

# HARD DATA

Senior HR practitioner Bob Barbour talks to human capital expert Laurie Bassi about flaws in HR's measurement mindset.

▣ *Bob Barbour: Considering that your background is mainly in economics, what attracted you to a fairly non-traditional approach—the people and culture side?*

*Laurie Bassi:* I'm a mathematically trained economist and my background is in labour economics—the study of people and workplaces. I'm very interested in the issue of human capital and firms' investment in education and training. I saw that university professors had an important role to play on behalf of workers, firms and society, yet there was no good way for universities to tackle it effectively because there wasn't any data.

I understood early that the absence of measurement was a problem. How could we evaluate whether money was being spent well if we didn't know how much was being spent or what it was being spent on?

I tackled this in a number of ways, then decided it was best to leave the university. I went to the American Society for Training and Development intending to create measurement systems.

▣ *You've said in the past that HR isn't attracting enough serious attention from executives and analysts because it focuses on the intuitive rather than having good hard data to support it.*

Yes, and I was appalled when I first got to ASTD and people didn't know some of the most basic, necessary business facts about their training—how much they were spending and how to decide how to spend it. At the same time, they were always complaining about their training budgets being cut.

▣ *I believe you felt that HR was measuring the wrong things—itsself—rather than the impact on the organisation.*

Yes. There's been a fair amount of navel-gazing into measurements of the HR function itself and traditional HR metrics. I don't mean to diminish the importance of that, but it's not enough. HR's function is tiny in most organisations and not where the action is. HR is a facilitator that helps foster change. But ultimately the change is happening out in the front lines, and that's what needs to be measured.

The key people are the line managers who have the day-to-day responsibilities for managing and developing people. That's where some of the most wonderful HR and training policies and programs can go astray. If they're not implemented well at that level, or you have managers who don't believe in the value of it, who aren't convinced it's worth their time and effort—that's where the most brilliant HR and training policies go amok. You have to get to the line managers responsible for the people.

▣ *Have you found any particular sets of leadership practices that correlate with high performance?*

Yes. Communications—the frequency, consistency and authenticity of managers' and executives' communication with their people. Also inclusiveness—the extent to which managers and leaders throughout the organisation include people in problem-solving. Then there are some basic managerial skills such as being able to deliver consistent, constructive per-

formance feedback. Basically, walk the talk and demonstrate organisational values.

These are the basic leadership practices that we consistently find are the key drivers that link to the achievement of business goals.

▣ *You say there's no silver bullet but you have a fairly clear model for the key levers that have a positive impact.*

As tempting as it is, we need to give up the search for the silver bullet. This is the hard, unsexy work of making an organisation run, and it has to be done day in, day out.

But from our research and that of others, we've identified five areas where organisations need capability. The first is leadership practices. In no particular order after that, there's workforce optimisation, which is the basic stuff about processes, conditions and so on. Another factor is employee engagement, which lots of organisations already look at. A fourth factor is knowledge accessibility, about the informal ways people learn best practices, etc. And the fifth index we look at is learning capacity—the more formal ways individuals and organisations learn and innovate.

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Left: Bob Barbour  
Right: Dr Laurie Bassi

The hard work is figuring out which is the most important one for you to be focusing on at this particular point in your organisation's evolution. While they are all important, they're not all equally important in every organisation at every point in time.

▣ *So there's not a standard approach. You have to do the hard work on research for your own business.*

Yes. Consultants who tell you otherwise, that you have to do 12 things in a particular order because that's the way it always is—that's a bill of goods.

▣ *How does an organisation measure its practices in these areas?*

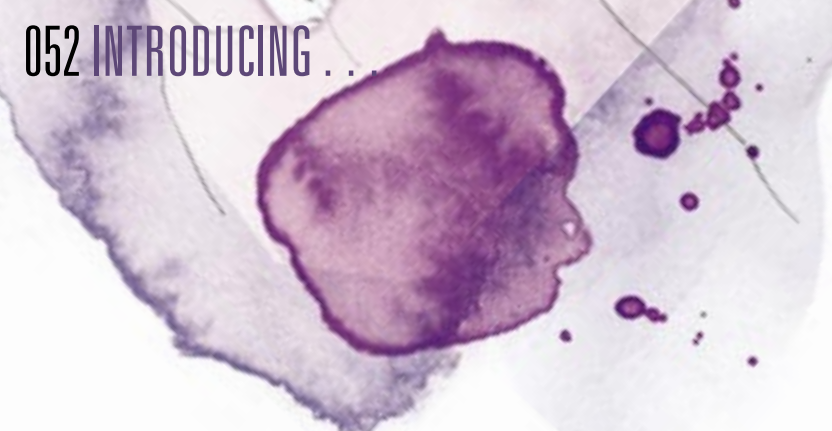
We think the best way is through thoughtfully constructed employee surveys. The good news is that HR practitioners are familiar with this tool and are probably already using it. At very little extra marginal cost, you can push this old tool for new uses. Our suggestion is to take a hard look at your employee surveys and make sure your questions are fact-based. Don't ask about opinion, attitude or belief. Ask research-based questions. That is, questions that correspond to the extent to which a best practice does or does not exist in a person's working environment. Best practices are those that have consistently emerged in research

## DR LAURIE BASSI

Dr Laurie Bassi, CEO and managing partner of McBassi and Company, is an internationally recognised expert in the evaluation of human and intellectual capital, including the impact of learning and development on financial results. She helped develop the Human Capital Capability Scorecard.

Bassi has been director of research at Saba Software, vice-president of research at the American Society for Training and Development, and professor of economics and public policy at Georgetown University, Washington DC.

During HR Week in September, she spoke at conferences in Perth, Adelaide, Sydney and Brisbane.



## BOB BARBOUR

Bob Barbour is Lion Nathan's people and culture director. Born in Scotland, Barbour began his career in HR as a graduate at the Ford Motor Company in the UK. Almost six years later he moved to Bristol Myers (now Bristol Myers Squibb) and then to Grand Metropolitan (now Diageo) in the company's brewing business based in Yorkshire.

Barbour joined Lion Nathan in 1992 as HR director for the Australia business. He was promoted five years later to group HR director for the whole business.

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literature as the key human drivers of business success.

Use your employee surveys more critically than you have by eliminating questions that don't seem to be drivers of business results.

*I understand there are some fairly simple approaches to this key drivers method.*

As I said, well done employee surveys will get you a long way. And we find that there are two failings with regard to using this old tool: questions are not well designed, and data from employee surveys is typically not as creatively analysed as it might be. By taking a few simple statistical tools and looking creatively at business units as the unit of analysis, you can push employee surveys beyond where they have historically been. You can identify, with considerable rigour and precision, which aspects of these 'human' factors are really linked to the business outcomes you care about. They can be non-financial outcomes, such as employee retention, customer satisfaction and safety, or financial outcomes.

Sometimes organisations do a good job of employee surveying, but it doesn't occur to them to mine the data. It's not hard to do and it's well within the reach of most organisations. But a shift of mindset needs to occur so we can begin to get rigorous in using what we would think of as Six Sigma-type analytic techniques.

*We can look at this in terms of individuals, leaders, whole businesses or business units. Is there a recommended approach?*

The approach has to be customised to your organisation. Identifying the right unit of analysis depends on your organisational structure and what you are in the business of producing.

If you're a bank, you probably want to be looking at branches, sales offices and sales teams. If you're a manufacturing entity, it's probably factories and sales teams. If you're a school district, schools would be the likely units of analysis.

It also depends on the outcome. For example, if you're a government agency particularly concerned about retaining employees, then your managers are probably the unit of analysis. Which managers are having

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big turnover troubles, which are exemplary in this regard, and what does your employee survey tell you about the differences between those managers.

You marry your performance metrics to aligned employee survey data and you have the statistical grist for the mill to get your answers.

*I gather from a presentation you did earlier that analysis can be as simple as looking at top-performing and bottom-performing units versus their other performance criteria.*

Yes, it doesn't have to be fancy. This is not difficult stuff. If it's over multiple years and you have a lot of data, you can become more sophisticated. You can use more nuanced, multi-variant statistical techniques. But that's a nice-to-have, not a necessary-to-have.

▣ *Does any one of the five areas in your model appear more frequently as a driver of organisational performance?*

The leadership practices are pretty fundamental and necessary conditions. It's very hard to get the other things right—workforce optimisation, knowledge accessibility, learning capacity, etc—if you don't have leadership practices in place. So, with some reluctance, we've focused on that more and more over the years. I say with some reluctance because when we started, we thought everybody talks about leadership; that's handled in the world. And while we were right in that a lot of attention is given to it, not much is rigorously and empirically known about the particular aspects of leadership that matter to a particular organisation at a particular time.

If I were to have to guess without walking into or talking to an organisation, I'd say make sure you take a good look at and understand which leadership practices are enabling or inhibiting good results before you go much further.

## Don't ask about opinion, attitude or belief. Ask research-based questions.

▣ *Let's switch to some of the performance metrics you've looked at—financial and non-financial—for insight into what you've discovered through your research.*

We've been able to examine a variety of performance measures, ranging all the way from safety rates in factories to firms' stock prices. It doesn't really matter to us what the performance metric or business result it is that we are analysing. We can figure out the human determinants as long as the organisation can share with us these performance metrics. We can't make up the data; we have got to have the hard, quantitative business result data to figure out the drivers of it.

One of the most fascinating examples we've

worked with is the human drivers of student achievement in elementary, middle and high schools in the United States and the United Kingdom. These are clearly non-financial outcomes, but they are created by employees because schools are also workplaces. So we've applied the same measurement methodologies we've used in factories, with a little bit of modification. We've generated some powerful insights into what aspects of human capital management are the most important drivers of an organisation's business results, which in this case happens to be student learning. In this particular application, the most important inhibitor to student learning was the learning of the professionals. In this environment, the employees—the teachers—did not have good and timely access to practical, useful professional development.

The insight was, "Oh, my gosh, this is the number one important predictor of student gains, and we're lousy at it." They reorganised themselves on that and developed much more maturity and capability in the professional →

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→ development of their teachers, and they saw some big student gains because of it.

After they got that urgent, basic item handled, it was like peeling the layers of an onion. They had to go on to the next capability they needed to focus on. That's why there's no silver bullet. This work is really never done.

▣ *So the human capital model has benefits not just for shareholders and firms, but for society at large?*

Exactly. And quite apart from education systems, which obviously have societal benefits, that's what it's intended to produce. In the for-profit sector, if organisations can do a better job of developing and managing their people, that's clearly good for the people, the firm and its shareholders. That's the passion behind our work. By helping firms get better measurement systems in place that help them manage people better, it's win, win, win. It's good for everybody.

▣ *You have some interesting ideas about the key driver of share price increases.*

We've made substantial progress on that. We use firms' investments in education and training—the formal development of their people—as powerful predictors of stock prices. In fact, we run an investment strategy around that. We personally, and some of our clients, invest in firms that invest heavily in their employees because that's the way to beat the stockmarket.

▣ *So you set up your own investment fund based on your insights?*

Yep. That's our nights-and-weekends labour of love. In addition to making money for ourselves and our clients, it's a good demonstration that this stuff is for real. The fund has consistently outperformed the market. Some years are better than others, but we're way ahead of our benchmark, which is the S&P500. All from that simple insight.

The other thing we're doing, as we get smarter about measuring the human drivers of business results, is that in these two parallel organisations we're running—one is a niche investment company and the other is the measurement company, where we dive deeply into one organisation at a time—our plan is to spit those insights into the investment company, get smarter about investing, and hopefully also serve as the catalyst for change in financial markets. Because currently they're quite impatient. In our view, analysts are paying too much attention to this quarter's earnings and not enough attention to the long-run predictors of future profitability.

If you take this to its illogical extreme, the way to increase earnings this quarter is to lay off a lot of folks because it cuts 'costs'. But, of course, you have no productive capability in the future.

▣ *If investment in education and training is the key driver of share price increase, what kind of benchmarks do you use to assess whether there's an adequate or good level of education and training investment?*

What I can say on the record is that we're looking for firms roughly in the four per cent of payroll

category. It varies somewhat from industry to industry. In very high-tech industries the number needs to be even bigger because they are faced with such dramatic and rapid change, and have to be running all the time to keep up. What might be an adequate level of spending in financial services would be inadequate in a technology or software company.

▣ *What about some of the non-financial business outcomes such as safety?*

The same methodology we use to identify the drivers of financial results can be used to identify the key drivers of non-financial results, such as safety. Again, those drivers vary from firm to firm, but, typically, good communication from leaders and executives is critical. It might be providing people with sufficient time to make thoughtful decisions.

When time is one of the burning or important factors, there is usually something that underlies that. Why is it that people don't have the time to make good decisions at work? It's because some underlying process is broken. Those are the kinds of factors we find as being most critical when analysing safety as an outcome.

▣ *So a lot of it boils down to leadership practices again?*

Yes. You could argue that leadership is responsible for all of this stuff at some level. But more fine-tuning in your labels is helpful, because just to label it all as leadership is not terribly helpful.

▣ *The hot topic in recent HR has been the concept of the engagement of people, but you have a view that it shouldn't be regarded as a silver bullet either.*

You can carry this focus on engagement too far. While engaged employees are clearly necessary, in and of themselves that's not sufficient. The analogy I like to use is that the way to maximise customer satisfaction is to produce great products and give them away—but of course you'd go bankrupt doing that. If you set out to maximise employee engagement, you could well take that focus too far, to the detriment of productivity and profitability. So while, yes, you certainly need to attend to employee engagement, you also need to attend to these other factors and indicators.

▣ *Another area of interest is trying to create a culture of creativity and innovation as a way of driving marketplace success. Is that covered in your model?* We do look at a factor we call 'innovation'. We, interestingly enough, include that under 'learning capability'. Part of how an organisation learns is through its openness and capacity for innovation.

## Part of how an organisation learns is through its openness and capacity for innovation.

We measure innovation and then we can also analyse what are the drivers of that—what's fundamentally causing an organisation to be open to innovation and what are the inhibitors of it. Once again, something that's quite easily analysed.

We don't say, "And now we're asking about innovation." We have a series of questions in employee surveys to get at the openness and innovativeness of the environment. If we think of innovation as an outcome—it's both an input and an outcome—then let's figure out what the drivers are and get at that as well.

▣ *To summarise, what's the key message you could give HR practitioners so they can start to make a difference with predictors of organisational performance?*

The capacity to get much more rigorous with this is well within the reach of most HR practitioners. They have the tools; they just need to deploy them. And they're probably already using them in the form of an employee survey. Just push that employee survey harder than you have before. Make sure you have tightly tuned questions that are research-based. And get a little more creative in the analysis of the data by linking it to the business results, which is not difficult to do.

That takes you down the path of having compelling, fact-based, data-driven, prioritised recommendations for taking your HR strategy forward—couched in the terms of CEOs and CFOs.

It's a sort of shift in mindset. If we can get more folks doing this, the HR profession and the people in the organisations will be well served for it. Taking basic empirical, quantitative techniques that are used in other fields and applying them to the world of HR. It's entirely doable and you can get a quantum leap forward. ☒

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