# PREDICTING BUSINESS SUCCESS

## USING SMARTER ANALYTICS TO DRIVE RESULTS

SCOTT MONDORE, HANNAH SPELL, MATT BETTS, AND SHANE DOUTHITT

# Advance praise for *Predicting Business Success*

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—Stephen Young, PhD, Senior Research Scientist, Center for Creative Leadership

Predicting Business Success *illuminates the next steps in the analytics evolution: how to connect people to real results and how to make it simpler for leaders at all levels to take the right action.*

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*The approaches outlined in* Predicting Business Success *gives any organization proven guidelines for using data that reveals their own 'secret sauce' for success.*

—Darryl Robinson, EVP/CHRO, Dignity Health

Predicting Business Success *provides leaders, from the CEO to the front-line supervisor, with the critical information and more importantly, the rigor to uncover exactly what to work on to drive business outcomes.*

—J. Craig Wallace, PhD, SIOP Fellow & Daniels College of Business Management Chair, University of Denver

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## Using Smarter Analytics to Drive Results

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# Table of Contents

## Section 2
## Building Predictive Talent Profiles



## Section 3
## Data and Analytics Across the Employment Lifecycle

# Foreword

Over the last decade, Dignity Health has undergone tremendous growth and change. Ten years ago, our organization, then known as Catholic Healthcare West, was more of a holding entity than an operating company. Our acute-care hospitals each operated largely independently: held together by our common values and mission, but with minimal corporate oversight or coordination. When the recession hit, followed shortly by major changes under the Affordable Care Act, our industry became far more competitive than it used to be, requiring us to take a hard look at how we were organized, who makes decisions, and how we could offer care to our communities more effectively. Since then, we've made tremendous strides.

When I joined Dignity Health as the chief human resource officer in 2013, it was clear to me that if the organization as a whole was going to succeed, it had to change the way it managed its people. It was my responsibility to make sure that the HR function supported not only business growth, but also our ministry, and to ensure that our people would have a great experience working at Dignity Health. Though other healthcare companies share many of the same challenges, as a Catholic nonprofit organization, we hold ourselves accountable not only to the bottom line, but also to our founders' mission of serving the poor and most vulnerable members of our communities. At our core, we are a values-based organization, and we put a premium on treating our patients and our staff with the highest standards of human kindness.

Prior to 2013, Dignity Health's HR was not optimized to support our business goals. Each hospital had its own HR department, and there was little coordination between hospitals. They each handled the full spectrum of HR responsibilities, from recruiting to benefits, labor relations to leaves of absence. With our HR staff having to be jacks-of-all-trades, there was little time for HR to be strategic partners with our operational leaders. HR decisions were largely based on the experience of the person making the decisions and gut feelings. We needed to get out of the weeds of transactional work and into the business of being credible strategic partners with our hospital management teams and using data and insights to guide our path. With an HR staff of nearly 350 people, I knew we had the resources to make a real impact on the organization's strategic goals; we just needed to think differently about our structure and build evidence-based consulting capabilities with our HR business partners.

Beginning in 2014, we embarked on a major HR transformation. We formed multiple centers of expertise for various functional areas of HR, including workforce intelligence, where teams could develop deep subject matter expertise. We also created an HR Service Center and lifted a significant amount of administrative work out of field HR. Through standardization and economies of scale, those HR professionals remaining now had the bandwidth to develop more consultative and strategic capabilities as HR business partners.

The question then became how we can create a better experience for our employees. To answer this question, we partnered with Strategic Management Decisions (SMD) and began following the approach of smarter analytics espoused in *Predicting Business Success*. The techniques laid out in this book helped us develop an employee listening survey that took the heartbeat of our organization in several key areas, including engagement, mission and values, career development, communication, management and leadership performance, and patient safety. SMD then linked the survey results with outcome data such as patient satisfaction and employee turnover—the information our hospital leaders really cared about. Their ability to link employee survey data with outcomes allows HR and our managers to laser focus on those things that will have an impact on not only the employee experience, but also business outcomes. As an example, we've learned that an employee's confidence in senior leadership has a particularly significant correlation with patient satisfaction and turnover. So we've been focusing on improving the leadership skills of our low-performing managers and helping our senior leaders connect the dots on the added benefits of our employees having great experiences at work.

Our partnership with SMD has been a true game changer for Dignity Health. With actionable data analytics, we are able to focus our HR resources on those areas that have the most impact on our strategic ministry and business goals. No longer is our HR team just seen as transactional clerks or enforcers of personnel policies; we are valued by our hospital leadership for our meaningful contributions to their highest-priority needs. In 2017, Dignity Health was named in *Becker's* "150 Top Places to Work in Healthcare" and was honored by being named Glassdoor's number-one company for "Best Places to Interview." The approaches outlined in *Predicting Business Success* will allow each organization to utilize their people and their data to uncover their own secret sauce for success.

—Darryl Robinson
EVP/CHRO
Dignity Health

# Preface

HR professionals are still drowning in data with no relief on the horizon because thought leaders keep espousing the ideas that more data is better data and that analytics means producing nicer and nicer reports. This approach is doing nothing but making HR professionals work harder to produce reports that still don't show real, direct business impact. *Predicting Business Success* is written for all HR professionals who want to definitively connect the dots between people data and business outcome data. Period. No guesses, no fads, no assumptions, no expensive visualization tools that don't tell you anything and definitely no "I read somewhere on the internet that engagement drives business outcomes." In our first book, *Investing in What Matters: Linking Employees to Business Outcomes*, we introduced a practical process to link people data directly to business results.[1] The overarching theme of that book was to teach leaders how to build an HR strategy that is data driven and evidence based and shows a calculated return on investment (ROI). Our second SHRM book, *Business-Focused HR: 11 Processes to Drive Results*, outlined how to link eleven distinct HR processes directly to business outcomes.[2] *Predicting Business Success* builds on the approaches in the first two books by scaling analytics to all leaders at all levels, digging deeper into data integration while continuing the imperative to connect your people data with your business outcome data to take the right action at the right time.

# Acknowledgments

Getting a book from idea to reality is never easy and we would like to thank our many clients, from whom we have learned so much, as well as our coworkers, who have been so supportive and helpful through this entire process. We would also like to thank SHRM and specifically Matt Davis for his help throughout the publishing process. Finally, we thank our spouses for putting up with us as we turned this book into a reality.

# Introduction

## SECTION 1: INTRODUCTION

### Chapter 1. HR Analytics 101: Big Data, Predictive Analytics, and the Impact on HR

HR, as a field, is transitioning—moving from defining, meeting, and tracking internal metrics (e.g., attrition rate, number hired) to connecting the dots between metrics (e.g., hiring the right people to decrease turnover). The problem is that HR doesn't have time to waste. HR professionals need to connect those dots—right now. The way to get there is by harnessing the principles of big data and utilizing predictive analytics. Unfortunately, there is a lot of junk science out there and only the right analytics will get you where you need to go. This book focuses on how to use big data and predictive analytics to build predictive algorithms designed to help you identify who is the right person for a given role, which specific weaknesses are hindering your team from meeting critical outcome goals, and even how to design training to positively impact your bottom line.

### Chapter 2. Align HR Strategy with Business Outcomes and Your Organization's Goals

HR leaders need to change their approach to formulating strategy away from implementing best practices and chasing benchmarks to an approach that asks, "What business outcomes are we trying to drive?" This chapter introduces an approach, the Business Partner RoadMap, that sets the course for predicting business success through HR strategy.

## SECTION 2: BUILDING PREDICTIVE TALENT PROFILES

### Chapter 3. Key Data Elements for Predicting Business Success

This chapter shows HR leaders what data they likely already have and the critical business outcomes that they can link to their data. Although the data are likely in different places, that cannot be a roadblock to moving forward with smarter analytics.

### Chapter 4. Making Talent Profiles Predictive

This chapter walks through the data and statistical processes of linking people data to business outcomes, identifying and prioritizing key drivers, and taking targeted actions focused on key drivers.

## SECTION 3: DATA AND ANALYTICS ACROSS THE EMPLOYMENT LIFECYCLE

### Chapter 5. Selection and Recruitment

Selecting the right candidate for a given job is critical, not only to successful performance on that job, but also to the performance of interconnected teams and networks. Because of the interconnectivity, a wrong hire could negatively impact the success of the organization. Therefore, it is highly important to make sound hiring decisions, but this is often more difficult than it seems. What is right for this position? This chapter focuses on best practices for using critical data points and analytics (fit assessments, competencies, etc.) to build predictive talent profiles concentrating on identifying what actually drives performance and retention, building selection assessments around competencies, and weighting and scoring applicants.

### Chapter 6. Onboarding

Although typically understood to be important to the employment lifecycle, very few organizations properly measure the key elements of onboarding or measure its direct impact on business success. This chapter will uncover what questions to ask for onboarding surveys, when to ask them, and how to connect the responses to business outcomes.

### Chapter 7. Employee Surveys

Conducting employee opinion surveys has become standard practice for many organizations, and while technology has made them cost-effective to execute, few organizations leverage the data collected to their fullest advantage. In this chapter, we provide the best approaches and tools for gaining senior and frontline leader buy-in by using analytics to connect survey data to actual business outcomes. Survey data can be further leveraged in the hiring process for valid fit assessment and can be integrated with actual turnover data to understand why employees have left the organization.

### Chapter 8. 360° Development and Training Needs

Knowing where there are weaknesses in your workforce as a whole and identifying the individual weakness of each leader are important for developmental purposes. This chapter outlines how to take the critical behaviors gathered from a competency model and turn them into a 360° performance assessment, link the 360° behaviors to critical business outcomes, and prioritize which of those low-scoring areas most impact your company's bottom line. Development plans targeted at the workforce level as well as the employee level are discussed.

### Chapter 9. Data Integration: Telling the Complete Lifecycle Story

Smarter analytics means that data is truly integrated across the employment lifecycle to understand business success drivers at each step. Examining data in silos has limited impact and can lead organizations down the wrong path. In this chapter, we show how to integrate your people data, fully connect it to business outcomes, and use technology to visualize the results for maximum impact. To strategically manage the leadership pipeline, organizational leaders must remain focused on succession planning. Smarter analytics of lifecycle data connected to business outcomes provide a focused strategy for HR leaders to develop succession plans that predict business success. By understanding which people-data elements are most essential to driving business outcomes, HR leaders can assess which individual leaders excel in these areas. From there, they can determine which candidates are already proficient or those who need some targeted development to get prepared to succeed in a leadership role in the future.

## SECTION 4: CASE STUDIES

### Chapter 10. Case Study 1—Building Predictive Talent Profiles for Sales Professionals

This case study outlines how a large national professional services firm was able to understand the key factors that drive success among its elite team of sales professionals. The data included a custom 360° feedback assessment, off-the-shelf personality measure, sales climate survey, and a sales knowledge assessment. Through analytics, we were able to build a mediating model linking sales outcomes to critical behaviors, attitudes, knowledge, and personality. Based on these analytics, we uncovered the strengths and weaknesses of the sales force on critical elements to make succession and training decisions, as well as create algorithms to use in the hiring process.

### Chapter 11. Case Study 2—Using Smarter Analytics to Improve Retention

This case study takes you through how a large healthcare system built valid competency models, employee surveys, and hiring assessments along with effective training course execution and measurement to uncover the key drivers of retention with smarter analytics. This organization was able to integrate their data and build an analytics-based HR strategy and improve retention by more than 5 basis points.

# Section 1

# Introduction

## CHAPTER 1

# HR Analytics 101

### BIG DATA, PREDICTIVE ANALYTICS, AND THE IMPACT ON HR

Research cited by *Forbes* estimates that more than half of large companies (60 percent of those sampled) are investing in big data and predictive analytic tools to guide human resources (HR) decisions.[1] Because of this surge in popularity along with pressure to keep ahead of the competition, authors and commentators describe the HR function as currently in a state of transition, moving from concentrating on meeting internal metrics (e.g., number hired, turnover number) to identifying the links *between* metrics (e.g., hiring the right people to decrease turnover).[2] In this way, HR leaders are optimizing HR processes and decisions to improve not only the employee experience, but also the business. There are two keys to enabling HR leaders to understand these links: big data and predictive analytics. Unfortunately, there are also numerous faux-scientific processes (e.g., data visualization) that purport to draw these links but do nothing of the sort. The other faux-scientific areas that should not be relied upon are thought-leader clichés and assumptions (e.g., employee engagement always drives business outcomes), and the emerging fields of artificial intelligence and machine learning, which are also not well understood and pose substantial risks when misused or misinterpreted (e.g., misidentifying employees as retention risks). We will delve into all of these in this chapter.

In terms of analytics, this new focus on linking people variables together presents an interesting opportunity for HR with a great deal of upside for HR practitioners. These upsides include

- A greater understanding of the employee knowledge, skills, and abilities that drive business outcomes specific to your organization;
- The ability to make people investments that truly deliver results;
- A way to calculate the return on investment (ROI) of investing in your people; and
- The opportunity to take the lead in making the HR process business focused, thus making HR a strategic business partner for the core business.

Data alone are not all that interesting; it is when you *combine* data and analysis that you make better talent decisions. A great example is an organization that is looking to reduce turnover. The leading assumption at the organization is that people are leaving due to treatment by their immediate supervisors. The classic thought-leader cliché is "people don't leave their company, they leave their boss." Analytics can be used to test this assumption and determine the true cause of high turnover—whether it be the immediate supervisors or something else entirely.

OK, so what exactly is HR analytics? Simply, HR analytics is the analysis of people data. The goal of any people-analytics project is to gather and understand the connections between people data from multiple sources, as well as other hard data (e.g., performance, financial, and business metrics) to inform organizational and HR changes that support the leadership's vision and company initiatives. Many times the analysis requires multiple data sources, involving the actual collection of data (e.g., distribution of a survey) along with previously collected data (e.g., attrition data accumulated over the last year or selection data of all successful job applicants). The implications of HR analytics—across HR as well as the organization—can be far-reaching and can include projects like the following:

- The development of predictive talent profiles to aid in succession planning and inform the selection and development of employees.
- Survey development and the assessment of employee attitudes on multiple outcomes (e.g., performance, turnover, customer/patient satisfaction) across the lifecycle of employee tenure.
- The utilization of targeted organizational assessments in times of organizational change (e.g., change readiness, climate assessment, wellness assessment).
- The prioritization of survey categories or behavioral competencies based on their impact on business outcomes.

## MAKING IT SIMPLE: BIG DATA AND PREDICTIVE ANALYTICS IN HR

### Big Data

Although often associated with complex analysis, big data is actually a simple concept: it is the collection and accumulation of numerous pieces of information from multiple sources. Because big data is about gathering and connecting data that may not have previously been considered in concert, it allows for the use of data in new ways to uncover connections between previously disparate concepts. For HR, these concepts may include employee behaviors, attitudes, skill or knowledge levels, performance metrics, turnover data, and much more.

The ways the data accumulate can range from manual (such as the deployment of a selection procedure) to entirely automatic (such as machine scanning for résumé selection). However, even manual systems are less manual today, as they are inevitably aided by technological advancements; for example, a job knowledge assessment may be taken, scored, and stored electronically. Although the concept of big data is not new, the surge in the collection, administration, and accumulation of data has grown exponentially with technological advances. The concept of big data sets the groundwork for the next part of the conversation—what do you do with all the information you are now able to collect? This is where HR analytics comes into play. You may be wondering what analytics means within your organization. The truth is that we see organizations at various stages of sophistication with analytics. Each phase, or level, presents its own starting point and challenges. Next we'll dive into these phases of HR analytics so that you may determine where your organization falls.

## Four Levels of HR Analytics in Organizations

Strategic Management Decisions (SMD) believes in four levels of HR analytics, all of which stem from the complexity of people-analytics questions. When you start to talk to people about HR analytics, one thing immediately becomes apparent: there are often more questions than answers. When SMD goes into a new organization, it keys in on their analytics questions because this tells much about the organization's current level of thinking in terms of people analytics and indicates their potential readiness for more advanced data-analysis projects.

### Level One

The first level is the most basic and includes data collection and management. Here, clients are collecting and storing people data but not doing much (if anything) with them. Questions in this phase tend to be around which kinds of data should be collected and how they should best be organized or stored.

### Level Two

Level two dives into reporting and data visualization. Questions emerging in this stage tend to focus on how to best present or describe data, and which pieces of the data are most meaningful to the data consumers (i.e., data splits by department, team, location, etc.).

### Level Three

At level three, SMD sees clients tracking trends across time. In this level, the organizations are collecting and comparing data and generally using the results for goal-setting purposes. Questions in this phase are about the best ways to show evidence of increases (or decreases) in target areas in order to meet goals or see an improvement from last year.

### Level Four

Level four contains the most advanced companies—those that are using data to make predictions (i.e., predictive analytics). These companies are not only using people data to inform people decisions, but also linking sources for people data to other data sources (e.g., business outcomes, financials, customer satisfaction) to inform organizational decisions. When you are thinking about crafting a predictive analytics question in your organization, the following question can be helpful: How does X impact Y? X and Y are variables such as scores on employee surveys, performance evaluations, turnover, or even hard business outcomes. Next, you will need to define how X and Y will be assessed in this project. For example, if you are interested in predicting turnover, how will turnover be measured? Will it be actual attrition data, or will it be turnover intent from an opinion survey? Once you've made the decisions how the questions being asked can be measured and analyzed, you have begun the process for predictive analytics. You are trying to connect the dots. Our most advanced clients use our technology to scale the analytics to all leaders at all levels of the organization. Figure 1.1 provides a summary of the levels.

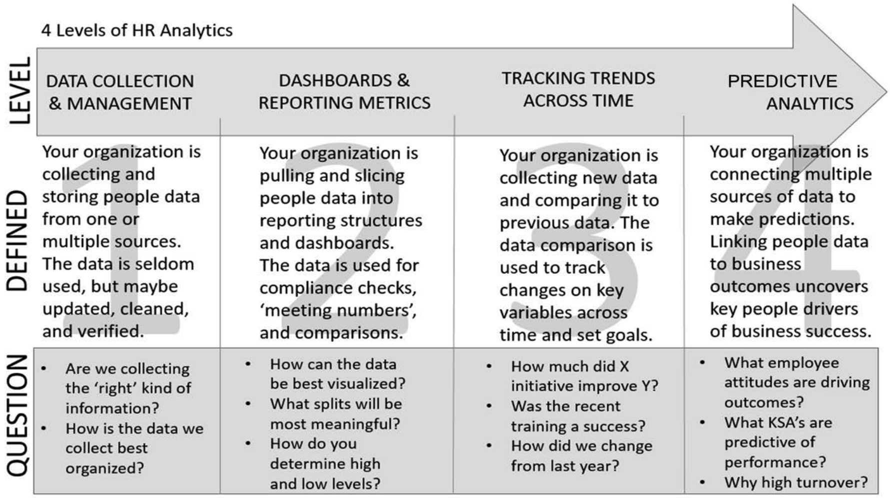


**Figure 1.1.** Four levels of analytics

## Predictive Analytics

Even though it is possible to collect more and varied kinds of information, simply collecting data is not that interesting or useful to organizations. For example, consider an organization that wants to decrease turnover in the coming year. Using attrition data gathered from HR, one can calculate how many individuals left the organization last year, and then set goals for the current year. But without including other data inputs, the organization can't do much else beyond tracking and examining baseline numbers. Consequently, the real utility of big data comes when it is used in predictive analytics—when you can connect the dots between two or more seemingly disparate pieces of information.

Predictive analytics provides the ability to illuminate links to real business outcomes and to then enable predictions about future performance, turnover, or even chances of successful hiring. For example, if an organization is interested in identifying the key drivers behind employee turnover, predictive analytics methods can be used with data gathered from an employee survey coupled with HR data on employee turnover to determine which employee attitudes are most strongly linked to whether or not an employee will exit the organization (e.g., satisfaction, job fit, perceptions of managerial support). This allows organizational leaders to know which levers to pull to see the greatest impact on reducing employee turnover. In other words, predictive analytics, such as structural equation modeling, can identify which attitudes are causes of employee turnover.

Using a competency model as an example, predictive analytics could be applied to incumbent ratings on a competency model coupled with the organization's current performance metrics to understand which competencies are statistically the strongest drivers of performance outcomes. From this, HR leaders would know which areas to target for development, or when selecting new hires for the role, which areas will ultimately provide the greatest impact on performance. Predictive analytics allows you to predict future performance by understanding the current relationships between two sets of information (e.g., competencies and subsequent performance).

## Don't Be Fooled: The Predictive or Not Test

It's logical that many organizations are embracing more data-driven approaches to HR because of the potential impact—when done properly, of course. However, few organizations are fully harnessing the potential of predictive analytics due to a number of misconceptions about predictive analysis methods. It is not uncommon for an organization to invest in a predictive analytics program that is not actually predictive. Below are three common analytic methods that are often misconstrued as being predictive in nature.

### Descriptive Analysis, Group Comparisons, Tracking, and Data Visualization

A descriptive analysis typically consists of averaging items or displaying counts or frequencies for a given topic. One can visualize trends across time by charting averages or frequencies across time points to obtain a trend line. Additionally, one can make comparisons to determine if an individual has significantly increased or decreased on a given competency between time points. Despite the usefulness of comparisons in gaining an understanding of an individual's progress on a given competency across time, one cannot with any accuracy project trends into the future based on descriptives alone. Additionally, nothing can be known about whether that competency or improvement/decline is related to performance.

Unfortunately, HR has gravitated toward data visualization tools that, although effective at creating pretty trending pictures, do not conduct predictive analysis and do little to actually move the needle on the business outcome being tracked (or visualized). Worse yet, without statistical rigor, these tools can actually help HR leaders draw incorrect conclusions from their data. In short, descriptives are helpful in tracking progress, and comparisons are helpful in determining whether a change is statistically significant, but *neither* are predictive analyses.

### Correlation and Simple Regression

Both correlations and simple regressions are analytic methods used to identify the strength and direction of relationship between two things. Although a correlation is a measure of relationship, it is not necessarily predictive. Just because a relationship exists between two variables does not mean that one causes the other. It's the classic example of ice cream sales and shark attacks being correlated. No one would argue that shark attacks cause ice cream sales to increase or that ice cream sales cause more shark attacks. Because these methodologies do not tell if a true relationship exists, they should be used with caution when making decisions about the utility of the results from these methods. By themselves, correlations and simple regression are not truly analytics. The risk here is that many organizations erroneously take correlation as proof of a connection and then act on that information.

### Multiple Regression

Multiple regression is closer to modeling real-world relationships because multiple factors can be tested as predictors of one outcome, as it allows for the examination of each factor's unique effects on the outcome. Although it's a step in the right direction and a valid method to begin assessing predictive relationships, this method is still not the strongest to infer cause-and-effect relationships. This method has limitations in its use as a form of predictive analysis. It is important for HR leaders to become not necessarily statistical experts, but better consumers of statistics—so that they know what to look for with a critical eye.

### Predictive Analytics Done Right

The best method for making predictions in the HR space is an advanced statistical modeling method called structural equation modeling (SEM). SEM has four large advantages over the other analytic methods:

- It can test multiple inputs or causes with multiple outcomes concurrently.
- It allows for the most accurate assessment of ROI.
- It provides the ability to correct for measurement error.
- It can most accurately infer causation, compared to other methods.

Taken together, SEM is the best approach to HR predictive analytics. There are, however, a few caveats to consider before utilizing SEM in HR. First, it requires specialized statistical software and a highly trained statistician to be correctly implemented. Secondly, there are data requirements in order to conduct SEM. For instance, there are required sample sizes to find stable and valid results—typically a minimum of 100 or more, and 200 or more is preferable. However, these should not be a deterrent for any HR practitioner hoping to leverage this type of analysis; universities often have professors or graduate students with the skills to conduct SEM, or it can be outsourced to a consulting firm with expertise in predictive analytics. And consider the mantra "anything worth doing is worth doing right." Figure 1.2 provides a quick guide to compare the statistical techniques reviewed above.

## ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING

### The Definitions

HR is getting bombarded with the next set of trending vernacular—specifically artificial intelligence (AI) and machine learning. AI is the movement toward smart machines and computing systems able to carry out tasks the way that humans would, except much more efficiently—think surgery-performing robots, self-driving cars, and even the filter that sends suspected junk mail to your spam folder. Machine learning is the application of AI to data analysis processes. Instead of a team of researchers collecting, coding, organizing, and analyzing data, a computer can learn what to look for and how to do it instead. Specifically, developers create algorithms

| Method | Visualize Trends | Assess Relationships | Multiple Predictors | Multiple Outcomes | Calculate ROI | Infer Causation |
|---|---|---|---|---|---|---|
| *Descriptive Analysis, Group Comparisons, Tracking, and Data Visualization* | ✓ | x | x | x | x | x |
| *Correlation and Simple Regression* | ✓ | ✓ | x | x | x | x |
| *Multiple Regression* | ✓ | ✓ | ✓ | x | x | x |
| ***Structural Equations Modeling (SEM)*** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

**Figure 1.2.** Comparison of analytic methods for HR prediction

(i.e., math equations) that can be applied to data to make smart decisions and arrive at specific conclusions. Developers tell the algorithm what to look for and what to do with the information, and then the algorithm completes analyses without further instruction from the developers. In fact, some companies are touting machine learning that is simply the application of macro algorithms—these examples are light on the learning part. The statistical rigor behind these concepts is based on weak analysis (i.e., correlation) and should be taken with a grain of salt. Additionally, within HR the data are often people related—and human behavior is complex. Without an appropriately trained analyst or scientist interpreting both the inputs and outputs of these algorithms, there is a great risk of inappropriate conclusions. Buyer beware: AI and machine learning is marketed in the HR space with little proof that it actually works.

## Analysis Paralysis No Longer

HR departments are becoming interested in AI as organizations such as IBM and Google pave the way forward by demonstrating the types of analyses possible with machine-learning techniques. For example, IBM's Watson is a collection of algorithms and products that enables users to understand various forms of data ranging from text or comments to pictures and videos. Specifically, IBM Watson Talent Insights uses predetermined algorithms to find patterns in the data that emerge automatically, without the need for a human to make predictions about potential key relationships in large data sets.[3]

The important problem to note is how these algorithms and predictions are actually made with the data. The problem with looking for patterns and correlations is that while it may reveal some interesting findings, it will not reveal causal relationships or show you exactly what to work on to drive actual business outcomes. This trend certainly allows HR to run more reports, but running more reports does not equate to adding value to the business. In fact, if all we are doing all day is running interesting reports and dashboards, it is likely detrimental to the odds of taking any meaningful action.

### Hiring and Retention Possibilities

Many organizations use machine learning to promote hiring and retention initiatives by using algorithms that predict which candidates are most likely to succeed in their new role after being hired and which employees are likely to want to leave the organization in the future.[4] It does this by understanding common characteristics of successful current employees. Then, it develops algorithms that look for those same characteristics in candidates to predict if they will be a successful hire. There are definite pitfalls to this approach, however.

### Pitfalls

AI and machine-learning techniques can provide great value for HR departments by eliminating the need for human processing of rote tasks and by mitigating the risks of human error or boredom in things like data entry, résumé screening, and the like.[5] These techniques may be especially interesting and appealing for organizations that do not have the capacity or capability to conduct in-depth analyses on their own and are looking for quick data-based insights. However, without a proper understanding of the analyses behind the scenes and of organizational and employee behaviors, blind algorithms have potential pitfalls. Relying on a single algorithm or even a collection of algorithms to take into account the dynamic features of an organization is risky. Organizations should approach talent management with theory-driven ideas about the factors that affect the employee experience. Most machine-learning algorithms look for correlations to predict variables of interest; herein lies the problem—algorithms based on finding high correlations are inherently flawed in predicting behavior, as correlation does not imply causation. See Appendix A for a deeper discussion of causality.

Moreover, there is no one-size-fits-all algorithm that can be used for processes across every organization. A variety of factors is important in understanding employee experiences at work. Algorithms developed at one point in time or specifically for one organization may only provide accurate insights for that timeframe or context. The underlying context shifts as procedures and policies change (through mergers, layoffs, leadership changes, etc.), and an algorithm once used to predict high-performing employees or employees with high turnover risk may begin to underperform. Layer that with the complexities of human behavior, and it becomes even more difficult to create a static equation to understand the employee experience.

When predictive analytics are done well (e.g., when job performance or turnover is predicted correctly), explaining 25–35 percent of the variance in the outcomes (e.g., job performance, turnover) is considered to be a strong predictive model. These models require an organization's own data on the predictor and outcomes; applying a broad-based, generic algorithm reduces the predictive power of the analytics and ultimately results in more false predictions. The bottom line is that a one-size-fits-all algorithm will make as many or more bad predictions than good predictions. So, this approach is so watered down that the utility of the predictions is negated.

## The Human Element

Organizations that rely too heavily on AI or machine learning are at risk of removing the expert human element from the equation. Acting on insights gained from algorithms alone may cause organizations to ignore *how* and *why* these relationships exist in the first place. Skilled, trained researchers are necessary to make these algorithms work for your organization. A trained practitioner—hopefully an industrial/organizational (I/O) psychologist—should develop an algorithm using your organization's data to account for your organizational context. Or at least, an expert should be closely monitoring and interpreting the elements going into and out of an automated system to ensure you can generate accurate and appropriate conclusions. Rather than sifting through complex employee data for anything of significance, a basic understanding of the problem to be investigated allows you to guide the talent analytics process by research best practices and to better integrate talent assessment into the story of your organization's success.

The HR industry is just beginning to latch onto and understand analytics, and arguably, most HR departments are not well advanced in this space. Making the leap to AI and machine learning could be a potential minefield for organizations that do not have a solid analytic foundation. In time, AI and machine learning will drastically change the world of HR; however, the hype of these concepts is much greater than the practical applications. As an HR practitioner, what does this mean for you? The truth is that we are probably years from machine learning and AI drastically impacting our day-to-day operations, and there are a few reasons for this. Predicting human behavior or performance is difficult and complex. I/O psychologists have been doing this for decades. When done very well they can account for less than 50 percent of the variance, meaning there is still more than 50 percent that is not predicted or explained with the models. Think about how you decide what to eat every day for lunch and all the factors that go into that decision. For the people that eat basically the same thing for lunch every day, the models can be precise. But what about the people that like variety and eat based on what sounds good that day? In the HR space, imagine how hard it is to predict if someone will leave the organization or will be a high performer. The point is that doing this right is hard, and simply letting a computer make these kinds of decisions (e.g., which candidate to hire) is fraught with danger.

## How HR Makes an Impact with Predictive Analytics

Returning to how HR can successfully leverage and utilize data and analytics, we bring the focus back to predictive analytics carried out by a qualified professional. You may be asking, "How can I leverage the concept of predictive analytics where I sit in an organization?" To answer this, we present several ways that predictive analytics can be applied to a variety of HR initiatives. Below are a few examples.

### Competency Models

A competency model is a collection of the knowledge, skills, and abilities that are required for a specific job. Predictive analytics can be used to identify the core competencies of a given job or those that stretch across the organization, and to validate a model after it has been put into place. By applying SEM, HR leaders can determine which competencies are most important for critical business outcomes and whether the full model is appropriate and predictive of employee and business outcomes. The process informs HR leaders whether the current competencies are appropriate or whether they should be adjusted, shows them how to prioritize the competencies in the model, and provides them with a demonstration of direct business impact. Applying predictive analytics in this way solidifies buy-in from senior leaders and frontline managers, and it drives training, hiring, and performance-appraisal strategies because the competencies to focus on will be clear based on their importance to the bottom line.

### Employee Surveys

Employee surveys are a great avenue for utilizing predictive analytics. Used in this way, predictive analytics can make an often underutilized HR initiative more impactful to the organization. In any industry, employee survey data can be linked to business outcome data such as turnover, work-unit performance metrics, customer/patient satisfaction, or financial data and used in a predictive analysis. SEM, and even multiple regression, can be used to identify which topics or categories from the employee survey are key drivers of your organization's critical business outcomes. This step enables leaders to make targeted action plans based on what they know to be important rather than force them to focus only on areas they received low scores in. A topic that scored low on the survey should only be targeted if it is impacting business results; otherwise, valuable time and resources should be spent addressing more important factors that have a clear, direct link to business outcomes. Chasing engagement scores or benchmarks does not constitute predictive analysis, nor does it drive actual business outcomes.

### 360° Assessments

360° assessments often require a large allotment of organizational resources and time. As such, maximizing the utility and predictive impact of these assessments can bring great value and increased ROI to an organization. Predictive analytics can be applied to 360° results by linking competency or behavioral ratings with business outcome data to determine which competencies or behaviors are the strongest drivers of outcomes (typically performance data). This linkage allows the organization to make data-based decisions and to focus future training and development initiatives on those critical competencies or behaviors identified as impacting results.

### Hiring Assessments

Hiring assessments can be one of the best places to apply predictive analytics because the ROI is demonstrated in two areas: (1) more successful hiring decisions and (2) fewer poor hiring decisions. Making a bad hiring decision can be costly to an organization because poor hires are more likely to be below-average performers and to leave the organization in the short term. The best way to prevent a poor hire is to apply predictive analytics to the selection process:

- Step 1: Utilize current employee data to determine which assessments—and which factors of those assessments—are most strongly related to actual performance.
- Step 2: Assess candidates on those factors found to be most critical in successful performance, and base hiring decisions on candidate strength in those areas.
- Step 3: Apply predictive analytics to validate and adjust the selection program once it has been used to make hiring decisions. (E.g., ensure that the factors used to select candidates are statistically significant predictors of new hire performance after a certain amount of time on the job.)

Predictive analytics can and should be present at each and every step of the selection process. Solid hiring tactics—not unstructured interviews—need to be used to assess the critical knowledge, skills, abilities, or competencies of candidates. Otherwise, interviewers are rolling the dice and gambling on the organization's future.

All the examples outlined above serve as a way for HR leaders to showcase their role as strategic business partners to organizational leaders by linking HR initiatives to critical business outcomes and ultimately the bottom line.

## Obstacles to Smarter Analytics

Smarter analytics really means using solid approaches to analysis that have statistical rigor. Unfortunately, conventional wisdom and HR fads have been around a long time. As a rule, when a thought leader introduces one of these as a new topic or HR cure-all, you should ask them, "Did you actually test this out to see if it drives real business results?" The truth is that every book that comes out with a new fad or term will end up being a step backward for HR's credibility, unless there is tangible proof that it works.

The solution to this is to ignore the thought leaders and diagnose your own business problems with your own people data. Run tests on your organization's data. Don't rely on an assumption that what is happening in other companies will apply to yours. Implementing the next fad is expensive, and if it is not the right fit for your organization, you'll have spent valuable time and money toward an initiative that can send you down the wrong path, waste time, and at its worst create legal issues for the organization. HR must begin understanding and adopting true predictive analytics. Big data coupled with predictive analytics capabilities can provide myriad benefits to organizations—if done correctly.

Technology has increased the speed and accumulation of organizational data, providing many valuable and unique internal and external sources for evaluation and prediction. There is great power in tailored approaches designed specifically for an organization's goals and culture that allow for the selection, assessment, and management of individuals who will succeed in that unique work environment. Whatever the organizational goal (e.g., reduce turnover, increase hiring success, increase ROI of your HR initiatives), predictive analytics not only allows you to identify key drivers, but also allows you to prioritize them, which makes planning and resource allocation straightforward and gives your company a massive competitive advantage—the quality of people.

## Key Takeaways from Chapter 1

- Analytics *cannot* be limited to slicing and dicing HR data; data visualization tools add little value.
- Analytics must be predictive of real business outcomes (not engagement).
- Analytics must be reported and actionable to all frontline leaders, not just for corporate PowerPoint presentations.
- Actual business impact must be shown with data, not assumptions.
- Be careful of the latest fads—such as artificial intelligence and machine learning—as they will fail first.

CHAPTER 2

# Align HR Strategy with Business Outcomes and Goals

"Alignment" is a term that is often thrown around in HR circles, with CHROs proclaiming that they are aligned with the CEO and their priorities or that HR is aligned with the front line of the organization. Alignment is certainly a good thing, but assuming that alignment exists and actually connecting the dots to prove that it exists are two very different things. Assuming anything can be dangerous, and it hinders buy-in if leaders at all levels have to assume (or hope) that what HR is asking them to do will actually impact the bottom line. As with all good management techniques, we cannot just start with an unwavering assumption or mindset that an HR activity is directly impacting a bottom-line metric. Also, HR cannot and should not lock themselves in a room and come up with alignment strategies or business outcomes on which to focus, just to make the department more relevant. For HR to prove they have a direct impact on the bottom line and are fully aligned with the business's key outcomes and goals, there are two steps practitioners should always take: stakeholder interviews and the Business Partner RoadMap.

## STAKEHOLDER INTERVIEWS

Stakeholder interviews should involve HR and all the senior leaders (or senior leaders in your specific line of business). The goal of these interviews is to identify the critical outcomes that the organization is aiming to achieve. Within this context, the interviews help these stakeholders understand that the organization could focus on important—but rarely targeted—employee initiatives that would impact the business outcomes they identify. Specifically, it helps them understand the people drivers of outcomes that are often assumed to be important but rarely targeted.

These interviews provide insights and buy-in for this critical journey on which you are about to embark. Keep in mind that a bit of prework will make these interviews even more effective. Start with reviewing all strategic documents relevant to the business, including organizational goals, key performance indicators (KPIs), scorecards, business plans or strategy documents, and the like. The better you understand the vision and goals of the organization prior to your interviews, the more targeted your questions will be, the better your understanding of the priorities and challenges will be, and the more credibility in the eyes of the stakeholders you will have. Rather than leave you on your own to build these interviews from scratch, we provide in the next section a template to ensure you obtain all the information you will need to effectively launch and sustain your cross-functional stakeholder meetings.

## Key Interview Questions

The following is a typical approach to introducing your goals for the interview. You will, of course, need to customize this for your organization, as necessary:

> As your HR partners, we would like to more closely align our initiatives with your critical business outcomes. To do that, we need to understand
>
> 1. Your business priorities,
> 2. Your related goals, and
> 3. How those goals and priorities are measured.
>
> We then need to discover how HR initiatives and people data impact those business priorities. Our team will use advanced analytics to empirically connect the people data to the business data. To accomplish this, we will ask you and other senior leaders a series of structured questions. We ask for your support and input in gathering this information and in subsequent actions we will take to impact your business priorities.

### Business Priorities

- What are the strategic priorities of the organization?
- In your opinion, what are the most pressing issues facing this organization today? Are there issues facing particular segments of the business?
- What are your biggest barriers to overcome in addressing these issues/priorities?

### Business Priorities—Goals and Measurement

- What measures or metrics are in place to show that progress is being made in these areas?
- What standards or goals have been set? How achievable are these goals?

### People Priorities

- In your opinion, what are the most pressing issues facing the employee and customer populations?
- How do these employee/customer issues impact business outcomes?

### Business, Customer, and Employee Data

- Are there key data sets that you think should be analyzed to discover causal drivers?
- Do you anticipate any barriers to obtaining the data needed from the various functions to conduct these analyses?
- Is there anything else you can tell me to ensure that the project is successful?

Remember the purpose of these interviews is to better understand the business *and* to identify potential drivers of outcomes. For example, if the sales team has missed its sales goals the last two years and you learn that a challenge for the business is hitting those goals, this immediately suggests that improving the competencies and skills of the sales force could yield a significant impact for the business. Thus, the question to be answered with data and analytics could be, What skills or behaviors differentiate top performers? If you can identify what the great sales professionals do, then you can develop a plan for targeted training or improving the hiring process for new sales hires (or both).

## THE BUSINESS PARTNER ROADMAP

In our first book, *Investing in What Matters: Linking Employees to Business Outcomes,* and in our second book, *Business-Focused HR: 11 Processes to Drive Results*, we introduced and focused on the Business Partner RoadMap. This proven process was outlined to help organizations discover and quantify the people drivers of business outcomes. Ultimately, this process allows organizations to create an HR strategy that is based on analytics, demonstrable business impact, and ROI.

As stated earlier, a primary goal of this book is to describe how to use smarter analytics to link core HR processes (and integrated data) to relevant business outcomes by showing actual ROI. Therefore, the Business Partner RoadMap is still clearly a relevant one to follow for HR business partners. A brief review of the Business Partner RoadMap is necessary to get on the same page when talking about alignment with business outcomes and organizational goals.

## What Are the Steps for Linking Employee Data to Business Outcomes?

The Business Partner RoadMap is a six-step process (see Figure 2.1) that can lead your HR strategy by connecting what you do as an HR leader directly to the business. It moves beyond conducting simple analysis and creates an environment of executive buy-in, cross-functional interaction, and targeted initiative building. It also creates a culture of measurement and refocusing.


**Figure 2.1.** The Business Partner RoadMap

### Step 1: Determine Critical Outcomes

An organization must first determine the top two to three most critical priorities that it anticipates will be accomplished through its employees. These usually spawn from the critical handful of metrics that the CEO has outlined for the organization (e.g., increasing productivity or customer satisfaction and decreasing turnover). The outcomes that matter most to your organization can be gleaned by reviewing strategic documents and plans. Key stakeholder interviews of the board, the CEO, CFO, or other business leaders are also very helpful in the process. Once this information has been collected and summarized, the results must be narrowed down to two or three desired outcomes and then prioritized. We advise that you not go after too many business outcomes at one time; rather, focus on the most critical ones. Focusing on too many outcomes leads to analysis paralysis and unfocused action. In nearly every business in every industry, the most critical KPIs are pretty easy to discern. Even when you dive deeper in an organization (i.e., a specific function or line of business), senior leaders can quickly identify critical business outcomes.

### Step 2: Create a Cross-Functional Data Team

Once the various owners of the critical business metrics have been identified, a cross-functional data team (CFDT) needs to be organized. This team should consist of measurement experts, the key lineup of business leaders or metric owners, and HR leadership. The measurement experts are needed to determine data requirements, scientifically link the necessary data sets, and conduct the requisite statistical analyses. This CFDT also facilitates and sponsors the linkage initiative. Therefore, having influential company leaders and decision-makers participate in this process is crucial. Oftentimes, the data needed to build an HR strategy already exist. The key focus should then be pulling the data into one place to facilitate proper analysis. To keep things simple and in perspective, forming the CFDT does not have to be an overformalized process—it boils down to who owns the critical data (people data and business data) and how they can best provide it to you to enable smarter analytics.

### Step 3: Assess Measures of Critical Outcomes

Once you have identified the critical outcomes, the next step is to determine how data are currently captured in the organization. Several characteristics of each outcome that is measured must be assessed, including the following:

- The frequency of the measurement (e.g., monthly, quarterly, annually).
- The level at which the key metrics are measured (e.g., by line of business, by work unit, at the store level, at the organization level).
- The key organizational owner(s) of each of the outcome measures (e.g., the department or leader of the particular measurement).

It is critical to understand each of these measurement characteristics before you make any linkages to employee data. The goal is to have apples-to-apples comparisons of the data.

### Step 4: Objectively Analyze Key Data

Analyzing the data will require advanced statistical knowledge. Most large organizations employ statisticians or social scientists. Further, many HR organizations have built—or are in the process of building—analytics capabilities. This makes resourcing an analytics project much easier. If this type of internal resource does not exist in your organization, then hiring a consultant (or even a local statistics professor) or full-time statistician for this role is necessary. This critical step is where professionals statistically link the carefully collected data sets using various methodologies.

Many business leaders are familiar with correlation and regression but not with a technique called structural equation modeling. For these types of data linkage analyses, correlation is not sufficient, regression is adequate, and structural equation modeling is the most effective solution; it accounts for measurement error, and allows us to infer cause-effect relationships. Structural equation modeling affords us the ability to accurately state, for example, that employee attitudes about teamwork are a driver of increased customer satisfaction. This implied cause-effect relationship is important for understanding how these different measures relate to each other as well as for calculating an expected ROI for the initiatives.

The statistical component of this step sounds complicated, but it is really just a tool for accomplishing three things:

- Understanding the relationship between employee initiatives, skills, behaviors, attitudes, and meaningful business outcomes.
- Prioritizing types of interventions.
- Calculating expected ROI.

All this work allows you to identify organizational priorities and to determine appropriate levels of investment. The result of the data analyses is a list of key priorities, derived from the employee data that impacts the desired business outcomes. For example, the analyses may indicate that improving employee attitudes about career-development opportunities leads to increased employee productivity, customer satisfaction, and decreased turnover. The results also show which initiatives are not having their desired impact and could be candidates for cost cutting.

### Step 5: Build the Program and Execute

Once you have identified the critical priorities, the next step is to determine which types of interventions will have the desired effect. This is the action-planning stage where activities can be focused at the systemic (organization-wide) level, line-of-business level, or work-unit level. This stage encompasses the bulk of the work and investment associated with any people-related process. The big difference is that the investments the organization makes are focused on those employee processes, skills, attitudes, demographics, and other characteristics that have been shown to directly impact the organization's desired business outcomes. The expected return can thus be used to guide the HR strategy. This stage is typically in an HR function's wheelhouse because there tends to be a great amount of experience in this department in building quality people programs and initiatives.

A common trap at this stage is to look for the silver bullet of interventions. Best practices (another name for silver bullets) are great to guide action planning, but simply replicating a best practice will get an organization nowhere. Initiatives must be customized and placed in the unique context of each organization. We caution readers against falling into the best-practice trap of blindly replicating these practices without considering what is most appropriate within the context of your organization—and what drives actual business outcomes.

### Step 6: Measure and Adjust/Reprioritize

The last step is to remeasure to assess progress and calculate actual ROI. Most business leaders understand the importance of goal setting and measurement. They also understand the importance of creating a culture of measurement and accountability. Similar to how other organizational decisions are made, slight adjustments to initiatives should be made along the way based on regular measurement results. However, making frequent, drastic changes to the strategic focus of the interventions is not advisable. In other words, pick your two or three priorities and build action plans around those priorities. Measure progress against those plans two to three more times, and then recalculate the data-set linkages and reprioritize. This analysis process should occur annually; an annual assessment of your HR strategy's overall effectiveness is also necessary, particularly when the annual budgeting cycle begins. Figure 2.2 outlines a high-level timeline of the analysis, strategy, and budgeting cycle.

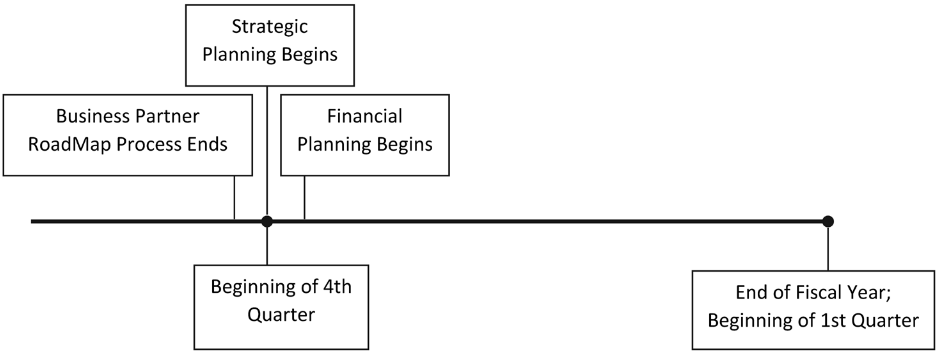


**Figure 2.2.** Annual budgeting and planning cycle

## CASE STUDY

A well-established retail organization was facing the prospect of substantially slowing their growth plans and possibly laying off numerous employees. As such, reducing costs in all their stores was critical to maintaining their plans and sustaining their existing employment levels. The key business outcome that organizational leaders identified was increasing profitability by reducing product shrink (employee and nonemployee theft of merchandise, as well as loss of saleable product due to damage). Shrink had cost this organization hundreds of millions of dollars annually and impacted their bottom-line profits. Senior leaders turned to HR for answers, providing HR leaders a chance to significantly impact a business outcome that was critical to the organization's survival.

### Identifying Causes of Product Shrink

During this critical time, HR leaders had to demonstrate that their efforts had an impact on the business outcome, because simply saying that HR processes were "aligned" was not enough. SMD worked with HR leaders to statistically link people data (i.e., employee opinion survey results, training participation rates, competency ratings, and hiring criteria) to product shrink. This revealed the following key causes of shrink:

- Performance ratings on the Achieve Extraordinary Results manager competency,
- Dishonesty terminations,
- Ethics course participation,
- Sales/shrink course participation,
- External customer focus, and
- Employee perception of job-person match (as measured on the employee survey).

Figure 2.3 shows the impact factor that each of the key variables had on shrink.

| Intervention | Beta (Impact) | Potential Shrink Impact |
|---|---|---|
| Manager Competency | .14 | $13.0 million |
| Ethics Course | .10 | $9.3 million |
| Shrink Course | .09 | $8.4 million |
| Dishonesty Terminations | -.08 | $7.4 million |
| Engagement | .04 | $3.7 million |
| Reward & Recognition | ns | ns |
| Customer Satisfaction | ns | ns |

**Figure 2.3.** Impact factors on shrink

As a result of this analysis, the business added key causes of product shrink to the HR scorecard and established goals for improving performance on each of the key causes.

## Calculating ROI

At the time of our intervention, the organization was losing $93 million due to annualized shrink. In addition, only 65 percent of employees were participating in the organization's ethics course. Based on these numbers and the impact values provided in Figure 2.3, SMD was able to calculate the ROI for increased ethics course participation as follows:

- Increasing ethics course participation to 95 percent could result in additional savings of $4.3 million.
- The approximate cost of increasing ethics course participation (in terms of employee time, communication, etc.) was equal to $1.1 million.
- The expected ROI is 390 percent (potential savings of $4.3 million divided by cost of $1.1 million).

The organization used the same process to calculate the potential shrink impact for each of the other key drivers. Because HR leaders were able to calculate an ROI for each of the key drivers of product shrink, they could more easily demonstrate the bottom-line impact of their efforts and secure buy-in from leaders across all levels of the organization. Ultimately, the organization beat their product shrink goal by 33 percent in the first year. They sustained this level of performance by reanalyzing people data and product shrink data on an annual basis and adjusting their HR scorecard and corresponding strategies and initiatives accordingly.

This case study emphasizes a couple of important points. First, ethics course compliance was a critical driver of shrink with a large expected ROI. Most HR professionals would never consider something as mundane as participation rates in a single training course as part of their overall HR scorecard. However, the linkage analysis showed just how important the course was to shrink rates and its subsequent impact on the bottom line. A key point: impact does not necessarily have to be overly sophisticated.

Second, this case study also illustrates the importance of looking holistically at all the potential HR processes. By considering training, selection, performance on key competencies, and employee attitudes, the organization was able to make fact-based decisions regarding potential investments in its people and also able to calculate an expected ROI (based on the algorithm produced using real data). Considering these programs and processes on an individual basis would not have provided as much insight or direction regarding the core HR processes. For example, employee engagement did have a statistically significant impact on shrink, but when considered among the other significant drivers of shrink, it was apparent that additional investments in engagement were not warranted.

## Build an HR Analytics Team or Not?

It is now pretty clear to most HR professionals that predictive analytics is not going away (this is a positive trend). Most mid- to large-sized organizations are making a concerted effort to invest in and build substantial HR analytics capabilities. It took a bit of time to get there, but most organizations are at least in the process at this point. This transition from relying solely on best practices to using organization-specific data and analysis will take some time, but the bottom line is that it is definitely occurring. As such, organizations are working through several issues as they build out capabilities.

### What to "Buy," and What to "Build"?

Most organizations are taking a combined approach—meaning they are working with external partners and building internal capabilities. Using this approach, a good partner will focus a significant amount of time and resources on training internal employees.

### Where to Focus?

There is a lot to be done, including data warehousing, data integration, data reporting, basic analytics, and predictive analytics—just to name a few. Every organization wants to deliver value through predictive analytics but can easily get focused on all the other issues, which usually include wanting every piece of HR data cleaned up and perfectly set up in a new technology—a process that could take years. You don't have to have perfect data on a unified platform to start conducting predictive analytics and showing immediate business impact. Our recommendation is to focus on one key predictive-modeling project while addressing the other issues. Pick an important business issue (e.g., turnover in a key role that impacts the business's bottom line) and leverage the data you have so that you may uncover the root causes of the problem or business outcome. This will produce an early win and immediately show value to your business partners. If your internal capabilities aren't ready for predictive modeling, then work with a vendor on this project.

### When to Invest in Supporting Technology?

There are a lot of new technologies coming to the market touting analytics, machine learning, algorithms, and such. The results of any technology investments can make or break the organization's perceptions of its value, so make these investments with rigorous due diligence. The key is to have a strategy and understand the practical value the tools will deliver. Some lofty marketing statistic from a potential vendor isn't enough; you have to truly understand what you are buying and how it will help achieve your goals.

### Red Flag

Organizations that we talk to want to go down the path of doing HR analytics but end up focusing purely on building tracking dashboards. This is not analytics, period. Tracking things is fine, but it creates zero business value. Further, hiring for an analytics role an I/O psychologist with a PhD, only to have them build tracking dashboards, is a waste of money as it will not maximize their skills. When your CEO asks, "What business value are we getting from this very expensive analytics team and technology?" your answer cannot be, "pretty dashboards."

The bottom line is that smarter analytics and alignment to the organization's goals does not definitively require that a full analytics team be brought on board full time. In fact, it can be counterproductive.

## WHAT HR ANALYTICS SHOULD BE

Unfortunately, the popularity of HR analytics has caused a cottage industry of so-called experts to describe any use of data as "analytics." This description is inaccurate and has strong implications for your HR team as well as your decision to hire a data scientist. It's important to understand what effective HR analytics should and should not look like:

- HR analytics is not about just slicing and dicing HR data and creating numerous tracking reports.
- HR analytics must show true impact on business outcomes and must report predictive metrics.
- HR analytics must report actionable information for frontline leaders.
- HR analytics must show actual business impact. (Driving engagement scores does *not* show business impact.)
- Analytics platforms that offer to help create "beautiful pictures" with HR data have no business impact and are a waste of money.
- PowerPoint presentations of correlations to the C-suite have limited organization-wide impact.
- Frontline leaders must have access to the insights that analytics provide along with actionable recommendations to implement with frontline employees.

### The Myth of Full-Time Data Scientists

To harness the power of employee data, organizations have two options: (1) build the end-to-end capability internally or (2) leverage existing internal resources and outsource the analytics. Before making the decision to hire a full-time data scientist, it is important to understand the skills that are needed so that the analytics team does not simply turn into a report-generating team with no business impact. Unfortunately, there are not a lot of individuals with these skills, and the people that do have them are expensive to hire full-time. Consider the following requirements to help determine which option makes sense for your organization. You will want to

- Connect HR data to business outcome data using advanced statistical techniques such as structural equation modeling (regression analysis is a minimum requirement). Slicing and dicing turnover data, running correlations, and creating nice data visualizations will not suffice and will actually hurt HR's credibility.
- Run statistical analyses and then present a practical story to senior and frontline leaders.
- Create a usable HR strategy that is based on the analytics.
- Sell the need for analytics projects to skeptical senior executives.
- Show analyses of expected and actual ROI.
- Create usable metrics to track the actual business drivers.
- Generate reports that show the analytics in a practical way to *all* leaders in the organization.

## Requirements for Real HR Analytics—Elements of a Great HR Analytics Team

In SMD's experience, a great HR analytics team consists of individuals who are experts at pulling data out of HR information systems (HRISs) and then effectively integrating and aligning the data with business outcome data. For example, merging store-level competency ratings with store-level sales data provides the foundation for real analytics. The team can then use an outsourced analytics partner to do the advanced analyses, reporting, presentations, and technology to get every manager the analytics and reports they need to drive actual business outcomes. The good news is that HRIS analysts are not as expensive as data scientists and can be quite effective in making the analytics a reality while also driving down the outsourcing costs.

### The Business Case for Outsourcing Analytics

Not all organizations are ready for HR analytics to infiltrate every part of their business, so hiring an expensive, full-time data scientist can also be risky. In addition, data scientists have to generate interest in doing these big projects, and the demand may be low in the early stages. Great HR analytics vendors should have technology that shows real business impact in simple reports for all of your leaders. In-house data scientists will not be able to create this on their own.

### Getting Started with Analytics

Before jumping on the bandwagon or making an expensive hire, consider the following. Many organizations think they must examine all their HR and talent-management data at the same time to conduct rigorous analyses and have a meaningful impact. This isn't true. One thing SMD has learned in doing predictive analytics over the past fifteen years is that there are many who are skeptical of the process. Rather than view the skeptics as an obstacle, make them an opportunity. Start with one HR process or piece of talent-management data and show how it impacts an important business outcome. By utilizing advanced analytics to help businesses maximize and measure the ROI of HR investments, skeptics can be converted into believers.

A great thing to start with is your employee opinion survey. Surveys have become universal in organizations, but their value is extremely limited without analytics. Using advanced analytics, you can show which specific attitudes directly impact important business outcomes (e.g., profit, productivity, safety, or turnover). Use this initial analysis to get leaders to buy into the process of HR and talent-management analytics. Doing so will help build momentum and allow you to create a business case, not only for investing in improving attitudes, but also for conducting additional analyses in other areas. Once you demonstrate the business value of an employee survey, leaders will want more. By starting small, you create demand from the functions within your organization that you support for additional data-driven insight into how they can enhance business performance.

## CONCLUSION

HR has longed for the proverbial seat at the table, and by applying real HR analytics this goal is attainable. However, you must be careful: harness employee data to identify drivers of business outcomes, and don't simply recycle the same old HR efficiency metrics (e.g., time to hire) and expect a different outcome. The key is to connect people data to business outcomes and demonstrate HR's ROI.

So, before jumping on the analytics bandwagon, invest wisely and show real value to your business. HR analytics are a way to connect people data to business results by identifying and prioritizing the people drivers—something that has been assumed in business for decades but rarely shown and quantified. More simply stated, HR no longer needs to rely on assumptions and can—through analytics—demonstrate its impact and value to the business. The analytics themselves are not the desired outcome.

### Key Takeaways from Chapter 2

- Alignment comes from understanding your organization's key metrics—and then showing how HR directly impacts those metrics with advanced analytics.
- Smarter analytics brings together people data and business outcome data; tracking dashboards and visualizations of HR data are fine, but they have zero business impact.
- Before hiring a team of data scientists, make sure that you have a solid business case; outsourcing is typically a better approach.
- Ensure that the data scientists you hire will be doing real analytics and not just creating charts and presentations of static data.

# Section 2

# Building Predictive Talent Profiles

CHAPTER 3

# Key Data Elements for Predicting Business Success

Thought leaders are constantly telling HR leaders that they need to collect more data in order to have a competitive advantage, but this is wrong. First, identify what you are trying to solve—the business outcomes you are trying to drive, as mentioned in Chapter 2—and what pieces of data you will need to do so. Only after you've done that should you start gathering the data you need. The good news is that your HR function likely has plenty of data to get started with smarter analytics right now. The bad news is that all those data are probably housed on multiple different platforms across different vendors on various servers. That means you won't be clicking a button to get all these data magically formatted and ready for analysis. There is more good news, though: we haven't yet run across an organization that has all its data in one place. It really isn't a big deal if the data need to be cleaned up a bit to get started.

## DATA, DATA, DATA: SOURCES AND INTEGRATION

What do you need to solve your business problem? The critical components of answering that question (and of any analytics project) are the data sources available. Your access to and quality of data dictate which business questions can and cannot be answered, as well as how you measure and define your variables of interest. We organize data sources into four key categories: organizational data, people performance data, business performance data, and employee survey data. The following section outlines common examples of each category type and explores typical issues that may arise in collecting and integrating the data sources.

### Organizational Data

Organizational data is another name for HR information system (HRIS) data. The data most likely will be owned by HR, so access should not be a problem. Some fail to understand the true power of organizational data because they think they just house basic employee information (i.e., name, employee ID, etc.). But, they also contain several variables that allow for different employee categorizations or aggregate data reporting (e.g., supervisor ID, department, job title). You will also find important demographic identifiers like age, tenure, gender, and compensation that may help explain the difference in turnover, performance, attitudes, and opinions.

Most importantly though, organizational data provide a key outcome (turnover) and the ability to structure the organization's hierarchy. All turnover information is found within HRIS data, including termination date, type of termination (i.e., involuntary or voluntary), and termination reason (e.g., personal reasons, retirement, performance issues). This information allows you to identify employees who have left the organization and understand what led them to leave, by linking additional data from other sources. All of the organizational data that groups employees, like job title or department, can also facilitate building the organization's hierarchy. Specifically, for administering surveys and setting up effective data reporting, it is crucial to have an up-to-date hierarchy so that the right people are seeing the results applicable to their employees.

But the best part about organizational data is the ease at which they can integrate with any other data source. Since organizational data contains employee-identifying information, you can match at the individual level with other data sources using employee ID or full name, depending on the other data source.

### People Performance Data

People performance data are exactly what they sound like: performance data for each employee, but not just an employee's annual performance review. That is one example of people performance data, but such data can also include selection-assessment scores, 360° feedback appraisals, training-assessment scores, and high-potential identification.

Selection-assessment scores are the scores the employee achieved when completing prehire assessments as a job candidate. These scores may be from tests of personality, cognitive ability, or others (see Chapter 5). They are housed in an applicant tracking system (ATS) and can be analyzed to see how well the selection system is working (a validation study) or leveraged to understand an employee's specific developmental needs (e.g., a candidate who scored low on interpersonal skills may need support for relationship building).

360° assessments are evaluations of employees from peers (coworkers), subordinates or direct reports, supervisors, and the employees themselves. The evaluations are typically used to create custom development plans for employees or to identify those with high potential for promotion and succession planning. Training assessments may be scores from online training courses, post-onboarding evaluations, or off-site professional development courses. Training assessments are a great tool to assess learning and participation in professional development–type courses. We provide more detail on 360° assessments in Chapter 8.

What's especially great is that people performance data are at the individual level, which eases the ability to integrate them with organizational and survey data. Most performance management software and ATSs have unique identifiers for employees, but the key is finding a shared unique identifier across each data source. The most difficult to integrate are generally selection-assessment data, because job candidates do not have an employee ID. Data points collected during employment are much more likely to have an employee ID attached. If you cannot map an applicant tracking ID to an employee ID, then the next match option is integrating based on name. Considering the overlap in first or last names in organizations (especially large organizations), it is best to concatenate some part of the first and last name to create a unique name for each employee (e.g., combining "Smith, Michael" to create "SmithMich"). This will reduce the overlap and allow for the best match.

## Business Performance Data

Business performance data are metrics or performance goals for an organization. These data, which track business outcomes of utmost importance to your organization, probably includes the areas your organization is most focused on impacting. These data types can vary greatly depending on your industry or organizational goal, but some common examples include the following:

- Financial information—profitability; earnings before interest, taxes, depreciation, and amortization (EBITDA).
- Customer or patient satisfaction—HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems); customer survey scores.

- Sales—percent-to-revenue goal, profit margin, number of sales.
- Safety—number of injuries, insurance claims.
- Quality—quality of service, product quality ratings.

These data are typically housed within the unit or team associated with the same name or field. For example, if you are interested in financial information, a financial analyst within the finance department would be a great first point of contact.

Beyond understanding where the data are, two other things are important to keep in mind. First, business performance data can be at the individual level or departmental or work-unit level (and sometimes even higher). If they are at the individual level, fantastic; all you need to do is find the unique identifier and you can integrate with people performance data, organizational data, and survey data because they are individual-level data as well. If the data are at a higher level, you need to find a unique identifier for that level (e.g., department code) and make sure your other data sources can also be aggregated to that same level. That way you could, for example, integrate people performance data aggregated up to department code with business performance data at department code.

Second, business performance data scores can be influenced in many ways that are outside of our control. For example, total revenue at a grocery store in a highly trafficked area is going to be higher than at a rural grocery because of the populations of the locations. When the total revenue numbers are so skewed, it creates an issue if we are trying to evaluate how employees influence the revenue, for example. It is best to find percent-to-goal metrics (e.g., percent to revenue, percent to products sold) because location-specific goals are already controlled for each specific location. So, to go back to our grocery store example, the rural store is not going to have the same total revenue goal as the highly trafficked urban store.

## Employee Survey Data

Many organizations have employee survey data, but they are the least commonly considered data source because they are not collected every month as part of the business. Employee surveys are a great way to gather employees' attitudes and feelings on the organizational environment and culture, and also give them an opportunity to express their opinions and be heard.

Survey data come in all shapes and sizes, but most common are the results of an annual employee survey. This survey may have a special name within your organization—possibly engagement survey, culture survey, or employee experience survey. It is typically a census survey that goes to the entire organization, and if properly administered (by a reliable vendor) it has a reporting structure that mirrors that of the organization. This structure allows reporting at a multitude of levels, but also down to the individual level for further analysis and linkage to outcomes. These data can be found either with a third-party vendor or internally (if the organization owns the survey process). If a third-party vendor conducts it, they can provide a blind data set (i.e., with no employee-identifying information) for internal analysis, or you can work with the vendor for HR analytics support.

When discussing survey options, it is important to note the difference between anonymous surveys and confidential surveys. Anonymous surveys are conducted without identifying employees (so the data are blind to everyone), whereas confidential surveys are conducted so that the survey vendor or internal data analysts have employee information to track scores or link to other data sources. Unsurprisingly, anonymous surveying makes integration impossible at the individual level, which limits potential analytic approaches. However, you still can potentially integrate and match results with business and people performance data on higher-level variables like department or location. Confidential surveying doesn't have the same restrictions as anonymous surveying, since the employee ID and name is included in the survey data, which allows for easy integration with organizational data and any individual outcomes (e.g., performance ratings, sales per month).

In addition to the annual employee survey, there are several other types of surveys that collect unique employee attitudes and perceptions. The same rules and guidelines from the annual employee survey hold in terms of integration and third-party vendors. Four common types of surveys are entrance, new-hire, pulse, and exit surveys.

### Entrance and New-Hire Surveys

Entrance and new-hire surveys evaluate employees early in their tenure with the organization. Employees typically complete entrance surveys within days of starting and new-hire surveys between 30 and 120 days of starting at the organization. These surveys evaluate employees' reasons for joining and their perceptions of different parts of the hiring and onboarding experience.

### Pulse Surveys

Pulse surveys (when used carefully and deliberately) are a great tool to examine a specific subset of questions or the important needs of business leaders. So, unlike annual surveys, they tend to be shorter. Pulse surveys can also be used to evaluate a subset of the organization's population, such as a department or those with specific job titles. Using them this way can address more specific issues or isolated questions within the organization.

### Exit Surveys

Exit surveys are like entrance surveys, but instead of evaluating why employees join, they focus on reasons for leaving the organization. Exit surveys are administered only to employees after termination.

Each of these four surveys is helpful in its own way, offering unique information on different aspects of the organization from different time points of the employee lifecycle. However, a shared pitfall is the little amount of data they report, along with their small sample size. Unlike the annual survey, these do not involve the entire organization but rather only a subset. So, to have enough individuals to link to business outcomes and answer your business problem, you may have to wait an extended amount of time. For a pulse survey, you just need to sample a large enough piece of the organization, but for entrance, new-hire, and exit surveys, you need to wait for enough individuals to be hired (for entrance and new-hire) or leave (for exit).

## Publicly Available Data

Information about organizations is also now available publicly. These data sets can be downloaded from websites (such as Glassdoor) and mined for critical insights. The data are anonymous, so you won't be able to link them with any organizational, performance, or survey data you may have. However, you can utilize them to trend scores over time (i.e., seeing if scores on the websites increased or decreased), break data out by certain locations or positions, or map certain topic information to your survey. For example, you could see how pay scores on your employee survey have fluctuated compared to those on a public website. Public data sets typically focus on some of the topics an employee survey would, such as pay, manager effectiveness, or satisfaction. Proceed with caution when using data from public websites, because certain types of people (typically employees who quit) are the ones supplying the answers, and thus the data may not represent your organization as a whole. But you can gain some additional insights and another data point to help understand your organization.

Although many HR analytics questions can be answered using one data source, more strategic questions often require data from two or more. Data are everywhere, and you can spend days, weeks, and months trying to collect and clean each piece. Follow these easy steps:

- Evaluate what you need from each category to answer your business question.
- Identify where those data can be found. (You may already have them.)
- Evaluate the data you collected to see how to integrate the separate pieces, at what level you need to analyze them, and if the respective business outcome is what you need to answer your question (e.g., percent-to-revenue goal vs. total revenue).
- Show direct business impact and create a business-focused HR strategy. Note that there may be bumps and bruises along the way, and it may take a little longer than expected, but by focusing on what you need, you will predict business success.

The research study we present next provides a clear example of how to follow the key tenets above to create an effective strategy based on analytics and publicly available data.

## BRINGING TOGETHER KEY DATA SETS TO UNDERSTAND BUSINESS IMPACT: A CASE STUDY

Using multiple data sources and advanced analytic techniques, we were able to support the goal of the Centers for Medicare and Medicaid Services (CMS) of maximizing reimbursements. Obtaining better data and analysis is increasingly important in healthcare because of the Affordable Care Act. Under CMS's value-based purchasing guidelines, financial incentives and penalties are built into the reimbursement formula for Medicare and Medicaid patients, with an emphasis on clinical compliance of hospitals, their number of readmissions, and their scores on the federal HCAHPS survey. The findings of our analysis provided their healthcare leaders with critical information that allowed them to directly prioritize their investments in people and processes, as the data showed how each linked to their desired business outcomes.

Specifically, our work determined which factors affected patient care and satisfaction and also identified five key drivers that directly impacted the outcomes critical to hospital performance and reimbursements. By focusing on these key drivers, healthcare leaders were then armed with the information needed to address barriers to improving HCAHPS scores, clinical-process compliance, and readmission rates.

### The Data and Analysis

Prior to us stepping in, healthcare leaders had access to lots of data but were not able to link those data to organizational goals. Fortunately, we were able to obtain four years of CMS's business performance data—patient-satisfaction scores (HCAHPS), compliance with clinical care processes, and readmissions—and integrate the data at the hospital level. As mentioned, business performance data tends to be more high level, so we integrated the data at the lowest level possible (hospital level) to maximize our sample size for analysis. Additionally, we tied in organizational data (i.e., HRIS data) to control for differences in hospitals (e.g., location and size), enabling us to hone in on the key factors that affected CMS's business outcomes.

Once we properly integrated the data, we utilized an analysis technique termed structural equation modeling (SEM). Typical analytic approaches focus on the isolated relational association between variables. For example, a positive correlation between variable $x$ and variable $y$ means if $x$ goes up, so does $y$, but such a correlation fails to account for other things (e.g., the cause-effect direction of the relationship, or even potential measurement issues that may actually be driving that relationship). These relational techniques have limited utility and even less ability to identify factors that directly affect important business outcomes (in this case, hospital readmission rates).

Using SEM, we simultaneously examined how multiple factors impacted the outcome while controlling for other extraneous factors. Additionally, the technique provided model statistics that assessed the directional relationship between factors. For example, did HCAHPS scores drive readmissions, or did readmissions drive HCAHPS scores? Existing research from other sources demonstrated that the two are correlated—but did not provide much else.

In phase one of our analysis, we wanted to understand how HCAHPS and compliance with clinical care processes interacted to influence readmission rates. To do so, we examined business performance data from three thousand healthcare facilities from the past three years to uncover how HCAHPS rating, compliance with clinical care processes, and readmission rates interacted (see Figure 3.1). For each year, we saw a consistent, significant linkage of the three metrics. This model provided support for the initial hypothesis that focusing on HCAHPS and process compliance could directly and significantly impact readmission rates.

For phase two of the analysis we wanted to demonstrate that the linkage between the three metrics existed over time. Phase one showed there was a relationship within the same year, but we wanted to see if current improvement in HCAHPS and clinical processes could drive future improvement in readmissions rates (known as a longitudinal relationship). The SEM (see

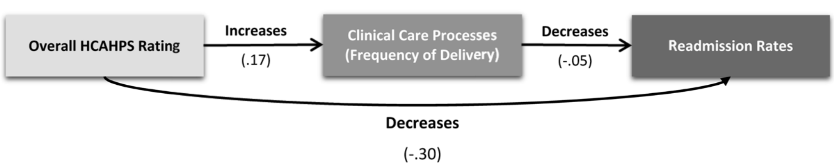


**Figure 3.1.** Individual yearly analysis over three years
*Note:* Numbers reflect beta weights from structural equation modeling.

Figure 3.2) connected the three metrics year over year and demonstrated that movement in HCAHPS scores did indeed lead to movement in clinical care process compliance and readmission rates. So, improving HCAHPS scores did impact both compliance with clinical care processes and readmissions.

Once we demonstrated a longitudinal linkage between the three business performance metrics, we sought to understand what impacted the model's biggest predictor (HCAHPS ratings). For phase three, we dug deeper into the data using the same SEM approach to determine which factors directly linked to HCAHPS ratings. Additionally, we followed the same two-step process as before: we examined same-year data and then examined the longitudinal relationships.

The HCAHPS survey contains twenty-seven questions on key aspects of the patient experience that patients answer following a hospital stay. For example, patients are asked to rate

- How often nurses and physicians listened carefully to them,
- How often nurses and physicians explained things in a way they could understand,
- If hospital staff told them what their medicine was for,
- If hospital staff described the possible side effects of their medicine,
- If physicians, nurses, or other staff discussed whether they would have the help they need after leaving the hospital,
- If they received information in writing about symptoms or health problems to look out for after leaving the hospital, and
- If their hospital room was clean and quiet.

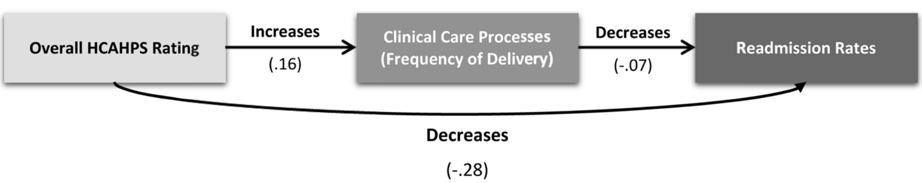


**Figure 3.2.** Year-over-year impact analysis

*Note:* Numbers reflect beta weights from structural equation modeling.

Key Takeaway #1: Evidence demonstrates that improving HCAHPS scores improves readmission rates.

Key Takeaway #2: Evidence demonstrates that improving clinical care process compliance improves readmission rates.

Much like with phase one, we examined CMS business performance data from the past three years, but instead of focusing on HCAHPS's impact on compliance with clinical processes and readmission rates, we built the model around what led HCAHPS scores to improve each year. The top five key drivers of overall HCAHPS scores, in order of impact, were as follows:

1. Communication between nurses and patients,
2. Pain management,
3. Medication and discharge instructions,
4. Quiet patient care area, and
5. Clean patient care area.

Importantly, this analysis (see Figure 3.3) also showed us that, counter to common advice and prevailing wisdom, physician communication with patients was not a key driver of overall HCAHPS.

In phase four, we examined the year-over-year movement for each of the key drivers to see if improving the key driver would positively impact the overall HCAHPS scores. The longitudinal analysis showed a significant year-to-year relationship where the top five key drivers were still the most important in impacting HCAHPS scores, while physician communication had little impact (see Figure 3.4). Healthcare leaders then knew not only that a relationship existed between these factors (this is where

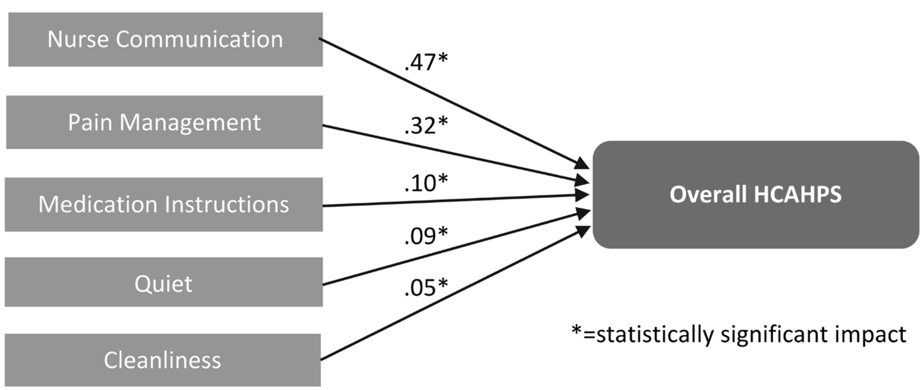


**Figure 3.3.** HCAHPS impacts
*Note:* Numbers reflect beta weights from structural equation modeling.

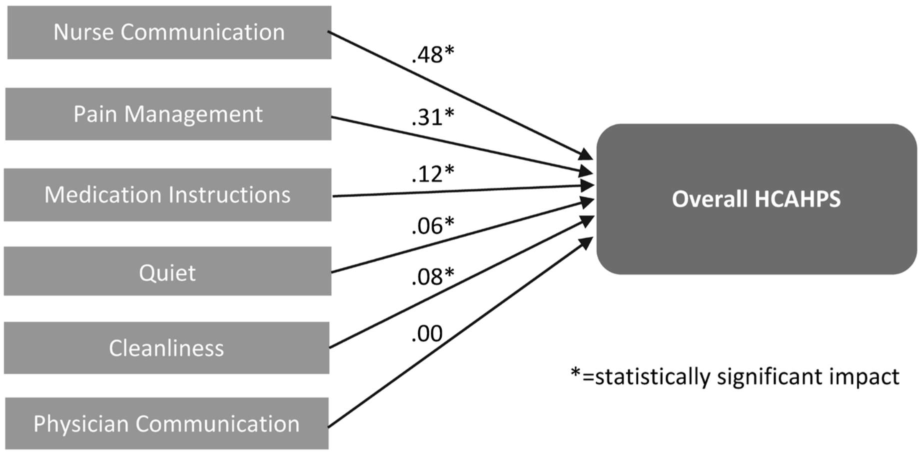


**Figure 3.4.** Longitudinal HCAHPS analysis
*Note:* Numbers reflect beta weights from structural equation modeling.
Key Takeaway #3: Healthcare leaders should focus on five actionable areas that have a direct, significant relationship with overall HCAHPS.

correlation analysis stops), but also what factors meant the most, how the factors interacted, and that the impact existed over time.

It is important to note that we found physician communication, which so often is cited as a silver bullet to improve HCAHPS scores, had little impact. But in fact, using the power of business performance data (from three thousand healthcare organizations) showed that nurse-patient communication was a significant driver of HCAHPS scores. Healthcare leaders were then armed with accurate information and could develop strategies that allowed them to invest in the most critical drivers to improve patient satisfaction and maximize reimbursement.

## Smarter Analytics Using Survey Data to Improve Business Performance

A large restaurant chain was trending in a downward direction and was struggling to understand why. They had pieces of data, including an annual survey, but were not sure where to start to figure out what was going wrong. With our support, they honed in on the business outcomes that mattered the most to them and put a hold on other HR processes that might have slowed the process. Together, we identified three key business outcomes they wanted to focus on: customer count (i.e., the number of customers eating at the restaurant), customer satisfaction, and employee turnover. We then leveraged three different data sources to compile the information needed to achieve the following four goals of the project:

1. Link employee attitudes to customer count, customer satisfaction, and employee turnover.
2. Prioritize interventions that have the greatest impact on their business outcomes.
3. Focus frontline managers on the areas that will improve their business outcomes.
4. Show the business impact of improving the key drivers from the survey.

### The Data and Analytics Process

A first step in our analysis—and for any other—was to integrate each restaurant location's annual survey (employee survey data) with its respective customer count (business performance data), customer satisfaction (business performance data), and employee turnover (organization data). Fortunately, we did not run into any issues during integration. We were able to integrate the turnover and annual survey data at the individual level via employee IDs and then bring in the customer count and customer satisfaction at the restaurant level using a unique restaurant code.

Next, after evaluating their needs, we decided the most appropriate analytics technique was SEM because it allowed us to examine the multiple business outcomes (i.e., customer count, customer satisfaction, and turnover) and predictors (i.e., the annual survey) simultaneously and control for measurement error and other extraneous factors. Correlational and regression techniques would not have provided the rigor or the capabilities to examine multiple predictors and outcomes at once.

With SEM, we incorporated all the data and identified which employee survey categories linked to the three business outcomes. But we still needed to message and relay the results in an impactful way so that leaders would understand what mattered, why it mattered, and what steps to take next. While there are several effective ways this can be achieved, we use our patent-pending HeatMaps (Figure 3.5).

These HeatMaps provide a simple visual display of the complex SEM results to create a clear message for leaders to understand. The HeatMap provides a four-quadrant graphic that pulls a leader's attention to what matters most and puts it in the Focus box. In this quadrant, they see the annual survey categories (from employee survey data) that are found to be key drivers of business outcomes (from business performance data—topics on the right side of the HeatMap) and that their workgroup has a low score on (topics on the bottom half of the HeatMap). If the employee has a low score on one or more of the key drivers of business outcomes, the manager needs to place attention there (multiple categories within the Focus box). With just one straightforward graphic, managers easily learn where to focus their time, attention, and money to provide the largest ROI. Put simply, the survey categories in the Focus box have the strongest impact on the outcomes of interest to the organization and have the greatest room for improvement.

## The Results

For this large restaurant chain, senior leadership, teamwork, management, communication, ethics, and job fit (from employee survey data) were the

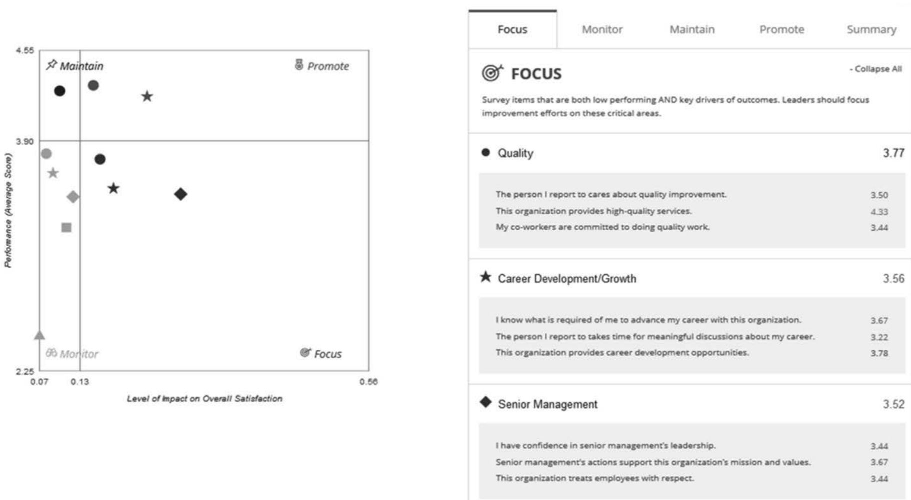


**Figure 3.5.** Sample HeatMap

key drivers of customer count, customer satisfaction, and employee turnover (business performance data and organizational data). So, we were able to integrate multiple data sources and boil it down to six key categories to turn the restaurants in a positive direction. But most importantly, instead of each manager chasing their own idea or focusing on things that didn't matter as much (e.g., engagement), all managers across the organization could instead work on the key drivers from the survey to truly drive change and get results.

We did not stop there though. By identifying the key drivers of customer satisfaction, customer count, and turnover, this large restaurant chain was able to calculate the expected ROI if survey scores increased. By calculating the differences in business outcomes between restaurants that performed well on the key-driver survey categories versus those that scored poorly, we demonstrated the value of scoring higher on the employee survey. Restaurant managers that had an overall mean rating of 4.00 or greater on the six survey key drivers outperformed their peers. If a manager increased their survey scores on those categories to above a 4.00, they were likely to see a 16 percent increase in customer satisfaction, eighteen thousand more customers a year, and 10 percent less turnover. With this analysis, HR was able to put a real dollar amount on its strategic initiatives (e.g., recruiting, hiring, surveying) and demonstrate its value to the rest of the business.

What was the bottom line? This restaurant chain was able to leverage the power of its people and business data to most effectively pinpoint where to focus managers at all levels to improve their business outcomes. By using analytics to demonstrate that the resources they spent on HR initiatives would provide a good ROI for the company, these HR leaders were able to serve as true business partners for the company and drive their bottom line.

HR leaders continue to struggle with demonstrating the worth and showing the ROI of the investments companies make in their people. How can HR executives expect the C-suite or business owners to approve of expenditures if the value cannot be clearly depicted with analytics? Instead, a more strategic and business-focused approach to HR initiatives provides benefits to the organization, HR, and even employees:

- It provides a strategic, focused plan for impacting business objectives through people—thus strategically expending resources while getting the biggest ROI.
- It gives HR more credibility and a seat at the table when it comes to business strategy.
- It effectively uses the skills in HR's toolbox to impact business outcomes.
- It demonstrates to employees that HR values their perspectives and will take strategic actions based on the data gathered from survey initiatives.

## Key Takeaways from Chapter 3

- You likely do not need to collect more data to start conducting meaningful analytics right now.
- Bring multiple data sources together—especially business performance data—to maximize the impact of your analytics.
- Even public data sources can provide value to your analytics projects.

CHAPTER 4

# Making Data Predictive

## OBSTACLES TO SMARTER ANALYTICS

As mentioned in Chapter 1, there are numerous firms and thought leaders talking about analytics, meaning that countless claims are floating out there. The truth is that most do not really know much about statistical rigor or the importance of smarter analytics. Anyone can say, "Engagement drives business outcomes," but they would likely be wrong if they actually conducted analysis on employee engagement and business outcomes (see Chapter 7 for more on that). Smarter analytics means using solid approaches to analysis that have proven statistical rigor. Unfortunately, conventional wisdom and HR fads have been around a long time. HR vendors have peddled everything from empowerment and job loyalty to employee engagement, and just wait for the next one. These have all been breathlessly presented as must-haves for the HR department to chase around. Consider this comparison:

| Actual Snake Oil | The Latest HR Fad |
|---|---|
| Claims to cure everything | Claims to cure everything |
| Has no evidence of actual impact | Has no evidence of actual impact |
| Is repackaged to basically sell the same thing over and over | Is repackaged to basically sell the same thing over and over (i.e., engagement, empowerment, loyalty, agility) |
| Appeals to mystical powers | Appeals to mystical powers (one firm actually calls it MAGIC Engagement) |
| Has no refund or guarantee | Has no refund if it doesn't drive actual business outcomes |

The problem comes down to self-described thought leaders who come up with a new (repackaged) concept that sounds good from a marketing perspective, write a book about it, market the heck out of it, and make numerous assumptions and claims based on zero research or analytics. Patient zero is *First, Break All the Rules*, which introduced the world to "I have a best friend at work." Do you realize how much that one item has hurt HR's credibility? Have you ever implemented a find-a-best-friend-at-work program? Moreover, do you realize the contradiction of Gallup telling us every year that employee engagement is flat among their clients, while they also claim to know exactly what drives employee engagement?

Most of these thought leaders don't actually work in organizations that face serious business issues every day, and after they introduce these new topics, no one ever bothers to ask them, "Did you actually test this out to see if it drives real business results?" The truth is that every book that comes out with a new fad or term will end up being a step backward for HR's credibility, *unless* there is real proof that it actually works. Do these thought leaders and vendors ever put their money where their mouth is and offer to refund their fees if their theory doesn't work?

If thought leaders were medical doctors, their approach to diagnosis might sound like, "Well, the last two people who came in with abdominal pain needed their appendix out, so that must be your problem too." This is wrong. The solution to this is to ignore the thought leaders and diagnose your own business problems with your own people data. Run tests on your organization's data; do not rely on an assumption that what is happening in other companies is applicable to yours. Implementing the next fad is expensive. If it isn't the right fit for your organization, is a thought leader going to come fix it for you and refund the money? Not likely.

This new focus on linking people variables together presents an interesting opportunity for HR in terms of analytics, with a great deal of upside for you as an HR practitioner:

- A greater understanding of the employee knowledge, skills, and abilities that drive business outcomes specific to your organization;
- The ability to make people investments that truly deliver results;
- A way to calculate the ROI of investing in your people; and
- The opportunity to take the lead in making HR process business focused, making HR a strategic business partner for the core business.

## Smarter Analytics for HR to Be Truly Predictive

In order to be truly predictive and useful for leaders at all levels, the following four principles should be followed for both analytics and for creating metrics:

- Analytics *cannot* be limited to slicing-and-dicing HR data; data visualization tools add little value.

- Analytics must be predictive of real business outcomes (not engagement).
- Analytics must be reported and actionable to all frontline leaders, not just for corporate PowerPoint presentations.
- Actual business impact must be shown with data, not assumptions.

A trap in which HR often falls is believing that tracking more and more metrics means that they are business focused or that they are conducting actual analytics. Here's a quick story:

> We began working with a midsized organization that was proud of their monthly HR metrics tracking. They were tracking over seventy-five metrics per month and had two full-time employees that worked a full week every month to create the document and send it to their four hundred leaders. They thought this represented a great contribution to the business. We asked them to add a read receipt to the email that was sent to all four hundred leaders, to see how many of them actually opened the email with the HR metrics document. A grand total of three leaders opened the next month's email. Depressing? Yes. Surprising? No. Fixable? Absolutely.

## Guiding Principles for Business-Focused Metrics

### There Are No Magic Metrics That Work for Everyone

Although a lot of HR leaders get excited about what the latest Silicon Valley company is doing differently in the realm of HR and measurement, it is important to remember that all organizations are different in many ways. The people issues that drive business results in one company may not drive results at another. There are no silver bullets that work everywhere—and HR threatens its own credibility by chasing shiny objects. Organizations have their own people data and business data that can be combined and analyzed to see the connections between the two. These connections are how metrics should be built.

### Every Element on the Scorecard Must Be Directly Linked to Business Outcomes

Why measure something if it doesn't impact anything? It is a fair question that is not often posed to HR leaders. True analytics allow you to understand exactly which HR processes, attitudes, skills, competencies, and the like drive actual business results. If you are measuring something that cannot be shown to impact business results, it is likely not worth the time spent each month measuring it.

### HR Efficiency Metrics Are Fine for Internal HR Tracking but Not for Senior Business Leaders

We hate to break it to you, but your time-to-hire metric is not at the top of your CEO's list of things to be concerned about. Yes, you should track it internally within HR, but the C-suite wants to know what you are doing that is improving the business. If you are just reporting internal efficiencies, then HR will continue to be a cost center (not a profit center) that can only show value by cutting costs, programs, and overhead. To be business focused, your metrics must speak to what the C-suite cares about.

### Benchmarks Don't Mean a Whole Lot

Many HR leaders can't exhale without a benchmark score: "I know how we performed, but what about the benchmark?" In reality, that question is really asking, "I know how we performed, but is it average?" Who wants to be average? Not anyone in your C-suite. Plus, no one actually knows what these benchmarks mean to the business. For example, do you know how much higher than the benchmark you need to be to have a competitive advantage? You don't, because it's impossible to answer that question. Do you know how much lower than the benchmark you need to be to have a competitive disadvantage? It's impossible to answer that question as well. So track benchmarks, but don't make big decisions based off them.

### In Summary

For every metric, you should be able to answer yes to these questions:

- *Can I articulate why this really matters to the business?* By using analytics you can articulate the business impact, but you also need to be sure to *translate* that impact into simple language for all leaders.

- *Do I know what a good number should be?* You're looking not for an average benchmark score but rather a number that shows business impact.
- *Can I articulate the business value of moving this number?* The C-suite will want to know the cost and impact of investing in improving the metric.
- *Would senior and frontline leaders care about this metric?* If you can't explain why they would in a few seconds with actual data, it may not be a good metric.

## Making It Predictive

In Chapters 1–3, we outlined a good bit of the statistical rigor and approaches that are critical in conducting smarter analytics, so we will not repeat ourselves here. However, there are key hurdles that must be cleared before you can say that your analysis is predictive. This is important because, as mentioned earlier, tracking things does not make your analysis predictive. First, let's start with things that are *not* predictive:

- *Measuring your HR metrics against benchmarks*—it is the pursuit of average and does not predict anything.
- *Tracking HR metrics over time*—seeing turnover go up and down over the past twenty-four months is interesting but does not tell you why, or what will happen next.
- *Tracking what other organizations track or what thought leaders tell you to track*—there are no magic metrics or even must-have metrics except ones your organization uncovers using your own data and proper analytic techniques.
- *Assumptions and clichés*—unfortunately, the phrase "employee engagement drives business outcomes" has become part of the HR lexicon. Just because two things are prominent in an organization does not mean that one predicts the other. See Chapter 7 for more details on how employee engagement does *not* predict business outcomes very well.

Now let's talk about how to make your tracking predictive:

- *Combine multiple data sets.* Tracking HR data individually will not predict any other outcome; this is called a data silo and is a common trap for HR.

If you want to predict something, you must bring in the data that you are trying to predict (e.g., sales, revenue, turnover) and line it up with your HR data.

- *Use advanced analytical techniques.* There is more detail in Chapter 1 on analytics approaches, but just eyeballing data to find "trends" or looking for what your top three scoring leaders are doing is not analytics. The more rigor you have behind your analysis, the more confidence you will have in its predictive capability and credibility you will have as an HR leader when you present the analysis to your C-suite.
- *Show that the prediction came true.* A critical flaw in many organizations' pursuits in analytics is that predictions are made with data, but after a year goes by they forget to see if the prediction was actually correct. Did moving the needle on competency *x* actually move the needle on business outcome *y*? Remember, an expected ROI is not a real ROI unless it is shown to have an actual impact. You must do the follow-up study if you are going to have credibility going forward.

## SMARTER ANALYTICS: GETTING STARTED

Here we discuss five practical paths that organizations can take to establish an integrated talent-management platform that not only warehouses data but also serves as the foundation from which the organization conducts and utilizes meaningful analytics to drive strategic action. Remember, the analytics are where the real opportunities exist for the HR department to show an impact.

### Path One: Big Analytics Behind the Scenes

Data collected at organizations are typically housed in different places (i.e., on different servers or platforms) and are pulled and used separately by various functions. When data are housed in this manner, analytics can be conducted behind the scenes by gathering the relevant data—including business outcome data—from the disparate platforms and reformatting as necessary to allow for apples-to-apples comparisons. The process isn't glamorous, but executives don't need to know that. Most importantly, the data need not be on one server to be utilized—don't let seemingly disparate data stop you from pursuing rigorous analysis.

The previous case study (in Chapter 3) outlined a project to find the causes of a $93 million problem at a large grocery chain that had multiple data warehouses across the organization. They conducted the data-gathering process over the course of a few weeks, and it included collecting and compiling data from their employee opinion survey, 360° assessments, performance assessments, learning management system (LMS), and HRIS demographics. Using analytics, we identified key people drivers of their business issues and immediately put initiatives in place that are continuing to have a significant positive financial impact. Had this organization initially focused on pulling all their data onto one platform, the actual analysis of the data would have taken more than eighteen months just to get started. Can your organization afford to wait eighteen months before analytics begin?

Key questions for taking this path include the following:

- Are you relying heavily on separate HR systems to run the HR function?
- Does your organization lack the time or resources to begin pulling all of your HR systems together?
- Does your organization have an appetite for conducting predictive analytics right now?

## Path Two: Big Analytics and Big Integration

The integration of multiple HR platforms can be a huge undertaking for big companies. Indeed, some companies may never be able to completely sunset their current HR platforms. Organizations in this position can put together a comprehensive approach in which the analytics (and impact) begins immediately while an IT transition plan is executed in tandem. This approach allows you to quickly realize the benefits of the analytics without delaying the longer-term process of system integration. The key here is to do analytics work behind the scenes and expose leaders to the outputs of the analytics—make them want more.

This approach is quite effective because getting executives excited about analytics now but spending multiple months or even years to integrate data will reduce that excitement very quickly. Strong analytics and data integration can happen simultaneously.

Key questions for taking this path include the following:

- Is your organization currently working toward integrating all of your HR systems?
- Does your organization have an appetite for conducting predictive analytics right now?

### Path Three: Start Small to Generate Interest

Many organizations think that they have to examine all of their HR and talent management data at the same time to conduct rigorous analyses and have a meaningful impact. This isn't true. One thing we have learned in doing HR analytics over the past fifteen years is that there are many who are skeptical of the process. Rather than view the skeptics as an obstacle—make them an opportunity. Start with one HR process or piece of talent management data and show how it impacts an important business outcome.

Your employee opinion survey is a great thing to start with. Surveys have become ubiquitous in organizations, but their value is extremely limited without analytics. Using predictive analytics, you can show which specific attitudes have a direct impact on important business outcomes (e.g., profit, productivity, safety, turnover). Use this initial analysis to get leader buy-in for the process of HR and talent management analytics. Doing so will help build momentum and allow you to create a business case not only for investing in improving attitudes, but also for conducting analyses in other areas. Once you demonstrate the business value of an employee survey, leaders will want more. By starting small, you create demand from the lines of business/functions that you support for additional data-driven insight into how they can enhance business performance and profitability through their people.

Below are specific questions that analytics can help you answer for several HR processes.

#### Recruiting

- Which recruiting sources produce the best future employees?
- Which labor pools should I focus more time on?
- What is the profile of the employee who performs the best?

### Hiring

- Which assessed competencies yield the best hires?
- Which assessments yield the best hires?
- Did HR make a true business case to convince frontline managers to follow the structured hiring approach?

### Onboarding

- Which aspects of the onboarding process reduce six-month turnover?
- Which managers have onboarding issues?
- Do the expectations set in the hiring and onboarding process align with actual employee experiences?

### Employee Surveys

- Which attitudes drive real business outcomes?
- Which attitudes drive intent to stay and which drive voluntary turnover?
- Did HR make a true business case for action planning and change?

### Performance Management

- Do all employees and leaders have targets that are measurable?
- Do performance ratings drive and connect with business results?
- Which competencies drive business outcomes?
- Do compensation decisions and incentives drive business results?

### 360° Feedback

- Which competencies drive business outcomes?
- Do certain areas of the business need more help with key competencies?
- Did HR make a true business case to invest in competency development?

### Learning

- Which learning courses drive key business outcomes and behaviors? What is the ROI?
- Is online learning as effective as in-person learning?
- Has learning made the business case that justifies its investment in an LMS, corporate schools, and the like?

#### Exit Interviews

- Do we really know why high performers leave?
- What are the key drivers of turnover?

Key questions for taking this path include the following:

- Is your organization currently collecting various types of HR data, such as employee opinion surveys or 360° assessments?
- If the organization isn't fully sold on analytics, is there an opportunity to get your organization interested in the power of understanding how HR impacts business outcomes?

### Path Four: For Small Business—Start Strong

Small businesses often have a distinct advantage when it comes to integrating their HR/talent management data and when conducting analytics—they don't have old legacy technological platforms or vast quantities of data… yet. As a result, small businesses often have an easier time simultaneously transitioning their HR/talent-management data to an integrated platform and conducting advanced analytics.

The holy grail of this approach (and one within reach) is an integrated platform that incorporates predictive analytics and makes the analytics simple and actionable for leaders to understand. Strong analytics can be done within small businesses in much the same way as in large businesses. The focus is typically on individual performance, so having a strong performance-based culture and a good performance-management tool is key to analytics success. One caveat for small businesses conducting advanced analytics is the volume of data. With a limited number of employees, departments, or leaders, the analysis may be limited. However, don't simply assume this is true—find a reliable expert that can assess the available data and set appropriate expectations about the analytics that can be reliably conducted.

Key questions for taking this path include the following:

- Is your small business looking to start or improve its approach to HR and talent management?

- Is your organization currently collecting various types of HR data, such as employee opinion surveys or 360° assessments?
- Is your organization looking to do more with talent management and cut costs?
- If the organization isn't fully sold on analytics, is there an opportunity to get your organization interested in the power of understanding how HR impacts business outcomes?

### Path Five: Have Integration, Require Strong Analytics

There are talent-management platform companies that can put a lot of your HR data in one place to help you run basic reports. Unfortunately, there is very little value in putting data in one place if they are not analyzed properly. There is also a big difference between running turnover reports and discovering what is causing turnover to happen. Other platforms may offer nice graphics and reports, but without strong analytics, HR will continue to be a cost center and not take any steps forward to becoming a profit center. So, you need to pull together the business outcomes from other functions to show how talent management can drive those business outcomes, then calculate an ROI.

Key questions for taking this path include the following:

- Is your organization currently using an integrated talent-management platform that does not show you how people directly impact real business outcomes?
- Are you currently struggling to obtain the ROI that you expected from your talent-management platform in terms of real impact on the business? If the organization isn't fully sold on analytics, is there an opportunity to get your organization interested in the power of understanding how HR impacts business outcomes?

The good news is that any of these paths can be taken quickly and effectively, and all will lead you to being a business partner by showing the impact of HR and talent management on real business outcomes.

## Key Takeaways from Chapter 4

- Analytics are promoted incorrectly by thought leaders and vendors selling snake oil and silver bullets. Buyer beware!
- Metrics are important but must be built using your organization's data and must be connected to your organization's business outcome data.
- Be sure that you are conducting truly predictive analytics before making huge investments in HR initiatives.
- Any organization of any size can get started on the path of smarter analytics immediately.

# Section 3

# Data and Analytics Across the Employment Lifecycle

CHAPTER 5

# Selection and Recruitment

Turnover is an issue that cannot be ignored:

- The US voluntary turnover rate is 23.4 percent annually.[1]
- A study by SHRM indicates that 62 percent of HR professionals report difficulty hiring workers with essential skills for their workforce.[2]
- Total turnover costs range from 90 to 200 percent of the employee's annual salary.[3]

Retention begins before the employee is even hired. There is much more to the recruiting and hiring process these days than just finding candidates, interviewing them, and making an offer. The candidate experience has become more and more important because there are numerous options out there in the job market—and the technology available to assess and stay in touch with candidates is growing exponentially. Furthermore, candidates have access to more information than ever about the companies they are interviewing with. Unfortunately, HR sometimes ends up guessing or, worse, bouncing back and forth between Option A, implementing a truly valid and reliable approach to candidate assessment, and Option B, conducting unstructured interviews while chasing the latest fad they think they are supposed to implement because it seems fun (e.g., puzzles, gamification, word games). For some context, Google announced that their hiring games and puzzles were not valid and that classic structured interviews were really a much more valid way to go when making hiring decisions. Everyone else had decades of research that already told us that, but this is the type of noise that distracts HR from doing its best work, which is why smarter analytics are needed more than ever. In the Google example, everyone just assumed that since Google is a great company, their hiring process should be blindly followed. Haven't we heard this story before?

Another hurdle is the blind reliance on unstructured screening processes in most organizations. Here is how the typical hiring process shakes out:

1. The recruiter conducts a résumé screen and a phone interview with the candidate.

2. A background check is conducted on the candidate.
3. The candidate is interviewed by multiple leaders using unstructured interviews.
4. The interviewers are asked to give their feedback on the candidates based on their unstructured interviews (and their memories).
5. Hiring decisions are then based on how much the candidate was liked and if the interviewer believed that the candidate would be a good fit.

There are times when a structured interview guide should be used in an organization. However, in our experience, they are often not scored by the interviewer or are not followed correctly during the interviewing process. If online assessments are used, hiring managers tend to want an exception to be made if their preferred candidate does not reach a designated minimum score. A structured process can resemble Figure 5.1 and will improve the validity of the hiring process five times over.

As you can see, you can take straightforward (and not overly expensive) steps to conduct a more valid hiring process. Most of these approaches have been around for a long time.

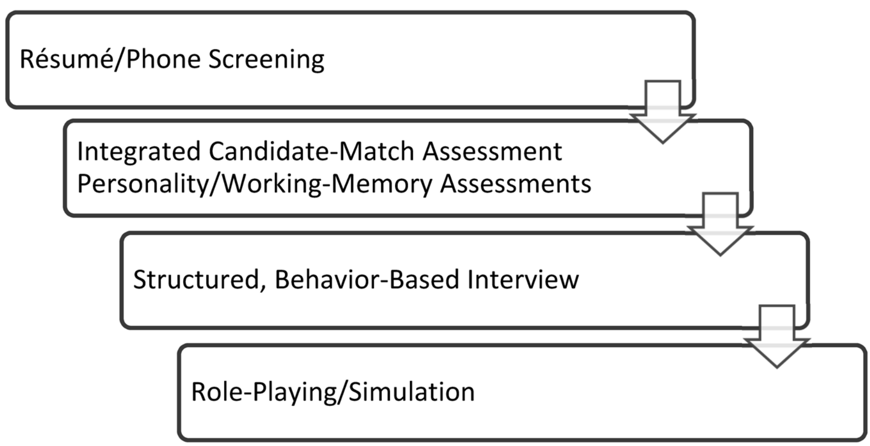


**Figure 5.1.** Comprehensive selection process

## REALISTIC EXPECTATIONS AND ASSESSING FIT

The candidate experience, as mentioned above, is becoming more and more critical and the need expressed by candidates for more transparency during the hiring process is a key part of that. Right now, a candidate may rely on online anecdotes (e.g., Glassdoor) and standard boilerplate materials from your organization's website to ascertain fit. This is not enough information, and it is not always valid. For example, they may read the woes of a disgruntled employee on Glassdoor. Plus, posting a vision or values statement on a website and relying on candidates' web searches isn't actually a process, and there is zero science behind it. The result is that candidates are left wanting more, or worse, they take a job that was not right for them, and you lose money from high turnover. However, HR has a secret weapon for transparency with candidates called the realistic job preview (RJP). An RJP is basically where a job candidate is shown the real inner workings of the job for which they are applying (warts and all!). RJPs have a long and well-researched history of being quite effective in reducing turnover when made part of the hiring process. We have confirmed the RJP's efficacy in our own work with clients using smarter analytics combined with candidate and onboarding surveys.

An obstacle with the RJP is that the hiring manager (and the recruiter, of course) wants to put on the best face when talking about the job, the boss, and the organization. But that means the preview isn't always *realistic*. When the organization's representative isn't upfront and honest about something like working in 100°F weather for long hours, a new hire will quickly learn of this situation and then will likely quit if that environment isn't aligned with their expectations. That's why a *realistic* job preview is so critical. Candidate2Culture Match leverages employee survey data to build profiles of the work environment from three perspectives: role, manager, and location/organization. This preview eradicates the misalignment of the expectations with the reality of the job and organization by providing an accurate, realistic, data-backed snapshot to the candidate. Imagine your recruiter having full visibility into what it is really like to work for the hiring manager for whom they are trying to fill a job. There's no yet-to-be-validated game or puzzle for the candidate to work on, no random, unreliable personality test, no videos to watch—just a recruiter being honest, using smarter analytics to describe what current employees believe about the role and what it is like to work for the hiring manager and the location/organization. This transparency and honesty in the hiring process, thanks to data, will help all organizations provide an RJP. With an RJP profile in place, the recruiter can easily send candidates a brief survey that evaluates the level of importance they place on several aspects of the role, manager, and location/organization. Candidates' results are matched to the role, manager, and location/organization to populate the level of match in an online platform. This is how fit should be measured—on multiple levels, using real data and smarter analytics, and eliminating the subjectivity and bias of the hiring manager.

A better way to think about culture is as the combination of the following:

- Environment as perceived by those currently in the role,
- The approach and behavior of the reporting manager, and
- The organization's (or specific facility's or location's) work environment as reported on the latest employee survey.

The one area that continues to be very vague and elude good hiring practices is the assessment of fit with the culture based on the role, fit with the hiring manager, and fit within the location/organization. In the past, there has been a tremendous amount of subjectivity with assessing fit, since it was left to the judgment of the people conducting unstructured interviews. Plus, the concept of fit in the eyes of the hiring manager is at odds with the desire for diversity in all of its forms. If hiring managers' definition of fit is to simply hire people who agree with them on everything or won't rock the boat or push new boundaries, then they are focused on the wrong things. But smarter analytics can help solve the fit conundrum by using data and validation analyses, as well as providing critical transparency with candidates, which will help candidates make a more accurate decision about the job.

Culture-fit tests are designed to assess the extent to which the culture of the role or organization matches employees' own beliefs, values, and needs. Individuals with high fit stay longer and experience greater satisfaction with their work. Culture-fit tests have demonstrated incremental validity in predicting employee turnover beyond cognitive ability, but assessing fit is quite difficult. In most cases, fit is typically assessed in an unstructured interview or personality test. The interview is ineffective because it relies on one point of view from the interviewer and their subjective opinion of the candidate. Personality tests do not directly assess what candidates want in an organization's culture, but they do indirectly assess how a candidate may act and what they potentially want within a work setting. Some companies have shifted to gathering job preference information from candidates and matching that to the company profile. The problem is that it is unclear what that company profile is based on. Typically, it comes from a few managers answering culture surveys for a predefined, third-party culture model. Flaws exist with each of the above fit measurements.

There are also multiple levels of culture-fit tests that can provide valuable information on candidates' potential fit within the company. You can assess the fit with the role, fit with supervising manager, and fit with the organization or location (typically synonymous with the term "culture fit"). The above assessment strategies don't adequately assess one type of fit, let alone three types—and they are certainly not valid if the definitions of fit are wildly subjective. A better approach to assessing fit was created by using smart analytics (with data that most organizations already have). The majority of organizations conduct employee opinion surveys with some level of regularity, but a huge opportunity has arisen to leverage that data to assess true fit. Candidate2Culture Match is an assessment tool we created that leverages organizational employee survey data to provide an accurate representation of an organization's culture versus recruiter or manager opinion or anecdotal accounts of the culture. Candidate2Culture Match builds profiles of the cultural environments for the role, manager, and location/organization based on real responses from incumbent employees (using their responses from the organization's employee opinion survey). This allows the organization to build three different profiles and assess fit at three distinct levels. Misaligned expectations occur when companies rely solely on a high-level organizational culture vision statement (often a pie-in-the-sky goal) or comments from an online source like Glassdoor. With our tool, you can assess candidates to uncover which characteristics of a job (career development, work-life balance) are most important to them. This enables you to understand what candidates really want and what would keep them at the organization for a long time. Then, you're able to find a match for the candidate's preferences at the role, manager, and location/organization levels. Across all levels, a hiring manager would be able to determine how a candidate's preferences match various attributes like amount of career development support, work-life balance, frequency of performance feedback, and level of teamwork. This allows you to score candidates on fit at each of the three levels, as well as overall. For example, if a candidate really desires work-life balance and recognition for a job well done, but the role, manager, or location/organization doesn't supply those two characteristics very well, there may not be a great fit between the candidate and organization. Hiring candidates who are the best fit for their roles is key to reducing voluntary turnover and producing happier and more productive employees. Remember that culture is not what the organization or manager wants it to be or aspires to; it is what employees are *actually experiencing*. Candidate2Culture Match is a huge opportunity to transform data that likely already exist into a valid hiring assessment.

As the organization administers another employee opinion survey, the latest and greatest data should be utilized in the matching process to ensure accuracy. Also, a smarter analytic approach involves machine learning, where, as more hires are made in your organization, the matching algorithm becomes more customized and better weighted to reflect what truly matters and what drives the culture. The constant addition of new hiring data will allow the algorithms to continually become more representative of what your leaders are hiring for. Understanding the quality of hire (see below) provides you with the validation information that you need to make your process legally defensible.

Matching what the candidate values with what the location/organization, role, and manager truly offer allows smarter analytics to take the place of eyeballing assessment reports and decisions being overridden because an unstructured interview somehow determined that a candidate was not a good fit. It is important to remember that improving the recruiting and selection processes is not just for new hires but can, and most definitely should, be used for internal-transfer hires. Again, the fit of a new role, even for a current employee, will change when they move to a different role, to a different manager, or to a different part of the organization. This assessment process is sometimes overlooked for internal-transfer hires because it is assumed that the internal candidate is already a good fit.

As noted above, the assessment of a candidate's fit with the culture is a critically important part of the hiring process, but it does not encompass all the elements of the hiring process. Assessments of working memory and personality, behavior-based structured interviews, and role-playing and simulations are also highly valuable tools for improving the hiring process. In Appendix B, we go in depth on each type of these assessments—here we will dive into new developments and how smarter analytics have pushed these to the cutting edge.

## ADVANCES IN PERSONALITY ASSESSMENTS

Decades of research on personality within the work environment show that the five-factor model of personality is an effective and valid approach to describing personality. The five-factor model is based on the idea that individual levels of conscientiousness, agreeableness, neuroticism, extraversion, and openness are important predictors of job performance and other organizational outcomes.[4] Other research has shown that conscientiousness is the most important personality construct for predicting work performance across jobs.[5] However, we have not found evidence that five-factor personality assessments predict anything about job performance. There is growing literature that shows that a six-factor model of personality is actually more predictive of job performance.[6] This six-factor model uses the acronym HEXACO, which stands for honesty-humility, emotionality, extraversion, agreeableness, conscientiousness, and openness. The key element that makes HEXACO more predictive than the five-factor model is honesty-humility. There is research that shows that the "H factor" has an impact on meaningful work outcomes, such as performance[7] and productive work behaviors.[8] People who rate high on the honesty-humility scale have been shown to be more open and cooperative individuals in social settings, to honestly acknowledge and appreciate one another's strengths and weaknesses, and to seek and accept new information for growth and development.[9] The good news for HR is that there are validated tools that measure this six-factor model for hiring purposes.

Smarter analytics doesn't assume that past personality models are settled science. We need to continually test assumptions and find better ways to have a direct business impact in our organization (in this case, driving performance and reducing new-hire turnover). Smart analytics would uncover, at the outset, what factors could improve performance and reduce new hire turnovers.

## Working-Memory Assessments

Another exciting and cutting-edge development that smarter analytics have pushed forward is the working-memory assessment. Working-memory assessments are focused on assessing learning, problem-solving, reasoning, and decision-making without zeroing in on cognitive ability. Recent research has also shown that working-memory assessments are as effective at predicting job performance as cognitive-ability assessments.[10] These assessments are easy to administer and take a short amount of time (ten minutes). As part of a comprehensive selection process, working memory is an approach that brings with it strong predictive validity.

## Quality-of-Hire Surveys

Another elusive piece of the puzzle for the recruitment and hiring process is ascertaining the  or the "hit rate" of the process—in other words, Are the people we hired working out for us? An effective way to answer this question (and also validate your selection tools) is to administer a brief quality-of-hire survey to your hiring managers after a specified amount of time from the date of hire—typically ninety days. The approach we have taken with clients is to ask questions related to the new employee's assimilation into the team, their performance thus far, and the likelihood of the hiring manager rehiring this person if they could go through the hiring process again. The ability of the recruiter and the entire organization to quickly see how the candidates turned out provides insights into the following:

- The overall effectiveness of the candidate sourcing and assessment process—both for the recruiter and the hiring manager; and

- If the candidate is not working out, how the manager and human resources can get involved to provide coaching, manage the new employee, or find them a different role where they might thrive.

Tracking the overall quality-of-hire scores for the organization and examining them by recruiter, hiring manager, department, and so on allows HR leaders to use smarter analytics to pinpoint problem areas in the hiring process.

For many organizations, developing a structured hiring process to improve performance and reduce turnover offers significant ROI. As we discussed, most hiring today still follows an unstructured process that results in very subjective decision-making. There are many assessment options in the market for organizations to implement. Below is a list of some basic recommendations that will help improve hiring:

- At a minimum, use structured interviews in your process—they are the easiest to implement with the biggest ROI.
- Managers may resist; convince them with a business case focused on ROI and connection to what matters to them—results.
- Make the process simple and easy to use.
- Revalidate the knowledge, skills, abilities, and competencies used in the selection process as well as the components of the selection process itself.
- Determine how well the assessments are predicting performance and retention.
- Calibrate your pull-through rates—don't make the hurdles so difficult that you lose all your candidates.
- Apply predictive analytics to validate and adjust the selection program once it has been used to make hiring decisions.

## Key Takeaways from Chapter 5

- Adding structure and valid tools to your hiring process will vastly decrease the number of poor hires made by your organization.
- Assessing candidate-to-culture match using employee survey data is a critical new development in hiring.

- Use additional assessments, such as working-memory assessments and six-factor personality assessments, to add more validity to your hiring process.
- Make sure your assessments are working in your organization by using quality-of-hire measurements for new employees.

CHAPTER 6

# Onboarding

Many organizations have begun measuring the entire employee lifecycle, from prehire to exit. However, many organizations do this in pieces. For example, organizations may survey employees after they complete a new-hire orientation program, or the staffing function may ask new hires about their recruiting experiences. For the most part, these surveys are a one-off measure of the program's or process's effectiveness. Rarely do organizations consider the entire lifecycle in a holistic measurement strategy. They have the opportunity to build a cohesive measurement strategy to assess the different phases of the lifecycle, which requires the integration of both assessment and survey content *and* a strategy for how to use and harvest the intelligence from these data. We have been measuring the lifecycle for years at SMD.

In fact, over time we have built a solid measurement framework with aligned content across the lifecycle. We have also built an integrated dashboard that helps organizations synthesize the data to harvest real intelligence. Of course, a measurement framework should be built around driving a real business outcome. In this instance, the focus is on voluntary turnover. There is a real return on investment (ROI) with reducing turnover, and each phase of the lifecycle can provide unique insights and value to the organization in doing so. For example, we know that a key driver of turnover in the first six months of employment is the misalignment of new-hire expectations with the reality of the job. This alone can make the business case for entrance and onboarding surveys.

The lifecycle framework (see Figure 6.1) suggests that organizations should collect information from employees from the time they first speak with a recruiter (prehire assessment) and begin working (entrance survey), during their first few months on the job (onboarding), through their years working at the company (engagement surveys), to when they leave (exit survey).

If you do this, you have at your fingertips the analytics-based answers to improving the critical business outcomes (e.g., reduce turnover) your organization is facing. All you have to do is integrate together and analyze the data from all the surveys you've conducted.

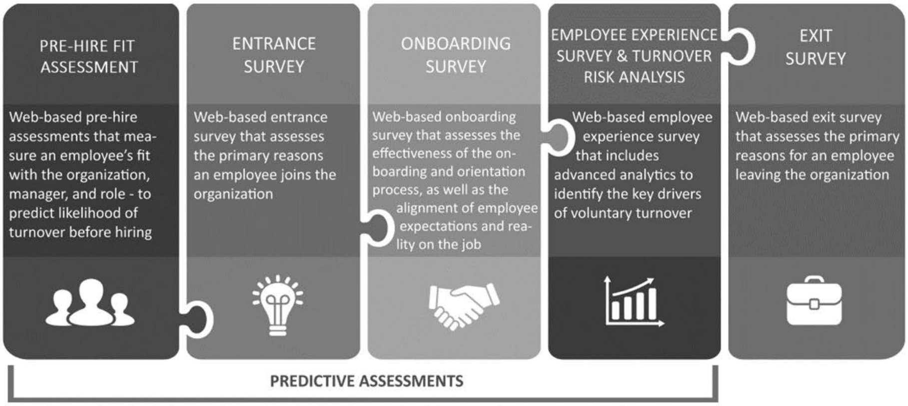


**Figure 6.1.** The lifecycle framework

## ONBOARDING

Onboarding is a key part of the employee lifecycle, although certainly not the beginning of an employee's journey with your organization. Remember that new hires have seen how you operate throughout the hiring process and have formed some first impressions. Furthermore, employees already have set expectations for their role, manager, and organization. As such, onboarding represents a great opportunity to keep employees moving in the right direction by

- Minimizing their time to performance,
- Fostering their assimilation with colleagues, and
- Reducing short-term turnover.

If your organization experiences significant turnover in the first six months of employment, then the turnover issue is likely the most pressing, considering that the costs to recruit, hire, and train keep rising. Furthermore, these costs are especially egregious if an employee leaves before you realize any return on your investment. Add in the increasing time-to-fill numbers in a tight labor market and the cost of having an unfilled position, and the business impact becomes significant.

There are many available resources with creative ways that organizations are onboarding employees (e.g., SHRM's website); this chapter will not dive deep into these approaches, but will rather focus on properly assessing the onboarding process and use of that assessment to understand business impact. Smarter analytics can help you predict business success from the onboarding process. Remember, for you to impress the C-suite and gain a seat at the table, you must show how effective and impactful your organization's approach to onboarding is by predicting business outcomes, not just spending money on the latest survey fad.

While employee surveys have become the norm in most organizations, onboarding surveys are gaining interest in recent years. The fact that interest in them is rising is important, particularly since candidate experience is so critical and quickly turns into employee experience once an individual is hired. Organizations have focused on their onboarding programs, but the key to improving them is understanding which aspects of the experience are impacting business outcomes. Smarter analytics will help your organization not make any assumptions about your onboarding program and identify what truly drives short-term turnover. The data that you collect with new employees can provide you with the insights that you need to understand four key things:

1. Why do people join your organization?
2. Where are the strengths and what are the improvement opportunities for your recruiting/onboarding process?
3. What elements of your onboarding process are driving employees to leave (or stay)?
4. What are employees' expectations when they join the organization and are those expectations being met?

What has worked well for our clients is conducting onboarding surveys at two points in the new employee's lifecycle—at the 30-day mark and the 90-day mark after hire. Organizations should, however, determine the timing of the second onboarding survey based on new-hire turnover trends. To accomplish this, look at when new hires are leaving the organization. If the bulk of your new hires that leave do so around five months of employment, you should consider surveying employees at the 120-day mark. That way you can assess the employee experience close to when they leave but before they do so. In our experience the 90-day mark is a solid general solution.

It is important to note that you do not want to oversurvey new employees, especially when onboarding, because it is difficult to provide them feedback on the results and to communicate action steps that you have taken to fix any issues. Also, local managers often do not hire numerous employees over the course of a year, so local feedback on results may not be shared with managers to protect confidentiality. So, be thoughtful when developing your measurement strategy. Gather timely, relevant data while administering as few surveys as possible.

### 30-Day Onboarding Survey

The right 30-day onboarding survey has three key elements: it asks about an employee's reasons for joining, their recruiting experience, and their initial 30-day onboarding experience. Keep in mind that the entrance survey is often combined with the 30-day survey content to reduce the number of surveys.

### Assessing Reasons for Joining

The employee value proposition is how the market (i.e., job seekers and the general public) views working at your organization. It's important that you validate whether your view of your organization's reputation is in line with that of job candidates. To gain this knowledge, include items about why new employees were attracted to and ultimately made the decision to join your organization. Again, smarter analytics helps eliminate assumptions. It's common for leaders to assume that their organization is problem-free, but the public may have a very different view. Additionally, misinformation from public sources (e.g., Glassdoor; see Chapter 3) may be clouding the perceptions of both job candidates and internal leadership. Gathering data on why people joined your organization will allow you to later assess whether your organization is delivering on their original expectations by integrating reasons for joining with data from your employee opinion survey. Oftentimes, the misalignment between an employee's expectations and the reality once on the job can be the root cause of turnover, and these surveys along with smarter analytics are the ideal way to uncover the disconnect. The key topics to include in the 30-day survey are the following:

- **Reasons for joining**—what were your top reasons for joining the organization?
- **New-hire expectations**—did the things portrayed to you about the job align with reality?
- **Hiring/recruiting process feedback**—rate specific elements of the hiring/recruiting process.

The survey covering reasons for joining (i.e., entrance survey) should consist of approximately fifteen items and include topics such as the following:

- Career Development and Growth
- Compensation and Benefits
- Diversity
- Job Fit
- Job Security
- Location
- Management and Leadership Skills
- Mission and Vision
- Quality
- Relocation
- Resources
- Senior Management
- Teamwork
- Work Schedule
- Work-Life Balance

The survey items should be asked with the following phrasing:

> *Rate each item on how important it was in your decision to accept the job offer.*
> (1=Not important at all to 5=Extremely important)

For statistical rigor and for conducting the best smarter analytics, a five-point scale is strongly recommended to maximize impact.

Again, it is advisable to combine the entrance survey and 30-day onboarding survey into one to avoid oversurveying new employees. The 30-day onboarding survey should cover the following topics:

- Engagement
- Expectations Met
- Hiring Process
- Job Fit
- Manager
- Mission
- Orientation
- Tools/Resources
- Welcome

Specific sample survey items that we use with our clients include the following:

- The Hiring Process
  - Ease of completing applications or forms.
  - Timeliness of follow-up after interview process.
- Onboarding
  - I was provided with an effective orientation to my role.
  - The tools and resources that I have been provided enable me to do my job well.
  - My experience in this job is consistent with how the job was explained to me during the hiring process.
  - My job makes good use of my skills and abilities.
  - My work schedule meets my needs.
  - I would like to be working at this organization three years from now. [A measure of turnover risk.]

As you can see, to truly understand the hiring and onboarding process it is important to understand not only why employees are joining, but also where opportunities exist to improve the recruiting and hiring processes and the early days of the onboarding process. Smarter analytics allow you to examine the data by recruiter and by hiring manager so that any coaching and feedback can be given to specific individuals to improve their performance in key areas.

### 90-Day Onboarding Survey

The next critical step in your approach to measuring the employee lifecycle is to conduct a brief onboarding survey at the 90-day point of employment, which bolsters smarter analytics because you use these survey data points along with others to drive business outcomes. The 90-day onboarding survey is a great opportunity to assess the following key factors in the employee lifecycle:

- Engagement
- Expectations Met
- Job Fit
- Manager
- Mission
- Tools/Resources
- Welcome

Specific sample survey items that we use with our clients include the following:

- My workload allows me to have an appropriate work-life balance.
- The person I report to has been supportive during my onboarding.
- My experiences with the organization are consistent with what was presented to me during orientation.
- I'm treated as a valued member of my work area or department.
- I would like to be working at this organization three years from now. [A measure of turnover risk.]

Based on the topics that we focus on in 90-day onboarding surveys, you can see that an employee's assimilation with the team and organization is growing in importance, along with their expectations about their role being met. From a technical perspective, all of these surveys—the entrance, 30-day onboarding, and 90-day onboarding—should be set up for automated delivery to employees. If using a survey vendor like SMD, a secure FTP (file transfer protocol) connection can be set up between your HRIS and our system. Then a trigger file is set up, which means that certain triggers, such as when an employee's hiring anniversary hits 30 days or 90 days, cause a survey to be sent. Reminder triggers can also be set up—we recommend sending a reminder to take the survey (if it hasn't been taken already) at one week after the initial invitation has been sent and another reminder at two weeks after. We also suggest that you include a reminder to the new employee's manager, in case they missed the survey or accidentally deleted it.

## USING SMARTER ANALYTICS WITH ONBOARDING SURVEY DATA

To reiterate, merely collecting data from 30-day and 90-day onboarding surveys and spitting out reports is not enough to show any ROI for this process. The reports can be useful, and they can show areas of company-wide strength and weakness along with the strengths and weaknesses of specific recruiters and hiring managers. But, none of that will tell you exactly which aspects of the onboarding process contribute to individuals leaving your organization, particularly within a year of employment. This is where smarter analytics comes in, because the statistical analysis and the reporting mechanisms that we have discussed throughout this book are critical for onboarding employees.

The first step is to get an understanding of what drives turnover risk. In other words, the question we want to answer using smarter analytics is, What attitudes about the onboarding process in our organization are related to new employees *considering* leaving? At its core, this is a very proactive approach to driving a key business outcome like turnover because these employees have not left yet, so they can still potentially be salvaged. The process works like this: we make sure clients include at least two items on the survey that are classified as turnover-risk items (e.g., "I would like to be working at this organization three years from now" or "I am proud to say that I work for this organization"). We then use the raw data file and advanced statistical software (e.g., SPSS) to conduct multiple-regression analysis (details about multiple-regression analysis are in Chapter 1) where we regress the turnover-risk items from the survey onto the 30-day onboarding survey items first.

This analysis is important because it tells you exactly which survey categories and which survey items have the most direct impact on whether an employee is planning on staying with your organization. This analysis tells you why *your* employees think about leaving *your* organization; it is not generic information about what is happening at other organizations or what thought leaders think is happening at your organization. Instead, you use smarter analytics to conduct a valid diagnosis of what contributes to employees thinking about leaving your organization as early as their thirtieth day of employment.

The output of smarter analytics is a brief list of the most important areas (or key drivers) on which to focus your recruiting, hiring, and onboarding process that have the most significant impact on your organization's turnover. This provides a very different story than just tracking scores quarterly or looking at high and low scores. The story you can tell your CEO is, "If we improve elements *x*, *y* and *z*, then we can reduce turnover by 4 percent—which carries a cost savings of $2 million." This is the kind of story that a true business partner tells a CEO. Without smarter analytics, the only story to be told is, "Our onboarding survey results went up a little bit this quarter and went down a little bit from two quarters ago, but we still score high on our new orientation class." That second story does not carry much weight, does it? And, by including the entrance survey results in the conversation, you can then tell your CEO, "We have always assumed that people joined us because of our benefits plan, when in reality, job candidates have been coming to us because of our reputation around work-life balance. So, we are restructuring our recruiting messaging to focus more on that." Again, smarter analytics—not assumptions—will win the day with your CEO.

The good news is that the approach to proactive turnover analysis is the exact same when using the 90-day onboarding survey data. We also use at least two turnover-risk items and regress those items on the remaining 90-day onboarding survey items. This will tell you exactly which survey categories and survey items have the most direct impact on why employees think about leaving your organization at the 90-day point of employment.

What's especially great about having a survey strategy is the alignment you can create between surveys. Portions of our 30-day and 90-day survey content purposely overlap so that we can identify if key areas are driving turnover risk at both points in time. This allows us to see if one particular area (e.g., work-life balance) is driving intent to leave the organization at both thirty and ninety days. In addition, we can track items and categories over time for the same employee (i.e., longitudinally). For example, do employees' perception of their managers change from 30 to 90 days? Or more importantly, does a key driver of turnover risk decline from 30 to 90 days? If it substantially declines (some decline is expected due to the honeymoon effect), then that's another indicator that the key driver needs close attention and that you need to take proactive action.

## ONBOARDING ANALYSIS WITH SMARTER ANALYTICS: PHASE II

With analytics, it is possible to integrate onboarding data with other business outcome data to show direct prioritization and impact. The initial focus on turnover risk is important because it is proactive (the new employees have not left the organization yet). Another approach to impacting turnover (the business outcome) is conducting a Post-Turnover Analytics Study. To execute this approach, you must integrate two key data elements for the analysis—the onboarding survey data (from 30 days, 90 days, or both), and your actual turnover data (located in your HRIS).

A crucial, must-have step in the analysis happens prior to survey administration: whether you are using a survey vendor like SMD, or administering these surveys internally, you must conduct an identified survey (i.e., where you can link survey responses to an individual employee), to be able to conduct the Post-Turnover Analysis. Without running an identified survey, there is no unique identifier or employee information captured that enables you to match the two data sets together. You won't be able to identify whether the survey taker has left the organization or is still employed.

Figure 6.2 provides an example step-by-step process of the analysis that you can present to senior leaders to give them an overview of this methodology:

In this example, 495 employees who left the organization also completed the 30-day onboarding survey before they left. We focus on the voluntary turnover (379 employees) because those are employees that chose to leave the organization; the organization could potentially have done something to keep them. A sample of 379 is large enough to analyze the data and conduct a Post-Turnover Analysis.

This first analysis compares survey scores for those who completed the 30-day onboarding survey and have stayed with the organization with

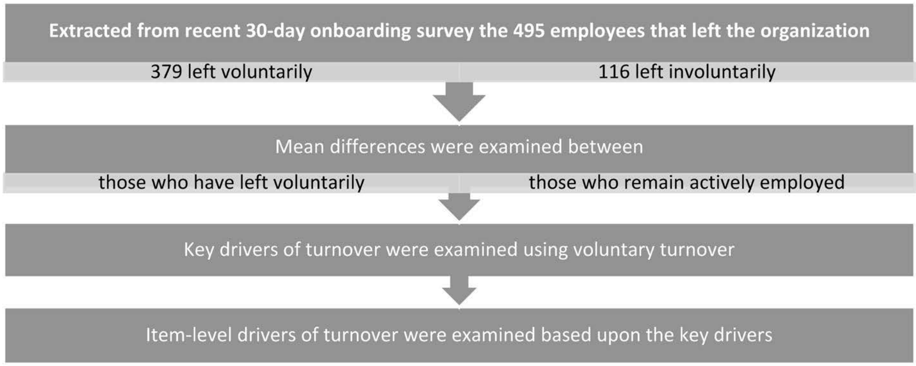


**Figure 6.2.** Onboarding analytics process

those who completed the 30-day onboarding survey and have left the organization. These results provide you two key things:

1. Understand if there are significant differences in onboarding attitudes of those who have stayed versus those who have left.
2. If large gaps exist, then it validates that the survey is measuring what it is supposed to be. On a practical level, you can show managers these gaps to let them know that the survey is providing warning signs of turnover (i.e., the survey is predictive of future turnover).

Table 6.1 shows an effective way to share the preceding comparison data. As you can see, we found significant differences between the experiences of those who voluntarily terminated from the organization and those who remained. This illustrates that the employee experience had a real impact on decisions to leave.

The next step is to determine which experiences are the strongest predictors, using logistic regression. Basically, this approach allows an organization to understand which elements of the 30-day onboarding survey truly differentiate the reasons why these two groups of employees made their decisions to leave or stay. In other words, this approach revealed the "why" of turnover—which is critical to limiting it in the future. It also allows any organization to rely on something other than their gut or on potentially misleading exit survey data in order to draw conclusions as to why employees leave. Figure 6.3 shows the two most important elements (on the right side of the HeatMap) that differentiated the leavers from the stayers.

The 30-day onboarding survey categories of Tools and Onboarding were the two significant differentiators (i.e., the reasons) for turnover in this organization. The next step using smarter analytics is to conduct the regression analysis again but this time focusing on the specific survey items within the Tools and Onboarding categories. This helps all leaders understand the specific items from the survey that have the most significant impact on the key business outcome (i.e., turnover). Table 6.2 shows a sample approach to displaying this information for maximum impact.

**Table 6.1.** Onboarding score comparisons

| Category | Still Employed | Voluntary Turnover | Difference |
|---|---|---|---|
| Recruitment | 4.26 | 4.17 | -0.09 |
| Manager | 4.31 | 4.15 | -0.16 |
| Onboarding/Orientation | 4.33 | 4.12 | -0.21 |
| Mission | 4.41 | 4.23 | -0.18 |
| Engagement | 4.37 | 4.16 | -0.21 |
| Tools & Resources | 4.21 | 3.98 | -0.23 |
| Work-Life Balance | 4.31 | 4.10 | -0.21 |

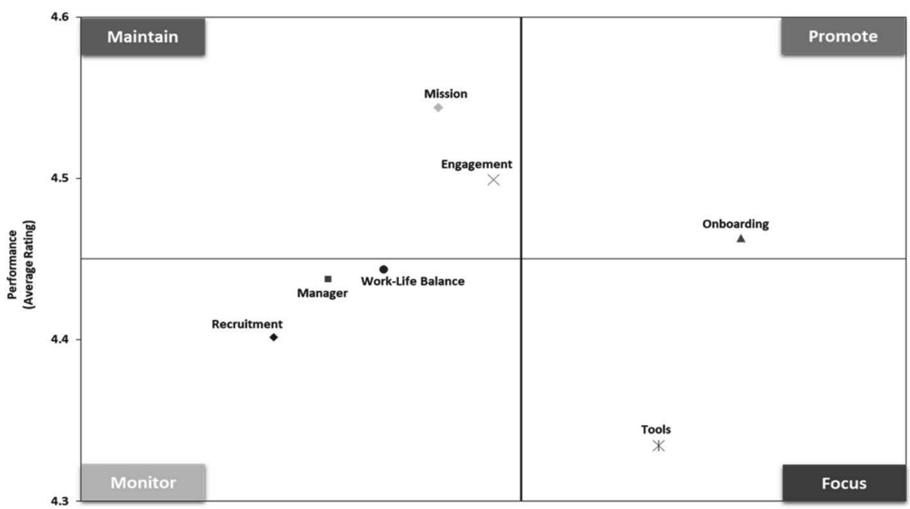


**Figure 6.3.** Onboarding HeatMap

**Table 6.2.** Onboarding item-level key drivers

| Priority | Still Employed | Voluntary Turnover | Difference | Category | Item |
|---|---|---|---|---|---|
| **1** | 4.29 | 4.01 | -0.28 | **Onboarding** | I am provided supportive training and coaching to be successful. |
| **2** | 4.44 | 4.22 | -0.22 | **Onboarding** | This organization helped me feel welcome in my new role. |
| **3** | 4.21 | 3.98 | -0.23 | **Tools** | The tools and resources that I was provided enable me to do my job well. |

A great aspect of smarter analytics is that the approaches outlined here for the 30-day onboarding survey can be replicated with other survey data, including the 90-day onboarding survey and your organization's employee opinion survey data (this is outlined in Chapter 11). While you can replicate the previous steps for the 90-day onboarding survey and the employee opinion survey, the key to showing impact is to integrate the results that you uncover and share those with leaders at all levels. Table 6.3 shows a way to display that information.

Another opportunity to use smarter analytics to your advantage is to also integrate the entrance survey into the analysis. As mentioned earlier, if the reasons why people join your organization are not aligned with what causes them to leave after they are employed (or if you are weak in these areas), then you have misalignment with your employee value proposition. See Table 6.4 for a visual representation.

**Table 6.3.** Integrated onboarding analytics

| 30 Day Survey | 90 Day Survey | Engagement Survey |
|---|---|---|
| **Onboarding/Orientation** | ***Work-Life Balance*** | ***Work-Life Balance*** |
| Tools | Tools | **Mission** |
| | **Teamwork** | **Patient Safety Climate** |
| | | **Senior Leadership** |

**Table 6.4.** Integrated reasons for joining analytics

| Reasons for Joining | 30 Day Survey | 90 Day Survey | Engagement Survey |
|---|---|---|---|
| ***Work-Life Balance*** | **Onboarding/Orientation** | ***Work-Life Balance*** | ***Work-Life Balance*** |
| **Compensation** | Tools | Tools | **Mission** |
| | | **Teamwork** | **Patient Safety Climate** |
| | | **Compensation** | **Compensation** |

Notice how work-life balance and compensation were strong reasons why employees wanted to join this organization, but then both quickly became a reason to leave (90-day survey key driver). This is where the power of data integration and smarter analytics came into play. Had this organization examined each of these surveys in their own silo and simply looked at high and low scores, it would have missed understanding why people were thinking about leaving (proactive) and why they actually left (reactive). It also would not have seen where misalignment existed between the recruiting messaging and the realities of the organization's work environment.

The final phase is creating a visual so that every leader at every level in your organization can see how they performed on these surveys. But also (and most importantly), they should see exactly which areas and survey items they can focus on for the biggest impact on business outcomes (ROI). Figure 6.4 is an example of how to showcase this information for anyone, from your CEO to a frontline supervisor.

As noted, you must quickly show leaders where to focus and why, so they act on these surveys instead of suffer from analysis paralysis. The bottom line is that the onboarding stage of the employee lifecycle is critical to organizations for many reasons. If your organization is experiencing significant voluntary turnover within the first year of employment, then understanding the employee experience of new hires is even more critical. We have outlined an approach for not only measuring these experiences, but also analyzing the data and telling the story to your organization. Reducing the voluntary turnover of new hires can translate into significant savings—not to mention other downstream impacts like improved customer satisfaction. The business case for investing in the measurement and analytics during the onboarding stage is real and significant for HR, but only if executed correctly.

## Key Takeaways from Chapter 6

- Organizations often measure the employee experience at different stages of the lifecycle in silos without an integrated measurement strategy.
- The key drivers of voluntary turnover in the first six months of employment are often different from the drivers for more tenured employees.

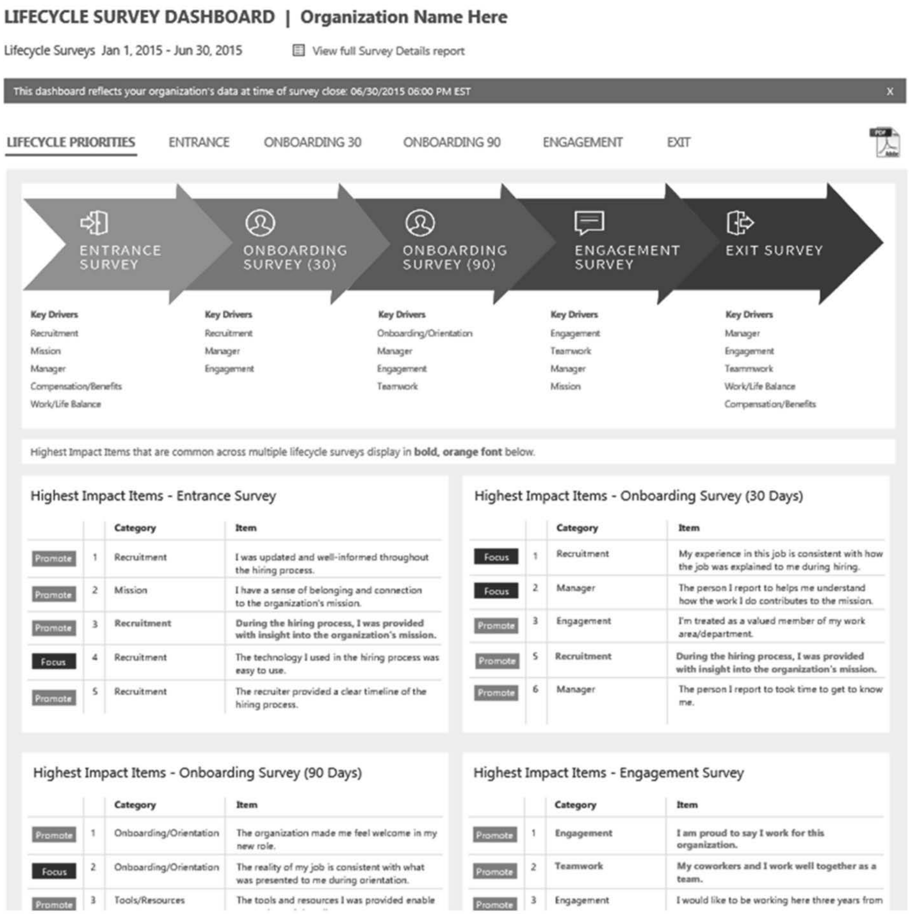


**Figure 6.4.** Employee-lifecycle analytics dashboard

- Using predictive analytics to analyze data from onboarding surveys allows organizations to identify the drivers of new hire turnover.
- For most organizations, reducing new hire turnover will result in significant return on investment.

## CHAPTER 7

# Employee Surveys

The employee opinion survey is used by organizations of all sizes and is designed to provide information on how employees feel about various aspects of their work. It asks employees questions about their manager, role, colleagues, and—of course—about their level of engagement. The core of this chapter focuses on how to use smarter analytics to maximize the business impact (i.e., return on investment; ROI) of employee surveys, leverage your employee survey data in new ways, and avoid fads that will be detrimental to your organization.

## APPLYING SMARTER ANALYTICS TO EMPLOYEE SURVEYS

Here are some simple but tough questions to ask yourself about your current employee survey process:

- How do you demonstrate the ROI from your employee survey process?
- Is the primary focus of your employee survey to measure engagement?
- Are you highly focused on benchmarks?

If you answered yes to the first question, consider this: what if you instead used your survey to connect the employee perspective to business outcome data, such as financial performance, turnover rates, productivity numbers, and other metrics that the C-suite uses to evaluate company performance? If your current employee survey is not predicting outcomes critical to your company, your organization is potentially (and very likely) wasting valuable time and money on initiatives that do not impact business outcomes. The following sections provide an easy-to-follow guide to help you achieve this first objective, from start to finish. Later in this chapter we focus on answering the next two questions above.

### How to Think Strategically about Survey Content and Administration

Getting the ROI of your survey process requires a thoughtful approach from the very beginning of the entire survey.

### Work Backwards

Go into a survey initiative knowing the business questions you want to answer and the ultimate outcomes or goals of the survey. Think through the following:

- What questions are being asked across the organization?
- What are leaders hoping to understand?
- What organizational issues are concerning to leadership?

That last bullet is most critical, and we encourage you to use the stakeholder interview process outlined in Chapter 2. Simply doing a survey has little value if it is not connected to business outcomes that the organization cares about—so ask senior leaders what business metrics they are trying to drive.

### Easy Access

To ensure broader reach and greater participation rates, make surveys accessible online through a computer, tablet , or mobile device; make them available at home or in the office; and send invitations via email, text, and the like. By doing so, you achieve high participation and ultimately a fair representation of all employees. And, the turnaround time for analysis is greatly reduced, meaning your organization can move much quicker from surveying to action. You should be presenting data and analytics to your senior team within a few days of your survey's closing date.

## How to Connect Employee Survey Data to Business Outcomes

Advanced analytics that link employee scores to real business outcomes allow your organization to prioritize time and resources. When you demonstrate the connection between the employee experience and the organization's performance, you put a dollar amount on employee attitudes. This is smarter analytics.

Instead of hoping to reduce turnover or boost customer service, SMD shows organizations direct links to business outcomes. For example, SMD connected a client's employee survey to both employee turnover rates and customer satisfaction scores. This linkage allowed the organization to prioritize the key driver areas most highly connected to the outcomes, provide managers with specific scores on these key drivers, and seamlessly direct follow-up action planning. This approach is outlined below in a graphical representation called a HeatMap (Figure 7.1). The HeatMap allows individual leaders to quickly see which attitudes are key drivers of results and subsequently prioritize improvement efforts in those areas.

## THE MECHANICS OF THE STRATEGIC SURVEY HEATMAP

The first step in building the HeatMap is to work with senior leadership to identify the particular business outcome on which leaders wish to focus. By using the analytical techniques mentioned previously, we lined up data from each manager's employee opinion survey with their year-to-date productivity data. The vertical axis on the HeatMap represents the average score (i.e., the average rating of employees on a five-point rating scale) they achieved on each of the categories from the survey. The horizontal axis shows the level of impact that each of the survey categories had on the business outcome (e.g., driver productivity). The vertical line near the middle of the HeatMap reveals the cutoff where the impact was significant or not significant. Every survey category to the right of the vertical line had a significant

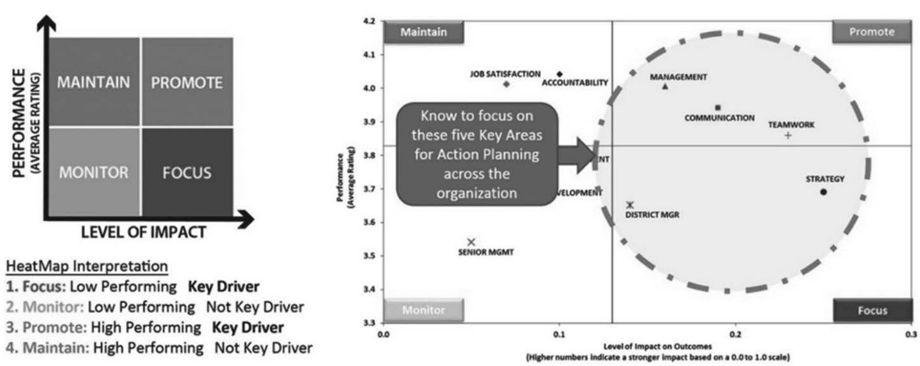


**Figure 7.1.** Strategic survey HeatMap

impact. Every survey category to the left of the vertical line did not have a significant impact.

The horizontal line represents the goal (i.e., average rating target) for the entire organization. The organization determined the goal after senior leaders met to assess their particular culture and needs—it can be set higher or lower for your organization. Survey categories above the horizontal line are considered strengths; those below the line are considered developmental areas.

The four quadrants of the HeatMap help leaders determine how to combine the level of impact and the level of strength of each survey category to turn their results into an actionable plan.

### Focus

The bottom-right quadrant—the most important one—is labeled Focus. Any survey category that falls into this area is (1) scoring below the organizational average and (2) a significant driver of productivity. In a nutshell, the two survey categories in the Focus quadrant (Strategy and District Manager) are essential, and this particular leader is not good at either of them. It makes sense that this particular leader would put these two categories on their action plan. Frontline leaders love this approach because it reduces, perhaps substantially, their data analysis time and allows them to quickly get down to business-focused planning. Plus, when they realize that these are not just low scores, but also elements critical to a performance metric that directly impacts their bonus, frontline leaders buy in on both a personal and business level. HR loves this approach because frontline leaders spend more time working on the people issues that are driving the business.

### Promote

The upper-right quadrant of the HeatMap is labeled Promote because these are the survey categories on which the leader is scoring well, and they are powerful drivers of business outcomes. For these survey categories, the leader wants to highlight what they have been doing and the outcomes their people have achieved. This step helps keep their people focused on that particular area and ensures that they continue performing successfully.

### Monitor

The bottom-left quadrant of the HeatMap is called Monitor because the survey categories that land here represent areas of weakness for this leader but are not highly significant to driving the productivity business outcome. Even so, this leader must still work on these areas regularly, because they are weaknesses. The Focus areas are more crucial and the leader should take care of them first; however, monitoring these other areas will pay dividends.

### Maintain

The top-left quadrant of the HeatMap is called Maintain; it represents the survey categories where this leader should just keep doing what they are doing. It shows the areas in which the leader is doing a great job, but these survey categories are not highly impactful on the productivity outcome. Maintaining their approach and intensity on these categories from the survey will keep paying off for this leader.

## BE CAREFUL: BENCHMARK MYOPIA

One of the key tenets of this book is to use your own data to help diagnose and drive your own business outcomes. We now turn to a major HR trap which is called benchmark myopia.

It is a typical practice in many industries to be curious about and focus on benchmarks to get an idea of where you stand on a particular score or metric. To be clear, benchmarks are good information to know when examining your performance. But when leaders—particularly in HR—live and die by benchmarks (i.e., base their self-esteem or "assess" organizational performance upon them) and make key decisions based heavily on benchmark performance, this is benchmark myopia. It is time to take a step back and reveal some hard truths about this practice.

### The Pursuit of Average

When you stop and think about it, chasing a benchmark is just a pursuit to achieve a somewhat-better-than-average result against a number that may not even reflect a true reality. A benchmark simply reflects your particular vendor's database. Being in the 75th percentile against a weak benchmark database doesn't exactly inspire much confidence. But for that matter, how do we know that being in the 75th percentile against a strong benchmark database means anything of value? A lot of firms talk about the size of their benchmark database, but you should ask them the tough questions: "Exactly how big does that database need to be for it to be effective? Exactly how many other data points will help your organization make more money?" No one knows the answer to these questions. So, why chase that number?

### What Do They Mean?

Do you ever think about what the benchmarks actually mean? We do—all the time. On an employee engagement survey, if your engagement score is 4.00 and the benchmark is 4.10—what exactly does that mean? Are you doomed to fail? Is it worth it to invest a lot of time and money to get up to 4.10? What is the business impact of getting to 4.10? If you do, will the clouds open up and money start falling out of the sky? Guess what—no one knows the answer to these questions. So, why chase that number?

### Competitive Advantage

Using the same example from the employee engagement survey, exactly how much higher than the benchmark do you need to be to have a clear competitive advantage? How much lower until you have a competitive disadvantage? No one knows the answer to these questions. So, why chase that number?

### Random Targets

Some of the organizations that we talk to want to be at the 75th percentile, some want to be at the 90th, and some want to be at the 99th. When we ask, "Why is that your target?" their answer is not usually based on any analysis. The response is generally, "That's what the CEO wants." HR leaders need to have a clear business case for creating a benchmark target. One organization told us that they were in the 99th percentile on their engagement survey, so they were a best-in-class HR function. We asked, "How is the business doing this year?" Their answer was, "Not great." Do you see the disconnect between chasing a number and truly working on business drivers?

## HR AS A BUSINESS PARTNER

If HR wants to be a real business partner and have meaningful impact in the organization (you've heard us say this in other chapters), then the path should be toward driving business outcomes and not obtaining higher survey scores. Contrary to what thought leaders say, employee engagement is not a silver bullet that drives actual business results (SMD research shows that it is impactful about 30 percent of the time), and survey scores do not appear on profit-and-loss reports. The answer lies in a few key areas:

- **Connect the survey to business outcomes.** Yes, you should do employee surveys, but rather than just chase a benchmark, bring in actual business outcome data and uncover which elements of the work environment drive those business outcomes (e.g., sales, productivity, or turnover).
- **Improve the outcomes, not benchmarks.** Share this analysis with your senior team and *every* leader in the organization. All focus should be on the question "What can we work on to drive outcomes?" versus "How can we score higher against the benchmark next year?"
- **Be actionable.** Provide easily understood reports that are linked to action-planning tools so that leaders can take action without having to be professional statisticians or sift through lengthy reports. Provide simple insights to leaders at all levels based on advanced analytics, which then feed an automated action-planning tool.
- **Get a guarantee.** Get a survey vendor that guarantees results and not just a bunch of reports. Assessment companies make tons of wild claims about the magical connection between surveys and business outcomes. Those companies should prove those connections and stand behind the claims that their tools impact your results.

## BE CAREFUL: THE DANGERS OF ENGAGEMENT

Building on the traps that HR has consistently fallen into, we turn our attention to an even bigger HR trap that is the pursuit of engagement scores. It's unfortunate, but with enough marketing from thought leaders and survey vendors shouting from the rooftops, it suddenly became "settled science" that employee engagement drives business outcomes. The problem is that there has never been any evidence that has proven this point, and HR leaders really did not want to question this supposed fact (and most still do not) because it has helped HR look as though it could directly impact business outcomes by just measuring engagement. At this point, you can pretty much predict what the key themes are going to be whenever a survey vendor churns out their annual engagement report:

- Engagement scores are not very good.
- Engagement is pretty much flat again this year.
- Engagement has not moved in the past sixteen years.
- We can tell you what the key drivers of engagement are.

It is getting harder to believe that engagement is a key metric for organizations to focus on and strategize about. Studies that say "companies with high engagement scores have higher business outcomes" amount to fake analytics. Did you know that companies with tall buildings also make more money? That's another example of fake analytics—because we all know that having a taller building is not the reason that an organization makes more money. The next section shows our nationwide study that found that engagement is a key driver of business outcomes only 32 percent of the time.

It has to be frustrating for HR leaders (and all leaders for that matter) to hear about all the time, money, and effort that has been put into driving engagement, knowing that the only result has been stagnating engagement scores for the past sixteen years. When will a CEO finally ask HR, "We've spent lots of money on engagement surveys and engagement consulting—when is this going to pay off?"

There are a few important questions to ask ourselves:

- If survey vendors know what the key drivers of engagement are, then why don't the scores ever move up consistently?
- What exactly is a good engagement score? What number do we need to hit for money to start falling out of the sky?
- Have we hit critical mass on engagement? Is this as high as the scores can get?

- Isn't it time we started looking at which employee attitudes drive actual business outcomes instead of chasing this suboptimal metric?

## WHAT DRIVES BUSINESS OUTCOMES?

SMD conducted a firsthand study to assess how often each of the most commonly measured employee attitudes (i.e., survey categories) were statistically significant drivers of business outcomes. The study examined the following data:

- 36 SMD client organizations.
- 700,000+ total employees.
- 100-employee to 200,000-employee organization sizes.
- Numerous industries including healthcare, nonprofit, retail, manufacturing, hospitality and professional services.

SMD compiled the results of the linkage analyses for each client and determined which survey categories were statistically significant drivers of their business outcomes. These outcomes included, but were not limited to, sales revenue, percent-to-budget metrics, and customer/patient satisfaction. For simplicity, various financial metrics were combined under one group— financial performance—and customer/patient satisfaction (HCAHPS) measures were combined into one customer satisfaction group. Additionally, we examined the linkages of survey categories to voluntary turnover and to employee performance (i.e., yearly performance evaluations). The results are in Table 7.1.

These findings underscore the pivotal role that leaders play in an organization of creating an employee experience that drives organizational outcomes. The three key drivers are consistent with findings from SMD's earlier work and remain critical factors in organizational outcomes. As such, it is important for leaders to have a clear understanding of how their employees view these topics.

### Management

Management ratings on an employee survey give employees an opportunity to assess their relationship with their manager and the feedback their

**Table 7.1.** Key drivers of business outcomes

| Survey Category | Voluntary Turnover | Customer Satisfaction | Financial Performance | Employee Performance | Percent of cases where significant |
|---|---|---|---|---|---|
| **Management** | 78% | 17% | 64% | 100% | 65% |
| **Job Fit** | 67% | 52% | 9% | 25% | 38% |
| **Senior Management** | 22% | 52% | 45% | 13% | 33% |
| Engagement | 67% | 22% | 27% | 13% | 32% |
| Tools/Resources/Staffing | 44% | 22% | 18% | 13% | 24% |
| Compensation | 11% | 9% | 45% | 25% | 23% |
| Safety | 11% | 65% | 0% | 13% | 22% |
| Teamwork | 22% | 30% | 9% | 25% | 22% |
| Customer Focus | 11% | 57% | 9% | 0% | 19% |
| Career Development | 22% | 4% | 18% | 25% | 17% |
| Quality | 0% | 57% | 0% | 0% | 14% |
| Mission/Vision/Values | 33% | 4% | 9% | 0% | 12% |
| Work-Life Balance | 11% | 9% | 0% | 13% | 8% |
| Communication | 0% | 4% | 18% | 0% | 6% |
| Diversity | 0% | 4% | 0% | 13% | 4% |
| Work Environment | 11% | 0% | 0% | 0% | 3% |

manager provides. These can include performance feedback, career discussions, effective communication, feeling valued and listened to, having input on decisions, and feeling supported. Managers also need to carry the messages of senior leaders to frontline employees; this is a key aspect of their role that is often overlooked but is even more important because of the impact that perceptions of senior management have on business outcomes. Managers can build positive employee relations by

- Checking in with staff consistently so they know that managers value employee feedback and have genuine concern for their employees;
- Putting measures in place so that employees feel welcome to provide feedback and suggestions on the organization, the work they do, and decisions that impact their work; and
- Providing performance recognition and feedback on a regular basis, and not only during annual performance evaluations.

Managers are consistently linked to various outcomes for both employees and the organization. This highlights the importance of ensuring managers are well prepared and have the correct skillset to handle their responsibilities, as they are key players in organizational functioning.

## Job Fit

Job fit is a topic that concerns employees enjoying their roles, effectively utilizing their skills and abilities, and having positive challenges at work. Managers can impact their employees' job fit by

- Understanding each employee's current skill level,
- Providing opportunities for positive challenge or new responsibilities, and
- Ensuring the employees they hire are well suited for the work required of the role.

Discuss with staff on a regular basis any misalignment in job duties/skills or in professional development goals; this keeps a pulse on employee job fit. Organizations can also improve upon job fit in the hiring process. Our study demonstrates how important employee experiences regarding fit are to voluntary turnover and customer satisfaction. So, it only makes sense to invest in improving the hiring process to ensure that the candidates receiving job offers fit with the role, hiring manager, and organization.

## Senior Leadership

Survey questions about senior leadership encompass a variety of perceptions about the top levels of leadership in the organization: whether they are visible and convey the organization's goals, mission, and vision; whether employees feel confident in their leadership; and whether employees believe that senior leaders care about and value their contributions. Senior leaders must be prepared to help frontline managers address any employee concerns pertaining to senior leadership. This can be done by

- Providing candid, transparent information directly to staff whether by email, town halls, or webinars;
- Sharing information in a timely manner;
- Ensuring messages are accurately and fully conveyed to staff; and
- Inviting more senior leaders to attend staff meetings and discuss employee concerns and feedback.

While these three employee experiences consistently relate to outcomes for our clients, it is still important to validate the drivers of outcomes in your organization. Although these same areas may come up, other nuanced drivers may be found in other organizations depending on the survey focus, organizational culture, and employee makeup. The bottom line is that while there is consistency in the results, every organization is different—including what drives business outcomes.

Lastly, we found that voluntary turnover and customer satisfaction were *more likely* to be influenced by the employee experience than to be influenced by financial or even employee performance. This makes sense when you consider that an employee's experience at work is likely to have a strong impact on their desire to remain with an organization. And, frontline employees are an organization's direct connection to its customers (or patients). They play a pivotal role in customer experience with a company. As such, if you have a disgruntled employee, their feelings are likely to bleed into their interactions with customers, while the inverse is also true; a satisfied employee is more likely to provide positive interaction and service to customers.

## Engagement's Role and Best Use

While engagement was predictive of outcomes 32 percent of the time in this new analysis, this relationship is largely driven by the connection with voluntary turnover (67 percent). When turnover is removed from the equation, engagement was a driver only 21 percent of the time. Think about that—engagement was not connected to any real business outcomes in almost 80 percent of cases. That is certainly not "settled science" and it clearly debunks all the pseudoscience that thought leaders and vendors put out there. Engagement's connection to turnover is not surprising given that the engagement metric consists of items that rate employee level of commitment to the organization (e.g., "I would like to be working here three years from now"). We've long known that commitment (or lack thereof) is linked to subsequent turnover.

SMD utilizes two to three items from the engagement category as an outcome metric—referred to as turnover risk—in many client analyses.

Turnover risk is a measure of employee commitment to the organization and one captures it by asking engagement items that directly reference intentions to remain employed at the organization. Used in this way, you should examine it as an outcome of various employee experiences rather than as a driver. It allows managers to focus on more actionable areas to directly impact employee commitment to the organization and stave off voluntary turnover. Using engagement as a leading indicator of potential voluntary turnover is the most valuable way to approach it.

Although engagement was related to the outcomes in the study, it was not the strongest predictor of any outcome examined. So, engagement should not be a focus area for any organization evaluating the employee experience; it is necessary and has its place (see the next section on turnover risk)—just not here.

## PROPER ANALYTICS LEAD TO ROI

We strongly recommend clients use engagement in a realistic and appropriate way. Certainly measure it in an employee survey, but use it as a leading indicator of potential turnover, or as an outcome that can provide a gauge of employee morale. But don't use it as the be-all and end-all. SMD highly encourages clients to utilize key business outcomes that matter to their organizations as the focus of their analytic survey work. By following this business-focused approach, you prioritize the follow-up from employee surveys in a way that benefits not only the employee experience but also the organization. It improves your organization's bottom line, rather than just checking the employee-survey box.

When organizations understand the connections between the employee experience and key business outcomes, leaders are able to take a targeted and strategic approach to the action-planning process and see real results for their employees and their organization. For example, one client was able to understand the top three drivers of EBITDA (earnings before interest, taxes, depreciation, and amortization), quality, and turnover for their organization. By focusing on those three key drivers, the organization saw improvement year over year on the employee survey:

- Turnover decreased 13 percent, resulting in an annual savings of $8.1 million.
- EBITDA increased 13 percent, equating to an estimated $8.8 million that could largely be attributed to the reduction in turnover.
- Quality indicators improved 24 percent.

When organizational leaders have a clear path to the employee experiences that drive turnover, they can target key components that can prevent future turnover. By doing so, one of SMD's retail clients reduced their part-time turnover by 26 percent. The opportunity costs related to recruiting, hiring, and training part-time employees yielded an annual cost savings of more than $8.4 million. In another example, a client reduced their turnover rate from 28 percent to 24 percent across the organization, resulting in a savings of approximately $10 million.

## MEASURING AND DIAGNOSING TURNOVER WITH ANALYTICS

Now that you understand the value of the approach, you're probably wondering how to get started. First, examine how various topics on your employee survey (e.g., management, communication, compensation, job fit) drive employee commitment—described previously as turnover risk. Second, if your organization uses a confidential, identified survey, you can look back to employee survey data a few months after the survey and flag employees who have since left. For example, employees who voluntarily left the organization may be those who reported being dissatisfied with management. You can then analyze the key drivers of actual turnover among employees. These two approaches each have advantages and points to consider.

### Approach One

You may conduct the commitment/turnover-risk analysis alongside any other survey analysis to understand right out of the gate which employee experiences are critical in building—or harming—employee commitment to the organization. In our research across numerous clients, we have found that employee commitment (i.e., turnover risk) is the strongest leading indicator of future voluntary turnover. When leaders understand these key drivers alongside their survey results, they can create action plans to directly focus on building employee experiences that will improve commitment and reduce future voluntary turnover.

The downside to this approach is that turnover risk is a complex phenomenon. While it is the strongest leading indicator of future voluntary turnover, it still does not account for a majority of the variance in actual turnover behavior. This means that while it may be the best predictor, there is a lot of room for false predictions. People that report being very committed still leave, and people that indicate on a survey that they are not at all committed often stay for a variety of personal or unavoidable reasons. Additionally, through our own research we found that the drivers of employee turnover risk are often different than the drivers of actual turnover. This is discussed later.

### Approach Two

This analysis directly links employee experiences to subsequent behavior, not just an attitudinal outcome (e.g., turnover risk), so it provides a stronger predictive model of future voluntary turnover. We recommend taking this direct analytic approach; however, it comes with a couple of requirements before you can conduct it.

First, the survey must be administered in a confidential but personally identifiable way. This means that you must be able to track specific respondents later so they can be coded as having left or not. Without a way to link employee attitudes to actual turnover, there is no way to use predictive analytics to determine which aspects of the employee experience contribute to employees ultimately leaving.

Second, in order to conduct the analysis, an organization must wait a certain amount of time after the survey to amass enough employees that have voluntarily left the organization that also took the employee survey. For some organizations that are relatively large or are experiencing high turnover rates, this may be as short as a few months. For others, it could take six months or more to have enough voluntary turnover to properly analyze which employee experiences lead to actual turnover.

## THE CONNECTION BETWEEN TURNOVER RISK AND VOLUNTARY TURNOVER

We wanted to understand which key drivers typically emerge with turnover risk as an outcome and how those map to subsequent analysis of actual turnover behavior. In our study, we looked across five recent clients with which we had conducted both analytic approaches and tracked the differences in key drivers between turnover risk and voluntary turnover. Table 7.2 details the results.

Turnover risk is consistently the strongest predictor of actual turnover, but the drivers of turnover risk and the drivers of actual turnover are often different. We found that while there are some consistently predictive topics across the two outcomes, many other topics differed in what related to commitment and what related to actual turnover. For example, we found that management is a strong predictor of actual turnover but often does not show up in the drivers of turnover risk. We also found that when compensation was a driver of turnover risk, it did not actually drive employees to leave the organization. Job fit and senior leadership were among the only topics that were consistent drivers of turnover risk and ultimately leaving the organization. These two measures address how well an employee feels they are suited for their current role as well as their impressions of senior leaders in the organization.

**Table 7.2.** Turnover risk versus actual turnover

| | Org. A | | Org. B | | Org. C | | Org. D | | Org. E | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Survey Dimension** | **TR** | **VT** | **TR** | **VT** | **TR** | **VT** | **TR** | **VT** | **TR** | **VT** |
| Career Development | | **3** | **4** | | | | **3** | | | |
| Communication | | | | | | | | **1** | | |
| Comp/Benefits | | | | | | | **2** | | **1** | |
| Customer Focus | | | **3** | | | | | | **3** | |
| **Job Fit** | 1 | 1 | 2 | 2 | | | | **2** | | **3** |
| Management | **4** | | | **1** | | **3** | | **4** | | **1** |
| Mission | | | | | 2 | 2 | | | | |
| Quality | **3** | | | | | | | | | |
| Safety | | | | | **3** | | | | | |
| **Senior Leaders** | 2 | 4 | **1** | | **1** | | 1 | 3 | **2** | |
| Teamwork | | **2** | | | **4** | | | | | **2** |
| Work-Life Balance | | | | **3** | | **1** | | | | |

*TR=turnover risk; VT=voluntary turnover*

## Where to Go from Here

Employee turnover is complex. People leave organizations and jobs for a variety of reasons that often have nothing to do with the organization or the role (e.g., personal circumstances, health issues, relocations). However, HR and organizational leaders can make an impact on voluntary employee turnover by understanding what drives employee commitment and what drives actual turnover behaviors. Because turnover risk is the strongest predictor of actual turnover, employee surveys that include items measuring turnover risk and employee commitment can give organizations insight into which employee experiences build commitment to the organization and thus are likely to reduce future voluntary turnover. However, an organization can better position itself to reduce the voluntary turnover rate by focusing on the aspects of the employee experience that directly cause employees to leave. You do this by taking the appropriate steps to ensure that employee attitudes are linked to actual turnover data.

With our clients, we identify the critical drivers of turnover risk as well as the key drivers of actual voluntary turnover when possible. Then we provide a scorecard to the organization that shows how leaders or departments are scoring on these key drivers. This approach allows the organization to not only focus on ways to address the key experiences that directly impact employee turnover, but also direct resources to the areas of the organization that need the most help (i.e., could make the largest impact on keeping employees committed to the organization). And, this process can identify the individuals or leaders within the organization who are doing well. It can potentially serve as a resource in establishing best practices or modeling leader behavior for those departments or leaders that may be struggling. By adopting one or both diagnostic turnover approaches, your organization can begin to think more strategically about where and how to address turnover concerns.

### BE CAREFUL: PULSE SURVEYS AND CONTINUOUS LISTENING

Survey vendors and thought leaders have recently introduced the concept of "continuous listening"—meaning that organizations survey their people all the time, or at least very often. It sounds good on paper, but as of now no evidence supports the concept that continuous surveying is linked to improved business outcomes (e.g., sales, productivity, profitability, turnover). There needs to be a better reason than just obtaining more data. The goal of surveying employees is to

1. Listen to employees,
2. Diagnose drivers of business results,
3. Take action to improve those key drivers, and
4. Demonstrate impact.

How does continuous listening accomplish that? If you can figure it out, please let us know.

Consider a simple analogy that most of you can probably relate to: weight loss. Imagine that you set a personal goal to lose ten pounds over a three-month period. Now, by using a continuous-listening approach you weigh yourself at least twice a day, every single day, but you don't do anything other than weigh yourself more frequently. If that is all you do for the next three months, it's safe to say that you won't meet your goal of losing ten pounds. Measurement (or listening) by itself is not the desired outcome. So, continuing with the analogy but using our approach, you would do the following:

1. **Listen to your body.** Take a baseline measurement and weigh yourself. Let's say you weigh 200 pounds and want to lose 10 pounds (target weight of 190 pounds).
2. **Identify the drivers of being overweight.** Identify root causes of your current weight. For example, you are only working out one day a week and eating no breakfast, a fast-food lunch, and a large dinner on most workdays.
3. **Take action to improve those key drivers.** Build an action plan and execute it. You decide to work out three days a week for forty-five minutes and start eating balanced meals, which includes breakfast and a healthy packed lunch every day.
4. **Demonstrate impact.** Measure to assess the impact of the plan and adjust your action plan for the next three months. At the end of three

months, measure yourself again to see if you met your goal of losing 10 pounds. Imagine that you lost 5 pounds and feel much better.

5. At this point you could set a new goal, revisit root causes, and adjust your action plan. You know that what you did was working since you lost 5 pounds, but you decide to increase your workout routine from forty-five minutes to an hour and reduce the number of meals you eat out during the weekend.

This approach mirrors how everyone should measure employee attitudes. The organization should identify the business objectives of the survey process and build a measurement process to achieve those business objectives. In the weight-loss example, you would probably measure your weight a couple times between the baseline measurement and the target date but build those check-ins (pulses) based on a strategy. However, weighing yourself twice a day provides no value—so why would you even want to?

Not only does this constant-feedback approach fail to demonstrate business value, but is surveying employees all the time a good idea? To better understand how often employees actually want to be surveyed, SMD paid a third party to conduct a survey of US-based employees across industries (more than seven hundred frontline employees responded). When directly asked about preferred frequency of surveying, the study found that over 86 percent wouldn't want to be surveyed even more than four to five times a year (Figure 7.2). The most preferred frequency of surveying was twice a year.

Just because leaders and data scientists want more data does not mean that they should abuse—and in many cases break—their trust with employees by listening without acting. Imagine the frustration of frontline employees who are asked to take surveys all the time with little or no expectation of anything actually happening because of it. If you want to be a low-impact HR function, then checking the box is fine, but actual business partners know better. If just listening to employees but not creating change for improvement is the goal, then you should send employees a survey every hour of every day. The technology and capability to do that exists, but what's the point? Again, it's critical to survey with a purpose and a goal—constantly measuring employee attitudes is a waste. Measurement is not the desired result.

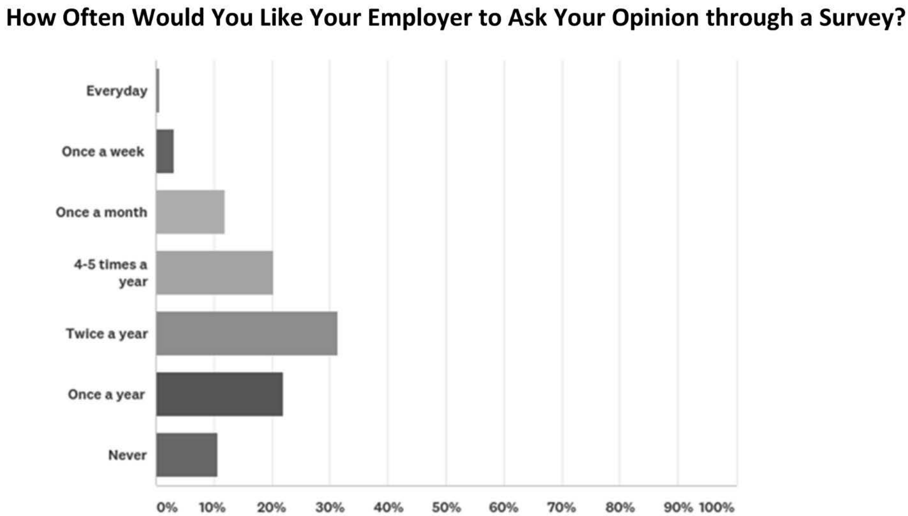


**Figure 7.2.** Employee survey frequency preferences

## MORE IS NOT ALWAYS THE ANSWER

Not to belabor the point, but the annual employee survey is under fire because leaders think that it doesn't work well and they don't see much value in it. HR leaders have a hard enough time getting leaders to work on an annual survey, but thought leaders and vendors somehow believe that doing more of them is the answer. Are leaders really going to do six action plans a year? Are organizations really going to change their strategy every month when the survey results come back and they have fluctuated? When done correctly and when connected to business outcomes, any HR process can be effective.

We have found that clients perform best on business outcomes and survey results when they survey annually and align the process with their fiscal year so that it becomes a business process and not an outlier event. A pulse survey at the midyear point is useful, but only if it is used strategically.

In reality, it is difficult to constantly and effectively survey your workforce because of all that goes into surveying—planning, communicating, and surveying, then rolling out, discussing, and taking action on the results. Plus, if you are going to solicit the opinions of your employees, then you *must* get back to them with the results and what you are going to do about them. Just doing a pulse survey to see if a score is moving will make employees less likely to take the next survey you give them.

It's important to remember these three facts: frontline leaders are very busy, HR's survey is not the center of their universe, and the employee survey is probably one of many surveys that they are asked to execute, as marketing, IT, operations, and so on are also likely surveying throughout the year. If you are going to take some of their time, it's a wise move to make it worthwhile. To that end, here are two approaches to pulse surveys that will help the organization drive actual business outcomes and build better leaders at the same time.

### Focus on Business Drivers

Assuming the annual employee survey has been linked to real business outcomes, the organization knows their own algorithm for success (i.e., the key drivers of business outcomes). The midyear pulse survey should assess leaders on the business drivers from the survey. This is where time, effort, and dollars will be spent, so checking in on these areas makes a lot of sense for the organization. This approach will let all leaders know if their approach to working on the business drivers is paying off. Further, focusing on the business drivers will significantly reduce the length of the survey.

### Concentrate on Struggling Leaders

As noted above, leaders are busy; taking surveys and studying the reports are not the most critical parts of their jobs. Another way to approach pulse surveys is to zero in on leaders who are clearly having trouble in their roles. Pulse surveys used in this way resurvey the employees of leaders who are in, say, the bottom 10 percent of performance at the midyear point. This approach allows those leaders to get insight on whether their action plans are moving the workgroup in the right direction and to get employees' direct feedback on whether improvements are actually happening. The subsequent report to senior leaders provides insight into whether leaders who are failing are headed either up or out in terms of accountability.

### More Relevant and Useful Data

It is worthwhile to consider how an organization can gather from employees more data that will help the organization diagnose and address potential opportunities for improved results (instead of just continuously listening).

This is where measuring across the employee lifecycle has practical utility. At SMD, this means assessing employees as they enter the organization, as they onboard, during their employment (i.e., typical engagement survey), and as they exit the organization. Below is a brief description of these additional assessments (see Chapter 6 for more details on the entrance and onboarding surveys).

### Entrance Survey

SMD's entrance survey is a brief, web-based survey that identifies the key reasons employees join the organization. Based on years of applied organizational research, this survey tool allows organizations to easily identify the primary reasons employees are joining the organization. Oftentimes the misalignment between an employee's expectations and the reality once on the job can be a root cause of turnover. This survey also delivers useful information to your recruiters to help them understand what draws applicants to the organization and what gets them to accept job offers. In other words, this survey can be used strategically.

### Onboarding Survey

Our onboarding survey measures several facets of the onboarding process (e.g., orientation, teamwork, job fit). Survey administration typically occurs in the first 180 days of employment, at various intervals (e.g., 30 days, 90 days). Using advanced analytics, we identify and prioritize key drivers of turnover for managers to review. Understanding how the onboarding process impacts long-term retention is a key factor in the overall turnover story for an organization. Again, SMD isn't just listening; it's finding out what drives early turnover risk and performance ramp-up.

### Exit Survey

The exit survey is a brief, web-based survey that identifies the key reasons an employee leaves the organization. This survey tool allows organizations to easily identify the primary reasons employees are leaving the organization. However, exit surveys are not perfect, so this data is just one piece of the puzzle.

Separately, each of these surveys provides some value to organizations. However, when these assessments are combined with a traditional employee survey, their value increases substantially. Just consider turnover as an example. Using advanced analytics across the various assessments, smarter analytics can identify the specific drivers of turnover throughout the employee lifecycle.

## SURVEY ACTION PLANNING

The survey is just the first step in creating change in your organization. Postsurvey action planning is actually the key to a successful survey because if action is not taken, then change cannot occur, and employees lose trust in the survey process and potentially the organization. And without change, there is no business impact. As part of the study described above regarding pulse surveys and desired frequency of surveys, we found a disturbing trend. Figures 7.3 and 7.4 illuminate two key problems. Most frontline employees were not made aware of the employee survey results and an even higher percentage did not see any changes as a result of the survey. So, this study suggests that employees want to see more done with the feedback they already provide, not take more surveys.

### Four Pillars of Action Plan Success

So far we have demonstrated that employee experiences (as measured by a survey) consistently drive business outcomes. We also shared the results of a study that found employees want organizations and managers to do more

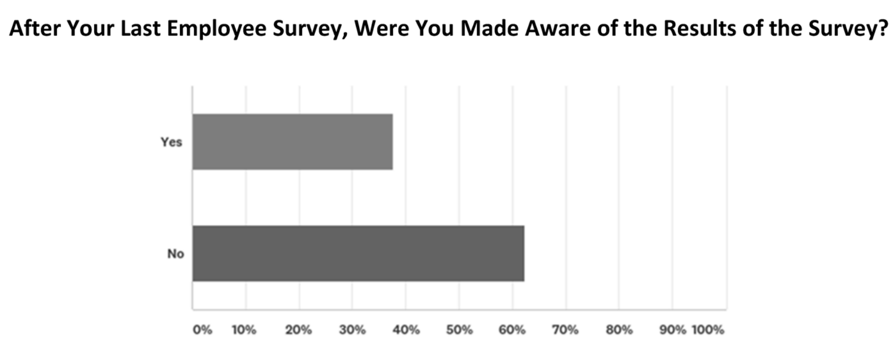


**Figure 7.3.** Survey results awareness

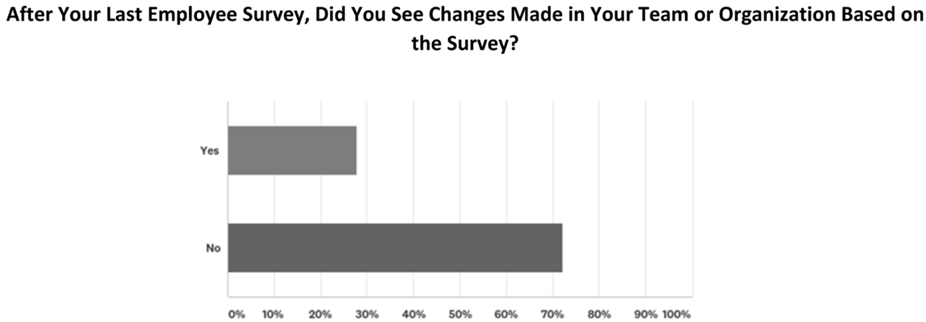


**Figure 7.4.** Changes from the previous survey

with the feedback they provide in employee surveys. This highlights the importance of the action-planning process. This suggests further research and examination of the action-planning process is needed.

To find out what made action plans effective for clients that had statistically significant improvements in their business outcomes *and* their year-over-year employee survey results, we examined the action plans of 780 managers from our client organizations. First and foremost, action planning has a lot to do with discipline around the process, so it wasn't a surprise that leaders with the most significant improvements in business outcomes and survey scores did four things:

1. They incorporated Focus and Promote survey categories in action plans (94 percent). Our patent-pending SMD Link technology shows leaders exactly which survey categories have the biggest impact on business outcomes. The survey categories with the biggest impact come from the Focus (key drivers with low scores) and Promote (key drivers with high scores) areas.
2. They added their own action items and customized SMD's action tips (74 percent). SMD Link's flexible platform allows leaders to add their own action items, customize our catalog of best practices, and add links directly to their own LMS courses.
3. They had their action plan reviewed/approved by their managers (64 percent). Accountability is key to making sure that an action plan is

actually implemented. Bringing in another line of leadership to provide input on the action plan creates alignment within the organization and increases accountability.

4. They updated the plan throughout the year (61 percent). We send out follow-up reminders to leaders throughout the year to update their action plans and track their progress.

## Best Practices for Survey Action Planning

Expanding on this research, we were able to create the following list that represents the most impactful actions from SMD's catalog of best practices, honed over a decade of work and research. They are basically the most impactful actions taken by managers to improve business outcomes for each key driver survey category (in the Focus and Promote categories).

### Senior Management

Your employees should have regular contact with your immediate manager and other senior managers. Invite senior leaders to periodically attend staff meetings and provide updates to your team.

1. Coach local and senior leadership on their performance in leading the organization.
2. Share communications from the leadership team in a timely manner. Encourage your team to discuss how changes will affect them individually and as a team. Take action to mitigate any risks created by the change.

### Career Development

Create-career development plans with employees that have specific action steps. Align individual development with the needs of the organization. Make sure that employees understand that their development is also their responsibility and that they take ownership of the process. Meet with employees to determine their current knowledge and skill levels as well as their perceived training needs and gaps. Have annual career development discussions with all employees.

### Customer Focus

1. Invite a member of the customer satisfaction, quality, or service team to your staff meeting to share customer information and data. Focus the conversation on both the good news and the bad news (e.g., complaints, dissatisfaction, positive feedback).
2. During staff meetings, recognize employees that provide exceptional customer service or contributions to how your work unit improves the customer experience.
3. Create a disciplined approach to management by literally walking around with employees to uncover what their needs are and which tools or resources would help them.
4. Facilitate a focus group with team members to identify existing gaps in tools and resources to providing exceptional customer care and service. Work on the easy fixes first, and quickly. Employees will appreciate you meeting the needs that are simple to address.

### Management

1. Reserve time at the end of all staff meetings to recognize the performance of direct reports and allow employees to recognize their peers for outstanding performance.
2. Hold a team meeting to consider upcoming decisions that will impact your team. Encourage employees to discuss how these decisions impact their work and the team.
3. Delegate more responsibilities to your team members. Appropriate delegation can be extremely beneficial in reducing your responsibilities while developing your employees' skills.
4. Be explicit and clear when setting goals—it's critical. Communicate how goals and performance will be measured and what the rewards and consequences will be depending upon the individual's performance.

### Teamwork

1. Identify effective teamwork behaviors for your team. Develop with your team targeted behaviors that will lead to improved teamwork. Monitor and reinforce appropriate behaviors.

2. Set performance goals for the entire team. Identify how employees must work together to achieve the group goals. Routinely update the team on progress against the goal.

### Accountability

1. When an employee consistently fails to deliver adequate results, you must hold them accountable. Along the way, provide feedback and coaching about achieving a goal or task. If their performance is still not acceptable, seek advice and counsel from your HR partner to develop a performance-improvement plan for the underperforming employee.
2. Review the policies and procedures for handling poor performance. Remind employees that punitive actions are not visible to other employees and are handled confidentially between an underperforming employee, HR, and management.
3. Review employees' individual goals and their status on achieving their goals on a regular basis. Review and display the team's goals in a common area and update the information as often as possible.

### Job Fit

1. Help your employees gain new experiences (e.g., project management) that align with their career-development goals and provide new challenges.
2. Meet with employees to determine their current knowledge and skill levels as well as their perceived training needs and gaps.
3. Have annual career-development discussions with all employees.

The actions listed above have shown an impact on the employee experience and business outcomes for numerous organizations. SMD knows that leaders can use the employee survey to have significant business impact. All they need is the right analytics (that show business impact), the right technology that brings those analytics to frontline leaders, and proven, practical actions.

### Key Takeaways from Chapter 7

- Employee surveys can be effective if

    1. The data are linked to business outcomes,
    2. Managers can implement actions based on smarter analytics, and
    3. Managers actually take action on the results.

- HR traps must be avoided:

    1. Engagement does not drive business outcomes,
    2. Oversurveying your employees is useless, and
    3. Focusing on chasing benchmarks is fruitless.

- Employees want to see more done with the feedback they already provide responding to employee surveys, not take more surveys.

## CHAPTER 8

# 360° Development and Training Needs

360° (or multi-rater) assessments, like employee surveys, are widely used in organizations of all sizes in all industries. While they are widely used, there are numerous opportunities to use smarter analytics to improve their impact in organizations. This chapter will show you how to take a classic assessment approach (the multi-rater 360°) and use smarter analytics to

- Connect 360° data to actual business results,
- Make 360° assessments a business driver for all leaders at all levels,
- Analyze 360° data holistically to look for broader trends and inform leadership development programs, and
- Integrate 360° data with other data points (e.g., employee surveys) to gain more detailed views of leadership performance.

Industry thought leaders will often write articles and blogs proclaiming that a process that has been used for a long time should be declared dead and never be used again by organizations. 360° assessments have been under the microscope recently, and it is fair to ask what the ROI of these types of assessments is. The good news is that 360° assessments, using smarter analytics, directly impact business outcomes and provide key information regarding needs assessments, leadership gaps, and even succession planning. Data integration, which has advanced in recent years, also increases the value of 360° assessments. Appendix C provides the basics of these assessments as a reference point.

## HOW ARE ORGANIZATIONS CHANGING OR EVOLVING THE WAY THEY UTILIZE 360° FEEDBACK SURVEYS?

One of the big obstacles, as with most assessments, is getting the recipient of the feedback to take action on the results. When it comes to 360s, there is often pushback if the feedback is not overly positive. If it is average, then there may not be a sense of urgency to work on anything. The question becomes, How do we overcome the obstacles to getting leaders to take action on their feedback?

At minimum, you need to set expectations early in the process that this is not just an exercise in rating each other: providing 360° ratings is just the first step. Instead of just providing reports of scores or a list of strengths or weaknesses with little direction on what they mean or action to be taken, organizations on the forefront of smarter analytics have embraced new technologies around 360s. For example, some connect the behaviors and competencies measured in the 360s to actual business outcome data (sales, quality, individual performance, etc.), using advanced analytical techniques to show impact. By using a more advanced analytical approach, leaders are able to prioritize which competencies and behaviors have the greatest impact on actual business outcomes.

Once those key behaviors and competencies are identified, 360° participants need to take action. Providing the 360° participants with access to their business drivers is a start, but two key components to drive real action are to (1) show them which competencies and behaviors have the biggest business impact and (2) provide them with action-planning tips, online courses, best practices, and so on. In today's environment, technology, like our SMD Link, can facilitate and automate proven action tips that leaders can implement in the workplace. For 360s to be effective, you must go beyond simply gauging satisfaction with the multi-rater assessment process and make the findings actionable for frontline leaders by linking the process to meaningful business outcomes.

Additionally, technology is helping facilitate the process and removing the stigma surrounding 360° assessments. As you know, 360s can be time consuming for raters when they are asked to rate multiple targets. Advances in technology, such as applications that can be used on multiple types of devices, and improved designs that facilitate ease of use (e.g., not having to scroll to answer items) are really removing the pain often felt by raters. Ultimately, this helps get raters on board with the process and can help build senior leadership buy-in. The more raters, the more buy-in, leading to better data and quicker follow-up action.

## USING A COMPETENCY MODEL TO DEVELOP A 360° TOOL

Because a 360° assessment is predicated on having behavioral content to administer, a valid competency model is a perfect basis for this type of assessment. A competency model, by definition, should be made up of the critical competencies and underlying behaviors that are important for a role, job type, or job family. Thus, the competency model content aligns well with the purpose of a 360°—to understand behavioral strengths and weaknesses that impact performance and business outcomes.

To align the competency model behaviors with the administrative needs of a 360°, the behaviors within the competency model need to be written in a way that raters can read each behavior as a statement with which they can agree or disagree on a scale. For example, if the behavior within a competency model is about setting clear performance expectations for direct reports, the statement may be "Provides clear performance expectations to those who report directly to them." Alternative formats should also be developed for the self-rating component, such as "I provide clear performance expectations to my direct reports."

Once the content from the competency model has been written in a way that can be administered in a 360° assessment, the 360° can be administered and then the focus is on the analytics to connect the 360° ratings to business performance metrics. Connecting to business outcomes will allow the prioritization among the competencies and behaviors for individual and systemic developmental focus.

## SMARTER ANALYTICS IN ACTION: WHICH COMPETENCIES DRIVE RESULTS?

Multi-rater assessments often require a large allotment of organizational resources and time. As such, maximizing the utility and predictive impact of these assessments can bring great value and increased ROI to an organization. Predictive analytics can be applied to 360° results by linking competency and behavioral ratings with business outcome data and determining which competencies and behaviors are the strongest drivers of outcomes (e.g., turnover, profit margins, sales attainment, customer or patient satisfaction).

This linkage allows the organization to make data-based decisions to focus future training and development initiatives on the critical competencies and behaviors identified. By doing so, you can use analytics to tell which competencies are the most important "levers" to pull to impact important outcomes. Predictive analytics, such as SEM, provide insights into which aspects of the assessment are most strongly related to desired outcomes and thus, which competencies should be focused on for strategic development. To put this in perspective, consider the following. Most competency models have eight to twelve competencies, with four to six behaviors for each competency. Let's assume that the average competency model consists of fifty individual behaviors or items on the multi-rater assessment. By linking the assessment data to business outcomes, this list of fifty items can typically be narrowed down to the five to ten behaviors that actually differentiate high performers. Now, instead of trying to develop every behavioral aspect of a role, the individual and the organization can focus on those critical few behaviors knowing that they will have the greatest ROI.

The actual steps to conducting this type of analysis can be quite complex. However, vendors with these skills have become more cost-effective and efficient in providing these services in recent years because of the increased desire to apply advanced analytics to business needs. The steps are outlined at a high level here.

- **Step One:** Aggregate the competency ratings from the 360° to each target. This means that all the scores from all the raters for each 360° participant should be averaged so that you have one rating for each behavior—that is the combined ratings of all raters for that 360° participant (supervisors and leaders, direct reports, and peers; we typically do not include the self-ratings in this mean score).
- **Step Two:** Now that you have average behavior scores for each 360° participant, aggregate those behavior scores to the associated competency level. This means that each competency accounts for multiple behaviors (or items) that should be averaged to reach a competency score. This is just like how you create category scores on an employee survey by averaging the individual items.
- **Step Three:** Once you have one score for each behavior and competency for every participant, you will need to match the 360° data to the business outcome data. For example, if your 360° participants are sales leaders, you would create a file that had each participant in a row, each 360° behavior and competency as columns, and the outcome data as columns. Using a

sales example, outcomes such as quota attainment, total sales revenue, and average deal size could be matched to their 360° ratings (see Table 8.1).

- **Step Four:** Once the critical business outcomes are determined and matched up to the 360° data, you are ready for analysis. At this point, the SEMs or multiple regression models can be computed. The output from these analyses will inform you of the critical competencies and behaviors that are driving the outcomes (in this example, sales quota, revenue, and deal size). Based on the analysis, development and training initiatives can be focused on those critical few competencies and even specific behaviors that will drive improvement in sales metrics.

**Table 8.1.** Sales-performance comparisons

| 360° Participant | Behavior 1 | Behavior 2 | Competency 1 | Sales Quota | Revenue | Average Deal |
|---|---|---|---|---|---|---|
| Joe | 3.47 | 4.01 | 3.98 | 84.5% | $121,132 | $10,254 |
| Sue | 4.12 | 3.59 | 4.02 | 92.4% | $215,654 | $15,651 |

## IDENTIFYING CRITICAL COMPETENCIES AND BEHAVIORS BY DIFFERENTIATORS

More broadly, this same type of analysis can be conducted on certain subgroups of the 360° participants to investigate critical competencies that may differ by job type or family, leadership level, or work context. In some cases, this can be an important step because differences across jobs often necessitate a unique skill profile for successful performance. Without examining the competency-outcome relationships separately for different roles, these nuances would be missed and important information about how to tailor training and development would not exist.

For example, we worked with a large healthcare system headquartered in the northeastern United States and examined key competencies for two different nurse-leader workgroup types: high and low span of control (meaning managing a lot of employees or few employees). To conduct this analysis we had to have some demographic information about the role of each 360° participant included in our data file. In this case, we needed the number of direct reports (span of control) for each participant. From this demographic variable we were able to code the participants as high or low span. Next, we simply ran our SEM analysis separately on the two different groups and compared the results. We were able to see how the competencies and behaviors that drove the important outcomes differed depending on whether a leader was in the high or low span. This more fine-grained analysis allowed the organization to understand how to develop, train, and even select nurse-leaders differently depending on the workgroup size they managed. This tailored approach provides a critical advantage because developmental plans are built in a very strategic way that has demonstrated impact on critical outcomes.

## DEVELOPMENT VS. PERFORMANCE EVALUATION

One of the more controversial issues surrounding multi-rater assessments is whether to use them exclusively for development, or to also use them as the basis for personnel decisions. Research indicates that rating quality and accuracy increase when multi-rater assessments are used purely for development purposes. When employees know that important personnel decisions (e.g., promotions, bonuses) will be made based on their assessment results, they are likely to select more lenient raters. Additionally, raters themselves may inflate or deflate their scores depending on their relationship with the individual being assessed. For example, if a peer rater and the person being rated are both under consideration for a promotion, that may influence the ratings. The most useful ratings will thus be obtained if the assessment results are used only to guide individual training and development. Our recommendation is to use multi-rater assessments for development applications. Regardless of the application, an organization should be direct and transparent about how the data from the assessments will be used.

## TRAINING-NEEDS ASSESSMENT

In the past, the typical approach for conducting a training-needs assessment was one of the following: (1) ask incumbents and their leaders where they believed training should focus or (2) build a competency model and create a training strategy or curriculum around those competencies. The first approach seems logical, as it is always valuable to get participant and subject matter experts' input. However, most of the time, job incumbents and even their leaders don't really know what drives performance, or they may have differing perspectives on what matters most. The second approach does provide a strong foundation for building a training curriculum, but how do you know those are the competencies that drive performance and business outcomes? Without the right rigor, identifying the appropriate competencies to develop a training strategy or curriculum can be difficult. Most individuals are left searching or build models with way too many competencies.

Based on the approach to multi-rater feedback described in this chapter, assessing incumbent behaviors and linking those results to business outcomes moves training-needs assessment to a completely different level. Essentially, a systemic training strategy can be focused, behaviorally based, and impact results, meaning you can show ROI postimplementation. So, instead of building a training curriculum in the normal fashion, training professionals should consider using a multi-rater assessment combined with analytics and performance data. This approach will allow HR to answer the question they hate to hear from the CEO: "How much ROI did we get from our training?" Discovering the competencies most responsible for business outcomes allows HR leaders to make data-driven decisions regarding where to invest developmental efforts and dollars and to demonstrate an ROI on the back end. The following case study exemplifies this process, highlighting the way in which multi-rater assessments can become critical business drivers.

## Case Study: Gaining Market Share via Training

The sales leadership at a small pharmaceutical company wanted to invest in the individual development of its specialty sales representatives and identify the critical skills needed to gain market share on its primary competitor. The company's brand possessed a 23.3 percent share of the market. This particular market is relatively mature and the organization's leaders were looking for a new commercial edge in an extremely competitive market. The following were the broader challenges facing the organization:

- Need to invest in the development of specialty pharmaceutical sales representatives,
- Need to identify the critical skills for its sales representatives,

- Need to grow market share in a competitive, mature market,
- Need to better understand the ROI of organizational training investments, and
- Need to drive revenue growth.

We gathered multi-rater feedback on a sales representative competency and integrated two primary business outcomes for sales representatives—territory market share and script-writing volume—to create a combined data set and conduct an organization-level analysis using SEM (discussed in Chapter 1). We examined the sales representatives' competencies as drivers of territory market share and script-writing volume. Using this technique, manager and physician responses were statistically linked to the previous six-month territory market share and script volume for each sales representative. This analysis allowed the organization to prioritize individual behaviors that had a direct impact on the outcomes (i.e., prescription writing, market share). The results of the linkage analysis are depicted in Figure 8.1.

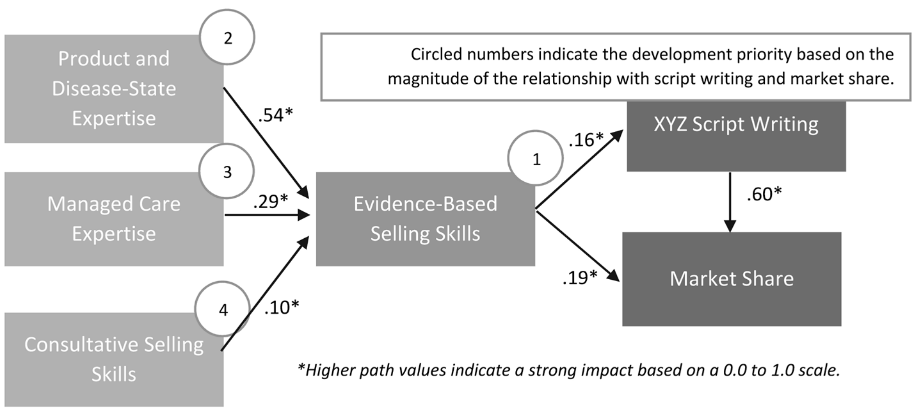


**Figure 8.1.** Sales impact

## ROI OF TRAINING INTERVENTIONS: BEHAVIOR CHANGE AND BUSINESS IMPACT

The linkage analysis allowed the pharmaceutical organization to assess current sales representatives' capabilities and prioritize training and development interventions. To address needs in the identified areas of evidence-based selling, product and disease-state expertise, managed care expertise, and consultative selling skills, the organization implemented several training interventions at the organization and individual level. The 360° rating process was executed again eighteen months later. Table 8.2 depicts the competency changes found after the training interventions. The four categories identified as most critical to territory market share and script-writing volume (which therefore received prioritization for training and development) had the biggest improvements.

The average script volume increased from 299 to 371 in the two-year period and market share improvement had a $1.4 million impact. In addition to the utility in developing the organization's training strategy, the results of the process were used to adjust the brand strategy of the product. Overall, the results of the 360° assessment were found to have many applications and impacts throughout the organization. Table 8.3 shows the financial impact and ROI.

## Case Study: Integrating 360° with Other Assessments

In our case study in Chapter 10, we provide a detailed description of how we defined greatness for the sales representatives at a large services firm. This profile was used for development as well as for hiring new sales

**Table 8.2.** Sales competency change over time

| Competency | Year 2 Average | Year 1 Average | Difference (Year 2-Year 1) | Significant Change |
|---|---|---|---|---|
| Account Management | 6.65 | 6.64 | +0.01 | No |
| Advanced-Level Selling Skills | 6.55 | 6.59 | -0.04 | No |
| Consultative Selling Skills | 6.59 | 6.47 | +0.12 | Yes |
| Product & Disease State Knowledge | 6.65 | 6.51 | +0.14 | Yes |
| Evidence Based Selling Skills | 6.56 | 6.34 | +0.22 | Yes |
| Managed Care Expertise | 6.64 | 6.42 | +0.22 | Yes |
| Relationship Building | 6.70 | 6.64 | +0.06 | No |
| Sales Representative Overall | 6.61 | 6.53 | +0.08 | No |

**Table 8.3.** Financial impact of sales

| Sales Outcome | Estimated Impact* | Actual Sales Improvement (Year 1 to Year 2) | Total Sales Impact |
|---|---|---|---|
| XYZ Script Writing | 3.2% of Script Writing Improvement | +24% | +.77% |
| Market Share | 3.8% of Market Share Improvement | +1.0% | +.04% |

Increasing Script Writing by .77% equates to approximately **$1,400,000** in additional revenue.

representatives. To create this profile of high performance, we integrated multiple assessments: personality assessment, sales culture survey, knowledge test, and multi-rater behavior assessment (not a full 360° since the sales representatives had no direct reports, so we'll call it a 270°). While all of these assessments were valuable, it should be noted that the multi-rater behavior assessment was by far the most critical driver of sales performance. Behaviors had the most direct and largest impact on sales metrics (see Figure 8.2). So, whether as part of a broader set of assessments or by itself, the multi-rater assessment is a powerful tool for many applications—in this case, employee development and hiring.

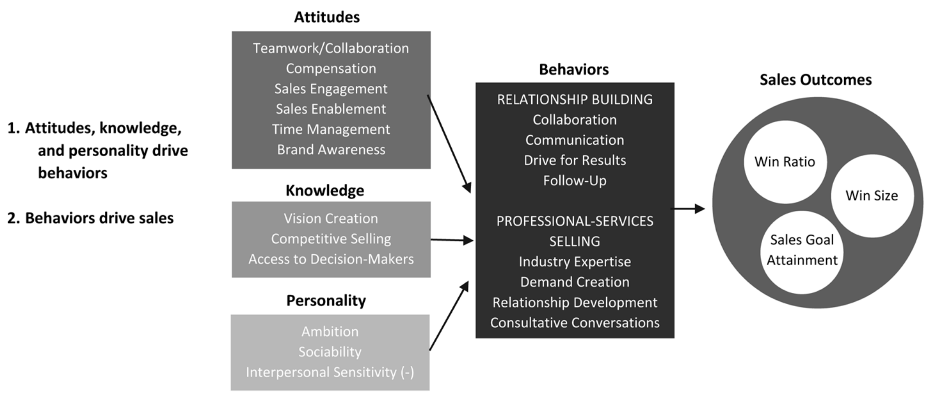


**Figure 8.2.** Key drivers of sales outcomes

## Key Takeaways for Chapter 8

- You must take advantage of the opportunity to take 360s to the next level by connecting the data directly to business outcomes using smarter analytics.
- Technology now allows leaders who are recipients of 360° data to take action, using proven best practices, in the areas with the greatest opportunity for ROI.
- Use competencies that were built in your organization to maximize their relevancy and impact—off-the-shelf competencies are less impactful.

## CHAPTER 9

# Data Integration

### TELLING THE COMPLETE LIFECYCLE STORY

An employee's relationship with an organization starts with the first point of contact and goes until they decide to leave the organization. All along the way (what we call the employee lifecycle) we can collect data at different time points. The employee lifecycle encompasses data from prehire fit assessments (see Chapter 5); entrance, onboarding, and exit surveys (covered in Chapter 6); annual or pulse employee surveys (Chapter 7); and any other employee information collected during their tenure (demographic information, performance ratings, job changes, etc.). By integrating other data (e.g., demographic information, performance measures, business outcome metrics) with these lifecycle assessments, organizational leaders are better equipped to understand the unique aspects of the employee base and how those aspects relate to how the organization functions. Further, along these timepoints in an employee's tenure, there will likely be various decisions made by the organization regarding the employee—for example, decisions around promotions and development that can feed into succession-planning strategies.

Each point of data collection and its subsequent analysis is valuable, but you need to connect them to business outcomes *and* integrate the pieces into one full story to magnify the impact. With a holistic lifecycle approach to collecting information on employees, you can pinpoint the most important reasons (i.e., key drivers) an employee would leave at multiple time points as well as what maximizes their performance and business impact. This chapter delves into this approach and provides insights and examples of how to achieve this within your organization. We also discuss how integrating employee lifecycle data can answer three very different problems: turnover across the lifecycle, generational differences, and succession planning.

## SOME DATA DASHBOARDS ARE EFFECTIVE

Data dashboards often get a bad rap—and deservedly so. Merely tracking data for the sake of tracking provides little value, and simply creating pretty graphics out of the data that you are tracking is an even bigger waste of resources. Smarter analytics can however transform an average dashboard into an essential management tool. When you link integrated employee-lifecycle data to business outcomes, leaders can easily take action on the areas that will have the largest potential ROI. Remember, this is not about spending your days running the most reports or overloading your frontline managers with data and spreadsheets. It's about prioritizing action steps to make analytics actionable for all leaders at all levels of your organization in order to drive business results. Simply put, it is a less-is-more approach to HR analytics.

Figure 9.1 shows an example of an integrated employee-lifecycle dashboard that highlights the key drivers of actual business outcomes at each step in the employee lifecycle. Notice that under each arrow are the key category drivers of business outcomes from each point within an employee's lifecycle. There is no mountain of data for a manager to decipher or list of benchmarks to let a leader know how they compare to arbitrary thresholds.

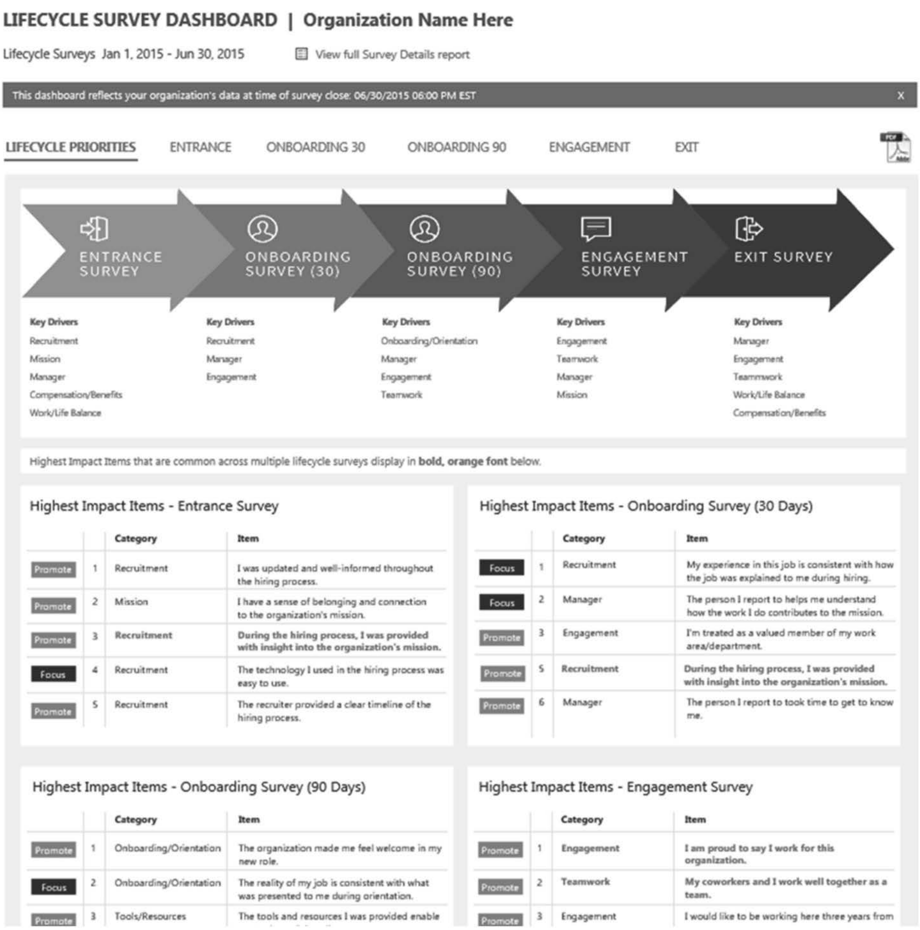


**Figure 9.1.** Employee Lifecycle Analytics Dashboard

Each leader can see the specific, actionable items (from each point in the lifecycle) that they should work on to have the biggest impact on the business—these highest-impact items are in the section below the arrows on the dashboard.

Managers should not have to guess what to work on to drive results; their report or dashboard should spell it out and put it front and center. This is how HR needs to present data to leaders. Unfortunately, many HR leaders and vendors think that providing more reports means providing more value. However, leaders want to know what to work on to maximize their time and directly impact the business; they don't want more reports.

Figure 9.2 provides a deeper dive into the results that the dashboard provides from each point in the employee lifecycle (in this case, a 90-day onboarding survey). Within this page of the dashboard, you see the financial impact from improving the key drivers from this survey—actual dollars and cents. Leaders can follow the trends on their key drivers (the most important pieces of the survey) as well as any key groups (e.g., departments, service lines) that are excelling or falling behind on the drivers.

It takes only two pages to show a manager exactly what to work on and how that work impacts the business. No longer should managers have to look at data and guess why or how to improve. Typical reporting dashboards lack that utility. Smarter analytics is not about creating more information just for the sake of information, but rather about helping your organization improve and make more money by focusing management's actions.

## AN INTEGRATED LIFECYCLE STORY

A large healthcare organization was struggling with turnover—especially new-hire turnover—much like a lot of organizations (US voluntary turnover rate is 23.4 percent annually[1]). Because the direct replacement costs associated with turnover typically range from 20 to 25 percent of an employee's annual salary (and indirect costs as high as 90–200 percent),[2] they quickly identified that their goal was to reduce turnover. The problem with turnover is that there are different influences on an employee leaving at different points in their tenure. This means that separate employees who leave at three months, one year, or ten years may have experienced different influences.

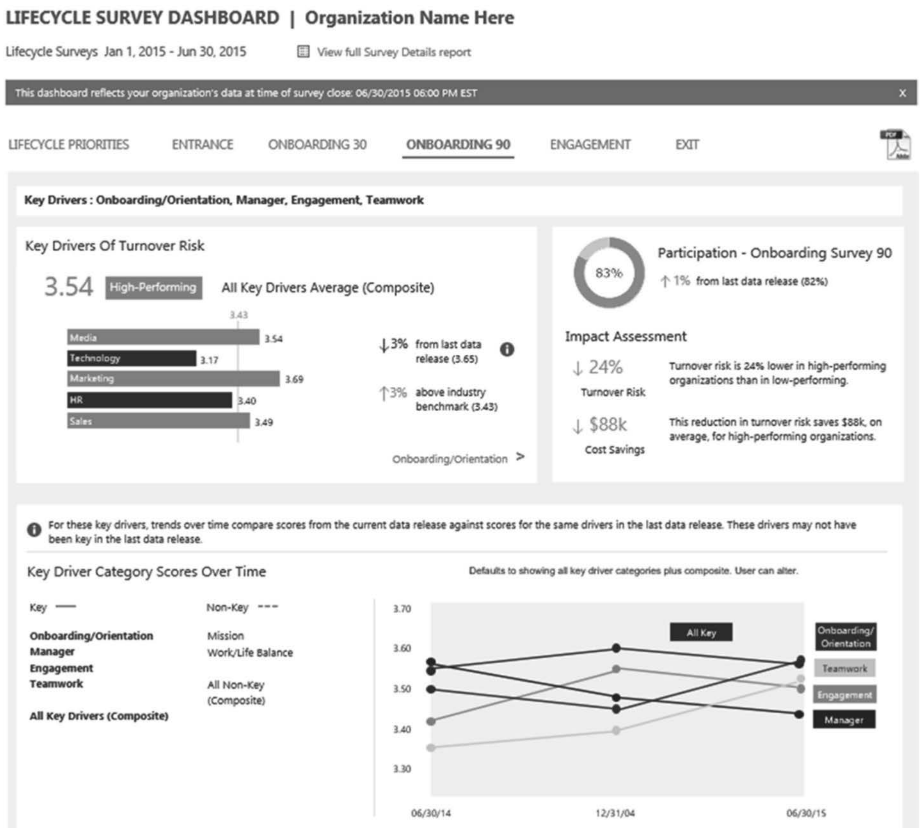


**Figure 9.2.** Employee Lifecycle Dashboard detailed elements

For example, during the entrance and onboarding process, an employee's expectations may not be met because they were promised too much, or after three years of tenure an employee may not see the career-development opportunities they had hoped for or anticipated.

The large healthcare organization launched entrance, 30-day onboarding, 90-day onboarding, and exit surveys and supplied us their raw engagement survey data in order to capture employee attitudes across the lifecycle. Once the surveys commenced, we built a large-enough sample of employee terminations in three to four months. As mentioned in Chapter 3, to evaluate turnover you need to wait long enough after administering the survey to gather a sample of terminated employees that is significantly large. (The smaller the organization or lower the turnover rate, the longer the wait.)

After four months (and monitoring the sample sizes of our data sources), we moved forward with the data integration. Fortunately, turnover information was readily available from the HRIS and we could integrate it at the individual level with each survey. We easily matched the data sources using employee ID and began the analyses.

Next, we used logistic regression (an advanced analytic technique) to understand how each survey category across the various surveys impacted turnover. This allowed us to link survey data directly to turnover data, revealing the significant key drivers of turnover for each survey (or time point) as shown in Table 9.1.

All the work to get different data sources and formats, to integrate, and to run analyses showed leaders exactly what they needed to work on to reduce turnover at each phase of an employee's lifecycle with the organization. All that they needed was one chart, ready for action (Table 9.1), rather than dozens of reports, PowerPoints, or spreadsheets to sift through. They didn't even need to get HR on the phone. As you can see in Table 9.1, leaders especially needed to

1. Focus on work-life balance in the onboarding process,
2. Promote career development opportunities throughout (because employees were joining and leaving for the same reason), and
3. Foster a positive manager-employee relationship.

Additionally, leaders could see that employees wanted to feel welcomed, to be a good fit for their role, and to stop being overworked because of staffing issues.

**Table 9.1.** Integrated lifecycle key drivers

| Rank | Entrance | 30-Day | 90-Day | Engagement | Exit |
|---|---|---|---|---|---|
| 1 | Work-Life Balance | Work-Life Balance | Work-Life Balance | Staffing | Teamwork |
| 2 | Career Fit | Welcome | Welcome | Career Development | Career Development |
| 3 | Job Security | Job Fit | Manager | Management | Mgt./Supervision |
| 4 | Pay/Benefits | | Compensation | Job Skill | Pay/Benefits |

While that chart may have been enough, we used the data and modeling results to populate our lifecycle dashboard in order to communicate results to leaders. That way, leaders could easily access the key-driver priorities, scores (with trends, if they were high or low), and detailed information on each item if they wanted. We also segmented the results by facility, so a leader for say, Facility A, would enter the dashboard and see survey scores for Facility A, reflecting their specific work environment.

At that point, the leaders of the healthcare organization were armed with a business case to create initiatives and attack employee turnover for any kind of employee. No longer dependent on one data source or time point, leaders could address different aspects along the lifecycle, potentially driving change through recruiting improvements, hiring-process changes, onboarding training, or leadership-development program enhancements.

## TELLING COMPELLING STORIES WITH THE EMPLOYEE LIFECYCLE: THE MILLENNIAL MYTH

To be clear, the employee lifecycle does not necessarily refer to the age of employees who join your organization; it's about their tenure with the organization. It is also important not to stereotype employees based on their age—one critical group that is being overanalyzed is millennials. Millennials have become somewhat of an obsession for the popular press, and also for HR departments. Organizations are scrambling to figure out how to retain millennials and what they value in a job, suspecting that millennials function quite differently from the rest of the workforce and thinking that the organization's typical values and benefits will not work with them. Much like with engagement, all the shouting without any supporting data about millennials has permeated a myth that millennials are entitled, are lazy, and won't stay in jobs very long.

We wanted to see if there was any truth to this millennial myth. The good news is that smarter analytics can objectively cut through the nonsense and get to the reality. To do so, we used thousands of survey cases from across the employee lifecycle. We found there were no statistical differences between millennials and other generations in terms of what they experience and want out of work. In particular, we examined if there were differences in new-hire expectations, engagement drivers, and key factors related to voluntary turnover. We did not find any significant differences between the millennials and other generations. The following sections specify our approach.

### New-Hire Experiences

First, we examined how millennials differed from other generational cohorts in their initial experiences of a new job. We looked to see whether millennials scored significantly different than their older generational counterparts on six new-hire categories. Although there are slight differences in some scores, we didn't find any large enough to warrant significance, apart from a 0.08 difference for onboarding (see Table 9.2). It seems that new hires, independent of generation, largely have the same expectations and evaluations of their initial tenure in organizations, suggesting that the millennial myth is just that.

### Engagement Drivers

Next, we looked to see if the similarities held true when analyzing engagement data. With this analysis, we identified the key drivers of engagement by generation (i.e., baby boomers, Generation Xers, and millennials). The top five statistically significant drivers of engagement are the same across all three generations (see Table 9.3). The top two drivers (senior leadership and mission) for each generation are equal in the same order of strength of relationship (i.e., largest beta weights). So, regardless of generation, senior leadership and mission are the most impactful in improving engagement. The results show that the three generations desire the same things to become a more engaged employee, as the remaining three drivers are the same for

**Table 9.2.** Generational new-hire score comparisons

| New Hire Category | Boomers & Gen Xers | Millennials | Difference |
|---|---|---|---|
| Onboarding | 4.29 | 4.37 | 0.08 |
| Management | 4.26 | 4.25 | -0.01 |
| Engagement | 4.56 | 4.55 | -0.01 |
| Mission | 4.46 | 4.47 | 0.01 |
| Teamwork | 4.41 | 4.45 | 0.04 |
| Compensation | 4.18 | 4.17 | -0.01 |

**Table 9.3.** Key drivers of turnover risk across generations

| Rank | Baby Boomers | Generation Xers | Millennials |
|---|---|---|---|
| 1 | Senior Leadership | Senior Leadership | Senior Leadership |
| 2 | Mission | Mission | Mission |
| 3 | Management | Management | Teamwork |
| 4 | Teamwork | Occupational Safety | Occupational Safety |
| 5 | Occupational Safety | Teamwork | Management |

each generation, just with a slightly different priority order. This again sheds doubt on the millennial myth.

### Voluntary Turnover Drivers

Last, we examined the key factor from each employee survey that led an employee to leave the organization. The key driver was the same for all generations within each organization, although the key driver differed by client (i.e., Organization A versus Organization B). For example, for one client the top driver of voluntary turnover across all three generations was work-life balance, and for the another it was accountability, and for a third client it was job fit. The point here is that although turnover differs across organizations, within each organization the work experiences that are key factors in employees' decisions whether to remain are the same regardless of generation.

### Just Another New Batch of Workers

The millennial myth doesn't seem to bear out. There are always concerns or factors that are more associated with young adults entering the workforce, regardless of their generation. Of course, young adults will have a lot to learn and will likely see the world a little differently than their older, more experienced coworkers. The point of challenging the millennial assumption is to illustrate how common it is for organizations to take popular press assertions and apply them blindly to their employees. Often these trends and assumptions *feel* right and are easy to assume as true. However, taking the time to test what you're hearing to see if it bears truth in your own employee base can offer keen insights that can either confirm or buck those assumptions. Without integrating data and testing those relationships, organizational leaders will spend time and money chasing an industry trend that may be irrelevant to their own organizations.

## SUCCESSION PLANNING: A UNIQUE DATA-INTEGRATION OPPORTUNITY

Succession planning is often still a highly subjective process, assessing talent with ratings of performance and "potential." When considered along the employee lifecycle, succession planning can become a more strategic and objective process with definitive steps along an employee's tenure. Moreover, smarter analytics and data integration offer great opportunities to make the succession-planning process more objective and focused on the bottom line. Our business-focused approach to succession planning helps ensure that the process is aligned with the employee's lifecycle, customized to the unique needs of each organization, and linked to critical business outcomes.

We outline below the four-step approach we use with clients and include several practical tools that will help organizations be successful during each step of the process. Also, Appendix D provides the basics of succession planning to help start you on that journey.

### Step 1: Assess Business Impact of Current People Data

Organizational leaders should review the business strategy and identify key business metrics or outcomes that the organization hopes to achieve through succession planning (e.g., reducing high-performer turnover or having immediate replacements for critical roles). Additionally, certain time points in employees' tenure or position levels may trigger succession evaluations to determine readiness for the next step in their careers. The next step is to link people assessments (such as competency ratings, performance ratings, and attitude surveys) to those business metrics. This step allows organizations to identify the people factors (e.g., competencies, performance levels, and attitudes) that drive the critical business outcomes.

To identify the people factors that drive outcomes, you must first conduct or compile data from assessments that capture the key competencies (e.g., multi-rater or 360°), areas of personality (e.g., valid personality assessment), employee attitudes (e.g., employee opinion survey), and objective performance metrics (e.g., strong performance review or performance-management system). Organizations can also include ratings of employee potential for advancement (e.g., ready now or ready within six months to one year) in this assessment phase. You could conduct other assessments as well (e.g. cognitive ability), but this is a strong list with which to start.

### Step 2: Conduct Analysis to Identify the Factors That Drive Business Outcomes

Align the data for each leader to connect their competencies, personality, or other characteristics to the key business outcomes for which the organization holds each leader accountable. This analytic rigor prioritizes the organization's goals and adds a level of depth beyond including only the opinions (and biases) of key stakeholders in the succession-planning process. Plus, this data-driven process helps organizational leaders overcome the challenges associated with differentiating talent and ensures that the key factors driving business outcomes are at the forefront of talent decisions. If you have a large enough talent pool, you can even consider splitting the data by job level and evaluating the people factors that drive outcomes at various position levels in the organization. This can provide valuable information for how to select and develop leaders through phases of advancement. Table 9.4 provides an example of the Talent/Succession Scorecard.

### Step 3: Build and Customize the Talent/Succession Scorecard

This scorecard is completely focused on what drives a business because it displays only those key areas of performance and behaviors (the "what" and the "how") that were shown to have a significant impact on business outcomes (in step one). This approach helps calibrate ratings assigned during talent-planning meetings and reduces the opportunity for biases to influence the rating process, by clearly depicting each leader's level of performance across the categories that drive business outcomes.

When you read the scorecard from left to right, you quickly see which individuals are performing well across the critical areas, and which are in need of further development before they can take on new responsibilities or

**Table 9.4.** Talent/Succession Scorecard

| Talent/Succession Scorecard | Current Performance/ Potential[1] | Critical Competencies[2] | | | Performance in Experiences[3] | | Cognitive Ability[4] | Employee Survey[5] | Potential[6] | Individual Talent Health[7] |
|---|---|---|---|---|---|---|---|---|---|---|
| Employee | Business Outcomes (% Effective) | Communication | Leadership | Execution | Critical Exp. #1 (Dir.) | Critical Exp. #2 (Dir.) | Assessment Score | 5 Year Average | | |
| Joe Sampson | 67% | 67% | 71% | 75% | 29% | 58% | 63% | 29% | 25% | 56% |
| Jane Smith | 67% | 93% | 100% | 53% | 80% | 0% | 75% | 33% | 25% | 63% |
| Beverly Jones | 69% | 80% | 84% | 69% | 64% | 69% | 50% | 48% | 25% | 66% |
| Anne Johnson | 71% | 91% | 90% | 83% | 81% | 91% | 84% | 58% | 33% | 79% |
| Steve Simmons | 75% | 100% | 100% | 83% | 58% | 100% | 88% | 92% | 50% | 84% |
| Bill Norder | 77% | 93% | 88% | 86% | 82% | 87% | 77% | 23% | 33% | 76% |
| Paul Monroe | 80% | 97% | 90% | 87% | 93% | 93% | 75% | 27% | 75% | 83% |
| Jill Stevenson | 83% | 94% | 93% | 93% | 79% | 0% | 89% | 76% | 75% | 79% |
| Ben Stevens | 83% | 95% | 94% | 86% | 100% | 95% | 82% | 79% | 67% | 88% |
| **Average Element Score[8]** | **83%** | **92%** | **94%** | **85%** | **78%** | **78%** | **76%** | **58%** | **63%** | **81%** |
| **Overall Talent Pool Health[9]** | **81%** | | | | | | | | | |

roles. Additionally, when reading from top to bottom within each of the key areas assessed, the developmental needs across the entire talent pool become obvious.

In Table 9.4, the most glaring issue is employee attitudes (in the Employee Survey category), indicating that across the talent pool employees' attitudes (which are a key driver of business outcomes) are problematic. As such, the scorecard helps organizational leaders readily identify that they need to make developmental investments in this area. The scorecard also allows you to calculate an overall talent-pool health score, which can be used to track progress in developing the key talent in your organization. The talent-pool health score represents a summation of all talent-health scores for the individuals you assess.

## Key Takeaways from Chapter 9

- Measuring data across the employee lifecycle is not enough. The data must be integrated, connected to business outcomes, and localized for frontline leaders to take action.
- Smarter analytics can be used to dispel myths and challenge assumptions.
- Succession planning is a great opportunity to use data integration to make better talent decisions.

# Section 4

# Case Studies

CHAPTER 10

# Case Study One

## BUILDING PREDICTIVE TALENT PROFILES FOR SALES PROFESSIONALS

With a new CEO and corporate strategy in place, the leadership at a large, national professional-services firm started to contemplate changing their sales model. Like many professional-services organizations, the firm had relied on partners to sell and deliver its services. A few years prior, the firm had successfully built and deployed a national sales force to support and work with the partners to identify opportunities and close deals. This achieved the desired result of bringing new discipline and sales expertise to the organization. However, while some partners easily adopted the new model and worked well with the sales function, others did not and relied upon their old method of selling.

This was concerning, because the success of the new model was highly contingent on the ability of the sales team and the partners to work together. In fact, the reward structure for the sales employees hinged on including and being included by others to close deals and deliver services. The CSO (chief sales officer) knew that the firm needed to continue evolving and increasing adoption across the organization to achieve its growth goals and support the new growth strategy. He also understood that in order to do this, the company needed to build a profile of high performers around those sales professionals that were excelling in the current model. Essentially, he wanted to align his current sales professionals to a desired profile through development and he wanted to hire new sales professionals with the right skills and abilities.

The CSO had two main types of sales professionals—those that he described as "hunters" and those that he called "builders." Hunters, in his opinion, were in their job for the thrill of the hunt. They excelled at finding ways into target organizations and quickly closing the deal. The builders, on the other hand, understood the value in taking things slow. This latter group was driven by building deep relationships with clients and pulling from their vast network of connections to continuously meet new prospects. In terms of sales performance, there were high performers in both camps. Unlike the sales professionals, the partners did not fit into either of these groups. They were highly technically trained in their industry and line of service, and most had no sales experience whatsoever.

The company called in SMD to understand holistically which critical behavioral competencies, knowledge, personality traits, and sales-climate attitudes had the largest impact on sales outcomes. Their ultimate goal was to redesign and align the performance and selection systems for sales professionals to ensure (1) that the current sales professionals were being trained on and dedicated attention to those key weaknesses that were leading to underperformance, and (2) that new hires to the sales team had the characteristics critical to success in the organization.

## FOUR-STEP PROCESS

In order to achieve these goals, we introduced our four-step process for selection and development. This is a one-of-a kind, targeted approach to holistic assessment that uses analytics to identify the key drivers of sales performance. The process is based on research but tailored specifically to each organization, creating a customized solution that selects employees who fit into the given context and develops the current workforce on the key drivers most strongly linked to business success. The four steps are

1. Define greatness,
2. Assess and compare the current workforce to greatness,
3. Develop the current workforce toward greatness, and
4. Hire greatness.

### Step 1: Define Greatness

The first step of the process is to gain an understanding of what great performance looks like for the sales employees in this organization. Although it seems simple, this first step is exceptionally important—the information gathered here is the base for future analyses, and accordingly, all other steps in the process. Leaving out critical information (or including irrelevant information) greatly reduces the utility of the resulting selection and development systems.

We began this step by turning to the sales professionals themselves. The CSO identified fourteen of the highest-performing sales professionals in all US territories along with three partners to interview. We conducted hour-long interviews with each to gather information about the knowledge, skills, abilities, and behaviors that make a sales employee successful in this organization. In the interviews, we used open-ended questions such as, "When thinking about an exceptional performer, what qualities come to mind?" and "What behaviors do you use on a daily basis that help you to be successful in your job?"

We collected and analyzed the interview text across all interviewees in order to pull out the strongest themes, ranking each theme based on its frequency. We identified twelve themes, or competencies, and pulled behavioral examples or indicators of each from the interview text. For example, one identified competency was Communication. Based on the competency name, this could mean a variety of things, but we wanted to know what specific communication behaviors were important for this particular job type in this particular company. From the interview data, we identified five behavioral items for the Communication competency, including "quickly builds rapport through speech and action when first meeting with decision-makers" and "uses listening as a strategy to gather information and build trust." As is probably apparent, although many organizations may have the same or similar competency names, the behavioral items that actually make up the competency can widely differ—and often do.

Aside from identifying competencies and behaviors that make up great performance, we also have to define what exactly great performance means. For some clients, performance could mean scores on annual performance evaluations; for others, like in this case study, we had access to hard outcomes (e.g., sales, profit, speed, quality). We used a combination of three common sales outcomes: sales goal attainment, average win rate, and average win size. These serve as the outcomes that we seek to positively impact by implementing our selection and development systems.

### Step 2: Assess and Compare the Current Workforce to Greatness

After we had built the competency model and identified which outcomes we were trying to improve, the next step was to gain an understanding of where the sales force currently stood on the twelve identified competencies. To do this, we created a battery of assessments designed to span the entirety of the competencies and produce a holistic picture of performance (i.e., assess each sales professional on their behaviors, attitudes, knowledge, and personality traits). There were four assessments in total: a 360° to assess behavior, a sales-climate survey to assess work attitudes, a situational-judgment test to assess job knowledge, and a personality assessment.

All of the sales executives participated in the four assessments, along with 79 percent of the partners, who completed the partner portion of the 360° assessment for the sales executives that they worked with regularly. Overall, scores were relatively high. Specifically, in the behavioral assessment, the participants scored at or above SMD's benchmark on nine out of ten competencies. Collaboration had the only average significantly below the benchmark, which reflected dependent relationships with partners. In the attitude assessment, participants scored at or above our benchmark on ten out of eleven categories. Training and Development was the only category that was significantly below the benchmark. In the knowledge assessment, eighteen out of eighteen dimensions scored at or above the benchmark. Finally, on personality assessment the sales force scored unusually high on interpersonal sensitivity.

Although we now had an understanding of where the sales force scored on each competency, we couldn't tell from that alone which competencies were critical for sales success. Put another way, Which of the competencies that we assessed were key drivers of sales performance? To answer this question, we used a series of correlation and regression analyses to conduct a linkage analysis connecting the people data (scores on the assessment battery) to the sales outcomes. Based on this analysis, we found which assessment types were most directly (and indirectly) linked to sales; which behavioral competencies were the strongest predictors of sales; and which categories (attitude, knowledge, personality) were the strongest predictors of behavioral competencies. Figure 10.1 shows the resulting model.

We found eight behavioral competencies that drive sales outcomes, and seven attitudes, three knowledge areas, and three personality traits that drive those eight critical behaviors. Looking at the relationship between the behaviors and critical sales outcomes, we created a HeatMap (Figure 10.2).

The eight critical drivers of sales outcomes fall to the right of the vertical divider (in the Promote and Focus boxes). We calculated the anticipated ROI

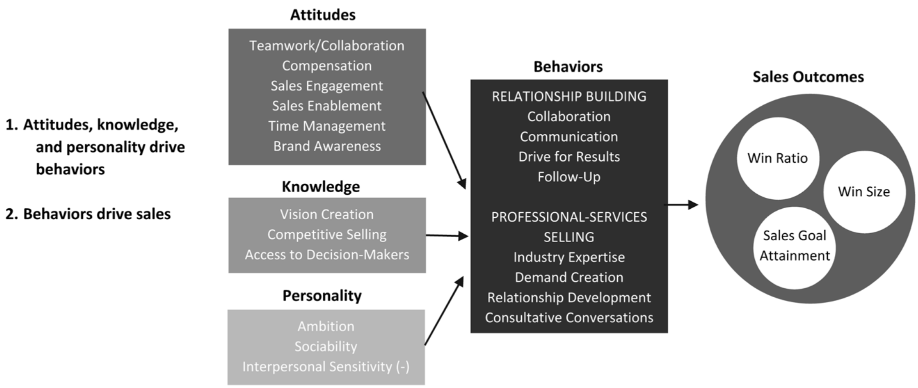


**Figure 10.1.** Key drivers of sales outcomes

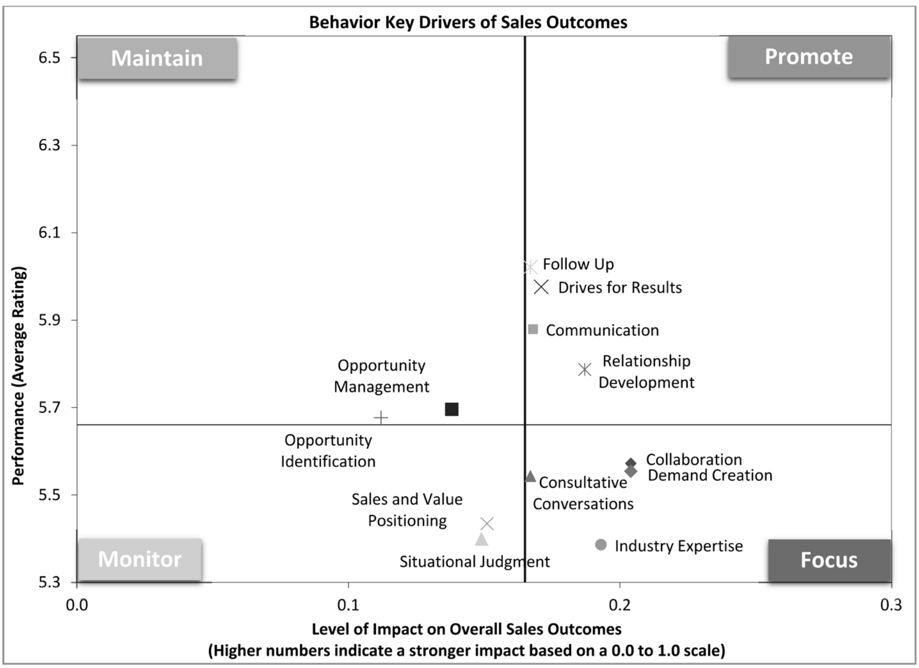


**Figure 10.2.** HeatMap for key drivers of sales

in these eight critical areas by comparing high- and low-scoring employees on the key drivers and on sales outcomes. We found that high-performing sales professionals who had an overall average of 6.00 or more on all eight key competencies outperformed their peers, with 78 percent greater sales goal attainment, $10,000 greater average-win size, and 10 percent greater win rate.

Because of the strong link to the sales bottom line, these were the critical competencies that we concentrated on when designing the selection system. For development, we concentrated on competencies in the Focus box—these are key drivers in which the current sales force scored low and where improvement would have a direct impact on sales.

### Step 3: Develop the Current Workforce toward Greatness

In order to develop the current workforce toward greatness, we need to define the profile of greatness and then understand where the current workforce stands in comparison. In order to do this, we must set target proficiency levels for each competency. We did this in our example by examining score distributions on each competency for each participant. Based on the frequency of score distributions, we set proficiency score cutoffs based on a 7-point scale: foundational (average competency score of 1.00 to 4.49), proficient (4.50 to 5.49), advanced (5.50 to 6.24), and expert (6.25 to 7.00). By comparing a sales employee's score for a given competency to the target score, we could highlight individual areas of strength and improvement. For example, if a sales professional had scored in the foundational range for Industry Expertise, but the target for this competency was in the advanced range, this salesperson could benefit from training in this area.

Now that we have target proficiency levels for each competency, we want to know how the current workforce scores in comparison. By doing so, we can identify team strengths and weaknesses across the entire workforce. For example, with this particular client, the workforce as a whole scored well on Drives for Results, with 35.9 percent scoring in the target advanced level. On the other hand, the sales force was weak in Demand Creation, with only 7.7 percent meeting the targeted expert proficiency level.

A team scoring low on one or more of the key drivers is a common theme we see again and again with clients. This can suggest the need for investment in training these areas for the whole workforce. In other cases, more structural or procedural adjustments are needed. If this client undergoing a procedural restructuring plans to invest in mandatory training for all sales employees, it should begin with a low overall-scoring competency that is also one of the eight key drivers of sales, such as Demand Creation. Figure 10.3 shows the distribution of the sales force on key competencies.

Aside from looking at the team level, focusing in on the individual level is extremely valuable. All employees have areas of strengths and weaknesses when it comes to job performance. We use individual HeatMaps to determine where a given employee's strengths and areas for improvement lie. These individual HeatMaps resemble the team HeatMap because they use the same critical competencies as key drivers, but they vary based on an individual's competency performance. Using the proficiency cutoffs for the employee's job type, you can show how many proficiency levels above or below a competency the individual scores. In this example we included developmental training suggestions and activities as part of an interactive action plan in which the employees set goals and time frames, selected and manipulated developmental resources, and tracked progress on training activities—all of which cause a net increase in competency performance.

## Step 4: Hire Greatness

With step three focusing on development, the final step focuses on hiring. Building upon the analytics and insights we gained from the previous steps, most of the work for this final step—hiring your definition of greatness—has

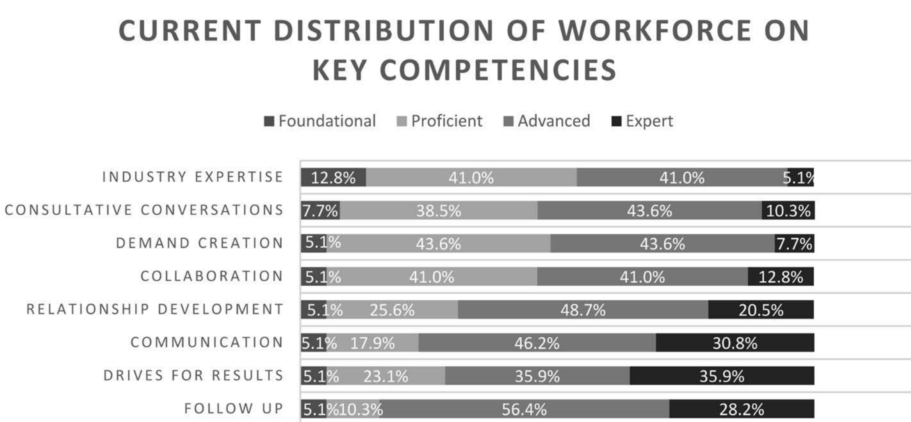


**Figure 10.3.** Distribution of key competencies

already been completed. Yet, there are two major tasks in this step: developing a predictive algorithm and designing a selection system.

A predictive algorithm is a formula that allows you to weight competencies based on their level of impact to outcomes, analogous to how a midterm or final may be weighted higher in a college course because they are more important indicators of learning. The critical competencies are weighted in a similar manner. We do this by using the priority scores of the critical competencies, thus weighting a competency that is a stronger predictor of performance and business outcomes more heavily than one that is critical but not as strongly linked.

For this client, each competency's weight equaled the level of impact that it had on sales outcomes, with the eight critical competencies weighted higher than the remaining competencies. This created a hiring algorithm where a future candidate's scores on each competency assessed during the hiring process are multiplied by the given weight for that competency and then summed to obtain a selection score. This algorithm allows you to easily compare candidates as they progress through the selection process.

As mentioned above, the second step is designing the hiring process. In this step, we design multiple hiring assessments specifically to assess candidate performance on the key competencies. For this client, we developed a multihurdle process with online as well as in-person stages. Online assessments for sales professionals include the following: a situational-judgment test (i.e., cognitive assessment of behavior in critical work situations) and a personality measure (the Hogan Personality Inventory). When an applicant scores favorably on the online portion (thus scoring favorably on the competencies assessed within the online assessments), they are invited into the organization for the remainder of the assessments. SMD's in-person sales assessments include a behavior-based interview and a role-playing scenario (i.e., situation-based activity designed to have the candidate perform in a real-job scenario). Table 10.1 shows each competency and the respective selection assessment that measures and scores it.

As an applicant progresses through the hiring process, the various assessments gather data on their competencies. We weigh each candidate's scores using the algorithm in order to produce overall candidate-performance levels

**Table 10.1.** Sales selection process

| Competency/Category/Dimension | Personality | Role-Playing | Interviews | SJT |
|---|---|---|---|---|
| Sales Engagement (A) | | X | | |
| Teamwork (A) | | | X | |
| Sales Enablement (A) | | | X | |
| Compensation & Benefits (A) | | | X | |
| Time Management (A) | | X | | |
| Brand Awareness (A) | | | X | |
| Communication (B) | | X | | |
| Drive for Results (B) | | | X | |
| Relationship Development (B) | | | X | |
| Demand Creation (B) | | X | | |
| Collaboration (B) | | | X | |
| Industry Expertise (B) | | X | X | |
| Follow up (B) | | X | | |
| Consultative Conversations (B) | | X | | |
| Accessing Decision Makers (K) | | X | | X |
| Sales Conversations: Vision Creation (K) | | X | | X |
| Competitive Selling (K) | | X | | X |
| Interpersonal Sensitivity (P) | X | | | |
| Sociability (P) | X | | X | |
| Ambition (P) | X | | X | |

*A=Attitude Assessment, B=Behavioral Assessment, K=Knowledge Assessment, P=Personality Assessment*

*Selection process should include multiple assessments. Using a hurdled approach is recommended: hurdle online assessments (personality, situational) and on-site assessments (interviews, role-playing).*

on each critical competency and assessment, as well as an overall candidate score and hiring recommendation. This process is a data-driven approach to hiring that makes it simple to identify the top candidates. Notably, the behaviors in our example accounted for the majority of variance in performance—meaning that the behavioral assessments were weighted the strongest in the hiring algorithm. We find this consistently when analyzing assessment data, which is why using a structured interview guide and role-playing is so critical when building hiring processes.

## SUMMARY

Selecting and developing top sales talent was critical for the success of the organization in our example. This four-step approach to sales hiring and training is based in science, specific to organizational context, and predictive of bottom-line success, making it a truly data-driven method for identifying great sales professionals and ultimately increasing ROI. This case study has many implications for this client.

Through this analysis, we set for the current workforce target goals and proficiency levels on behavioral competencies. Additionally, using the proficiency cutoffs, we mapped current workforce-proficiency levels across the eight critical behavioral competencies to identify areas where the workforce as a whole could benefit from training. When aligning HR processes, implications for training also hold implications for selection. In other words, since the company now knew that these eight behavioral competencies had the strongest impact on sales and that they could train the current workforce on these competencies, they should also be selecting new employees based on their proficiency levels with these same competencies. From this, they underwent a re-engineering of the selection process, where candidates are now selected based on hiring assessments designed to measure a candidate's ability on each critical competency.

## Key Takeaways for Chapter 10

- Smarter analytics can help HR in numerous ways by diagnosing business drivers and maximizing hiring, training, and developing employees.
- Gaining senior leadership buy-in is much more straightforward when using smarter analytics.
- Workforce planning becomes much more clear and actionable when using business-focused assessments and smarter analytics.

CHAPTER 11

# Case Study Two

## USING SMARTER ANALYTICS TO IMPROVE RETENTION

Retention issues continue to plague many organizations and the quest to understand the "why" of turnover (and reduce actual turnover) is ongoing. Two organizations incorporated smarter analytics, with data that they already had, to not only conduct research, but also create actionable plans that reduced turnover significantly (and saved them substantial amounts of money).

The first organization we will discuss is a large healthcare organization with more than seventy thousand employees dispersed throughout the United States. They were struggling with nearly 30 percent turnover among a very critical employee population—registered nurses—in their hospitals. The cost of losing roughly three thousand registered nurses per year, at a conservative estimate of $40,000 per nurse, was $120 million annually. Even more impactful was the downstream effect of registered nurse turnover on key clinical outcomes. Smarter analytics showed that work units with higher nurse turnover also had worse performance in patient satisfaction, readmissions, length of stay, and productivity.

It is important to not only understand turnover, but also build the business case for why turnover is so important to the organization, using smarter analytics (structural equation modeling) to directly connect each work unit's turnover data to its outcome data (in this case, HCAHPS and patient satisfaction scores). The figure below illustrates the downstream impact of actual turnover (and even risk of turnover on HCAHPS and patient satisfaction). A 3–4 percent change in HCAHPS scores in a healthcare system could mean millions of dollars in unrealized Medicare and Medicaid reimbursements.

In the same organization, we were also able to show the impact of turnover on other key outcomes, including measures of patient safety and nurse performance metrics (see Figures 11.2 and 11.3).

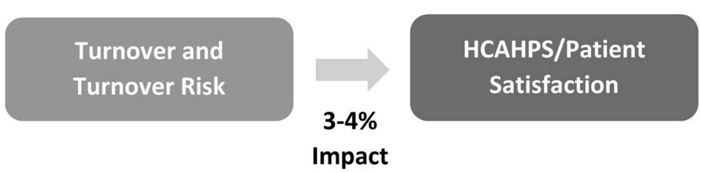


**Figure 11.1.** Impact of turnover on HCAHPS

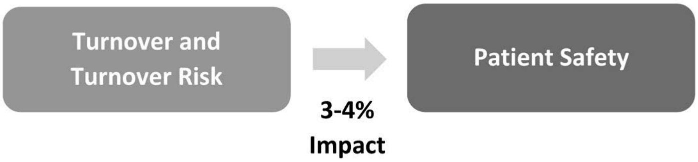


**Figure 11.2.** Impact of turnover on patient safety

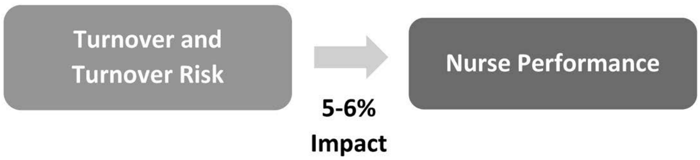


**Figure 11.3.** Impact of turnover on nurse performance

A key step with all smarter analytics is to make sure that there is a true business reason for investigating an issue and, more importantly, make sure that all leaders at all levels understand why they need to turn their attention to that issue (i.e., business impact). Sure, it is compelling to talk about turnover and the cost of turnover, but oftentimes leaders have a difficult time accepting HR's calculation of the cost of turnover. Admittedly, there is not a perfect scientific formula for assessing this cost, which is why holes can be poked in it by other stakeholders—and why it is important to be conservative and not overestimate these calculations. Figure 11.3 makes an even more impactful business case for improving turnover: the downstream effect. Yes, the cost of turnover is a burden, but the downstream effect on patient satisfaction, which impacts reimbursement dollars significantly, adds to the business case for working on the upstream drivers of turnover. There is a statistical connection between turnover and HCAHPS scores as shown above, but you can also apply common sense—it makes sense that if you are losing nurses at a high rate, patient satisfaction will decrease.

The key pieces of data that were used to understand the specific key drivers of turnover in this organization were the annual employee engagement survey and the raw turnover data—those who left the organization voluntarily.

## PHASE ONE

At the immediate conclusion of the organization's annual employee engagement survey, we conducted what is referred to as a turnover risk analysis. An important note: it is critical to conduct what is called an identified survey where the survey vendor can track the individual survey taker behind the scenes but also guarantee their confidentiality—no one at the organization can ever see that individual's survey responses. This analysis is conducted by taking the items that indicate an employee's intent to leave (e.g., "I would like to work at this organization for the next three years," "I would like to stay with this organization") and using a statistical approach called multiple regression analysis to regress these turnover risk items onto the remaining survey categories and items. This analysis allows you to see, statistically and objectively, which elements of the work environment measured on the employee engagement survey have the biggest direct impact on turnover risk. This allows you to prioritize your interventions to the work environment areas (survey items) that will have the biggest ROI. This ensures that immediate, proactive action is taken by leaders at all levels because the employees have not yet left the organization; they are, at this point, at risk for turnover. The keys to making action happen are to use technology, reporting, and action planning that scale to every leader across the organization so that they can see how they performed on the survey; understand the key drivers of turnover; and get proven best practices served up to leaders to create and execute effective action plans. This organization knew that all their leaders were working on the most important elements of the work environment and also implementing best practices across the enterprise.

## PHASE TWO

Another critical analytic approach that the organization used to directly impact turnover was to conduct a Post-Turnover Analysis. In this approach, the organization sent us their raw, voluntary turnover data and, as their employee engagement survey vendor, we were able to pull out the employee survey responses of those who had left the organization. This data approach allowed us to do two critical things: (1) compare the survey responses of those who stayed with the organization with those who voluntarily left the organization and (2) use an advanced analytics approach called logistic regression to understand *why* those voluntary terminations left the organization. Smarter analytics allow human resources to tell a powerful story to senior leaders in the organization. Let's first look at the comparison of the scores from the employees who left the organization voluntarily with those from employees who stayed with the organization (Table 11.1).

The key takeaway from this chart is that there are significant differences between the scores of those who voluntarily left the organization and those who were still employed with the organization. It makes sense that those who left the organization would score lower than those who stayed. It also adds immediate validity to the survey as a predictive tool of outcomes such as turnover. In other words, the survey was a predictor (leading indicator) of something in the future (turnover) and every leader in this organization had this information at their fingertips before the turnover occurred. Human resources has an opportunity to point out that low scores on their employee survey will lead to poor outcomes in the future—in this case, voluntary turnover. It is also worth noting the rather larger differences that show up across all the factors on the survey, which just underscores the power of using

**Table 11.1.** Key differences of employed versus terminated employees

| Category | Still Employed | Voluntary Exited | Difference |
|---|---|---|---|
| Accountability | 3.59 | 3.42 | -0.17 |
| Career Development | 3.85 | 3.61 | -0.24 |
| Compensation | 3.24 | 2.96 | -0.28 |
| Customer Focus | 3.58 | 3.26 | -0.32 |
| Engagement | 3.92 | 3.47 | -0.45 |
| Job Fit | 4.30 | 4.10 | -0.21 |
| Labor Skills | 3.93 | 3.67 | -0.26 |
| Management | 3.98 | 3.69 | -0.29 |
| Quality | 4.10 | 3.88 | -0.21 |
| Senior Management | 3.73 | 3.48 | -0.25 |
| Survey Action | 3.64 | 3.35 | -0.29 |
| Teamwork | 4.31 | 4.16 | -0.15 |
| Work-Life Balance | 3.96 | 3.75 | -0.20 |

Note: Scores are on a five-point Likert scale.

the survey as a way to focus proactively on low-scoring managers to get them the help they need before turnover happens.

The second part of the smarter analytics approach using raw turnover data was to conduct the aforementioned logistic regression. Basically, this approach allowed the organization to understand which elements of the employee survey showed why those who voluntarily exited made their decision and why those who chose to stay with the organization did not leave. In other words, this approach reveals the *why* of turnover, which is critical to limiting turnover in the future. It also allows any organization not to have to rely on their gut or on potentially misleading exit survey data, to draw conclusions as to why employees leave the company. Figure 11.4 shows the three most important elements (in order of importance) that differentiate the leavers from the stayers.

Customer Focus, Management, and Job Fit are the three largest (and statistically significant) factors that drove employees to leave the organization, because these three areas were not perceived positively by those employees; if these elements were perceived positively by employees, they were much more likely to stay with the organization. Taking the analysis a step further, we were then able to uncover the specific items under each of the three key survey factors that had the biggest impact on turnover. This allowed the organization to become even more focused on specifically what to work on to reduce turnover. The specific items are shown in Table 11.2.

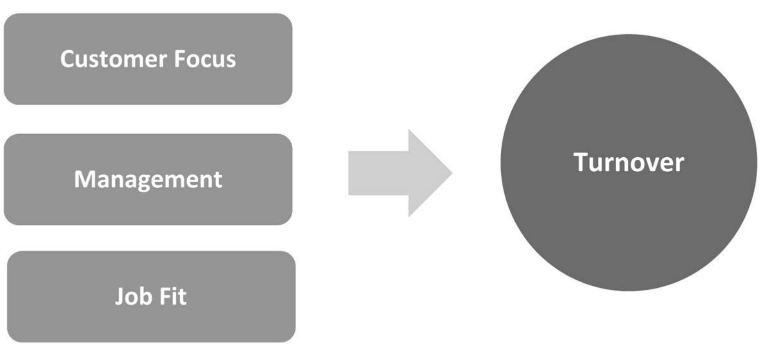


**Figure 11.4.** Key drivers of turnover.

**Table 11.2.** Item-level drivers of turnover

| Priority* | Category | Item |
|---|---|---|
| 1 | ***Customer Focus*** | My work unit is adequately staffed. |
| 2 | ***Management*** | I am involved in decisions that affect my work. |
| 3 | ***Management*** | I receive useful feedback from the person to whom I report. |
| 4 | ***Job Fit*** | I like the work I do. |

Armed with this information, the organization then crafted specific, actionable recommendations for each of these items that managers could implement with guidance and confidence. More importantly, it was done in unison—with the entire organization working in lockstep on just a few key items where there was overwhelming evidence that an impact could have been made. Notice how smarter analytics gets us to a less-is-more utilization of data and away from silver bullets and clichés. First, with the less-is-more approach, instead of trying to work on all the of elements of their employee survey, this organization can focus keenly on just three factors and build organization-wide action plans and local management action plans to move the needle in these areas. That is important, because the organizations we have worked with that take a shotgun approach, where every leader cobbles together their own action plan, rarely make headway on their critical business outcomes.

While we're on the topic of eliminating unproven clichés as the foundation of HR strategy, many leaders will trot out the classic statement, "People don't leave their companies, they leave their bosses." This statement does not really have a lot of evidence to back it up. Smarter analytics makes us look at each individual organization uniquely to use data to understand what really does cause turnover in that particular organization. In this case, the boss actually was one of three critical factors that led to turnover. However, just saying that the boss causes turnover does not give the organization any real guidance on how to implement plans. The item-level analysis shown Table 11.2 reveals that "I am involved in decisions that affect my work" and "I receive useful feedback from the person to whom I report" are the two most important behavioral and actionable areas that leaders can specifically work on to reduce turnover. The boss cliché does not give any guidance on what to work on—just saying that leaders need to do a better job does not help frontline leaders make the right improvements in the right areas to improve turnover.

To help frontline HR leaders support the leaders in their quest to reduce turnover, they need to be armed with the right data (not just a lot of data). Easy-to-use scorecards are what drove frontline involvement of HR in this organization and allowed them to zero in on the leaders that needed the most help. Table 11.3 is just a sample of a scorecard that shows the HR business partner only the most important data elements (the drivers of turnover) for each leader.

Remember that less is more. Smarter analytics does not pursue the wouldn't-it-be-interesting questions (e.g., Do employees with blue eyes score higher than employees with brown eyes?). Smarter analytics arms HR business partners with the right information (the drivers of turnover risk) in the right place (the people who need the most help with turnover drivers) and at the right time (two days after the survey is completed). Binders and binders of data and cuts of data by all kinds of demographics have absolutely zero value when trying to solve business problems. That approach is not

**Table 11.3.** Work-unit level analysis of turnover drivers

| | Key Drivers of Turnover | | | | | | Job Fit | Job Fit | Management | Work-Life Balance | Compensation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of Responses | Turnover Driver Index | Job Fit | Management | Work/Life Balance | Compensation | Turnover Risk | I like the work I do. | My job is making good use of my skills and abilities. | I am involved in decisions that affect my work. | I have the flexibility I need to balance my work and personal life. | My pay competitive with similar jobs I might find elsewhere. |
| 5 | 2.05 | 3.07 | 2.43 | 1.10 | 1.60 | 1.87 | 3.80 | 2.20 | 1.40 | 1.20 | 1.60 |
| 12 | 2.31 | 3.03 | 1.96 | 1.58 | 2.67 | 2.14 | 3.58 | 2.33 | 1.67 | 1.75 | 2.67 |
| 8 | 2.50 | 3.92 | 2.94 | 1.88 | 1.25 | 2.38 | 4.63 | 3.38 | 2.50 | 1.88 | 1.25 |
| 6 | 2.52 | 3.94 | 2.29 | 2.33 | 1.50 | 2.22 | 4.00 | 3.83 | 1.83 | 2.50 | 1.50 |
| 6 | 2.55 | 2.67 | 2.71 | 2.50 | 2.33 | 2.50 | 3.33 | 2.17 | 2.17 | 2.67 | 2.33 |
| 8 | 2.56 | 4.04 | 2.02 | 2.56 | 1.63 | 2.54 | 4.63 | 3.25 | 1.63 | 3.25 | 1.63 |
| 7 | 2.56 | 3.24 | 2.88 | 2.71 | 1.43 | 1.71 | 4.00 | 2.57 | 1.86 | 3.29 | 1.43 |
| 7 | 2.59 | 3.43 | 2.73 | 2.21 | 2.00 | 2.43 | 3.86 | 2.57 | 2.43 | 2.86 | 2.00 |
| 12 | 2.64 | 3.75 | 2.80 | 2.08 | 1.92 | 2.69 | 4.67 | 2.92 | 2.08 | 2.17 | 1.92 |
| 6 | 2.69 | 3.61 | 2.98 | 2.50 | 1.67 | 2.56 | 4.00 | 3.50 | 2.68 | 2.67 | 1.67 |
| 16 | 2.74 | 3.44 | 3.38 | 2.22 | 1.94 | 2.10 | 4.00 | 3.56 | 2.31 | 2.25 | 1.94 |

smarter analytics and all it really does is waste time on analyses that do not add value (see Chapter 7 about employee surveys and Chapter 9 about how millennials are no different than any other generation when it comes to workplace attitudes).

This example scorecard (Table 11.3) is all an HR business partner needs to identify the leaders who need the most help and then help them in the areas where they can realize the biggest ROI (i.e., reduced turnover). Armed with straightforward recommendations and best practices for each of the critical items, the HR business partner for this organization drove positive action with frontline leaders:

- Gain Buy-In
  - Help leaders understand the downstream impact of turnover by sharing the data on how turnover had a negative impact on their patient-satisfaction scores, patient-safety outcomes, and nurse-performance measures.
  - Share with leaders that the employee survey itself is predictive of employees leaving or staying. The comparison scores shown above get that point across.
  - Show leaders the objective logistic-regression analysis that reveals the most important reasons why employees leave the organization.
- Make It Local
  - Help each leader understand that they scored somewhat low on only the key areas that have the biggest impact on turnover, and let them know that they aren't in trouble but need to get to work to proactively slow down future turnover.
  - Share with leaders the best practices and recommendations for each of the key areas that drive turnover—make the process easy and actionable after making the business case for why it is so important to work on the turnover issue.
- Long-Term Impact and ROI
  - After enough time has gone by, it is critical to circle back with the leaders to let them know what type of progress has been made on the critical business issues.

For this organization, the focus was turnover and the results were quite positive. Six months after implementing this process

- Turnover had dropped by over 5 basis points, and
- A conservative estimate of savings to the organization was more than $9 million.

This is the type of information that HR needs to also share with all levels in the organization to make sure that they understand the true ROI as well as ensure that they buy in to future endeavors that are undertaken—whether focused on turnover or other key business outcomes.

As a point of validation, consider another organization—different in size and scope (in this case 1,800 employees)—in the healthcare industry that was also facing similar circumstances, trying to reduce nurse turnover. First, they partnered with SMD to undertake their annual employee survey and implement smarter analytics to drive business outcomes that truly mattered (i.e., nurse turnover). The process was nearly the same as in the case study above where we immediately conducted the turnover-risk analysis to understand the proactive drivers of turnover using the employee survey, and got those analyses into the hands of leaders nearly immediately after the survey. Second, we conducted the Post-Turnover Analysis to analyze the employee survey scores of the employees who stayed against the scores of those who voluntarily exited. Table 11.4 shows again the predictive power of the survey:

Again, note the score differences between the employees who stayed versus those who left voluntarily. Using logistic regression, we were also able to narrow down the key factors that drove employees to stay or leave. Figure 11.5 shows these elements.

The less-is-more approach of smarter analytics helped the organization focus on the three key survey items that had the largest impact on the decision of employees to stay or leave. Again, we provided actionable tools to HR business partners using focused scorecards to help leaders gain traction

**Table 11.4.** Specific differences of employed versus terminated employees

| Category | Still Employed | Voluntarily Exited | Difference |
|---|---|---|---|
| Accountability | 3.53 | 3.38 | -0.15 |
| Career Development | 3.93 | 3.89 | -0.04 |
| Compensation | 3.50 | 3.37 | -0.13 |
| Customer Service | 4.22 | 4.13 | -0.09 |
| Engagement | 4.18 | 4.02 | -0.16 |
| Job Fit | 4.15 | 4.05 | -0.10 |
| Management | 4.13 | 3.93 | -0.20 |
| Quality | 4.23 | 4.13 | -0.10 |
| Safety | 4.29 | 4.26 | -0.03 |
| Senior Management | 3.88 | 3.81 | -0.07 |
| Teamwork | 4.06 | 3.88 | -0.18 |
| Turnover Risk | 3.98 | 3.62 | -0.36 |

Note: Scores are on a five-point Likert scale.

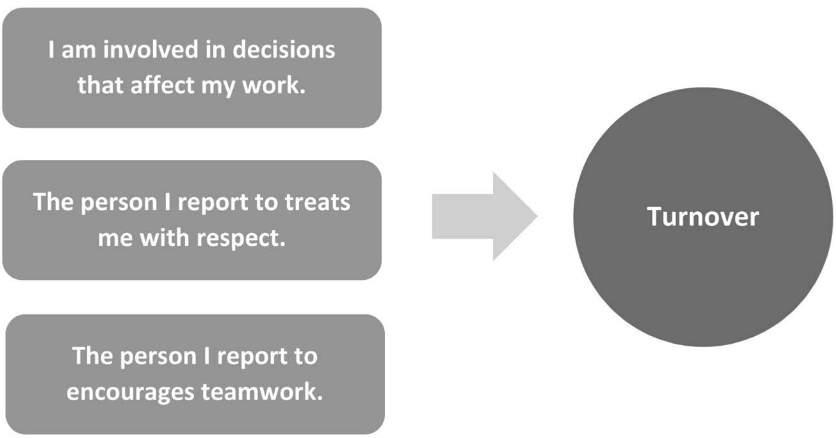


**Figure 11.5.** Specific item-level drivers of turnover

on areas with the most ROI. The results for this organization were also impressive, as it achieved

- A reduction of 8 basis points in nurse turnover,
- Significant improvement on organization-wide employee survey results, and
- Significant improvement in the participation rate for the annual employee survey.

## Key Takeaways for Chapter 11

- You must conduct analysis after taking action, in order to show the actual ROI of smarter analytics.
- Smarter analytics cuts through the clichés and assumptions to diagnose exactly where to focus to drive real business outcomes.
- Smarter analytics saves and gains real dollars, and this can be proven.

# APPENDICES

APPENDIX A

# The Concept of Causality

Throughout this book, we have discussed how to determine the key causal drivers of business outcomes. This is certainly a departure from various texts that show correlations between what the HR department does and certain bottom-line indicators. Our goal at this point is not to get into an overly detailed discussion of statistical analysis; however, it is a great opportunity to discuss how we arrive at the phrase "key causal driver," and why it is important for you to grasp this. First, let us cover some of the academic aspects of this analysis.

## THEORY

In regard to academic research, a critical step to determining the true causality of data is basing analysis on solid theory. In an academic setting, this typically means citing a previously conducted study that shows some sort of statistical connection between data similar to what you are examining. This is absolutely a strong standard, whether it is from an academic perspective or from a practitioner's perspective. If you want to link two variables (i.e., pieces of data) together, you need to make intuitive sense or have some foundation in logical thought.

We always propose that you run models and analyses in what is called confirmatory mode. This means that you set up how the data should look before analyzing, with the goal of confirming what you think should happen (i.e., your theory). The other mode of analysis is exploratory, where you throw the data into your statistical software and see where the data fall. While you may make some interesting discoveries, if what is you discover is not based on logical reasoning or theory then you should never use the term causal. For example, you may find that retail stores with higher turnover also have higher 401(k) plan participation. That's nice to know, but it makes little practical sense to start firing people so that you will have more people in the 401(k) plan.

## CORRELATION

In a similar fashion, what we have proposed throughout this book is not correlational analysis. Such analysis is great to find connections between two pieces of data, but will only tell you whether or not one variable's strength/

weakness is associated with another variable's strength/weakness. While this analysis shows you the strength of a relationship, and whether it is statistically significant, it does not demonstrate any type of causality whatsoever.

The classic example of this is the connection between shark attacks and ice cream sales. There is no logical reason for these two aspects of life to be connected, but they just happen to be—both occur with more frequency in the summer months. This is called a spurious correlation. It's fair enough, but from a practical perspective we do not believe that Baskin Robbins should start chumming the waters at local beaches as part of their growth strategy.

## INCLUDING ALL RELEVANT CAUSAL VARIABLES

Another key issue in determining whether a variable is causing another variable to happen is whether you have included in that analysis all relevant causal variables. This means not just including the variable that you hope is causing the business outcome, but rather including all of the data that could possibly (logically, as discussed above) be a cause of the business outcome. In the grand scheme of things, it is humanly impossible to include every possible cause of a business outcome. However, both academically and practically, if you include all of the data you measured (and start measuring some key aspects that you haven't in the past), you can make a strong inference and conclusion that a certain variable is a key causal driver of an outcome. This will pass muster in the boardroom and in even the most discerning peer-reviewed academic journal. The point is that you must make a strong, good-faith effort to measure all that you can, and include all of those measurements when you conduct analyses.

## ACCOUNTING FOR MEASUREMENT ERROR

When you discuss with your team why you should use structural equation modeling versus less-complex analytical techniques such as correlation or even multiple regressions, a key argument to make is that you will be able to account for measurement error. This is an important piece of information to have when you think about statistical analysis. With correlation and regression, which are strong analytical techniques, a key point is assuming that all data have been collected without error. All data that are collected, particularly attitude data, performance ratings, or ratings of behavior, have errors associated with their measurement. Whether it was bad weather the morning of the survey, cold coffee, a systematic error associated with the validity of survey items, or an issue with rating scales in an online performance-appraisal tool, there is some error in that measurement.

Structural equation modeling gives you a pure approach to analysis because it accounts for that error. This means that there is one less assumption that you have to make about the data you are analyzing. Does this mean that you can automatically claim causality? No. But it does get you one step further toward determining causality, and if you incorporate the previous three steps, you can begin to make such inferences.

As we have mentioned throughout the book, we did not want to write a statistics textbook and, thankfully, we have not. These appendices are designed to give you some of the ammunition that you will need in the boardroom when you are asked about the process, or when a senior executive realizes that you have just asked for a large sum of money for an important project based on these types of analyses. Those senior leaders are doing their due diligence (which they should), but you need to be able to show them that you have also done yours.

## APPENDIX B

# The Mechanics of Employee Hiring

Most HR professionals understand the importance of making solid hiring decisions and the impact those decisions have on the performance of the organization. Although recruiting, assessing, and hiring the right people can be a time-consuming and challenging process, doing so pays off in terms of employee productivity, morale, and retention. Many organizations, both large and small, do not have disciplined or sophisticated approaches to the hiring process. Most continue to conduct unstructured interviews as their sole means of assessing job candidates. Despite many leaders' confidence in their hiring ability, their eye for talent is not as good as they might think. A structured selection process helps you make better hiring decisions. There are also several legal issues to consider when designing and implementing a selection system. We do not specifically address such issues, and we remind readers that the information provided in this chapter should not be considered legal advice.[1]

## WHAT THE RESEARCH TELLS US: EFFECTIVE EXECUTION OF STRUCTURED SELECTION SYSTEM

Research in the area of employee selection is quite robust and offers practical advice for HR professionals. We outline below the key steps to follow when designing and implementing a structured selection system for your organization.

## STEP ONE: CONDUCT A JOB ANALYSIS OR BUILD A COMPETENCY MODEL

Prior to implementing a selection system, determine the knowledge, skills, and abilities (KSAs) that job candidates need to have to be successful on the job. An analysis of the job will help those in the hiring position to accomplish the following:

- Understand the nature and purpose of the job.
- Identify any changes that are expected to affect the job tasks (e.g., technological advancements or structural changes).
- Identify whether and how the KSAs will differentiate high performers from average performers.

- Choose selection measures that are most relevant to job performance and are likely to yield the best selection decisions.

## STEP TWO: CHOOSE THE APPROPRIATE SELECTION TOOLS

Employers may choose from a variety of selection tools. These tools are used after they have screened candidates' résumés and removed unqualified candidates from further consideration. The most commonly used tools include (1) pre-employment tests, (2) interviews, and (3) assessment centers.

### Pre-Employment Tests

Pre-employment tests are a straightforward approach to gathering information about job candidates that is relevant to the job and predictive of job performance. [2] An organization may use a variety of pre-employment tests depending on the nature of the job and on the types of KSAs it requires of job candidates.[3] We discuss the most commonly used tests next.

#### Personality Tests

Personality tests assess an individual's tendency to respond in a particular manner across a wide variety of situations. Many personality traits predict future job performance. The most predictive trait is conscientiousness, a trait related to an individual's achievement, orientation, and dependability.[4] However, the specific traits you assess will vary depending on the job for which you are hiring and must be selected based on the results of the job analysis. So, one-size-fits-all personality assessments are not always the solution.

#### Cognitive-Ability Tests

Cognitive ability is the capacity to mentally process, comprehend, and manipulate information. Studies have consistently found it to be the best predictor of job-training performance and technical job performance, particularly in highly complex jobs.[5] However, cognitive-ability tests also have the potential to adversely impact protected groups.[6] As a result, these should not be the sole tool you use to make hiring decisions.[7] Moreover, before using cognitive-ability tests to select employees, organizations must prove that cognitive ability is a valid predictor of on-the-job performance.

### Physical-Ability Tests

Tests of physical ability assess a candidate's ability to perform physically demanding aspects of the job. These aspects may include lifting or pulling substantial amounts of weight or spending extended periods of time sitting at a desk. Individuals who are physically qualified for the position are less likely to be hurt on the job.

### Technical-Skills Tests

Tests of technical skills assess a candidate's ability to perform a specific skill or task that is essential for adequate performance on the job. This may include programming code for an IT role, timed math problems for a cashier, or a writing test for a professor or journalist. For certain roles that require a more unique or special set of skills, technical-skills tests are efficient selection tests that can quickly reduce the candidate pool and identify qualified candidates.

## When to Use Pre-employment Tests

Pre-employment tests may be deployed at several points during the selection process. During the initial screening process they can help you narrow the candidate pool prior to conducting interviews. A pre-employment test can be used as an initial screening assessment for a competency or skill that is deemed a must-have for a position—this definition often applies to physical-ability tests. You can remove candidates who do not meet the minimum requirements for the competency or skill from the candidate pool.

After the initial screening and interview, pre-employment tests help you narrow the pool of candidates for a highly critical role. Well-validated pre-employment tests provide objective information you can use to overcome subconscious biases and prejudices that can emerge in the interview process. You can thus use the pre-employment test to supplement information gained during the interview process and objectively distinguish qualified job candidates from the unqualified ones.

You can also use pre-employment tests during the initial screening and later in the selection process. During the initial screening, you may remove candidates who do not meet the minimum requirements on a battery of pre-employment tests from the candidate pool. Those who do meet the minimum requirements may then continue with more costly application processes (e.g., the interview or assessment center). You can then combine the candidates' scores on pre-employment tests with their scores from other steps in the process and use that to make a final hiring decision.

### Interviews

Interviews are one of the most common and powerful job selection tools used by organizations today, as they provide an opportunity for the hiring manager and other stakeholders to get a firsthand glimpse of a job candidate's skills, abilities, and interpersonal style. There are two broad categories of selection interviews: unstructured and structured.

As the name implies, unstructured interviews are less structured and systematic. During unstructured interviews, candidates and interviewers discuss whatever topics the interviewers wish to explore. Interviewers have few guidelines regarding the content of the questions or the format, and they may choose to ask different questions of each candidate. While there may be some consistency in the content and process of unstructured interviews for a given position, they are generally characterized by a lack of standardization across job candidates.

In contrast, structured interviews are standardized processes that are identical (or nearly identical) across all job candidates. The questions interviewers ask during structured interview are designed to tap into various job-relevant dimensions, and the candidate's responses are evaluated by trained interviewers using a structured rating scale. Standard interview questions and rating scales help enhance the validity of structured interviews, making it easier for interviewers to score candidate responses and draw comparisons across candidates. More than one hundred years of academic and applied research has shown structured interviews to provide a more valid assessment of job candidates and to result in better hiring decisions.[8]

### Developing a Structured-Interview Guide

The main objective when writing interview questions is to cover only job–relevant information and to adequately address all salient competencies of the job. Your structured-interview guide should include the following essential types of questions:

- Tell me about a time when you… (Ask for an event that may give evidence of a behavior or competency.)
  - In what key places in the event were you involved? At each point of involvement,
    - » What did you do?
    - » How did you do it?
    - » What were you thinking when you did that?
    - » What did you say?
    - » What was the outcome?

You should also avoid a few types of interview questions:

- Leading questions suggest what the candidate should talk about or hint at an answer. (e.g., Did you do any planning for that presentation? Were you feeling challenged?)
  - Questions beginning with "why" elicit present thoughts and rationalizations instead of revealing what a candidate thought in a past situation.
  - Questions that can be answered Yes or No provide little information. (e.g., Did you follow specific guidelines in preparing your presentation?)
  - Questions that ask for opinions and attitudes are unhelpful. (e.g., What does leadership mean to you?)
  - Judgmental questions put people on the defensive. (e.g., Was that the best way to start that project?)
  - Tangential questions that are unrelated to the focal competencies of the job are useless. (e.g., You just mentioned that you ride horses. What kind of horse do you ride?)

To standardize the scoring of interview responses, develop behaviorally anchored ratings scales (BARS) for each question. These scales help standardize interviewer ratings across candidates and focus interviewer attention on the most important aspects of the interview responses.

Next we provide an example of a competency with structured interview questions and follow-up probing questions.

### Competency: Financial Risk Assessment and Management

Some recommended behavioral interview questions include the following:

- Tell me about a time when you established specific risk profiles and recommended tolerances, prioritized risks, or proposed changes in risk-control investment.
- Give me an example of a time when you successfully mitigated a significant risk for the organization.

And here are some examples of follow-up probes:

- How did you develop the risk profiles?
- What was the first step you took in mitigating this risk?
- What was the outcome of the situation?

#### Assessment Centers

An assessment center is a collection of activities designed to gauge the competence and qualifications of an individual for a given job. Although one of the costliest selection tools, well-designed assessment centers effectively differentiate between high- and low-performing candidates and also predict job performance and salary progression. Assessment-center exercises provide hiring managers with unique opportunities to have job candidates demonstrate their skills in a variety of job-relevant areas (e.g., problem solving, decision-making, influencing others, organizing and planning, communicating). When implemented correctly, assessment centers enhance selection validity, resulting in better selection decisions than when using pre-employment tests alone.[9]

Many possible choices for exercises to include in an assessment center exist, and the choice of which to use should be driven by the KSAs required on the job. Several of the most frequently used exercises are listed next:

- **Role-playing and simulation.** This gives participants the chance to demonstrate their skills in a hypothetical work situation that closely resembles one they may encounter on the job. For example, candidates applying for a nurse position may have to demonstrate how they would handle a patient complaining about service in the hospital.
- **Leaderless group discussion.** This exercise is a popular way to assess leadership, teamwork, and communication style. Generally, a group of people with no assigned leader receive a task and must work toward a solution. The raters from the organization observe the level of involvement, leadership, teamwork, and other competencies to assess the qualifications and organizational fit of the candidates.
- **In-basket activities.** These exercises include a combination of several tasks such as a group of emails or descriptions of situations that are likely to be encountered on the job. For example, candidates may respond to emails from their manager, write a memo to their employees, or draft a press release to be distributed to external constituents.

### When to Use Assessment Centers

Assessment centers require a larger investment of time and money on behalf of the hiring organization than other selection tools. Several direct costs that are associated with developing and implementing the assessment center include travel expenses, development costs of role-playing, fees for renting locations to assess, and so on. In addition, there are indirect costs associated with training assessment-center raters and the time they spend observing and evaluating assessment-center performance. Given the significant investment required to design and implement an assessment center, this selection tool is best used toward the end of the selection process when few candidates remain, for high-level, complex, or supervisory jobs, or for jobs that involve significant financial responsibilities. For most entry-level jobs, the costs of developing and implementing an assessment center are likely prohibitive. Assessment centers also have the added benefit of being useful to determine promotions by using the results for development and succession plans.

## STEP THREE: ESTABLISH THE STRUCTURE OF THE SELECTION PROCESS

Ideally, the selection process results in identifying those who would not be successful on the job, and in hiring successful candidates who will perform well. To maximize the probability of hiring the right candidate, decision-makers need to uncover a variety of job-relevant information using the tools discussed previously, rather than rely on their gut instincts to make the final decision. Without structured processes for final decision-making, employers are less likely to hire the best candidates, which could cost the organization a lot of money through turnover and poor performance.

### Types of Selection-System Structures

Employers can adopt one of several selection-system structures, which we detail next.

#### Multiple-Hurdle Approach

This structure involves establishing a chain of hurdles that a candidate must pass in order to move on to the next step in the selection process. For each hurdle, a minimum acceptable score (i.e., cutoff score) is established. Each selection test itself or aspects of each selection test (e.g., cognitive ability test, personality test) may be a hurdle. Consider the most basic and must-have factors first, and use them to quickly reduce the candidate pool. For example, an initial hurdle could be that a candidate must score above at least 20th percentile on a cognitive-ability test. If candidates don't meet that low threshold for cognitive ability, they are no longer considered. This structure allows employers to refine the pool of job candidates without compromising the validity of the selection process.

#### Multiple-Cutoff Approach

This approach is like the multiple-hurdle process because each predictor has a minimum level or score that a prospective employee must meet in order to be considered for the job. However, instead of passing one hurdle at a time as in the multiple-hurdle approach, you consider a candidate's scores on a variety of assessment tools simultaneously. If a candidate has high combined scores from several tests but fails to achieve the cutoff score for even one, they will no longer be considered for employment.

### Compensatory Approach

This structure allows candidates to make up for a shortcoming in one critical area by possessing other, offsetting, positive qualities. Employers assign weights to each of the competencies they assess during the selection process. These weights reflect the extent to which each competency is relevant to job performance, with more heavily weighted competencies being better predictors of performance. Using this structure, a high score on a heavily weighted job competency can outweigh or compensate for a low score on a lesser-weighted competency.

In the compensatory approach, candidates are assessed on all relevant job competencies and assigned weighted scores before the total score is calculated. So, it's similar to the multiple-cutoff approach in that a candidate gets to complete all the selection tests, but they are no longer at risk for failing if they score especially low on one individual test or competency.

Depending on the specific needs and objectives of an organization, any of these selection structures could be appropriate. The main question that organizations need to address is whether deficiencies in any job-related competencies can reasonably be offset by other qualities. If so, a compensatory structure would be best. Additionally, organizations must consider whether they are willing to allow on-the-job training to compensate for candidates' weaknesses. While a candidate with all desired competencies would be ideal, sometimes on-the-job training is required to fill the gaps. Alternatively, if job candidates absolutely must possess one or more qualifications or skills (as is often the case in highly technical or specialized jobs), either a multiple-hurdle or multiple-cutoff approach tends to be most appropriate.

## STEP FOUR: ESTABLISH A STRATEGY FOR MAKING THE FINAL SELECTION DECISION

Once candidates' total scores have been calculated, the final step in the selection process is to make a hiring decision. If the selection system has been well designed and appropriately implemented, the final pool of candidates will consist of job seekers who are highly qualified for the job. At this point, the goal is to select the top candidates (i.e., those whose scores indicate they are likely to be effective in the job) while reducing bias to the greatest extent possible.

## Selection Methods

Decision-makers can determine which candidates to hire using one of the following methods.

### Cutoff-Score Method

The cutoff-score method uses a selection ratio to determine which candidates to accept or reject. Divide the number of open positions by the number of expected candidates to compute the selection ratio, which tells you how many candidates to accept and how many to reject. For example, if there are ten open positions and one hundred candidates, the ratio would be 10 percent (10/100 = 0.10 or 10 percent). If 90 percent of the candidates will be rejected, set the cutoff score at the 90th percentile of the candidates' overall scores minus one standard error of measurement. According to the Uniform Guidelines of the Equal Employment Opportunity Commission (EEOC), the use of cutoff score selection is permitted when valid predictors (based on thorough and accurate job-analysis data) are used.

### Top-Down Method

Using the top-down selection method, you rank order candidates' overall scores from highest to lowest, and offer employment to the candidates with the highest scores, continuing down until all open positions are filled. If the top candidate declines the job offer, then extend an offer to the next candidate on the list, and so on.

### Banding

Unlike the top-down selection method, the banding method assumes that scores within a specified range are equivalent. Candidates' scores are banded—or grouped—so that within each group, differences in scores do not differentially predict on-the-job performance. As long as the candidates fall within the same band, assume that their predicted job performance is identical. For example, in a band of scores ranging from 55 to 75, a candidate with a score of 60 is equivalent to a candidate with a score of 72. You may then randomly select candidates for hire from the top band.

While top-down methods offer simple solutions for final candidate selection, they can be problematic in some cases, particularly if you include cognitive ability tests in the model. Research demonstrates that on average, black and Hispanic test-takers score lower on cognitive-ability tests than do white test-takers.[10] If these tests contribute greatly to the final overall candidate score, using top-down selection procedures may adversely impact minorities (i.e., proportionally fewer minorities are hired due to the discriminatory nature of selection criteria). The same issue can be problematic when using cutoff scores.

Banding offers an advantage over top-down and cutoff-score approaches in terms of possible biases, discrimination issues, and general legal defensibility. By banding candidates you reduce the impact of measurement error; however, problems with adverse impact may arise if race or gender is used as a criterion for selecting candidates within a band. The best way to avoid legal pitfalls when using banding is to select candidates randomly from within each band instead of using criteria associated with protected group status (e.g., race or gender) to make your selection.

## BUILDING A BUSINESS-FOCUSED SELECTION PROCESS

Hiring high-performing employees is one of the most valuable things you can do for your business. When you hire the wrong candidate for a job, the result is likely involuntary or voluntary turnover, costing the organization significant money, time, and energy. The specific costs associated with turnover vary by organization and job level but are commonly estimated at 100–150 percent of the base salary for a job. The stakes are even higher at the executive level: the direct costs (i.e., separation, replacement, and training costs) associated with the loss of high-potential executives have been estimated at two to three times the executive's salary. When indirect costs (i.e., the time and expenses associated with covering the vacancy and filling the vacant role) are factored in, the total approaches approximately four to five times the executive's salary.

Poor hires can also interfere with bottom-line organizational results, slowing production and inhibiting growth and innovation. As noted in *HR Magazine*, "When newly appointed leaders don't work out, valuable business knowledge can leave the organization—even to the competition—and the grueling recruiting process and costs start over again."[11]

Often, poor hiring decisions are the result of a poorly designed or structured selection process. Although structured selection processes are more challenging to design and more time consuming to carry out, their benefits to the business—reduced turnover and improved job performance—significantly outweigh any up-front investments in their development. You can use ROI to quantify the value of a structured selection system and enhance HR leaders' roles as strategic business partners.

## Practical Tips

The following recommendations will help you implement a well-structured, business-focused selection process that enhances the quality of your hiring decisions and contributes to bottom-line organizational outcomes.

- Define performance criteria for each target position using thorough job analysis or competency modeling.
- Choose specific selection tools based on these criteria:
  - Level of the position.
  - Scope of performance criteria.
  - Selection budget.
  - Selection timeline.
  - Size and demographics of the candidate pool.
  - Concerns for candidate reactions.
- Deliver necessary training to key staff involved in the selection process.
- Develop strategies for scoring and making final decisions prior to evaluating any job candidates. This step includes the following:
  - How scores will be combined or weighted.
  - How final decisions will be made.

  - Who will make final decisions.
- Systematically assess candidates and document their scores at every step of the selection process.
- Demonstrate the link between the selection tools and process and critical business outcomes (e.g., turnover or new-hire performance).

APPENDIX C

# The Basics of 360° Assessments

A multi-rater assessment (commonly referred to as a 360° assessment) is a tool often used in organizations to gather the behavioral-assessment ratings from individuals at all levels around a target. The target, or person who is being rated, gets feedback from their supervisor, peers, direct reports, as well as self-ratings. It should also be noted that a full 360° assessment is not required to provide valuable feedback to participants. A more basic, 180° behavioral assessment (self- and manager-ratings) can be extremely valuable to individual contributors. For example, this approach can be applied to sales representatives quite successfully. The point is that while we often refer to multi-rater assessments as 360s, the behavioral assessment approach can be applied more broadly without the strict requirement for a 360° view. The goal is to assess the behavioral requirements of a role. A behavior-based assessment can be a valuable tool for coaching and development because behavior can be coached directly, whereas metric-based performance criteria (e.g., quota attainment, units produced, customer satisfaction) cannot.

## MULTI-RATER ASSESSMENT APPROACH ADVANTAGES

There are many advantages to implementing a multi-rater assessment approach. Specifically, multi-rater assessment and feedback processes offer

- Greater accuracy,
- Enhanced face validity,
- Richer insights into individual performance,
- Improvements in communication, and
- Practicality and cost-effectiveness.

Each of these advantages is discussed in greater detail below.

### Accuracy

Traditional performance-management systems rely on individual managers assessing the capabilities of their employees. Although the insights of managers into their employees' performance are a critical component of the performance-feedback process, relying solely on managers limits the breadth of perspectives obtained and reduces the accuracy of performance ratings. In contrast, multi-rater assessments take into account the perspectives of several key stakeholders (e.g., self, manager, peers, direct reports, etc.), thus providing a more complete picture of an employee's skills, behaviors, and performance. Additionally, raters are anonymous, allowing them to provide more honest and accurate assessments of the focal individual's performance.

### Face Validity

Multi-rater feedback is more accepted by participants than manager evaluations alone, largely because including multiple raters and basing performance evaluations on a comprehensive competency model enhances the face validity of the process. Employees realize that their manager is not around to personally witness them performing every aspect of their job. Including peers, direct reports, customers, and the like in the rating process helps participants feel that their performance has been fairly evaluated across all aspects of their job. This increases their acceptance of the feedback and reduces the anxiety that may arise when relying solely on managers for performance ratings. Additionally, when the ratings from multiple sources are based on a comprehensive competency model that truly represents the employee job responsibilities, the feedback is very relevant and actionable.

### Richer Insights

Feedback from multiple sources provides participants rich insights to how various groups of stakeholders perceive their skills, behaviors, and performance. Such feedback provides valuable information about variations in the participant's behavior as well as ways in which the same behaviors may be perceived differently by each stakeholder group. Knowledge of these variations allows participants to make more meaningful changes in their behavior and improves perceptions across stakeholders.

### Improved Communication

Another benefit of a multi-rater feedback process is that it creates opportunities for cross-level communications about performance. As performance feedback from multiple sources becomes ingrained in the organizational culture, participants begin to feel more comfortable speaking openly about their performance, not only with their managers, but also with other key stakeholders such as direct reports and peers.

### Practicality and Cost-Effectiveness

A multi-rater feedback process is practical, cost-effective, and can readily be implemented by almost any organization. It provides invaluable diagnostic information at the individual and organizational level that can readily be translated into actionable interventions. Additionally, the cost per participant is extremely low given the significant individual and organizational applications.

Taken together, these advantages of a multi-rater assessment provide a compelling case for its use, especially in development.

## FREQUENTLY ASKED QUESTIONS

### What Do You Recommend for Companies with a Limited Budget? What Can They Do to Still Have an Effective 360° Survey Process?

Proper planning can help ensure that the time and resources you expend are used as effectively as possible. For example, we recommend the following process:

1. Map out a communications strategy.
2. Get manager buy-in and support to generate excitement and guarantee participation.
3. Put the time into preplanning to ensure you've determined which competencies need to be measured.
4. Ask the questions in an appropriate manner to ensure valid results.

Also, keep in mind that just because this task normally falls into HR's bucket doesn't mean that you can't solicit help and input from across the organization. Why not try to (1) uncover business outcome data and (2) find a colleague who can help link it to your HR data? Again, this linkage of data during the analysis phase only helps to improve the efficacy of the survey.

Additionally, you could reach out to your IT department to see if they can help ease facilitation using technology.

Don't forget to do your homework. Many 360° vendors will charge \$500–\$2,000 per 360° assessment, which is astronomical. In today's age of easier and cheaper data capturing, you should do your homework to find vendors that charge a lot less and deliver much more impactful information (e.g., identify the competencies/behaviors that drive actual business outcomes). Also, offer the 360° to more levels of management; economies of scale play a big role in vendor pricing, and the price per assessment can come down significantly with higher quantities.

### What Are the Pros and Cons of Soliciting Help from External Vendors/Partners When Executing 360° Surveys?

By using an external partner, you and everyone involved in the process can find comfort in knowing that all ratings are confidential. The analysis is unbiased, and the vendor will relay results and feedback in an objective manner. Also, as with most roles and functions, individuals who specialize in a process have ironed out all the issues and are experts in making it as successful as possible. Vendors have experience with proper setup and handling of 360s in terms of communication, content, action planning, and follow-through—all of which are critical in effective 360° execution.

On the flip side, it may not be advantageous to you if a vendor uses a one-size-fits-all approach. Trying to make a 360° product fit your organization instead of looking at the specifics needed to make the process truly impactful for your company won't help. And of course, the cost may exceed your budget. That's why we suggest looking for partners who are more than vendors—they should be consultants and advisors. They look at your specific opportunities and challenges and are flexible enough to customize a plan to suit your needs. A one-size-fits-all approach may work with clothes, but it rarely does with businesses.

## APPENDIX D

# Succession-Planning Basics

Succession planning has evolved over the years, from an approach almost exclusively focused on having a replacement ready for the CEO, to a comprehensive plan for assessing and managing talent moves across multiple levels—mainly management positions and critical jobs. "Succession planning" has many definitions, running the gamut from "an ongoing, equitable plan to develop and prepare employees for leadership positions at all levels throughout the organization" to "the process of identifying high-potential employees, evaluating and honing their skills and abilities, and preparing them for advancement into positions which are key to the success of business operations and objectives."[1] In some cases, the focus remains on high-potential employees; in other cases, the focus is more broadly on talent across all levels of the organization. Either way, succession planning must become more comprehensive and be linked directly to business outcomes and business strategy with a goal of creating a strong pipeline of leaders across the organization.

## WHAT THE RESEARCH TELLS US

The research demonstrates that companies with effective succession-planning practices and policies have higher returns on sales, investments, assets, and equity.[2] Succession planning has an indirect impact on productivity and gross returns on assets.[3] Although studies provide evidence for the relationship between succession planning and desired business outcomes, few address the critical components of effective succession-planning processes. In one of the few applied studies to date, researchers examined a variety of industries around the world and found that firms with best-in-class succession-planning processes shared the following characteristics:[4]

- A formalized process for identifying high-performance workers.
- Regular reviews of performance and progress of high-potential employees.
- Clear linkages between leadership development, succession planning, and business objectives.
- Clearly defined success profiles for key positions.

In the following sections, we discuss how to design and implement effective succession-planning processes that include the best-in-class characteristics and help drive bottom-line organizational results.

## EFFECTIVE DESIGN AND EXECUTION

Although the scope of succession-planning initiatives differs from organization to organization, the basic process for designing and implementing an effective succession-planning process is largely the same. As noted in the limited applied research, the key steps to designing and implementing an effective succession plan are as follows:

- *Establish present and future leadership roles and objectives.* Basically, you need to align succession planning with the organization's long-term strategy and mission. The questions that need to be addressed here include the following:
    - What will the business look like in the next one to five years?
    - Which business goals and operations will be the most important?
    - Will any job functions be consolidated?
    - Will workload change?
    - Are any new positions needed?
- *Identify high-potential employees.* How you identify high potential depends on the set of organizational needs you identified in the first step. Avoid looking for replacements just like the current incumbent, as future needs will almost always be different from the solutions currently in place. Instead, organizations should apply a consistent and objective assessment process to identify high-potential employees. The best approaches to identifying high potential are structured around the competencies included in the organization's definition of leadership.
- *Evaluate the strengths and weaknesses of high-potential employees*. Evaluate the strengths and development needs of high-potential employees. This evaluation can be accomplished through 360° performance feedback, behavioral assessments, or evaluations conducted by external consultants.

- *Build and review individual development plans*. High-potential employees should work with their manager and other key stakeholders to build a development plan tailored to their needs. This plan can include, for example, internal mentoring, technical and nontechnical training, and executive coaching. They should review these plans on a regular basis and adjust as needed.
- *Identify positions without internal successors.* These positions should be filled externally. We elaborate on the choice between internal and external hiring in the next section.
- *Assess the succession-planning process*. Assessing the relationship between the succession-planning initiative and critical business objectives (e.g., high-potential retention and ready-now replacements) is imperative. Doing so quantifies the value of the succession-planning process and demonstrates an ROI.[5]

## Internal and External Hiring in Succession Management

Most companies use a mix of internal and external hiring. Their goal is to train and develop employees from within to move into high-level positions, while simultaneously keeping track of current or future jobs for which the demand exceeds internal supply. The latter positions will need to be filled from outside the organization.

Internal succession planning often helps limit the higher costs (e.g., costs to hire an executive headhunter, and additional marketing and recruitment costs) and steeper internal learning curves associated with hiring external talent. This approach reduces the risk of employing an individual from outside the organization who may not have broad industry experience, who lacks company knowledge, or who may be incompatible with the company's culture.

Of course, internal candidates are not without their own risks. By definition, limiting potential hires to the internal candidate pool means fewer options. Employees who have worked within the organization for a number of years may lack fresh ideas or be unable to take a different perspective on challenging issues. And, if dramatic organizational overhaul is required, then being an insider can be a drawback.[6] Research suggests that outsiders may perform better when brought in to help poor-performing organizations.[7]

One reason might be that these leaders are less apprehensive about making major changes that will be met with organizational resistance.

## COMMON OBSTACLES TO SUCCESSFUL SUCCESSION PLANNING

Organizations often encounter several obstacles when attempting to design and execute a succession-planning process. In one study, organizations cited the following as the most common obstacles:[8]

- Other business activities were seen as more important by business leaders (64 percent).
- Senior management did not feel a sense of urgency (63 percent).
- Business leaders lacked the management skills to execute the strategy (28 percent).

Other research gives a more detailed picture of why succession-planning programs may underperform. For instance, in a study of multinational companies across a range of industries in North America, Africa, Asia, and Europe, the reasons for underperformance tended to focus on the people executing the process rather than on the process itself.[9] The specific obstacles cited by senior leaders included the following:

- Senior managers did not spend enough high-quality time on talent management (54 percent).
- Line managers were not sufficiently committed to the development of people (52 percent).
- The organization was siloed and not encouraging constructive cross-functional collaboration; there were also limitations in the sharing of resources (51 percent).
- Line managers were unwilling to differentiate their people as top, average, or underperformers (50 percent).
- Senior leaders in the organization did not align the talent-management strategy with the business strategy (47 percent).
- Line managers did not address chronic underperformance effectively (45 percent).

- Succession-planning and resource-allocation processes were not rigorous enough to match the right people to the right roles (39 percent).
- The senior team did not have a shared view on the most critical roles (38 percent).

The majority of the obstacles discussed above fall into four broad categories:

- Differentiating talent.
- Aligning the talent strategy with the business strategy.
- Implementing a rigorous planning and allocation process.
- Ensuring that line managers across the organization are committed to people development.

These obstacles are not insurmountable, and an HR leader with a strong process can overcome them. As we discuss in the next section, making the succession-planning process business-focused helps organizations overcome each of these obstacles.

## BUILDING A BUSINESS-FOCUSED SUCCESSION PLAN

To reiterate, succession planning should be focused on talent across the organization and not solely on identifying a successor for the CEO. Planning and building a strong, sustainable pipeline of leaders for the organization is the goal of this process.

You cannot execute succession planning in a vacuum—career assessments and development serve as key inputs into the process, while custom leadership-development programs for individuals (and specifically for your high-potential talent pool) help ensure a continually developing pipeline of leaders.

Succession planning often falls into the trap of being a popularity contest with limited focus on the objectivity and rigor of the process, with relatively weak linkages to the overall business strategy. Having talent-review meetings has benefits; however, they are not sufficient in creating a business-focused succession plan. Below are the key tasks and components associated with business-focused succession plans:

- Customizing the approach to your organization (based on current and future business challenges, which can come with assumptions).
- Facilitating talent-planning sessions with leaders.
- Getting candidates on the right career path.
- Linking employee data to business outcomes.
- Assessing the overall health of your talent pool.
- Creating leadership programs based on true talent-pool development needs as well as on individual development needs that are driving business outcomes.

Conduct facilitated talent-planning sessions. These sessions involve key decision-makers across the organization (e.g., senior leaders or managers), as well as individuals who have been identified as future talent. As we outline below, you should address several different types of talent-planning sessions and various issues in each.

## Role Clarity

Talent-planning sessions allow you to seek input on the critical roles in the organization and reassess the activities or duties associated with each role. Specifically, you should interview SMEs (subject matter experts) and current incumbents (i.e., employees currently holding critical roles) with a focus on (1) defining the top activities performed, the percent of time spent on these activities, and the activities that should be changed, added to, or removed from the role; and (2) the key differences that exist in the role (and why those differences exist). Gather and summarize this information prior to the talent-planning session so that during the session you can facilitate a discussion that culminates in greater clarity around the knowledge, abilities, and skills required in critical roles. Such role clarity improves alignment between succession-planning efforts and the business strategy, and allows you to make optimal decisions on development plans for your leaders (current and future). Role clarity also gives you the opportunity to assess the appropriateness of your career-path strategy (if one exists) and to calibrate whether the feeder jobs that lead into critical roles and potential next jobs are still appropriate.

### The Nine-Box Discussion

Talent-planning sessions also create opportunities to differentiate how employees are performing from what they are accomplishing on the job. This approach was made famous by GE with its Session C approach to leadership development, in which they utilized a nine-box exercise to rate the "what" and the "how" of employee performance.[10] The nine-box exercise has worked well and continues to work well as a way to differentiate talent. During this exercise, managers or senior leaders rate employee behaviors (i.e., the how) and results or performance (i.e., the what). Ratings are often assigned using a three-point scale that reflects low, average, and high levels of performance. Organizational leaders commonly use the terms (or some variation of) "too new to rate," "does not meet," "meets," or "exceeds" to define the various levels of performance.

Historically, nine-box rating exercises have involved a high degree of subjectivity with little data-based rigor. The talent and succession scorecard helps organizational leaders overcome this subjectivity and focuses the rating process and succession decisions on results and behaviors that directly impact business outcomes.

### Performance Management

The nine-box ratings and the talent and succession scorecard provide a solid foundation for performance management, and they help instill accountability for performance improvement, particularly for those who fall into the "does not meet expectations" category. During talent-planning sessions, examine the employees who fall into the unacceptable (i.e., "does not meet expectations") category and identify a plan of action for their development. Will they be expected to move up or out? Would particular leadership or career development opportunities help them be more successful? It is fair to ask what the specific plan is for this group and hold the leadership accountable for executing such plans.

## High-Potential Assessment

During the facilitated talent-planning sessions, organizational leaders should define what "high potential" or "expandable" talent means, and identify employees who fall into each of these categories. The former is someone who could make a one- or even two-level jump in the organization, who has the ability and capacity to take on considerable responsibility, and who would be successful in more than one critical leadership role across the organization. Individuals who can "expand" are those who can take on additional scope and scale in their role and may also jump a level in the organization. Once high-potential and expandable talent have been identified, managers should have career conversations with these individuals to identify appropriate developmental opportunities and discuss career goals and aspirations.

## Comprehensive Talent Review

Talent-planning sessions can also be used to assess the existing talent pool against the current and future needs of the organization. Ask yourself the following questions:

- What are the future needs of the business?
- How much and what type of talent do we need to sustain success and to execute our strategy?
- What is the tenure of individuals in current roles?
- What are our current open jobs?
- Which individuals have said they are willing to relocate?
- Have we made a sufficient number of talent moves and filled necessary gaps from the last time we had a talent review?
- Which lateral moves, promotions, or specially assigned projects have we moved our high performers and high-potentials into in the last year?

The final step is to launch a focused leadership-development program that targets the high-potential and expandable talent identified in the previous steps. As we discuss more thoroughly in Chapter 9, this program may include additional executive assessments and coaching, action-learning teams focused on critical business outcomes, group learning, cross-functional roles or projects, or planned job rotations. The leadership-development program should help fill any organization-wide competency or skill gaps identified on the talent and succession scorecard and provide individual leaders with the specific skills they need to move into future roles.

## SUCCESSION-PLANNING METRICS

As with any HR process, generic metrics that work in one organization may not be completely appropriate for another organization. Below are examples of metrics we have used with organizations to measure the impact and success of their business-focused succession-planning process:

- Percent of key positions with ready-now candidates in the pipeline.
- Percent of positions that have at least two potential successors (two-deep).
- Vacancies filled by internal candidates.
- Job performance of successors in new roles.
- Overall talent pool health assessment rating and rating improvement.
- Number of expanded developmental opportunities executed for high performers (e.g. lateral moves, cross-functional projects).
- Significant reduction in high-performer and high-potential turnover.
- Significant improvement in perceptions of career opportunities on the employee survey.

These metrics represent a clear opportunity for HR leaders to show the value of a comprehensive succession-planning process, which comes in the form of reduced turnover and higher job performance, a strengthened leadership pipeline, and employee engagement in the career-development process.

### Practical Tips

- The data needed to link succession-planning tactics to business outcomes likely already exist—take the time to engage stakeholders early in the process to make data collection easier.
- Communicate with senior leaders to understand their desired business outcomes that should be the basis for building a succession plan.

- Utilize the scorecard approach to make the complicated analyses practical and action oriented.
- Introduce the scorecard approach and analyses early in the process to streamline the talent-review meetings and help ensure their effectiveness.
- Highlight the need to track overall talent health on the scorecard as a means of showing progress and improvement in building leaders.
- Remember to integrate a comprehensive approach to career development and leadership development with your succession-planning efforts to build and sustain your talent pipeline.

# Endnotes


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## Appendix B

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# Index

**G**



**H**



**I**



**K**



**L**



**M**

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