A MATTER OF FACT

If HR professionals are truly to make a difference to their organisations, they need to hear the truth, dig out the data and act on it – not rely on hunches and hearsay

BY JEFFREY PFEFFER AND ROBERT I SUTTON

Human resource management has been facing change for some time. HR professionals have been urged to become more "strategic", to become business partners and to focus more on how they can contribute to corporate profitability and shareholder value. They have also been urged to outsource activities, such as routine administrative tasks that don't add significant value, so they can focus more on higher value-added activities.

Yet as we talk to senior HR executives trying to lead their organisations through these transformations – and, for that matter, as we talk to senior line executives – we see continuing struggles and setbacks in their efforts to implement these changes. For instance, a November 2002 survey conducted by the Society for Human Resource Management (SHRM) and the Balanced Scorecard Collaborative, entitled *Aligning HR with Organisation Strategy*, found that only 34 per cent of executives questioned thought HR was viewed as a strategic partner, and 37 per cent believed HR did not understand the strategic direction of the company.

There are undoubtedly many reasons why the change in HR is not going as quickly or as smoothly as some would want, including the need to develop new skills and competencies and the omnipresent fear of change because of possible negative career implications. But we believe that two of the most important obstacles to transforming the HR function are as follows.

First, the recommendations about how to change and what to change lack specificity – what does it mean to tell someone to be more "strategic" or to be a "business partner" in terms of what they are supposed to be doing on a day-to-day basis in their jobs? We know from studies of managerial work dating back more than 30 years that work is punctuated by a series of short interactions in which people gather and share information and sentiments. If we want people to be more "strategic", we need to be much more explicit about what this entails and, in particular, how the new activities they are supposed to be doing differ from the old ones they are accustomed to performing.

Second, the core activities that are in the traditional domain of HRM – recruiting, determining rewards and recognition, including financial

BEN CHALLENOR

compensation, training and development, and so forth – are far from disappearing – in fact, they are becoming increasingly important inside many talent-based companies. For instance, Morgan Stanley recently appointed a chief talent officer, a title seen with increasing frequency, while leadership development is another activity that is taking on increased visibility and consuming more time and money in many organisations. Pay, particularly senior executive pay, is a topic high in visibility, and getting rewards right so that they don't do more harm than good remains a vexatious issue in many companies. So, even as they are asked to do different things, the "old" things remain very much on the agenda for most HR professionals.

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Meanwhile, there is evidence that much of what we know about effective HRM practices is not actually implemented inside companies; and that much of what goes on in the domains of designing compensation systems, recruiting and developing people and so on is inconsistent with the evidence about what actually works and why.

An absence of specificity about what it means to change what HR does, coupled with the opportunity to improve company performance by acting on the best evidence, leads to our overarching recommendation: that HRM should embrace the evidence-based management movement, something that can provide both specific ideas about what – and what not – to do, and add significant economic value.

Evidence-based management entails three things. First, it involves making decisions based on the facts and what we know to be true. Many companies – and government organisations as well – disregard the facts and act instead on belief, ideology, casual benchmarking, what they want or hope for, what they have done in the past, what they seem to be good or experienced at doing – in short, on everything except the facts.

For instance, in the US there is a movement not to promote to the next grade students who have failed to master material at their current grade. It seems like a sensible idea, and fits with US social policy trends. But the evidence suggests that students who are held back drop out of school, fail to graduate at much higher rates and suffer more absenteeism than those "socially promoted"; and that the cost of the extra students who are held back soon overwhelms the school systems, so the policies tend to die of their own weight anyway. But that doesn't stop their implementation in places ranging from Chicago to New York City.

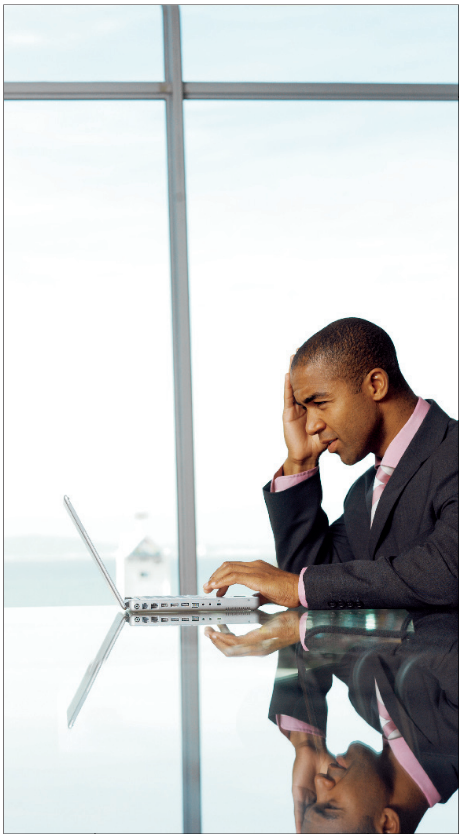
Another example is stock options. These are embraced with almost religious fervour, particularly in the high-technology industries of Silicon Valley. But the evidence on the effects of equity ownership, including stock options, from more than 200 studies is clear: there is no evidence of any effect. But who cares about the data when we have such wonderful, strongly held beliefs?

Second, evidence-based management means a commitment to hearing the truth, getting the data and acting upon it. At DaVita, a 35,000-employee operator of kidney dialysis services, the saying is » "no brag, just facts". The company is so committed to making decisions based on data that when there is an important measure relevant to the operation of their centres that is not yet available, they put the measure on the reports to the facility administrators anyway with the notation "not available." As their chief operating officer, Joe Mello, comments, having reports come out month after month with a measure marked "not available" reminds people to work on making important information available so it can be used in decision-making.

DaVita is also committed to learning what is really going on. Employees feel free to ask difficult questions – including ones about pay – at "town meetings", regularly held whenever a senior executive is at a training meeting or visits a facility. When executives don't know the answer to a question, they don't make answers up: instead, they admit they don't know and reply later. Employees can email or call anyone with questions or concerns, and many do. And the CEO and his colleagues focus on uncovering problems – not to assess blame and inspire fear, but as part of an ethos of continuous improvement in which the things that aren't going right need to be discovered and corrected.

Third, evidence-based management means treating your organisation as an unfinished prototype – running experiments and learning all the time. At casino firm Harrah's Entertainment, the CEO, a former Harvard Business School professor named Gary Loveman, has commented that there are three ways to get fired from the company: steal, harass another employee, or do something without running an experiment first. Harrah's is constantly running experiments on marketing promotions, building its customer loyalty programme and hiring more effectively. This is a way of operating that is quite distinct from what seems to go on at so many places today – if it looks like a good idea, do it everywhere, and if you think it won't work, do it nowhere. This all-or-nothing approach to implementing a management idea precludes the opportunity to learn from running small trials, as pharmaceutical companies do when developing drugs.

So evidence-based management is basically about developing the right mindset – one that embraces learning and inquiry. Yes, we have heard all about "learning organisations". But what we mostly see in the real world are organisations where, actually, no one is ever permitted to learn anything. In order to learn, you first need to let people try things that may or may not work – in other words, you must tolerate failure. Not too many companies do that these days.



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And, second, you must permit – and build in – structured time for reflection and encourage after-event reviews. This is a disciplined way of looking at what went right and wrong so that next time things can be done more effectively. Lots of places claim that they don't have time for this, or argue that "what's done is done", so they end up repeating the same mistakes. And lots of places are afraid to do reviews because of a culture of blame that makes it dangerous for one's career to be associated with something that hasn't gone perfectly. So no one talks about the truth – and opportunities for improvement are lost.

We have a vision, or maybe a dream, that the HR function will become the research and development engine for the human system of the organisation. Instead of blindly copying best practices – something that seldom provides much value because what works in one place may not be useful in another – it actually helps to build a culture of evidence-based action in organisations.

For HR professionals to practice evidence-based management, several steps are necessary. First, use data to work out where the greatest improvement opportunities are. Companies often don't know what their real problems are, or what is causing them.

So, for instance, a large, global financial services company "decided" that it was not doing as well as it should be in attracting and retaining top talent, and that compensation and leadership development/job rotation issues were the most fundamental causes. But the company did not really know how its loss of people at managing director level compared with its competitors's losses; how many of the people it was losing were crucial to the firm's success; what its "brand" in the recruiting marketplace was and, if there was a reputation problem, what was causing it; what its comparative ability to attract people it wanted was; which other firms it was losing people to and why those staff were leaving; and, most important, how it would know if it was making progress over time in fixing its "attraction and retention" issue. Instead, the company was quite willing to embark on an extensive and expensive set of activities based on people's beliefs, hunches and suppositions.

This is not an unusual state of affairs. It is quite frequently the case that companies don't know how they are doing in people management or the source of those problems. Some companies do surveys. Some have HR information systems. Some do exit interviews. Some have feedback sessions with senior leaders. All companies have people with ideas and opinions about what the issues are and the causes of those issues. But relatively few companies pull this information together in a systematic way to formulate ideas about what is going on and then test their hunches with the facts. This is an activity that HR is equipped to do and should be doing.

Second, it is incumbent on HR professionals to know what the literature says about HR practices and then use that knowledge to design more effective ways of doing things. Consider the recruiting process. Everybody does interviewing. But if there is one thing we know, it is that interviewing is often quite unreliable as a selection technique. There is also extensive literature on the things that can be done to make interviewing more effective – such as training interviewers in how and why interviewing is biased and getting them to use structured techniques to at least partly overcome this bias.

Consider the development process. We know there is a powerful self-fulfilling prophecy effect on behaviour. And we understand that "grading" or "scoring" people as a way of assessing their capabilities presumes that those capabilities are reasonably fixed, which then becomes true as people avoid tasks or situations in which they might fail. But, nonetheless, we have seen few HR professionals who know about, and even fewer HR practices that incorporate, Carole Dweck's research on the effects of a development versus an evaluative mindset (*see "The real brain teaser", PM, 28 April 2006*).

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Third, run experiments and gather information on how well things are working. When a new CEO comes in, his or her *alma mater* is likely to become a more popular source of recruitment and of executive education and development. The idiosyncratic effects of where someone in power came from are not going to be overcome until HR has data on how different sources of recruitment vary in their ability to generate great applicants and great employees, or how different sources of education vary in their effectiveness.

One of the best ways to determine these things is to try different sources of recruits, different places to get executive development, different ways of asking questions, different ways of selecting people, and so forth – and keep track of what works, thereby learning from running many small experiments. This process entails building more of a spirit of inquiry and learning, and a commitment to gathering the data and doing the analysis necessary to track down the validity of hunches.

We could write a book – actually many people have – about problems with incentives in organisations. But here is a brief summary. The data suggests that more and more companies are moving to more variable pay for performance at an individual level. They do this in the face of evidence, including surveys done by the very compensation consultancies that in some instances are installing pay-for-performance systems, that these efforts aren't very effective. In fact, in many instances they are costing money while causing problems with employees.

Numerous surveys show that people seldom join or leave companies primarily for the money. Evidence shows that people overestimate the power of financial rewards to affect the behaviour of others, even as they recognise that their own behaviour is not primarily motivated by money. Individual pay for performance is designed to increase the dispersion in pay. But study after study, in settings ranging from university departments to businesses to baseball teams, show that more dispersed pay distributions are associated with more turnover, lower levels of quality and other performance measures, plus diminished job satisfaction.

We know that, in most organisations, what people are trying to accomplish is too complex to be captured by a reward system that is simple enough for people to comprehend and act on. So incentive systems often have unintended – and unwanted – consequences. Consider the US city of Albuquerque, New Mexico, which introduced an incentive whereby refuse collectors would be paid for their full eight hours even if they finished their routes in less time. The result? They sped, causing accidents; missed picking up refuse on their routes, requiring special pick-ups; and failed to go to the dump to empty their trucks as often as they should, thereby driving overweight. The combination of all of these factors actually cost the city money, although it had set up the scheme to save on overtime costs.

So here's an idea. Let's use some of this knowledge and insight about incentives and motivation to design more effective reward systems – or, at least, to follow the adage of the Hippocratic oath in medicine: "First do no harm."

There are things HR professionals can do to add value and build the human capital capabilities of their organisations. At least some of those activities entail the implementation of an evidence-based approach to managing people. The steps required seem reasonably clear. Let's hope that some HR organisations take them. ■

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Further info

This article is based on Jeffrey Pfeffer and Robert I Sutton's book, *Hard Facts, Dangerous Half-Truths and Total Nonsense: Profiting from Evidence-Based Management* (Boston: Harvard Business School Press, 2006).

Jeffrey Pfeffer will be speaking at the CIPD's annual conference and exhibition in Harrogate on 24-26 October.
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