The Role of Data and Behavioural Science in Reward

Nimmer PARTNERS

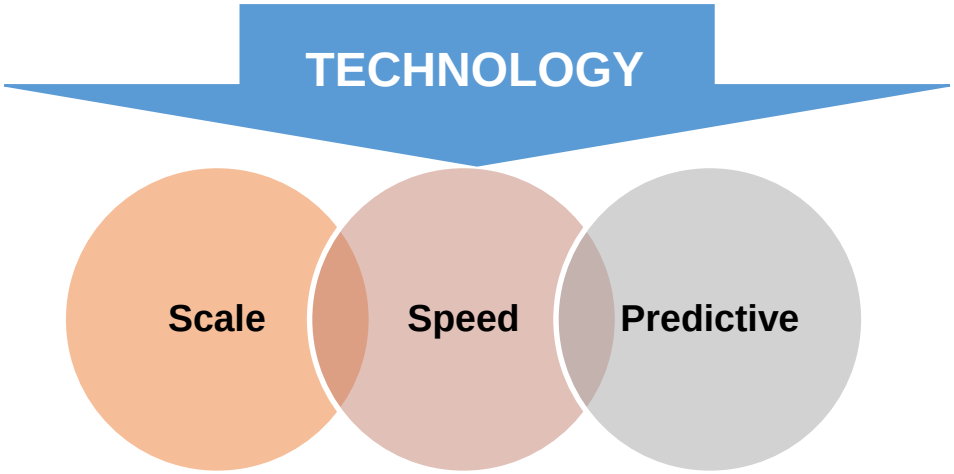
E-reward Conference | 2nd November 2017

Areas of Focus of Presentation

1. The new world of data
2. The role of data in HR and Reward
3. Data analysis/interpretation pitfalls
4. The impact of behavioural science in data analyses
5. How to utilise behavioural science in HR and reward strategies

Isn’t data just data?

The new world of data



- In a recent Bain survey of 334 executives, more than two-thirds said their companies were investing heavily in Big Data.
- 40% expected to see a "significantly positive" impact on returns, with another 8% predicting "transformational" results

- The amount of available data is expected to almost double between now and 2020, when it will likely hit 44 zetabytes, according to IDC Digital Universe.

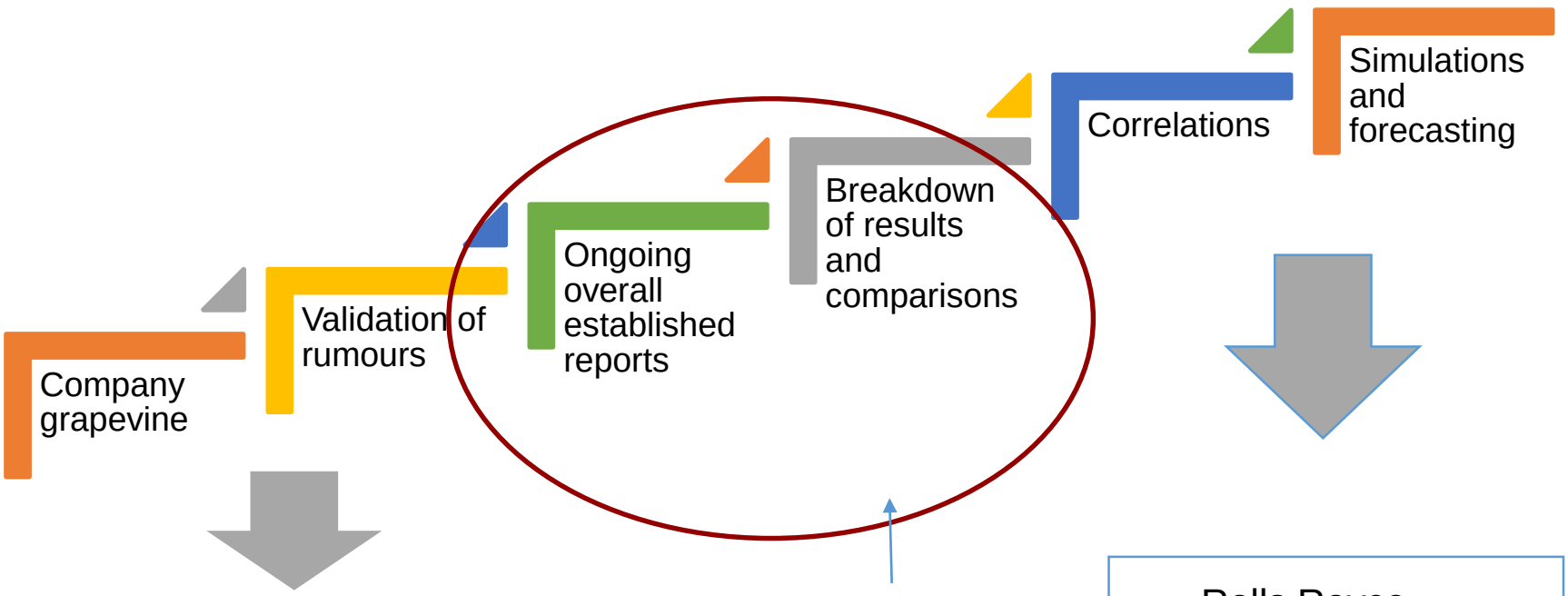
- Algorithms have now been developed based on data patterns so that they can predict when a customer is ready to buy, a jet-engine needs servicing or a person is at risk of a disease. Industrial giants such as GE and Siemens now sell themselves as data firms (The Economist)

With the HR lens..

- As analytics moves away from static or descriptive metrics to predictive metrics, HR can address such questions as:

How talent sourcing approaches effect workforce engagement and productivity	How diversity impacts on organisational performance	Patterns of employee turnover by talent pools (and length of service, gender etc)
The impact of pay on employee turnover	The distribution of time spent on different activities by a team or function and their performance	The relationship between performance assessment and indicators of performance e.g. promotion
How reward strategies need to be tailored to different employee groups	Retention rates among graduates and length of service for incumbents in roles that graduates would move to	Impact of discretionary pay increases against the cost of man hours invested in the process

Companies are responding (slowly)..



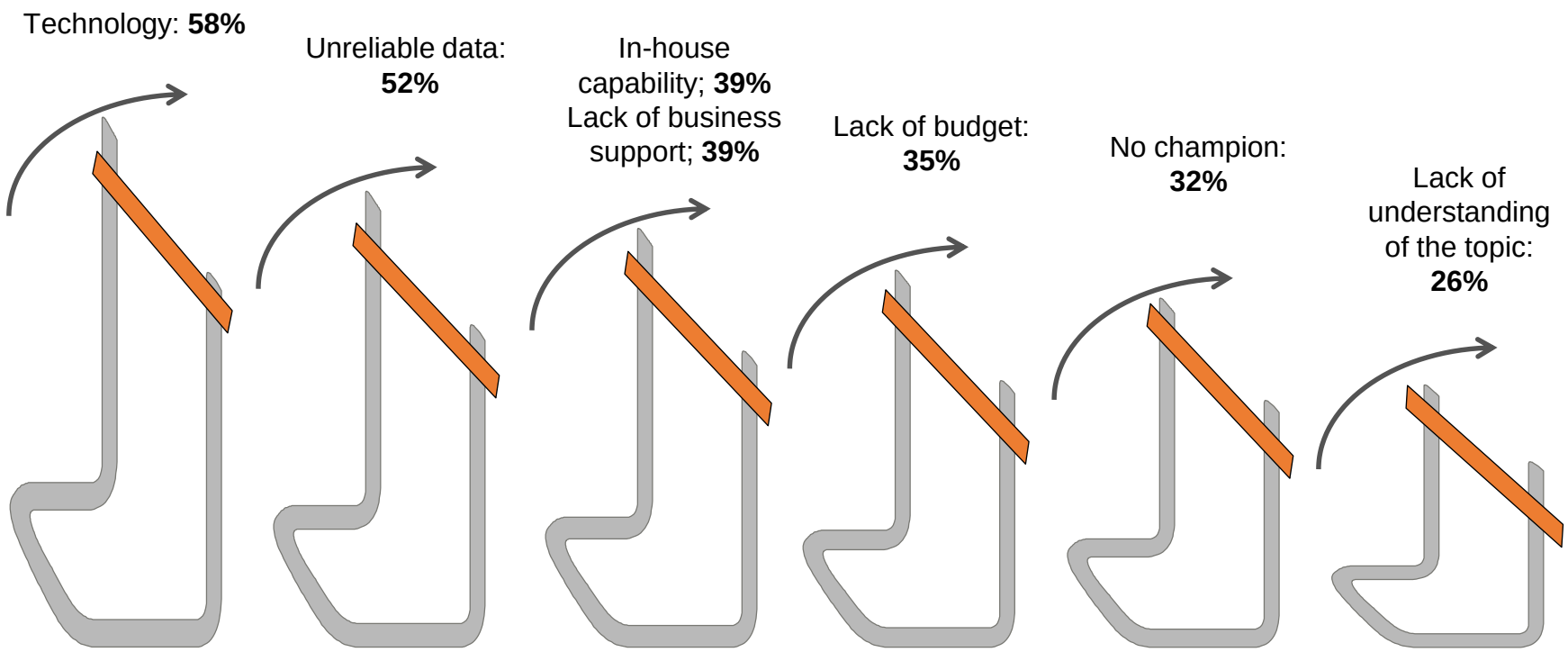
- Nearly 50% of HR teams have low competence in data analytics[1]
- Only 12% of Chief Executives are confident in quality of human capital metrics[2]

Most organisations are currently here

- Rolls Royce, National Grid and RBS run analytical training courses for their HR teams[3]

1 HR Insights 2015 Survey
2 CGMA Report. *Talent Pipeline Draining Growth; Connecting Human Capital to the Growth Agenda*
3 IES Work Planning Survey 2014

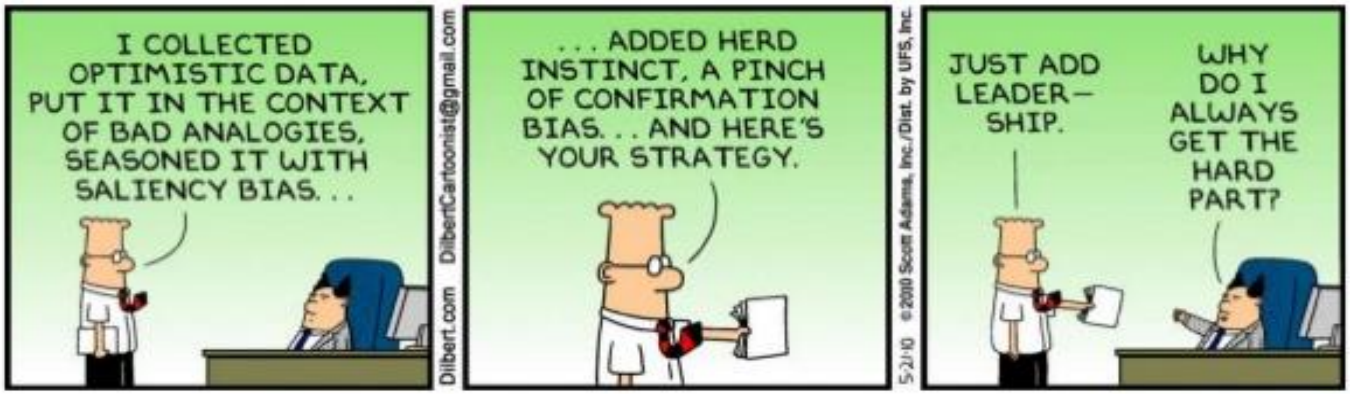
And a number of hurdles get in the way[1]



1 QCG 2016 Data and Technology Survey

A further obstacle is how data is evaluated

Workplace Decision Making…



dilbert.com/strip/2010-08-24

What is behavioural science?

- Based on the premise that humans are not always the rational mammals as defined by Aristotle.
- Until about 20 years ago, economics was based on the concept of the rational mammal but this failed to explain certain types of behaviours of both buyers and producers:

Standard Economic Model

- Increase price of snow shovels after a snowstorm

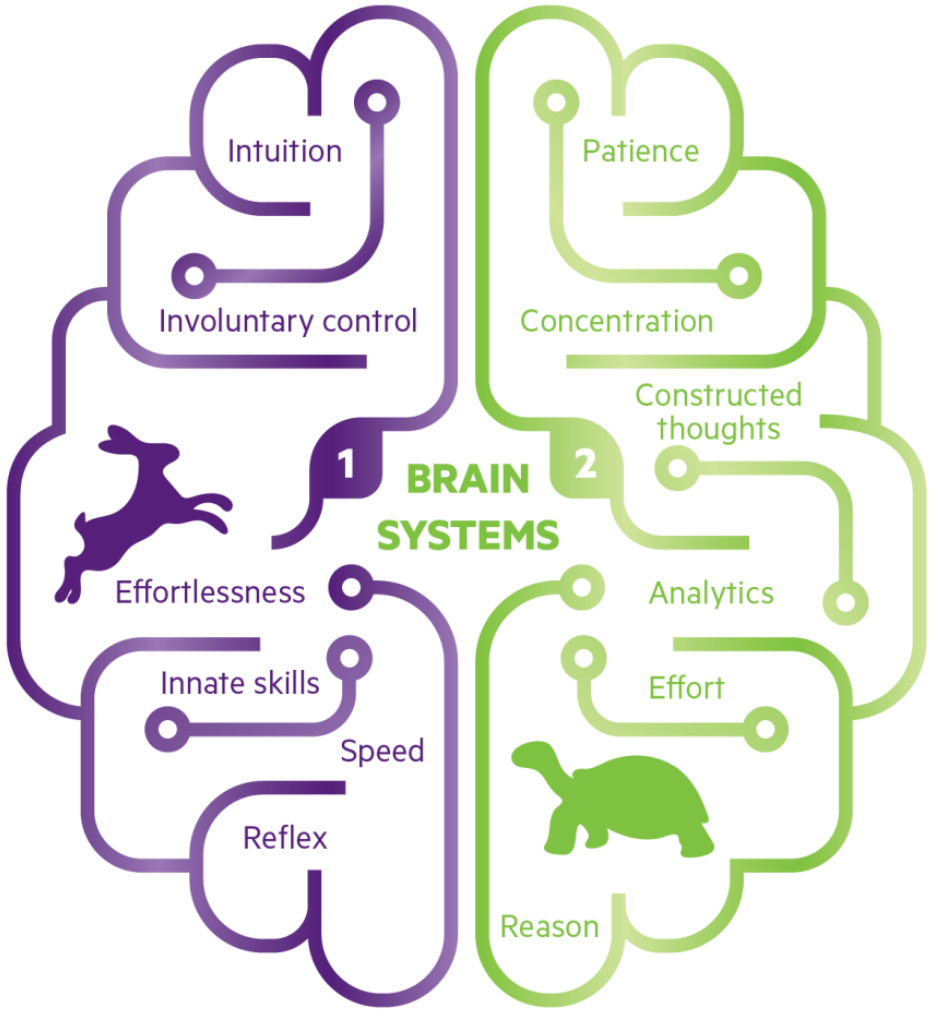
But….

- 82% rated this as unfair and felt negatively about the store's decision

- Number of high profile proponents (Richard Thaler, Daniel Kahnemann and Stuart Sutherland)

Two systems at work

- We live much of our life guided by the impressions of system 1 and link data by association to other beliefs and preferences held



- Lazy system 2 mainly adopts the suggestions of system 1 but when it is activated, a different set of conclusions can be reached

What does behavioural science teach us about how to review data?

1. REGRESSION TO THE MEAN

"She was having the season of her life last year and now she's struggling to make the first team"

"Depressed children treated with an energy drink improve significantly over a three month period"

"That fund manager's record is exceptional – invest in his recommended stocks!"

What conclusions can you draw?

What does behavioural science teach us about how to review data?

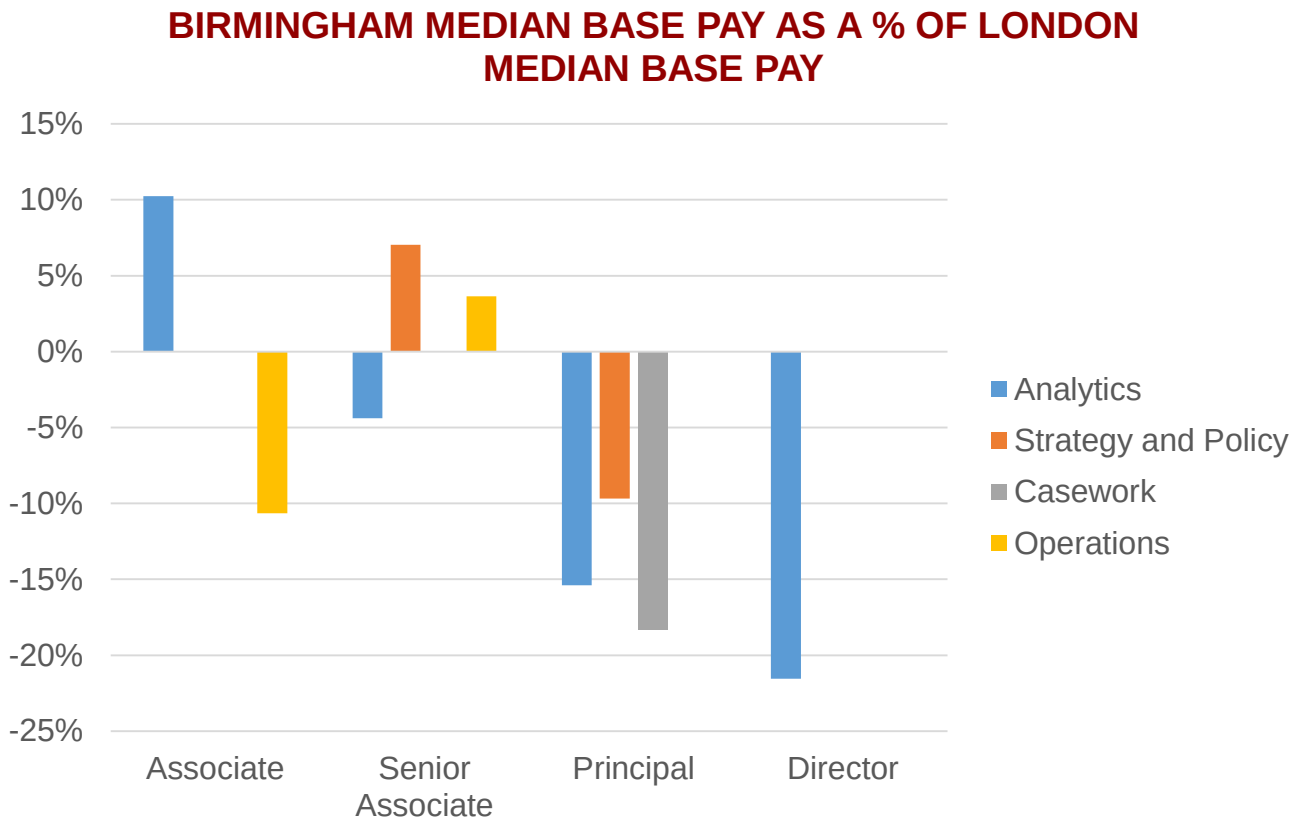
2. CAUSAL FACTORS

After spending a day exploring beautiful sights in the crowded streets of New York, Jane discovered that her wallet was missing.

What words come to mind?

What does behavioural science teach us about how to review data?

3. SAMPLE SIZE



The current pay levels reflect location differences, particularly for more senior levels.

What does behavioural science teach us about how to review data?

4. SAMPLE SELECTION (AND SIZE)

In a telephone poll of 300 seniors, 60% support the president

What does this result tell you?

What does behavioural science teach us about how to review data?

5. PROBABILITY

My next door neighbour in London is a Professor. He writes poetry, is rather shy and is small in nature. Do you think that he is a professor of Chinese Studies or a Professor of Psychology?

What does behavioural science teach us about how to review data?

6. Availability Error; judging by the first thing that comes to mind/the one that makes the deepest impression e.g., managers influenced by conversation at lunch or news paper article rather than using evidence at disposal

7. **Framing;** being influenced by the way that a question is phrased e.g., you are told that the one month survival rate is 90% or are told there is 10% mortality in the first month – which would you opt for? 84% of doctors chose the former

8. Anchoring: when a value imprints our mind which we then use as mental reference points e.g., “Was Ghandi more or less than 99 years old when he died? How old was Ghandi when he died?”

9. Halo effect; assuming that someone who has a good trait has better characteristics generally.

10. Loss Aversion; avoiding losses to acquire equivalent gains e.g., better to not lose £5 than find £5.

How have organisations used behavioural science to gain commercial advantage?

How has behavioural science been used to support public policies?

- **Organ donation**; in those countries which operate a system of presumed consent, organ donations are much higher.

- **Auto-enrolment;** Since auto enrolment was introduced by the Government in 2012, active membership of private sector pension schemes has jumped from 2.7 million to 7.7 million in 2016.

- **Smoking;** The behavioural insights team worked with Department of Health on the regulatory framework for e-cigarettes, It advised the government that it is much easier to substitute a similar behaviour than to eliminate an entrenched one. More than 2.3 million people are now vaping.

- **Switching supplier;** In many markets consumers fail to switch supplier to take advantage of better deals. This can be partly explained by present bias; consumers endlessly postpone the paperwork. Another contributing phenomenon is “loss aversion”; people dislike losses more than they like equivalent gains. This makes them assign disproportionate value to services they already have. Ofgem wants firms to simplify their tariffs, making them easier to compare, hoping that will nudge consumers toward action

What does all of this mean for HR?

- Having an understanding of data analytics and behavioural science will enable HR teams to;

a) Understand and challenge statistics

b) Rely less on judgement

c) Test what policies, programmes and messages best motivate employees

d) Utilise behavioural insights to design and increase the impact of HR programmes

e) Use insights to predict future HR initiatives

Which HR areas will it influence?

- It will also impact on many HR areas:

And for Reward teams?

Base Pay	• External influences are important in the way that people view their pay changes e.g. recession versus buoyant market. • Fairness is important, impacting on how pay progression is determined. • The way that average base pay increases are communicated needs to be considered (anchoring effect). • We over-weight subjectively the value of any perceived loss, so it may take several increases in future reward to compensate for no pay rises/below inflation pay rises.
Incentives	• Bonus schemes may not be impacting on performance in the way that were intended and other more intrinsic drivers need to be evaluated (mastery, autonomy and purpose). • The value of deferred bonus schemes and long-term incentives are prone to be distorted by our failure to fully value future rewards (this is also true to executive remuneration too).
Benefits	• Employees will typically significantly undervalue the employers' contributions except in very late career • Where there is a choice of benefits, as in a flexible benefit scheme, the choice may in fact be perceived as a cost by an employee. Therefore, reducing the range of benefits offered, and simplifying the process of choice, may be important in countering this. • The value of benefits to an employee is far more subjective than the simple pound/pence calculation and so the perceived cost of the removal of the benefit far outweighs the monetary cost to the employee.

Some quick wins….

Takeaways from today

1.

Not embracing data is not an option - data is only going to gain in prominence in its role in informing business decisions

2.

HR teams need to be able to proactively deal with the new world of data (more of it, faster and more sophisticated)

3.

Behavioural science is a crucial string to the HR bow in working with and interpreting data

4.

Insights from behavioural science also provide a tool to influence people policies in organisations and to maximise the impact of the reward package

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Thank you

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