Scaling HR Contribution To Business: Leveraging HR Analytics

For many years now, HR managed to maintain a low profile when it came to measuring effectiveness. HR Scorecards that measured performance against selected KPIs were of more recent development. The maturity continuum of measurement still hovered between measuring and reporting for "efficiency" and occasionally "effectiveness.". **Prof. Wayne Brockbank** of Ross School of Business, University of Michigan published an insightful article (1) describing the journey of HR from being **"operationally reactive to becoming strategically proactive"** in the winter 1999 issue of Human Resource Management. Understandably, the measurement journey also kind of paralleled this journey of HR, in that the early measurements focused on operational measures such as wage costs, absenteeism, lead time to hire, hiring costs, training man days, training evaluation score and the like.

As the HR journey matured towards to becoming proactive, the nature of the KPIs on the HR scorecards started to advance and often included leadership (successor) bench, Employee-HR ratio, vitality / bell curve trend, competency scores, employee engagement scores and trends and the like. Seminal work by Dr. TV Rao, Dr. Dave Ulrich & Dr. Mark Huselid also paved the way for HR professionals to become more "result-oriented" in measuring and reporting the effectiveness of the HR function.

HR scorecards and measurements as they exist today, demonstrate the maturity of a growing profession over time, but their focus still remained 'past.'. The HR profession needed a framework for focusing on the future – predicting the return on HR Investments so that scarce resources can be put to better use. Offering a handle for the business managers to be able to take people decisions effectively via a decision science framework became necessary. Welcome to the world of HR Analytics- where the domain of HR intersects with the domain of statistics and software to generate meaningful relationships between what HR seeks to do and deliver and the impact it intends to create on the organization.

The measurement continuum: The journey of HR Analytics has gone through various stages. Dr. JacFitz-Enz (2),often cited as the father of Human Capital Metrics and Measurement, was for a long time the Founder of Saratoga Institute which focused on standardizing HR measurements. He traces the development of HR Analytics movement through the following stages:

Recording:This is basically measuring how good or efficient is our hiring, paying, training and supporting and the like are.

Relating: This involves relating our performance to organization's goals such as quality, innovation, productivity and service. This reveals some value in what we in HR do!

Comparing: This basically refers to benchmarking that we are known to do for many years now. This helps us to set aggressive goals based on the benchmarked reference points. However, to be effective, this requires knowledge of the organizations to which we will be compared.

Understanding: This perhaps is the first level of analysis. Here we look for and describe relationships among various KPIs and data points we may have, but often this is done without giving meaning to the patterns that exist.

Predicting: This is where the real predictive analytics comes into picture. In doing so, we observe patterns and make meaning out of those patterns including what it means for the future.

Talent Analytics:

Dr Thomas H Davenport, distinguished professor of Information Technology and Management at Babson's College and a well-known authority in the domain of measuring intangibles and analytics published a powerful article titled, "Competing on

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Talent Analytics in HBR recently (3). In this article, he cites a few companies like Google, Best Buy, Proctor & Gamble, etc., as standing out for "taking the guesswork out of employee management by leveraging analytics to improve their methods of attracting and retaining talent, connecting their employee data to business performance and differentiating themselves from competitors."Dr Davenport outlines 6 kinds of analytics that can help companies answer critical talent questions. They are:

Human Capital Facts: These are simple data points or measurements like headcount, turnover/attrition, employee satisfaction score and the like. Most of the HR scorecards that exist today capture this kind of data by and large.

Analytical HR: This integrates individual performance data with HR process metrics such as cost and time or outcome metrics like engagement and retention.

Human Capital Investment Analysis: This helps organizations understand which HR actions or initiatives have highest impact on organization's performance.

Workforce forecasts: This involves extensive analysis of workforce trends (external & internal). External revolves around scanning the labour market for trends and internal factors include hiring, attrition, promotions into and out of different talent segments within the company.

The Talent value model: This involves use of analytics to determine what employees value most and use this information to enhance retention, for example.

Talent Supply chain: This involves real time analysis of business volume data to determine the level of workforce required from time to time.

What is behind weak measurements in HR?

It would be helpful to understand why HR has not been able to do a credible act of measuring and reporting its effectiveness. Some of the reasons for this could be as follows:

HR has been comfortable measuring what is easy to measure: labour costs, lead time to hire, training man days, voluntary & involuntary attrition, percentage of people for whom appraisal review is completed and the like. By and large these **measurements represented the "efficiency paradigm"** that HR folks practiced for a long time.

HR has thrived for a long time on "averages." For example, HR would report average lead time to fulfill people requirements, average employee satisfaction score across the company, average training evaluation scores, average salary costs for different salary bands and the like. This took the focus away from what is critical and conveniently pushed under the carpet the "outliers" that mattered. I am often tempted to question this by asking, **"if your head is into a furnace and legs into a cold storage, you should 'on an average' feel comfortable, right?"** This often sends the right message that not all is well with averaging!

HR folks in many organizations believe that their problems are unique and therefore cannot be measured. Nothing can be further from the truth. While every industry and business is unique, there is also so much common that allows for measurements and improvement

HR is measured in isolation and not in terms of its impact on business. For example, cost of training is measured per employee or as a percentage of revenues. But seldom do we measure how building a certain set of competencies have helped retain customers or increase market share or enhance productivity. **Measuring the causal relationships between what HR delivers and how it impacts business is quite uncommon even today.**

HR **does not consider the available data as sufficient** for meaningful analysis and decision-making. In reality, HR has more data than what it will ever need for doing a meaningful analytics.

HR is not comfortable with using simple statistical tools like regression analysis and the like. As a result, we really suffer from **"data data everywhere, but not a drop to drink!"**

HR still excels in **anecdotal approach to explaining things.** Making a credible case with clear cause and effect relationships and observable patterns is still not the way of life for HR.

Demystifying HR Analytics:

It is very important to understand what HR analytics is and what it is not. There is a noticeable tendency to look at analytics as all formula-driven, statistically-oriented science. Analytics, of course, leverages software and statistical tools, but it is much more than that. It is important to recognize that "analytics is a mental framework – a logical progression first and a set of statistical tools next!" In practice, all HR analytics begins with workforce planning or capacity planning as is commonly understood. Segmenting talent into pivotal, differentiators, useful and movable and the like is also a critical component of HR analytics as each segment has a distinct impact on strategic capabilities of the organization. For example, disengagement & attrition of top talent has a far more damaging effect on the organization's future than that of other employees. A peanut butter approach to employee compensation and rewards has far more negative effect on the organization than differentiating and pigeon-holing people on the basis of their performance.

The real power of analytics lies in its predictability. This requires an extensive understanding of the external forces and internal factors that impact the HR management in organizations. Understanding the relationship between these factors and their implications for organization's human capital, structural capital and relational capital is a critical capability for HR professionals in their quest for embracing HR analytics to measure and report the value from HR function and investments. Descriptive analytics reveals current data patterns, say for example, those employees who are in the bottom quartile of the salary curve tend to quit jobs sooner than those in the top quartile of the curve. Predictive analytics establish what engagement factors beyond money, for example, can help increase employee retention for the future.

A Systematic approach to HR Analytics:

Dr Jac Fitz-Enz is of the view that HR analytics should follow a systematic approach and framework. This approach involves (a) Scanning the market place for the external and internal influences that impact workforce planning; (b) Planning for building capabilities and engagement of the workforce; (c) Predicting useful trends using vast data within the organization and leveraging strategic as well as operational lead indicators and (d) Turning this data into business intelligence for future action. In other words, predictive analytics using statistical tools or software tools such SAS or SPSS can help in the following:

In being predictive and proactive (for example in meeting talent demands or retention challenges) rather than reactive

In being able to uncover hidden patterns, trends and relationships and use this to take decisive actions

There are at least 3 conditions that must be met to show that a human capital factor drives business performance.

Here is an example to show how to establish these relationships: HR professionals can move up the value chain and contribute to business success manifold by performing simple analytics for their function. The road-map for doing this involves:

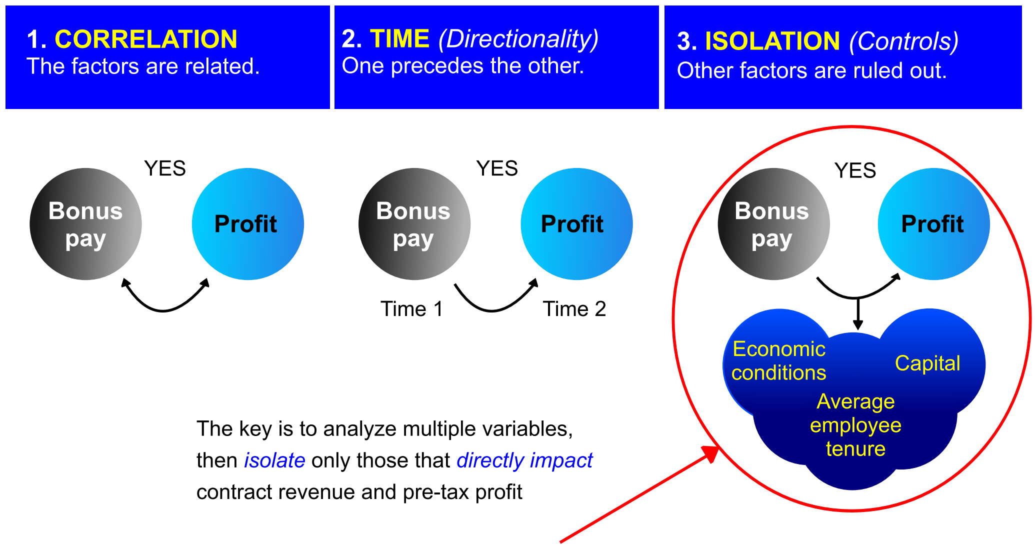
Understand the business a bit deeper

Recognize how people decisions impact business

Scan the environment for risk assessment and validate the same with business

Size up the capabilities that are required for supporting the business

Together with the business, determine a slate of key metrics



that help measure the trends and patterns and their impact on business goals

Use simple tools and techniques (and borrowing specialist's help where necessary), establish causal relationships between HR investments and business outcomes and organization capabilities

Keep the focus on the future - ask "what if" and find answers

Final comments:
Times could not have been better for HR – both for making superior contribution to the business and for measuring the same for evidence. Here are two powerful quotes from Gurus who have done seminal work in measuring HR contribution:

Jeffrey Pfeffer's Law: Instead of being interested in what is new, we ought to be interested in what is true!

Jack Fitz-Enz: To assume our work has value without offering any supporting data is arrogant and a dereliction of duty!

HR analytics is still an evolving domain for HR and therefore will likely take some more time before it becomes a way of life. Any small beginning will go a long way in restoring the rightful credibility for the HR profession.

References:

1. Wayne Brockbank: "If HR were really strategically proactive: Present and Future directions in HR's contribution to competitive advantage" Human Resource Management, Winter 1999;Volume 38.

2. Jac Fitz-Enz. The New HR Analytics" Amacom (American Management Association) 2010

3. Thomas Davenport, Jeanne Harris & Jeremy Shapiro; "Competing on Talent Analytics" HBR- October 2010.

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