CHAPTER 1

The Need for Measurement in a Changing Environment

Have you ever heard of a company requiring a business case for investing in marketing? Or having a sales force? For that matter, what about training? Although specific budgets require justification, you'd be hard pressed to find a business leader who doesn't believe in developing the company's human capital. We dream of a day that the same will be said of measuring investments in human capital. From our perspective, as well as that of a growing cohort of HR and business leaders, evaluating these investments and using that intelligence to improve them is simply common sense. This day is coming, but for now such measurement is still seen as a competitive advantage—or worse, something nice to have but just not worth the trouble.

As this is my third book, written after practicing human capital analytics for over 10 years, I've written extensively on the justifications for measurement. For those of you who haven't yet seen the light, I present the arguments here again.

ANALYTICS GIVE COMPANIES A COMPETITIVE EDGE

Recent studies by Deloitte and Bain have proven that the more advanced an organization's analytics capabilities, the greater the margins by which they outperformed their competitors. We'll go into more detail on these studies in Chapter 2, but for now suffice it to say that HR analytics can directly impact a company's bottom line. The Bain study in particular looks more broadly at the impact of analytics applied to nearly every aspect of business performance, which brings us to the next point.

EVERYBODY'S DOING IT

The old adage from your mother about everybody else jumping off a bridge simply doesn't apply here. The other departments in your organization leverage their data and advances in analytics to make more intelligent, strategic decisions. Every time you scan your customer loyalty card at the supermarket, you're exchanging valuable information about your shopping habits in exchange for that buy-one-get-one deal on Cheez-Its. Marketers analyze patterns in the immense amount of data they collect to figure out how to get you to spend a little more on your next trip. This is predictive analytics.

Think about supply chain management. An automotive manufacturer bleeds cash for every minute its assembly line has to shut down because it has run out of a car part. Using analytics, it manages inventory to assure this doesn't happen, while simultaneously avoiding an overstock on a costly component. This, too, is predictive analytics.

Buddy Benge, HR analytics leader at Monsanto, says, "Imagine having a piece of traditional capital in a manufacturing facility and not realizing its full potential; this is what we do with our talent."[1] I could list countless examples of analytics at work throughout your organization. The point is, all of these functions have figured out how to harness the power of analytics to help them work smarter. Why not apply that same methods and science to the organization's most valuable asset—its people?

TRANSCENDING BORDERS

You don't need us to tell you that the leading organizations in almost any industry are experts at competing in the global marketplace. This includes competing for talent. The rise of technology has enabled companies to go anywhere in the world to find top people in their fields, spurring the rise of virtual teams, a 24-hour workday, and flexible working arrangements. Managing people across borders, cultures, time zones, and environments has required new thinking about the very pillars of traditional team management. Predictive analytics allows you to look at how people are performing and calibrate investments to maximize that performance. Further, the calibrations can be tailored to the wide variety of types of people that make up a global organization, allowing you to turn a one-size-doesn't-fit-all investment into a targeted experience capable of moving the performance needle for many different types of people.

SLIM DOWN, DO MORE

Since the 2008 recession, HR leaders are all too familiar with directives to do more with less. As the economy has slowly improved, many organizations have more resources available to develop their people, but the need to eliminate and avoid waste is still top of mind. Analytics shows you where your investments are working and where they aren't. It's critical intelligence for a budget of any size, in times of boom and bust.

Our colleague, A.D. Detrick, learning measurement consultant at Xerox, is one of many forward thinkers using employee data to work smarter:

> By having granular data on both user demographics and user behavior, we can closely follow where institutional knowledge resides within an organization. We can identify clusters of skills and gaps in knowledge. We can foresee threats posed by generational shifts or technology changes and work to remedy them before they actually have an impact. And we can expand our reach instantly across the globe to enact that change.[2]

EVERYBODY WINS

By applying analytics to investments in people development, HR leaders know that they are deploying programs that work. Employees appreciate programs that give them what they need and want on the job. Brad Pearce, VP analytics manager at Wells Fargo, says, "The competition for talent is strong and will become even stronger in the coming years."[3] When people are given the skills, tools, and knowledge they need to perform at their best, it's a win for everybody involved. Companies are rewarded because they are maximizing their investments in human capital. Employees are happy because they are successful on the job. And customers are satisfied because companies that run like a well-oiled machine can fulfill their needs and exceed their expectations. The company is growing because its satisfied customers drive an increase in revenue. Employee engagement increases because everybody likes to be a part of a successful enterprise. And so the cycle continues, ad infinitum.

CHANGING WORKFORCE

Globalization isn't the only force driving change in the makeup of today's workforce. Our last book summarized three main generational cohorts in the workforce, and since the next generation has begun to infiltrate the entry level. A 2013 EY survey of cross-company professionals outside of the EY organization found that 20 percent of managers reported managing a mostly even mix of employees from three different generations (boomers, generation X, and millennials). About two-thirds said their organization has made efforts toward alleviating the challenges in managing a generational mix:

- Work style accommodations (37%)
- Team-building exercises (36%)
- Generational differences training (32%)
- Cross-generational networking (26%)
- Tailored communications (25%)[4]

These types of accommodations tend to require significant resources and efforts to be successful, and we ask the same question about any initiative of this type: How do you know it is working?

Our first book, *Human Capital Analytics*, gives you step-by-step guidance for planning, evaluating, and improving investments in people. In this chapter, we'll dive into the changing workforce, setting the foundation for this book's discussion of analytical tactics, big data, and the future of human capital analytics.

WHO'S WORKING TODAY?

While each generation is made up of individuals with unique belief systems and lifestyles, generations are useful in that they group people together based on their collective experiences during the phases of their lives. Interestingly, the US Census Bureau officially defines only one generation—the baby boomers, who are said to have been born within a historically observable timeframe (post-World War II). The subsequent generations (generation X, millennials, and generation Z) are defined by loose characteristics that don't fit neatly into specific birth years. Most researchers will assign a range to each, but those ranges vary, depending on who you ask (and the writer's own biases). We don't intend to enter the fray of attempting to define those birth years, but we do find it useful to provide you with a frame of reference. To that end, we cite the date ranges from Jeanne Meister and Karie Willyerd's book, *The 2020 Workplace*.

1. Traditionalists (born prior to 1946)
2. Baby boomers (born between 1946 and 1964)
3. Generation X (born between 1965 and 1976)
4. Millennials (born between 1977 and 1997)
5. Generation Z (born after 1997)[5]

While the younger end of the traditionalist generation still maintains a presence in the workplace, they are naturally dwindling. In the past, our work has focused on the three generations with the largest presence at the majority of organizations: baby boomers, generation X, and millennials. Here's a quick recap of these three generations, plus a look at Generation Z:

Baby Boomers

As the generation of sex, drugs, and rock 'n' roll, the baby boomers came of age during the era of the Vietnam War and Watergate. In their youth, they took to the streets for human rights and the women's movement. They are said to be optimistic, competitive, and questioners of authority. At work, they're motivated by money, they work long hours at the expense of their personal lives, and they pursue upward career mobility.

Generation X

Generation X is considered the skeptical generation. They saw the divorce rate triple as they grew up, with their parents working long hours at the expense of family life. Experiencing life in a single-parent household became commonplace. As adults, they tend to distrust institutions and be highly adaptive to change. In the office, Xers are known for following their hearts. They're motivated by freedom and prefer to be judged on their output instead of the number of hours spent at their desks. Their families are just as important as their careers, and they're largely unconcerned about lateral moves and career plateaus.

Millennials

Millennials experienced the expansion of technology's capabilities and reach into everyday life as they grew up. They've been influenced by a diversifying population, violence ranging from gang activity to terrorist attacks, and large-scale natural disasters. Millennials are known for their technological savvy, their concern for global affairs, and their short attention spans. In the workplace, they crave feedback, fulfillment, and flexibility.

They've echoed generation X's equal-parts emphasis on career and family.[6]

Generation Z

As the years continue to tick by, a new generation is growing up and beginning to enter the workforce: generation Z. To date, there's been quite a bit written about marketing to generation Z, who are considered to be heavily influential in household purchases both large and small (not to mention receiving their own average allowance of $16.90 per week, or about $44 billion per year collectively). Much of the information about how to capture gen Z's purchasing power uses research by up-and-coming ad agency Sparks and Honey as a basis for understanding the collective experiences and characteristics of generation Z.[7]

As the oldest members of generation Z approach the age of 18, they are beginning to trickle into the workforce. Many of them already hold part-time jobs as high school students—55 percent of them feel pressured by their parents to gain early professional experience. They're also heavily interested in entrepreneurship and jobs that will allow them to "make an impact" in the world. They've grown up during a recession and seen their millennial family members struggle to launch their careers after college. 71 percent of millennials surveyed during high school considered earning an advanced degree to be a life goal; that number has dropped to 64 percent for generation Z.[8] An article from Best Colleges Online points out that the rising costs of higher education are one key factor, but also that for many in generation Z, the allure of "the added income of starting earlier [as entrepreneurs] on a great idea outweighs the drive to get a degree."[9]

HOW ARE EMPLOYERS RESPONDING TO GENERATION Z?

By and large, they're not. The majority of organizations are still grappling with the millennials, and *The Economist* finds that generation Z is only barely bubbling into corporate consciousness:

> After its rapid expansion in recent years, Tata Consulting Services (TCS) now has a 240,000-strong workforce of which over 70% are under 30. This has put enormous pressure on the firm to change, says Ajoy Mukherjee, its head of human resources.[10]

In truth, generation Z's infiltration into the workforce will see the trends from boomers to millennials continue to move in the same direction, likely producing a generation that takes many common complaints about the millennials to greater extremes. The head of HR at McDonald's, Rick Floersch, says that many of the so-called differences defining millennials have been exaggerated. Floersch finds that millennials are "irked by the myths of having a sense of entitlement, having poor communication skills, and being job-hoppers." He says they will stick with a company that offers "challenging work [and] a sense of purpose and development."[11] By contrast, generation Z is said to have even shorter attention spans, a stronger addiction to technology, and a looser grasp of proper English as they rely on "text-speak."[12]

The primary and secondary educational experience of generation Z to date has been quite different from that of the millennials. Best Colleges Online notes that they are the first generation "to grow up in a world where Internet access has always been available and plentiful." As a result, educators have changed the way they "formulate lessons and interact with students. Many [educators] predict they could forever change how kids are taught at all levels by making technology an integral part of classroom study."[13] Most of the current trends in education are also, to a lesser degree, growing trends in corporate learning and development—a focus on visual learning, gamification, and learning in smaller bites to name a few. Even the mainstreaming of homeschool is reflected in L&D today, in the form of self-directed learning programs. As generation Z's presence in the workforce grows, it will be critical for L&D to understand the differences in the ways generation Z learns and adapt accordingly.

The pace of change in the workforce can be enough to send any human resources professional's head spinning. Frankly, it comes right back to yet another justification for applying analytics to human capital investments. The workforce is changing too quickly to rely on gut feelings and snap judgments. Above note about generations becoming increasingly difficult to define by specific birth years shows the importance of understanding the performance of the actual people in your workforce, rather than making assumptions about them based on their birth years. Ian O'Keefe, former head of talent analytics and reporting for Sears Holdings Corporation, says, "Looking at these types of trends through an analytic lens can help demystify them, debunk myths, and create organizational willingness to make proactive, fact-based decisions in response to these trends."[14] The direction of human capital development has been set; you simply can't get ahead of the curve without a data-driven understanding of what drives performance, how your investments are working, and where they can be improved.

THE BOOMERS ARE STILL HERE

While you brace yourself for the onslaught of generation Z, don't forget about the rest of your workforce. Company leaders have been monitoring and reacting to the recession-driven delays to the boomer retirements for some time now. Concerns range from how to keep them happy and productive in the workforce without compromising advancement opportunities for younger workers to how to avoid the knowledge drain of boomers' eventual retirements. As the economy has slowly turned toward growth again, many boomers are rethinking their long-term plans and feeling more confident about retirement.

> The labor force participation rate for older Americans [55 and older] … has fallen over the past year after rising through the recession and early years of the recovery. Roughly 17 percent of baby boomers [reported] that they [were] retired [in 2014], up from 10 percent in 2010.[15]

Any organization that has delayed the process of transferring critical knowledge from older to younger workers needs to step up its game. Boomers simply aren't going to stick around forever. At the same time, the presence of boomers in the workforce is not going to vanish any time soon, as many of them are inadequately prepared for a long retirement. A 2013 *Forbes* article looked back at the history of social security and retirement savings, noting that "the age at which you should retire was established over 127 years ago."[16] Despite significant changes to the tax and legal systems impacting retirement (even in the last 30 years), the supposed ideal age for retirement is stubbornly fixed. "Equally disturbing is that since Social Security was created, the average life expectancy has grown by more than 16 years … yet no relevant changes have been made to the program despite its near-term insolvency."[17] It all boils down to this: We simply can't make gross generalizations about the retirements of the entire generation of boomers. While you're managing the retention of institutional knowledge held by boomers, you need to be equally concerned with managing the boomers themselves.

WHAT ABOUT GENERATION X?

While generation X continues to feel like the overworked, underrewarded generation, they led the pack in EY's 2013 study on generational shifts in the workplace: 80 percent of respondents (evenly split among boomers, generation X, and generation Y) selected generation X as the generation best equipped to manage in current economic conditions, and they also topped the rankings of the generation best equipped to manage in 2020. The EY survey also found that generation X is perceived as a productive part of the organization; filled with team players, revenue generators, and relationship builders; and essential for development opportunities. One of the long-held beliefs about generation X is that they are a generation of cynics, but this survey found they were the least likely to be seen as condescending, cynical, and difficult to work with.[18]

SO NOW WHAT?

A Center for Creative Leadership (CCL) study found that the key to successfully managing talent across the generations is to look past the stereotypes about each group and tap into the universal commonalities of workers. For example, the majority of the respondents in the CCL study cited learning and development as a critical issue. "Everyone wants to make sure they have the training necessary to do their current job well. They are also interested in learning what they need to be learning to get to the next level in their organization[s]."[19] To put it another way, you can generally assume that your employees want the tools, knowledge, and resources to do their jobs in the best way possible. It's up to you to figure out how to equip them with exactly what they need. This is the crux of argument for analytics. If you can understand where your investments are working (and where they aren't), you have targeted intelligence to give your people exactly what they need, when and where they need it, in a format that makes it as easy as possible for them to take advantage of it.

A.D. Detrick points out,

> Not all baby boomers are equal. Every employee in a specific global region is not equal. Before the era of Big Data, we relied on generalizations and broad-based research to tell us how people might react in a given situation. Today, employees leave a very detailed, very personal data trail which may loosely conform to generalizations. Big Data lets us identify the true nuances of the individual and allows us to find legitimately representative samples of our organization.[20]

Simply put, good measurement equals good management. "Analytics, for me, is about reducing biases," Benge says, and "these biases represent a massive inefficiency for companies."[21] You should be measuring the investments in your people just as rigorously as your business measures everything else it touches. If you measure performance, you can link investments to performance-based outcomes. By synthesizing all of the data, you gain predictive insights into the most effective ways to manage your people. If you aren't doing any of this, resist the urge to get overwhelmed—it's what this book is all about.

NOTES

1. Interview with Buddy Benge, October 6, 2014.
2. Interview with A.D. Detrick, October 3, 2014.
3. Interview with Brad Pearce, October 16, 2014.
4. "Younger Managers Rise in the Ranks: EY Study on Generational Shifts in the US Workplace," EY, http://www.ey.com/US/en/Issues/Talent-management/Talent-Survey-The-generational-management-shift.
5. Jeanne C. Meister and Karie Willyerd, *The 2020 Workplace: How Innovative Companies Attract, Develop, and Keep Tomorrow's Employees Today* (New York: HarperCollins, 2010), p. 19.
6. Cathy A. Trower, "Traditionalists, Boomers, Xers, and Millennials: Giving and Getting the Mentoring You Want," Brown University. www.brown.edu/Administration/Provost/Advance/Trower%20Generations%20and%20Mentoring.pdf.
7. Sparks & Honey, "Meet Generation Z: Forget Everything You Learned about Millennials."

8. Ibid.
9. Staff Writers, "8 Important Education Trends in Generation Z." Best Colleges Online.com (August 16, 2011), http://www.bestcollegesonline.com/blog/2011/08/16/8-important-education-trends-in-generation-z/.
10. "Winning the Generation Game," *The Economist* (September 28, 2013), http://www.economist.com/news/business/21586831-businesses-are-worrying-about-how-manage-different-age-groups-widely-different.
11. Ibid.
12. FlourishAnyway, "Generation Z and the Work World: The Top 5 Things to Expect from Tomorrow's Employees" (February 23, 2015), http://flourishanyway.hubpages.com/hub/Generation-Z-and-the-Work-World-What-To-Expect.
13. Staff Writers, "8 Important Education Trends in Generation Z," Best Colleges Online.com (August 16, 2011), http://www.bestcollegesonline.com/blog/2011/08/16/8-important-education-trends-in-generation-z/.
14. Interview with Ian O'Keefe, September 29, 2014.
15. Ben Casselman, "What Baby Boomers' Retirement Means for the U.S. Economy," FiveThirtyEight Economics (May 7, 2014), http://fivethirtyeight.com/features/what-baby-boomers-retirement-means-for-the-u-s-economy/.
16. Robert Laura, "The Real Reason Why Baby Boomers Are So Far Behind in Retirement Savings," *Forbes* (September 30, 2013), http://www.forbes.com/sites/robertlaura/2013/09/30/the-real-reason-why-baby-boomers-are-so-far-behind-in-retirement-savings/print/.
17. Ibid.
18. "Younger Managers Rise in the Ranks."
19. Jennifer Deal, "10 Principles for Working Across Generations," Center for Creative Leadership, http://www.ccl.org/leadership/podcast/transcript10principlesGenerations.aspx.
20. Interview with A. D. Detrick, October 3, 2014.
21. Interview with Buddy Benge, October 6, 2014.