



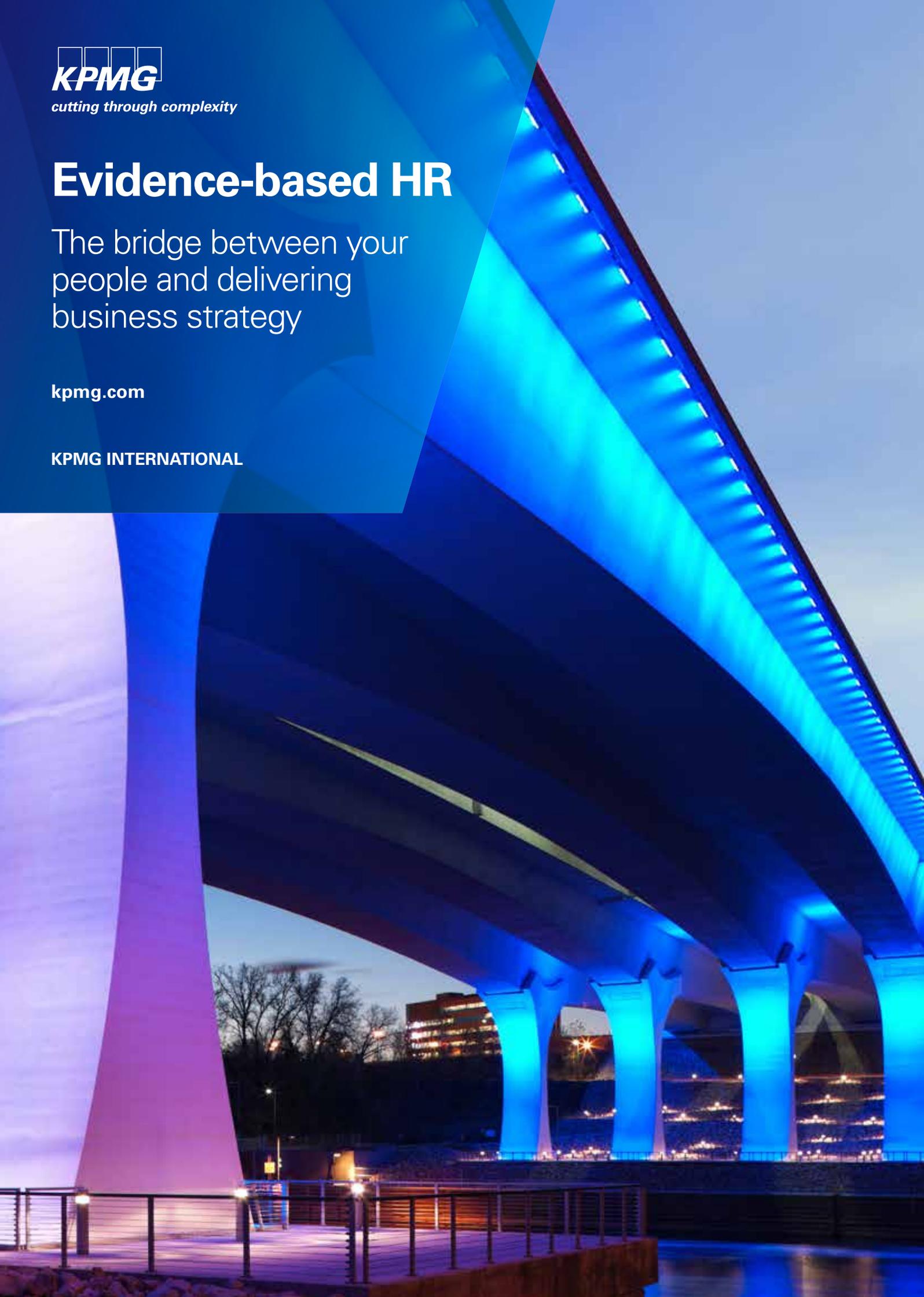
cutting through complexity

Evidence-based HR

The bridge between your
people and delivering
business strategy

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About the report



In September 2014 The Economist Intelligence Unit conducted a global survey of 375 executives. More than one-half of respondents identified themselves as C-suite executives (58 percent); the remainder are at the management level up to senior vice president. More than two-thirds of respondents (67 percent) serve an HR function; the remainder (33 percent) serve a wide range of other functions.

We would like to thank all the executives who participated in the survey as well as the following individuals who contributed their time and insights in subsequent interviews:



Practitioners

David Crumley, Vice President Global Human Resource Information Systems and Continuous Improvement, Coca-Cola Enterprises, US

Mike Elliott, Chief People Officer, JetBlue Airways

Jonathan Ferrar, Vice President of Smarter Workforce, IBM

David Feinberg, Chief Executive Officer, UCLA Hospital System, and President, UCLA Health System

Jim Link, Chief Human Resources Officer, Randstad

Jenn Mann, Vice President, Human Resources, SAS

Iain McKendrick, Director HR Strategy Planning and Analytics, AstraZeneca

Hugh Mitchell, Chief Human Resources Officer, Royal Dutch Shell

Per Scott, Vice President Human Resources, RBC

James Stringer, Information Services Director, Unilever

Mark Sullivan, Vice President HR Insights and Analytics, McGraw Hill Financial

Academics

John Boudreau, Professor of Management and Organization at the University of Southern California's Marshall School of Business and Research Director of Center for Effective Organizations

Rob Briner, Professor of Organizational Psychology, University of Bath

Anthony Hesketh, Senior Lecturer and Associate Professor, University of Lancaster Management School

Jeffrey Pfeffer, Professor of Organizational Behavior, Graduate School of Business, Stanford University

Paul Sparrow, Director of Centre for Performance-Led HR, Lancaster University, UK

There has never been a better time to be involved in delivering the people agenda.

CEOs across the globe are grappling with issues such as regulators, customer requirements, talent and the demands of the workforce. I believe that for the first time in my 30 years of experience, HR has a massive opportunity to demonstrate the value it adds to the delivery of business objectives. Now, more than at any other time, the technology is available to access data from many sources and provide predictive insights that will positively impact the delivery of business strategy. HR can now demonstrate its role as a value driver and create a direct line of sight between what it does and the delivery of strategic objectives. We are entering an era of evidence-based people management. The challenge for HR is that it must enter this era too and you will see from this report that this opportunity is by no means guaranteed.

Throughout this report, you'll see how early adopters are using evidence to show connections between HR and business KPIs and opening doors to new processes and people strategies that impact the bottom line of the organization.

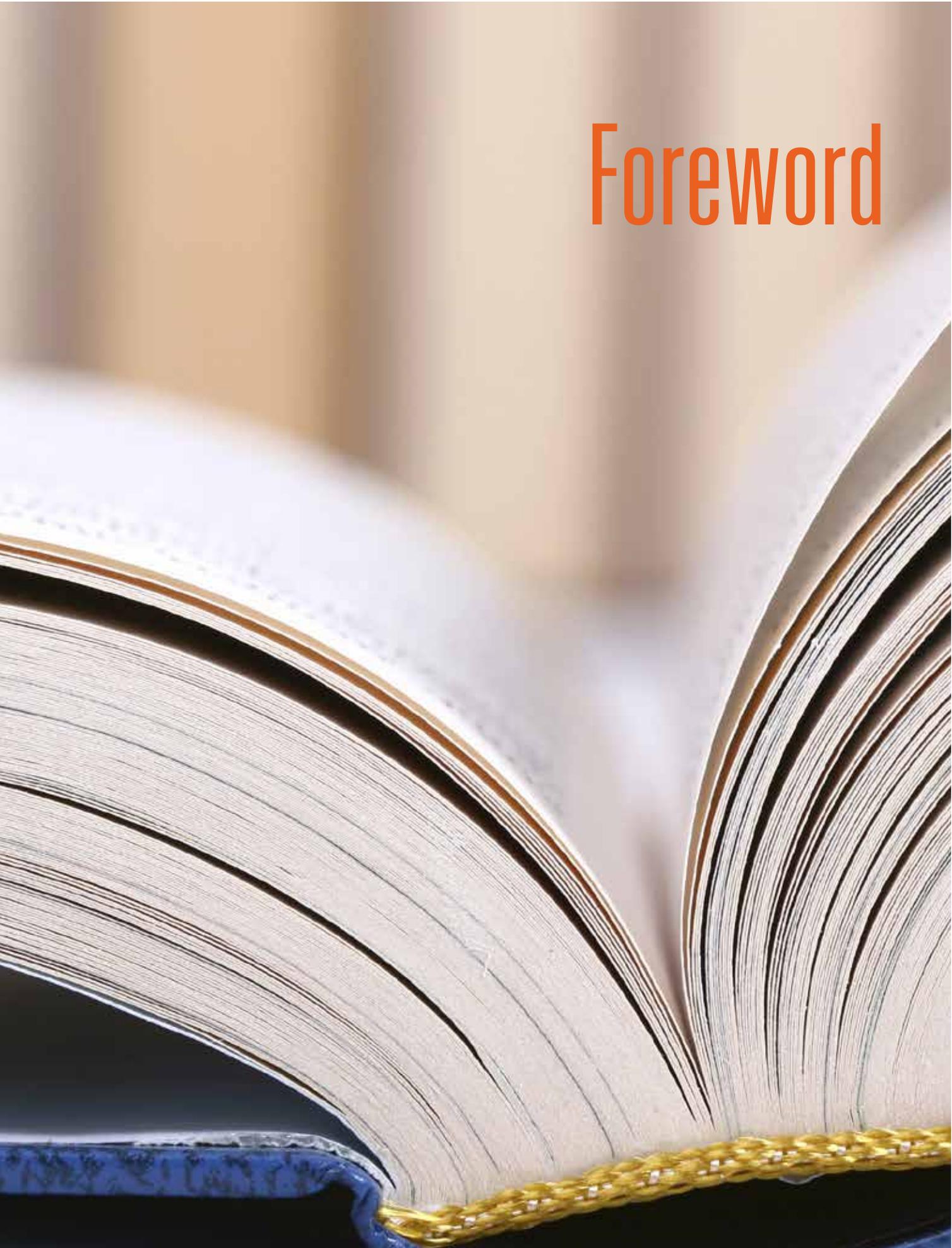
The Royal Bank of Canada was able to discover a major connection between the degree employees believed in their competitiveness of their value proposition and the performance of the retail branch. The effect was striking. – see page 20.

Through evidence-based HR, McDonald's now knows that having at least one employee over 60 dramatically improves customer satisfaction, on average by 20 percent and boosts performance in a fast food outlet – see page 21.

The HR team at McGraw Hill Financial can now instantly summon up information revealing the profile of those most likely to leave the organization in the near future and target interventions accordingly – see page 22.



Foreword



We believe the CEOs and HR leaders of these early adopters are setting the course for HR functions in the future and that all of us have much to learn from their work. However, this can be a cautionary tale if not executed correctly. If HR is to be a contributor to a new way of delivery, it has to address three critical success factors.

First, become comfortable with data and analysis. This means going beyond tracking KPIs about HR function activity and truly accessing different data sources (some of which will come from business operations) that when analyzed will deliver predictive insight about the role of people in the business. To do this well, data scientists will be required to work within the HR function. Indeed, a number of our clients are both recruiting data scientists into their HR function as well as working out how to make the transition from *analytical insight* to *action*.

Secondly, develop greater knowledge of the industry and organization. HR is not a generic practice nor industry agnostic. It must apply an HR perspective to its own industry and to the specific needs of the company, its value chain and strategic direction. Crucially, this means that HR will need to know how to frame the right questions (the hypotheses) that will direct and focus the analytics effort. Without the right hypotheses to test, the effort expended on analytics is just “a fishing trip.”

Finally, HR functions need to be reconfigured so that HR and management work together within an operating model that promotes evidence-based people management. As much thought should go into designing the components of the operating model that will allow for *the use and consumption* of the evidence as is given to the actual generation of evidence. These components include:

- **Information flows** – Who sees what, when and where?
- **Visualization** – How best to portray data, information and insights in an engaging way that leads to the decisions that need to be made?
- **Decision making** – Where, how frequently and under what governance are things decided collaboratively? Specifically, this will include decisions that are required or implied by

predictive insights as opposed to the “rear view mirror” and KPIs that describe what has happened. For example, what actions should be initiated when your algorithm predicts that high-potential individuals are likely to leave your organization?

- **Responsibilities and critical people management roles** – Who is accountable for what between managers, HR and senior leaders? In particular, what is the role of the HR business partner in this world?
- **Capabilities** – What skills are needed within HR and the business to enable and implement evidence-based decision making? How can HR practitioners evaluate the best research from within their organization and combine with external management and social science thinking to determine which research is pointing to something really important?

Progress is being made. Our report reveals an upward trajectory in the intent to begin or increase adoption as well as the ability of the HR function to add value. In fact, when I look back to our 2012 survey “Rethinking HR in a Changing World,” the proportion who say that the HR function excels at measurably proving the value of HR to the business rose from 17 percent to 25 percent. However, there are still challenges to overcome. C-Suite executives remain skeptical and perceive that much of what happens in the name of Talent Management, Performance and Reward has suspect validity. In the words of Daniel Pink in his excellent and entertaining TED lecture: “What science knows business doesn’t do.” Seemingly, becoming evidence-based requires an effort of will and a sufficiently changed mental model that will be a challenge for many companies to achieve.

However, I am seeing a move amongst early adopters in the HR community towards embracing big data and becoming more evidence-based. It is not yet widespread, but I believe that it is just a matter of time.

Mark Spears
Partner, Global Head People and Change & Global Lead for HR Center of Excellence
KPMG in the UK
@markispears

I believe...

“Evidence-based HR is important now because of the massive demands coming from CEOs who are trying to grapple with big issues such as regulators, customer requirements, talent, and the demands of the workforce. For the first time ever you can draw a line of sight between the HR activity and business insights... and be seen doing so.”



Mark Spears

Partner, Global Head People and Change &
Global Lead for HR Center of Excellence
KPMG in the UK



I believe...

“The whole point of evidence-based HR is to drive greater value through the better use of the most important asset an organization has: its people. This shift to this approach is powerful. If you ignore it, you are losing out on opportunities to drive greater customer satisfaction, to drive revenue, to drive higher employee engagement and commitment.”

Robert Bolton

EMA Head of Global HR
Center of Excellence
KPMG in the UK



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Introduction

Those with a rose-tinted view of how organizations and professionals operate might assume that important decisions are only reached after poring through reams of detailed and relevant information. But the reality is that gut instinct is frequently the dominant decision-making mode in many areas of human activity.

For example, it was only in the 1970s that proponents of evidence-based medicine, such as Archie Cochrane and John Wennberg, exposed the life-and-death decisions of medical practitioners as excessively subjective, and insufficiently based on the mass of available research evidence. The personal bias of the practicing doctor could largely determine the chosen course of treatment for an illness, however serious. Even as late as 1997, in his book “A Sceptic’s Medical Dictionary,” doctor and journalist Michael O’Donnell criticized highly experienced practitioners for continuing to make “the same mistakes with increasing confidence over an impressive number of years.”¹

Thus it is perhaps no surprise that the use of evidence for people-related decisions within organizations has not yet fully taken hold. This report sets out the current state of evidence-based human resources (HR), the obstacles it faces and its potentially transformative effect on performance. Given the increasing reliance on evidence in other business functions within major companies, HR must act now if it is not to be left behind.

¹ Michael O’Donnell (1997), “A Sceptic’s Medical Dictionary”

Executive summary

- **Evidence-based HR still at embryonic, pioneering stage**

There is a strong sense from both the executive survey and one-to-one interviews that evidence-based HR – which we define as using the best available evidence to support people-related decision-making – has yet to gain momentum. Major companies tell us that their work in this field has been under way for only a short time. “It is only during the last two to three years that we have been able to produce datasets that stand up,” says James Stringer, Information Services Director at Unilever. “Up until two years ago, it was a tricky job to assemble information that would allow you to do sophisticated analytics,” agrees Iain McKendrick, Director of HR Strategy Planning and Analytics at AstraZeneca.

Meanwhile, business school professors we interviewed emphasize that the evidence being used is far from comprehensive. They claim that companies still too often overlook a vast archive of academic research on HR.

- **The progress of evidence-based HR is hampered by a negative perception of the HR function**

Although more than half of all survey respondents (55 percent) remain skeptical about the potential of evidence-based HR to make a real difference to the HR function, the overwhelming majority of these skeptical

executives (82 percent) plan to increase their use of Big Data and advanced analytics in the short term. We can deduce from these two findings that the obstacles to the successful implementation of these tools are considered to be substantial.

One stumbling block may be the credibility of the HR function. Less than half of non-HR executives (49 percent) agree that HR leaders are able to demonstrate tangible correlations between people management initiatives and business outcomes. In other words, the skepticism is not about big data but about HR practitioners’ ability to use it effectively. However, there is certainly hope that this obstacle can be overcome, as more broadly 85 percent of all respondents do agree that the HR function contributes strongly to enterprise goals. Moreover, the proportion of respondents who say their organization’s HR function “excels” at providing insightful and predictive analytics increased from 15 percent – in a 2012 EIU survey sponsored by KPMG – to 23 percent in 2014. Over the same period, the proportion who say the function excels at measurably proving the value of HR to the business rose from 17 percent to 25 percent.

There may be concern that the HR function does not have enough of the right people in place for this new era. About 30 percent of all survey respondents rate lack of skills, resources

and experience with analytics as the second biggest obstacle to the use of evidence in people management, behind only corporate culture. “We need more mathematicians and data modellers,” says Per Scott, Vice President of Human Resources at RBC. “These are not typical HR people. We also need our existing HR people to become more numerically proficient and be able to explain data insights, to communicate the business relevance of our findings in a compelling way to senior leaders.”

- **Evidence threatens the established order, inevitably triggering resistance as a consequence**

Those without these new skills, or the potential to acquire them, may fear that the move to evidence-based HR will leave them stranded in their career. But several interviewees have pointed out that the transition will also give rise to a more fundamental threat to personal status and reputation. “The rise of evidence undermines the magic wand school of management we have been in thrall to,” says Rob Briner, Professor of Organizational Psychology at the University of Bath. “But many high-status careers, and the associated financial rewards, depend on the image of the miracle worker manager.”

- **Whatever the obstacles, and whatever the resistance, the growth of evidence-based HR will gain momentum; companies and HR practitioners must respond urgently to avoid losing ground**

Several factors will help ensure the progress of evidence-based HR. Our survey reveals a commitment to the increased use of Big Data

and advanced analytics in HR over the next three years. A new breed of HR practitioner, schooled in analyzing and interpreting data, will slowly emerge as a consequence of this commitment. However, in the words of Paul Sparrow, Director of the Centre for Performance-Led HR at Lancaster University Management School, “The real boost comes when evidence is not just used to solve or react to problems such as employee turnover, but makes a major positive business impact.” As detailed later in the report, Professor Sparrow’s department worked with McDonald’s to create such an impact by clearly demonstrating the financial value of older workers in restaurants.

The sight of competitors registering a commercial advantage from an evidence-based finding is sure to elicit a significant reaction throughout the marketplace, intensifying the quest for similar wins.

Noteworthy business successes from the use of evidence-based HR, establishing clear links between aspects of people management and revenue, are already emerging. To stay ahead of the competition, HR directors need to obtain the necessary commitment from company decision-makers to invest in changing the skill profile of the HR function, so that it can boast a potentially powerful combination of analytical acumen and the always-crucial human insight.

Section 1: Defining evidence-based HR: Debating a definition

A major division has emerged between the corporate world and academia in how evidence-based HR is actually understood and defined. As a result of this gap in perception, world-renowned academic experts believe that HR practitioners are missing out on a vast pool of evidence, some of which may be directly relevant to their own company practices.

When executives talk about HR evidence, they generally focus on the internally generated information that can influence people decisions.

“Simply put, evidence-based HR brings together data that can then be analyzed as a potential solution to business problems,” says Iain McKendrick of AstraZeneca.

However, the academic experts interviewed for this report maintain that the definition excludes the results of voluminous past research in the field of human resources. They cite research that questions the efficacy of cherished cornerstones of corporate life, such as performance-related pay and annual performance appraisals, and even casts doubt on the business impact of employee engagement.

“Several years ago, I was sitting on a remuneration committee of a publicly listed company,” recalls Jeffrey Pfeffer, Professor of Organizational Behavior at the Graduate School of Business, Stanford University. “I brought up very recent research on stock options by Professor Donald Hambrick, which highlighted their very negative consequences, such as excessive risk-taking and unsuccessful mergers. Nobody wanted to know. If you went to a doctor, and they told you they were not interested in the latest research, you would run screaming from their surgery.”





One of the principal reasons why academic evidence can be set aside is that companies tend to want to see material that is tailored to them, rather than pertinent to all organizations.

“There is a deeply held assumption that research studies don’t apply to us,” says John Boudreau.

Professor of Management and Organization at the University of Southern California’s Marshall School of Business and Research Director of its Center for Effective Organizations. “They all believe they are unique and special. But they are missing out. Not every finding can be generalized, but some certainly can.”

These are powerful words. If Professor Boudreau’s comments are valid, the sincerity of the corporate world’s avowed quest for the adoption of best practice can be called into question.

As a middle way that might satisfy this need for specific conclusions, Professor Boudreau recommends that companies use the conclusions of published research as a foundation upon which to build their own investigations within the company.

Another possible cause of the low priority attached to academic evidence is that companies may lack the people who know how to plow through detailed research documents and pluck out the most relevant conclusions. “There aren’t many HR professionals with an advanced social science background,” says Paul Sparrow of Lancaster University Management School. “They need to know when to trust evidence, how to differentiate between good and bad research.”

More fundamentally, evidence presents a threat to the established way of doing things, a recurring theme in our interviews, which is discussed at greater length later in the report.

Section 2: Where are we now?

It is perhaps no surprise that little attention is paid to academic research when even the focus on internally generated HR data is at an early stage. “The term ‘evidence-based HR’ isn’t one that I have heard HR functions use too much, which may actually be an indication of how much HR sees itself as an evidence-based function,” says Jonathan Ferrar, Vice President of Smarter Workforce at IBM.

However, he does offer a proviso, adding that “given how our clients are using our talent management tools, I believe that is now changing.” Google has been the poster child of this field, launching data-driven people management practices that have been written about widely and admiringly in the international media.² But the overall picture is much less impressive. More than a third of companies (35 percent) have either not yet applied advanced analytics or Big Data tools to improve the efficiency of the HR function or don’t even know whether they do or not. A similar percentage admits that they haven’t yet applied them for the purpose of linking people strategies with organizational goals (fig. 1).

Executives interviewed for this report consistently confirm that the transition to evidence-based decision-making has just begun, and that the teams that are focusing on evidence analysis are still small. “It was three years ago when we realized that we needed to do more,” says Per Scott of RBC. “There were pockets of analytical activity, but nothing systemic. We are two years into a three-year plan.” Iain McKendrick makes a similar observation about AstraZeneca: “This is a new sphere of activity – we are a team of five,” he says. “We are still scratching the surface of its potential,” agrees Mike Elliott, Chief People Officer of JetBlue Airways.

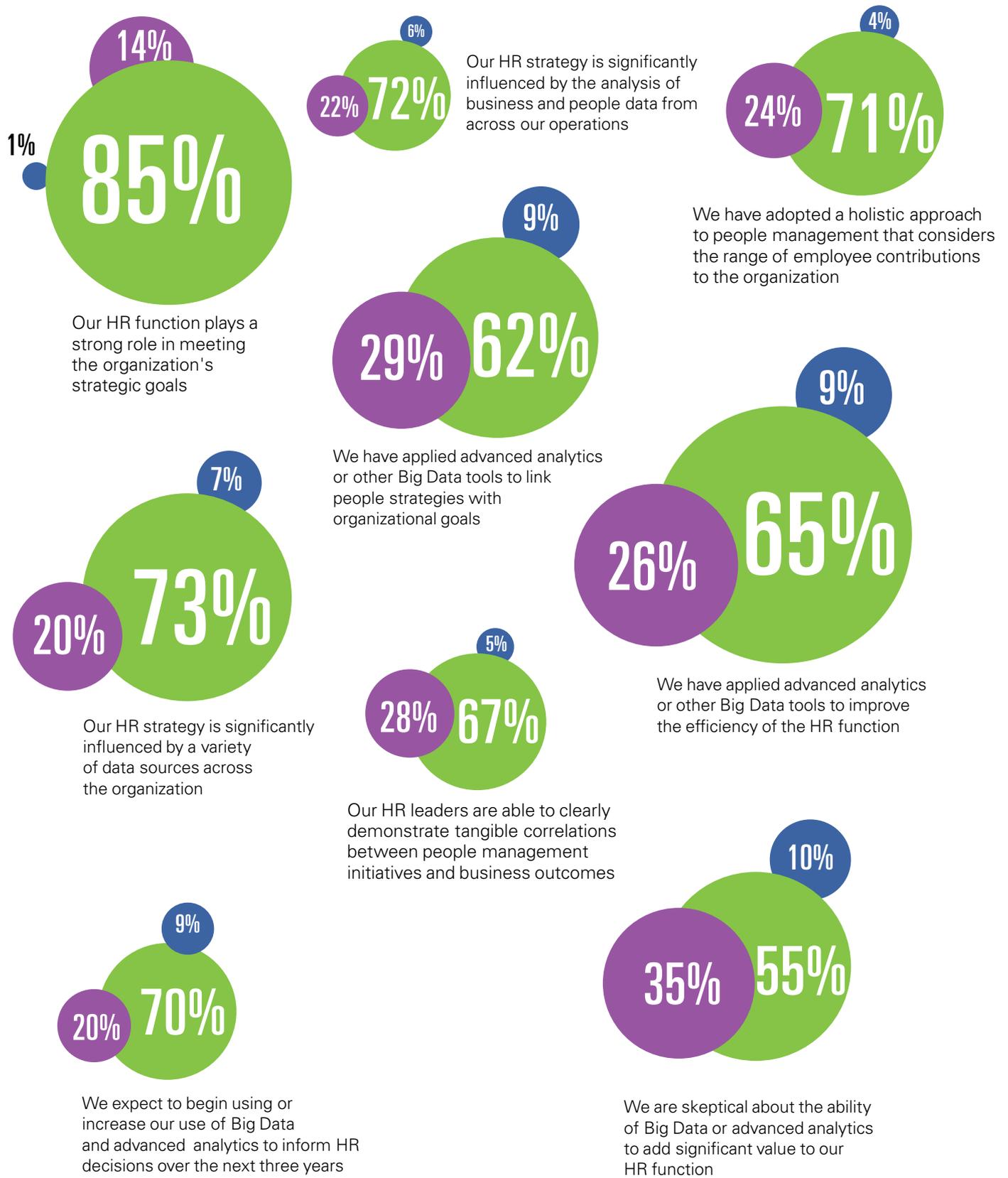
Indeed, it is only relatively recently that major companies have been able to gather global data in a consistent and accessible format, without which any meaningful analysis is difficult to attain. “Just a few years ago, the mere task of calculating how many people worked for our company was a challenge,” says James Stringer of Unilever. “Now that we have global data and systems, we can access that information at the click of a mouse. With such standardized and high-quality data, we have the firm foundation for analytic investigation.” Although the teams dedicated to data analysis may be small even at the largest companies, this should not give the impression that they work in isolation, with little day-to-day impact on others within the company. Such teams already have a vital role to play in training the rest of the HR function in the new world of evidence-based HR, and in educating the executive tier about its potential commercial force. “We have certified 100 HR professionals in our analytical tools during 2014,” says Mark Sullivan, Vice President of HR Insights and Analytics at McGraw Hill Financial. “We are taking away from HR people the need to take multiple data from multiple sources to produce a slide that is outdated within a day. We are giving them access to real-time analytical tools and educating them accordingly.”

This burgeoning influence is only likely to gain momentum. The vast majority of companies are intent on increasing their focus on HR evidence over the next three years (see fig. 1). “In the past year or so, we have got the resources on board to get work done properly, and in the way we want,” says Mr. Stringer.

The trajectory of evidence-based HR is only going one way, it seems. We can see in Section 4 how its use is starting to reap captivating results, thus accelerating the potential for change.

² See, for example, The New York Times, “Google’s Quest to Build a Better Boss”, March 12 2011, (http://www.nytimes.com/2011/03/13/business/13hire.html?pagewanted=all&_r=0)

Figure 1: Do you agree or disagree with the following statements about your organization's HR strategy (percent of all respondents n=375)



● Agree ● Disagree ● Don't know/Not applicable

Source: Evidence Based HR: The bridge between your people and delivering business strategy, 2015

Section 3: Bumps in the road

Despite this evident commitment and potential, skepticism within executive ranks still lingers. More than half (55 percent) of the executives polled have doubts about the ability of Big Data and advanced analytics to add real value to the HR function (see fig. 1). Yet the overwhelming proportion of these skeptical executives (82 percent) expects their company to increase its focus on evidence-based HR in the coming years. There appears to be a belief that obstacles lie ahead.

Skepticism about HR

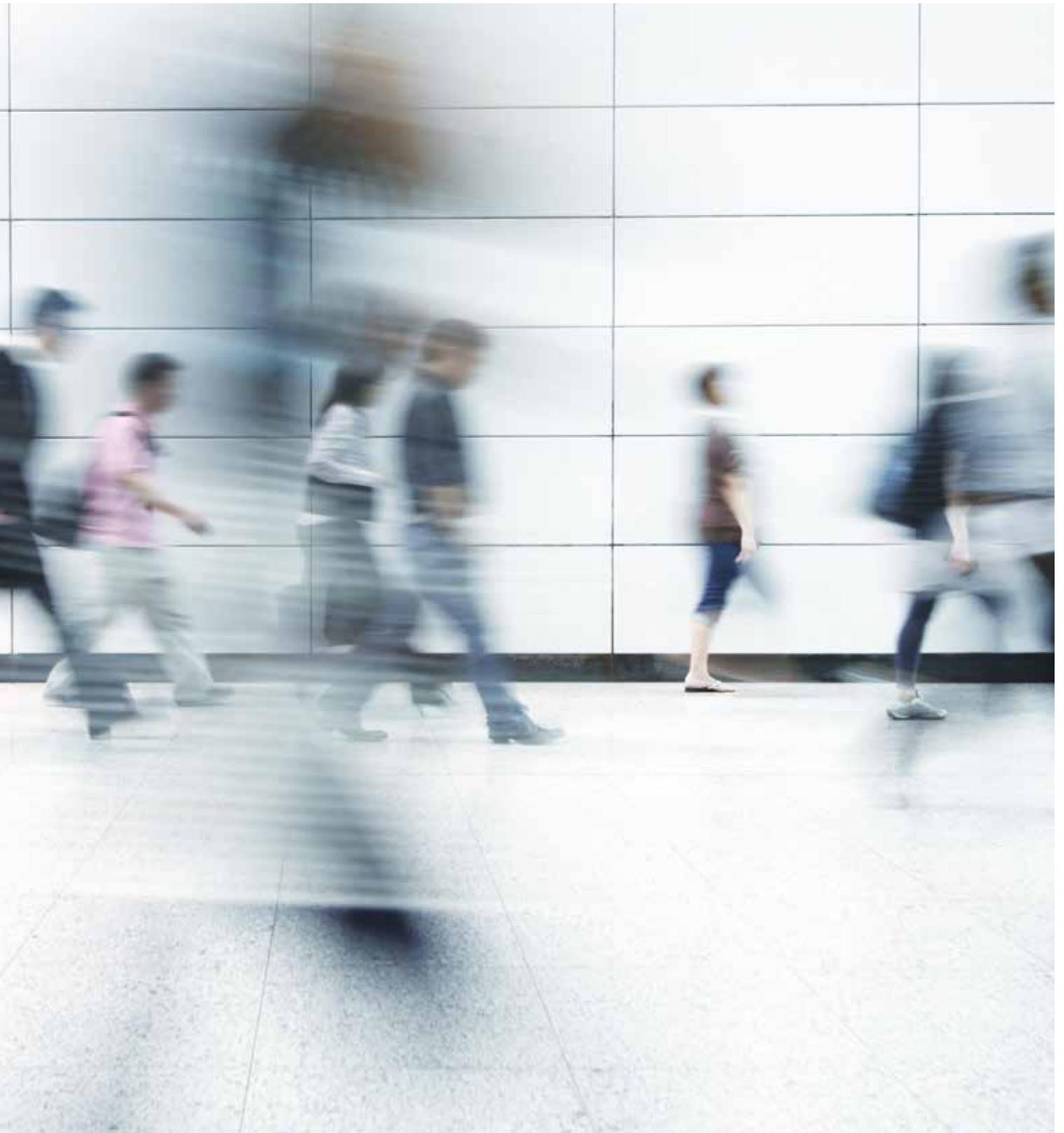
A low regard for the HR function contributes, at least in part, to this skepticism. Less than half of non-HR executives (49 percent) agree that HR leaders are able to clearly demonstrate tangible correlations between people management initiatives and business outcomes. "HR is still suffering from an old school approach," says David Feinberg, Chief Executive Officer of the UCLA Hospital System and President of the UCLA Health System. "Our workforce is changing, their demographics are changing, the patients they are caring for are changing. But I don't think we are seeing a similar level of change within HR."

However, there is certainly hope that this skepticism can be minimized, as more broadly 85 percent of all respondents do agree that the HR function contributes strongly to enterprise goals. In addition, the proportion of respondents who say their organization's HR function "excels" at providing insightful and predictive analytics increased from 15 percent – in a 2012 EIU survey sponsored by KPMG – to 23 percent in 2014. Over the same period, the proportion who say the function excels at measurably proving the value of HR to the business rose from 17 percent to 25 percent.

Skills deficit

A shortage of skills appropriate for the new evidence-based era perhaps contributes to the negative perception of HR, and also serves in itself as an obstacle to progress. As Mark Sullivan of McGraw Hill Financial puts it, "HR people tend not to delve deeply into available data; it may be a generalization, of course, but they rely





more on intuition.” Analytical prowess needs to be combined with commercial acumen to identify how the conclusions from the data might fit with the company’s commercial objectives. “HR analysts need to tell a convincing story to the executive team with easily digestible and action-oriented insights,” says Iain McKendrick of AstraZeneca.

It may well be that business schools have not yet responded adequately to employer demand, hampering the development of the necessary skills. “I’m an advisor to the board at a business school,” says Jenn Mann, Vice President of Human Resources at SAS. “They are not yet teaching analytics in the HR programs. We’ve got to change the entire way in which people study or understand HR. I think the analytical approach will become second nature, but we are at an evolutionary stage right now.”

Disorganized data

But analysts can only examine the data at their disposal. If, as we have seen, the largest companies have only just got round to devoting the necessary resources to compiling HR data in an organized manner, less well-endowed organizations are likely to have some way to go in this regard. Internal politics can also delay progress in finalizing the data groundwork. “Several functions, such as sales, HR or finance, may be finding insights from their own data, but unless all of them can gather and analyze data in a coordinated way, it may prohibit more collaborative efforts where the combined data holds the real answers” says David Crumley, Vice President of Global Human Resource Information Systems and Continuous Improvement at Coca-Cola Enterprises. More than a quarter of all executives (27 percent) believe organizational silos are the biggest obstacle to progress in this field (fig.2)

Harmful impatience

Meanwhile, the predictive element of evidence-based HR, analyzing current and historical facts to make predictions about future events, still often lacks the sophistication to sway skeptical executives. “We can easily tell, for example, how successfully a leadership development program has improved an individual manager in the short term through measuring their team’s perception of them and levels of engagement,” says Jim Link,

Chief Human Resources Officer at Randstad North America. “But we can’t yet easily tell whether and when that person will be able to take on bigger roles.”

Mr. Crumley believes that companies need to get the basics right – clean and standardized data, and then the resources, culture and technology to make full use of it – before prioritizing predictive analytics over less ambitious, but still important, investigations. “Many companies want to jump straight to the sexy stuff,” he says. “They try predictive analytics, but they can’t even run a headcount report for their company. They try to run before they can walk. First of all, you need trust in the data; without that trust, you can’t create senior management belief and sponsorship.”

Although some successful examples of predictive modelling are starting to be seen – most notably, in the battle to improve the quality of recruits and reduce expensive staff turnover (see sidebar on page 22) – there is consensus among interviewees that much work still needs to be done. “It is likely to be some time before conclusions from predictive modelling become commonplace,” says Hugh Mitchell, Chief Human Resources Officer of Royal Dutch Shell.

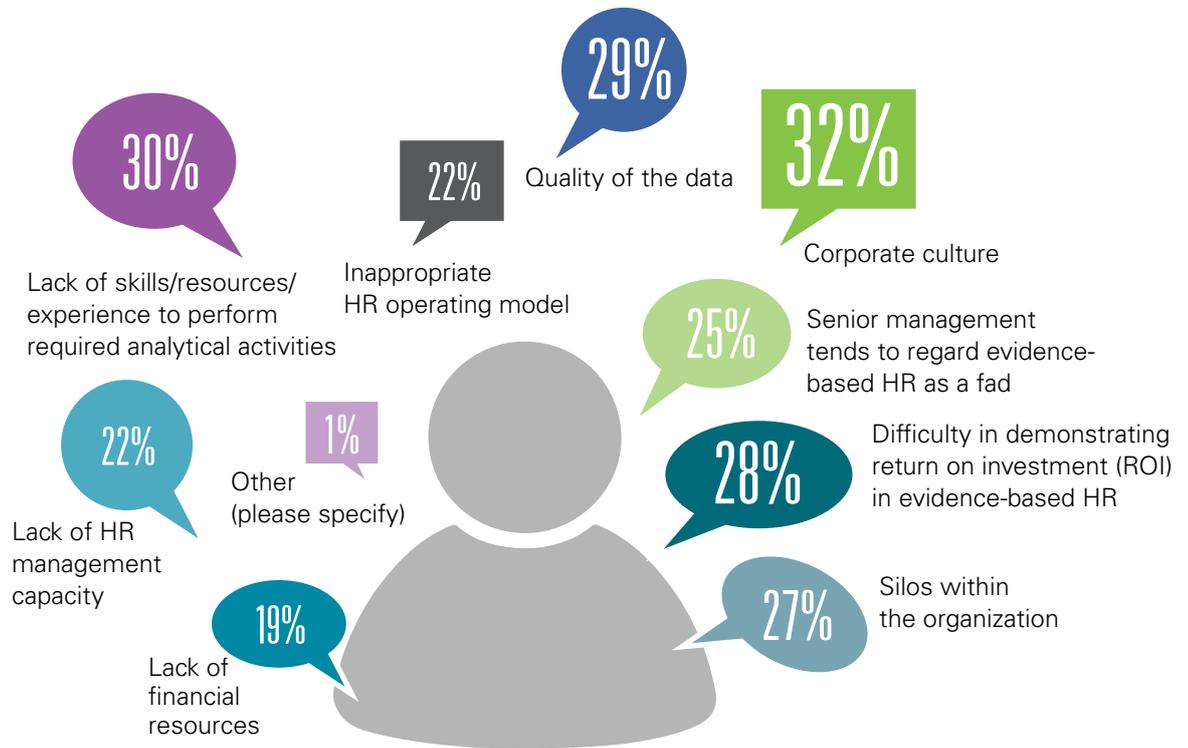
Cultural resistance

Although less obvious, cultural factors are likely to give rise to considerable organizational resistance, presenting a significant obstacle to progress. Evidence can pose a threat to individual status, reputation and pay; acting upon it can entail personal career risk. Indeed, our survey indicates that corporate culture is the single largest obstacle to the use of evidence in people management (fig.2).

“Evidence-based HR can be especially threatening to people if they don’t have the skills to participate in the transition to a new style of management,” says Per Scott of RBC. “What does this all mean for their future? The pathways to business decisions also start to change, and that affects people’s perception of where they stand in the company.”

The new era may also endanger the myth of the omnipotent executive, and the massive rewards that flow from it. Decisions based on gut instinct are now becoming exposed to immediate criticism. “Evidence suddenly makes people accountable, quite an uncomfortable feeling for some people,” says Professor Briner.

Figure 2: Which of the following presents the biggest obstacle to the use of evidence in people management in your organization?



Source: Evidence Based HR: The bridge between your people and delivering business strategy, 2015

That is not to say that the role of the prudent and empathetic executive is obsolete. Management of people will never be an exact science; it will be always be vulnerable to the unpredictability of human behavior and must never be applied robotically, without sensitivity for the human consequences of decisions. But we can't escape the fact that evidence, as a general rule, will improve the likelihood that those decisions will benefit the company as a whole.

Over reliance on science

Executives certainly have to channel evidence-based research projects in the direction most likely to yield significant results. "A question well asked is half answered," says Professor Pfeffer. Later on in the process, they have to act on the evidence gleaned, a process that is seldom clear-cut. "At some point you have to execute," says Mike Elliott of JetBlue. "The evidence may not necessarily dictate an absolutely

obvious course of action, but it gives you a strong hunch. That's where the art comes in. Evidence gets you on the highway, but then we have to determine the lane we drive in."

Mr. Elliott provides an example of such a scenario. "Evidence may tell us engagement is important, but how do we use that finding? Should we reward engaged people? How do we hold our leaders throughout the organization accountable for the encouragement of a culture that promotes engagement?" he asks.

It is not only the process of working through the substance of those decisions that may present challenges. Evidence-based decisions may ruffle feathers and ultimately incline executives to shy away from them, presenting another obstacle to progress. "Evidence can tell the opposite of the received wisdom," says James Stringer of Unilever. "Making a decision based on this evidence, which runs counter to the fundamental culture of the organization, requires some degree of courage."

I believe...

“Evidence-based HR is going to help our clients make better decisions about where to invest for the long-term development of their people. If you think about movements of people around the organization, that costs money, time and energy. Before an organization invests, they want some assurance that they are going to see tangible benefits. Taking an evidence-based approach can increase your confidence level that you’re making the right decision. That you’re making the smart decision.”



Claudia Saran

Partner, People and Change Lead,
KPMG in the US



I believe...

“Organizations have long said that people are their greatest asset. Evidence-based HR allows these organizations to get to the heart of what that statement means, and really understand the key elements that drive business performance. This is not about gut feel and intuition of the past – this is about using data that drives decision making, and links people data with business outcomes.”

Stefanie Bradley

Partner, People and Change Lead,
KPMG in Australia



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Section 4: Evidence-based HR: prospects, potential and roadmap

Both practical and cultural obstacles stand in the way of evidence-based HR, but it nonetheless appears inevitable that it will eventually hold sway.

One factor likely to force progress is the gap between HR and the rest of the business in the use of evidence. “Companies use all kinds of sophisticated data for consumer profiling, manufacturing processes and other areas,” says Professor Pfeffer. “The HR system will change when that contrast becomes untenable.”

Nothing will generate more momentum than the sight of competitors reaping the rewards of an evidence-based people strategy, using it to make or save money. “It was only two or three decades ago when individual doctors were saying, ‘don’t tell me how I should practice,’” says Professor Briner. “But insurance companies, state health systems and medical ethics forced the issue, preventing money being spent on medicines that evidence showed simply didn’t work.”

Examples of such successes are starting to emerge, some routine but nonetheless invaluable (see sidebar on page 22), and others more captivating. Some of the most powerful potential of evidence-based HR lies in the interaction between employee and customer data. “Evidence-based analysis is not just about determining how well people are performing,” says Jonathan Ferrar at IBM. “It can also calculate how the performance of the people links to the consumer brand, establishing and measuring that link between employee, customer and revenue. This interplay really captures C-suite attention” (see sidebars below and on page 21).

The route to progress

Indeed, several of the corporate interviewees emphasized how important it is to win over senior executives, to eliminate their residual skepticism about evidence-based HR—and indeed about the HR function in general. Business successes emanating from data-based HR interventions grant the quickest shortcut to that trust. Talking the language of senior decision-makers is another must. “The finance function will arrive at an executive meeting armed with data on costs and return on investment to a very granular level,” says Mark Sullivan of McGraw Hill Financial. “HR has always lacked that detail. We are educating the HR function to go to the table with consumable data that allows them to tell a story.”

To accomplish that objective, companies will have to engineer a shift in the nature of the skills within their HR function. Some of this will be achieved through training (often led by the HR analytics team), the rest through hiring—a substantial investment requiring a leap of faith from management given that the old HR model has not always delivered the desired results.

David Crumley of Coca-Cola Enterprises speaks for several interviewees when he talks of the demand for HR people who possess both analytical ability and a good head for business. “They don’t necessarily have to be the most advanced statistician, but they need to understand the business context and the data findings in order to establish a convincing narrative,” he says.

Transmitting belief

RBC polled employees in hundreds of retail branches to discover their views about the company’s level of competitiveness in the marketplace and measure their belief in what they were offering to customers. When the results of this survey were placed alongside commercial data, the effect was striking.

“We discovered a major connection between the degree to which employees believed in our competitiveness and in our value proposition, and the performance of the relevant retail branch,” says Per Scott, Vice President of Human Resources for the company. “The more they believed in the company, the better the branch performed. Based on this clear evidence, we could then make appropriate interventions. We realized that we had to do more to convey our client value proposition to employees – what we can provide to our clients, what our key differentiators are.”

The required skills may change further with the development of evidence-based HR, however. Mr. Crumley continues, "It is only when you get into predictive modelling that you will need PhD-quality statisticians to manipulate the data to reach meaningful conclusions."

Changing skills and business successes should in turn gradually alter the overall mindset of the HR function, placing evidence at the heart of its everyday work. Far-reaching discoveries are unlikely to be the normal output of evidence-based HR. But the use of evidence will still lead to more effective decisions than those based on pure gut instinct. One component of this change in mindset should involve a more focused approach to solving problems. Jenn Mann of SAS believes data mining has little purpose unless the right questions are asked before embarking on the process. "You mustn't just analyze data for data's sake. You have to think about the real business challenges that you want to try to answer with your people data," she says. "That also means asking the business leaders outside HR what they want to gain."

The value of age

A 2009 study conducted by Lancaster University Management School, which examined the performance of more than 400 McDonald's restaurants across the U.K., found that employees aged 60 and over deliver a significant business boost for the company. The study revealed that levels of customer satisfaction were on average 20 percent higher in restaurants that employ at least one worker of that age profile. "An older population segment was attracted into the stores, and the older workers changed team dynamics for the better," says Paul Sparrow of Lancaster University. "We were able to demonstrate the financial uplift."

This clear connection between people data and business performance is the sort of discovery to make senior executives sit up and take notice. Professor Sparrow notes that this nugget emerged as a by-product of other research. Although not obviating the need to focus on a clear objective at the outset of any evidence analysis, the magic of evidence-based inquiry is that sometimes a jewel will be unearthed when looking for something else entirely.



I believe...

“The real value in Evidence-based HR are the trends and insights that you can extract. The more you can compare data and generate insights, the greater the ability to tell a better story of what's happening with your people and how that affects the performance of your total organization.”

Nhlamu Dlomu

Partner, People and Change
KPMG in South Africa





Predicting attrition

HR practitioners within McGraw Hill Financial can now instantly summon up information revealing the profile of those most likely to leave the organization in the near future. The profile may encompass gender, age, department, education history, specialism and other relevant details. "Armed with that information, we can then decide whether to intervene to prevent key individuals who fit that profile from leaving, whether this be through offering compensation, career development or opportunities in the global mobility program," says Mark Sullivan, Vice President HR Insights and Analytics at McGraw Hill Financial. "This is one of hundreds of such tools at our disposal which we didn't have a year or two ago."

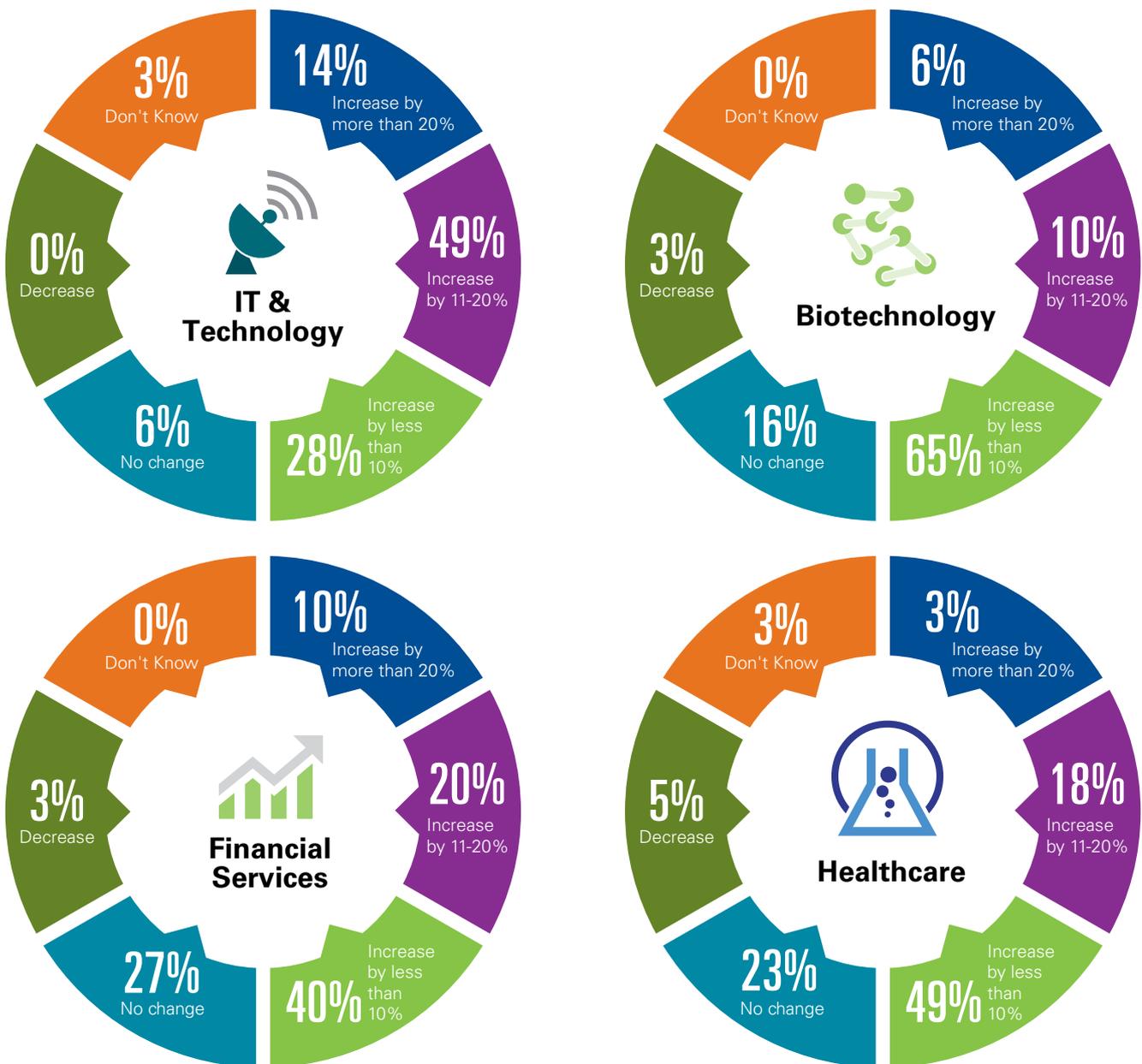
David Feinberg, Chief Executive Officer of UCLA Health System, believes this sort of information serves a particularly useful purpose in retaining younger workers, the Generation Y employees said to be restlessly seeking their next career opportunity without any particular desire to remain with one employer for a substantial period. "Often our young, up-and-coming administrators look for another opportunity somewhere else," he says. "We can use analytics to pinpoint that person and perhaps find them another role in our organization so we don't lose them."

Some industries will be a more natural home for those with the requisite skills and perspective, thereby accelerating the impact of evidence-based HR. It is worth noting, for example, that nearly two-thirds of respondents in the IT and technology sector (64 percent) expect the increasing use of data-driven insights in their HR function to boost profitability by more than 10 percent in the next three years, a substantially greater proportion than in any other sector (fig.3). "Being a technology company, it's natural that we're going to be leveraging technology," says Jenn Mann of SAS. "We're certainly not the cobbler's children with no shoes."

Well-organized data is likely to be another characteristic of the IT and technology industry. While senior executive belief, analytical skills and an evidence-based mindset will all play a key role in the ongoing HR transition, they will only reap results if based on this fertile foundation. "The whole process starts with quality hard data," says Royal Dutch Shell's Hugh Mitchell. "We have invested massively in a globally coherent and consistent IT system for HR, making it a trusted source of information."

Relevant information must encompass more than standardized, compartmentalized and easily decipherable internal data. Given that copious academic research is available in this area, companies should take care not to invest heavily in reinventing the wheel. "We need to be making more connections between existing and current research and the key people decisions that leaders are making," says Professor Boudreau of the University of Southern California.

Figure 3: To what extent would you expect the increasing use of data-driven insights in your organization's HR function to affect profitability over the next three years?



Source: Evidence Based HR: The bridge between your people and delivering business strategy, 2015



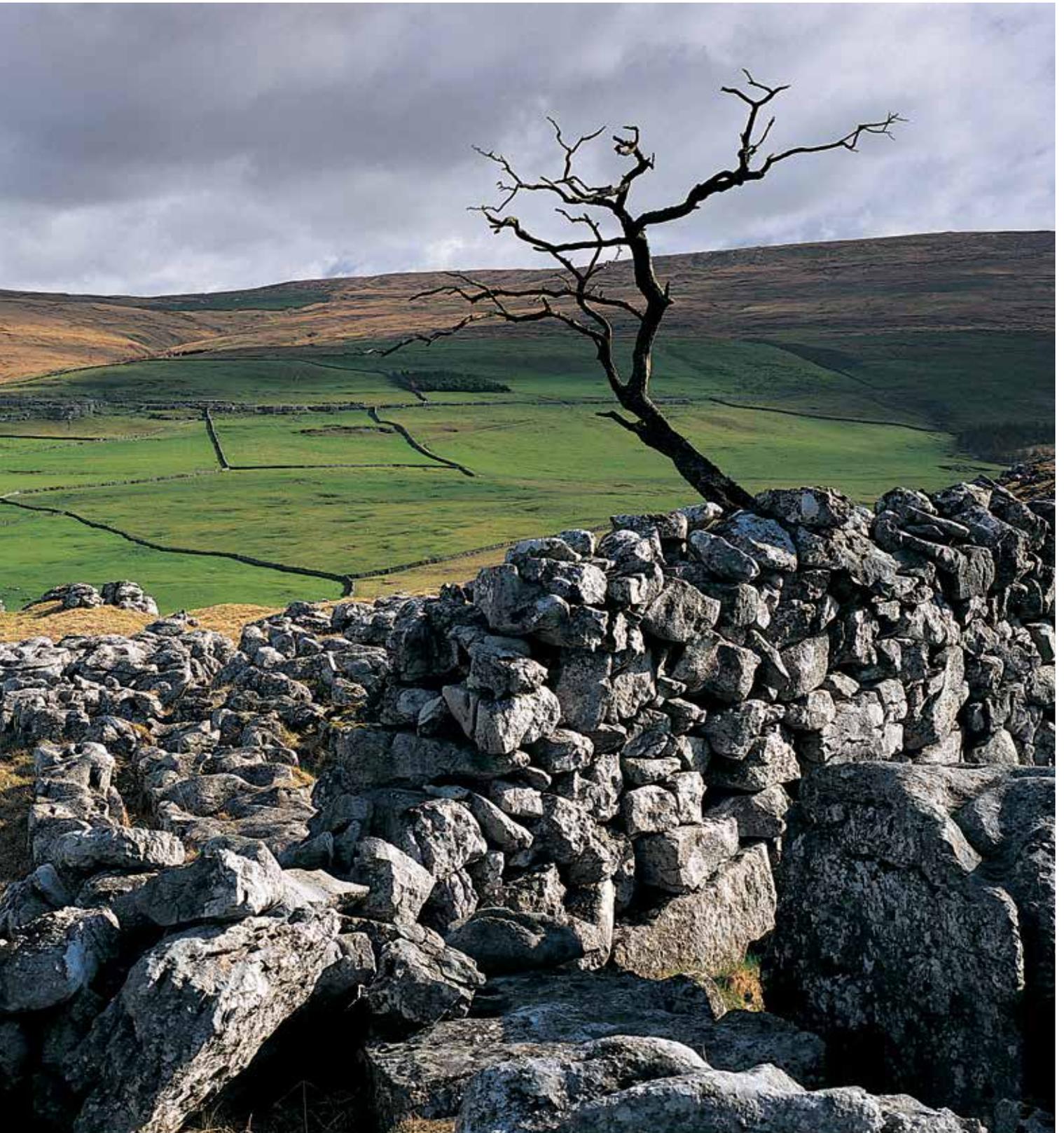
Conclusion: The unstoppable force

It may be true that the evidence-based HR project has yet to fully gather pace. Stumbling blocks, both practical and cultural, still hamper its progress. Nevertheless, the immediate future still looks bright.

An inescapable logic dictates that we are extremely close to the point of lift off, the point where laggard organizations are likely to pay a heavy price. A solid foundation of well-organized data has now been established in many major companies. Small but committed teams of analysts, recently ensconced within HR functions, are helping their colleagues to see the benefits of evidence-based HR, and to handle it in the most effective way. Measurable successes from the use of evidence, some particularly eye-catching, will help to spur the much-needed enthusiasm of senior executives and encourage investment in developing and recruiting the skills that will cement progress. "Without the current demand for evidence-based HR from senior leaders, it would be a lot more difficult to do what we are doing," says Iain McKendrick of AstraZeneca. CEOs who do little more than pay lip service to evidence-based HR are already starting to look outdated.

The HR mindset of the past, negatively regarded by some interviewees, will soon inevitably erode and reconfigure itself along very different lines. "HR will become a more analytically focused function because it has to become that way," says Jim Link of Randstad. With the contribution of evidence, the links between HR measurements and commercial and financial performance will become clearer, particularly as the technology develops and intriguing discoveries trigger specific, deeper investigation. As this process gathers pace, the emphasis will shift from retrospective analysis to predictive modelling. Indeed, the survey findings indicate that this shift has already begun. A survey conducted by the EIU in 2012, sponsored by KPMG, found that only 15 percent of respondents believed their organization's HR function excelled at providing insightful and predictive workforce analytics. The 2014 survey found that this proportion had increased to 23 percent. Analyzing the behavior of human beings will of course always require subtle and subjective judgment and companies with a regard for social responsibility will not apply the results callously. Yet, the days of basing people decisions on the whims or personal motives of one person at the helm are about to end. Organizations that acknowledge that inevitability already have a substantial head start.





The Case for Evidence-based HR

- A CEOs across the globe are grappling with issues from talent acquisition and retention to the need for greater employee productivity.
- B Technology is available to access data from many sources and provide predictive insights that can drive business goals.
- C HR has a massive opportunity to drive significant business value...and be seen to do so.



What is Evidence-Based HR?

Evidence-based HR uses data, analysis and research to understand the connection between people management practices and business outcomes such as profitability, customer satisfaction and quality.

Why use it?

82%

of respondents* expect their organization to either begin or increase their use of big data over the next three years.

How does it work?



How can I
implement it
successfully?

1 **Get comfortable with data.**

Move beyond basic HR KPIs to data that can deliver predictive insights about the role of people in your business. To do this well, data scientists may be required to work within the HR function.

2 **Hone your industry knowledge.**

HR is not generic nor is it industry agnostic. You must apply what you know from an HR perspective to your industry and the specific needs of your company. You'll need to know how to frame the questions that will direct and focus your analytical efforts.

3 **Change the HR structure.**

HR should be reconfigured so that HR and management work together within an operating model that promotes evidence-based people management.

— What **skills** are required?

- ✓ **Persuasive:** Aware of the importance of visualization of data analysis in order to lead the viewer to the required decisions. Able to tell a story with data using facts, opinion, anecdote and metaphor. Makes the analysis come to life.
- ✓ **Questioning:** Able to frame hypotheses with business leaders. Doesn't need to be a data scientist, but will want access to someone with those skills.
- ✓ **Systems Thinker:** Capable of understanding how people drive value in the organization and can distinguish cause from effect, as well as able to interpret the downstream consequences of past, present and future interventions.
- ✓ **Creativity:** Ability to look at a problem in a variety of ways – including visualization. Understanding that answers exist outside of basic metrics. Being able to identify hidden internal/external variables impacting people and the organization. Asking questions outside the normal realm.

What now?

Learn more about evidence-based HR and how it can **put your organization ahead at** www.kpmg.com/harryross.

* Source – Economist Intelligence Unit Study, commissioned by KPMG International: Evidence-Based HR: The Bridge Between your People and Delivering Business Strategy, 2015

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Designed by Evalueserve.

Publication name: Evidence-based HR: The bridge between your people and delivering business strategy

Publication number: 132168-G

Publication date: April 2015