HRO TODAY Institute

# Best Practices for Tying HR Metrics to Business Outcomes

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# I. Introduction

We've all seen how the volume of data is inundating companies. As the floodgates continue to open, relevant, actionable information becomes harder to spot than ever. Yet the companies that are best at acquiring talent are doing it: They are rapidly finding ways to identify the best, most relevant data and turn it into the best information—and use it to get a leg up on the competition.

What best practices are these pack leaders using? What are they doing that's different from the companies that are lagging?

HRO Today Institute first dug into this topic in November 2013. That's when we published the study *Counting Success: How Metrics and Measurement Correlate with Business Success.*[1] That study demonstrated that number-crunchers rule the HR roost: Companies that use employee-performance data to improve ongoing talent acquisition outperform their competition 58% of the time, and by margins of up to 200%.

This study is a follow-up.[2] It is designed to dig deeper into the specific actions these leading companies take, what actions these leaders are likely to take next, and also to find out what the laggards are doing (or not doing). Here is what we found:

**1. Top performing companies outsource at higher rates and outsource more services, and use those services in predictable ways to get the most out of them.** Outsourcing frees up time. The best companies use that to hone their approach to strategic issues. They take advantage of their providers' administrative and technical expertise while placing their own organizational focus on metrics and performance.

Virtually every company that considers itself a top performer uses the services of a Recruitment Process Outsourcing (RPO) provider. They strive to use the full capabilities of the RPO, both in terms of scope of services available to them and the percentage of new hires recruited through the RPO.

Plus, the very act of engaging RPOs—along with the necessary self-examination of internal processes—helps companies uncover sub-optimal talent-acquisition processes, and points the way to improve them.

**2. Top performing companies don't just invest in the infrastructure needed to perform analysis at a high level: They drill down metrics to a deeper level and communicate to decision-makers more effectively.** Data becomes part of a "holistic solution"—the infrastructure combines ATS and HRIS capabilities into an integrated system that key personnel consistently use to improve talent acquisition. The data is more accessible and used by more people than with lower-performing companies. And because it's an integrated solution, it has fewer inconsistencies and offers greater reliability of data.

Most important, top performing companies invest in personnel who have analytic and process-oriented capabilities, those people who can install the necessary methodological disciplines necessary to use the information effectively.

[1] *Counting Success: How Metrics and Measurement Correlate with Business Success*, 2013.

[2] The study was conducted in the second half of 2014. We compared and contrasted the processes, tools and personnel superior-performing companies used to collect and analyze the data outcomes against the actions of low performers. These comparisons were made by conducting a series of in-depth one-on-one interviews with 15 companies that exhibit best practices, and 10 interviews with companies that did not.

[3] We expect that the landscape on this issue will look very different in two years. Automated cloud-based systems can capture and update information tagged from the web will be tied together with internal data without the need for costly internal warehouses that require ongoing IT support.

**3. Even top performing companies left some cash on the table.** Nobody's perfect—yet. Our interviews consistently revealed that even those organizations which consider themselves as having best practices did not fully capture all the optimal metrics. They also didn't tie them all to business results, such as profitability or customer retention.

Our interviews showed that reporting is rigorous, but that there's still room for firmer connections between the metrics and business outcomes. It's encouraging, though, to see a common theme developing that companies are developing long term strategies to firm up those connections.

**4. Predictive analytics is starting to appear on the horizon, and top performing companies are already preparing.** Everyone wants a crystal ball. None is available as yet, but there are metrics, based on internal and external data, that can tip off companies about what workers and candidates are likely to do.

***Problem:*** External data is largely unstructured. Thus, top performing companies are looking for ways to normalize the information and bring it into the organization, where it can be tied to internal data and used for business forecasting (such as for hiring algorithms). Our sample of top performers isn't implementing this on a large scale—yet. But they are thinking about it, so they can more fully take advantage of talent acquisition analytics.[3]

**5. As new tools become more powerful, lagging companies will fall further behind.** Companies that do not now employ best practices or at best a few optimal talent acquisition measures seem content to get by with "check-box" metrics. Even when they do use metrics, the laggards often fail to know how to present them, who should be seeing them, or what decisions can be made based on them. Those further up the adoption curve are much better positioned to outperform the trailing companies until the latter group embraces new thinking or is left behind by the marketplace altogether.

**A Call to Action**

These findings logically lead to a call to action. Few HR professionals would dispute that the amount of data generated by – and for – organizations continues to expand at ever increasing rates. That data availability, combined with increasingly sophisticated systems that analyze and report the data, has ushered in the era of Big Data. The talent acquisition function, with its access to large caches of data, and its inherent impact on the organization, is perfectly placed to take advantage of these analytical developments.

The benefit of using data to improve talent acquisition (or, conversely, the cost of not doing so) cannot be overstated. The cost of a new hire can be several thousand dollars, with those in high impact positions costing even more. The cost to replace a bad hire varies by position, but for those who leave the organization after a short time, the cost is higher still.

So, with the incentives to get it right so compelling, and given all the data that top performing organizations produce, who is responsible for initiating the call to capture and synthesize the data?

Typically, it's the Human Resource function itself that leads the charge, often at the VP level. Perhaps because they are responsible for recruiting or because of a belief—either real or imagined—that HR is among the last departments to get its share of IT support, senior HR executives usually lead the call to quantify recruiting metrics and track how they support business initiatives. Not surprisingly, new blood—often in the form a new head of Human Resources—leads the impetus to change past practices, and embrace a more data-driven approach.

Because the initiative normally begins with HR, they are the group most responsible for capturing the data. They are the ones who will drive the needed changes, and can make a difference in talent acquisition practices that can make their companies more competitive.

Let's take a look at our results in more detail, and examine what the best companies are doing that HR leaders can apply to their own companies. We'll also explore some cautionary examples of what the lagging companies *aren't* doing.

[3] We expect that the landscape on this issue will look very different in two years. Automated cloud-based systems can capture and update information tagged from the web will be tied together with internal data without the need for costly internal warehouses that require ongoing IT support.

# II. Top performing companies outsource at higher rates and outsource more services, and use those services in predictable ways to get the most out of them.

One of our first questions to study participants was around the role of Recruitment Process Outsourcing (RPO) consultants. Overwhelmingly, high performers indicated that they were using an RPO for a significant part of their recruiting efforts.

RPO is a fast-growing business—according to Everest Group, the industry grew by more than 16% in 2013 to reach US$ 1.8 billion in annualized spend. The most mature RPO market, North America, made a strong comeback with a growth of 21%, the highest in the last three years. While RPOs have traditionally been used to gain efficiencies in hiring large numbers of lower level workers, today the scope of many RPO relationships has expanded to include hiring for hard-to-find skills, contingent workers, and employer branding, among other services.

While most likely the RPO had a measured impact on the outcomes of the business, companies that make the decision to invest in an RPO relationship have very likely performed a thorough assessment of their talent acquisition capabilities, and are thus more likely to identify performance gaps—and best practices that can mitigate them.

It's worth noting that while the vast majority of top performers did work with an RPO provider for at least some of their recruiting efforts, not all of them were entirely pleased with the results they were getting. So while using an RPO was definitely correlated to business success, it's no guarantee of success. Companies that tend to be effective users of analytics are already the ones that have the most beneficial relationship with their RPO providers.

In addition to taking advantage of RPO services, there are other outsourced services commonly used by top tier companies. Managed Service Providers (MSP), contingent labor and screening services are also commonly employed by top tier organizations. Like RPOs, these services outsource day-to-day management responsibilities and functions as a means to improving operations and cutting expenses.

But these aren't siloed solutions. For example, screening services can be more than just reference checks. They can provide diagnostic information about candidates' strengths and weakness that can then be used to create personalized training progrmas. Assessments can be made about candidate's fit for the role, and scores assigned based upon the results of a pre-employment questionnaire. Top tier organizations often pull this information into an HRIS system, combine it with subsequent performance measures, and use it to better gauge their best hiring sources.

Engaging an RPO not only avails a company of best practices they may not be aware of, but it also requires self-examination of internal processes which helps companies uncover sub-optimal talent acquisition processes, and points the way to improve them.

## III. Top performing companies don't just invest in the infrastructure needed to perform analysis at a high level: They drill down metrics to a deeper level and communicate it to decision-makers more effectively.

Top performers start out with investment in infrastructure. Based on our interviews, their best practices on infrastructure include the following:

- Top performers have a dashboard of Key Performance Indicators KPIs).
- They have a centralized, standardized, cloud-based depository that is distributable and searchable by standard key words and search strings.
- Because of the sheer size and scope, updating individual records is prohibitive, except possibly for those in high impact positions. So top performers will have records that include hyperlinks—such as a link to someone's LinkedIn profile—for real time updating.
- They have established a dashboard that summarizes the data into meaningful segments along with overall statistics. Examples include professional vs. non-professional positions; full-time vs. part-time roles; active vs. on-hold positions. The best dashboards go beyond flat Excel files and enable the recipient to drill into into breakdowns that are meaningful to them, such as job title, business unit and time period.
- Metrics are most commonly reported on a monthly basis or quarterly basis, and then rolled up into a year-end report. Weekly reports are not common, but when they are done, the distribution is strictly within the HR group, and they tend to very tactical. One of the top performers we talked to uses rolling average of three months to smooth data volatility, while two of our interviewees advocated quarterly reports.

Next up, our interviews showed that top performers had a specific approach to metrics: What separated the top performers from everyone else was not only what the metrics are, but how well the data was segmented or drilled down. For example, cost per hire is a commonly accepted metric. Top performers tended to break down that metric by source—such as specific social channels, agencies, job sites—and then by region or by specific business area or job type. That painted a more complete and actionable picture.

A similar best practice is to deliver metrics that roll up to specific business units and divisions. Other commonly used metrics, such as time-to-fill, leads-to-interview, or diversity were segmented the same way. Other segments were more job-specific, such as salary and job bands. (Of course, the exact segments will vary depending on the needs of each organization.)[4]

The key takeaway is that it isn't so much the metrics themselves, though they are important, but rather how those metrics are presented and how they are used to inform future actions. Top performers employ HR analytics specialists to dig into the metrics and use them in more effective ways. Here's how some of the key metrics are being used:

- **Cost.** No recruiting dashboard is complete without addressing cost. CFOs will want to know how much it costs for a new

[4] The usefulness of measures, particularly funnel ratios, vary dramatically depending on the complexity of the job. The metrics examined don't provide a true indication of the effort or cost needed to fill a position. In order to avoid that, positions that are categorized as "High Impact" have different metrics around them. One interview respondent, a student of six-sigma techniques and an organizational Black Belt, stated that the challenge lies in determining how well the components of the job are aligned with business unit goals.

hire to be brought into the organization and how the costs change from each source. One constraint with optimally capturing the source of hire metric is finding a way to accurately incorporate what some call "hidden costs." These are costs beyond the cost of any advertising for an opening, but also include IT costs and personnel costs, all items that are related to infrastructure. RPOs are understandably interested in demonstrating the impact they make in cost per hire, and so this measure is nearly ubiquitous. This metric is a transactional cost that compares how much an employer spends on the RPO program per new hire compared with the cost per hire prior to the RPO implementation.

- **Cost of the vacancy.** Not as obvious as cost per source is reporting the cost of the vacancy. This measure calculates how much revenue is lost because the job is not filled. It's related to time-to-fill but is more specific and ties back revenue to the vacancy. It addresses things like the opportunity cost to the company if deadlines are missed—such as new product launches or software revisions—or the impact on customer satisfaction scores if there are fewer agents responding to customer inquiries. One interviewee from a top performing company uses rolling three-month data because of cost volatility. This gives a clearer picture of the true cost of the source of hire measure.

- **Recruiter Efficiency Ratio.** Multiple interviewees from top performing companies suggested a better way to gauge recruiter performance is with a Recruiter Efficiency Ratio, as it based on compensation, and takes into account that the higher the pay, the more costly it is to fill a position.

- **Time to Fill.** Time to fill is also a very standard metric that is used universally by top performers. But the real value is derived from the nuances in implementation. Time to fill measures the efficiency of the hiring process. Best practice companies break this down not only by how long until an offer is made, but also how long until the first day in the office. The average age of a position opening is only relevant when considered alongside the complexity of the job specifications.

- **Quality of Hire.** Quality of Hire seeks to demonstrate the impact on the organization of a new hire. Combined with Source of Hire, it validates the effectiveness of those sources. A minority of organizations have access to reliable data on the quality of hire, due in part to the ambiguous nature of measuring quality of hire, which leads to a myriad of metrics attempting to capture it.[5]

- **Source of Hire**. All top performing recruiting functions identify which sources produce the highest quality hires. Employers want to know where new hires come from, and how much it costs for each source, so that they can identify the optimal sources for quality candidates. Companies with best practices categorize the information into many segments, such as specific agencies, social networks, job boards, universities or colleges. What separates these broad measures are the drill downs by job bands and geographies, as well as linking the data to job performance and tenure.

- **Employee referrals.** They are an extremely valuable source of new hires, but often overlooked as a metric. One top performer we interviewed noted that he uses a target of 30% of all new hires being referred by employees. Not only does the employer gain great insight into the candidate and how well their competencies match the opening, but the recommendation itself sheds light on how well the employer brand is perceived.[6]

- **Volume of Recruiting.** This is an internal, tactical metric that HR Departments use to understand their volume of work and make corresponding resourcing decisions. Top performing companies we spoke to do not emphasize this measure, particularly beyond reports for the leader of the department.

[5] One top performing international conglomerate uses a pre-hire online assessment as one way to measure Quality of Hire. Candidates are classified broadly into three categories: Red-Yellow-Green. Those who fall under the "Red" grouping are no longer considered for the position. "Yellow" candidates may be lacking in some area defined by the job description, while "Green" candidates have the qualifications needed and are the top priority. Job candidates are further broken out by competencies within each color. After one year, hiring managers are asked to rate the new hire on a 1-100 scale. This information is then compared to the prior ranking for validation of the Quality of Hire metric.

[6] While an ATS system may capture what sources of hire are entered, it's often misleading. According to one top tier performer, that's in part because candidates are more likely to input what they believe will benefit them most in the recruiting process. Other causes of inaccuracy are a lack of flexibly in the system to allow users to drill down into more specific sources beyond broad classifications, or to proactively capture new sources in a timely manner.

**The next tier of metrics include:**

- **Candidates to Customers Ratio.** Examining the ratio of candidates to customers can be an important metric, particularly in business-to-consumer organizations such as retailers or telecommunications firms. One best practices firm, a mass media provider, watches the ratio closely to better understand the quality of the hiring process, which includes seeing how many rejected candidates are no longer customers after the hiring process. It also speaks to the effectiveness of measuring the employer brand.

- **Acceptance Rate.** This measure specifically addresses a narrow part of the hiring process. Its goal is to determine if job finalists are rejecting offers as a result of factors like the offer process, benefits or inadequate compensation.

- **New Hire Turnover.** There are two groups to look at when estimating the impact of turnover on new hires. The first group is those that have been involuntarily terminated. It's calculated based on the percentage of new hires terminated during the first 6 to 12 months after they start, and includes an estimate for any "damage" they may have done during their tenure. Turnover of new hires is related, but focuses on those who leave voluntarily within the first few months.

- **Diversity.** Many organizations capture at least some diversity data, though this is more prevalent in the United States. The most commonly captured classifications are race, gender and disability. There is often a lack of follow through with the data. What can a company do with the information? To start, diversity metrics may be beneficial to firms seeking government contracts.[7]

- **Other types of data being collected.** Stakeholder satisfaction, such as the hiring manager, the candidate, and HR managers can be surveyed. Further, candidates who were not hired are surveyed by some best practices organizations. Customer satisfaction is also used when a direct correlation can be made between the hire and customer experience.

More important than the systems being used or the number of metrics being examined is how the information is communicated to the organization, particularly the C-suite. Too often, companies simply produce spreadsheets that offer no easy and timely way to present what is happening in the business. Like any good research report, it is vital to present meaningful information and identify actionable insight that can be used to make positive change.[8]

Tactically, the best practice organizations we spoke to distribute multiple reports to multiple levels. The HR Director sees all reports, including the more tactical ones, once a month. Ad hoc reports typically are prepared only for the HR Director. Department heads also receive reports each month, though this information is tailored to their specific needs, and ideally focuses on very specific business impacts. Usually, division heads and the C-suite receive reports on an annual basis. However, if the metrics being shown convey business impact, quarterly reporting of 5-10 of the most critical, agreed-to KPIs is warranted.

[7] In his white paper "High Impact Strategic Recruiting Metrics for WOWing Executives," Dr. John Sullivan recommends focusing on higher-level positions, such as managerial, executive and key exempt positions where impact can be greatest. Rethinking Analytics for the Social Enterprise, Don Tapscott and Mike Dover, 2012.

[8] One of the ways that our top performers excel is in the way they present data. In their white paper "Rethinking Analytics for the Social Enterprise," Don Tapscott and Mike Dover state that, "Data is more visual. Powerful new applications as well as enterprise software suites illustrate data through graphs, visuals and interactive simulations. Such tools explain the data more fully, and enable better collaborative analytics and more innovative thinking."

**How Top Performer Use Systems**

The key to any discussion about technology or systems is that it's not so much a matter of software or raw computing power, but more about how information is conveyed. The real value is in providing actionable information and recommendations. For example, one of the top performers we interviewed has used automated prescreening and ranking of applicants, with a view to improving its time to hire and quality of hire performance.

Top performers are more likely to ask themselves one vital question: What will the CEO or CFO do as a result of learning this information? They are far more likely to be able to state decisions that are made as a result of the information versus the majority of other companies that are focused simply on providing information. Ideally, best practices include full integration of all systems. Access to the data should be provided electronically—and in easy-to-interpret dashboards—rather than on paper. C-suite executives don't have the time to labor through reams and reams of data, so reports should always be developed with the users in mind.

Also, this challenge: The function of analyzing HR metrics is largely a centralized one, while recruiting process itself is often a decentralized one. Local recruiting efforts are often done using disparate systems that do not communicate particularly well with a central system at a headquarters location. This has a significant impact on the ability to report key metrics across the entire organization. Further, RPOs are often not used for localized or international recruiting. This means that any data presented by the RPO is incomplete, and the extent the information can be used for drill-down segmentation limited. Information from local or international recruiting likely remains known only by a few at best, or often anecdotal.

## Chart of Metrics

| | | |
|---|---|---|
| **Cost** | | |
| | Cost per hire | Point in Time |
| | Agency spend | Point in Time |
| | Transaction cost for the RPO used | Point in Time |
| | Cost per source | Point in Time |
| | Cost of vacancy (cost/# vacant days) | Point in Time |
| | Recruiter efficiency ratio | Point in Time |
| **Time to fill** | | |
| | Average age of position opening, with automated red flags | Point in Time |
| | Average time to offer | Point in Time |
| | Average time to hire (first day in the office) | Point in Time |
| | Vacancy approved to time to offer in working days | Point in Time |
| **Quality of hire** | | |
| | Pre-hire metrics | Predictive |
| | Pre-employment screening | |
| | Job Performance | Predictive |
| | Attrition/retention | Predictive |
| | Voluntary/involuntary | |
| **Funnel Ratios** | | |
| | Acceptance rate | Point in Time |
| | Number of applicants per opening | Point in Time |
| | Interviews per hire | Point in Time |
| | Interviews per offer | Point in Time |
| | # of interviews per candidate | Point in Time |
| | Screened candidates per offer | Point in Time |
| | Ratio of external to internal recruits | Point in Time |
| **Source of hire** | | |
| | Agencies, job boards, universities, social networks, associations, company website | Point in Time |
| | Employee referrals | Point in Time |
| | Internal promotions | Point in Time |
| **Volume of Recruiting** | | |
| | Total number of applications | Point in Time |
| | Number of open positions, broken down by type of position | Point in Time |
| | Number of positions filled, broken down by type of position | Point in Time |
| | Number of requisitions approved | Point in Time |
| | Number of candidates in final stage | Point in Time |
| **Other Metrics** | | |
| | Proportion of candidates that are customers, too (where appropriate) | Point in Time |
| | Employee exit (directional in nature only) | Point in Time |
| | Boolean search strings success when looking for candidates for hard to fill positions | Point in Time |
| | Number of applications managers don't look at (a check on the managers, comes from ATS system) | Point in Time |
| | Time to being productive | Predictive |
| | Diversity | Point in Time |

# IV. They leave money on the table

The top performing companies were using a variety of drilled-down metrics, having the people to analyze them, and communicating them effectively. They were using the services provided by their RPO. But even the best had room for improvement, in the following areas:

1. *Struggling to use unstructured data*. Study interviewees were asked about how they managed the collection and analysis of unstructured data—data that is loosely structured at best and is most frequently textual. None of our respondents were currently taking advantage of the wealth of information provided by unstructured data, but several were in the early stages of examining how to do so.

The good news: Top performers are aware of what's coming and are getting ready. Within two years, we expect these organizations will be embracing the opportunity by taking unstructured professional data, dispersed across multiple social and professional networks, and repurposing it to create profiles of candidates in a comprehensive talent pool.

According to the white paper published by BrightPlanet, "Transforming Unstructured Data into Actionable Intelligence," utilizing unstructured data is a three-step process:

- First, there is the initial "harvesting" or gathering of unstructured data from the web. This is important not only in performing analysis, but because it also guarantees you have access to the data if it were ever removed from the web page in the future.
- Next is the normalization stage—preparing harvested data for analysis. Normally, a relational database such as MySQL is used, but NoSQL can also be used.
- After data becomes normalized, the data is given additional structure with metadata, or tagging. Tagging of key terms, such as names, companies or titles, then occurs. Entities are extracted from text found in the web page. Analytics can then be presented through a dashboard.

The process of collecting and updating the data from the myriad of internet sources has to be automated. Advanced Programming Interfaces (APIs) can enable different digital platforms to share dynamic data and feed it into other applications, such as a company's own database.

In short, even though the optimal use of unstructured data is not being applied consistently across organizations—even top performers—the technology is readily available, and the means to turn unstructured data exists now.

2. *Difficulty tying talent acquisition data to business results.* Even companies that classify themselves as having best practices often fall down when tying business results to the talent acquisition data they provide.

The common response to the question "What decisions are made by the recipients of the report?" was typically along the lines of, "To provide a status update."

But much more can be done—and that's why companies that think beyond reporting and instead focus on actionable intelligence have an opportunity to leapfrog their competitors. For example, data can uncover correlations between the quality of hire and financial metrics. A regression analysis that shows the financial impact of reducing even one measure, such as turnover, can illustrate how a company can reduce cost.

Another way to tie metrics to business results is tracking the average hiring manager response time for candidate feedback. The longer it takes the hiring manager to hire customer service reps, for instance, the longer customers will wait to resolve their problem, and customer satisfaction scores will suffer. Delays in hiring can adversely impact anything from product development to an important technology initiative. The end result? Lost revenues, delayed cost savings and diminished corporate performance.

Previously, it was noted that one of the metrics RPOs focus upon most measure the cost of each hire to justify the program investment. Programs that set goals to reduce customer turnover, for example, can lead to retained revenue that far exceeds the cost of implementation.

3. *Problems with storing, retrieving and integrating data.* How data is stored in the first place is often problematic—even, as we discovered, among top performing companies. The overwhelming conclusion is that there is no single gold standard in place across organizations, or often within the same organization. In fact, our interviewees reported that they had more than one system, particularly among those that had gone through recent mergers or acquisitions, or had a multinational scope. These disparate systems sometimes work well together, but in most cases, they don't. Even among top performers there are issues around legacy data.

Despite the variety of systems, we saw common themes emerge. Oracle's Taleo Service Applicant Tracking System (ATS) is frequently used by top performing companies, with mentions of other systems like TalentLink (Lumesse) or SAP. Companies that use an RPO often leverage its proprietary user interface—with mixed results.

There is rarely a systematic approach to integrating disparate systems. Legacy data systems often don't talk to each other. There are missing links between ATS and HRIS systems. And the data exchange is often clumsy at best, requiring rekeying of data and manual interventions. The successful transfer of data from multiple sources, such as an ATS, a recruiting site (CareerBuilder, Stepstone, Monster) or a social network (LinkedIn, Facebook) with an HRIS System such as Oracle's PeopleSoft or Kronos, is the most problematic part. Ideally, an ATS' API would work with an HRIS to integrate between the two and an external system where appropriate to synchronize data for candidates, positions and configurable fields. This would include integration with Internet Explorer or Outlook, or a browser such as Google Chrome.

4. *Failure to get the most of ATS.* Ideally, an ATS includes a simple way to retrieve candidate data, including uploaded documents, post and update positions on job boards, social networking and the company's website, and integrate with background checking services and compliance requirements. Companies that have an ATS often don't use them for all hires. Even large companies can use them perhaps 30% of the time, which means the metrics they provide, however comprehensive, only reflect a portion of the total hires a company makes. Even among those that do use their ATS for a large portion of their hires, many of the top performers we spoke to don't use all the capabilities of the system, but hope to over the course of the next 12 months.

# V: Predictive analytics is starting to appear on the horizon, and top performing companies are already preparing

Data is only useful if it can be used to make informed decisions that improve business performance. We see a future built on the power of predictive analysis—which enables executives to, as Wayne Gretzky said, "Skate to where the puck is going to be, not where it has been."

Among the top performers interviewed, half had plans for predictive modeling in the next two years, or at least had discussions about it implementing it internally. This timeline is supported by a recent report from *Harvard Business Review Analytic Services* concluded that nearly one-half (48%) of respondents expect to use predictive analytics based on HR data and data from other sources within or outside the organization within two years.[9] That timeline would appear to be aggressive, but the point remains. Predictive analytics are on the horizon.

Predictive analysis will enable a company to do things like anticipate which high value employees are most susceptible to leaving the organization, or offer competitive insights with respect to the HR function. This might include notifying managers immediately after the recruiting function learns that a key employee at a competitor is leaving or when a competitor is about to undergo a major layoff, which can make their talent more open to leaving the organization. HR metrics must have the ability to alert decision-makers so they can act immediately, decisively and precisely. Sources such as LinkedIn or ratings on Glassdoor.com provide the information, while incorporating unemployment rates, particularly on a regional basis, greatly adds value in strategic planning for talent acquisition.

One interviewee, with a Six Sigma Black Belt, indicated that she expects predictive metrics will impact strategic workforce planning. They'll provide a forecast of how many staff need to be hired and where best to find the candidates. Further, she feels that predictive analysis will answer attrition questions: Why do people leave? What is the cause and effect? Is it a lack of training? The same questions can be asked about involuntary terminations.

The conclusion is clear. Leading companies are on the cusp of fully embracing predictive analysis, and many already have. The landscape for applying this technology will look very different in two years than it does right now. But much work remains to be done—from a people, process and technology standpoint—to take full advantage of its potential.

[9] Organizations using advanced workforce analytics report outperforming their competitors, Harvard Business Review, August 2013.

# VI. What the laggards are doing and how they are falling behind

HR organizations are embracing talent data. The tools and technologies to collect it, analyze it and make course corrections based upon it do exist. Yet most organizations are struggling to use data effectively. What is the difference between companies that have best practices and those that do not? Here are some key differences:

**1. Lack of Infrastructure Investment.** Lower performing companies consistently under-invest in the infrastructure needed to perform analysis at a high level. Because analytics have historically been largely underutilized in organizations, it can be difficult to justify the necessary investments when other parts of the company, such as IT, finance, sales, marketing and operations are all a step ahead of HR in demonstrating the ROI of their own system needs.   Further, the infrastructure isn't a stand-alone application. It's integrated with other systems so that data can be transferred rather than rekeyed, which is what often happens at the laggard companies we spoke to.  Finally, the lower performing companies were inconsistent in using any system for recruiting throughout the organization, making a holistic analytics solution difficult to implement. A siloed approach makes the data more difficult to access, while avoiding inconsistencies and inaccuracies.

**2. Lacking HR Analytics Acumen.** Typically, HR departments lack a wealth of analytical talent, rather, they tend to be supported by other departments with that capability. But to achieve real analytics maturity, HR personnel are needed to implement and at least initially run the program. Training in Six Sigma disciplines is ideal, though not required for this initiative, at least during the early stages. Then the program and be turned over to dedicated resources in HR who have an  analytics background.

**3. Over-reliance on Spreadsheets.** In project management, this is called "managing the GANTT chart, not the project." When we talked to the lower performing companies, we  asked about the systems and processes used to supply talent acquisition data.  Virtually every one answered the question with something like, "Well, we have a spreadsheet…" To be fair, top performers used spreadsheets as well, but they're more of a means to end rather than the end itself. Visibility into valuable talent data can be hampered by widespread use of spreadsheets to manage talent and data.  The over use of spreadsheets is indicative of a poor analytics capability and a lack of investment in systems.

The use of spreadsheets, particularly for large enterprises, is inefficient, costly, and likely to introduce errors and inconsistencies. Over reliance on spreadsheet use is a major obstacle to improving performance management and talent management and addressing this issue is essential if organizations are to mature in managing the performance of talent management. Doing so requires using systems that are less error-prone, deliver data in real-time and are easier to audit. This is particularly true when companies are trying to measure the effectiveness of talent management strategies, which requires information from multiple sources.

**4. End goal not clear.** Also symptomatic of non-top performing companies were respondents who could not identify what decisions were being made a result of the data provided. No analyst can provide actionable information without some understanding of how the information can or will be used.  Important trends can be missed, and improvements never initiated because of the siloed approach to conveying the data.

So why not measure the value of talent management initiatives? Basically there are three reasons; we don't know how, we don't have the time, and don't have the money.[10]

[10] HR Best Practices for Improving HRIS/HRMS December 2012, Tom Sonde, SilverRoad Solutions.

**Tom Sonde does a nice job of summarizing the symptoms of poor practices: summarized why current processes, even elaborate systems, aren't delivering on the promises made:**

- Simple tasks take too long to complete
- Too much paper is being used
- Too much time is spent validating the data
- There is a significant amount of manual data keying and rekeying.
- There is excessive use of spreadsheets
- Senior management information requests result in constant fire drills
- Information is not easily accessible
- Time consuming system workarounds
- External databases/data warehouses supplement the system
- System set up by consultants who viewed IT department rather the end-user as their client.

# VII. Conclusion

Ideally, a single unified talent data analytics system, or at least one that can seamlessly interact with an RPO, will enable users to access, manage and report talent acquisition information (not data) the way finance or marketing can report metrics now. This capability requires an investment in infrastructure, both systems and internal analytic personnel support.

But these things don't happen overnight. What is a company to do to make the case for the investment needed in the interim? The process starts with capturing the right data, which necessarily focuses on that which can be best tied to business outcomes in a timely fashion. The initiative has to start with human resources department. Using fewer, meaningful measures that are widely implemented is better than a myriad of metrics that don't accurately capture what they're supposed to measure. These measures are the KPIs that comprise a meaningful dashboard.

Typically, the metrics used with the most success are: Cost, Recruiter Efficiency Ratio, Time to Fill, Quality of Hire, Source of Hire and Employee referrals. For these measures to work, they have to have drill down capability into meaningful breaks, like job bands, location, business units and time periods. A basic relational database is needed for this in lieu of a series of spreadsheets.

Once these metrics are established, deeper, more informed decisions about infrastructure investment can be made, and specialized outsource partners can be brought in to take the KPIs to the next level.

# Four best practices at work at Google

One of the conclusions of this report is that even companies who classify themselves as having best practices for leveraging talent acquisition data and have superior returns aren't yet fully taking advantage of all metrics and sources of data available to them. Perhaps not surprisingly, one company that does is Google. Dr. John Sullivan examined how Google has used "people analytics" to become one of the world's most successful and valuable companies.[11]

The premise of the people analytics approach is that accurate people management decisions are the most important and impactful decisions that a firm can make. You simply can't produce superior business results unless managers are making accurate people management decisions.

- A retention algorithm — Google developed a mathematical algorithm to proactively and successfully predict which employees are most likely to become a retention problem. This approach enables management to act before it's too late and it further allows retention solutions to be personalized.

- Predictive modeling – People management is forward looking at Google. As a result, it develops predictive models and uses "what if" analysis to continually improve forecasts of upcoming people management problems and opportunities. It also uses analytics to produce more effective workforce planning, which is essential in a rapidly growing and changing firm.

- Improving diversity – Unlike most firms, analytics are used to solve diversity problems. As a result, the people analytics team conducted analysis to identify the root causes of weak diversity recruiting, retention, and promotions (especially among female engineers). The results that it produced in hiring, retention, and promotion were dramatic and measurable.

- An effective hiring algorithm – One of the few firms to approach recruiting scientifically, Google developed an algorithm for predicting which candidates had the highest probability of succeeding after they are hired. Its research also determined that little value was added beyond four interviews, dramatically shortening time to hire. Google is also unique in its strategic approach to hiring because its hiring decisions are made by a group in order to prevent individual managers from hiring people for their own short-term needs. Under Project Janus, it developed an algorithm for each large job family that analyzed rejected resumes to identify any top candidates they might have missed. They found that they had only a 1.5% miss rate, and as a result they hired some of the revisited candidates.

[11] How Google became the #3 most valuable firm by using People Analytics to Reinvent HR  Dr. John Sulllivan ere.net, February 2013

# About HRO Today Institute

The HRO Today Institute is a global community of CHROs and HR Operations executives dedicated to moving beyond the "why" and focusing on how to effectively manage human resource operations. The Institute is a closed community of executives from mid and large-cap companies who engage in peer driven focus groups and research to answer key challenges in their current and future workforces. These challenges include a focus on workforce demographics, effective data sharing and technology in a global workforce, and where/how to find and engage external resources to support key programs.

The Institute's mission is to Empower Global Operational Excellence from the executive suite through the employee desktop.

**For more information about the HRO Today Institute, contact Zachary Misko Vice President, Global Executive Director at zachary.misko@sharedxpertise.com or visit www.hrotoday.com.**

# About Alexander Mann Solutions

Alexander Mann Solutions is the world's leading provider of talent acquisition and management services. We integrate our outsourcing capability and consulting expertise to enable organisations to attract, engage and retain top talent.

With almost 2,000 people, our award-winning teams are uniquely placed to support the thinking behind – and delivery of – our clients' people strategies. Through a blend of consulting and outsourcing services, we deliver solutions across the full talent lifecycle; from strategic workforce planning and employer branding to assessment and selection and on boarding and engagement; from school leavers and graduates, middle managers and executives to board members and C-suite appointments – across both permanent and contingent labour.

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