



## Creating Value through Analytics in HR

### Role of Third-Party Services

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## Executive Summary

Today, the business environment is more dynamic than ever. In this often volatile environment, human capital is arguably the most sustainable source of competitive differentiation and value creation. Clearly, the role of HR organization is more central than ever in terms of helping business tap this human capital potential and align it with business strategy. However, to do this role, HR organization will need to utilize tools and resources that enable it to get real insights into its human capital behavior, opportunities, and challenges. It calls for a decision making approach based on facts and numbers rather than intuition and guess work. Within this context, the application of analytics in the HR realm is becoming increasingly important.

Analytics is the discipline of gaining meaningful insights through interpretation of data that helps in better decision making. It is achieved through utilization of the right kind of *competency* (both statistical as well as functional) on appropriate and unified data (internal organizational and/or external business environmental) leveraging the right *tools and technologies*. Our research shows that there are four levels of analytics that differ from each other in terms of their ability to create business impact and the associated sophistication of underlying solution – reporting, descriptive, predictive, and prescriptive analytics. The scope and approach to HR analytics should be determined based on contextual factors such as objective, internal readiness, investment appetite, and target timeframe to achieve the objective.

Notwithstanding the traditional challenges to realize the HR analytics value, outsourcing is fast emerging as a viable option to overcome those. However, it calls for a careful and pragmatic approach to various key components of outsourcing.

This report examines the role of analytics in HR and identifies the ways to capture its value within an outsourcing construct. It addresses the following key questions:

- What is the need for analytics in HR?
- What are the building blocks of analytics and how do they need to interplay to achieve desired level of outcome?
- How should organizations approach HR analytics from a scope and sourcing perspective?
- What are the key challenges in HR analytics adoption and why outsourcing / third-party services are emerging as a viable option to address those?
- How can organizations capture the required value through outsourcing / third-party analytics arrangement?

## Introduction

In a highly competitive globalized business environment and fickle economy, it has become imperative for organizations to go the extra mile to effectively utilize the available resources, capture value, and manage risks. Enhanced decision making through deft interpretation of information and efficient utilization of human capital are emerging as key sources of sustained economic value.

Analytics has evolved out of these market needs and is now a key tool for organizations to make strategic and well-informed decisions. It is now increasingly used in a wide variety of functions and industries with highly promising outcomes. With the enhanced focus on people capital, the usage of analytics in HR is the next wave of evolution for businesses.

## Drivers of HR Analytics



The increased interest around HR analytics is driven by the following key factors:

### Pull-based factors

- Demand for efficient use of resources.** The dull economic scenario of the last few years has forced companies to reduce costs and optimize cash flows. This has increased the spotlight on HR spend (a significant portion of a company's overall cost). CXOs now want a better understanding of the Return on Investment (RoI) on HR spend and better visibility on the dollar spend. The increasing realization that human capital is the key differentiator in an uncertain economic environment has also helped to focus the spotlight on HR – there is increasing demand for using analytics for the optimum utilization of the human resources of an organization

- **Scarcity of talent.** Even with the relatively high unemployment rates in the weak economic scenario, scarcity of skilled talent is a key concern for many organizations. Analytics is emerging as a handy weapon in this “talent war” to hire, retain, and effectively manage scarce talent
- **Movement beyond intuition-based decision making.** HR has traditionally focused on the “softer aspects” and stayed at arm’s length from “hard numbers”. Consequently, HR decision making has often been intuition-based. There is a growing realization of the limited effectiveness of such decisions, which do not have quantitative back-up. Analytics helps address that need
- **Limited actionable insights from existing systems.** The numbers and statistics commonly available to HR through existing systems are standard static reports and dashboards. While these give a fairly good snapshot of the existing situation, they do not really provide actionable insights of tactical and strategic importance. Analytics provides more dynamic insights that are able to link and correlate a number of diverse yet relevant factors tied to a specific business issue, thus helping in better decision making

#### Push-based factors

- **Advancement in science behind analytics.** Significant investment has been made by analytics providers as well as the financial services and retail industries to enhance and fine tune the process and methodology of application of analytics to real issues. This has created a horizontal (context-agnostic) analytics competency. With horizontal analytics competency already in place, creating HR-specific analytics competency has become relatively easier
- **Advancement in tools and technology.** The increasing use of analytics in many fields has led to the development of many cost-effective analytics tools in the market. This had made execution of analytics both affordable and feasible
- **Availability of digital information.** The availability of information, both internal to the organization as well as from external sources, in a readily usable, digital format has spurred the application of analytics. However, the large quantity of data being generated from diverse sources needs to be addressed in a systematic way in order to glean meaningful insights from it
- **Successful usage of industry-specific analytics.** Some industries, such as financial services (credit-cards, mortgages, and insurance underwriting) and retail, now make heavy use of analytics in their day-to-day operational and strategic decision making. It is only natural that these organizations will push for use of analytics in other areas within their establishment, including HR
- **Emerging examples of successful HR analytics.** Although HR analytics is still at a nascent stage, there are increasing examples of its successful application in the market. These proof points act as encouragement to other organizations to take the analytics plunge

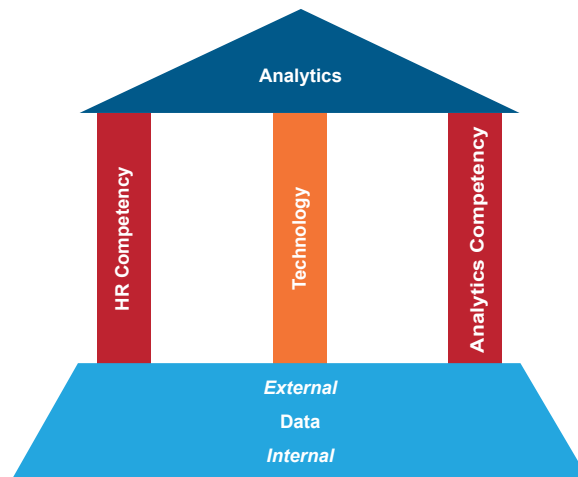
## The Building Blocks of Analytics

There are three building blocks that need to be put in place for the analytics journey to begin. While analytics cannot proceed without any of the three, the actual level of involvement and investment of each of the building blocks depends on a number of considerations. [See section "Approach to HR Analytics" for details]

### EXHIBIT 1

#### HR analytics – building blocks

Source: Everest Group



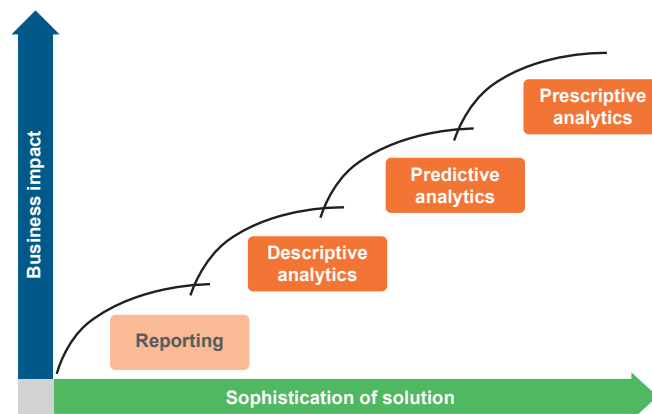
- Data:** Data is the basic building block around which the other blocks coalesce, to power analytics. Adequacy of data then becomes the first requirement for analytics to take-off. Unfortunately, HR data in an organization may often be found in discrete databases and systems (HRIS, Applicant Tracking System, Performance Management System, etc.). Building a data warehouse by undertaking unification of data from these diverse sources is, thus, an important step towards enhancing the usefulness of analytics.

While a robust integrated data warehouse gives better insights, it is not necessary to implement a comprehensive data warehouse before commencement of analytics usage. Simpler analytics can be used with limited or no data warehousing capability. Data warehousing can also be implemented as an ongoing project, running simultaneously and in-line with analytics usage. This reduces the initial investment cost and helps in creating returns earlier, thus helping create a better business case.

Data being used for analytics can be classified, based upon its source and ownership. On one end of the spectrum is purely internal data generated within the organization and owned by it (e.g., employee-related data and performance management data). At the other end of the spectrum is external data generated outside the organization and owned by external agencies (e.g., economic or demographic data). In addition to this, there can be data which is generated outside the organization but owned by it (e.g., information on job applicants residing in an applicant tracking system or the data on the social media page of the organization). The integration of internal and external data has started to create new possibilities in effective decision making, as it takes into account the real life dependencies that businesses have on the external environment

- **Technology:** Presently, most analytics tools are statistics-based and horizontal in nature rather than HR-centric. As HR analytics matures, HR-specific analytics tools with defined functionalities will emerge for those areas in HR where analytics is seen to make significant contribution
- **Competency:** People competency is a critical requirement for the use of HR analytics. Besides executing statistical analyses, it is also important to ask the right questions in order to get the right answers through analytics. Hence, to effectively utilize HR analytics, people competency is required in terms of both horizontal (analytics/statistics) knowledge and vertical (domain-specific – HR and/or other business domains) knowledge

### The Levels of Analytics



There are four levels of analytics that differ from each other in terms of their ability to create business impact and the associated sophistication of the underlying solution. As an organization moves from one level to another, each of the analytics building blocks (elements of solution) become broader and deeper. For example, predictive and descriptive analytics typically require accessing broader data sources (both internal and external), advanced analytics tools, and deeper horizontal competency (i.e., statistics, data modeling) combined with broader vertical competency (cross-functional HR and business knowledge). The following table contains descriptions of the various levels of analytics with supporting HR-related examples.

**EXHIBIT 2**

Description of levels of analytics

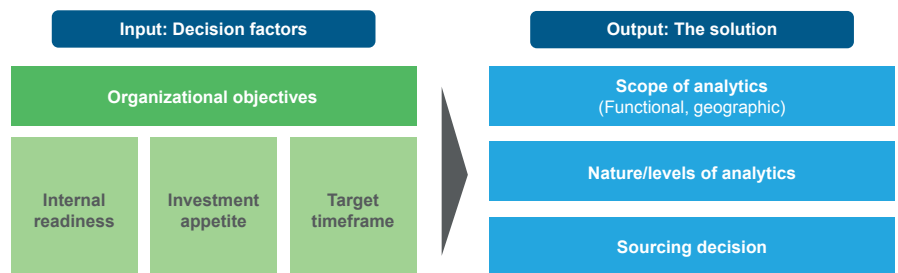
Source: Everest Group

Level of analytics	Reporting	Descriptive analytics	Predictive analytics	Prescriptive analytics
	Provides reports on the current situation	Provides actionable insights on the current situation	Predicts the likely future outcome of events	Prescribes the action items required to deal with the predicted future events
<b>Increasing sophistication / greater involvement of building blocks</b>				
<b>Data</b>	Utilizes 1-2 variables based on internal data	Utilizes greater than 2 variables based on internal data	Utilizes a large number of variables based on both internal and external (big data) data sources	
<b>Competency</b>	Requires minimal people competency in analytics/HR	Requires medium HR domain competency but minimal analytics competency	Requires strong HR domain competency and strong analytics competency	
<b>Technology</b>	Uses simple statistical tools	Uses advanced statistical tools	Uses advanced statistical tools as well as specialized analytics tools	
<b>Examples</b>	<ul style="list-style-type: none"> <li>Attrition is at XX% (1 variable – attrition)</li> <li>Attrition has risen by XX% over YY years (2 variables – attrition, time)</li> </ul>	<ul style="list-style-type: none"> <li>Attrition is at XX% for graduates in Asia-Pacific, with 3 or more years of tenure (4 variables – attrition, geography, educational background, tenure/time)</li> <li>Provides actionable insight on which areas/employee segment to focus to control attrition</li> </ul>	<ul style="list-style-type: none"> <li>The overall attrition of the company for the next year (Historical internal data + external variables such as regional employment statistics)</li> <li>Segmentation of employees into high, medium, and low-attrition risk (Historical internal data + external variables)</li> </ul>	<ul style="list-style-type: none"> <li>Graduates in Asia-Pacific can be retained through a well-defined and fast career path – pure financial incentive is of less significance</li> </ul>

**A good analytics system constantly incorporates new incoming data into its analysis**

**Approach to HR Analytics**

The scope and approach to HR analytics depends on answers to some key decision factors contextualized to the specific organizational dynamics.



**Input: Decision factors**

- **Key objectives/goals.** This is the most critical question which ultimately determines the nature of the HR analytics journey that the organization should undertake. The objective may be problem-specific or ongoing
  - The most common organizational objective that triggers the need for analytics is the quest for a solution to a particular problem. The problem may be one that requires a one-time solution (e.g., high new-hire attrition) or it may be the annual requirement for effective workforce planning or compensation planning
  - The other “rare” objective is where an organization wants to enhance the overall efficiency and effectiveness of the workforce and HR processes through continuous improvement by using analytics on a regular or daily basis

- **Internal readiness.** This includes the internal competency in terms of people and technology, adequacy of data, and internal stakeholder buy-in
- **Investment appetite.** This reflects the organization's investment appetite related to various building blocks of analytics
- **Target time-frame to achieve returns on analytics investment.** A short time-frame is required when organizations want to solve a pressing problem. A longer time frame works when an organization hopes to gain strategic benefits from ongoing analytics usage

These decision factors, in relation to each other, help decide on the scope and approach to analytics.

#### Output: The solution elements (scope and approach to HR analytics)

- **Geographic / business unit scope.** The decision of whether to include one or multiple countries / business units is a crucial one
- **Functional scope.** The decision is related to the functional scope of the analytics application, i.e., specific (e.g., recruitment) or broad (overall talent management). It is also important to decide which HR functions to bring under the ambit of HR analytics before the decision to go in for analytics is finally taken. Some of the HR functional areas which can be used as a starting point for analytics are:
  - Attrition/retention management
  - Recruitment (new-hire attrition management, quality of hires through new-hire performance management, and social media analytics)
  - Compensation planning and analytics
  - Learning (learning spend management)
- **Nature of analytics.** The decision is related to the nature and level of analytics required by the organization
- **Sourcing.** The decision is related to doing it in-house or going in for third-party support

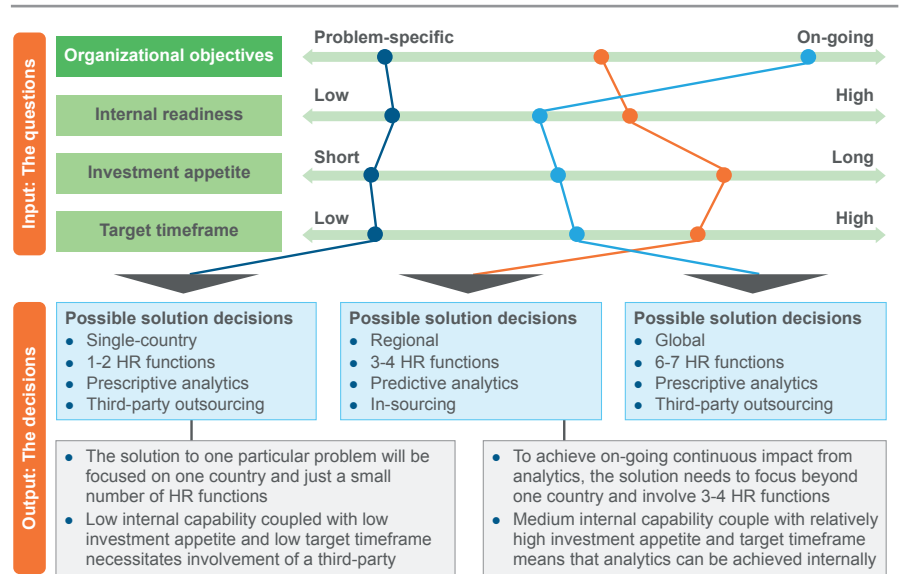
The following figure illustrates a few scenarios to better understand the impact of decision factors on likely outcomes in terms of the scope and approach to analytics.



**EXHIBIT 3**

Detailed approach to HR analytics

Source: Everest Group



**Current Adoption and Challenges**

Even though the interest for HR analytics is on the rise, its adoption is still at a very nascent stage with low market maturity. Within HR analytics, the more sophisticated levels are even less mature than the basic levels. There are multiple reasons for the low maturity of HR analytics:

- **Traditional HR mindset.** Traditionally, HR executives stressed more on softer people issues at the cost of statistical information. Recently, there is greater realization that fact-based, data-driven approach is equally important (if not more) to effectively and proactively deal with HR and talent issues
- **Organizations’ internal limitations with the three building blocks of analytics.** Many organizations are ill-prepared to take on the analytics journey by themselves. A common hurdle is the lack of internal talent well-versed with statistics/analytics knowledge within HR. Additionally, organizations may lack appropriate analytics tools or the technological capability. Lastly, lack of a unified data warehouse due to disparate HR systems might act as a bottleneck, especially for broad scope HR analytics usage
- **High investment cost.** For an organization to embark on the analytics journey on their own, it will require a high upfront investment in terms of people, technology, and data. Hiring analytics talent is a big investment. Considering the lack of HR-specific analytics talent in the market, the company will also have to invest and develop cross-functional talent between the fresh-hired analytics people and internal HR team. Investments in analytics tools or a unified data warehouse are also costly propositions
- **High operational cost.** Some of the attractive HR areas where analytics can make a difference, such as compensation designing and performance management, are point-in-time activities which occur every year only at specific time-intervals. Any organization attempting to gain the analytics advantage for just these point-in-time activities will still have to maintain a

vast analytics infrastructure (people and tools) throughout the year, thereby raising operational cost through a fixed cost component

However, the emergence of focused-solutions and third-party service providers is helping address most of the challenges that an organization faces while implementing analytics in-house.

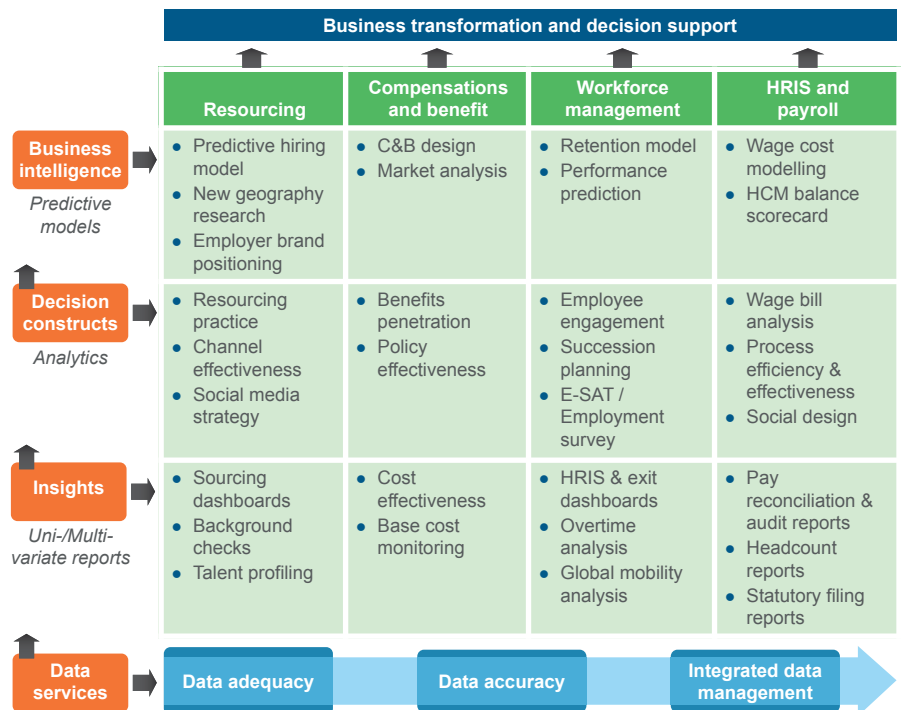
- The third-party service provider brings in suitable and trained talent (with analytics and HR capabilities) to the table. By utilizing economies of scale and global sourcing that leverages labor arbitrage advantage, the cost to implement and utilize analytics is significantly lower than the high investment required for developing the necessary people competency internally
- Under the third-party arrangement, the buyer organization will still have to bear the investment cost of creating a data warehouse. However, the investment required will be lower since the third-party will be bringing in the people competency
- Typically, analytics tool that the provider brings in is less expensive than a standalone tool from the market due to the “volume discounts” of getting technology/tools plus services under the same arrangement
- From a point-in-time services perspective, the analytics provider will deliver services as and when required, thereby converting the fixed to variable cost

An example of a third-party HR analytics framework is shown in Exhibit 4.

**EXHIBIT 4**

Framework to improve returns on employee engagement spends and reducing attrition

**Proprietary HR analytics framework by WNS (a third-party HRO and HR analytics services provider)**



**Key features of the framework**

- A tiered approach to create an intelligent decision support system
- Organizations can create various levels of analytics along individual HR functions or across the HR functions
- Focus is on improving returns on employee engagement spend measured through higher employee engagement and lower attrition
- Deployment of the framework preceded by three-phase assessment of the HR process to collect relevant data – diagnostic studies, employee perception, and competitive benchmarking

Due to the above advantages, outsourcing is fast emerging as a viable proposition and a model of choice for organizations desirous of embarking on the HR analytics journey.

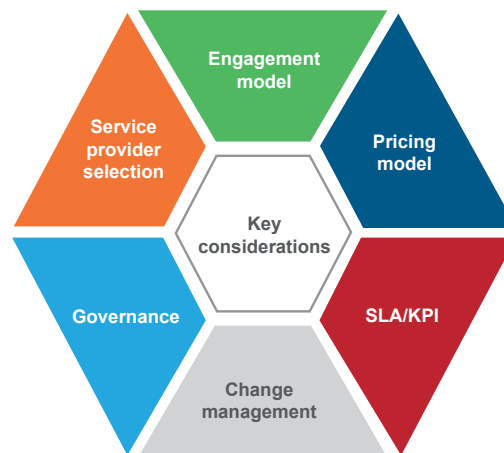
### Capturing Value through Third-party Analytics Arrangement

Organizations need to take into consideration a number of factors before deciding to go in for third-party analytics. They need to adopt best practices and make the most suitable choices regarding six elements:

#### EXHIBIT 5

Considerations in third-party HR analytics

Source: Everest Group



#### Engagement model

There are broadly three engagement models emerging for analytics in HR through third-party services:

**Project-based HR analytics.** This is typically a one-time consulting-type engagement where the organization needs a solution to a pressing problem within a fixed time frame. This is presently the most popular engagement model.

**Ongoing-relationship / outsourcing-based HR analytics.** There are broadly two types of arrangements here:

- **As part of HR outsourcing arrangement.** This is on an ongoing basis as part of an existing outsourcing engagement (a multi-process HR outsourcing engagement or a single-process outsourcing engagement such as Recruitment Process Outsourcing (RPO)). There are two different constructs in which it works:
  - *Business-as-usual (BAU) construct.* The outsourcing contract does not specify the usage of analytics but the buyer expects the service provider to utilize analytics in a BAU construct to make incremental improvements
  - *Specified analytics construct.* In this case, analytics is specifically mentioned in the initial contract or incorporated at a later stage. The buyer may engage the analytics services of the service provider on

multiple isolated projects on a need basis (similar to project-based analytics mentioned above) or on an ongoing basis (similar to analytics-as-a-service mentioned below)

- **Analytics-as-a-service.** This is an ongoing engagement over a period of at least a year, where analytics-related services are the only processes in scope of the arrangement. There are two cases where a buyer may want to opt for such an arrangement
  - The buyer needs **point-in-time assistance** regarding compensation structuring, workforce planning, etc. The buyer engages a service provider who comes at specified times during a year to assist in the work. This arrangement may also include a technology component where the service provider provides access to the analytics tool to the buyer organization on an ongoing basis, thus, providing a “stickiness” to the relationship
  - The other construct is where the buyer engages an analytics provider on **an ongoing basis** to use analytics for continuous improvement or for any future pressing issues that may arise. This requires a “long-term” mindset on the part of the buyer – the buyer wants to use analytics to create an efficient as well as effective workforce and HR processes.

The engagement may work as an “ongoing series of projects”. An annual or half-yearly planning exercise is conducted and a long list of potential areas, where analytics can be applied, are identified. These are prioritized on the basis of investment required, projected time-frame of returns, and return-on-investment, through discussions with the buyer. They are then executed within the specified time-frames. The analytics provider also creates permanent statistical models, which can be used throughout the year. For example, historical data on educational background, professional experience, social background, and psychology of hires can be linked to their performance in the organization to build a model/formula to calculate the “quality-score” of every future candidate who applies for a job with the company – similar to credit-score of credit-card / loan applicants in the financial services industry

### Pricing model

There are broadly three types of pricing models in play in the analytics arena:

- **Input-based (FTE-based model).** This is the most common pricing model in the market. In this arrangement, the fee is based on the number of FTEs (and associated rate cards) deployed by the service provider for the buyer. It can be applied in any of the engagement models
- **Output-based variable pricing.** This is relatively rare and is applicable in those situations where analytics is embedded into the broader HR outsourcing pricing. For example, in a Recruitment Process Outsourcing (RPO) deal, analytics-specific pricing can be embedded in the price-per-hire (typical output pricing structure in RPO)

- **Outcome-based / gain-sharing.** This is the holy grail of aligning buyer and service provider interests where the payment is directly linked to business outcomes achieved through application of analytics. The adoption of this model is still in infancy but it is most likely to be used in situations where the service provider is responsible for both value identifiers (through analytics) as well as value capture (through execution of services). This is mostly likely to happen in a situation where analytics is part of an HR outsourcing construct. An example is an LSO (Learning Services Outsourcing) situation where the service provider is responsible for identifying the type of learning interventions (method, curriculum, content, etc.) that are likely to create the most desired impact on learners and then also conduct the learning programs that enhance learners' productivity

### Service level agreement (SLA) / Key performance indicator (KPI)

In a third-party analytics construct, thoughtful design of SLAs and KPIs assumes importance. They need to be nuanced and customized based upon the situation. KPIs such as timeliness are relevant in most cases. Similarly, a metric based on *HR leader / stakeholder satisfaction* is also relevant. *The quantity of rework being done and effectiveness of solution* (measured through actual outcome realized) can also be used as KPIs.

### Change management

Usage of analytics requires HR to make decisions in a fundamentally different way compared to the past. It also requires a cross-functional, coordinated approach across IT, HR, and business to implement the right solution. All this requires executive attention (both for in-house analytics as well as third-party services) and alignment of different stakeholders to the end objective. Frequent and accurate communication (especially for any early wins) and visible involvement of executive leadership in change management at all stages of the engagement, help in aligning stakeholder commitment, imperative for a successful initiative.

### Governance

A collaborative governance structure and relationship management is important in any outsourcing construct. In an analytics-oriented arrangement, initial expectation settings are important as are periodic touch-points throughout the duration of the relationship to keep both parties on the same page. Delay in establishing the governance structure, or setting it up solely for the purpose of managing the contract are must-avoid pitfalls that limit the value of such initiatives. Effectively managing the transition to the service provider is critical. The governance organization must also maintain an ongoing focus on transformation and innovation to ensure capturing the business value.

### Service provider selection

Given the intricate play of three building blocks (data, technology, and competency) to create value in analytics, organizations should evaluate service providers based on their integrated capability across these areas. While prior experience in HR analytics can be helpful, given the infancy of the market, higher importance should be given to their proposed approach, solution, and ability to innovate. Providers' flexibility is also an important consideration (especially for long-term relationships) due to the evolving nature of requirements based on business issues and priorities. The likely engagement model adopted by the organization can also influence the choice of service provider. A niche analytics provider is suited primarily for project-based analytics engagements. An HR outsourcing provider offering analytics services can deliver through any of the engagement models, but their greatest value will be realized in a broader HR outsourcing relationship where the desire is to identify (through analytics) as well as capture (through process execution) value through the relationship.

### Conclusion

As the business environment continues to remain dynamic, alignment of human capital to business strategy is more critical than ever. Hence, it is no longer a question of "why" but rather "when", "where", and "how" to utilize the power of analytics in HR. Advancements in the science and art of analytics, coupled with emergence of focused solutions and providers, are making it possible for HR organizations to better address traditional challenges and start their analytics journey with confidence.

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## About Everest Group

Everest Group is an advisor to business leaders on next generation global services with a worldwide reputation for helping Global 1000 firms dramatically improve their performance by optimizing their back- and middle-office business services. With a fact-based approach driving outcomes, Everest Group counsels organizations with complex challenges related to the use and delivery of global services in their pursuits to balance short-term needs with long-term goals. Through its practical consulting, original research and industry resource services, Everest Group helps clients maximize value from delivery strategies, talent and sourcing models, technologies and management approaches. Established in 1991, Everest Group serves users of global services, providers of services, country organizations, and private equity firms, in six continents across all industry categories. For more information, please visit [www.everestgrp.com](http://www.everestgrp.com) and [research.everestgrp.com](http://research.everestgrp.com).

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