



Raging Debates in HR Analytics

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HR analytics holds the promise of both elevating the status of the HR profession and serving as a source of competitive advantage for organizations that put it to good use. Our realization of this promise hinges on our individual and collective ability to master the art and the science of HR analytics. That, in turn, will happen much more quickly if we can achieve clarity—even consensus—on a number of issues where neither clarity nor consensus currently exists.

My hope is that explicitly naming, categorizing and examining some of the most important (but often unnamed) debates will help speed the process of achieving consensus.

In this article, Section 1 briefly reviews the evolution of HR analytics. Section 2 positions and comments on what I see as the major debates within HR analytics, which I categorize as: what, why, who and when. Section 3 speculates on the value that HR analytics can produce in the future.

The Evolution of HR Analytics

According to a 2004 *Workforce Management* (formerly *Personnel Journal*) article, “In 1978—in this publication—Jac Fitz-enz proposed a radical, anti-establishment idea. Human resources activities and their impact on the bottom line could—and should—be measured. The reaction was apathy, disagreement and disbelief” (Caudron, 2004).

For the past three decades Fitz-enz has, along with a growing band of kindred spirits, campaigned tirelessly to improve the state of HR measurement and to help both HR professionals and senior executives understand its importance.

These efforts started out at the nuts and bolts level—creating definitions for basic HR metrics such as compensation, staffing, hiring and retention. This work laid the foundation for gathering comparable data across organizations, which in turn, enabled the benchmarking of HR metrics. Over the years, a number of scholars and practitioners expanded the benchmarking of HR metrics to include investments in training and developing employees, as well as in a broad array of other HR policies and practices.

Refining and improving the benchmarking of HR metrics remained a primary area of focus throughout much of the 1980s and 1990s. This benchmarking focus, while helpful in informing HR professionals about how their organization’s HR metrics stacked up to comparable or best-in-class organizations, provided little by way of actionable business intelligence on how to gain competitive advantage through people. It also contributed to an often unhealthy belief by HR professionals in simple one-size-fits-all solutions: something to the effect of, “If we can just look more like our competitors on some standard HR metrics, then we have done our jobs.”

During the past decade, this has begun to change. Advances in the software used to automate transactional aspects of the management and development of people have expanded the landscape of possibilities. Not only have data on HR metrics become more readily available, they have become available in forms that make it increasingly possible to link disparate data sources together. So as the worlds of HR metrics and software have converged, new horizons for creating business intelligence on the people side of the business are arising. Many HR professionals, however, wonder why they should go to the trouble of going down this path because they are already way too busy handling what is already on their plate—an issue that is discussed in the following paragraphs.

Questions that had previously required tedious, manual calculations to answer, can now be answered more easily and with relative precision. Examples include identifying the profile of candidates most likely to accept a job offer, the probability that any given employee will leave, and the attributes of high-performing employees. But even as some linkage analysis has become easier, other types of analysis—especially that which identifies the human drivers of business results—has remained challenging.

This is partly due to fundamental methodological issues; it’s easier to identify linkages with larger sample sizes of individual employees than with smaller sample sizes of groups responsible for organizational outcomes. And it’s partly due to some of the myths and limiting mindsets that have impeded progress.

In sum, while it has become much easier to answer questions about the drivers of individual-level outcomes, less progress has been made on answering important questions about the drivers of organization-level outcomes. Too often, vendors fill this void by using clever marketing and shoddy science that confuse the drivers of individual performance with the drivers of organizational performance.

Major Debates in HR Analytics

Not surprisingly, the evolution of HR Analytics has shaped the debates that swirl around it. These debates—some of which are explicit and open, others of which are muted but real—can be classified into the categories of who, what, where, when, why and how.

The “What” Debate

A good starting point is the debate asking, “What is HR analytics, and what can and should it be used for?”

The term “HR analytics” means different things to different people. To some, the term only means a process for systematically reporting on an array of HR metrics—time to hire, turnover, compensation, employee engagement. Often the reporting includes a benchmarking component (e.g., how our compensation compares to the broader market, or how we compare to organizations on



a one-size-fits-all measure of employee engagement). While this is definitely a component of HR analytics, in and of itself, it does not constitute HR analytics.

At the other end of the spectrum are those who regard HR analytics in a much more rarified sense. To these people, the only activities and/or processes that constitute HR analytics are those that involve “high-end” predictive modeling (e.g., “what-if” scenarios that forecast the consequences of changing policies or conditions). This perspective, too, is limited.

My view is that this particular aspect of the “what” debate can be resolved by thinking in terms of “both/and” rather than “either/or.” In a recent work, my co-authors and I defined HR analytics to be “the application of a methodology and integrated process for improving the quality of people-related decisions for the purpose of improving individual and/or organizational performance” (Bassi, et al., 2010).

Davenport, Harris and Shapiro help to provide clarity in this area by laying out the range

of applications that constitute “talent analytics,” their phrase for HR analytics, from simplest “human-capital facts” to most sophisticated analytics that help optimize the “talent supply chain” (Davenport, et al., 2010).

Perhaps most fundamentally, “what” HR analytics is about is taking an evidence-based approach to management. According to Pfeffer and Sutton, “Evidence-based management is based on the belief that facing the hard facts about what works and what doesn’t, understanding the dangerous half-truths that constitute so much conventional wisdom about management, and rejecting the total nonsense that too often passes for sound advice will help organizations perform better” (Pfeffer and Sutton, 2006).

Getting to this point will require moving beyond existing myths. Perhaps one of the biggest myths in this regard has to do with employee engagement. It is a construct that the psychology profession that heavily dominates HR was created to explain what motivates individuals. But too often one-size-fits-all measures of employee engagement

have somehow become equated with organizational performance in the minds of many HR professionals, as well as their senior executives, despite the fact that it’s now possible to link people factors directly to business outcomes themselves. The focus on employee engagement requires serious examination if HR professionals are to become able and respected practitioners of HR analytics (Bassi and McMurrer, 2010).

In sum, HR analytics is an evidence-based approach for making better decisions on the people side of the business; it consists of an array of tools and technologies, ranging from simple reporting of HR metrics all the way up to predictive modeling.

The “Why” Debate

Another basic debate swirls around, “Why should we do HR analytics?”

Some well-known and highly regarded HR practitioners argue that they have no need for HR analytics because their senior executives don’t require or expect it of them. This is not an excuse for complacency. This misguided point of view is the result of a fundamentally incorrect understanding of the purpose of HR analytics. It results from a confusion of HR professionals’ ongoing quest to prove HR’s worth, with their obligation to use the tools of their profession to help improve individual and organizational performance.

Using HR analytics as a means of proving the value of the HR function is misguided: It is a misuse of analytics that fails to create any lasting value for an organization. “From a practical perspective, it immediately calls into question the credibility of any findings, insights, and recommendations that emerge. In short, if executives believe the HR function is embarking on an analytics project to justify itself, its budgets, or its programs, the outcomes from the project will be viewed with suspicion even if the analysis is done well. More substantively, such a perspective fails to capitalize on the tremendous value that can be created for an organization as a whole from the effective application of HR analytics” (Bassi, et al., 2010).

The purpose of HR analytics is to improve individual and organizational performance. So it needs to be done, even if the CEO doesn’t require it. Moreover, how could you expect the CEO to require something that he or she probably doesn’t know exists? Added side benefits of HR analytics are that it can help

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identify where *not* to be spending time, effort and budget, thereby reducing HR workloads and it can enhance the credibility of HR.

So what about the role of ROI analysis as a component of HR analytics? Many practitioners view ROI as the Holy Grail of HR measurement. These people are often focused on using analytics as a method of proving their worth. Boudreau and Ramstad summarize the problem clearly: “Understanding the returns and investments in HR programs and practices is useful, but the quest for ROI will not provide the entire solution to the need for a decision science ... Most ROI calculations fail to change decisions about the vital human capital and organization resources. They are used primarily to demonstrate the value of HR investments after the fact. ROI creates the wrong focus” (Boudreau and Ramstad, 2007).

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The “Who” Debate

Another important element of the debate is, “Who should or can do HR analytics?”

The debate over ROI is closely related to the “who” debate. Who will be responsible for measuring the financial impact of human capital—the HR function or the office of the CFO that has the best handle on available measures of business results? And who will drive the future of HR analytics—the HR function or IT that typically owns the analytic software and tools necessary for HR analytics?

Well, it depends. It depends on the ability and drive of HR functions to rise to the occasion by developing the skill sets and organizational capability required to credibly lead HR analytics. This does not require that HR develop full-fledged IT or finance capabilities. But it does require that HR functions develop sufficient analytic wherewithal—both from a finance and IT perspective—to be able to partner knowledgeably with and lead HR analytics efforts on both of these fronts.

In the absence of the necessary IT and financial acumen skill sets and organizational capability, HR functions will inevitably cede responsibility for analytics to both the IT and finance functions. This would be a negative development for those HR functions (or professionals) that aspire to have a strategic impact on their organizations. And arguably,

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it would also be a negative development for employees and firms, as the people side of the business has historically not been a strength of either IT or finance. That’s why it’s important for HR to develop these skills and capabilities.

In sum, HR—not IT or finance—needs to take the lead on HR analytics. But doing so will require that HR develop new capabilities and capacities.

The “Where and When Debate”

Finally, some debates ask the question, “When should we use HR analytics?”

For example, some people worry about whether it is possible to create good global analytics in a world of various cultures, regulations and standards. Others have begun to raise early concerns about potential abuses of HR analytics as it becomes more powerful and widespread.

The first of these—whether it is possible to create good global analytics—is, I believe, an artifact of old thinking. Although it would be perfect if there were truly one-size-fits all solutions, rarely do they exist in the real world. HR analytics provides the tools to break through the need for a single global solution; it provides the wherewithal to identify with precision and rigor both that which is common across various environments (be they geographic, regulatory, etc.) and that which is unique to a specific environment.

In other words, using the absence of a perfect, universal answer as a rationale for not doing HR analytics is tantamount to confessing ignorance about the very capability that HR analytics creates. It’s about finding good, customized (not mythical one-size-fits-all) understanding, insights and answers.

Discussion about potential abuses of HR analytics is only now beginning to emerge. Rapid advances in software capability, together with an increasing capacity to pull

together disparate pieces of information, are beginning to create ethical questions about what is and is not appropriate in applying HR analytics.

For example, under what conditions, if any, is it appropriate to use legally obtained records about an employee’s prescription drug usage in making decisions about that employee? What if doing so can help identify employees or job applicants who have an unusually high probability of becoming violent in the workplace? By the way, I’m not making this up; I actually had this conversation with a leading software company working in this space. Are there circumstances under which it is right to use that information? How can the organizational benefits of this type of analytics be weighed

The “How” of HR Analytics

A number of books provide valuable guidance on how to get started on, or advance, HR analytics within an organization. A few are especially noteworthy in this regard, including the following:

- *HR Analytics Handbook* (Bassi et al.) provides succinct “how to” advice.
- *Investing in People* (Cascio and Boudreau) provides detailed guidance for undertaking a wide variety of HR analytics calculations.
- *Analytics at Work* (Davenport et al.) provides broad-based guidance on how to create a more analytically oriented culture within an organization.
- *The New HR Analytics* (Fitz-Enz) provides “how to” essays, case studies and sample worksheets.
- *The Business of Learning* (Vance) provides detailed guidance on how to apply analytics and the logic of economics to all aspects of the training and development function.

against the individual costs that arise from errors in prediction? Probably the best way to avoid unexpected ethical quandaries is to tackle the issue head-on by establishing clearly written and widely circulated principles for when HR analytics will and will not be used.

In sum, many applications exist for when HR analytics can help us get to better (but not “perfect”) solutions. A useful mantra to keep in mind is, “Let not the perfect become the enemy of the good.” Having said that, it is important to be aware that as the power of HR analytics advances, so too, will the ethical dilemmas that it poses.

The Future of HR Analytics

HR analytics is an evidence-based approach for improving individual and organizational performance by making better decisions on the people side of the business. Although it is not its purpose to prove the worth of HR, analytics can certainly enhance the credibility of the function and the profession by improving the effectiveness of HR policies and practices and contributing to the competitive advantage of organizations that develop it as a core competency. An added side-benefit is that HR analytics can help expose where effort, resource and budgets are not producing their intended impacts, and in so doing reduce the workload while improving the effectiveness of HR.

As such, HR functions and professionals develop new skills and capabilities so that they can effectively partner with and lead IT and finance on HR analytics initiatives or risk ceding this increasingly important and strategic responsibility to them.

Along the way, HR professionals will need to address ethical dilemmas. Do this is proactively by clearly delineating the principles for deciding when HR analytics will and will not be used.

Without a doubt, mastering the art and science of HR analytics takes effort. But it can result in an elevation of the status of the profession and its practitioners by helping them to guide their organizations in finding the sweet spot—the intersection between more profitable and more enlightened management and development of people. Mastering this effort would represent a win-win for employers and employees, and ultimately the society in which we live and work.

Achieving this win-win will require that we move beyond the confused debates and dangerous half-truths that currently muddy the HR analytics waters.

Let us resolve to do so. **P&S**

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