HR Analytics: Gaining Insights for the Upturn

By Bill Roberts

Most enterprises have accumulated a surfeit of workforce data. Only leading-edge companies, however, are making extensive use of data to drive human capital management (HCM) decisions the way most companies use financial and marketing data to make strategic business decisions. Especially now, these leading-edge companies are making fact-based workforce planning decisions that will help them survive the current recession and position them to quickly ramp up workforce additions when the downturn ends. They are proving that the case for analytics is more compelling than ever.

"I worry that in this climate of retrenchments, companies will think of workforce planning as a nice-to-have luxury rather than being what I believe is a critical prerequisite to planning the reduction in workforce numbers," says Peter Howes, CEO and founder of The Infohrm Group Inc. Headquartered in Brisbane, Australia, Infohrm is a leading provider of workforce planning, reporting and analytics services. "The short-term increase in the available external labor pool runs the risk of hiding the long-term demographic trends in most Western countries. No company should be managing redundancy programs without having a longer term workforce plan to assist in providing a strategic context."

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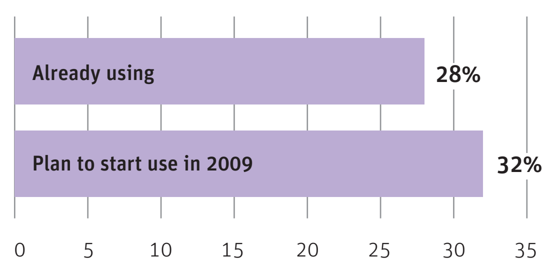
Companies experienced with workforce analytics—essentially the mining of current and historical employee data to identify key relationships and anticipate outcomes—understand Howes' point and place a higher priority on analytics than others, according to a study by Boston-based research firm Aberdeen Group. Entitled "The 2009 HR Executive's Agenda: Driving Business Execution and Employee Engagement," the study was based on interviews with 417 executives from around the world—about two-thirds of whom are in human resources (HR). Among the companies deemed best in class (the top 20 percent based on employee retention, performance and engagement metrics), most already use workforce analytics or plan to start in 2009 (see Figure 1, "Best Practices").

Figure 1

Best Practices

The majority of best-in-class organizations uses or plans to use workforce analytics software.



Source: Aberdeen Group, December 2008

Companies that use workforce analytics attest to their value. Wawa, Penn.-based Wawa Inc., a food service and convenience business with 578 stores in five mid-Atlantic states, has used analytics to make decisions regarding worker turnover, benefits, succession and training. "Workforce analytics helped us to make good decisions," says Ed Iames, Wawa's senior director of HR.

Fact-Based Decisions

Beyond identifying key relationships and anticipating outcomes, workforce analytics is fact-based decision-making—specifically, the use of data, metrics (also called key performance indicators [KPIs]), statistics and scientific methods to understand the impact of HCM practices on business objectives and to measure HCM contributions to the achievement of business goals. Tools and processes include executive dashboards, statistical methods, descriptive statistics, regression analysis, causal pathway analysis and predictive modeling.

When BusinessWeek Research Services (BWRS) first studied HR analytics in 2008, it concluded that when HR uses fact-based decision-making—instead of intuition or best guesses—the group becomes a more credible partner to the business it serves. Fact-based decisions help HR improve HCM practices, recruit and deploy the right talent, cut costs, contribute to business performance and provide evidence of those contributions.

Based on further interviews in early 2009 with HR executives and industry observers, BWRS now concludes that workforce analytics is imperative in the current economic environment—especially for workforce planning, which, as Infohrm's Howes notes, is fraught with peril in a recession.

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Even an HR organization that does not have workforce analytics could reap benefits soon after adopting it, according to Howes, who says it is possible to attain an initial return on investment within six months.

Not surprisingly, these benefits are more achievable when the organization has a Center of Excellence (CoE) dedicated to workforce analytics. In an Infohrm survey conducted last year of more than 200 HR executives worldwide, 41 percent said their organizations had a CoE for workforce analytics. These executives reported more comfort with and superior results from analytics than the other respondents (see Figure 2, "CoE Equals Better Results").

In the survey, 18 companies were determined to be leading edge, based on three criteria. They are able to: analytically identify the workforce drivers of business success; readily translate workforce analysis and findings into action; and employ an analytics Center of Excellence model with a dedicated workforce analytics team. These leading-edge companies report far greater impact from the use of analytics than the others (see Figure 3, "A Positive Influence").

Staged Approach

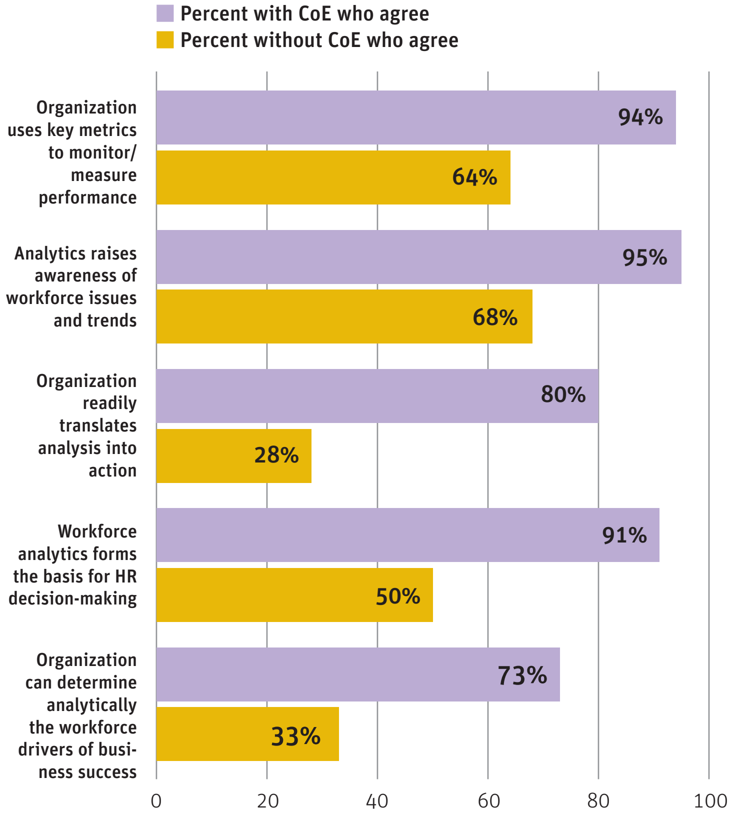
It often makes sense to take a staged approach to adopting workforce analytics. First, an HR organization consolidates its systems into a unified platform and empowers employees with easy-to-use reports from various data sources. Next, HR and its business partners define meaningful metrics. After that, they add a dashboard of key indicators for decision-makers. Only later does HR add more sophisticated tools to analyze data.

A case in point is Los Angeles Community College District (LACCD). In its earlier research, BWRS reported that HR administrators at LACCD wanted only the most basic metrics, with little analysis. With a total workforce

Figure 2

CoE Equals Better Results

Respondents with a Center of Excellence were more likely to have KPIs and to better understand the workforce drivers of business success. All respondents were asked to agree or disagree with the following statements:



Source: The Infohrm Group Inc. The full report is available at www.infohrm.com/research.

of 10,000, each of the college's nine campuses has its own HR team. All of these teams share data and information from a central HR Information Systems platform, which is part of LACCD's enterprise resource planning (ERP) system.

Recently, though, administrators decided to upgrade the system and then launch a more comprehensive dashboard to about 200 managers across the district. The dashboard will focus on budget, enrollment, personnel performance and a few other areas. Each area will include several metrics, as agreed to by the users. "Interest in all this data has been much higher in this economy," says Andrew Duran, manager of the ERP system at LACCD.

Duran—who is on the IT staff, not in HR—emphasizes the importance of involving HR and non-HR managers in deciding which metrics to provide. He held extensive talks with managers before deciding what to include on the dashboard.

Duran's team will also begin to deliver 150 in-depth analytical reports—some weekly, some monthly, some quarterly—to different groups. Each of these reports will have a business sponsor and an IT sponsor. Duran says most information on the dashboard and in the reports will be workforce related. Although the dashboard will include budget metrics, virtually all the LACCD budget is for personnel, he says.

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INFOHRM NORTH AMERICA

Informed Decisions

Workforce analytics is being used to significant strategic effect during this recession by helping HR make decisions on cutting programs to lower costs, reducing workforce and reallocating talent to ensure strategic business goals are met. Users of workforce analytics understand better than others the tradeoffs among the various scenarios, which they can model and study, when making these decisions.

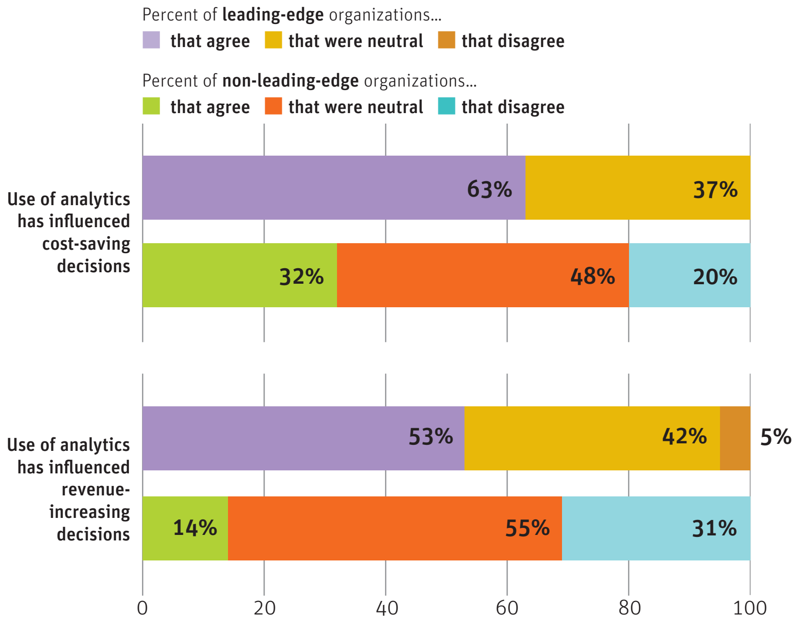
Infohrm North America President Brian Kelly offers an example of how analytics can help with workforce reallocation. To cut costs, an insurance company considered buyouts for senior underwriters, some of its most expensive talent. But underwriters account for much of the company's revenue. It would need to replace these workers, and hiring outside would negate the cost cuts achieved by buyouts.

Using analytics, the company found that underwriters historically had been promoted from the call center more than other departments. Newly promoted call center staff initially would be paid less than departing underwriters. And the call center could more easily absorb downsizing and/or hire less-expensive talent. The modeling exercise also helped the company decide on learning programs to quickly train new underwriters.

Figure 3

A Positive Influence

At the 18 leading-edge organizations, analytics was more likely to influence cost-saving or revenue-increasing decisions.



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Busting Long-Held Assumptions

Workforce analytics is especially powerful when used to test long-held assumptions and conventional wisdom. Wawa, an Infohrm client, is an example.

One long-held assumption at Wawa was that overall turnover was skewed by the higher rate among less-reliable seasonal workers, mainly high school and college students. Using analytics, Iames says, “we were able to eliminate that assumption. Instead, we began to understand the relationship between the amount of hours associates worked each week and the amount of time they stay with the company.”

Wawa found that workers with 30 hours or more per week were less likely to quit. The company also had assumed the hourly wage rate was a key factor in retention. But through workforce analytics Wawa learned that the total size of the paycheck—reflecting more hours—was more important than hourly rates. As a result, the company moved from a full-time (30 hours or more per week) and part-time mix of 30 percent and 70 percent, respectively, to a 50-50 split.

“The data suggests that the company is better off to have less people working more hours, while providing more full-time opportunities for employees,” Iames says. “As a result, we’ve reduced the in-store turnover rate by 60 percent in the past four years.”

Wawa has also used analytics to study and improve benefits, training programs and succession planning for its 17,000 employees, all but 1,000 of whom work in its stores.

Conclusion

In BWRS’ initial report, one HR professional commented that HR organizations “have to develop the culture of inquiry. You have to be curious. You can’t be willing to settle for the first blush of why something is happening.”

Today, in the midst of the worst economy in decades, a culture of inquiry is more relevant than ever. It can also draw HR professionals into closer collaboration with business partners.

“We do have a strong culture of inquiry here,” Iames says. “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. Nothing beats an anecdote like firm data.” ■

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Bill Roberts is a freelance writer based in Silicon Valley who writes about technology, business, and management.

The Infohrm Group Inc. is a leading provider of workforce planning, reporting and analytics services, with corporate headquarters in Brisbane, Australia, and regional headquarters in London and Washington, D.C. Its full report on workforce analytics is available at www.infohrm.com/research.

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