School of Management and Labor Relations (SMLR)

HUMAN RESOURCE STRATEGY AND THE FIRM III
(Measurement Issues)

38:533:680:03 **Wednesday, 1:40 – 4:20 pm** **Fall, 2012**

Dave Ferio
School of Management and Labor Relations (SMLR)
Department of HRM
Rutgers University
94 Rockefeller Road
New Brunswick, NJ 08854-8054
Office: (732) 445-0862
email: *ferio@smlr.rutgers.edu*

Required Texts:

Becker, B.E., Huselid, M.A., & Ulrich, D. 2001. *The HR Scorecard: Linking People, Strategy, and Performance. Boston:* Harvard Business School Press.

Huselid, M.A., Becker, B.E., & Beatty, R.W. 2005. *The Workforce Scorecard: Managing Human Capital to Execute Strategy.* Boston: Harvard Business School Press.

Booklet-Various readings and cases (available in the bookstore and from web site)

Overview: Current financial and managerial accounting systems evolved during a time when tangible capital (both financial and physical) was the primary constraint in increasing the profitability of most businesses. During this time, access to money and equipment could represent a source of significant competitive advantage for an organization. In our current economy, however, where knowledge and other intangibles are increasingly the dominant assets, conventional accounting systems do not provide the kinds of information required to effectively measure these new forms of capital. One of the most important distortions of conventional accounting systems is to encourage short term thinking with respect to the management of intangibles (since expenditures in these areas are treated as expenses rather than investments in assets). In contrast, investments in buildings and machinery are capitalized and depreciated over their useful lives. As a result, short run profit pressures encourage investments in physical capital at the expense of potentially value-creating investments in human capital.

In this course I will be arguing that (1) a firm's *HR Architecture* (its people, and by extension, the infrastructure used to manage those people) is relatively more important than ever before, (2) that the economic impact of more effective *HR Architecture* on firm performance is substantial, (3) that much (but not all) of the economic value created through HRM is due to its crucial role in strategy implementation, and (4) that measurement systems, carefully tied to the firm's competitive strategy and operational goals, can provide a source of competitive advantage that is very difficult to imitate. One of my central theses will be that developing a competency in measurement is important because, if done correctly, it can add value at the level of the firm. But few managers (HR or otherwise) have strong competencies in this area. HR managers, who have been asked to learn about finance and accounting in recent years, now must develop a competence in measurement as well.

An effective solution to these issues will require addressing three interrelated business challenges:

The *Perspective* Challenge: Do all of our managers understand how workforce capabilities and behaviors drive strategy execution?

The *Metrics* Challenge: Have we identified (and collected) the right measures of workforce success, leadership and workforce behaviors, workforce competencies, and workforce culture and mindset?

The *Execution* Challenge: Do our managers have the access, capability, and motivation to use these data to communicate strategic intent and monitor our progress toward strategy execution?

To help you learn how to begin to address these challenges and to measure the HR function and workforce effectively, the course will be organized into the following six sections:

Section 1: Course Overview: Why Measurement is HR's Most Important Challenge

Section 2: Clarifying Business Strategy & Building a Business Case for Investing in HR

Section 3: Creating a Strategy Map and Identifying HR and Workforce Deliverables

Section 4: Selecting Metrics: Creating HR and Workforce Scorecards

Section 5: Aligning the **HR** Architecture with HR Deliverables

Section 6: Implementing Scorecards and Decision Support Systems

Prior Coursework: In this course I will assume that you have already taken (or are currently enrolled in) *HR Decision-Making: Financial* Decisions (540) and *HR Strategy II Business Functional Areas* (590). If this does not describe your situation, please see me as soon as possible!

Academic Integrity: I have unfortunately found it necessary to reiterate the University's (and my) position on academic integrity. The following is taken from the Rutgers Graduate School catalog (page 24).

> "Academic integrity requires that all academic work be wholly the product of an identified individual or individuals. Joint efforts are legitimate only when the assistance of others is explicitly acknowledged. Ethical conduct is the obligation of every member of the university community and breeches of academic integrity constitute serious offenses (Academic Integrity Policy, p. 1) .....Any involvement with cheating, the fabrication or invention of information used in an academic exercise, plagiarism, facilitating academic dishonesty, or denying others access to information or material may result in disciplinary action being taken at either the college or university level. Breeches of academic integrity can result in serious consequences ranging from reprimand to expulsion."

We in the SMLR take this issue very seriously. If you have any questions about this topic, please feel free to see me.

Course Requirements

1. **Group Case Project and Presentation** (35 possible points).

2. **Group Case Project** (30 possible points)

3. **Individual Cost-Benefit Analysis Template Project** (20 possible points).

4. **Class Participation** (15 possible points). *Due every class session!*

Note: Readings are to be prepared for the day they are listed.
HRSC = Becker, Huselid, & Ulrich; WFSC = Huselid, Becker, & Beatty

HUMAN RESOURCE STRATEGY AND THE FIRM III (Measurement Issues)

	Date	Topic and Assignments
1	9/5	**Section 1:** Course Overview: Why Measurement is HR's Most Important Business Challenge HRSC, Chapters 1, 2, 3, 4; Appendix; Becker, Huselid, Pickus, & Spratt, *HR as a Source of Shareholder Value* **(download)** Kaplan & Norton, *Using the BSC as a Strategic Management System* Formation of groups — (for Wells Fargo Case)
2	9/12	**Section 1:** Course Overview: Why Measurement is HR's Most Important Business Challenge (Con't) HRSC, Chapters 1, 2, 3, 4; Appendix; Becker & Huselid, *Benchmarking is Not the Answer* **(download)**
3	9/19	**Section 2:** Clarifying Business Strategy & Building a Business Case for Investing in the HR Function and the Workforce HRSC, Chapters 5, 6, 7, 8; Huselid, Beatty, & Becker, *"A Players" or "A Positions?"*
4	9/26	**Group time**
	10/3	**Section 3:** Creating a Strategy Map and Identifying Workforce Deliverables Readings: WFSC, Chapters 1 & 2; Rucci, Kim, & Quinn, *The Employee-Customer-Profit Chain at Sears* Kaplan & Norton, *Having Trouble with your Strategy? Then Map it!* **CASE: City of Charlotte (A)**
5	10/10	Group Presentations (Wells Fargo Online Financial Services) **Last day to turn in group projects!**
6	10/17	Group Presentations (Wells Fargo Online Financial Services) Case distributed for final (individual) project
7	10/24	**Section 4:** Selecting Metrics: Creating HR and Workforce Scorecards Readings: WFSC, Chapter 5, 6
8	10/31	**Section 4:** Selecting Metrics: Creating HR and Workforce Scorecards Readings: WFSC, Chapter 5, 6
9	11/14	**Section 5:** Aligning the HR Architecture with Workforce Deliverables Readings: WFSC, Chapters 7, 8, 9- Second Group Project Presentations
10	11/7	**Section 5:** Aligning the HR Architecture with Workforce Deliverables Readings: WFSC, Chapters 7, 8, 9- Second Group Project Presentations
11	11/19**?**	**Section 6:** Implementing Scorecard & Decision Support Systems Readings: WFSC, Chapters 7, 8, 9
12	11/28	**Section 6:** Implementing Scorecard & Decision Support Systems Readings: WFSC, Chapters 7, 8, 9
13	12/5	**Section 6:** Implementing Scorecard & Decision Support Systems Readings: WFSC, Chapters 7, 8, 9
14	12/12	Final Class Session and Wrap-up Course Summary and Evaluation. **Last Day to Turn in Individual Projects!**

Guidelines for Projects — HR Strategy III
David Ferio — Fall, 2011

The projects in this course are built around three broad learning objectives:

#1 - Designing and implementing a business-wide balanced scorecard.

#2 - Designing and implementing an **HR** (and/or Workforce) scorecard to help manage the contribution of human capital to the firm's success.

#3 - Designing a cost-benefit analysis project for a specific **HR** policy or practice.

#1 — Group Case Project and Presentation (35 points)

This case, *Wells Fargo Online Financial Services (A),* will be completed as a *group* (with no more than four/five members). Groups will write up and present a case describing the development and implementation of a *firm-level balanced scorecard.* My reasoning for having you complete this exercise is that you must first clearly understand the business-level scorecard development process before you can effectively develop an **HR** (and/or Workforce) Scorecard.

This project is designed to be broad and fairly high level — it is not a project that is designed to focus your attention solely on metrics. Rather, it is designed to help you to begin to think strategically about the role of metrics and measurement systems in helping to implement strategy. *So, if you are focusing all of your time on determining metrics — HR or otherwise — you've missed the spirit of the assignment.*

1. Start by reading the case very carefully. Then read it again. And then again.

2. Describe the OFS's competitive strategy. What are its associated operational goals?

3. The case contains a partially completed strategy map. This map has been completed for you in the **BHU** book (page 35) and also in the handouts. Use the complete map as a basis for project.

4. Based on the provided strategy map, describe how OFS creates value for shareholders and other key constituencies? What are the "A" jobs at OFS? What does "A" performance look like in these "A" jobs?

5. Provide metrics for the elements that you believe to be most important across each of the four dimensions of the BSC (financial, customer, operational, and learning and growth). If possible, try and include objectives and initiatives with each measure (don't worry about targets).

6. Which function will "own" each of the measures in your scorecard? That is, who will be responsible for collecting, validating, and presenting the data throughout the firm? How often should the data be updated? Will this vary by measure? Are the people responsible for collecting the data the same people responsible for driving the outcomes?

7. How will you communicate your measurement system throughout the firm? Who will need to be involved? How much time is likely to be required?

8. Measurement systems often highlight the performance of high and low performing managers and units. How will you roll out your measurement system and persuade (often) skeptical managers to use it?

Guidelines For In-Class Presentations

The presentation that you are expected to make for **HR** Strategy and the Firm Ill will permit you to have **no more than eight transparencies.** It is intended to be a dialogue between your team, the Chief Executive Officer (that's me), and the firm's Executive Committee (the rest of the class) about the measurement system that you have developed. You are to assume that the CEO, in fact, knows quite a bit about your organization. You can be assured that your instructor will seek background about your organization in order to play the role of its Chief Executive Officer. **You should plan for a presentation of no more than 20 minutes. Please practice your presentation at least three times in advance! While we might not like it, presentation quality is an important determinant of the acceptance of your message!**

You are also to assume that this is not the first meeting on this topic, but is part of an ongoing process. At this point you are to present specific items for discussion and hopefully approval, in other words, you are to 'sell' your program (at least as much as you can at this point). You should expect this conversation to be a dialogue. You will be asked difficult questions, as it is clear that the CEO controls the agenda and not you. Thus, you will need to be prepared to answer any question that may arise. You will be told when the CEO is operating in the role of the CEO as well as when 'out of role' conversations take place. Good Luck!

#2 —Group Case Project - (30 points)

The second case (to be distributed in class) is another group project that involves the development of an HR (and/or Workforce) Scorecard. This case will provide you with an understanding of the firm's business-level balanced scorecard. Your task will be to translate this into an HR (and/or Workforce) Scorecard, and to design the associated infrastructure to ensure its successful implementation. Please address (at a minimum) the following questions in your analyses.

1. What is the firm's competitive strategy? What are its associated operational goals?

2. Create a strategy map for this organization.

3. What are the "A" jobs in this business? What does "A" performance look like in these "A" jobs?

4. Based on the firm's strategy and operational goals, how can the HR function help create value for shareholders and other key constituencies? As a senior HR manager, what competencies and workforce attributes will you commit to the CEO to deliver?

5. Based on the above, what specific HR policies and practices must be in place how does the HR function need to be organized to deliver the "deliverables?"

6. What will the HR (and/or Workforce) scorecard look like? You can use the approach we've used in class, or any other approach that makes sense to you (the latter is actually encouraged). Be sure to include objectives, measures, and initiatives (don't worry about targets).

7. Who will "own" each of the measures in your scorecard? How often must they be updated?

8. How will you communicate your measurement system throughout the firm?

9. Measurement systems often highlight the performance of high and low performing managers and units. How will you roll out your measurement system and persuade (often) skeptical managers to use it?

#3 - Individual Cost-Benefit Analysis Template Project (20 points — due 12/12/2012)

The intent of this project is to help you to begin to understand the process of conducting a cost benefit analysis of a particular HR management policy or practice (as we have described it in class). I don't expect you to actually carry out such a project; rather, the assignment requires that you outline in detail the *data* that you would require and the *steps* that you would follow should you be asked to perform such an analysis within your own organization.

Examples of potential projects:

1. Outsourcing of benefits administration, recruiting, etc.
2. Costs and benefits of an executive development (training) program.
3. Determining the economic benefit of high vs. low performing employees.
4. Determining the economic costs of turnover of high and low performing employees.
5. Determining the costs of absenteeism.

Some of the questions that you should address include the following:

1. Why have you chosen the particular HR policy or practice for analysis? In general, would you expect that economic gains in this particular area would primarily be associated with lower costs, enhanced value (however you define it), or both?
2. Describe the potential *cost* categories that you have identified. How will you collect data on each element? Can you distinguish between *fixed* and *variable* costs in your analyses? How will you ensure the integrity of these data (i.e., how can you be sure that the data you have collected are reliable and valid)?
3. Describe the potential *benefit* categories that you have identified. How will you collect data on each element? How will you ensure the integrity of these data (i.e., how can you be sure that the data you have collected are reliable and valid)?
4. Describe the procedure that you would use to calculate the ROI of your particular practice. Does this procedure consider multiple time periods and the time value of money?
5. Finally, describe how you would present your findings to a senior executive team.