Learning from practice: how HR analytics avoids being a management fad

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INTRODUCTION

Far better an approximate answer to the right question, which is often vague, than an exact answer to the wrong question, which can always be made precise.
John W. Tukey, mathematician, 1962

Half a century later, Tukey's point is as relevant as ever. It helps explain why HR (human resources) analytics risks becoming a management fad, instead of providing powerful insights for general managers and HR leaders making key decisions about talent, incentive structures, organization design, allocation of training budget, etc. to support value creation and the business strategy. Management fads exist. Some fads become institutionalized within companies (e.g., MBO, matrix management, core competence); other fads fade (e.g., time management, zero-defects, T-groups). They are shiny new ideas that get attention but do not endure (e.g., learning organization, Japanese management, one minute manager, re-engineering). That HR analytics is one of the latest emerging fads is a paradox in itself. The promise of analytics is great: replace fads with evidence-based initiatives, data-based decision making, bridge management academia and practice, prioritize impact of HR investments, bring rigor to HR and supplement HR intuition with objectivity. Large parts of HR analytics, however, are not new and people have talked about HR metrics, utility analysis, HR scorecards, HR ROI (return on investment), personnel economics, and evidence-based management for years without a large noticeable step-change in the business impact of HR. So far the published evidence supporting the alleged value of HR analytics is actually quite slim — it is currently based more on belief than evidence, and most often published by consultants with a commercial interest in the HR analytics market, while organizations rarely share the same success stories of business impact, but typically share cases with turnover prediction (even if turnover is not an issue) or projects with a similar narrow HR focus. Rigorous analyses of loads of data on the wrong questions often have little practical value. Yet HR analytics tops most conferences this year (greatly helped by the many HR technology and consulting firms who see a major future business opportunity in selling data and statistics capabilities to a function that is short on both), and is also the dream of many management academics of how what they do finally becomes the center of the HR profession. We predict HR analytics in its current form will continue to fail to add real value to companies. We agree with those who argue that HR analytics is being taken over by other functions that are more mature in their analytics journey (in particular finance, IT, and marketing) and that this will happen sooner rather than later, but also that this is actually a good thing: HR analytics needs to evolve and transcend HR (as other functions' analytics will need to transcend their own functional boundaries), and will only become relevant when it takes an ''outside in'' approach, and is taken out of HR and integrated in existing end-to-end business analytics. In this paper we highlight

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what is contributing to HR analytics in its existing form becoming a management fad, what can help HR analytics deliver value by being part of end-to-end analytics, and illustrate this with two cases.

WHAT CONTRIBUTES TO MAKING HR ANALYTICS A MANAGEMENT FAD?

HR analytics in its current form has the risk of being a fad that fades. Here is a list of analytic pitfalls that will contribute to make it a fad:

(a) Lack of analytics about analytics. One colleague made a vehement case that HR work required more analytics and that rigorous analytics was the wave of the future for HR. We asked him a simple question, "what is your data that suggests that analytics is critical for the future?" Some who are enamored with analytics are not using analytics to justify analytics. They are analytical hypocrites who call for analytics, but do not use analytics to justify the use of analytics.

(b) Mean/end inversion or data fetish. Some are enamored with analytics, thinking that more data (or "Big Data") is always better. It is not about data, but about data for informed decision-making. For example, what separates distinguished academics like Daniel Kahnemann, widely known for his work on cognitive biases and how same can distort decision-making (see his bestseller *Thinking, Fast and Slow*), from less distinguished colleagues in academia is not having more or "bigger" data, but having the right data (including qualitative data or other data that is not readily available), asking the right questions, and interpreting the results and implications the right way. Analytics for the sake of analytics is not helpful. Analytics too often starts with data, when it should start with business challenges (hence all the analytics cases linking survey data to turnover because the data is readily available — while it does not yield new, insightful or value adding results). HR succeeds by adding value to business decisions — by informing how to make business decisions that intervene and create business success, not just by validating existing knowledge in practice. Think of the efficiency/effectiveness discussion in HR as an analogy: HR analytics is often preoccupied with "doing things right" with an "inside-out" HR perspective (e.g. do we use the right recruitment assessments? What is the ROI of our training programs? How efficient is our onboarding?), while it may create disproportionately more value when HR analytics applies an "outside-in" perspective and "does the right things" (How do we help transform the organization's culture so we can better deal with market consolidation and expected acquisitions the next 3—5 years? How can we grow critical technical talent faster, cheaper, better than the market to realize our growth strategy in a booming market and differentiate ourselves from the competition?).

(c) Academic mindset in a business setting. Some companies, e.g. Google, Shell, Aramco, PepsiCo, HSBC, are currently using/implementing human capital analytics as a way to bring more theory and rigor to the practice of management. One leading company in fast moving consumer goods hired some well-trained theorists and researchers who set about to predict turnover, consistent with published studies in the academic literature. After enormous effort, they were able to explain more than 70 percent of the variance in retention of human capital. But, when they shared their results, a thoughtful observer said, "so how serious is the problem of regrettable losses in the company?" The researchers responded that the company had less than 2 percent regrettable losses for the key positions and top levels. The academics who went into industry led with theory about what they had studied, not with questions about business challenges facing this company. This company was facing challenges of global market penetration, product innovation in declining markets, an activist investor who wanted to force management changes, and a culture of working within silos rather than collaboration. But, the theory based academics started their human capital work with a theory they were testing (turnover of firm specific assets), not with a deep understanding of business challenges. So even though academia and the accumulated science is an enormous resource for management practice (and an underutilized resource too), not understanding the differences between academia and practice — or academia and actionable analytics — may actually undermine the value of HR analytics. Academics like to create assumptions that allow them to test null hypothesis and offer incremental insights on theory. Business leaders face complicated problems that require integrated solutions. Academics like precision; business leaders require practical "good-enough" solutions. Academics start with theory; business leaders start with real challenges. Academics like to reflect; business leaders have to act.

(d) HR analytics run from an HR Center-of-Expertise (CoE). Recent evidence suggests that chief human resource officers with a clear business focus are still few and far-between (and hence receive a premium on pay). Practical experience tells us that HR CoE's with an "outside-in" approach and deep business understanding are even rarer. HR analytics CoE's will often use big data to discover insights that they will "push" out to the businesses. This is a bit like shooting a gun in the air and hoping a bird flies over. Dust bowl empiricism was popular with the advent of multivariate statistics when statisticians were seeking statistical relationships without a clear theory guiding their analyses, but when analytics are push, not pull, they risk the liabilities of dust bowl empiricism and rarely yield business value. Just as Kahnemann's distinguished work was more about his focus than amount of data, impactful HR analytics is more about strategic business focus than random patterns in big data.

(e) A journalistic approach to HR analytics. Politics and power are real phenomena in any organization. The philosopher Foucault noted that "power is knowledge," referring to the fact that power in part decides what knowledge creation will focus on or that "history is written by the victors." HR analytics can be misused to maintain the status quo and drive a certain agenda, i.e. when you know what story you want to tell, and you then go look for data to support same (e.g., requests to "validate the effects of our training"). Just like academia