



Data, people and profits

**The case for
evidence-based HR
in banking**

KPMG International

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Foreword

Ask any banking executive and they will likely tell you that it's their people that are their greatest asset. And most banks now recognize that data and analytics can lead to improved business decision-making. Yet too few banks seem to have connected the two; applying evidence-based approaches to the HR function in order to drive improved organizational performance. More often, most HR decisions made in the banking sector today are still made based purely on experience and accepted "truths" (e.g. higher pay = better performance)

Clearly, this is far from ideal; in part, because today's banks are highly focused on issues related to talent. Time and again, our surveys and our discussions with leading banks show that recruiting and retaining key talent is one of the big concerns keeping banking executives up at night. Banking executives are also keenly focused on improving the productivity of their employees. The case for better use of data and evidence to influence these objectives seems fairly obvious.

Yet, as this report illustrates, few banks have taken the appropriate steps to create a truly evidence-based HR approach. The data suggests that, while the intention is there, few have deployed the same rigorous analytics that they use on their products to optimize their people offering. And given that the race for talent is a truly cross-industry and global competition, banks may soon find themselves falling behind more sophisticated competitors from other sectors.

That is why, for this report, we have highlighted a number of comparisons between the survey responses collected from banks and those collected from IT and Technology companies. Not only do tech companies (generally speaking) represent the 'fast-movers' and 'early-adopters' of the business world (and therefore also act as competitors for more mobile talent and skills), but they are also increasingly becoming a disruptor within the traditional banking sector itself.

Indeed, all around the world and across the value chain, FinTechs and startups are quickly disrupting the traditional banking ecosystem. Those banks that are able to change corporate culture to embrace data-driven HR practices in banking can facilitate an improved ability to compete with, partner with or successfully acquire and integrate Fintech innovators that they both value and respect. The positive influence on corporate strategy and business transformation is significant. Of course, this will require more effective talent management and more deliberate evidence-based decision-making to drive talent acquisition and retention strategies.

At KPMG International, we firmly believe that all companies will be using evidence-based HR approaches in the future. But the road to full 'maturity' will take some time to navigate and will require investment, leadership and a culture of innovation.

We hope that this report provides HR leaders, executives and talent managers across the banking ecosystem with some new insights, valuable data and practical advice to help accelerate the journey towards evidence-based HR. To discuss any of the topics identified in this paper – or to talk about your unique HR challenges – we encourage you to contact your local KPMG member firm.



Tim Payne
Partner,
Head of People and Change
KPMG in the UK



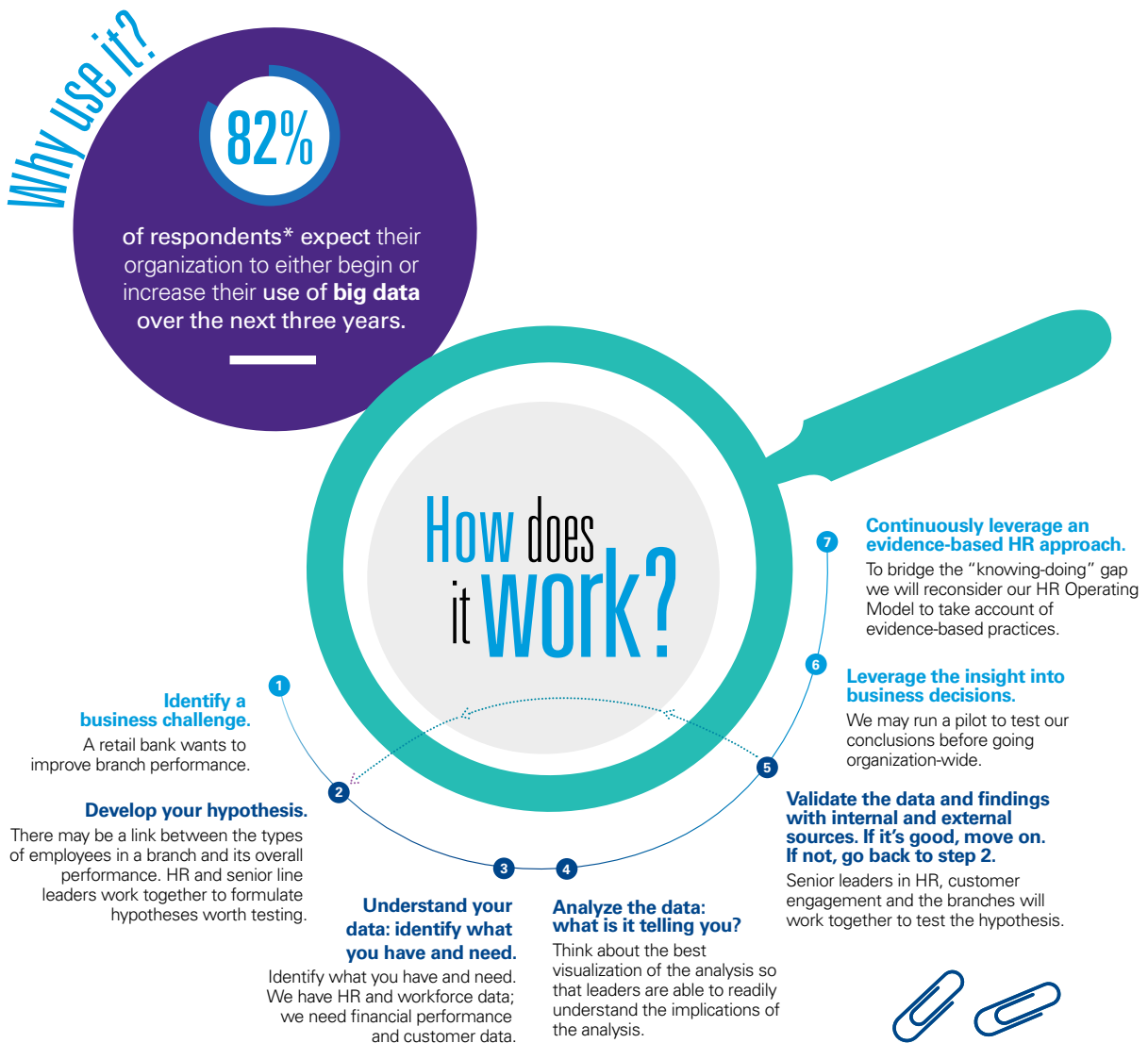
James Chouffot
Director, Management Consulting –
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Defining evidence-based HR

When we talk to banking executives, one of the first challenges we often face is to define what is meant by 'evidence-based HR'. How does it differ from traditional HR approaches? What exactly does it mean to be 'evidence-based' in the banking sector? What does evidence-based HR entail?

What is Evidence-Based HR?

Evidence-based HR uses data, analysis and research to understand the connection between people management practices and business outcomes such as profitability, customer satisfaction and quality



As with any rapidly-emerging technology or business trend, there is still much to learn and understand about evidence-based HR. In its simplest form, evidence-based HR is about using the best available evidence to support people-related decision-making.

For some, this will mean applying some basic analytics approaches to their existing employee, performance and productivity data to uncover insights about the relationship between their people strategies and their business outcomes. For others, this may mean integrating new external data – such as academic research and social media – with their existing data and applying sophisticated analytics tools to reliably predict potential people-related challenges and opportunities.

Becoming more ‘evidence-based’ is not just about gathering more data and analyzing it. Equally important is the way that evidence is used by the HR function, how the decision-making process is designed and the strength of the capabilities within the organization to turn the evidence into practical action.

What is evidence-based HR?

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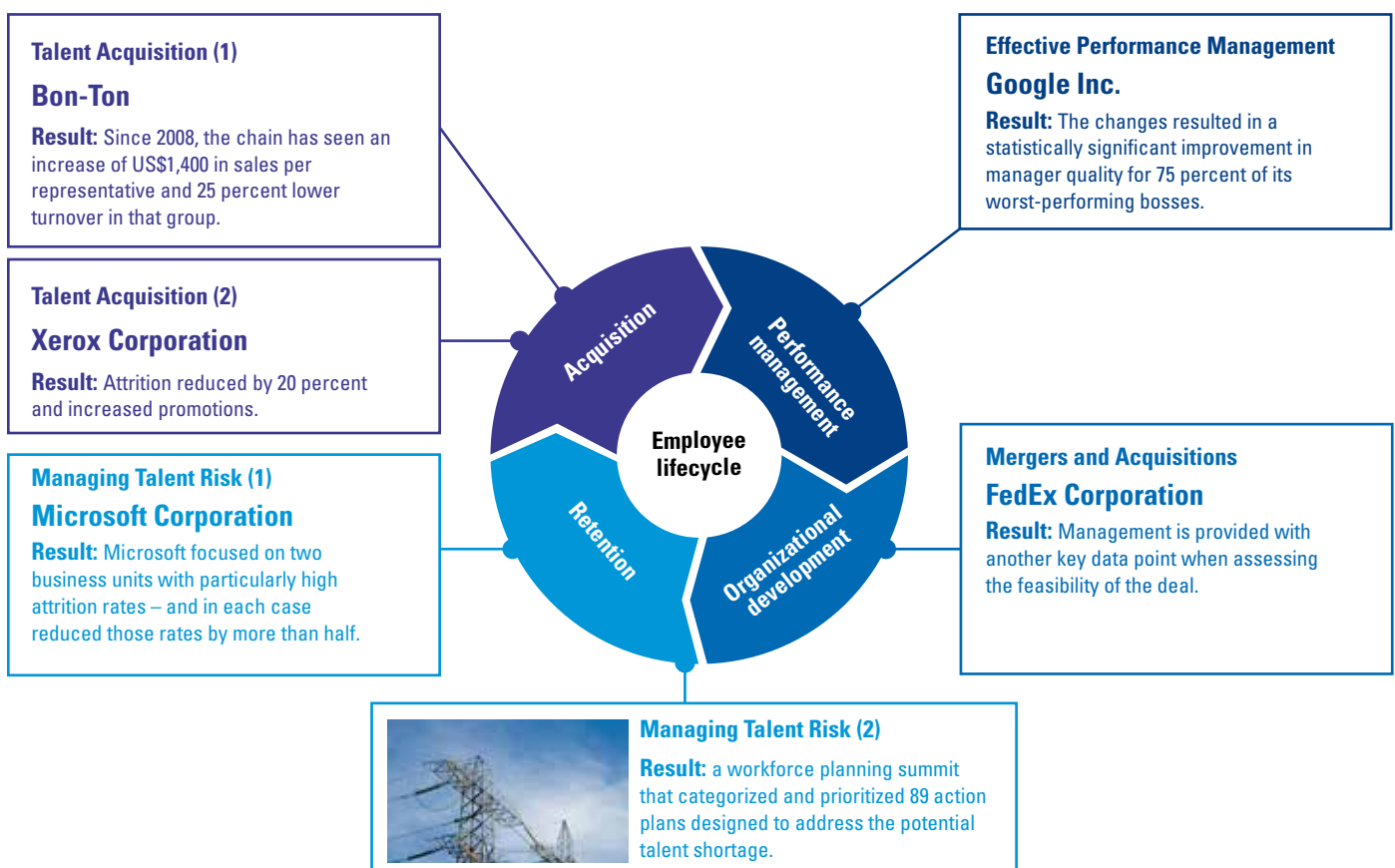
A world of opportunity

Imagine if you could link specific HR activities to business objectives. You could identify and learn from many insightful data points and analysis. Examples of opportunities for data driven analysis could include:

- which employee characteristics lead to the highest levels of customer satisfaction
- find out how to identify traders that pose a higher compliance risk for the organization
- be able to predict exactly when key talent is thinking about leaving the organization and takes steps to intervene.

Clearly, there is much that evidence-based HR can offer banking organizations.

Results of adopting evidence-based HR/data-driven practices



¹ Xerox: Meet the New Boss: Big Data – Companies Trade In Hunch-Based Hiring for Computer Modeling (Wall St Journal, Sept 20th 2012)
² Bon Ton – Article – *McKinsey Quarterly* – “Question for your HR chief: Are we using our ‘people data’ to create value?” March 2011 by Nora Gardner, Devin McGranahan, and William Wolf
³ Harvard Business Review (Dec 11, 2013) – Change your Company with Better HR Analytics by Mick Collins
⁴ Google – “Google’s quest to build a better boss” – NYTimes, March 12 2011, by Adam Bryant
⁵ FedEx – could not find citation
⁶ Microsoft – “They’re watching you at work” – Theatlantic.com – Don Peck, Dec 2013 issue

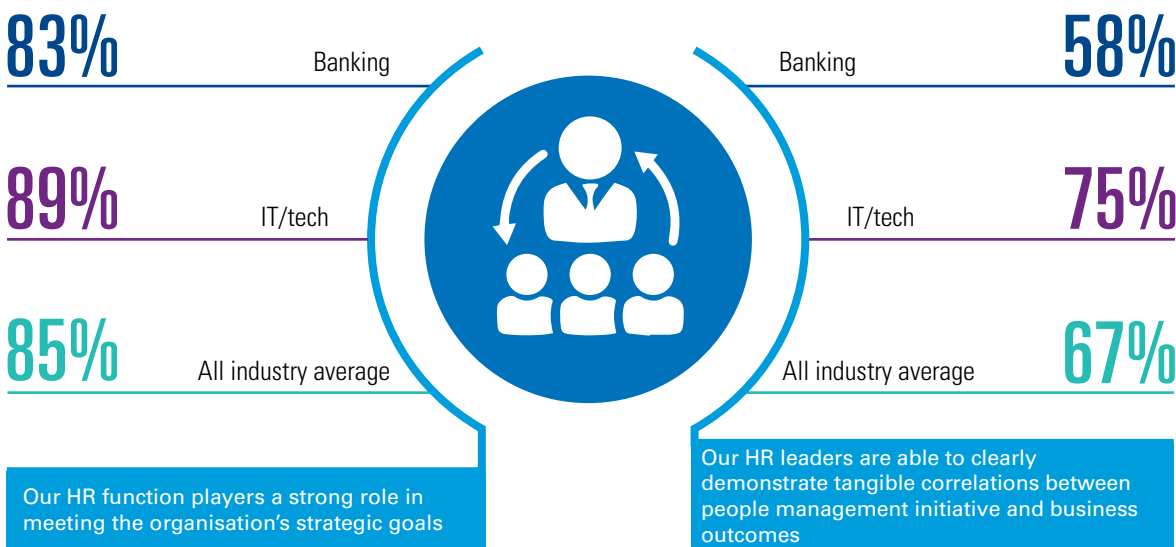
If people are a bank's greatest assets – and we firmly believe that they are – then banks stand to gain significant value from applying more rigorous evidence-based HR approaches within their organizations.

Already, businesses of all shapes and sizes are finding that, by applying evidence-based HR, they are improving their understanding of their organizations and helping their businesses to achieve their objectives. And, as can be seen from the diagram below, the application and results of evidence-based HR are having an impact across all sectors and all parts of the employee lifecycle.

Ultimately, the benefits and value of evidence-based HR depend largely on the ability of the HR

organization to align their strategies to the business' wider objectives. As Jonathan Ferrar at IBM noted in a recent KPMG International report, "Evidence-based analysis is not just about determining how well people are performing. It can also calculate how the performance of the people links to the consumer brand, establishing and measuring that link between employee, customer and revenue."

According to our survey, HR departments at banks are fairly good at demonstrating their ability to help advance the organization's strategic goals. Where they are facing greater challenges is in demonstrating real correlations between their people management initiatives and the achievement of specific business outcomes.



Case study

When the Royal Bank of Canada (RBC) wanted to improve performance, they polled employees in hundreds of retail branches to discover their views about the company's level of competitiveness in the marketplace and measure their belief in what they were offering to customers. When the results of this survey were placed alongside commercial data, the effect was striking.

"We discovered a major connection between the degree to which employees believed in our competitiveness and in our value proposition, and the performance of the relevant retail branch," says Per Scott, Vice President of Human Resources for the company. "The more they believed in the company, the better the branch performed. Based on this clear evidence, we could then make appropriate interventions. We realized that we had to do more to convey our client value proposition to employees – what we can provide to our clients, what our key differentiators are."

Know it or not, banks need evidence-based HR

Banking executives and HR leaders intuitively know that better-informed decision-making leads to better business outcomes. And, given that most banking executives responding to our survey put talent retention and employee productivity at the top of their agendas, it is clear that evidence-based HR can deliver significant value. Many banks even expect the application of evidence-based HR to deliver potential profit uplifts.

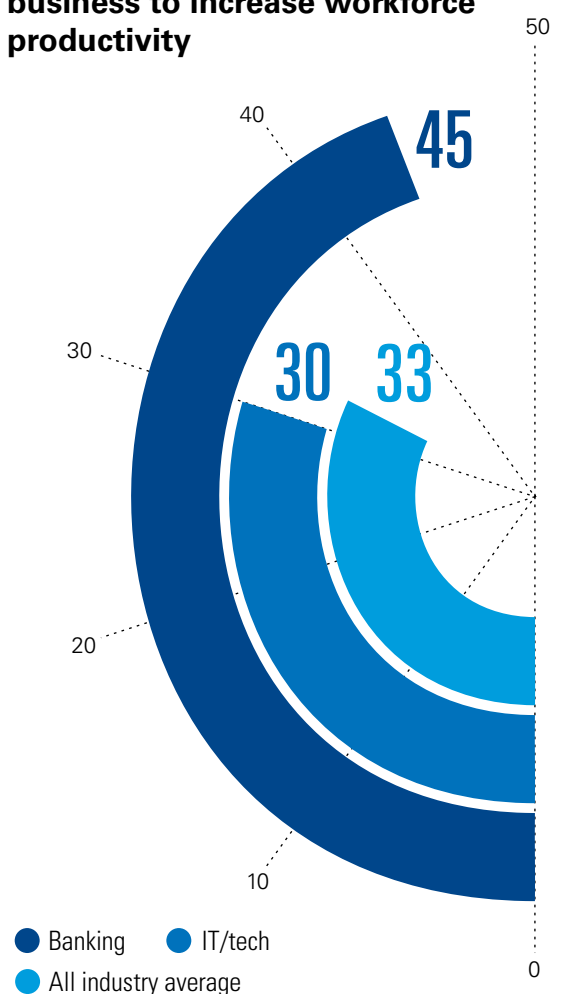
Not surprisingly given today's economy, banking leaders are highly focused on increasing productivity. In fact, almost half of all banking respondents (45 percent) said that – over the next 3 years – their HR function would need to prioritize activities that help enable the business to increase workforce productivity.

Interestingly, banking respondents were around 50 percent more likely to say they would focus on workforce productivity than their peers in the tech sector (30 percent) and the wider business sample (33 percent), likely reflecting the high value and central role that people play in the banking system. But it also reflects banking executives' desire to get more from their existing employees and their belief that there is more productivity to be gained.

Equally important to banking executives is the HR function's ability to keep their best and most productive talent. Banking respondents were just as likely to say that talent retention would be a top priority for their HR function as they were to cite increased productivity, once again reinforcing the link between HR, talent and business objectives.

As the previous chapter suggests, evidence-based HR and data-driven decision making are key to achieving both of these objectives. Not only can data help identify areas of potential productivity improvements (and drains), it can also be instrumental in reducing churn and improving talent retention strategies.

Key focus for HR: Enabling the business to increase workforce productivity





I believe...

“The whole point of evidence-based HR is to drive greater value through the better use of the most important asset an organization has: its people. This shift to this approach is powerful. If you ignore it, you are losing out on opportunities to drive greater customer satisfaction, to drive revenue, to drive higher employee engagement and commitment.”

Tim Payne

Partner, Head of People and Change
KPMG in the UK



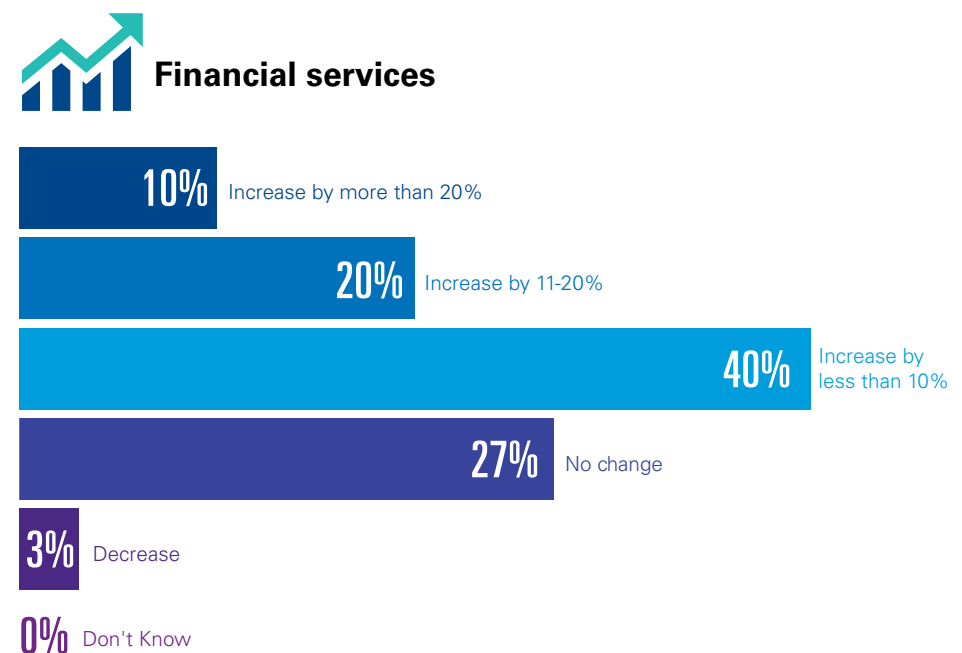
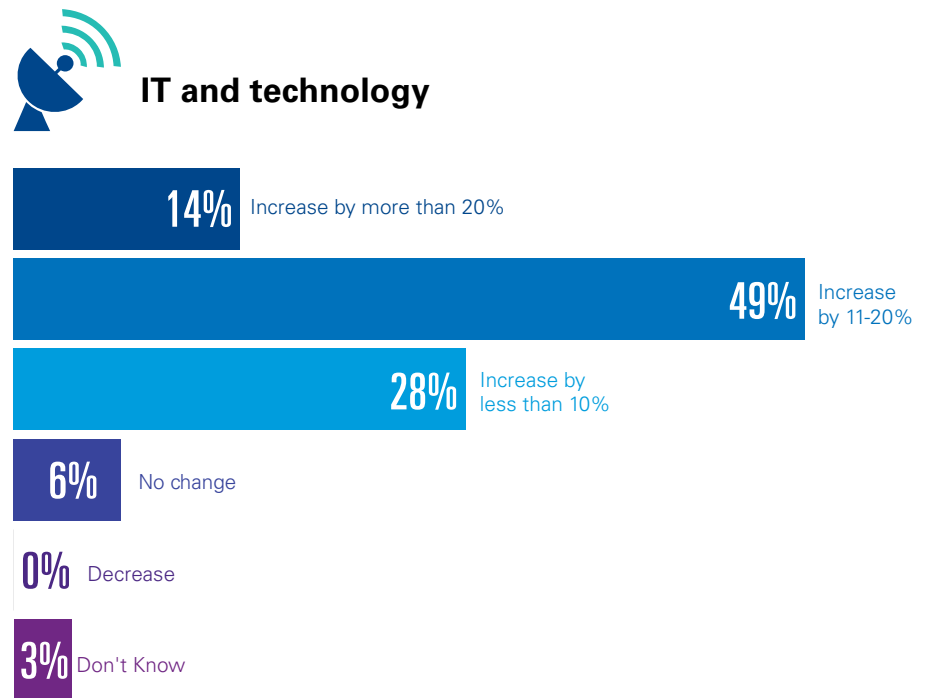
From prophets to profits

While talent retention is critical, there is also wide-spread recognition that evidence-based HR can lead to bottom-line benefits. This is particularly true where HR functions use their data to identify trends and hence develop a more *predictive* approach to HR activities. Suddenly the levers that HR can pull – reward, recruitment, development, etc – are backed by clear and expected outcomes. HR activities that were previously a reactive response to a business need can now become a pre-emptive action that prevents this need. And, not only is prevention better than cure, it is also significantly more cost-effective. Our survey indicates that banking executives see a real and measurable link between the application of evidence-based HR and profits with 30 percent of our banking respondents saying that they would expect evidence-based HR approaches to deliver profitability increases of more than 10 percent over the next 3 years. One-in-ten said they expected profit uplifts of more than 20 percent as a result of using data-driven insights for HR.

However, this must be juxtaposed against the expectations reported by other sectors – most notably the tech sector – where almost two-thirds (63 percent) said that they expected profit uplifts of 10 percent or more as a result of evidence-based HR. Almost half (47 percent) of all respondents from the telecoms sector (which arguably represents a similar services-based model to banking) similarly said they expected profit increases of more than 10 percent over the next three years as a result of making better use of data-driven insights in the HR function.

At the same time, banking executives were also the most likely group out of all sectors surveyed to say that they expected either no profit increases at all or that they expected profit decreases as a result of applying data-driven insights to HR, reflecting some scepticism within the banking sector as to the benefits of evidence-based HR.

Figure 3: To what extent would you expect the increasing use of data-driven insights in your organization’s HR function to affect profitability over the next three years?



Source: Evidence Based HR: The bridge between your people and delivering business strategy, 2015



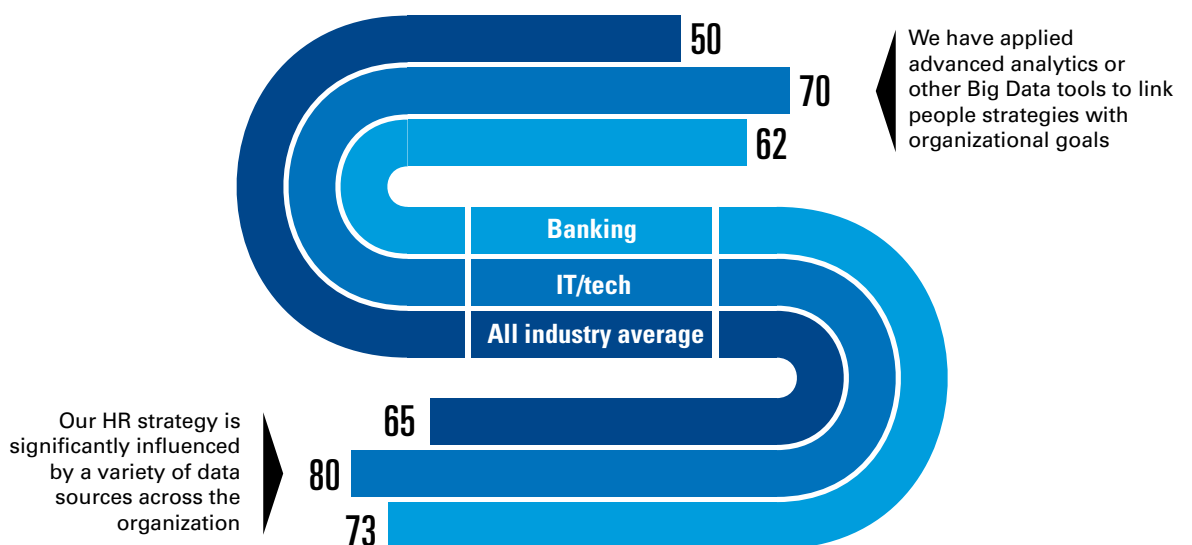
Improving maturity to deliver results

The fact that banking HR functions may be lagging behind other industries when it comes to adopting data-driven approaches in HR may come as a surprise to some HR leaders. Most believe themselves to already be largely evidence-based. But dig a little deeper and it quickly becomes apparent that banks are starting to be left behind by more sophisticated and nimble competitors and sectors.

Nobody wants to admit that they make their decisions based on gut-feel and intuition alone. So it is perhaps not surprising that banking executives and HR leaders were just as likely as those from other industry sectors to claim that their HR strategy is already 'significantly influenced' by data-driven insights.

However, our experience and our data suggest that the banking sector may already be falling behind in the maturity, sophistication and

application of evidence-based HR. Take, for example, the fact that just half of our banking respondents were able to confirm that they were using advanced analytics or other Big Data tools to link people strategies with organizational goals (only healthcare respondents ranked themselves worse). Or the fact that almost a third of banking respondents admitted that they only use a limited variety of data sources to influence their HR decision-making.

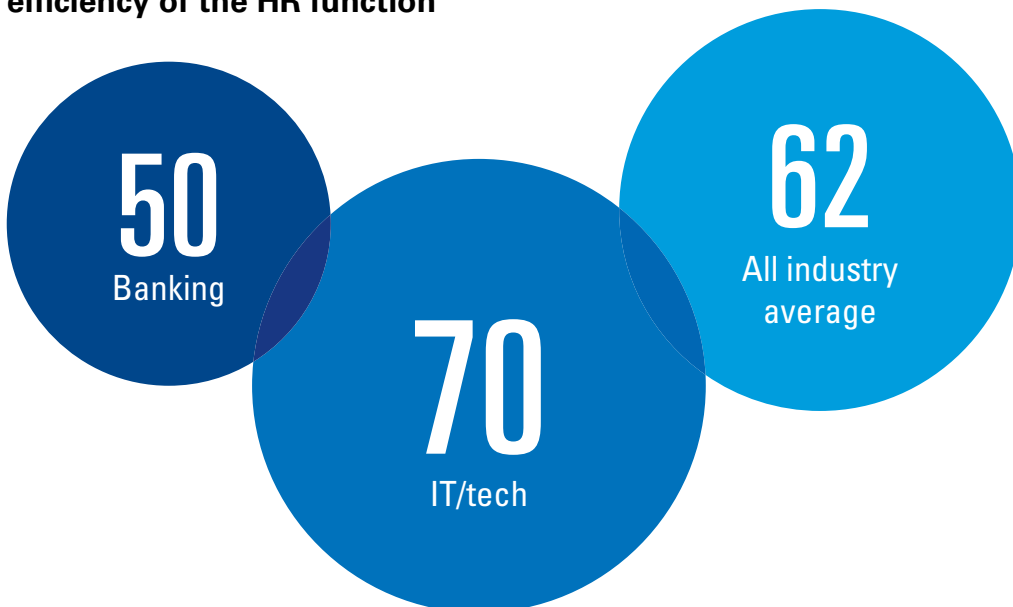




While these percentages may be overall positive within the bank sector, when you compare these results against those provided by technology respondents and the growing gap in maturity starts to become clearer. Seven-in-ten tech companies say they have used evidence-based HR approaches to align their people strategies to their organizational goals. Eight-in-ten say their HR strategies are significantly influenced by a variety of data sources, drawn from across their organization.

Banking HR functions are not only falling behind in the application of data-driven approaches to support their internal clients' objectives, they are also falling behind in applying insights to improve their own efficiency. In fact, with the exception of healthcare, banks were the least likely sector to say that they had applied advanced analytics or Big Data tools to improve the efficiency of their HR function.

We have applied advanced analytics or other Big Data tools to improve the efficiency of the HR function



Stumbling blocks to starting blocks

As with any business transformation program, creating an evidence-based HR function is not as simple as downloading some new analytical apps and selecting your insight. It takes concerted effort, leadership, resources, capabilities and collaboration to go from data to insights and from insights to real business value. According to our survey, banking executives and HR leaders face a number of challenges that may inhibit their ability to rapidly adopt evidence-based HR. However, these challenges could equally be viewed as opportunities and the benefits could be considerable.

Investment

Stumbling block: In an era of constrained capital, volatile markets and costly compliance obligations, few banks believe they have the resources or the capital to invest into building the foundation for an evidence-based HR program. More than a third of banking respondents said that difficulties demonstrating the ROI on evidence-based HR were creating obstacles.

Starting block: However, should investment into data-driven HR processes return even a fraction of the profit uplift suggested by our respondents on page 10, it seems clear that banking executives will quickly start to recognize the strong ROI that these investments offer.

Culture

Stumbling block: Challenges related to corporate culture were cited by banking respondents as the top obstacle to the broader adoption of evidence-based HR in their organization and (besides government respondents) the banking sectors was the most likely group of respondents to see culture as a barrier to adoption. While this is largely related to the highly-regulated nature of the industry (see next item), banking executives and HR leaders will still need to strive to encourage a more data-driven and analytical culture across the organization.

Starting block: Regulators are increasingly looking to banks to provide a more rigorous, evidence-based view of their culture in order to demonstrate they are operating prudently and in compliance with new legislation/guidelines.

Regulation

Stumbling block: For banks, particularly larger multinational groups, concerns related to regulation create significant barriers to any new change program. New regulations, new reporting requirements and new compliance obligations seem to be emerging every day and this is not only eating up time and resources, but also dampening the organization's appetite for change.

Starting block: Yes, banks will need to be ever-vigilant that their evidence-based HR infrastructure does not contravene regulation (particularly related to the sharing of employee data across borders). But we believe that – used properly – evidence-based HR will ultimately emerge as a key strategy in banks' compliance toolkit rather than a risk.

Data silos

Stumbling block: Given their history of inorganic growth and 'ring-fenced' IT systems, banks often face significant challenges integrating data across the various parts of the wider organization. Given that, as with any data-led process, the more data that is available the richer and more reliable the insight, banking executives and HR leaders will need to put a concerted effort into creating and executing a data strategy.

Starting block: The software required to analyse "big data" – particularly correlations between multiple variables – is better and more widely-available than ever before. When managing one of your biggest costs and assets, real-time and rigorous data analysis can provide the pathway to both major and marginal gains.

Capabilities

Stumbling block: Evidence-based HR is a new approach that requires fresh skills and capabilities to be developed within the HR function. Analytical prowess needs to be combined with commercial acumen to identify how the conclusions from the data might fit with the company's commercial objectives. As one senior HR leader at a global retail bank told us, the HR function needs "to become more numerically proficient and be able to explain data insights, to communicate the business relevance of our findings in a compelling way to senior leaders."

Starting block: As the focus on "big data" increases, so the skills have become more readily-available in the market. In addition, new cloud-based HR systems often include ready-made reporting and analytics that can do much of the heavy-lifting for you, so HR professionals and the business alike should become more familiar with the features and benefits of HR analytics.



"For HR functions at banks, the past 8 years have really been all about helping the organization cut costs, both within the HR function and across the broader organization. I think we're starting to come out of that cycle and, today, HR functions are starting to once again think about how they add value to the organization rather than just cut costs."

Tim Payne, Partner, Head of People and Change, KPMG in the UK

"After the cost-reductions and restructuring of the past few years, from a cultural perspective, further significant change is unlikely to be welcomed in HR where many may be suffering from excessive change fatigue. However as banks begin to re-position themselves for growth, there are increasing opportunities to put evidence-based HR at the heart of the HR function."

James Chouffot, Director, HRTransformation Capability Lead, KPMG in the UK

"Banks are increasingly starting to use evidence-based HR to identify the types of people data that might predict or give early-warning of the mis-selling of products or other conduct challenges so that they can intervene quickly or avoid it happening all together. I think, rather than being a barrier, regulation may be a massive catalyst to the adoption of evidence-based HR"

Tim Payne, Partner, Head of People and Change, KPMG in the UK

"To get real value from evidence-based HR, you need to be able to take data from your HR systems and combine it with data from your business systems, your compliance systems, your customer databases, reporting systems and so on. That's not an easy task for most of today's banks."

Tim Payne, Partner, Head of People and Change, KPMG in the UK

"The start-ups, tech firms and challenger banks, being in their relative infancy, are able to adopt new processes and organisational designs right from their conception. However, most of the larger banks are constrained by legacy systems and structures that demand a different set of skills than those you would find in a more data-driven function. Promoting and developing these new capabilities is consequently a slower journey for these organisations"

James Chouffot, Director, HRTransformation Capability Lead, KPMG in the UK

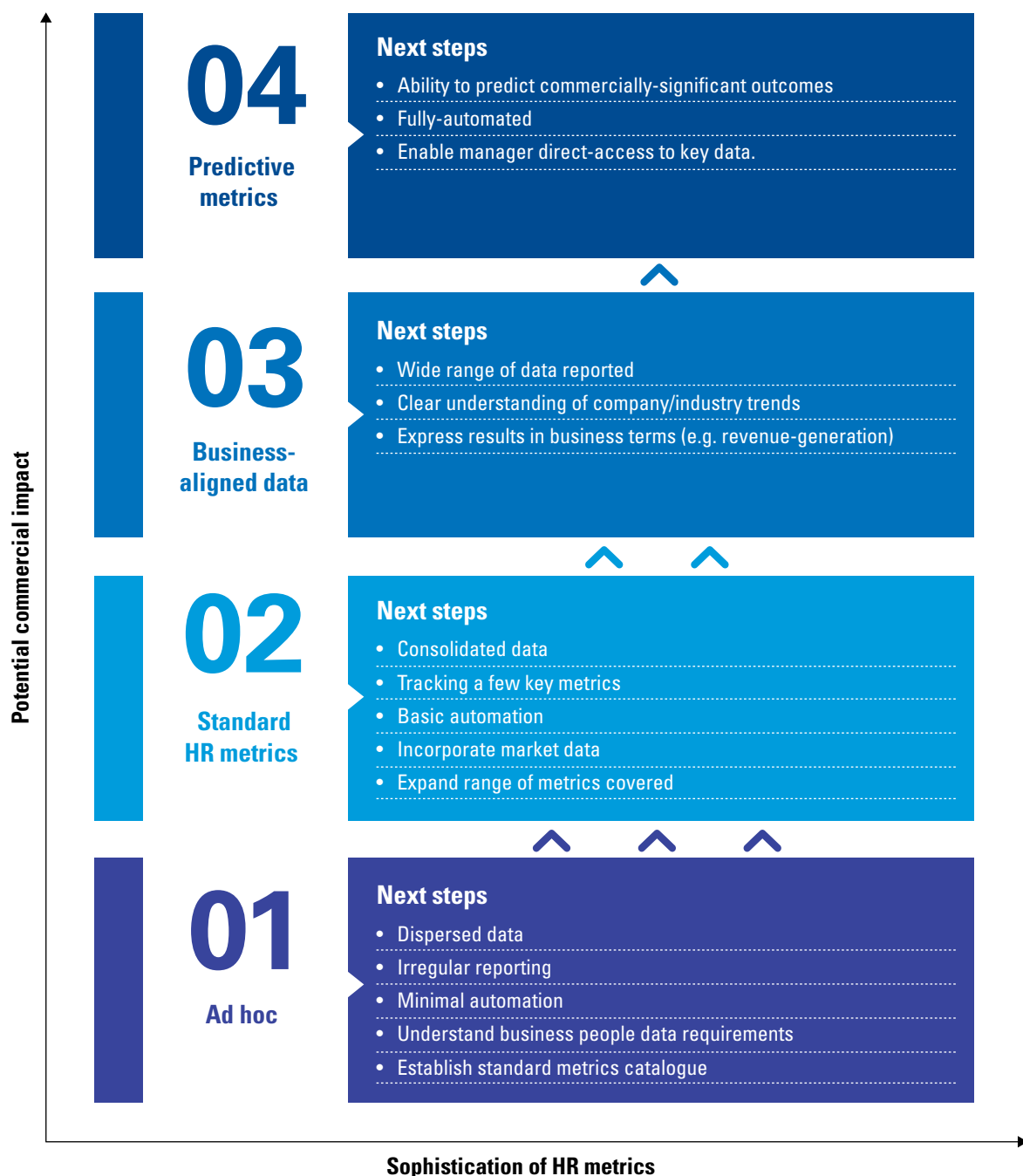
Conclusion

“The fact that an opinion has been widely held is no evidence whatever that it is not utterly absurd; indeed in view of the silliness of the majority of mankind, a widely spread belief is more likely to be foolish than sensible.”

Bertrand Russell
Marriage and Morals

Russell’s words are a stark reminder of the difference between opinion and fact. Although they are perhaps exaggerated in their dismissal of the wisdom of crowds, it is a salient point that banking HR functions would do well to heed. In

an industry where analysts will pore over vast amounts of market data to gather crucial evidence for investment decisions, and trading desks and IT functions will move heaven and earth to utilize that analysis and trade a few milliseconds faster



than competitors, it seems anachronistic that HR functions still rely upon certain accepted truths and minimally-researched “best practices” to manage thousands of people and billions of pounds of costs.

This is the crux of the issue facing HR in banking today. HR can *hope* that certain people decisions will result in favourable outcomes, or they can take the levers at their disposal (hiring, developing, rewarding staff) and use them to be right at the forefront of the fight to achieve competitive advantage.

Ultimately, strong evidence is more likely to lead to strong decision-making. Trended strong

evidence is more likely to lead to strong predictive decision-making and through this evidence the investments in each of these HR levers will be outcome-led, appropriately-targeted and likely to achieve strong returns. Wherever your HR function is on the data-analysis spectrum (see graph below), there are steps that can be taken to develop the sophistication of your delivery and, crucially, ensure that evidence is at the heart of your processes.

The evidence for evidence-based HR is clear – for the 21st century HR professional you cannot afford to be a “data hater” – if you need confirmation it’s in your workforce information.



Helping you advance your goals

If you recognize your own circumstance within some of the examples and trends outlined here and are looking to take action, take the opportunity to contact KPMG. We are ready and able to assist in developing a strategic review of your individual needs and how the latest advances in Evidence-based HR practices and platforms can be applied to your individual circumstances to realize maximum beneficial impact.





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Designed by Evalueserve.

Publication name: Data, people and profits

Publication number: 132802-G

Publication date: November 2015