

Understanding HR Data: the importance and risk of context

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Peter Howes, a pioneer in the use of HR data once told me that a little data in the wrong context is often worse than no data at all. When people misinterpret data it just strengthens their beliefs in the accuracy of something that is not true. This is a risk when sharing HR data with business leaders. Consider the following story, which is based on actual events. Following a financial downturn, a large company had to rapidly reduce total workforce costs. Senior leaders were given spreadsheets showing salary and headcount for different departments. They identified a team working on a non-critical product that had higher workforce costs than other groups. Eliminating this team was seen as “low hanging fruit” to save costs based on HR data showing job titles, functions and salaries. But the leaders never actually looked at data showing the capabilities of the people on the team. Shortly after letting the team go, the company discovered it had eliminated several highly skilled engineers. These employees had been placed on this team because of their past performance and creativity. Several of the employees possessed unique skills critical to the company’s business operations. A few months later the company had to re-engage these employees as consultants at rates far higher than what they were paid as full-time employees.

It might look like the leaders in this story made a stupid decision. But these leaders were not stupid people. They were smart people who made a confident decision based on accurate data interpreted the wrong way. What they lacked was additional data that would have enabled them to fully understand the context of their decision and its impact, both positive and negative. Part of the art of using HR data presenting it way that leads people to draw appropriate insights and conclusions. This is largely about providing data in the right business context coupled with effective analytical interpretation. To illustrate this idea, consider the following four stories that illustrate the use of HR data ranging from least effective to most insightful.

Presenting HR data without any business context. Jenny Dearborn, author of the book “Data Driven HR” told me a great story that illustrates the risk of presenting HR data without any business context. Early in her career she shared data with a business leader indicating how many people in his organization had completed various training programs. Rather than responding positively, the leader said “all this data tells me for sure is that dozens of people in my company have spent hundreds of hours sitting in training classes instead of focusing on getting actual work done”. The leader did not say that training was a waste of time. But he made it clear that this HR data was not valuable unless it could be linked to business relevant data such as sales productivity.

Presenting HR data without enough business context. Headcount freezes are a common method used to control costs. From a financial perspective, this makes a lot sense. By freezing hiring companies can swiftly reduce growth in operating costs caused by salary. What leaders implementing headcount freezes do not see is the financial losses caused when managers are unable to hire candidates. This starts with wasting the months of time spent recruiting skilled candidates, only to tell them they cannot be hired. Furthermore, the best candidates have multiple offers so when a company implements a hiring freeze it is basically handing off its top candidates to other companies. Last, employees are hired because companies need people to generate revenue and run efficient operations. The revenue and efficiency that would have been gained by hiring new employees is lost as soon as the hiring freeze goes into effect. The problem with hiring freezes is not the they never make sense. The problem is they are

implemented based solely on looking at data showing the cost saved by eliminating new hires, without considering contextual data showing the financial gains that new hires generate.

Presenting HR data with the right amount of context. A perennial challenge for business operations, HR and finance is determining the right number of people needed to drive profit and growth with generating excessive headcount costs. This is particularly true in low margin industries like retail where differences in workforce costs can make the difference between profit and loss in a store. I once worked with a retail organization that made creative use of HR data to determine the optimal number of store managers to hire in a region. Historically the company strove to keep costs low by only hiring a store manager when there was an open vacancy within the region. In other words, the company did not hire new store managers until an existing store manager quit. But an intrepid HR leader wondered if this was the right approach. He observed that when a store manager quit the morale of employees in that store often suffered, turnover frequently increased, and customer sales and service declined. In addition, pressure was placed on adjacent store managers to cover the store until a replacement manager was hired. And consequently, performance of adjacent stores suffered as well. He used store sales and turnover data to demonstrate that the cost incurred by waiting to hire store managers until an existing manager quit was greater than the cost of employing an extra “floating” store manager who could immediately step in and run a store if the manager left. This story illustrates the benefits of looking beyond simple HR data like staffing and salary to incorporate contextual data that illustrates how people impact broader business operations.

Presenting HR data with the right amount of context plus analytical insights. The best HR data needs no explanation. Business leaders do not need a lot of guidance to understand the impact of HR analytics that show things such as “turnover of high performers is twice as high as turnover of low performers”. As one statistician told me, the best data has inter-ocular significance – its meaning hits you right between the eyes! However, not all HR data lends itself to such easy interpretation. In the last few years there has been tremendous growth in the use of machine learning and advanced non-linear modeling methods to draw analytical insights from HR datasets. These advanced mathematical methods allow companies to maximize the information found in the ever larger pools of HR data being generated by technology.

Analytical methods like machine learning are not magical methods that automatically turn all HR data into meaningful information. The data must still be tied to business metrics and presented in the right context to be useful. But given these preconditions, advanced analytical methods can greatly enhance the value of HR data in ways that go beyond what leaders could do on their own. For example, I once worked with a company to develop an assessment to predict sales performance in shoe stores. The company noted two things were relevant to sales in their stores. Better employees tended to be socially confident and initiate conversations, and agreeable and interested in learning about customers. Based on this, the company would assess candidates on social confidence and agreeableness and use that to guide hiring decisions. Once the company had amassed data on several thousand hires, they used advanced non-linear mathematical models to determine the optimal fit between candidate characteristics and sales. What they discovered was that, while good sales people tended to be socially confident and agreeable, the absolute best sales people were socially confident and somewhat disagreeable! This was a rare combination since social confidence and agreeableness tend to correlate. But these rare individuals sold the most shoes because they were highly task focused. They were not striking up conversations with customers to learn about them, they were starting conversations to sell them shoes. This insight made total sense to the store managers once it was called out. But without the

use of advanced analytics the company never would have made this realization and modified its hiring profile.

A little HR data can be a dangerous thing. But it can also be a powerful force for good. The key lies not in the data itself, as much as ensuring the data is placed in the right context and interpreted in the right way.

Managing sensitive HR data

HR data often contains highly sensitive information about employees and the organizations they work for. Part of using HR data is managing the potential risks it can create. These tend to fall into three broad categories.

Data privacy. HR data often contains information about employees that could be misused if it fell into the wrong hands. Identity theft is certainly one concern, however there are many other reasons to ensure HR data is handled in careful and confidential manner. Many countries have enacted regulations that impose strict requirements around how and where HR data must be stored, who can access it, and when it must be destroyed. The General Data Protection Regulation (GDPR) recently enacted by the European Union is just one example of a variety of stringent laws and rules found in different countries to ensure HR data is not used inappropriately. Anyone working with HR data should pay careful attention to these regulations lest they inadvertently violate regulations that can often result in significant financial penalties.

Cultural concerns. Increasing the transparency of HR data may reveal certain organizational characteristics that could create some difficult conversations within the company. Foremost is the potential to uncover inequitable trends related to compensation and staffing. Leaders and managers must be educated on how to appropriately respond when people call out data that suggest potential unfairness and inequity in employee treatment.

Legal exposure. HR data may also surface patterns that could put the company at legal risk. Foremost is the risk of uncovering trends that could be used as evidence of potential discrimination based on gender, age, or ethnicity. When dealing with such data, it is wise to consult corporate counsel and take precautions that minimize the potential of becoming a target of legal actions.

The risks associated with HR data are real, but they are also manageable. This starts by educating the people handling HR data on how to properly protect its confidentiality and security. It continues by controlling who see HR data and ensuring it is only used for appropriate purposes. Finally, it is important to educate leaders in the company on how to effectively discuss patterns in the data so they lead to constructive change and avoid destructive criticism.

Some companies are so afraid of the risks inherent HR data that they are afraid to use it for anything beyond the most minimal required reporting. Such practices fail to leverage the wealth of valuable information found in HR data. But even worse, they serve to perpetuate inappropriate practices rather than addressing them. When it comes to data companies have two basic choices. One approach is to hide the data in hope that any inconvenient truths it contains will never come to light. The growing number of corporate scandals occurring in the media suggest this strategy is ultimately bound to fail. The other approach is to use the data to better understand the world as it is, problems and all, and then leverage the data to develop methods to improve the world for the better. This approach does require a bit more risk taking up front, but is ultimately more likely to lead to positive long-term outcomes over the long-term.