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WAYNE F. CASCIO
ROBERT H. REYNOLDS CHAIR IN GLOBAL LEADERSHIP, PROFESSOR OF MANAGEMENT

Optimis partners, Michael Hathorn and Laurent Jaquenoud, were pleased to interview Professor Wayne Cascio on the field of people analytics. Professor Cascio is a Professor of Management at the University of Colorado at Denver. He has served as the President and Chairman of many notable organizations within the world of HR. He is a Senior Editor of the Journal of World Business and his work is featured regularly in business media, including The Wall Street Journal, Newsweek, Time, The New York Times, National Public Radio, and the Harvard Business Review. Wayne is the author of a series of books on managing human resources and a seminal contributor in the field of human resource metrics.

As Optimis strongly develops its People Analytics practice and services, the objectives of the interview was to explore with Wayne some of the key questions business and HR Managers have regarding people-related metrics and where to focus to support organisational success. In true partnership with Wayne in this field, Optimis is pleased to share the key outcome of the discussion.

Wayne, tell us how you became interested in the field of people analytics?

Early in my career, I was spending a lot of time interacting with executives, trying to understand the constraints they face at work every day … and I realised that the language that they were speaking was mainly the language of finance and economics. They were expressing things in economic terms and not in behavioural or statistical terms. As a consequence, I started to look into the literature about HR measures, which at that time was called human resource accounting. This research resulted in my first book in 1981, "Costing Human Resources: the financial Impact of Behavior in Organizations."

Then a few years later I was fortunate to spend a year at Wharton in Philadelphia and take a number of the MBA finance classes and investment courses. I learned a lot about finance and I could speak that language more fluently. So, ever since my initial book came out in 1981, it's been an on-going interest and even a labour of love.

When you speak with executives today on this topic, what do you hear are the barriers that prevent them from tracking people indicators?

I think it's often a little daunting for organisations when they get started in this area. They might have a human resource information system, perhaps one of the off-the-shelf applicant-tracking systems, a recruitment-management system or a learning-management system. What happens is that the formulas for the indicators are pretty well developed, but it is harder to put numbers into those formulas. For instance, what is the number to use for the discount rate? Or how much time do people spend on exit interviews? It becomes tedious because typically the data are not located just in HR -- the data cut across finance, accounting, sales, marketing and other functions.

So, I think that ***locating and assembling*** *the right data is a big barrier* and is a real impediment to implementing meaningful people-metrics systems.

It sounds like legacy systems, existing behaviour and focus on the financials pose significant barriers. Measuring human behaviour is not part of the vocabulary of some of the executives we work with. What do you think?

Absolutely, if you look at a typical MBA program and take a course in marketing, everybody learns about the five P's, right? If you take a course in finance, everybody understands the capital-asset pricing model. But when you look at a course in HR, *you don't find principles, logic, and mental models that can help executives see why investing in people programs leads to the outcomes they really care about*. And that to me is one of the biggest needs in the field, because once you begin to develop those kinds of logic diagrams or conceptual models, you create clarity and relevance.

For example if a company was thinking about investing in a work-life program it may focus on areas like reducing stress, preventing burnout, and lessening work family conflict. Success of the program should lead to lower absenteeism, lower turnover, better customer service, and similar business outcomes. In turn, the firm could expect to enjoy gains in a variety of bottom-line indicators - higher productivity, higher return to shareholders, and higher retention rates for customers. But executives don't often see the linkage between investing in an HR program and getting to those bottom-line indicators. So, we need to do a much better job of explaining what the linkages are, and those tell us what we should be measuring.

So a main challenge is to clarify the links between HR initiatives and their bottom-line impact. Do you find that one of the issues is that the results of correlation analysis are often challenged?

Yes, but you can use correlation analysis to create a predictive model. Let me give you an example of a company that uses human capital metrics in a very clever way.

Sysco is the largest food marketer and distributor in North America, with about 150 independent operating companies. Each one delivers food to chefs at restaurants within about a 150-mile radius. The head of HR had measures on seven dimensions that included frontline-supervisor support, diversity and inclusion, etc. - elements we typically include in employee-engagement measures. Each operating company issued the survey to collect the data from all employees twice a year, and the head of HR was able to correlate employee engagement (EE) scores at time one with customer satisfaction (CS) scores at time two. Then he correlated CS scores at time two with revenue growth at time three and, in effect, created a predictive model.

This model demonstrated that almost half of the variability in pre-tax operating profits could be explained by what the employees thought two quarters earlier, and basically this means that the EE scores became a leading indicator that every single operating manager could use to provide an indication of profitability two quarters later.

And how did this change the behaviour of the executives and impact the firm?

The executives never used to pay close attention to HR. Now they can't imagine running the company without knowing what the employees think about their immediate bosses, about the pay system, the incentives, the rewards they get, and the other key measures. It brings home the point that operating executives, especially engineers, are very receptive to data when they understand it and see where the numbers are coming from.

We find it important to explain the measures, the relationships and the business impacts that must be measured. Do you agree?

It is key and the numbers must include financial outcomes – we must speak the language of business. When we look at returns over multiple time periods, we need to discount those back to the present, so discounting is very important, so also is taking variable costs and taxes into account. If a company increases its revenues, it also pays taxes, so if you don't get those revenues until several time periods into the future, you need to express the present value of them. Those are just some of my ideas about this and about ways of presenting the numbers and the financial results to people in other departments.

When you talk to executives, are there any key metrics that you recommend?

It all comes back to ***building a relevant model***. Yes, the cost of employee turnover is typically important in many HR programs, as is employee absenteeism. Those things are important, but it really comes down to being able to explain the linkages between investing in a particular HR program and how that leads to bottom-line outcomes. The context serves as a road map as to the kind of metrics you should be paying attention to.

The book that John Boudreau and I wrote, "Investing in People," has logic diagrams that show the key relationships in particular applications. For example, if you are focusing on employee wellness, it is something very different because you are looking at health outcomes. Days missed or heart attacks avoided are very relevant, but they would be less so for other types of programs.

So you mean that there are common principles, but every organisation, depending on which program it focuses on, will have its own sets of metrics? Although the measures of cost of turnover, absenteeism are commonly used, they seem to be more a standard health check of how HR is working. What may be even more important are the strategic programs that we implement?

I think it's not so much that the metrics differ by organisation, but I do think they definitely differ by the kind of program to implement. Before I even get to the metrics piece with my clients, I like to spend some time just helping them to understand why these kinds of investments make sense and what kinds of outcomes they lead to. They will then say: "Oh, then we should be measuring this."

Let's say we were doing wellness programming, it makes sense to look at absenteeism – the obvious metric when you have a wellness program. But if we are talking about a program to look at the results of training and development activities, the measures would be different. What the senior managers really care about ***is not*** how much time is spent on the program and how much money the program costs - ***it's, are you being more productive!*** Are you doing more of what the training program was designed to help you improve? And the metrics that you look at will vary depending on the program that we are talking about. So, it's not "one size fits all " which is a good thing.

So every organisation must have its own specific metrics and programs, but often HR programs are quite common. A standard list might include areas like employee well being, staff development, rewards, engagement and recognition etc…

We can indeed develop logic diagrams that show what leads to what and what kinds of metrics make sense depending on the kind of HR program you are talking about. I think we are a lot closer to standardisation, but I don't think we will end up with the "big five" metrics that will work in every case.

Can you tell us about companies that made poor decisions in a particular area because they did not factor in information that could have been provided by HR metrics?

Let me give you an example of a company out of Las Vegas, Caesars Entertainment. They were having a big problem with turnover among dealers at the casinos, and it was up to around 16%. They spend a lot of time training these people and the senior managers thought, "Well, if we give everybody a 10% pay raise, that'll reduce turnover." It didn't work – the turnover rate changed by half a percent and then they called in a consultant to examine ***the reasons why people are leaving***. They began to look at issues like job satisfaction and commitment, work-life fit, and what they found was that people were not leaving because they felt underpaid. They were often leaving because they had a poor fit between work and non-work activities. So the solution was to work on the scheduling challenges, not increase pay.

There are many examples of where companies think throwing money at the problem is the answer. A chain of convenience stores in the Northeast U.S. had a lot of turnover among its convenience-store clerks, and the company decided to increase pay as a way of reducing the turnover. Again, this had almost no impact because staff wanted more hours at work so they could qualify for full-time benefits. That's what really counted to them, but the company didn't look at that until it brought in a consultant to find out, "why are you leaving?" In effect, the company had been making the poor business decision of increasing pay without getting any benefit in terms of reduced turnover.

So in the above examples the companies were simply adding costs to the equation.

Absolutely. Conversely, let's take the example of a waste-disposal company that was trying to find ways to hire people who would not have accidents while collecting the trash. The company did a lot of analysis and found that people who abuse alcohol and drugs were about five times more likely to be involved in accidents on the job, and it used this conclusion to focus its hiring process. Questions about each candidate's drinking behaviors and attitudes toward alcohol and drugs were used as part of the screening approach. In the end, the company was able to cut its workers' accidents by 68% just by assessing attitudes towards alcohol and drugs.

Is there some set of internationally recognised standards, mental models, or frameworks that can guide the discipline in the area of HR metrics?

Sure, a lot of things are taking place right now through ISO. In May, a three-day ISO working session (20-25 countries represented) will be convened in Paris, where specific groups will focus on HR common terminology, on recruiting, workforce planning and finally on performance management. I will be there in one of the groups focused on recruiting. It's starting to develop a momentum.

With this increasing awareness, what do you see as the future for HR metrics?

There is promise and there are perils. I think that companies are drowning in data and starving for information. The trend for using HR or people data to drive business decision-making is unmistakeable. It is definitely happening, and we are starting to see companies make intelligent decisions based on data.

The peril is that it is easy to mislead people with statistics. We must avoid that and realise the **promise of big data** - that it helps organisations ***to make better decisions -*** to increase productivity, staff engagement and customer-satisfaction levels. There is a great opportunity for the misuse of data and just a few bad examples could really set back the progress we have seen recently on HR analytics. We have to be careful to practice well what we preach.

This interview with Wayne Cascio confirms that the HR Analytics area is developing and full of promise. The opportunity is not to be found in a standard set of metrics, but rather in the analysis of HR data to serve a business purpose. Relevant predictive models must be built to reflect the cause-effect relationships between HR programs and business outcomes. Avoiding the "too much data and not enough information" syndrome, HR professionals will gain credibility by providing relevant indicators that demonstrate the business value of their HR programs. The HR profession must learn to translate its actions into business outcomes and communicate this clearly using the "language of business."