

[assessment & evaluation] by Donna Neumann

## THE POWER OF ANALYTICS IN HUMAN CAPITAL MANAGEMENT

Whether it's employee turnover, length of time to fill vacancies or cost per hire, virtually all of today's HR departments use some form of metrics to evaluate results. Most agree this is a good practice, but few of those metrics truly impact the organization.



**H**R dashboards are heavily focused on measuring the efficiency and effectiveness of HR programs and practices. Instead, HR leaders should focus on measuring, analyzing and sharing information with organizational leaders to make better talent and business decisions.

This approach extends the practice of measurement to one of greater insight and impact — analytics that ultimately can ensure HR leaders have a bigger say in overall strategic decision making and organizational direction.

Analytics has been defined as the extensive use of data, statistical and quantitative analysis, explanatory and predictive models and fact-based management to drive decisions and actions. This definition implies crunching millions of numbers to yield results. But as long as HR is evaluating the right numbers, it will be the quality of data, not the quantity, that creates opportunities to drive better decisions and actions.

In practical terms, analytics involves HR leaders strategically leveraging HR measurement and

other business data to provide deeper insight. For example, instead of merely measuring turnover rates, an analytic approach would seek to capture additional data, such as the type of people who are leaving the organization, where they are going and which open positions are more important to fill faster. This information allows for a greater analysis of several different components of turnover and would help determine where reducing turnover could best improve business results and where to allocate scarce HR resources.

Collecting HR data metrics only is valuable when it improves decision making. In a business environment that produces ever-increasing amounts of data, that

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basic premise is easy to forget. If knowing the turnover rate itself doesn't impact any management decisions, the metric is useless. It's like hiking with a compass in your pocket. The compass only is helpful if you take it out and let the information it provides change your direction. HR leaders must consider which decisions they are trying to improve; which behaviors they are trying to change; and how the metrics they collect, analyze and report will influence these factors. Only then can they determine what to measure and what to do with the data they collect.

A thoughtful, logical approach to measurement and analytics also allows HR leaders to provide information and counsel on how better talent decisions result in greater business success. For instance, the most important decision in the hiring process is deciding to whom to offer the position. Yet, when you ask HR professionals what data they measure and report, it is rare to find metrics that track the quality of hiring decisions. Instead, many organizations keep metrics on the number of candidates applying for each position or how many job offers are accepted.

Ultimately, organizations are trying to improve the quality of the talent they hire. Many factors go into that, but a key factor is the hiring manager's ability to select the best candidate from the slate. Ask leaders

who make hiring decisions to provide a rating of the quality of people who were extended job offers.

With this type of metric, one could track perceptions of the quality of hire with the performance of the hire down the road to find out how accurate leaders are in identifying and hiring candidates who will succeed. Talent managers could find out how many of the top-rated candidates accept job offers and how many turn them down. Further, ask candidates who turn down job offers if they accepted a position with a competitor.

This information can help HR leaders improve decision making. They can use data to identify leaders who need more training in how to identify successful candidates.

They can determine the organization's talent competitiveness by knowing how many qualified candidates accept job offers and how many are lost to competitors. Implementing this type of metric reinforces the hiring manager's accountability for evaluating and selecting talent. Knowing this data will be reported could be a powerful motivator to change how talent managers approach staffing decisions.

The insight and analysis gained from targeted analytics also can help HR leaders provide counsel to other executives on which talent issues impact the bottom line and suggest actions to improve talent decisions to benefit business operations.

In the future, HR likely will have data, frameworks and analytics as powerful as those of finance, marketing and operations.

But for now, review current HR reports and look for opportunities to enhance their value to the organization. Consider these tips:

1. **Clearly define the purpose of metrics.** The single most important step in creating powerful analytics is to identify the information organizational leaders want to know and the questions they want to answer. HR leaders must take a logical approach to what they need to measure and how to get information that will help improve enterprise decision making. Data should empower leaders, provide answers and hint at directions the executive team most want to consider. However, don't obsess over metrics; focus on decisions. Which vital measurements will provide the results needed to improve processes, target efforts and improve overall talent management and business strategies?
2. **Seek quality vs. quantity.** A few highly relevant metrics are more valuable than a large number of interesting metrics, and a few insightful analyses are more important than many pages of reports. There certainly is no proof that more measures means better decisions. In the current era of HRIS systems, most companies are overloaded with data. Instead of spinning out reams of paper filled with superficial numbers, produce information and targeted analysis to get right to the core areas of the organization's interest.

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3. **Make the numbers talk.** Many organizations have a collection of metrics or an HR dashboard. Simply publishing the dashboard for the executive team can result in missed opportunities to provide commentary and business insight. Instead of reporting the average age of employees, explain what this metric means to the organization. For instance, use those demographics to illustrate how the rate of retirements likely will accelerate. Use this data as a catalyst to engage leaders in discussions about what the impact on the organization will be if top leaders leave the organization before the next wave of leaders are ready for top positions. Leaders may explore the consequences of inadequate bench strength and be more receptive to proposals offering strategies to build that bench.
4. **Avoid framing the dashboard as an HR report card.** Many dashboards seem overly focused on justifying what HR is contributing to the organization. Instead, think of the dashboard as a vehicle to provide the organization with feedback on how well leaders are managing critical — often constrained — talent resources. That is a different paradigm, and if it's too difficult to imagine, stop and consider the reports the accounting department produces.

Few of those reports are intended to justify accounting department activities. The same is true for HR. Rather than trying to prove HR's value, concentrate on providing insight about human capital decisions made throughout the organization. Most talent decisions, such as hiring and promotions, are made by leaders outside of the HR department. Presenting accurate metrics and analyses provides the organization with feedback on the quality of its decisions. Accurate, timely feedback is a necessary precursor to improving future decision making.

5. **Provide competitive insights.** Some of the best information HR leaders can provide to the executive team is information on business and talent competitiveness. HR data can show the organization whether or not it is improving its competitive position in the marketplace. Anecdotally, employees may be aware of a visible leader leaving the company to join a competitor. They may perceive this as a sign the company is losing out to competitors. But systematic information is more useful than anecdotal data. Is there an increase in the number of leaders who are leaving to join competitors? Are top candidates turning down job offers to take offers with competitors? On the other hand, is the organization hiring candidates from competitors? These insights can help gauge how well the company is doing hiring and retaining talent relative to the competition and how talent competitiveness may be affecting business competitiveness.
6. **Don't overemphasize financial ROI data.** In some cases, more measurement and analyses aren't what is needed. Most ROI analyses are performed to justify a proposed investment. It may be more important to build compelling logic than compelling ROI. A lot of demands to show ROI come from leaders who don't understand how the proposed HR investment will create value. Instead of number crunching, HR might take the time to define the business case for making the investment and explain to leaders how the proposed investment will solve a problem. At the end of the day, HR leaders need to leverage the information they gather and produce reports and analytics that improve talent decisions. **TM**

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