

The New HR Metrics: Scoring on the Business Scorecard

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The role of the Human Resource function in firms has changed in parallel with the economic shift from agrarian to manufacturing to services—and now to information. Early on, HR was considered a staff function, not integral to the firm. Its role was administrative or transactional, its work-product often regarded as a commodity. One factor in changing HR's role is the increased reliance on knowledge workers. In our transitioning economy, observers, both inside and outside of organizations, have come to view a firm's workforce as far more valuable. Thus, if one views HR's primary role as influencing workforce mindset, competencies, and behavior, HR's role becomes central to the firm, for it is people who carry out its strategy. HR professionals need to recognize this change and adapt to it.

To enhance HR's organizational contribution, HR professionals not only will need to transform what they do but also how they are perceived. Early in its history, the "personnel" function was a refuge for line managers who were polite but ineffectual—employees "too nice to terminate." Three decades ago, empowered by federal and state legislation, HR became known as the "personnel police," often to the frustration of

line managers. In the ongoing transformation to a services and information economy, HR wanted to be seen as a strategic partner, hopefully invited to the strategic planning party. But significant challenges await HR once invited to the party. It must have something to bring to the table.

We wish to address what and how HR can contribute to the strategic success of firms by transforming itself from a partner (that can be removed or outsourced) to a *player*—on the field, in the game, with the ability to score. The ability to score necessitates a new understanding of the rules of the game—a new perspective on what HR is to contribute, how its systems enable it to contribute, and how its ultimate deliverables can be measured. The rules of the game mean that HR should only attempt to score on an HR Scorecard integrated with the firm's Business Scorecard.

The shift to a services and knowledge economy has accelerated interest in the "intangibles" that have fueled market capitalization growth in the equity markets. Baruch Lev and others at New York University offer annual seminars on intangibles. *CFO* magazine has reported on how the value of knowledge workers in various industries can

66 be captured in financial terms. Several studies
67 have found that 30 to 40 percent of
68 market appreciation is due to non-tangible
69 factors. An Ernst & Young study has shown
70 that intangible factors (e.g., strategy execu-
71 tion, managerial credibility, strategy quality,
72 attracting and retaining talent, management
73 experience, and compensation strategy)
74 explain much of the variance in the market
75 value of firms. These factors vary across
76 industry; for example, in the computer indus-
77 try, the quality of management explains as
78 much as 13 percent of the total variance in
79 market capitalization.

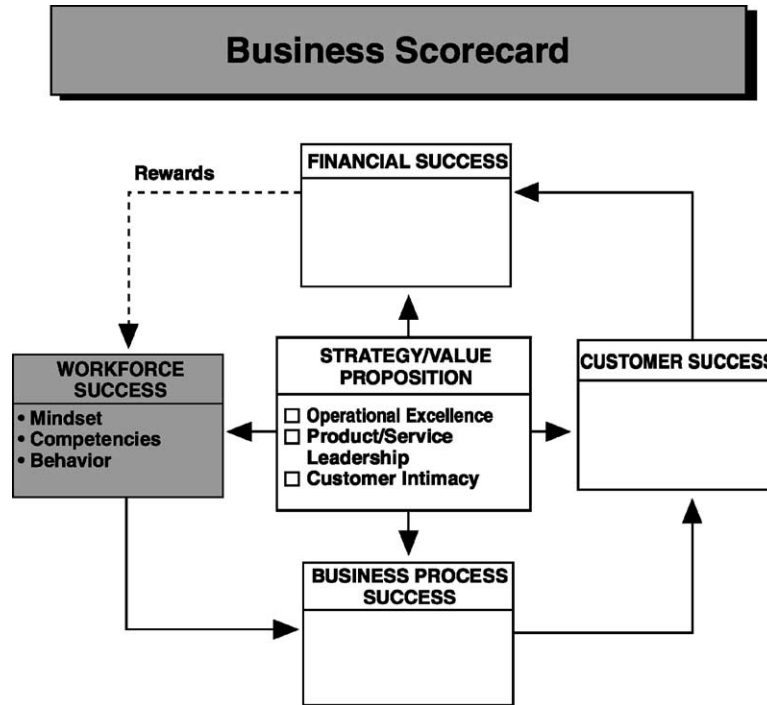
80 Thus, research has demonstrated that
81 many targets of HR work can and do differ-
82 entially impact a firm's financial outcomes.
83 While this notion is often given lip service by
84 firms, a growing body of evidence shows that
85 what HR does can have a significant bottom-
86 line effect. In a major research study, Huselid
87 found that firms with sophisticated HR sys-
88 tems (also known as "high performance
89 work systems") have a significant financial
90 impact on profits per employee, sales per
91 employee, and market value per employee.
92 These findings have gained the attention of
93 other academics and executives interested in
94 better assessment of HR systems, as well as in
95 redesigning executive appraisals to ensure
96 that leaders are held accountable for enhan-
97 cing their workforce's contribution to the
98 bottom line.

99 One problem has been measurement
100 effectiveness. A Conference Board survey of
101 senior executives reported, as expected, that
102 customer, financial, operational, and people
103 measures were all seen as important but not
104 equally effective. The test of measurement
105 effectiveness was the executives' willingness
106 "to bet their job" on the quality of the mea-
107 sures. The survey found significant discrepan-
108 cies among domains, with the greatest
109 discrepancy in people measures. Thus, sub-
110 stantial work is needed in the assessment of
111 workforce measures in firms. Below we
112 explore how to measure the workforce, the
113 HR function, and firm leadership with respect
114 to their impact on the workforce and ulti-
115 mately upon a firm's strategic success.

FROM BUSINESS SCORECARD 116 TO HR SCORECARD 117

Our approach starts with Kaplan & Norton's 118
Balanced Scorecard, a familiar concept famil- 119
iar in most firms. While maintaining the 120
scorecard's core by retaining the financial, 121
customer and business process success com- 122
ponents, we have changed the component 123
"Learning, Innovation, Etc." to "Workforce 124
Success." We call this new scorecard the 125
Business Scorecard (Fig. 1). Also notice that 126
we prefer to use the word "success" as 127
opposed to "satisfaction." Clearly firms 128
can go out of business while satisfying cus- 129
tomers and employees. Rather, the objective 130
is to make both customers and employees 131
successful in order to make the enterprise 132
successful. We have also replaced terms such 133
as "mission" and "vision" from the center of 134
the scorecard with "strategic choice." For a 135
non-diversified firm or for a business unit 136
within a diversified firm, we believe that a 137
strategic choice (or value proposition) should 138
be articulated, such that the workforce can 139
understand and embrace how the unit 140
intends to be successful in its chosen market. 141
To simplify, we chose Tearcy & Wiersema's 142
scheme in which firms pursue value propo- 143
sitions of low-cost provider (operational 144
excellence), innovator (product or service 145
leadership) or customization/unique solu- 146
tions (customer intimacy). Strategic choice 147
significantly impacts the definition of custo- 148
mer success, business process success, and 149
plays an important role in assessing what the 150
workforce must do to be successful. 151

To make the workforce successful in the 152
context of the scorecard system, we must 153
specify the major targets of an HR system, 154
or HR's deliverables: workforce mindset, 155
competencies, and behavior. To produce 156
these deliverables, components of the HR 157
system must be assessed on the competencies 158
required of the HR workforce, the HR prac- 159
tices used to produce HR's deliverables (e.g., 160
communication, work design, selection, 161
development, measurement, rewards, etc.), 162
and the HR system's integration and align- 163
ment with the strategy of the business. 164

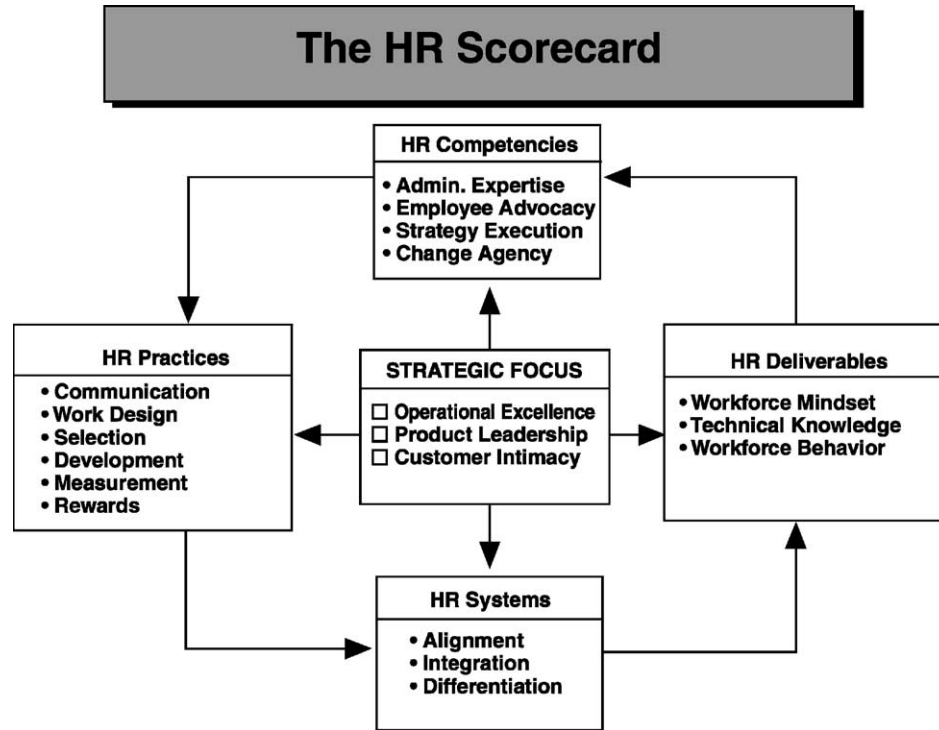
FIGURE 1 BUSINESS SCORECARD

165 This approach yields an HR Scorecard
 166 (Fig. 2) that enables the development of HR
 167 dashboards that capture HR's contribution.
 168 Several firms are pursuing such measure-
 169 ments systems and have made substantial
 170 progress. Boeing, General Electric, South-
 171 Corp Ltd., United Distillers & Vintners and
 172 Verizon are developing on-line, real-time
 173 metric systems to monitor HR processes
 174 and deliverables.

175 ASSESSING HR'S 176 COMPETENCIES

177 Assessing HR's competencies refers to the
 178 competencies of the HR workforce (i.e., the
 179 people who populate the HR function, their
 180 strengths and weakness in specific areas of
 181 expected HR performance). We look at HR
 182 competencies through the lens of Ulrich,
 183 whose book, *HR Champions*, which analyzes

184 HR's roles in terms of its focus on people or
 185 processes, as well as its strategic or opera-
 186 tional focus. Thus, these roles can be depicted
 187 as a two-by-two matrix. First, the HR func-
 188 tion can be conceived as having a process and
 189 tactical focus on administrative efficiency in
 190 the delivery of HR transactions. Second is
 191 HR's "employee advocacy" role (formerly
 192 "employee relations"), with an operational
 193 focus on serving the workforce (i.e., people)
 194 and the growth and retention of critical com-
 195 ponents of the workforce. HR's third role is
 196 strategic, whereby HR better enables the firm
 197 to execute its strategy by aligning HR prac-
 198 tices with business strategy. The fourth role is
 199 concerned with changing the workforce—
 200 HR's "cultural change" role. Obviously,
 201 HR functions do not focus only on one role,
 202 nor should they. The point is to determine to
 203 what extent HR is currently focused on each
 204 role, and where it will need to be focused to
 205 enable the firm to be more successful.

FIGURE 2 HR SCORECARD

206 The focus of the HR function should
 207 correlate with the firm's life cycle phase
 208 and strategic choice. As these shift, HR's
 209 focus must shift. For example, a firm pursu-
 210 ing an operational excellence strategy would
 211 want an HR function concerned with admin-
 212 istrative efficiency. A firm moving from a
 213 product leadership to operational excellence
 214 strategy (a common occurrence with the
 215 commoditization of products and services)
 216 would likely require significant HR compe-
 217 tencies in cultural change, as well as in strat-
 218 egy execution. Firms pursuing a product or
 219 service leadership strategy (i.e., innovation)
 220 would most likely want HR focused on provid-
 221 ing "A players in A positions." In other
 222 words, the HR focus is to help populate the
 223 firm with the very best R&D or technical/
 224 innovative talent in order to distinguish itself
 225 from its competitors by building applied innov-
 226 ative and creative products (or services) that

227 can create large-scale demand and command
 228 premium pricing.

229 How success in each role might be meas-
 230 ured is shown is easily understood. Meas-
 231 ures of administrative efficiency are rela-
 232 tively simple (e.g., benefits cost per employee,
 233 processing cost per transaction, response time
 234 for benefit information requested, etc.).
 235 Employee advocacy measures are somewhat
 236 more complex. They involve issues such as
 237 retention rates of critical human capital,
 238 growth rate of core competency human capi-
 239 tal, retention rate of critical human capital
 240 during organizational transitions or trans-
 241 formation, retention rate of "A" players in
 242 "A" positions, etc. Strategy execution meas-
 243 ures might include: the extent to which the
 244 workforce understands the business's strat-
 245 egy (as measured by survey), line manage-
 246 ment feedback on the HR system's align-
 247 ment with business strategy, or the HR workforce's

248 level of understanding of the criticality of the
 249 HR function's integration. For firms active in
 250 mergers and acquisitions, another measure
 251 might be the depth of excess capacity of execu-
 252 tives to export to recent acquisitions. The
 253 cultural change role measures might include:
 254 success rate of external hires brought in to
 255 "seed" firm change efforts, employee knowl-
 256 edge of the status of change efforts, depth of
 257 bench strength in change efforts, measures of
 258 employee mindset or mindset shift towards
 259 strategic goals and objectives, and certainly
 260 management's satisfaction with HR's contri-
 261 butions to organizational transformation
 262 efforts. Thus, there are some relatively
 263 straightforward measures of the HR function
 264 in terms of its competencies, all of which are
 265 driven by what the HR function needs to
 266 accomplish at any point in time.

267 ASSESSING HR'S PRACTICES

268 HR practices can be assessed against "best
 269 practices," or benchmarking. What can the
 270 HR function learn from other firms? How
 271 well is it doing relative to others? There are
 272 many best practice studies and many pur-
 273 veyors of best-practice information. Thus,
 274 one way HR can assess itself and its pro-
 275 cesses in delivering basic HR practices (e.g.,
 276 selection, rewards, measurement, training
 277 and development, communications, work
 278 design, etc.) is to collect best practice data
 279 from available sources or actually conduct
 280 site visits. Once the data is gathered, the
 281 function can compare itself against a baseline
 282 and decide what improvement initiatives to
 283 undertake. Firms of substantial size can build
 284 internal scorecards, whereby critical HR
 285 practices can be compared across business
 286 units to determine how well one unit is doing
 287 relative to the firm's other business units on
 288 factors such as retention, labor costs, scarce-
 289 talent compensation, customer satisfaction,
 290 etc.

291 There is one caveat in using best practice
 292 assessment. Focusing on one practice or pro-
 293 cess in a system to the exclusion of others can
 294 drive the system out of tolerance, rather than

295 enhancing the *system's* contribution to the 295
 296 firm. This very important point was often 296
 297 emphasized by W. Edwards Deming, who 297
 298 stimulated attention to operational measure- 298
 299 ment in the United States based on his work 299
 300 on quality in Japan. Thus, we must realize 300
 301 that enhancing a given HR procedure or 301
 302 practice can be useful, but in doing so we 302
 303 must avoid diminishing the efficacy of other 303
 304 components of the HR system. This leads us 304
 305 to HR *systems* as a third way of diagnosing 305
 306 the impact of the HR function on firms. 306

ASSESSING HR'S SYSTEMS 307

308 We conceive of HR systems as the basic 308
 309 components of HR viewed as an intercon- 309
 310 nected whole with respect to a firm's strategy 310
 311 or value proposition. Our discussion 311
 312 explores three ways of assessing HR systems: 312
 313 alignment, integration, and differentiation. 313

314 Alignment relates to understanding that 314
 315 different business strategies require different 315
 316 cultures. Drawing on the seminal work of 316
 317 Schuler & Jackson, use the three business 317
 318 strategies previously mentioned—operational 318
 319 excellence, product leadership, and 319
 320 customer intimacy—to demonstrate this 320
 321 point. In particular, there are significant cul- 321
 322 tural differences required of the primary 322
 323 workforce that must deliver the firm's value 323
 324 proposition. 324

325 Firms following an operational excel- 325
 326 lence strategy need a workforce that: identi- 326
 327 fies with business processes, is trainable, can 327
 328 learn rapidly, willingly follows the battle 328
 329 plan, is short-term focused, possesses a 329
 330 mindset that seeks to avoid waste and mini- 330
 331 mize costs, and is driven by incremental 331
 332 improvement. Because the objective of such 332
 333 firms is to build systems to drive the var- 333
 334 iance—and thus all the costs—out of the 334
 335 system, free spirits and ostentatious behavior 335
 336 are not welcome. The last thing that is needed 336
 337 in McDonald's is a creative hamburger-flip- 337
 338 per! Firms that essentially follow this strat- 338
 339 egy include: Federal Express, Nucor, Wal- 339
 340 Mart, and, of course, McDonald's and most 340
 341 other fast-food franchisers. Such a value pro- 341

position offers it “our” way to the customer, at a price that is at or below all competitors. Ideally, the successful competitor can price the product or service at a level below a competitor’s cost to produce, gain market share and thus leverage their operational excellence by serving a much broader customer base at an even lower price.

In product (or service) leadership, innovation is the value proposition. With an operational excellence strategy, the firm’s uniqueness or competitive advantage is tied to cost. In product/service leadership, competitive advantage is tied to innovativeness of the offering. The workforce that produces innovations often identifies with, values and is humbled by the discovery process. This is particularly true for the R&D workforce, which is largely responsible for the innovativeness, and the continued uniqueness, of firm offerings. Such a workforce tends to challenge the status quo, is anti-bureaucratic, has a longer-term focus, is driven by learning, has a greater tolerance for ambiguity, and is willing to take greater risks. It should not be structured or streamlined, because its members are expected to be innovative and creative, and think outside the box. Firms that generally follow this value proposition include Sony, GlaxoSmithKline, Merck, 3M, Intel, and Nike. These firms win in their markets by continuing to offer things “the new way” as opposed to “our way,” as characteristic of an operational excellence strategy.

The customer intimacy value proposition offers unique solutions customized for the client. Such a strategy calls for a workforce constantly finding and improving solutions. Customer needs not only are satisfied but also anticipated. This requires a workforce that identifies with customers, shares “secrets” easily and readily with co-workers so that the entire system continuously leverages the firm’s value proposition in order to grow by offering additional solutions to the client. Such a workforce should constantly seek customer intelligence, be adaptable and flexible, concerned with making results happen for the customer, be quick studies, and driven by customer success. It is

not made up of clones, but employees who can think, capture and readily disseminate information, and better utilize that information in meeting a customer’s unique requirements. Firms following a customer intimacy strategy include: the Four Seasons, Airborne, Roadway Express, Home Depot, Cott Corp., and Cable & Wireless, PriceWaterhouseCoopers, and Dell Computer Corp. The value proposition in customer intimacy is customization—you can have it “your way.”

Alignment requires firms to understand that different value propositions require different cultures. There are many ways of looking at culture. One relatively straightforward approach is to use two very simple dimensions: firm structure (loose vs. tight) and firm focus (internal vs. external). Firms that are tight and internally focused are more typical of operational excellence. Because such firms are delivering a value proposition “our way,” are trying to eliminate variance (and thus all avoidable costs) from the system, they must be tight and internally focused to achieve their strategy. On the other hand, product leadership firms, especially the R&D workforce responsible for creating the value proposition, need to be relatively loose. Just how loose? *Fortune* magazine featured a covering showing a prospective employee saying: “Yo, I’m the new corporation, man! I want an outlandish salary, a cappuccino machine, and by the way I’m bringing my bird to work.” While the cover is a caricature, nevertheless flexibility, looseness, and tailoring to creative employees are important to yield the innovation necessary to leverage the product leadership value proposition. The challenge for line management, and especially the HR function, is to develop a core workforce focused on an applied innovation (i.e., an external focus) that delivers value to a customer. Thus, the culture needed for the product leadership value proposition to be successful is loose *and* external, especially for the core workforce that creates this value proposition.

The customer intimacy core workforce—those employees who interface with the customer—must be externally focused in a

442 relatively tight platform. This enables the
 443 capture of customer information (i.e., custo-
 444 mer intelligence) to build and efficiently
 445 deploy knowledge capital throughout the sys-
 446 tem, such that unique solutions are developed
 447 to leverage the relationship with the custo-
 448 mer. The customer solutions culture not only
 449 solves immediate customer problems but also
 450 anticipates future customer needs based on
 451 learning occurring throughout the firm.
 452 Learning from customers enables further cus-
 453 tomization and requires a *very* strong external
 454 focus that operates through a smart and
 455 efficient dissemination platform. Airborne
 456 Express and Dell are examples where a firm
 457 finds unique solutions to customers' delivery
 458 problems but within a system that is tightly
 459 structured to capture customer intelligence
 460 and remain price competitive.

461 Strategic alignment means focusing HR
 462 practices on the firm's value proposition, as
 463 illustrated in Fig. 3. For example, in opera-
 464 tional excellence one of the best workforce

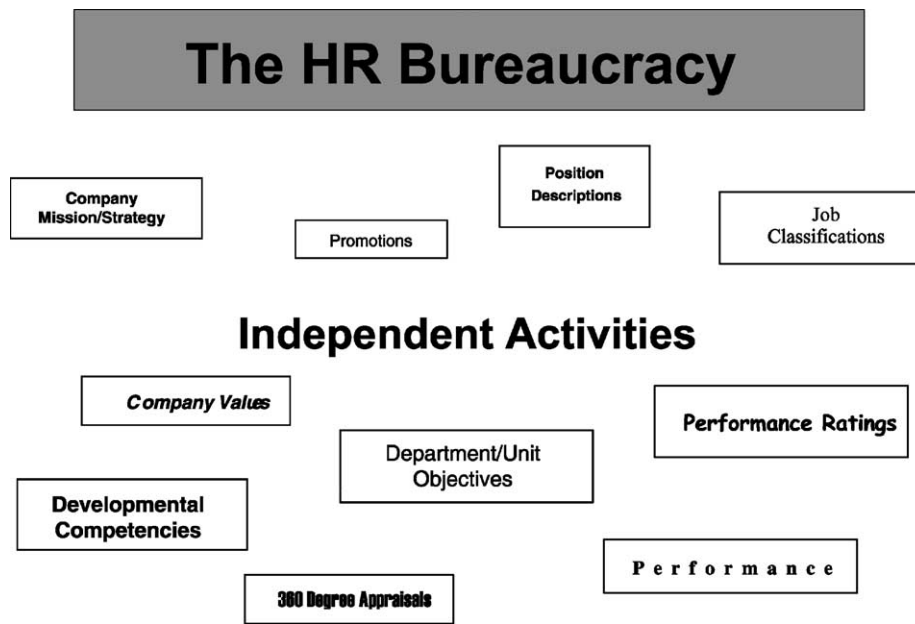
465 measures might be total cost productivity. 465
 466 The best rewards might be based on team 466
 467 productivity, since it would leverage the 467
 468 value proposition by creating "more with 468
 469 less." This would create self-funded produc- 469
 470 tivity gains that can be shared with the work- 470
 471 force that enhanced productivity. 471

472 Product/service leadership measures 472
 473 might use sales from new products gener- 473
 474 ated within, say, the last three years, and 474
 475 team innovation or revenue growth rewards 475
 476 based on new product sales, because these 476
 477 metrics are better measures of strategic suc- 477
 478 cess in delivering the value proposition cre- 478
 479 ated by the core workforce. Thus, revenue 479
 480 sharing incentives might be appropriate. 480
 481 Competency-based pay might also be appro- 481
 482 priate for growing the competencies in the 482
 483 innovative, technical, and research units 483
 484 required by firms pursuing such a strategy. 484

485 In customer intimacy, customer guaran- 485
 486 tees, customer retention rates, and customer 486
 487 referrals might be important performance 487

FIGURE 3 ALIGNING HR PRACTICES AROUND VALUE PROPOSITIONS

WORKFORCE ALIGNMENT						
Strategic Choices and Traditional HR Alignment						
	Work Design	Performance Measures	Selection of Competencies	Competency Development	Rewards	Communication
Operational Excellence	<ul style="list-style-type: none"> • Right Work • Key Processes • Job Design • Organizational Design 	<ul style="list-style-type: none"> • Culture • Expectations • Feedback • Levels 	<ul style="list-style-type: none"> • Hire • Move • Exit 	<ul style="list-style-type: none"> • Orientation • Current Job • Career Level 	<ul style="list-style-type: none"> • Behavior • Consequences • Reward Levels 	<ul style="list-style-type: none"> • Strategy • Mindset • Status
Product Leadership	<ul style="list-style-type: none"> • Centralized/controlled • Strict policies/procedures 	<ul style="list-style-type: none"> • Total cost productivity • Errors • Waste • Abandoned calls • Lost customers/accounts • Net sales → head count • Times/deadlines met 	<ul style="list-style-type: none"> • Strong basic education: <ul style="list-style-type: none"> – Quantitative – Verbal – Written – Oral • Process competencies • Passive learners 	<ul style="list-style-type: none"> • Strong orientation on expectations, rules • Predictable career ladder • Learning structured 	<ul style="list-style-type: none"> • Team productivity awards • Profit sharing tied to performance criteria • Skill-based pay 	<ul style="list-style-type: none"> • Strategic choice • Teamwork • Encourage process improvement • Productivity improvement feedback
Customer Intimacy	<ul style="list-style-type: none"> • More autonomy • Teams (cross functional) 	<ul style="list-style-type: none"> • % Sales from new products (e.g., last 3 years) • Margin • New sales growth • Customer growth • Industry accolades/recognition • Copyrights • Patents 	<ul style="list-style-type: none"> • Technical/research competencies • Outside-the-box thinkers • Active learners 	<ul style="list-style-type: none"> • Employees responsible for learning • Mandatory competency growth • Feedback on professional competency growth 	<ul style="list-style-type: none"> • Team innovation awards • Competency-based pay 	<ul style="list-style-type: none"> • Strategic choice • Antibureaucratic • Candor • Humble • Encourage ideas/problem-solving • Let employees know what a winner "looks like" • Feedback on new product sales
	<ul style="list-style-type: none"> • Coordinated • Know the customers' needs 	<ul style="list-style-type: none"> • Customer guarantees • Customer retention rate • No. referrals from current customers 	<ul style="list-style-type: none"> • Active learners • Networking competencies • Resourcefulness 	<ul style="list-style-type: none"> • Oriented toward long-term relationship with customer • Not a lot of ladders • Acts as a consultant to customer/partner 	<ul style="list-style-type: none"> • Individual awards • System awards • Nonfinancial awards • "Fee for Service" awards 	<ul style="list-style-type: none"> • Strategic choice • Customer advocates • Know your customers' needs
Implications: What must we do (first? Second?) to align HR with our business strategy?						

FIGURE 4 COMMON LANGUAGE

488 measures. Individual rewards for identifying
 489 new and better ways of serving customers, as
 490 well as system-wide team rewards, are
 491 appropriate for compensating the workforce
 492 for further leveraging the value proposition
 493 of customization.

494 Another *major* systems component is
 495 integration of the HR function. HR practices
 496 are seldom integrated (Fig. 4). In fact, one of
 497 the embarrassments of the HR profession is
 498 reliance on many different databases, all
 499 describing work or the workforce but using
 500 different language. The compensation staff
 501 has its language for job evaluation, training
 502 and development uses the language of com-
 503 petencies, skills, knowledges, abilities, etc.
 504 The selection staff has a specific jargon hav-
 505 ing to do with job requirements and specifi-
 506 cations found in job descriptions, different
 507 yet from the learning requirements of train-
 508 ing and orientation efforts. Moreover, the
 509 performance measurement system often uses
 510 language entirely independent of workforce
 511 data from other areas of HR. In addition, top
 512 management can add to the language stew

by using terms such as teamwork, integrity, 513
 leadership, etc. in a firm's mission and values 514
 statement. Such usage may not be concep- 515
 tually different from HR's attempts to 516
 describe work or workforce but may not 517
 reinforce efforts to shape workforce mindset. 518
 Based on evidence, we believe that these 519
 systems need a common language and be 520
 supportive of one another. 521

522 Business strategy, communications about
 523 a firm's strategy and strategic direction, and
 524 the design of work all need to be aligned and
 525 integrated. Further, HR's basic system com-
 526 ponents—measurement, selection, develop-
 527 ment, and motivation—need to be aligned
 528 and integrated, with a common language as
 529 well. Since performance measurement is criti-
 530 cal for gauging strategic progress, it must be
 531 consistent with the firm's value proposition.
 532 Because selection, development, and motiva-
 533 tion efforts are all designed to enhance per-
 534 formance, it behooves firms to significantly
 535 improve their integration to leverage indivi-
 536 dual and firm performance. There is substan-
 537 tial evidence that this does not occur. Surveys

538 report that neither managerial/professional
 539 nor hourly workers believe HR system com-
 540 ponents are well integrated.

541 Do alignment and integration make a
 542 difference? They certainly do. Substantial
 543 evidence from Huselid's survey of some
 544 one thousand firms indicates that alignment
 545 and integration of a firm's HR systems play a
 546 critical role, with the impact varying by the
 547 quality of a firm's work system. Huselid
 548 refers to these as "fit" and "complement,"
 549 fit with respect to strategy and complement
 550 with respect to the components of the HR
 551 system. Huselid's findings demonstrate that
 552 substantial changes in market value occur
 553 based on the extent to which HR systems
 554 are aligned and integrated. For the least
 555 sophisticated one-fifth of firms in terms of
 556 HR, merely having an HR system is asso-
 557 ciated with >\$40,000 increase in market capi-
 558 talization per employee. However, for the
 559 next 40 percent of the sample, lack of align-
 560 ment and integration do not seem to have

561 much of an impact on market capitalization. 561
 562 (This may be one of the traps of best prac- 562
 563 tices, for such firms may be engaging in 563
 564 various efforts to enhance one component 564
 565 of the HR system, without having a greater 565
 566 impact on the firm as a whole. In fact, best 566
 567 practices may create more variance within 567
 568 the HR function and therefore reduce its 568
 569 impact on the bottom line.) Finally, and most 569
 570 important, what the data shows is that for the 570
 571 top 40 percent, or most sophisticated HR 571
 572 systems, alignment and integration pay off 572
 573 substantially, adding *another* \$40,000 to mar- 573
 574 ket capitalization per employee. Thus, align- 574
 575 ment and integration of HR systems is not an 575
 576 academic issue. They have on a firm's finan- 576
 577 cial returns. 577

578 Finally, a major emerging issue is work- 578
 579 force differentiation. Here we draw on the 579
 580 important recent work of Lepak and Snell. 580
 581 Fig. 5 illustrates the competitive advantage of 581
 582 human capital in organizations and the avail- 582
 583 ability of this human capital in the market. 583

FIGURE 5 DIFFERENTIATION: YOUR ORGANIZATION'S WORKFORCE(S)

Differentiation: Your Firm's Workforce(s)
 Source: Lepak & Snell, 1999

High	Professional Partners	Strategic Capabilities
	Contract Services	Operational Partners
Low		
	Low	High

Uniqueness of Human Capital

Competitive Advantage Value of Human Capital

584 Readily available human capital with little
 585 strategic leverage is referred to here as contract
 586 services. In other words, this is work that
 587 is far from core in creating or delivering the
 588 firm's value proposition and is a candidate for
 589 outsourcing. Strategic capabilities are those
 590 that are narrowly distributed in the labor
 591 market and have a significant impact on a
 592 firm's value proposition. Hence, the issue is
 593 how should a firm leverage its workforce.
 594 Another cell of the matrix we call professional
 595 partners—positions within firms not directly
 596 responsible for leveraging its value proposition.
 597 These positions differ depending on a
 598 firm's strategic pursuit. For a manufacturing
 599 firm, professional partners (i.e., not strategi-
 600 cally core positions, yet professionals not
 601 abundant in the labor supply) include units
 602 such as law, finance, accounting, and even
 603 human resources. Although professional
 604 partners are narrowly distributed in the labor
 605 market, they do not directly contribute to the
 606 firm's competitive advantage in its chosen
 607 market. However, operational partners,
 608 although widely distributed in the labor mar-
 609 ket, have a significant impact on delivering
 610 the value proposition of the firm.

611 We concur with Lepak and Snell that each
 612 of these segments may call for a different focus
 613 in terms of HR systems. Contract services
 614 (work generally far removed from core) might
 615 require HR to assume a customer-supplier
 616 relationship with the firm, with HR's respon-
 617 sibility to make sure that the firm is getting the
 618 best, least expensive deal from a vendor.
 619 Obviously HR practices would be important
 620 here in terms of measurement, selection, and
 621 even development, and perhaps rewards to
 622 ensure that what is contracted for is delivered
 623 as specified. Professional partners would call
 624 for special treatment as professionals; at the
 625 same time, they are working outside their
 626 profession. They may be competent, but if
 627 they were *the* most competent, most likely
 628 they would be working in the professional
 629 firms within their discipline. Thus, from a
 630 compensation standpoint, they should prob-
 631 ably be paid at or near midpoint and not
 632 much higher. Clearly if a firm finds itself in
 633 legal, financial or accounting trouble, it will

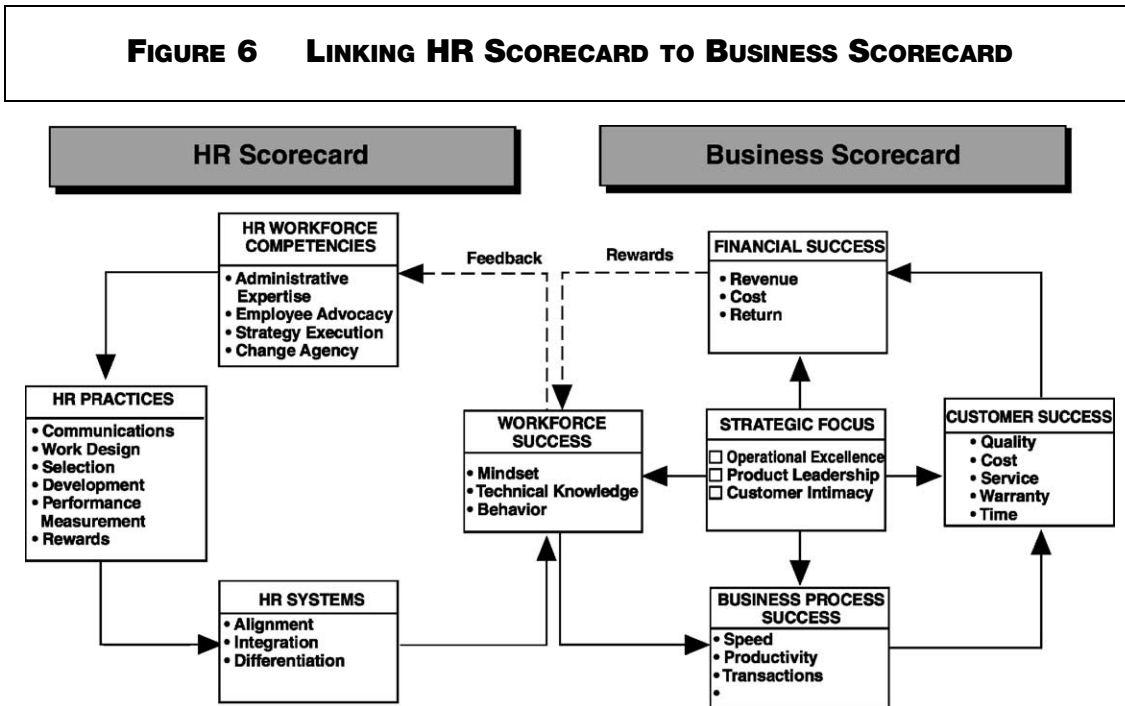
likely go outside to find vendors with more 634
 qualified or specialized professionals. 635

636 Strategic capabilities, on the other hand,
 637 require the most care by HR because they
 638 leverage the firm's value proposition. How
 639 such individuals are selected, trained, mea-
 640 sured, and compensated makes a difference.
 641 These individuals may be compensated
 642 above or well above prevailing rates if a firm
 643 wishes to attract and retain the very best for
 644 positions that have strategic leverage. In fact
 645 it may be that one cannot pay too much for
 646 such individuals if they actually provide
 647 significant strategic leverage. Operational
 648 partners, on the other hand, probably should
 649 be paid at market, but with significant group
 650 incentives, especially in systems such as
 651 operational excellence, where cost reduction
 652 is imperative. In other words, assessing HR
 653 performance involves not only HR alignment
 654 and integration (relatively new concepts to
 655 the HR function), but also differentiation—
 656 leveraging the HR system to maximize the
 657 contributions of the *core* workforce in deli-
 658 vering the firm's value proposition.

659 LINKING TO THE BUSINESS 660 SCORECARD

661 As shown in Fig. 6, the HR Scorecard must be
 662 linked to the Business Scorecard, moving HR
 663 from focusing doables to deliverables. What
 664 HR has been engaged in, as we have
 665 described it, is building competencies, align-
 666 ing practices, and integrating and differen-
 667 tiating its systems to provide the workforce
 668 that can best leverage the firm's competitive
 669 advantage. But what it must *deliver* is a work-
 670 force. Workforce success is the ultimate
 671 objective of any HR system. How might this
 672 be assessed if we are truly to measure the HR
 673 system's effectiveness? One way is to mea-
 674 sure the *mindset* of the workforce by eliciting
 675 answers to such questions as:

- 676 • Do employees know and understand
 677 the firm's strategy?
- 678 • Do employees know and understand
 679 the status of the firm's success with respect to
 680 the pursuit of that strategy?

FIGURE 6 LINKING HR SCORECARD TO BUSINESS SCORECARD

682 • Do employees know and understand
683 the firm's value proposition and how it is
684 delivered?

685 Workforce mindset has been measured
686 by various surveys. We believe such surveys
687 should be much simpler and more frequent
688 than in the past. For example, Sears' survey
689 data, popularized in the *Harvard Business
690 Review*, clearly support this. With ten ques-
691 tions Sears has been able to create a signifi-
692 cant measure of workforce success (really a
693 measure of workforce efficacy) and has dem-
694 onstrated the impact of and improve-
695 ments in workforce success on customer suc-
696 cess and firm financial success.

697 Similar results have been reported else-
698 where using other scorecards (e.g., by many
699 statewide Baldrige award winners). The
700 Gallup Organization has used a 12-question
701 survey that captures factors impacting pro-
702 ductivity, retention, profitability, and custo-
703 mer satisfaction, as well as explaining a
704 significant amount of variance in firm per-
705 formance. Their questions are very similar to
706 Sears' 10-question survey. Research is on-
going in this area, and survey data can

707 help identify measurements of importance.
708 Clearly a relationship exists between work-
709 force behavior, operational success, custo-
710 mer success, and the financial success of
711 firms.

712 HR's deliverables can also be measured
713 by the *competency* of the workforce by eliciting
714 answers to such questions as:

715 • Do employees know and understand
716 what they are to do?

717 • Do employees believe they have the
718 skills and knowledge necessary to do their
719 job?

720 • Are employees provided the manage-
721 rial support and support systems to do the
722 job to the best of their ability?

723 • What level of competency is necessary
724 in strategic resource positions now (and in
725 the future)? Are individuals in these critical
726 positions (e.g., sales representatives, custo-
727 mer service, etc.) delivering the behaviors
728 expected of them?

729 • How many truly "A" players are there
730 in "A" positions?

731 • How many "B" or "C" players are
732 there in "A" positions?

734 • How many have passed behavior- or
 735 knowledge-based checkouts on specific com-
 736 petencies required for success in their jobs?
 737 • Are our leaders behaving in ways that
 738 elicit “followership”?
 739 • Do our leaders manage employee per-
 740 formance by detailing performance expecta-
 741 tions, providing feedback, and conducting a
 742 meaningful review with an equitable reward
 743 conference?
 744 • Are our leaders responsible for and
 745 assessed on their workforce’s mindset, com-
 746 petency growth and behavior in strategic
 747 positions?
 748 There have been many demonstrations
 749 of competency measure success, but the issue
 750 is which competencies to measure. Clearly
 751 competencies must be tied to business suc-
 752 cess. In fact, competencies should be tied to
 753 specific business deliverables (e.g., opera-
 754 tional, customer and financial success). One
 755 problem in competency measurement is that
 756 competencies are often in “free-float” based
 757 on a firm’s existing population, especially the
 758 firm’s current executive officers, instead of
 759 the competencies necessary to win the firm’s
 760 future. Competencies must be tied to busi-
 761 ness success and pass the “So what?” or
 762 “Because of?” test. Such competencies and
 763 their measurement are exemplified by man-
 764 dated product knowledge and testing for
 765 sales associates (and executives) at Circuit
 766 City and Series 7 and 9 examinations in
 767 financial services to demonstrate General
 768 Electric’s “Black Belt” proficiency.
 769 The objective is to drive those behaviors
 770 with substantial impact on business process
 771 success that lead to customer success and
 772 ultimately results in financial success (see
 773 Fig. 11). Firms that are successful operation-
 774 ally and with their customers should experi-
 775 ence firm financial success. From the
 776 perspective of HR, it is a continuous feedback
 777 loop. Financial success fuels the next genera-
 778 tion of employee rewards. Customer success
 779 provides the feedback that enables the HR
 780 function to understand what needs to done to
 781 build better (or different) HR workforce com-
 782 petencies, enhance HR practices and deter-
 mine the necessary steps to improve the

alignment, integration, and differentiation 783
 of HR systems. 784

To achieve success HR must have a sig- 785
 nificant partnership with line management. 786
 While it is only reasonable to hold the HR 787
 function accountable for workforce success, 788
 line management should also be held 789
 accountable for the same workforce success 790
 metrics. If line managers wish to be success- 791
 ful in delivering on their business model 792
 (e.g., the Balanced Scorecard), they must be 793
 held accountable for workforce metrics such 794
 as workforce mindset, competency growth 795
 and behavior in delivering the unit’s value 796
 proposition. 797

It is not unreasonable to ask what HR is 798
 willing to guarantee management in terms of 799
 workforce mindset, and behaviors. But the 800
 corollary is to ask what is line management 801
 willing to guarantee the firm, its workforce, 802
 customers, and its investors. Certainly line 803
 managers should be held accountable for 804
 financial success, customer success, business 805
 process success *and* workforce success. 806
 Workforce success for every manager can 807
 clearly be measured by metrics such as leader 808
 behavior (e.g., through 360°—or better yet 809
 180°—assessments), workforce mindset and 810
 workforce competencies. Indeed, if we are 811
 willing to accept the value of intangibles and 812
 their impact on market capitalization, it 813
 would be prudent to have a significant por- 814
 tion of all executive incentive compensation 815
 driven by leader behavior and workforce 816
 measures for any unit for which a manager 817
 is responsible. 818

SUMMARY 819

Our objective has been to rethink the mea- 820
 surement of “soft-side” functions. While 821
 such measures may not always have the 822
 “hardness” traditional business metrics, they 823
 are a step in the direction—the right mea- 824
 sures, on the business’s scorecard, and with 825
 greater robustness. We believe it is essential 826
 that the HR function be assessed on its deli- 827
 verables, using simple outcome measures 828
 such as the improvement of the workforce 829

830 mindset, its competencies, and critical beha-
831 viors. It is equally essential to ensure that line
832 managers be held accountable on the *same*
833 workforce attributes or firms will not be
834 able to deliver the workforce necessary to
835 make the firm's business model a reality.
836 Thus, a partnership between line managers
837 and HR using the same attributes for the
838

measurement of workforce success is man- 839
datory to deliver the success of the firm's 840
business model as intended. 841



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Executive Summary

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941 **THE NEW HR METRICS: SCORING** 942 **ON THE BUSINESS SCORECARD**

943 by RICHARD W. BEATTY,
944 MARK A. HUSELID,
945 CRAIG ERIC SCHNEIER

946 We consider how and what the Human
947 Resource function contributes to the strate-
948 gic success of firms by utilizing measures
949 of a firm's "soft-side" functions. Using a
950 modified version of the Balanced Scorecard,
951 which we call the Business Scorecard, as a
952 foundation, we explore measures of HR
953 and workforce success and how they can
954 be achieved with greater robustness. We
955 contend that the only meaningful "HR

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972

Scorecard" is one that enables HR to score 956
on the Business Scorecard. It is essential that 957
the HR function be assessed on its deliver- 958
ables, using simple outcome measures such 959
as the improvement of workforce mindset, 960
competencies, and critical behaviors. It is 961
equally essential to ensure that line man- 962
agers be held accountable on these *same* 963
workforce attributes in order to deliver the 964
workforce necessary to make the firm's busi- 965
ness model a reality. It takes a partnership 966
between line managers and HR, with both 967
assessed on the same workforce success 968
metrics, to deliver firm success on its inten- 969
ded business model. 970