Discovering Talent Analytics? It’s Already Here!

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This last month I had two different conversations about talent analytics. The first conversation involved an operations manager in a manufacturing facility. He expressed frustration about the lack of quantifiable data for what he called “human resource” issues. He wanted to know how much turnover cost the organization, how much employee engagement helped the organization, and whether training was providing a sufficient return on investment. He was looking for quantitative evidence that these “human resource” issues produced meaningful effects on his operation’s financials. The second conversation involved an HR manager in an IT company. She was struggling to demonstrate return on investment for a recruitment and selection process. They used psychometric assessments that were developed by a reputable vendor, but there was increasing pressure to show the financial benefits.

The fact that these conversations happened in the same month is purely a coincidence. They are not random events but a consistent concern I hear expressed by HR and non-HR managers alike—how can I quantify the impact of people on a firm’s operational and financial metrics? Sometimes the tone is more negative. Many business leaders have told me it is impossible to quantify or show the business impact of talent. Generally accepted accounting principles require that talent-related expenditures are listed as costs and thus there is no accounting-based way to value the financial benefits of talent. Thus, the best one can do is reduce costs for talent—a rather depressing view for what is often claimed to be a firm’s most important resource.

HR is supposedly going through a transition where it is “discovering” analytics. The funny thing is, many in HR have been using analytics for decades. To say HR is discovering analytics, is as funny as it is to say one “discovered the Internet” or “Christopher Columbus discovered America”—in both cases, millions of people already knew about it (such as the Native Americans who lived here long before Columbus arrived).

Talent analytics has been around for decades. For example, statistical-based approaches used to inform hiring and placement decisions were used by the U.S. military in World Wars I and II. The statistical linkage
between talent and business financials has been examined since at least 1939. I know it is possible to use analytics to show the business consequences of talent because I have been doing it for over 20 years. For example, in one large retail organization we used analytics to demonstrate that stores with higher quality talent generated more sales growth than stores with lesser talent. More importantly, increasing the quality of talent even one measurement unit was associated with a $60,000.00 increase in controllable profit, a 6% increase in same-store-sales, and a $10,000.00 increase in sales per employee (these are quarterly numbers). Another study in a fast-food franchise showed that improving hiring quality by just 1% produces a 2% increase in sales per employee growth and reduced employee-related costs by 18%. Further, improving the quality of talent in restaurants resulted in employees completing training faster and producing higher customer satisfaction—both shown in statistically significant ways. In these examples, we assessed talent using professionally-developed psychometric assessments, and then linked these assessments to business unit financials (such as sales and productivity). Other research has shown the financial benefits in terms of profit, return on assessments, stock price, and even Tobin’s q, due to employee engagement, culture, talent, and performance management.

We are living in a world where we have an abundance of data on employees, but most of that data is not utilized or recognized for what it is—a valuable resource that can be used to improve strategic decision making. Firms apply great quantitative rigor to operations, accounting, finance, and marketing—the same rigor can and should be applied to HR. If a business is not making talent decisions based on analytics, then how are those decisions being made? Anecdote? Opinion? Faith? These are poor ways to run a business.

Most of the firms I consult with say they are not ready to start an analytics journey. I remind them of an old Chinese proverb that goes something like: “A journey of a thousand miles begins with a single step.” I also remind them of a quote by Sir Francis Galton: “Whenever you can, count.” Talent analytics is not something yet to be discovered; it is already here and has been for a long time. You can quantify talent, you can link it empirically to business outcomes, and you can use analytics to make better strategic talent decisions. Talent analytics is relevant for every firm regardless of its size, industry, or sophistication. The only question to ask about talent analytics is, “Why haven’t you already started?”
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