUCAMETRIC predictive model as the CEO success formula:

$$\text{Competence} \times \text{engagement} \times \text{organizational opportunity} = \\ \text{return on human capital}$$

COMPETENCE—“READY”

- Think of competence in the organization as a collective rather than an individual phenomenon, where unity of effort is more important than the sum of the parts.
- Competence, for HUCAMETRIC purposes, is the group's or organization's collective state of being adequate, well qualified, or masterful in performing a specific set of jobs or functions, measured against set standards, and in consistently and successfully achieving specific outcomes.

NON MANAGEMENT COMPETENCE

- Figure 4.6 is an example of what the non management competence profile may look like.
- For these statistics to be useful for predictive and intervention purposes, individual performance results should be aggregated by leader work group.
- Most companies underutilize combined individual performance-appraisal scores and fail to adequately manage group performance totals.

Figure 4.6. Nonmanagement work group competence profile.

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Competence Value Factors	0–100 Scale
1. Understanding individual and group work goals	79
2. Performance in accomplishing goals:	81
(a) Speed	61
(b) Quality	95
(c) Percent achieved	87
3. Opportunity to contribute	91
(a) Attendance	79
(b) Tardiness	99
(c) Percentage of daily uptime directly contributing to work goals, the welfare of the organization, and/or customers	96
4. Skill/achievement level	88
5. Scope of knowledge of products, services, customers, and potential new markets	66
6. Innovation events—implemented ideas resulting in saving time or money, better customer service, or finding new markets	21
7. Dedication to serve	45
COMPETENCE INDEX	67.29

TOP MANAGEMENT COMPETENCY PROFILE

- Figure 4.7 is what the top management group profile may look like.
- Competency profiles, once calibrated properly, should statistically describe the competency of each work group, as well as the organization as a whole.
- Group competency scores can be classified into categories of less than adequate, adequate, well qualified, and masterful for purposes of skills training and transfer management.

Figure 4.7. Top management competence profile.

Competence Value Factors	0–100 Scale &/or % Achieved
1. Organizational goals achieved	90
(a) Percent	85
(b) Quality	95
2. Human Capital Return on Investment	66
$\text{HCROI} = \frac{\text{Revenue} - \text{Expenses} - \text{Pay} + \text{Benefits}}{\text{Pay} + \text{Benefits (all labor classifications)}}$ (Economic Contribution of Human Resources)	
3. Human Capital Market Value	71
$\text{HCMV} = \frac{\text{Market Value} - \text{Book Value}}{\text{FTEs} + \text{Contract} + \text{Contingent}}$	
4. Brand enhancement/customer loyalty increase	31
5. Profitability and return on human capital invested	45
6. Innovation events	91
7. Cumulative, company-wide engagement index	81
8. Cumulative, company-wide competence index	83
COMPETENCE INDEX	69.75

EMPLOYEE ENGAGEMENT—“WILLING”

True measurement of engagement statistically describes this state of willingness and predicts the quality, speed, energy, and enthusiasm of human effort in the organization, independent of competence or opportunity to contribute.

“Ready” without “willing” results in poor return on human capital because the capital sits idle.

EMPLOYEE ENGAGEMENT—“WILLING”

- Engagement is often mistaken for satisfaction .As a result, management errantly embarks on fixing the wrong things in an attempt to positively engage more employees.
- Two fundamental precepts necessary to positively engage people are often ignored in the survey measurement:
 - (1) employee sense of fair treatment underpins engagement
 - (2) the things that engage people are different from the things that disengage them
(the opposite of disengagement is not engagement, but no disengagement)

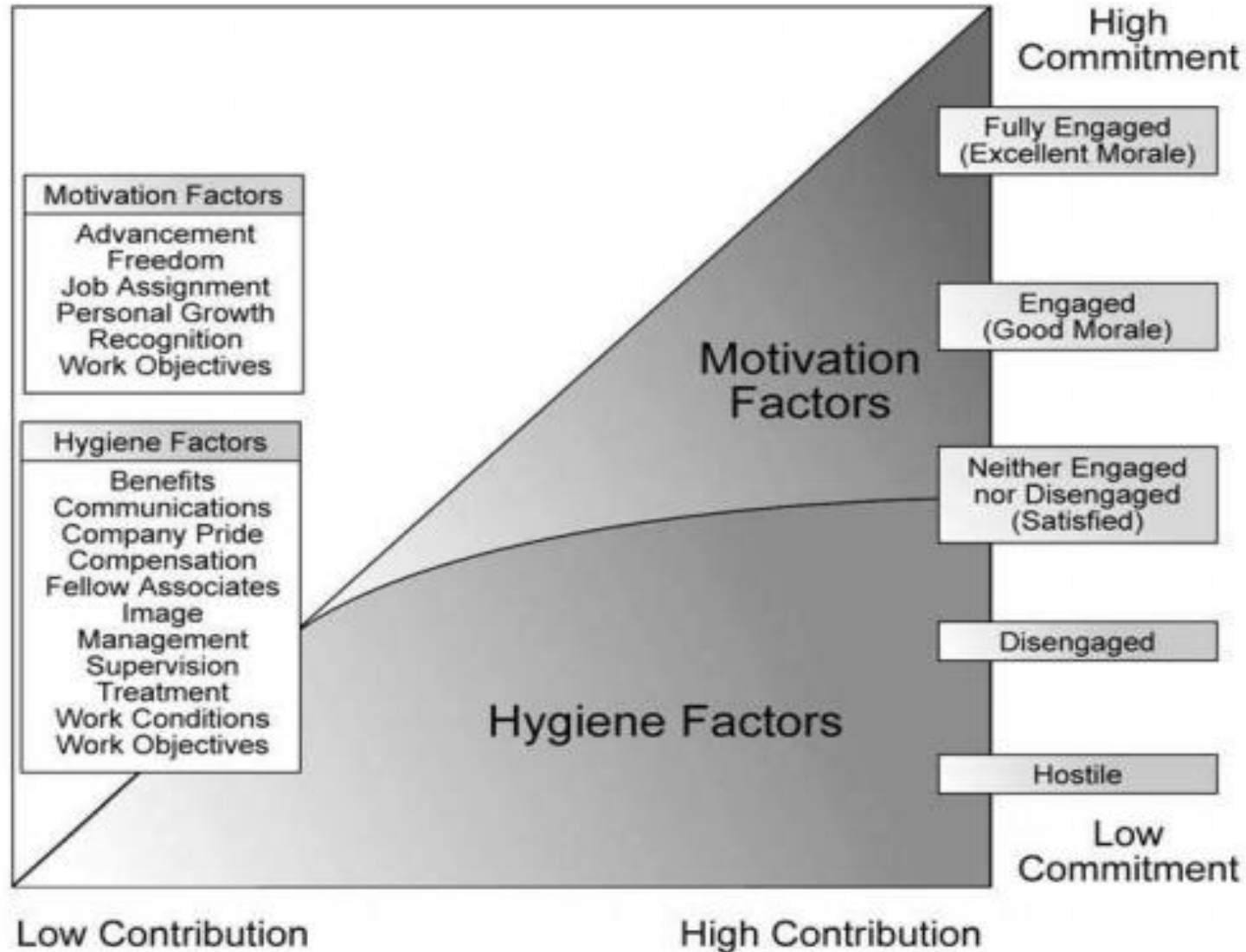
EMPLOYEE ENGAGEMENT—“WILLING”

There are a couple of things to note about these findings, based on Frederick Herzberg’s Two-Factor studies

- (1) positive employee engagement cannot be sustained if the majority of disengagement factors is not neutralized, and
- (2) to positively engage employees there is more than “one thing you need to know”—most disengagement factors must be neutralized before improvements in engagement factors can have a significant positive influence

Engagement is an individual’s degree of positive or negative emotional attachment to his or her organization, job, and colleagues.

Figure 4.8. Effect of motivation and hygiene factors on engagement and contribution.



Source: Scarlett Surveys International, 2008.

Figure 4.10. Nonmanagement engagement sample.

Sample Company		FACTORS: OVERALL vs. GROUP						January 2008 Non-Management
	Critical Range	Overall Results	Group 01	Group 02	Group 03	Group 04	Group 05	Group 06
AER* Index	67-79	73	65	88	65	81	78	66
Percent with poor attitudes	40-20	28	25	0	(50)	13	22	(60)
Number of participants		193	12	7	10	8	18	5
COMPANY PRIDE	82-93	80	57	100	68	100	86	70
VICE PRESIDENTS AND ABOVE	53-65	69	67	88	63	77	58	73
DIRECTORS	50-66	67	43	93	50	60	80	57
COMPANY IMAGE	58-73	61	47	79	42	77	66	47
INFORMATION	64-77	73	60	100	63	87	81	67
TREATMENT	53-66	65	61	80	48	69	74	40
ADVANCEMENT OPPORTUNITIES	48-62	56	63	76	45	79	65	63
COMPENSATION	45-63	52	64	45	35	50	52	90
BENEFITS	72-86	87	97	95	73	90	92	100
WORKING CONDITIONS	70-81	84	90	79	83	91	83	78
FELLOW ASSOCIATES	78-86	87	79	93	83	89	94	93
JOB ASSIGNMENT	78-89	73	47	95	67	94	69	60
WORK OBJECTIVES	62-76	73	69	90	55	75	88	27
MANAGER	69-80	82	78	98	78	76	93	58
PERFORMANCE FREEDOM	76-85	83	76	95	83	85	89	70
PERSONAL GROWTH	68-79	65	32	93	78	91	63	70

*AER = Associate Engagement Research.

Source: Scarlett Surveys International, 2008.

ORGANIZATIONAL OPPORTUNITY—“ABLE”

- Frederick Herzberg once commented, *“If you want someone to do a good job give them a good job to do.”* This statement lies at the heart of what organizational opportunity is all about: putting the right people in the right place at the right time doing the job or working for the cause they love.
- It covers the following areas: *job fit, achievement, recognition, responsibility, advancement, growth, freedom to perform, and a self-classification question involving contribution.*

Figure 4.11. Nonmanagement work group organizational opportunity profile.

OO Factors	0-100 Scale
1. Job Fit	89
2. Achievement	61
3. Recognition	40
4. Responsibility	75
5. Advancement Opportunities	60
6. Personal Growth	70
7. Freedom to Perform	40
8. Maximized Contributions	40
OO INDEX	59.38

THE RETURN ON HUMAN CAPITAL PREDICTOR

Based on the example in Figure 4.11, using the index scores of the non management group, let's take a look at how things multiply out:

$$\begin{aligned} &(\text{Competence}) 67.29 \times (\text{engagement}) 73 \times (\text{organizational opportunity}) 59.38 = \\ &(\text{potential HCROI}) 291,685 \end{aligned}$$

THE ROI OF HUMAN CAPITAL

- The 291,685 can be compared to current revenue per employee, human capital ROI, human capital value added, and human capital market value.
- Every time the CEO success HUCAMETRICS are gathered until some type of predictive relationship is established, overall and at the workgroup level.
- After the first round of measures, there should be sufficient data from the group profiles to establish some predictive trends.



Thank You