

STOP GUESSING – START KNOWING!

On the importance of asking the right questions and taking responsibilities.

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I know what you are thinking: “Oh, no! Another article on the importance of evidence-based decisions, the need to act based on data rather than intuition, the significance of HR metrics, or the role of big data.” You are right in assuming that I will discuss these topics. However, my purpose is not to persuade you that measuring the various aspects of HR are important. In fact, I do not believe you need to be persuaded. In my view, HR specialists who are genuinely against HR analytics, who do not want to use data to document the value added by HR, or who do not appreciate the value of data-driven decision making do not exist.

Why, then, do we need to talk about these topics yet again? From my conversations with HR managers in Denmark, I have come to understand that although we all like these ideas, we face numerous challenges when we start to act. These challenges can be summarized along two dimensions: aspects of the data itself and the usage of that data. These two dimensions give rise to a two-by-two matrix that highlights four situations in which HR managers often find themselves.

In the following, I use examples from companies I have worked with and draw on examples found in the press to describe the four situations and suggest possible steps that might bring us closer to a key goal: “Stop guessing—start knowing!”.

Situation 1

In actuality, situations 1 and 2 do not exist, at least not in a pure form, because there is never “no data.” If you think there is no data, look again. Do you have CVs listing your employees’ biographic data? Do you have information about which employees took leadership courses and when? Do you have the results of employee-satisfaction surveys? Do you have information about the positions your employees have held and their salaries/bonuses? Do you have the results of performance appraisals or MUS? If so, you have data. It may not be coded, organized, or structured, but it is available! The first step, therefore, is to begin quantifying the available data and creating a dashboard. **Textbox 1** provides some examples of data sources for the most commonly used HR metrics.

| | Unsure of what to do | Sure of what to do |
|--------------------------|----------------------|--------------------|
| No data available | Situation 1 | Situation 2 |
| Plenty of data available | Situation 3 | Situation 4 |



Minimum required data points for the HR Metrics.

According to British Columbia Human Resources Management Association (BC HRMA), the Human Resources Institute of Alberta (HRIA), the Human Resource Management Association of Manitoba (HRMAM), and the Saskatchewan Association of Human Resource Professionals (SAHRP) there are 20 minimum required data points from which the Core HR Metrics can be calculated.

1. Total FTE (full-time equivalent)
2. Total Headcount
3. Total Age of Employees
4. Union Employee Headcount
5. Headcount of Employees with Less than 1 Year of Service
6. Total Resignations
7. Resignations of Employees with Less than 1 Year of Service
8. Total Retirements
9. Total Age of Retired Employees
10. Total Involuntary Terminations
11. Count of Promotions
12. Years of Service
13. Count of Vacant Positions
14. Projected Annual Base Compensation Cost
15. HR FTE
16. HR Headcount
17. HR Costs
18. Revenue
19. Labour Costs
20. Gross Operating Costs

See the list of the HR Metrics calculated based on the above data at: http://www.hrmetricservice.org/wp-content/uploads/2013/07/standards_glossary.pdf

Admittedly, despite the availability of some kind of data, you may not know what to know. Start **asking questions**. There are two areas you can start asking about: things taken for granted and things that are often questioned. With regard to the latter, consider the following example. At a meeting with the HR group of a well-known Danish company, an HR manager asked: "Why are we so obsessed with employee satisfaction? We don't need to care whether we have satisfied employees as long as our products sell well! If we perform well, our employees will be satisfied". I replied: "Indeed, here are two things you need to know. First, how much does employee satisfaction matter for your company's performance? Second, do you need to 'be obsessed with employee satisfaction' because employee satisfaction increases performance or should you just focus on performing well regardless of what it takes, which will then ensure satisfied employees?". I could also have mentioned the decade-long discussion in SHRM research about the causal links between satisfaction and performance, but this may have just led to a response along the lines of: "We know what the research says, but OUR company is different." Regardless of what the research says, managers want to see the evidence in their own data.

Moreover, managers may be well served by questioning the unquestionable. For example, people management in one Danish company

is driven by the motto "We want to be happy!". When I asked the managers why they used this motto, their answer was that it had always been used. When I inquired why that was the case, they responded that "happy employees are productive employees." "How do you know?", I asked. The response was: "We just feel it." A feeling of happiness is wonderful, but how much of the variation in performance does happiness explain? Nothing beats an anecdote like good data.

Situation 2

You know what you want and but don't have needed data. Besides, the CEO and top management are not very excited about investing exorbitant amounts of DKK in data. "What in it for us?", they grumble. "We know our business and we are already good at identifying poor performers." I am sure many HR managers have encountered similar arguments.

How can you persuade top management of the ROI for HR analytics? This is a "Catch 22": you need data to prove your point, but top management needs proof before it will invest in data. This is the biggest challenge that HR managers face in today's business world.

As a first step, look at what you already have. Moreover, check what your CFO has. A significant amount of workforce data is often kept or managed by the finance department of an organization. It is time to make alliances! »

» More generally, it is necessary to argue, persuade, and educate. **Textbox 2** provides suggestions that you can use to sharpen your arguments.

On HR analytics

“Competing on Talent Analytics” by Thomas H. Davenport, Jeanne Harris, and Jeremy Shapiro. Published in Harvard Business Review in October 2010. The article describes six kinds of analytics that can help companies answer critical talent questions—from the simple ones at the bottom of this ladder to the more sophisticated ones at the top.

“How Google Sold Its Engineers on Management” by David Garvin. Published in Harvard Business Review in December 2013. High-performing knowledge workers often question whether managers actually contribute much, especially in a technical environment. Until recently, that was the case at Google, a company filled with self-starters who viewed management as more destructive than beneficial and as a distraction from “real work.” But when Google’s people analytics team examined the value of managers, applying the same rigorous research methods the company uses in its operations, it proved the skeptics wrong. Mining data from employee surveys, performance reviews, and double-blind interviews, the team verified that managers indeed had a positive impact. It also pinpointed exactly how, identifying the eight key behaviors of great Google managers. The video interview with David Garvin about this at http://hbr.org/video/2761856636001/how-google-proved-management-matters?goback=.gde_3044917_member_5810763948324057092#%21

“Keep Up with Your Quants. An innumerate’s guide to navigating big data” by Thomas H. Davenport. Published in Harvard Business Re-

view in July-August 2013. If you’re a typical executive, your math and statistics background probably amounts to a college class or two. You might be adept at using spreadsheets and know your way around a bar graph or a pie chart, but when it comes to analytics, you often feel quantitatively challenged. So what does the shift toward data driven decision making mean for you? How do you avoid the fate of the loss-making mortgage bank head and instead lead your company into the analytical revolution, or at least become a good foot soldier in it? This article is “a primer for non-quants”.

Situation 3

Congratulations! You are about to explore the world of explanations.

There is, however, a possible drawback: you may have so much data that you feel like you are drowning in it. You may have spent the last three years creating a dashboard and establishing a data warehouse, but you have yet to obtain the “perfect” data. This may have led you to continue pushing. STOP! There is no such thing as perfect data.

“So, where do we start?”, I am often asked. First and foremost, familiarize yourself with the strategic priorities identified by top management for this year and understand the challenges the business is

facing. For example, in one Danish company, customer claims have been increasing for three consecutive years. This has been a central theme at all top-management meetings this year. Look at the data you have: Can you contribute to the discussion? For instance, what do you know about the sales employees on the front line who are delivering products and providing services? Which employees are performing the best and which are performing the worst? Are there any differences between these two groups? Perhaps some of them attended certain courses in the past or perhaps their backgrounds differentiate them from each other. Alternatively, is the difference not among the sales people but among their immediate leaders?

Second, recall the last seminar at IMD, mini-conference at CBS or networking event at DI that you attended. Regardless of the event, you most likely heard a researcher or consultant talk about ... what shall we say ... perhaps about diversity and how “being different” increases employee turnover. Guess what? You can test these propositions on your own data.

Other sources of inspiration are articles published in the top academic journals. By “top academic journals,” I mean peer-reviewed international journals with high impact factors. Relevant for our

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» discussion are outlets like the *Academy of Management Journal*, *the Academy of Management Review*, *Journal of Management* and *the Journal of Applied Psychology*. In these journals, you want to look for “meta-analyses”. Why? Meta-analyses are systematic reviews of the literature on the topic of interest. Such reviews are undertaken with the hope of identifying patterns among the various studies’ results and sources of disagreement. However, meta-analyses have one problem: they are typically difficult to read and often impossible to understand. Don’t despair! Based on numerous requests from our business partners, the Human Capital Analytics Group at CBS has established a website that offers executive summaries of the most recent and most relevant articles (see www.cbs.dk/hc-analytics under “Research Insights”).

Finally, find your “quant buddy.” In his “primer for non-quants,” Tomas Davenport talks about aligning yourself with the right kind of quant, but warns that “these highly analytical people are not always known for their social skills, so this can be hard work.” Do not expect quantitative experts to come up with all the answers. They might provide you with multiple ideas, but you will need to use your own judgment to pick up the right relationships. They will do data mining for you, but you will need to interpret the results with caution—when you have a data set with 35,000 respondents, everything will be significant. Your experts can present you with the outputs of regressions, but you will need to take those outputs beyond the R-squares to find a meaningful story.

Situation 4

You have the data and you know what to do. The more data you send to your businesses, the more questions you receive. As Ed Iames of Wawa Inc. explains: “We’ve found that the more data we (HR)

produce and send to our business partners, the more questions we get and the more they want. They become very engaged with what we are doing, very engaged with the solutions.”

However, do not rely on others to come up with questions. Instead, question a lot, question always, and question everything. In my view, there are three main areas of inquiries that HR managers fluent in analytics should carefully consider:

- Nice to know: Are we doing the right things and are we doing things right? The questions you want to be asking should be aimed at justifying the current value added offered by HR not just in terms of activities but also in terms of deliverables. Dave Ulrich, a professor at the University of Michigan, recalls meeting with the chairman of a bank and its top HR people. He states: “The training person said that 80% of employees have done at least 40 hours in classes. The chairman said, ‘Congratulations.’ I said, ‘You’re talking about the activities you’re doing. The question is, What are you delivering?’”
- Need to know: Given our current business challenges, what else shall we be doing? For example, perhaps your company is facing financial problems and needs to downsize. How many people need to be cut? Who should they be? Alternatively, maybe your company needs to grow by 15% next year. Who should you hire? Who is your ideal employee?
- Must know: As one HR manager said: “We need to cut our finger where it hurts the most. And we need to keep the pressure on that point.” It is not about pleasing the top-management team and it is not about finding data to support the CEO’s most

recent idea. “All organizations seek to please the leader,” explains Gary Loveman of Caesars, “so it’s critical to cultivate an environment that views ideas as separate from people and insists on rigorous evidence to distinguish among those ideas.” This requires more than just a culture of inquiry. It is not only about creating a habit of obtaining the answers but also about **taking responsibility**.

Regardless of where you find yourself at the moment, performance-led HR is the future. Indeed, given that so many HR functions are being outsourced, what is left for strategic HR?

Tomas Davenport gives some excellent advice: start by thinking of yourself as a consumer of analytics. The value of strategic HR is not in gathering big data, producing extensive dashboards, or making gigantic spreadsheets. Those things can easily be handled by administrators, IT systems, or external actors. In the analytic revolution, the battle for strategic HR lies in:

- 1) Changing the mindset, attitudes, and habits associated with the use of evidence for decision making;
- 2) Asking the right questions, which are those questions that link strategies, people, and performance; and
- 3) Accepting key responsibilities for implementing change, and for managing the changes in culture, process, behaviors, and capabilities that result from analytic initiatives.

Winning this battle will guarantee your involvement in all current and future strategic discussions. You will not just be invited to the executive table—you will sit at the head of that table. <<