MARCH 2011
McKinsey Quarterly

ORGANIZATION PRACTICE

Question for your HR chief: Are we using our 'people data' to create value?

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By analyzing the links between people practices and productivity, some companies are improving their bottom line.

Human-resources executives have aspired to be strategic advisers to business leaders for at least a generation. But it's been a struggle for many because it's so difficult to measure the business value of HR approaches. Questions such as "What is the ROI[1] of training?" and "Which screening techniques yield the best performing recruits?" or "What target-setting approach will best motivate performance?" have been met with imprecise answers.

Today, however, new tools and methods for analyzing data enable HR to define the link between "people practices" and performance more effectively. This couldn't have happened at a better time, since CEOs are hunting for value anywhere they can find it. The upshot: if you and your head of HR haven't recently discussed ideas for using data to generate a talent strategy that's more closely linked to business results, it's time to start.

Why now? For starters, the widespread adoption of enterprise resource planning and HR information systems has made data on business operations, performance, and personnel more accessible and standardized. Furthermore, the rise of HR information systems has generated a community of software and technology intermediaries that can help HR and business executives use data to find links between talent management and labor productivity. Finally, the consolidation and outsourcing of transactional HR work has compelled many leaders of the function to take a first step toward quantifying and reporting HR costs and performance.

These trends, coupled with the universal imperative to get more for less, have led some companies to discover new ways of using HR analytics to create value. The Bon-Ton chain of more than 280 department stores in the United States, for example, leveraged its data to identify attributes that made cosmetics sales reps successful. Now it screens potential reps using a test of cognitive ability, situational judgment, initiative taking, and other relevant traits. Those who score in the top half tend to sell 10 percent more product than the others and tend to like their work more. Since 2008, the chain has seen an increase of $1,400 in sales per representative and 25 percent lower turnover among them.

Other pioneers are emerging, particularly in industries where people are central to value creation (notably banking, health care, and retailing) and where scarce technical expertise governs growth (such as technology and upstream oil exploration). While the specific people-related practices that add value will differ by company—industry dynamics, talent scarcity, growth rates, and corporate cultures all influence the answers—the organizations that we've seen get the most value from investing in HR analytics all use some variation of these four steps.

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1. Focus HR on business priorities

Most HR teams view, organize, and measure their activities through the traditional employee life cycle: starting with recruiting, hiring, and "on-boarding" and proceeding to evaluation, training, and development. For HR analytics efforts to work, however, the function's leaders must view problems—and value creation opportunities—as business leaders do.

Executives at Pittsburgh-based PNC Financial Services, for example, suspected that their tendency to pick experienced outsiders over internal candidates in hiring decisions might be hurting the bank: once hired, the outsiders were too often viewed as lukewarm performers. So in 2009, PNC's HR team partnered with colleagues from the company's marketing-analytics group to analyze the sales performance, over several years, of external hires versus people promoted from inside. What the team found confirmed the suspicions: in a number of key job categories, internal candidates were significantly more productive in their first year than experienced external hires. In subsequent years, the outsiders narrowed—but never closed—the gap. Millions of dollars in value were at stake.

It's unusual for business *or* HR leaders to spot pain points such as these on their own. Typically, a strong partnership is crucial for identifying and prioritizing issues that intertwine people challenges and business results. PNC's team, for example, asked line executives what they saw as the highest-value opportunities for improving talent management. From these discussions, the analytics team distilled a top-20 list of business questions and hypotheses to test, such as "What is the business impact of training investment?" and "Is there an optimal distribution of performance ratings?" The PNC team then ranked the resulting list of issues by their expected business impact and the feasibility of conducting meaningful analysis. "This is where HR has the chance to prove itself," says Jay Wilkinson, PNC's new HR vice president of analytics. "Better than coming to [business leaders] with tired best practices, we're asking them how they define success specific to their business, and that provides the context for our analysis and recommendations."

Google is another company with an HR team that partners with business leaders seeking analytic insights. According to Prasad Setty, head of Google's people analytics group, "We are looking to inform decision makers with data so they can be as objective and bias free as possible." Setty's team has, for example, provided business executives with a systematic approach to reassessing provisionally rejected candidates. The team's analysis of profiles that lead to success at Google helps it identify potential false negatives and to revisit these candidates. This technique has helped the company "save" many hires it would otherwise have missed.

Listen to a podcast with Google's Hal Varian—who describes how companies can convert data into knowledge—in "Clouds, big data, and smart assets: Ten tech-enabled business trends to watch," on mckinseyquarterly.com.

2. Start with what you have

Quantitative problem-solving skills may be hard to come by in the HR department. Therefore, senior executives who are eager to begin should push their HR leaders to draw in analytical resources wherever they exist. All that's required is the ability to engage business leaders in efforts to identify issues and structure problems in a nuanced way and then to follow through with advanced data gathering and statistical analysis.

Retailers, for example, typically entrust analytics to store operations analysts who understand the high priority the business places on containing labor costs. PNC's capability emerged from its marketing-analytics group. Other companies lean on finance or strategic planning. Most pull the necessary people into the HR function over time, as PNC did in the course of a year when it decided to build a specialized HR analytics department.

And remember: many analyses can be conducted using existing data and systems. Some work may be needed to match payroll data or training-attendance rosters with sales performance results, for example, but creative, persistent analysts can answer most business questions without new, sophisticated, or costly tools.

3. Go beyond traditional HR solutions

New insights often require additional problem solving to go from theory to practical solutions. HR analytics succeeds when human-resources and business leaders work together to address the root causes of problems and to pilot new ways of solving them.

Google, for example, did a study to examine whether good managers matter—and, if so, how—within Google's specific culture. Setty explains that "through various methods, we found positive relationships between good management and retention and the performance of teams. We then conducted double-blind interviews to identify the key behaviors exhibited by our best managers. We found eight behaviors that make a good manager and five pitfalls to avoid. These are now incorporated into our manager-training programs and coaching sessions, and teams provide feedback to managers on these behaviors to help them understand where they're doing well and where they can get better. The vast majority of our lower-rated managers have improved as a result."

4. Make it stick

Once a company has a few successes with HR analytics, it can build a lasting source of value creation by integrating analytics practitioners into its day-to-day business and HR rhythms. Several companies, for example, have established a routine of having HR or other "people strategy" staff join business reviews to identify priorities for analysis. This practice helps senior line executives conduct problem-solving discussions around HR-related issues and to plan for action as findings emerge.

HR analytics practitioners must also commit themselves to the habit of measuring and reporting on success. At financial-services giant ING, for example, business units and HR share a comprehensive dashboard, supplemented by regular reports, to show progress on key metrics. Similarly, a global oil giant's people-strategy group reports progress at four stages of a project's development: data gathering, analysis, developing solutions, and piloting. This approach helps HR and business leaders understand that progress is happening even when stages may take weeks or months to complete. It also provides a clearer understanding, in both directions, of changing priorities and emerging findings from the work.

Advances in technology are creating opportunities for senior business and HR leaders to start a new kind of dialogue about the link between people and performance. That dialogue will help HR executives demonstrate the impact of their work and achieve their goal of strategic partnership with other members of the senior-management team—and, of course, it will create value for the enterprise.

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[1] Return on investment.