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A REPORT BY HARVARD BUSINESS REVIEW ANALYTIC SERVICES

HR Joins the Analytics Revolution

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KNOWLEDGE WORKERS ARE in short supply, the competition for talent has gone global; turnover is rising; and employee engagement is stagnant at best. The economic recovery is welcome, of course, but improving fundamentals can create headaches such as these for companies trying to attract, retain, and develop employees who can drive business results.

Because talent has never been more critical to business performance, companies have never had a greater need to understand with precision what it takes to recruit, retain, and motivate employees. In its most recent annual survey of U.S. CEOs, PricewaterhouseCoopers (PwC) found more than 80 percent of respondents said that they needed talent-related insights to make business decisions. Yet most enterprises still base talent decisions on the intuition of hiring managers and HR professionals. Few can offer standardized, systematic evidence to support their hunches.

Until recently, that is. For years now, finance and sales departments have used data to drive decisions, and more recently analytics have penetrated the supply chain and marketing functions. Now, finally, analytics are beginning to drive decisions about people. A growing number of corporate boards, CEOs, and CHROs understand that by applying data-driven tools to improve decisions about talent, they can improve revenues and profits. As a result, corporate leaders are embracing workforce analytics as essential strategic tools that can directly impact financial results.

Most HR organizations already collect at least some employee metrics. Linking the relevant ones to business results to understand correlation, causality, and predictability is the tougher task. "Turning HR metrics into meaningful business data is relatively new," says Josh Bersin, founder of Bersin by Deloitte, an HR research and advisory service. "While nearly every organization I talk with wants to build a talent analytics capability, many companies have still not built the business case. Our research shows that 14 percent of companies are well along in their journey and seeing tremendous returns. We're on a ten-year journey."

HIGHLIGHTS

6%
of high-performing employees in U.S. organizations voluntarily changed jobs in 2013, the highest rate in 10 years.

9%
of companies responding use predictive analytics to inform workforce decisions.

57%
of companies expect within two years to employ analytics using data integrated across multiple systems.

Findings Summarized

To understand this journey, Harvard Business Review Analytic Services conducted an online Pulse survey of 230 executives, about a third of them from HR. See "Methodology," page 7 We discussed the findings with six consultants and practitioners. Based on this two-pronged research we conclude that:

- Many enterprises expect to increase reliance on workforce analytics in the next two years. However, they must overcome long-standing hurdles, including data problems, staffing skills, and discomfort with data-driven decisions about the workforce.
- Most early uses of workforce analytics have aimed at saving or avoiding costs; the goal to drive revenue and profit needs greater emphasis.
- HR professionals and business executives must collaborate to combine workforce and financial data that can support decisions that impact revenue and profit.

Figure 1

Workforce Concerns

From the list below, select the top three most important concerns your company has about its workforce today.

Figure 2

Role of Workforce Data in Decision Making

Select from the list below the one description that best describes the extent to which workforce-related data plays a role in the decision-making style of your organization.

11%
We rarely use data to inform workforce decisions.

40%
We use data reactively—typically via ad hoc reporting—to inform only critical workforce decisions.

26%
We use data proactively—typically via operational reporting.

15%
We analyze our workforce proactively—typically via dashboards and visuals that are up to date and available on demand.

9%
We analyze and make proactive predictions about our workforce—typically via dashboards and visuals that contain predictive analytics.

"We've seen a sea change in the last 12 to 18 months," says Scott Pollak, a principal at PwC Saratoga, an HR services unit. "We see CEOs and others wanting better data and not just a head count report, but how is talent driving business results? This changes what gets measured."

Recruiting and Retaining

Respondents to the Pulse survey said their most important workforce concerns were recruiting, retaining, and developing high-performance talent and leadership. figure 1 Yet more than half use data only on an ad hoc basis or use no data in workforce decision making. figure 2

"If we don't have the right people in the right jobs, we can't drive business performance," says Nicole Theophilus, executive vice president and CHRO for ConAgra Foods, Inc., based in Omaha, with 36,000 employees worldwide. "One of the toughest things in recruiting is to convince candidates to come work for ConAgra Foods in Omaha," she says. "It is a challenging industry, and good candidates have other options in larger cities."

ConAgra began using workforce analytics four years ago in a number of areas such as wellness, adoption, and leadership development. It recently began to apply analytics in other areas such as recruiting and retention. "We've been looking at what makes employees stick," she says.

Much of the early development of workforce analytics has focused on recruiting and turnover, for obvious reasons. Recruiting is costly, and turnover is rising as the economy recovers. According to PwC Saratoga, voluntary turnover in U.S. organizations rose from 8 percent in 2012 to 9 percent in 2013. Voluntary turnover among high performers rose from 5 percent in 2012 to 6 percent in 2013, the highest in a decade.

Moving up the Maturity Curve

Many survey respondents expect to move up the workforce analytics maturity curve over the next two years. figure 3 Paul Rubenstein, leader for talent solutions and strategy at Aon Hewitt, provider of HR consulting, solutions, and outsourcing services, shares their optimism. He cites the proliferation of cloud-based tools and a greater willingness to invest as the economy recovers. "The technology is vastly different from just a year ago," he says. "We used to think this cycle would take three to four years. With cloud-based technology, it should take two to three months to get the tech ready and get the first analytics up and running and then six to nine months to get good at it."

The survey identified two primary obstacles to adoption: data-related problems and HR's skill level. figure 4 Our interview subjects, including John Berisford, executive vice president for HR at McGraw Hill Financial in New York, shared this view.

HR data was a mess three years ago when Berisford joined the company. Fortunately, he was working with a blank slate, because the company, a provider of market intelligence services with 17,000 employees worldwide, had recently spun off its education, publishing, and media businesses.

When Berisford checked a sample of data from the legacy HR system of record, "28 percent was wrong," he says. The company spends $2 billion a year on labor, which is two-thirds of total costs, but "if the CEO asked me how do we spend that money," Berisford says, "I couldn't tell him." After installing a cloud-based system of recording and putting in a lot of work on data governance, rules, and taxonomy, he has achieved an accuracy rate north of 95 percent.

Talent acquisition and total rewards are crucial in his company. For those functions Berisford adopted a cloud-based workforce analytics and planning solution linked to the system of record. The goal is simple: "If we don't figure out precisely how to deploy that $2 billion to drive value, we lose ground," he says.

HR's well-documented lack of analytical acumen comes a close second to data problems as the chief obstacle cited by poll respondents. "While no company would possibly run their business with inconsistent financial data, most companies are riddled with inconsistent HR data," says Josh Bersin. "Companies are waking up to this issue and are starting to invest heavily in talent analytics. One HR executive recently told me they would not hire any HR people who did not have some statistics understanding. Understanding how to use data is becoming part of the HR profession."

Berisford hired five people with quantitative backgrounds outside HR. Theophilus started with two internal HR staff with a passion for analytics and hired two industrial psychologists with doctorates. The combination of new technologies and increased analytic acumen has created significant impact at both companies.

Impacting the Bottom Line

Asked to rate the importance of workforce analytics to help the organization meet revenue and profit goals, 51 percent of the poll respondents gave it an 8 or higher on a 10-point scale; 58 percent rated its importance in two years as 8 or higher. That finding is a significant deviation from the normal bell-curve distribution typical of most poll responses and indicates the intensity of interest in workforce analytics as a business tool.

"So far we have been able to pinpoint costs savings and cost avoidance," Theophilus says. "We are ultimately working to quantify how our succession and development efforts tie to revenues and profits. That's when all the light bulbs will go on for folks."

Figure 3

Workforce Data, Metrics, and Analytics Usage

Which of the following workforce data, metrics, and analytics are in use in your organization today and will be in two years?

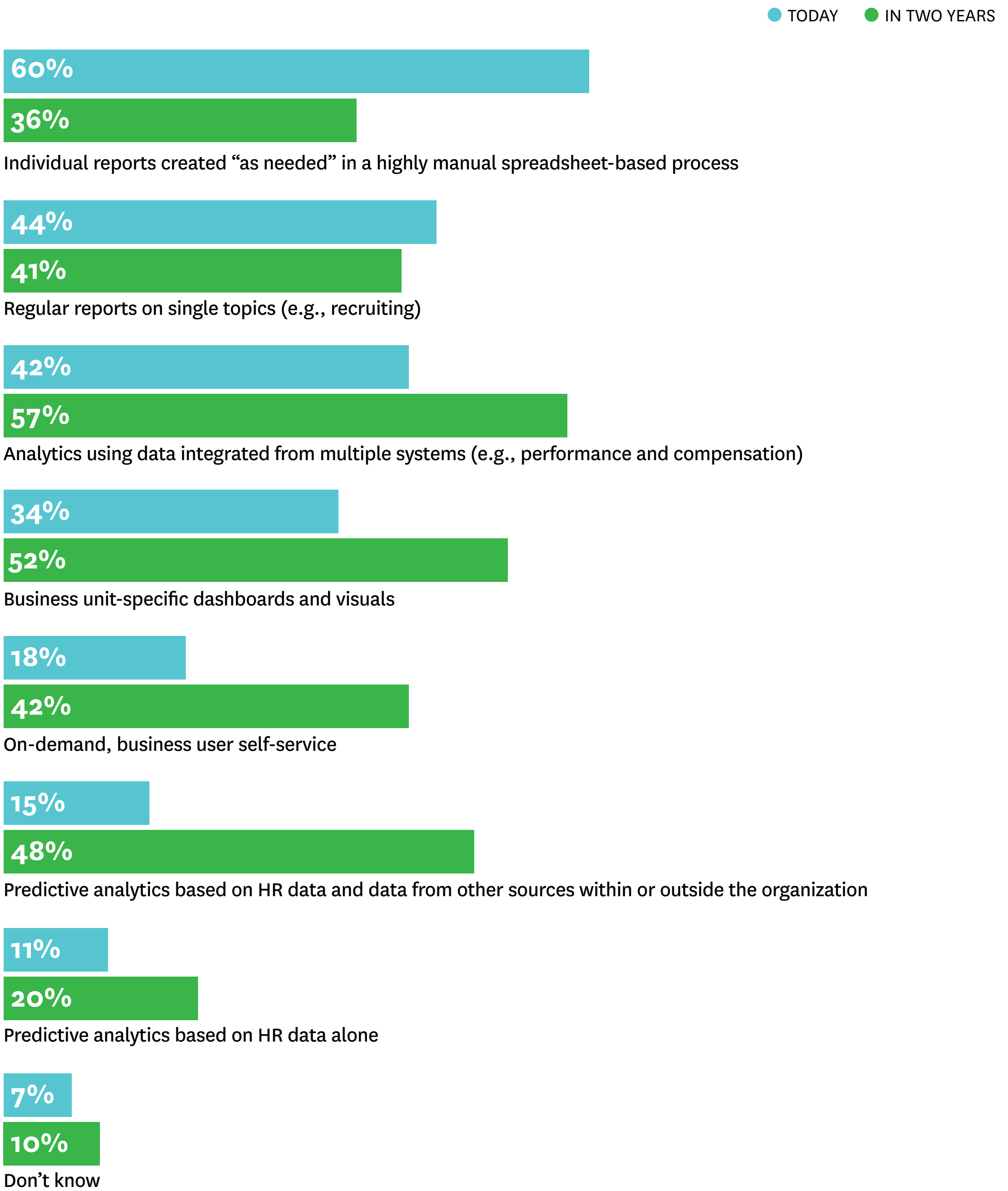
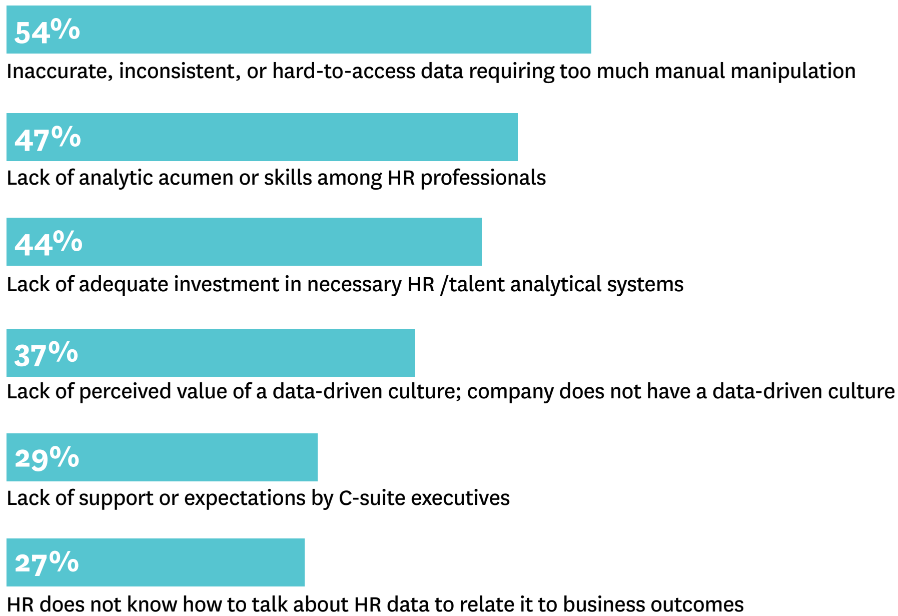


Figure 4

Biggest Obstacles to Achieving Better Use Of Data, Metrics, and Analysis

What are the three biggest obstacles to achieving better use of data, metrics, and predictive analysis by HR and talent management professionals in your organization?



By "folks," Theophilus means the HR and business executives who need to develop a common understanding of how selected employee metrics cause, correlate with, or predict selected business outcomes, especially revenue and profit. It is HR's responsibility to lead this joint effort, but this assumes HR is capable of leading and that the business side wants to be led.

To lead, HR needs both quantitative acumen and a keen understanding of what makes the business successful as well as the ability to connect business results to data about employee performance. HR needs to learn which employee metrics have the greatest impact on business results and be able to tell stories about what the numbers mean for the business. A key component of the business case for workforce analytics is that the solutions have the potential to be self-funding from the savings they generate.

"State-of-the-art HR organizations are analyzing their data to reveal insights that business partners never asked for," but they're few and far between, says John Boudreau, professor and research director of the University of Southern California's Center for Effective Organizations. He studies human capital's impact on competitive advantage and has conducted regular surveys since 1995. "This is like Star Wars stuff in many organizations. HR typically focuses on traditional functional reporting, unless a business leader outside HR asks for analysis that connects human capital to financial results."

Boudreau notes that HR typically gets good marks from business colleagues for conventional analytics about legal compliance, service delivery, and the traditional HR value proposition. Workforce analytics promise much more, but delivering on that promise requires reconsidering HR's relationship with business executives. Business and HR can learn to work together, Berisford argues. "HR is enabling our CFO and finance team to redo the chart of accounts and general ledger with clean data and a clear taxonomy," he says. "Without clean data on people, it is difficult to have a clean P&L."

Pollak argues that the entire business, not just HR, needs help moving toward data-driven workforce decisions. Too often, he says, when HR asks the business side what it wants, the business side says, 'You're HR, you tell us what we need.' So really, no one knows what they want."

"What makes HR and business people uncomfortable is that sometimes the data trumps intuition," Theophilus says. HR professionals eventually "get it and move forward. But business people tend to not have time to think about how this is helpful. They say, "Just find me someone good.' Once they see the results, they understand the value."

"We have seen this tipping point before in other more mature business functions like finance and marketing," Boudreau observes. "At the critical moment in history, three ingredients coalesced to force analytics for finance and marketing to mature: the data became available, the resource the data described became pivotal in value, and decision frameworks (such as portfolio theory) evolved to a useful state. Human capital has the data, and the resource is obviously valuable, but we have not yet developed and communicated the required decision frameworks to use data to optimize decisions about talent."

Clearly, as the survey and interviews suggest, CEOs, CHROs, and their teams are beginning to get it: workforce analytics can produce better talent decisions, and better talent decisions can improve business results. Now they're ready to journey toward data-driven workforce decisions. The need has never been greater, and the solutions have never been better. Now it is time to invest, train, and revamp the culture to move HR and the entire organization in that direction.

Methodology and Participant Profile

Harvard Business Review Analytic Services conducted an online Pulse survey about trends in workforce analytics in February 2014, using lists from the *Harvard Business Review*. In all, 230 self-selected respondents participated. The statistical margin of error is 6.5 percent.

One-third of respondents were HR professionals. The others were mainly business executives or managers. Altogether, 80 percent of respondents identified themselves as managers/supervisors or higher, with 36 percent director level or higher.

In addition, 38 percent came from companies with 10,000 or more employees and 50 percent came from enterprises with 5,000 or more employees. The geographic breakdown was roughly equal among the Americas, Asia, and Europe/Middle East/Africa.

Harvard Business Review Analytic Services discussed the survey results with six experts for their reactions and to compare with what these experts know from their own experience and research, including their own surveys in some cases. The sources were:

- John Berisford, Executive Vice President HR, McGraw Hill Financial, Inc.
- Josh Bersin, Founder, Bersin by Deloitte
- John Boudreau, Professor and Research Director, Center for Effective Organizations, University of Southern California
- Scott Pollak, Principal, PwC Saratoga
- Paul Rubenstein, Leader for Talent Solutions and Strategy, Aon Hewitt
- Nicole Theophilus, Executive Vice President and CHRO, ConAgra Foods, Inc.

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Sponsor's Perspective

The "datafication of HR" is a leading business trend today and has the potential to change the game forever. With the workforce comprising an average of 70 percent of the typical company's expenses, HR has the opportunity not just to "get a seat at the table" but also to play a critical role in driving business outcomes and improving the bottom line.

Studies have found that companies that make fact-based workforce decisions and plans perform better than those that do not. Companies that are leaders in workforce analytics and planning improve talent outcomes by 12 percent, improve gross profit margins by 6 percent (CEB, Analytics Survey, 2013), are two times more likely to improve their recruiting efforts and leadership pipelines, three times more likely to realize cost savings and efficiency gains, and generate 20 percent higher stock returns (Bersin by Deloitte, 2013).

Yet the vast majority of organizations today are limited to reactive, operational reporting. Fewer than 10 percent can count themselves among the elite at the top of the workforce analytics and planning maturity curve. The reason is that the path to maturity has been costly, time-consuming, and technically complex.

First, most organizations have disparate workforce data across multiple, disconnected systems. To deal with this, IT departments historically undertake lengthy data warehousing projects, which require significant up-front investments in infrastructure, skilled data scientists, and developers.

Second, traditional approaches start with the tools, not the business questions—which are constantly changing. By the time the data warehouse is built, the business intelligence tools are deployed, and the reports are constructed, the business has changed. The result is that data is found to be incomplete, out-of-date, or inaccurate, and the business users' questions cannot be answered.

Finally, the dream of big data is unattainable for most. Except for a few giant firms with nearly unlimited resources and a strong background in technology adoption, most companies lack the skills or funds to leverage big data.

The good news is that the technology world has begun to recognize this problem.

We believe Visier is at the forefront of a new class of solutions called Applied Big Data. We remove the burden of predicting the user questions, finding the data sources, and integrating the stack of tools and data. Instead, we provide the business user—out of the box—with insights for decisions and scenarios to build actionable workforce plans.

Unlike with traditional approaches, we unify and clean your data for you in four to eight weeks and provide in-depth, pre-built workforce analytics and planning capabilities as a service in the cloud.

Ultimately the mainstream adoption of workforce analytics and planning will be fueled not by billions of dollars in custom development but by cloud solution providers that deliver Applied Big Data solutions to companies faster and more cost-effectively than ever before.

— JOHN SCHWARZ, CEO, VISIER

ABOUT VISIER Visier is proud to be enabling a rapidly growing number of the world's best brands in the datafication of HR—companies such as McGraw Hill Financial, Exelon, ConAgra Foods, Hyatt, Micron, Nissan, Time Inc., and NetApp.

Delivering intuitive analytics and planning solutions in the cloud, Visier enables HR, business leaders, and people managers to better understand their workforces, make decisions based on fact, predict future events, and more accurately plan for the future. The results include improved workforce productivity and performance, more effective recruitment and retention, and significant bottom-line savings.

With millions of customer employee records in the cloud, Visier is experiencing significant growth.

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