The Role of HR Analytics in the Global Village

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ABSTRACT

Today HR is changing very fast due to all sort of advancements, to understand the various aspect of people side which can impact business performance is becoming crucial. Hence HR professionals have not only to rely on metric and scorecard thing but also able to analyze different data they are having so many years and study it in connection with business outcomes from monetary aspect too. HR professionals need to face the new realities and adopt an integrated management model in order to provide the best actions regarding the management of human capital. An organization needs to understand and can quantify the HR's overall strategic impact by finding the proper ways for measuring its impact on the success drivers.

This paper aims to identify and describe the various aspects of HR analytics in order to assess to asses HR's strategic role, by reviewing the relevant literature regarding the integration of HR into business performance measurement.

KEYWORDS: *Analytics, LAMP model, Human resources, strategy*

INTRODUCTION

Till date the HR function is seen as only cost incurring department having no impact on organization performance. The main cause of this misconception is the fact that there is a lack of awareness and systems among the HR leaders which will help in assessing the real impact of the human resource activities.

Other function's performance can be assessed based on different types of indicators, but how to translate for example how motivated the employees are, and its impact on business performance. In this context, the HR function needs to prove its worth by delivering solid evidence of the value it can deliver.

According to Jac Fitz- Enz, , HR leaders and managers need to learn how to speak in qualitative, objective terms, using number to express the activity and value added brought by this function. According to him we are witnessing the most exciting and eye opening era of human resource management. This evolution changes the role of the HR function and positions it as a value-added partner that contributes to the strategic goals of organization. Nowadays human resources department has to answer many more questions than it did twenty years earlier: Is it cost-effective to add staff in a given area? Does a training program have a positive impact on costs and sales considering return on investment? How can we increase employee satisfaction? At a time when human resources managers are under great pressure to accurately measure job performance and defend their budgets against outsourcing, answering questions like these is often a difficult task, yet necessary due to the new role of HR, that of strategic partner for the business.

Definition - Human Resources Analytics:

Human resource analytics (HR analytics) is an area in the field of analytics that refers to applying analytic processes to the human resource department of an organization in the hope of answering most challenging questions. HR analytics does not just deal with gathering data on employee efficiency. Instead, it aims to provide insight into each process by gathering data and then using it to make relevant decisions about how to improve these processes.

What HR analytics does is correlate business data and people data, which can help establish important connections later on. The key aspect of HR analytics is to conclusively show the impact the HR department has on the organization as a whole. Establishing a cause-and-effect relationship between what HR does and business outcomes - and then creating strategies based on that information - is what HR analytics is all about.

HR has core functions that can be enhanced by applying processes in analytics. These are acquisition, optimization, paying and developing the workforce of the organization. HR analytics can help to dig down deep in data and come up with most powerful insights which will be useful for decision making.

What HR Analytics Is Not About

It is also important to phase out those conceptions about HR analytics which doesn't make sense and HR leaders and managers has to understand this on a serious note. HR analytics is not the following:

Efficiency Metrics/Scorecards:

Lot of time HR people use metric to define their efficiency but the top level management would be interested to know the outcome. For example the direct connection between time-to-hire and the quality of people that are hired. Yet many just track it anyway and call it analytics. Tracking efficiency metrics on a big HR scorecard is important, but call it what it is—a scorecard. More metrics and a scorecard do not show business value and do not mean much outside of HR. More data collection does not equal analytics, it just means more collection.

Alignment:

HR leaders often say that they are aligned to the business. They should be. In fact, it would be strange if what HR was doing was completely disconnected from the line-of-business (LOB) that it was supporting. If the sales function is hiring, then HR should be helping the sales function hire people. That's alignment.

Gap Analysis:

Showing gaps between using various surveys is a way of showing what is expected and what is happening- it is a way of analyzing data. Demonstrating improvements from year-to-year is also an interesting perspective. However, if we aren't showing the business impact of that gap, then all we are doing is just putting on scores—i.e., looking at data.

Correlations:

Correlating people data and business data is definitely a step in the right direction. It shows the organization that we are pulling information together and making important connections. The downside is that correlations do not help us make important decisions about what to invest in from an HR perspective—because correlations may only represent coincidences in the relationship between people data and outcome data. Hence sometimes predictive and prescriptive ability of analytics will help to answers people related questions which can have major impact on business.

Benchmarking:

A key factor that many executives examine, particularly with employee opinion surveys, is the ability to benchmark how their organizations are doing versus the outside world. It's an important metric and valuable in benchmarking; what is not apparent is the connection to business outcomes of being well-ahead or well-behind on benchmarks and the actual return-on-investment (ROI) on spending money to improve on a certain benchmark. Again, it is a way of looking at data, but benchmarking is not analyzing data or showing its business value.

Evolution of HR Measurement

Today's HR is on the cusp of a fundamental paradigm shift. It is the same paradigm shift that saw the evolution of the Finance decision science from the professional practice of accounting, and the evolution of the Marketing decision science from the professional practice of sales. Marketing and Finance serve as frameworks for enhancing decisions about customers and money, and those decisions happen both within and outside the Marketing and Finance functions in organizations. Accounting and sales are essential and important professional practices, and they support and integrate with the Finance and Marketing decision sciences. Obviously, Finance is quite distinct from accounting and Marketing is quite distinct from sales.

The evolution of HR and HR measurement will require a sound "decision science" for human capital that truly informs and enhances decisions about human resources wherever they are made. We have coined the term "talent ship" for this emerging decision science, by combining the word "stewardship" with the word "talents," which focuses on the hidden and apparent talents of current and potential employees. The new decision science will augment today's focus on delivering excellent HR programs and processes, by providing a framework to identify what decisions about human capital are most crucial, and how to connect those decisions logically to organization effectiveness. HR programs and processes will remain important, but, like accounting and sales, they will be even more powerful as part of the new decision science (Boudreau & Ramstad, 2005).

The evolution of talent ship has significant implications for all aspects of the HR profession, including governance, HR functional design, the definition and process of strategic HR, and HR competencies.
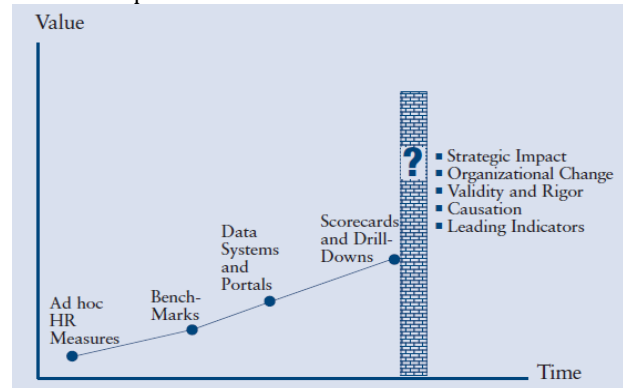

Figure 1 – HR measurement evolution (Adapted from- Talent ship and HR Measurement and Analysis: From ROI to Strategic Organizational Change- John W. Boudreau and Peter M. Ramstad)

HR Analytics Framework: LAMP

HR measurement needs to extend its traditional focus on the HR function, and increase its capability to support key decisions about human capital that drive organizational effectiveness. That requires a framework for connecting those investments to organizational effectiveness. With such a framework we can begin to identify where the potential for increased decision support may lie in HR measures.

The paradigm shift toward a talent decision science is a fundamental reason why today's HR measurement initiatives hit the wall. In this article, we propose that we can understand how HR can move beyond the wall by using a framework that we have labeled the "LAMP" model. The letters in LAMP stand for four critical components of a measurement system that drives strategic change and organizational effectiveness. The letters stand for "logic," "analysis," "measures" and "process." Measures represent only one component of this system. Though they are essential, without the other four components they are destined to remain isolated from the true purpose of HR measurement systems.
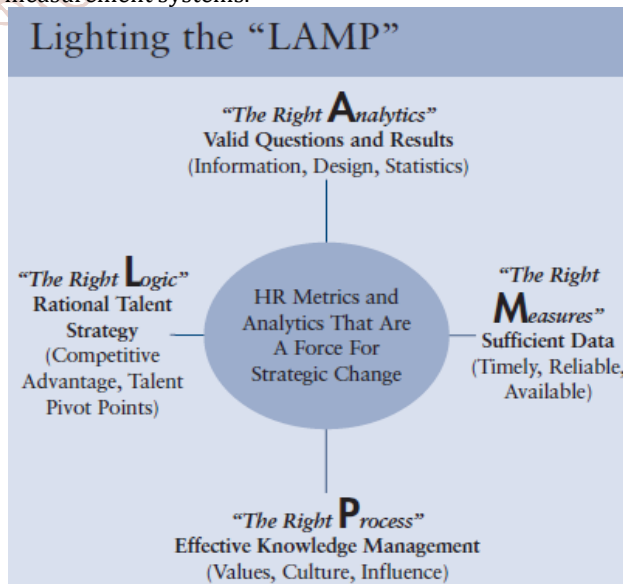

Figure 2 – LAMP framework for HR analytics (Adapted from- Talentship and HR Measurement and Analysis: From ROI to Strategic Organizational Change- John W. Boudreau and Peter M. Ramstad)

Logic: Relying on the Decision Science

Consider the concept of return on investment, ROI. It suggests that decisions about allocating monetary resources should consider:

➤ The inflow of returns produced by that allocation;
➤ The offsetting outflows of resources required to make the investment;
➤ How the inflows and outflows occur in each future time period; and
➤ How much what occurs in future time periods should be "discounted" to reflect greater risk and price inflation.

The three anchor points of strategic HR are impact, effectiveness, and efficiency.

Analytics: Finding the Answers in the Data

Even a rigorous logic can flounder if it is tested on data that are not correct or if an analysis is done incorrectly.

The more abundant HR data becomes the more essential is analytical capability. Without it, HR and business leaders can fall victim to improper conclusions, or be misled by superficial patterns, and poor human capital decisions.

Analytical skills reside within the HR function, in other parts of the company, or with an outside organization, the analytical teams are generally focused on fairly narrow HR domains. It is not unusual for internal HR research groups to attend exclusively to attitude surveys, or only to compensation market data, or only to mapping flows of employees through different roles and positions. Increasingly, these skills are often valuable outside these rather specialized areas. Analytical skills are even appearing in competency models. The challenge is to create an HR measurement system and organization structure that successfully engages these skills where they can have the greatest effect.

Measures: Balancing Elegance with Relevance

As noted earlier, the "measures" component of the LAMP model has received perhaps the greatest attention in HR. Lists of HR measures abound, often categorized into scorecards and dashboards. Much time and attention is paid to enhancing the quality of HR measures, based on standard measurement criteria such as timeliness, completeness, reliability, and consistency.

A great many scientific methods are available to polish and hone HR measures, making them more reliable and precise. Precision and measurement can be important, when guided by logic and properly paired with analytics and appropriate change processes. The key is to consider measurement quality as another element of decision support. Improved measures require investment that should be directed where it has the greatest return, not simply where improvement is most feasible.

Process: Change and Knowledge Management

The final element of the LAMP framework is "process." In the talent ship paradigm, the ultimate criterion for HR measurement is how it affects organizational effectiveness and strategic success. Measurement affects these outcomes through its impact on the decisions and behaviors of those in the organization, and those decisions and behaviors occur within a complex web of social structures, knowledge frameworks, and organizational cultural norms. Thus, a key component of effective measurement systems is that they fit within a change-management process that reflects principles of learning and knowledge transfer. HR measures and the logic that supports them are part of an influence process.

Benefits of HR Analytics

Analytics is always an important topic and trend in every part of business and HR is also not far behind. Today many organizations are looking for metrics or analytics in HR which are not just related to people but also on processes such as recruitment, retention, compensation, succession planning, benefits, training & development, performance and appraisal and many others. In short Talent analytics is becoming more popular these days as companies are doing lot of efforts to cultivate and align HCM with core business objectives in order to achieve a competitive fringe.

HR analytics does not only gathering data on employee; instead it aims to provide insights into each process by using data to make relevant decisions, improve the processes and operational performance. HR collects enough data on employee's personal information, compensation, benefits, retirements, attrition, performance, succession time to time so it is important to use it properly to interpret the outcome and spots the trends.

Some typical benefits and use cases of analytics are as follows:

➤ Improve organizational performance through high quality talent related decisions
➤ Forecast workforce requirements and utilization for improved business performance.
➤ Optimization of talents through development and planning.
➤ Identify the primary reasons for attrition and identify high-value employees for leaving.
➤ Provide the source of competitive platform for the organizations
➤ Manages applicants in better way on basis of qualification for a specific position.
➤ Recognize the factors which turn the employee satisfaction and productivity.
➤ To determine the individuals KPIs on the business.
➤ Enabling HR to demonstrate its benefaction to achieving corporate goals.

The facts are also not different on HR analytics. A survey by MIT and IBM reported that companies with a high level of HR analytics had:

➤ 8% higher sales growth
➤ 24% higher net operating income
➤ 58% higher sales per employee

Conclusions

Aligning HR and organizational strategies for competitive advantage has become a necessity, more and more organizations considering the HR department a value-added business partner.

Strategic human resource management can be regarded as a necessary approach for the modern organizations which need to identify ways for assessing its impact on performance and the process that need to be undertaken for the maximum productivity.

Human resources is an enabler that performs several functions vital to the desired operation of the enterprise that is why we need to learn how to better measure and manage overall HR productivity and service, from hiring and staffing, to compensation and benefits, to training and development, to employee relations and retention programs and more by giving your company a competitive edge. The LAMP model represents a tool that allows you to rate the effectiveness of your department and communicate with senior management in the quantitative business language they understand.

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