Harvard Business Review

A REPORT BY HARVARD BUSINESS REVIEW ANALYTIC SERVICES

Connecting Workforce Analytics to Better Business Results

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It's no secret that talent is the *top* business challenge of the twenty-first century. According to the Corporate Leadership Council, two out of three CEOs believe their greatest workforce challenge is a lack of skilled employees.

Knowing that, what is preventing more companies from managing their workforces with greater precision and effectiveness? In short, a lack of improved workforce analytics. This report, sponsored by SumTotal, validates the connection between advanced analytics and the ability to manage a workforce more effectively and precisely. It also shows how a few overarching challenges are preventing many companies from using analytics to build and empower best-in-class workforces:

1. Lack of staff with analytical skills. Talent scarcity in this field is real—and you can't hire your way out of it. For many critical skills, developing and relying on your own people is the only answer. SumTotal's elixHR™ Platform makes it easy not only to get information into the hands of end users, but it also makes that data actionable by telling people why the information is important and what it means.

2. Insufficient technology. Advanced technology makes the advanced use of workforce analytics easier, but only if your people can use it. SumTotal believes workforce analytics are so important that we've built them into the core of the elixHR Platform. Your people can get on-demand insight and make better decisions in the context of their daily work.

3. Lack of integration. On average, organizations need to connect 11 different HR and other business systems. Master data management (MDM) technology—such as that used in SumTotal's elixHR Platform—allows organizations to quickly achieve virtual systems integration without a costly, time-consuming, and risky consolidation effort.

Linking powerful analytics to workforce performance certainly has its obstacles. But knowing the benefits and understanding the challenges are the first steps toward connecting analytics to performance.

SumTotal is the largest independent HR solution provider in the industry, with over 45 million cloud, hosted, or on-premises users globally. With our learning, talent, workforce, and payroll solutions, we are the only HR solution provider that delivers a path to Talent Expansion™. Talent Expansion is a whole new approach to discovering, developing, and unleashing the hidden potential within your workforce—because you want your people to be great at what they do, not just record what they did. Learn how this approach is helping organizations like yours build and empower best-in-class workforces at www.SumTotalSystems.com.

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Connecting Workforce Analytics to Better Business Results

Executive Summary

Workforce analytics has become an essential business tool for leading companies that view workforce performance as the key to improving company results, according to a new global survey of business leaders by Harvard Business Review Analytics Services.

Workforce analytics is a set of integrated capabilities (technologies, metrics, data, and processes) to measure and improve workforce performance. The goal is simple: put the right people with the right skills in the right work, provide them with the necessary training and development opportunities, and engage and empower them to perform at their highest possible level.

While the goal is simple, getting there involves a sophisticated mix of factors: executive commitment, the right metrics and technologies, and the people and processes to turn insight into action. This report suggests it's worth the effort. Advanced users of analytics are far more likely to say their organization is effective at leveraging their workforce. They have the most engaged employees and thrive in the toughest conditions. And they do fewer headcount reductions because they have lean and efficient workforces to begin with.

Yet companies appear to be struggling to deploy analytics. More than a quarter of survey respondents use little or no workforce analytics, and the vast majority (61 percent) report their use as tactical, ad hoc, and disconnected from other key systems and processes (see data column to the right). Close to half report they are unable to integrate workforce data with other systems (CRM, ERP, financials, etc.) to make business-critical decisions in real time. While many report using transactional data (such as number of performance reviews completed, number of employees completing learning coursework), that is insufficient to make strategic business decisions.

The payoff for companies that get this right is enormous, the results suggest. Respondents who are more effective at leveraging their workforce see significantly better business results: they enjoy higher quality, productivity, customer satisfaction, and market share—and they're more profitable, too. Workforce analytics is helping them get there.

Connecting Workforce and Company Performance

Executives interviewed for this report unanimously agreed that increasing the effectiveness of the workforce was the most important means to improve organizational performance. "The war for talent is real," said the director of executive and bench development for a

RESPONDENTS' USE OF WORKFORCE ANALYTICS

27%

Low: Use little or no workforce analytics

61%

Moderate: Use some workforce analytics, but reporting is mostly tactical, ad hoc, and not connected to reporting from other enterprise systems (e.g., financial systems, ERP, CRM)

12

Advanced: Use predictive modeling that ties workforce data to organizational performance; reporting is integrated with other key enterprise systems

6,000-employee investment company. "To keep our competitive edge, we have to have the right talent in place. We have to be constantly investing in and developing talent."

The research backs this up. The organizations that reported they are most effectively managing their workforce are also more likely to say their companies are outperforming their competition on a number of key metrics, including quality, customer satisfaction, profitability, and market share. Figure 1

Figure 1

Company Performance vs. Peers—by Effectiveness of Using Their Workforce

Please rate your company's performance in the following areas relative to your competitors.

Top box (8–10, where 10 = extremely strong)

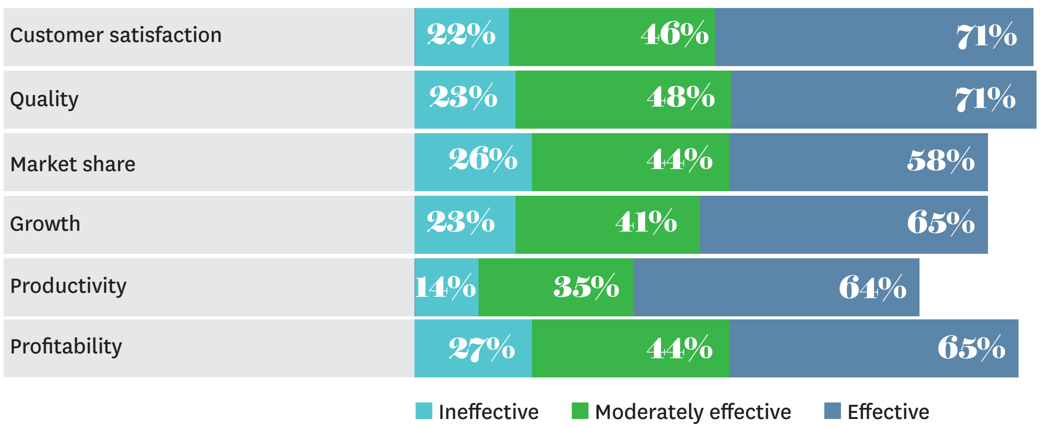
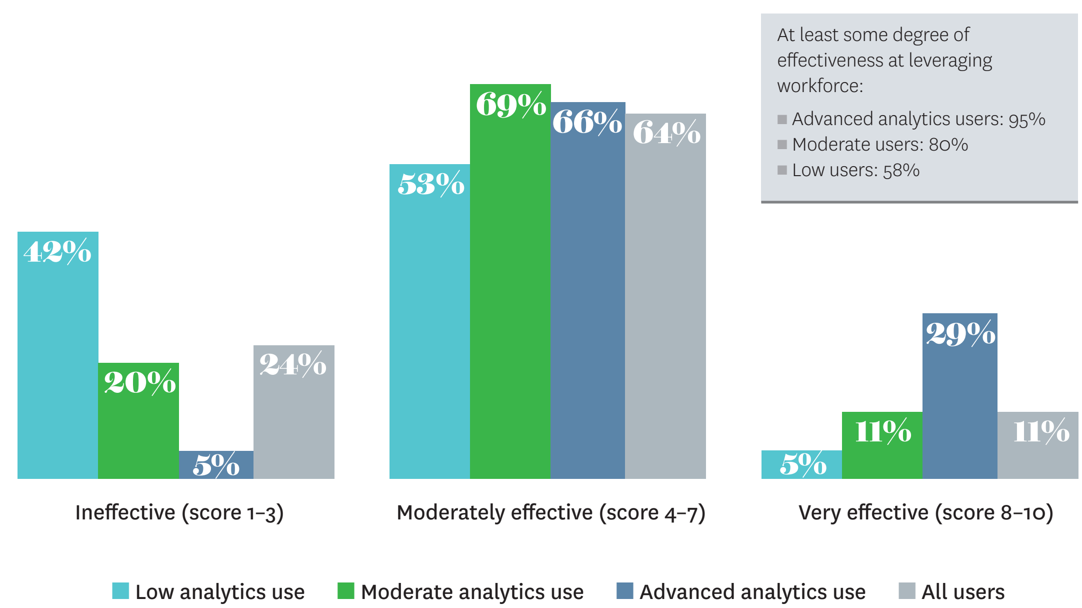


Figure 2

Advanced Analytics Users Get the Most Out of Their Workforce

How effective is your organization in leveraging your workforce to its best advantage?



The South American division of a global automaker expects to move from the number two spot in its market to number one in both market share and profitability by improving the performance of its employees, according to the head of material and process quality. While productivity and quality are the ultimate goals, "to achieve that in a lean environment requires a lot of innovation and continual improvement," he said. "Each employee must innovate his own process using fewer resources with less effort and stress." A culture change program that focuses on improving teamwork and giving employees more freedom to innovate and make decisions is central to this effort.

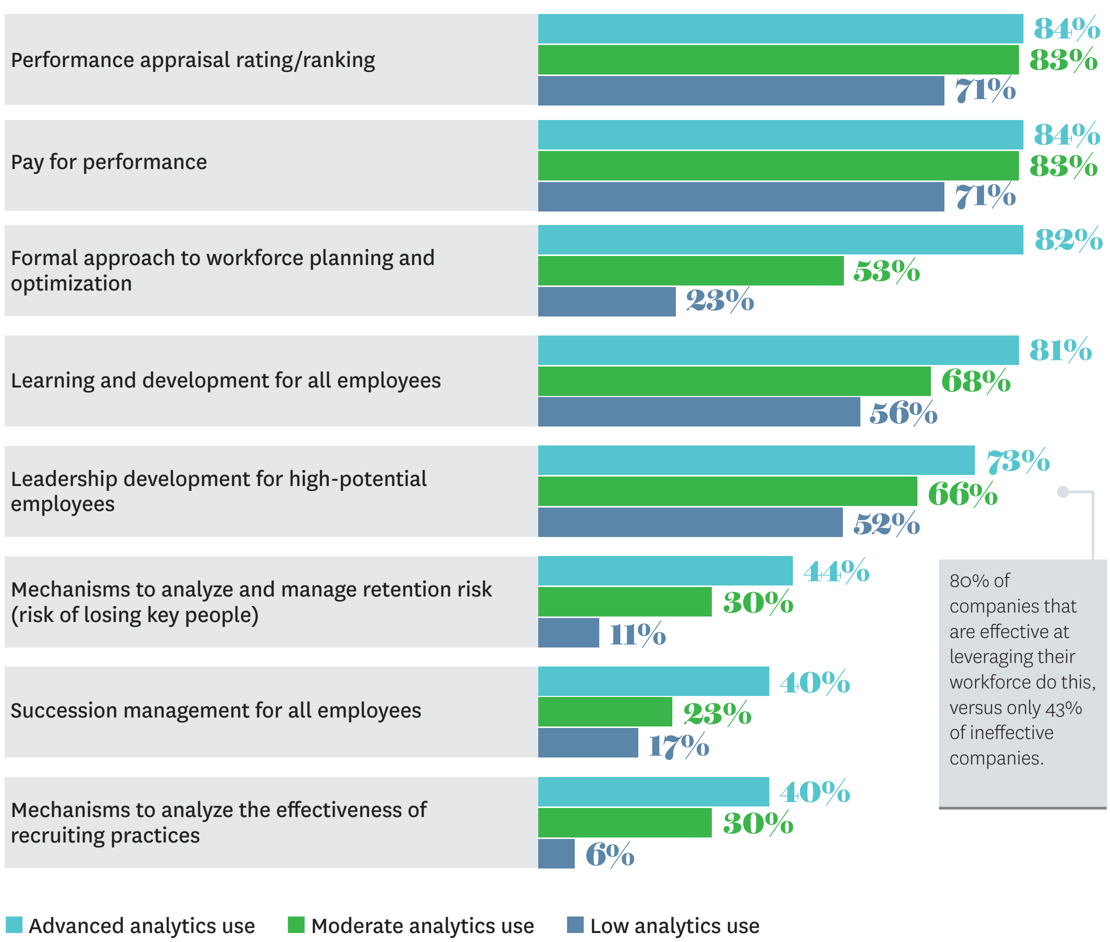
Most companies have a long way to go. When asked, "How effective is your organization at leveraging your workforce to its best advantage?" 24 percent of survey respondents said not at all effective, while only 11 percent said very effective.

Once again, advanced analytics users were much more likely to say their organizations are very effective (29 percent)—and 95 percent say they are either moderately effective or very effective. Figure 2 Low analytics users were almost twice as likely as the average and eight times as likely as advanced users to say they were ineffective at leveraging their workforce, at 42 percent. It reasonably follows that improving understanding and use of analytics may well lead to getting more from the workforce.

Figure 3

Respondents' Workforce-Related Practices

Which of the following practices does your organization routinely employ?



While advanced analytics users outstripped the rest in their use of all workforce-related practices, the biggest difference was in having a formal approach to workforce planning and optimization. Figure 3 Companies that are very effective at leveraging their workforce focused most on leadership development for high-potential employees—80 percent versus the average of 63 percent. Only 43 percent of ineffective companies do this.

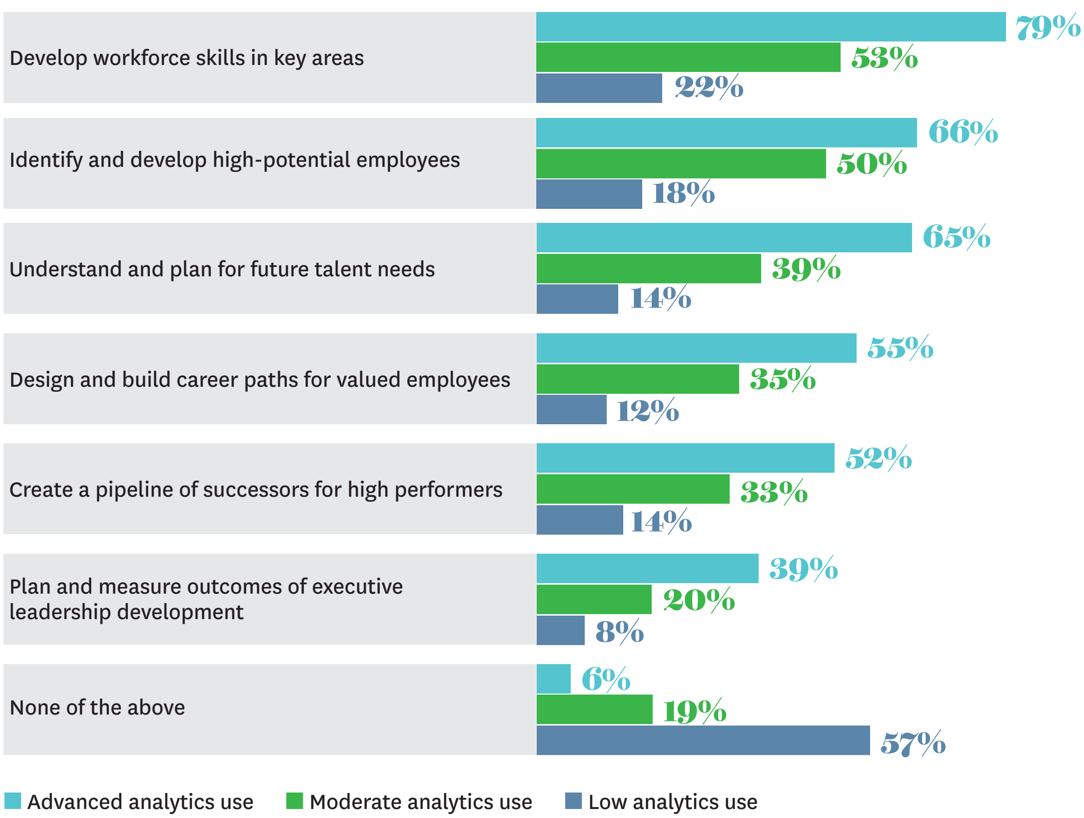
Indeed, focusing on high-potential employees emerged as a best practice. In addition to the above finding, identifying and developing high-potential employees was one of the highest uses of workforce analytics—second only to developing workforce skills in key areas. Figure 4 Advanced users (who presumably have the data to prove it) were substantially more likely to say that development programs for high-potential employees contribute to improving company performance than anyone else (31 percent versus 19 percent and 20 percent)—ranking it fourth of a possible 11 activities.

Advanced users care less about long-term prospects for their employees, ranking "building career paths for talented employees" lower than the average. Instead, they choose to focus on getting the most from high potentials in the here and now. This aligns with a June 2013 article in *Harvard Business Review*, "Tours of Duty: The New Employer-Employee Compact," which argues that "You can't have an agile company if you give employees lifetime contracts—and the best people don't want one employer for life anyway." http://hbr.org/2013/06/tours-of-duty-the-new-employer-employee-compact/ar/1

Figure 4

Workforce Analytics and Where They Are Used

Do you use workforce analytics to help with the following?



Closing the Gap

Increasing the effectiveness of the workforce is the most important lever to improve company performance in almost any industry sector, but especially in knowledge industries. “Our assets come in and go out every day,” said the HR manager for a large IT consulting firm. “Whatever we achieve, whatever we aspire to deliver, it’s due to the quality of our people and the passion they have for what they do.”

The director of human resources at a European transportation and logistics company agreed. “We are a service provider. At the end of the day, the performance of our staff can mean more money or not.”

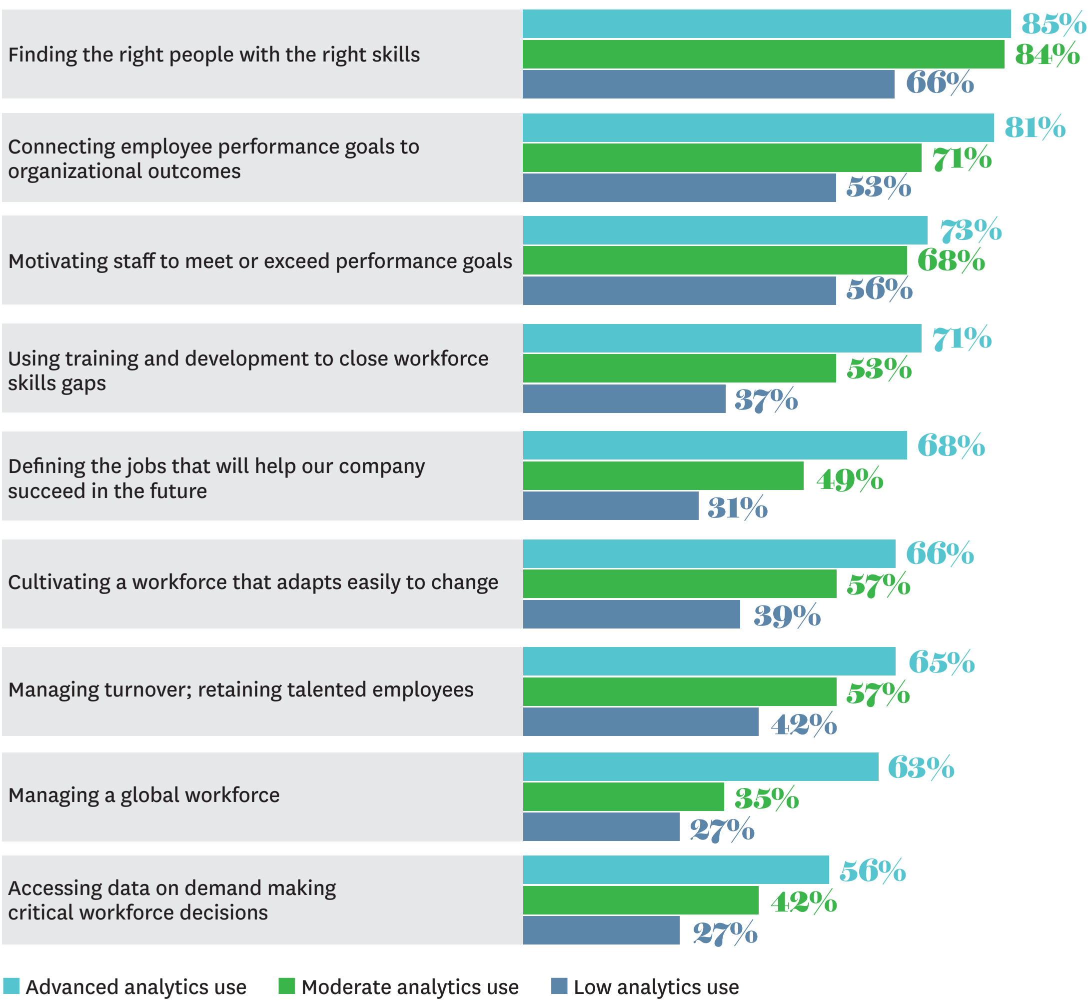
The same holds true in a manufacturing setting. “All the results we get come through our people,” said the quality leader at the global automaker in South America. “It’s very important to have high-performance teams.”

Figure 5

Most Important Workforce Areas to Manage

Please rate the importance of the following to your organization.

Top box (8–10, where 10 = extremely important)



The means by which companies achieve this include:

- Finding the right people with the right skills
- Using training and development to improve their skills
- Motivating staff to meet or exceed performance goals
- Connecting performance goals to organizational outcomes Figure 5

The companies in the survey placed high importance on managing these things, but few are happy with their own ability to do so—starting with the most fundamental activity: finding the right people with the right skills in the first place. Figure 6

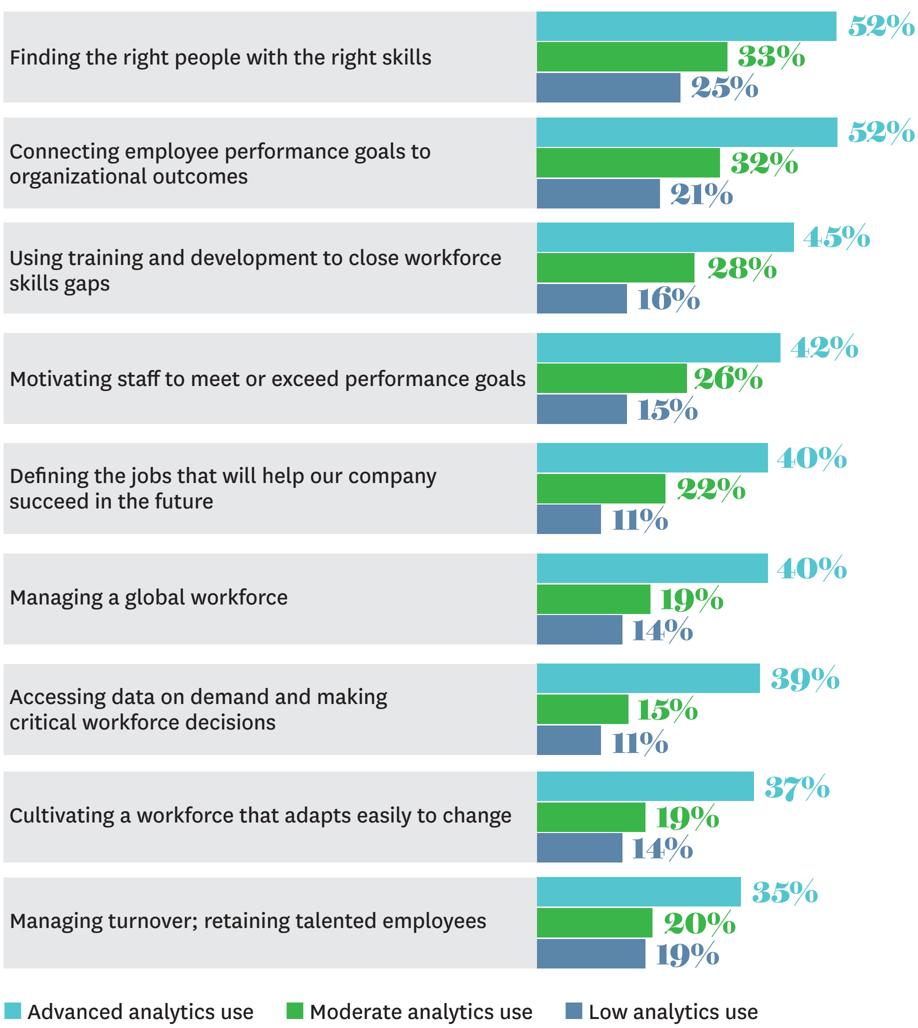
In general, programs to enhance workforce effectiveness can have a hard time gaining traction. "Everybody pays them great lip service," said a consultant at a government agency with 50,000 employees that is currently running programs on emotional intelligence. "If it's easy to achieve, managers are happy to do it. But if it takes them out of their comfort zone, it's the last thing they'll get back to."

Figure 6

Success in Managing Important Workforce Areas

Please rate the extent to which your company is successful in achieving each of the following.

Top box (8–10, where 10 = extremely successful)



Advanced analytics users do better, but even they have a gap between what they believe is important to manage and how well they're performing. Figure 7 That's because this is a systemic issue; there has to be broad understanding of and commitment to both the overarching goals and the specific programs that will deliver them. A large global food services company with a 40 percent turnover rate made this a priority a few years ago. At the time, workforce development was happening by exception through a small number of "heroes." Now all frontline managers go through formal training in workforce development, and their incentive bonuses are partly dependent on employee engagement scores. Things are finally starting to change.

Attributes and Activities—Engagement Is Key

Advanced analytics users rated productivity, flexibility, collaboration, and engagement as the most important workforce attributes. Figure 8 Few respondents were satisfied with their company's ability to cultivate those attributes—including advanced analytics users. Figure 9 The positive outlier, not surprisingly, was

Figure 7

Importance vs. Performance: Even Advanced Users Fall Short

Please rate the importance of the following to your organization.
Top box (8–10, where 10 = extremely important)

Please rate the extent to which your company is successful in achieving each of the following.
Top box (8–10, where 10 = extremely successful)

among respondents who said they were effective at leveraging their workforce. These rated their satisfaction as significantly higher on all attributes—for example, 56 percent were satisfied with their ability to cultivate employee productivity, and 60 percent were satisfied with their ability to cultivate engagement.

Increasing engagement topped the list of activities to improve company performance, even beating out productivity and the ability to promote the right people to the right job. That's because, while engagement in and of itself is not necessarily the ultimate goal—productivity claims that honor—engagement is seen as the means by which companies will achieve greater productivity and effectiveness. "To improve productivity in a lean environment, you have to have a lot of innovation," according to the auto manu-

Figure 8

Most Important Workforce Attributes

Please rate the importance of the following workforce attributes to your company.

Top box (8–10, where 10 = extremely important)

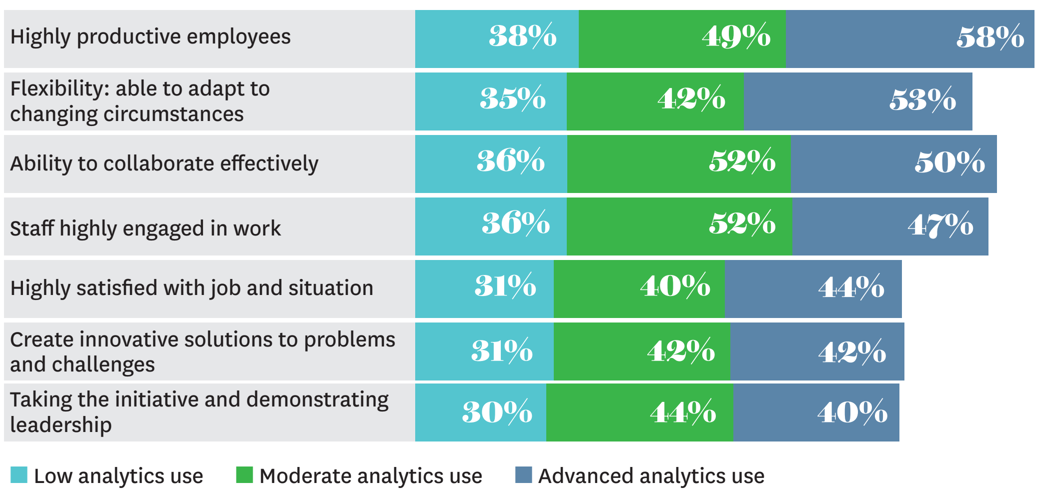
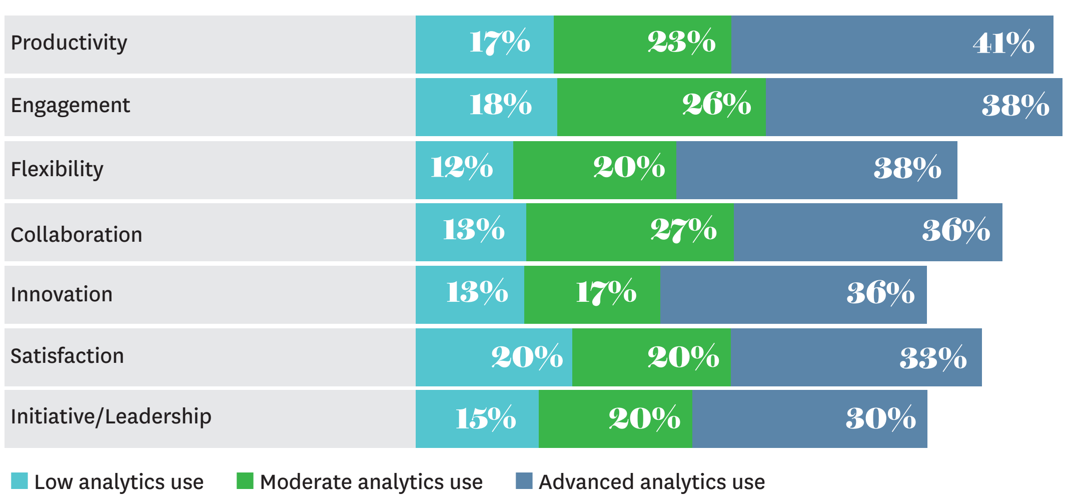


Figure 9

Satisfaction with Ability to Cultivate Attributes

How satisfied are you with your company's ability to cultivate these attributes?

Top box (8–10, where 10 = extremely satisfied)



facturing quality manager, with each employee innovating his or her own process within the existing framework to get to higher performance. That only happens, he believes, when employees are engaged.

This is true regardless of industry or job category. Engagement improves customer service among hourly service workers and saves fuel costs with airline pilots who feel motivated to look out for the company's interests. Interestingly, there is little correlation between engagement and compliance with basic job requirements; in fact, compliance can even go up when engagement goes down, according to the head of flight crews for a UK-based airline. That's because employees just focus on doing what they're told rather than on how best to help the organization reach all of its goals. Developing the right metrics and having effective ways to connect them to outcomes can be challenging, he said.

While executives used different terms to describe what they mean by engagement, it fundamentally boils down to having a workforce that feels invested in the organization and is therefore motivated from within to help it succeed. Engaged employees take initiative to solve problems, and they want to do the right thing. "It's the test of the piece of paper on the floor," said the vice president of workforce management implementation at the global food services company. "Do they walk by it, pick it up—or were they the one who dropped it in the first place?"

Engaged employees do more because they feel connected to the organization in some fundamental way, executives interviewed for this report agreed. For the airline, that means having pilots who will take into consideration the impact of how they fly the plane on fuel consumption and who will make better decisions about how much excess fuel to carry, which can have a significant impact on costs.

For the government agency consultant, an engaged employee is "doing twice as much work as he should be doing, on his own, in spite of the constraints of the organization. The engaged employee rolls up his sleeves and comes to his manager with problems and potential solutions." It's what the investment executive termed "discretionary effort."

Companies use various means to cultivate engagement. All of the organizations interviewed for this report do some form of employee engagement survey (one as often as four times a year); the results influence everything from education and training programs for managers (with compensation tied to improving engagement scores) to increasing communication with employees about values, goals, priorities, and company performance. "Our biggest lift comes from getting frontline managers confident about what engagement is and how to drive it," said the investment company director.

Engaged employees feel they are part of something bigger, with a shared sense of culture, purpose, and responsibility. The investment company cultivates this through team-based community involvement (working with Habitat for Humanity, the Special Olympics or the United Way, for example). This energizes associates and gives them a sense of pride that transfers back to the company. Doing something personally meaningful with hundreds of their coworkers can have a profound effect.

This can be challenging for organizations whose employees are more lone rangers, where many of the traditional manager/employee relationships don't exist. The airline is rolling out programs now to address this challenge, including an annual two-day conference, monthly webcasts with the CEO, and online forums where pilots can have peer-to-peer conversations.

What to Measure, What's Getting in the Way

Advanced analytics users tend to monitor a more targeted set of KPIs—things such as talent mobility, learning and development efficiency, and aggregate competency and skills levels. In contrast, moderate analytics users use broader KPIs—things such as total turnover, revenue per employee, and diversity. The biggest gap between low and advanced analytics users was in managing talent mobility across assignments, organizations, and geographies.

Overall, we see growing evidence of a link between advanced analytics use and the ability to manage the workforce more precisely, which in turn has an impact on company performance.

More than a third of all respondents identified three primary barriers to effective workforce management:

- Skills gaps in the workforce: 36 percent
- Issues with the management structure: 36 percent
- Lack of access to real-time analytics: 36 percent

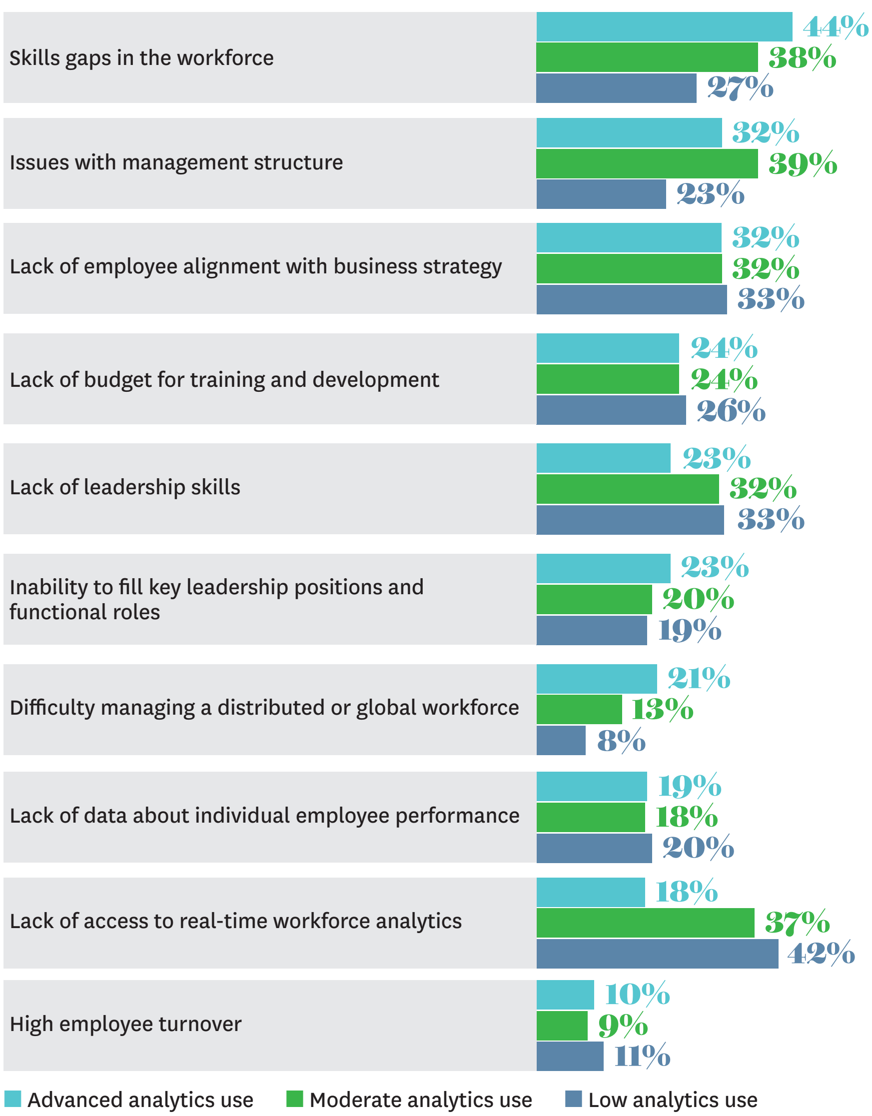
The latter was the biggest barrier for low analytics users, at 42 percent. Figure 10 Not surprisingly, this was not an issue for advanced analytics users (only 18 percent named it as a barrier); instead, a lack of employee alignment with business strategy was their third-biggest barrier, at 32 percent.

A lack of analytics "has probably been the largest barrier to action for us," said the vice president of workforce performance at the global food services company. "When we looked at the data rolled up, we could

Figure 10

Barriers to Effective Workforce Management

What is getting in the way of managing your workforce more effectively?



say, 'Here's the problem,' but we couldn't get to the solution without the detail. Now, from this detailed information, we can build action plans for people on the front lines. This is game changing for us. It's the analytics piece that's going to drive changes in our business."

Respondents who say they are ineffective at leveraging their workforce primarily blame issues with management structure (43 percent) and a lack of leadership skills (46 percent—twice that of companies that excel at leveraging their workforce).

There are also plenty of obstacles to making better use of workforce analytics. For advanced users, the biggest obstacle is outdated or insufficient technology (53 percent). Figure 11 Almost half (42 percent) also say there is little or no integration of HR systems with other corporate systems. "I don't think data is the issue," said the quality manager at a global power company. "The tools need to be more intuitive and simpler."

The government consultant agreed. "We're data rich but information poor," he said. "We collect data on everything, but damned if we can make any sense of it."

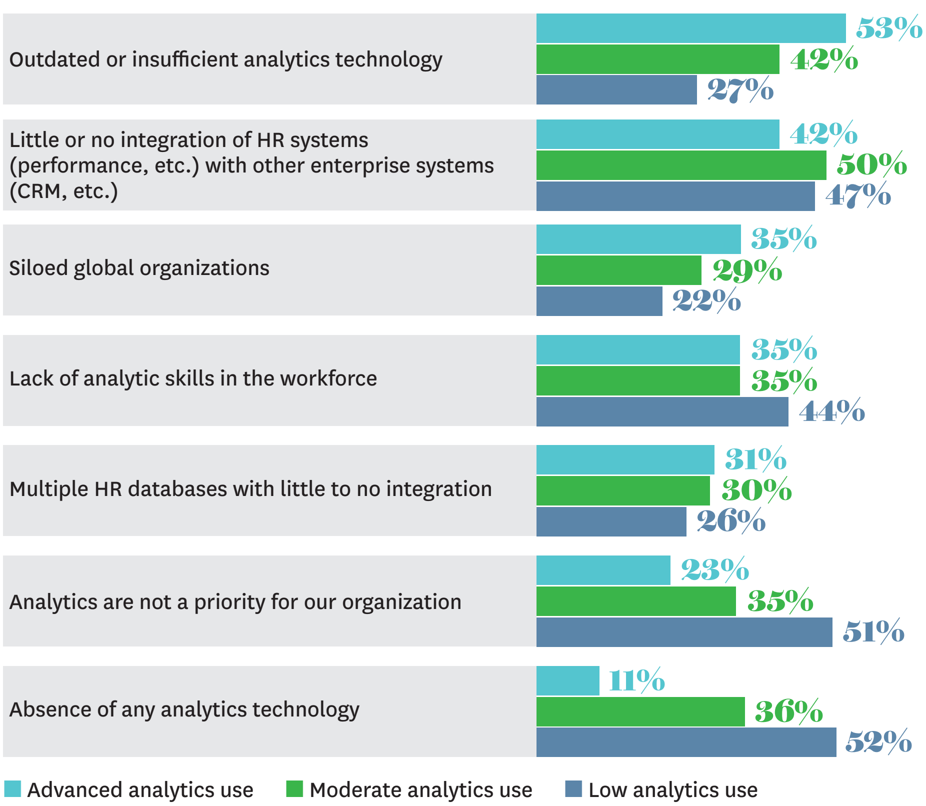
The investment company is pulling together data from its learning management, compensation, and performance management systems. "Pulling this all together lets us draw a clearer picture for the business leader," said the director. "That data is driving better decision making."

Companies that have been able to integrate their workforce performance systems with other enterprise systems such as their ERP or CRM are seeing positive results. "We look at financial, production, and workforce data," said the automotive company quality manager. "We can compare the performance of our workforce against operational processes and company performance. This gives us a very good picture to see where our weak points and strong points are so we can manage them."

Figure 11

Obstacles to Better Use of Workforce Analytics

What are the obstacles to making better use of workforce analytics?



The holy grail would be to have this insight on demand. "Our CEO is driving us to have full integration of our workforce and business systems, with real-time analysis of the data," said the vice president of workforce performance at the global food services company. "He calls it the daily P&L."

Low users suffer from a lack of investment in any analytics technology (52 percent cite this as an obstacle). Perhaps more important is their cultural position, with 51 percent of low users saying analytics is not a priority in their business. This, coupled with an analytics skills shortage in 44 percent of low users' organizations, suggests there is a long way to go before these businesses are ready to transform their use of workforce analytics.

Ineffective companies show results similar to those of low analytics users. They do not make analytics a priority (48 percent), lack analytics technology (47 percent) and skills (41 percent), and have little or no integration of HR systems with other enterprise systems (50 percent).

Moderate users were most concerned about a lack of system integration (50 percent). Thirty-five percent say analytics is not a priority, suggesting these businesses have yet to make the case in a compelling way.

Conclusion

Organizations' ability to understand and make good use of workforce analytics lags behind the implementation of the systems themselves. This is true even among advanced users, 73 percent of whom say understanding in their organization is poor or moderate. That's because, as with any large-scale change, technology is just one component of a fairly complex system. It also takes management commitment; a clear understanding of the skills needed; finding the linkages between workforce programs and company performance; integrating data, systems, and organizations; and more. Figure 12

To realize the benefits that workforce analytics promises, all of these will need attention. There's plenty of evidence to make the case. First and foremost, companies that are very effective at leveraging their workforce are more than three times as likely to say they're beating their competition on customer satisfaction, quality, and productivity than are those that are ineffective, and they are more than twice as likely to have better market share, growth, and profitability. Figure 1 And they are more likely to be advanced (32 percent) or moderate (57 percent) users of workforce analytics.

Methodology and Participant Profile

Harvard Business Review Analytic Services received a total of 498 survey responses, from 454 members of the Harvard Business Review Advisory Council, supplemented with 44 from HBR eNewsletter subscribers.

PARTICIPANT PROFILE

Size of organization
Eighty-six percent of respondents came from large organizations with more than 1,000 employees; within that total, slightly less than half (44 percent) of overall survey respondents came from very large organizations with 5,000 or more employees. The remaining 14 percent were executives in companies with 500 to 999 employees.

Seniority
Twenty-three percent of all respondents were in executive management or board-level positions, with 46 percent in senior management positions. The other 31 percent were in middle-management positions.

Key industry sectors
Almost one-sixth of respondents (16 percent) come from the financial services industry; 14 percent are from manufacturing; 13 percent are from IT and telecom; 10 percent from health care, pharma and life sciences; and 8 percent from energy and utilities. Thirteen percent are from government, education, and not-for-profit organizations. Other sectors are each represented by less than 7 percent of the respondent base.

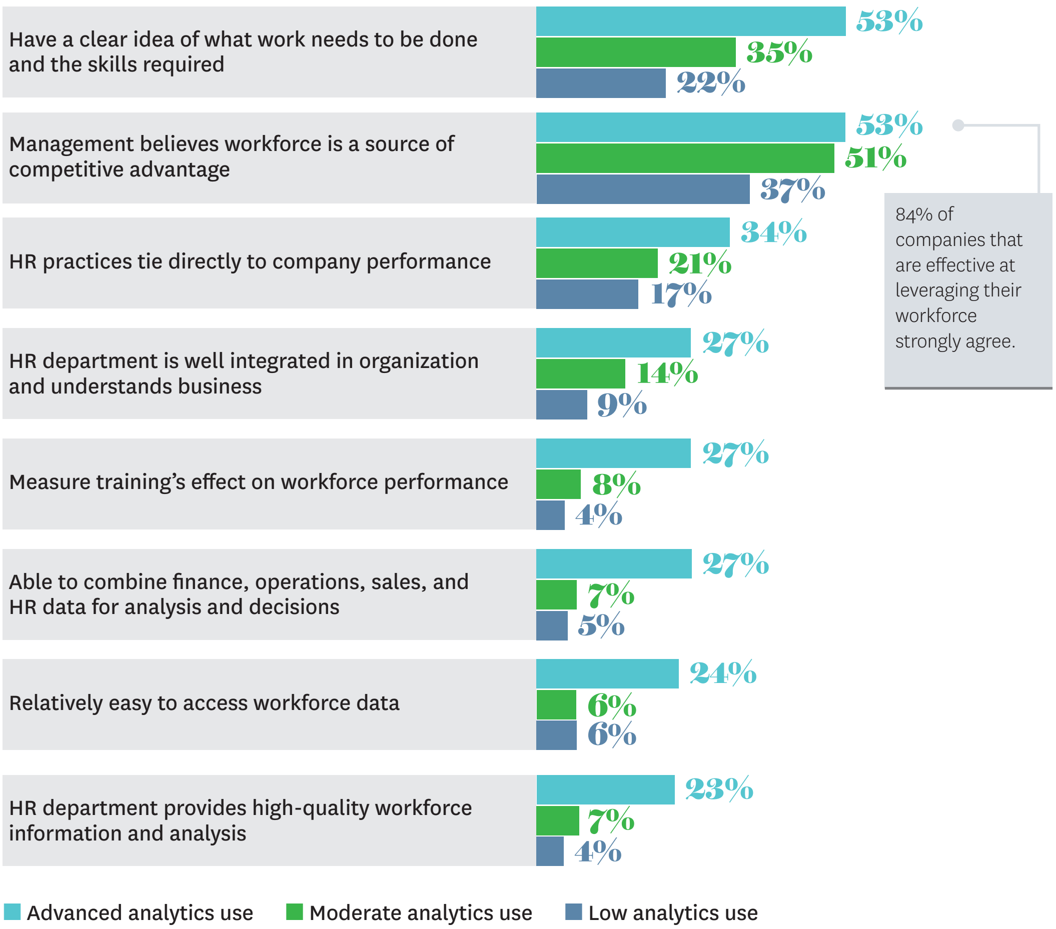
Regions
The global survey audience was well balanced across the major regions of the world, with 32 percent from North America, 25 percent from Europe, 27 percent from Asia/Pacific, and 16 percent from the rest of the world.

Figure 12

Advanced Analytics Organizations Positioned Differently from Others

Please indicate to what extent you agree or disagree with the following statements.

Top box (8–10, where 10 = strongly agree)



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