AMSTERDAM IN SCIENCE, BUSINESS AND SOCIETY

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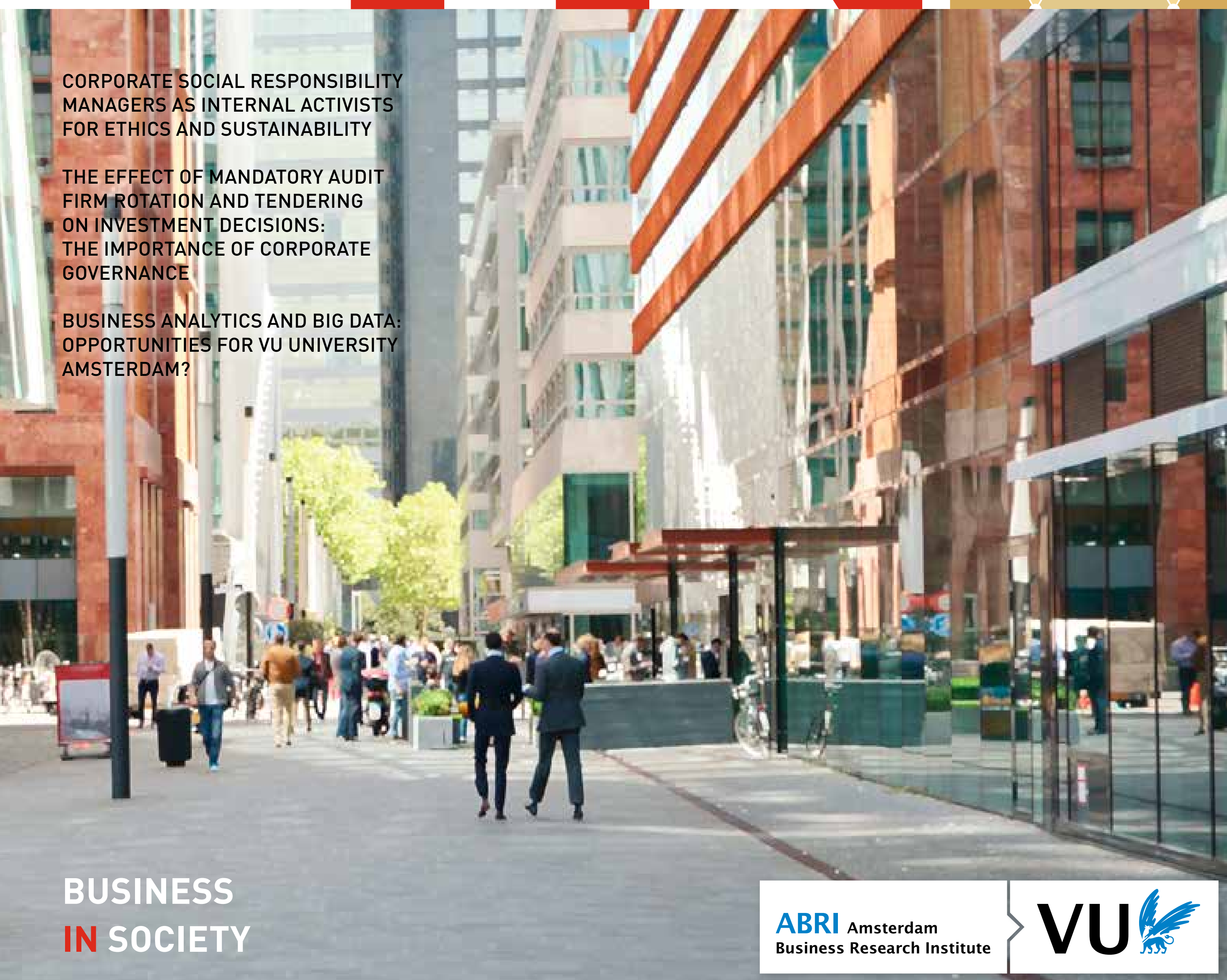

CORPORATE SOCIAL RESPONSIBILITY MANAGERS AS INTERNAL ACTIVISTS FOR ETHICS AND SUSTAINABILITY

THE EFFECT OF MANDATORY AUDIT FIRM ROTATION AND TENDERING ON INVESTMENT DECISIONS: THE IMPORTANCE OF CORPORATE GOVERNANCE

BUSINESS ANALYTICS AND BIG DATA: OPPORTUNITIES FOR VU UNIVERSITY AMSTERDAM?

BUSINESS IN SOCIETY

ABRI Amsterdam Business Research Institute

VU

A BUSINESS-ACADEMIA DEBATE

DATAFICATION OF HUMAN CAPITAL: WHAT EVERY BUSINESS LEADER SHOULD KNOW BEFORE TRANSLATING PEOPLE INTO NUMBERS

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'Our Human Capital is key to our organizational success': it is hard to find an organization that does not somehow subscribe to this view. These organizations are right too, there's no doubt about that. But living in the era of Big Data and Human Capital Analytics means organizations cannot afford to make these claims any more without putting their money where their mouth is. In other words, we would expect organizations to use data-driven decision-making for their human capital investments, actively increasing organizational success by predicting and influencing their human capital impact. After all, we are still living in times of crisis, when numbers matter more than ever and every investment is scrutinized carefully. Moreover, with the ability to quantify human capital impact and making the results of human capital investments 'tangible', finally there is a solution to a justification problem that has haunted so many organizations – the HR department in specific. One would expect every organization to want a slice of the Human Capital Analytics cake and jump straight into the movement. Surprisingly, however, a mere 4% of organizations[1] have successfully made steps in this area. 'Why such a low number?' you might ask? Let us try to answer this question.

A QUICK FIX DOES NOT EQUAL A QUICK WIN: HUMAN CAPITAL ANALYTICS IS NOT SOMETHING YOU DO 'ON THE SIDE'

Google the term 'Human Capital' and you can expect to get over 55 million hits. Google the considerably younger term 'Human Capital Analytics' (HCA) and you receive almost 4.5 million results; a mind-blowing number, and a good indication of how today's upper management can get lost in the huge amount of information on HCA. Eager to join the movement, many organizations try to start implementing HCA. 'Try', we say, because too many organizations lack a solid approach to setting up their HCA function, and wash their investments – often substantial – down the drain. Underestimation is often the culprit.

Underestimating the required capability is the first inhibitor of success. You probably know an HR professional or two that have been promoted to HR Business Partner with HR Analytics in their portfolio, or an entire HR department that has been given responsibility for HCA. Often the HCA ambition and the accompanying responsibilities are greater than the capability present, thereby setting HCA initiatives up for failure. Defining the HCA ambition carefully and comparing it to current capabilities and expertise is the first key to achieving success. Many organizations will then find that they lack sufficient expertise, mainly because carrying out the responsibility for high-quality HCA requires a rare-to-find combination of both analytical (quantitative) skills and consultative skills to both understand data trends and translate them into business implementations and benefits.
Second, in the search for a 'quick win', organizations often underestimate the time and effort that are needed to 'clean up' their data (make data as accurate as possible) and to make their data compatible across different functions. For example, making engagement scores compatible with sales numbers is no easy undertaking. Unless your organization can draw on deep expertise and/or has the luxury of operating on a data-warehouse ready for HCA, the chances of a successful HCA function are close to zero. In practice, many organizations are unable to get to the other side of 'the wall' when it comes to HCA: they do not evolve from mere descriptive metrics (surveys, scorecards, ratios) to insightful predictive analytics, which, in contrast to descriptive metrics, is not limited to just the HR function. Predictive analytics focuses on the cross-functional data analysis needed to spot the trends that can predict human capital impact on business results. Organizations that do flourish with HCA initiatives avoid making these mistakes and reap the benefits that HCA has to offer. But what are these benefits, and why should we care?

THE PROMISE OF HUMAN CAPITAL ANALYTICS: INCREASING ORGANIZATIONAL SUCCESS BY PREDICTING THE RIGHT HUMAN CAPITAL INVESTMENTS

Research shows that HCA is used mainly for three purposes: 1) Getting a sense of what types of people and skills a business will need to achieve business performance (up to three years in advance). These insights should shape HR's workforce planning strategy. 2) Getting insights into the real factors that improve employee engagement and thereby reduce turnover of the most productive workforce and improve productivity. These insights should impact the way organizations try to influence employee engagement factors. 3) Identification of the leadership factors and programs that maximally increase their organizational success at a minimal cost. Leadership programs are expensive, so they need to be effective. Knowing which leadership programs (or elements) are most effective can help increase the efficiency of Human Capital investments significantly. Not surprisingly, the numbers support this use of 'data-driven decision-making' over traditional decision-making, as it has been shown to increase productivity by 5%, profit by 6% and market value by 50%.[2]

IT'S NOT ALL ABOUT NUMBERS, OTHERWISE IT WOULD NOT BE CALLED 'HUMAN' CAPITAL ANALYTICS

With the ability to reduce human capabilities, competences and preferences to numbers, a fundamental ethical issue arises: the data are about real people, all unique individuals. We cannot permit ourselves to think of people merely as means to an end that can easily be influenced, modified or changed without any regard to their individuality, the way we can with other capital. That said, this is indisputably a risk that comes with the possibility of quantifying almost anything. Having a true moral conscience regarding the datafication of human capital will be essential for business leaders in a future that offers countless opportunities, but also an equal number of risks of using numbers rather than people factors, gut feeling and instinct. Successful Human Capital Analytics is therefore about predicting human capital impact and simultaneously cherishing the individuals that together make up your Human Capital.

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[1] *According to research on US organizations by Bersin; the numbers for Europe are not available yet, but are expected to be even lower.*

[2] *Brynjolfsson, Erik and Hitt, Lorin M. and Kim, Heekyung Hellen, Strength in Numbers: How Does Data-Driven Decisionmaking Affect Firm Performance? (April 22, 2011)*

Limited Brands, Best Buy	These companies can identify the value of a 0.01% increase in employee engagement. At Best Buy, for example, this has a value of more than $100,000 in the store's annual operating income.
Google	Shorter job interviews increase the chance of a job-fit for new recruits, thus Google reduced job interviews to a maximum of four 30-minute sessions, increasing potential job-fit to 90%.
Google and AT&T	Both companies used quantitative analysis to establish that the ability to take the initiative is a far better predictor of high performance than academic records from prestigious schools, and altered their recruitment methods accordingly.
Xerox	Call centre employees with previous call centre experience performed worse than those without previous experience. Xerox was thus able to lower recruitment costs due to better fit estimates for candidates hired.
Oracle	Oracle redesigned its global retention policy after it became able to predict which top performers were likely to leave and, more importantly, why they might leave.
Dow Chemical	The firm is able to calculate future headcount by segment and level for each business unit by using a custom modelling tool, and uses it to yield the workforce projection for the entire company by simulating scenarios and altering assumptions on internal variables.