

14.6: Tying It All Together—Using the HRM Balanced Scorecard to Gauge and Manage Human Capital, Including Your Own

Learning Objectives

1. Describe the Balanced Scorecard method and how it can be applied to HRM.
2. Discuss what is meant by “human capital.”
3. Understand why metrics are important to improving company performance.
4. Consider how your human capital might be mapped on an HRM Balanced Scorecard.

Applying the Balanced Scorecard Method to HRM

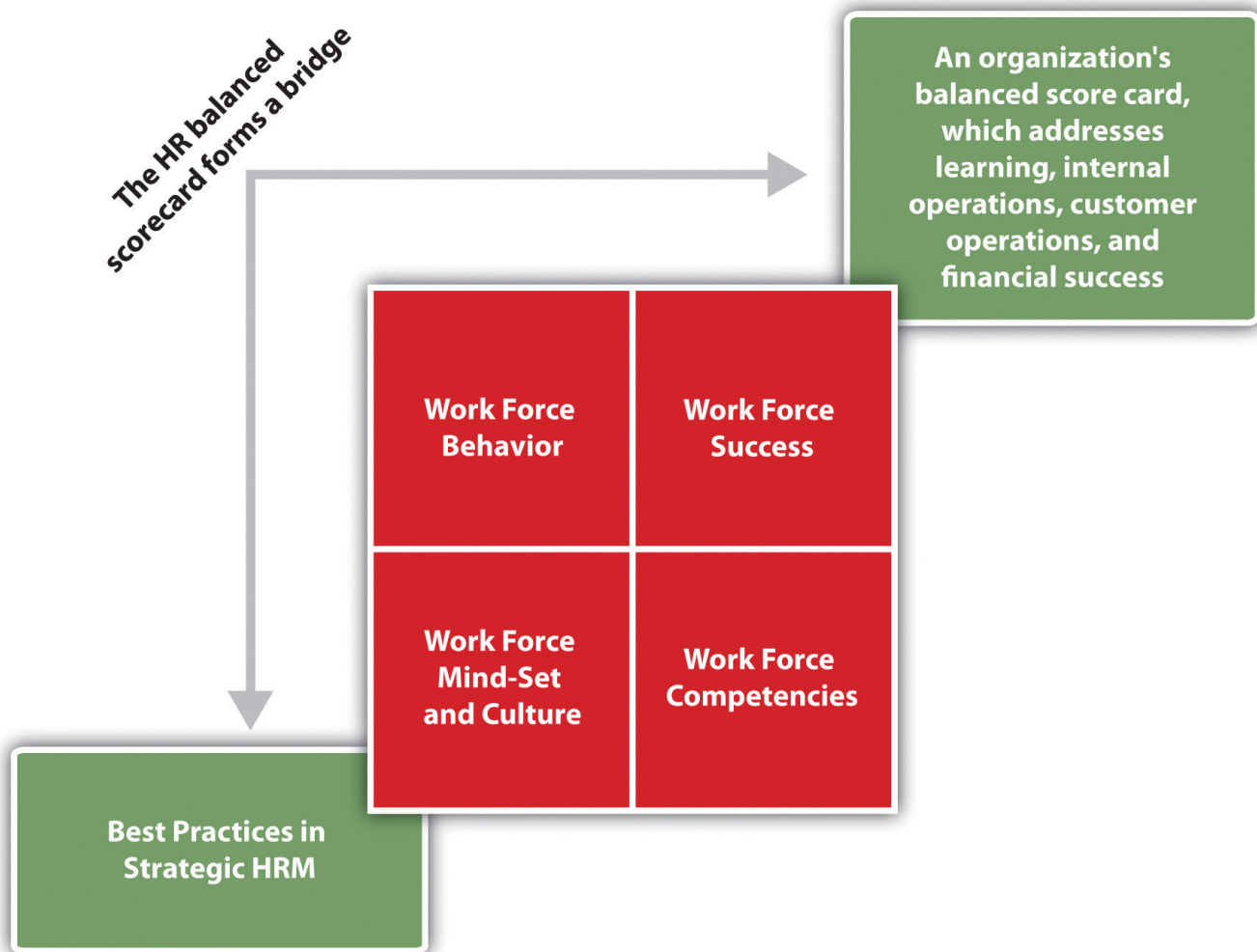
You may already be familiar with the Balanced Scorecard, a tool that helps managers measure what matters to a company. Developed by Robert Kaplan and David Norton, the **Balanced Scorecard** helps managers define the performance categories that relate to the company’s strategy. The managers then translate those categories into metrics and track performance on those metrics. Besides traditional financial and quality measures, companies use employee-performance measures to track their employees’ knowledge, skills, and contributions to the company. Robert S. Kaplan and David P. Norton, *The Balanced Scorecard* (Boston: Harvard Business School Press, 1996).

The employee-performance aspects of the Balanced Scorecard analyze employee capabilities, satisfaction, retention, and productivity. Companies also track whether employees are motivated (e.g., by tracking the number of suggestions made and implemented by employees) and whether employee performance goals are aligned with company goals.

Applying the Balanced Scorecard Method to HRM

Because the Balanced Scorecard focuses on the strategy and metrics of the business, Mark Huselid and his colleagues took this concept a step further and developed the Workforce Scorecard to provide a framework specific to HRM. According to Huselid, the **Workforce Scorecard** identifies and measures the behaviors, skills, mind-sets, and results required for the workforce to contribute to the company’s success. Specifically, as summarized in the following figure, the Workforce Scorecard has four key sequential elements: Mark A. Huselid, Brian E. Becker, and Richard W. Beatty, *The Workforce Scorecard: Managing Human Capital to Execute Strategy* (Boston: Harvard Business School Press, 2005).

1. **Workforce mind-set and culture.** Does the workforce understand the strategy and embrace it? Does the workforce have the culture needed to support strategy execution?
2. **Workforce competencies.** Does the workforce, especially in the strategically important or “A” positions, have the skills it needs to execute the strategy? (Remember that “A” positions are those job categories most vital to the company’s success.)
3. **Leadership and workforce behaviors.** Are the leadership team and workforce consistently behaving in ways that will lead to the attainment of the company’s key strategic objectives?
4. **Workforce success.** Has the workforce achieved the key strategic objectives for the business? (If the organization can answer yes to the first three elements, then the answer should be yes here as well.) Mark A. Huselid, Brian E. Becker, and Richard W. Beatty, “‘A Players’ or ‘A Positions’? The Strategic Logic of Workforce Management,” *Harvard Business Review* 83, no. 12 (December 2005), chrs.rutgers.edu/pub_documents/Huselid-Beatty-Becker%20HBR%20Paper.pdf.



The Workforce Balanced Scorecard bridges HRM best practices and the firm's comprehensive Balanced Scorecard.

Human Capital

Implementing the Workforce Scorecard requires a change in perspective, from seeing people as a cost to seeing people as the company's most important asset to be managed—human capital. As discussed in [Section 12.1](#), human capital is the collective sum of the attributes, life experiences, knowledge, inventiveness, energy, and enthusiasm that a company's employees choose to invest in their work. Such an asset is difficult to measure because it's intangible, and factors like "inventiveness" are subjective and open to interpretation. The challenge for managers, then, is to develop measurement systems that are more rigorous and provide a frame of reference. The metrics can range from activity-based (transactional) metrics to strategic ones. Transactional metrics are the easiest to measure and include counting the number of new people hired, fired, transferred, and promoted. The measures associated with these include the cost of each new hire, the length of time and cost associated with transferring an employee, and so forth. Typical ratios associated with transactional metrics include the training cost factor (i.e., the total training cost divided by the number of employees trained) and training cost percentage (i.e., the total training cost divided by the operating expense). Leslie A. Weatherly, "The Value of People: The Challenges and Opportunities of Human Capital Measurement and Reporting," *SHRM Research Quarterly* 3 (2003): 14–25, accessed February 6, 2011, <http://www.shrm.org/Research/Articles/Documents/0303measurement.pdf>. But these transactional measures don't get at the strategic issues—namely, whether the right employees are being trained and whether they're remembering and using what they learned. Measuring training effectiveness requires not only devising metrics but also changing the nature of the training.

Ethics in Action

How to Initiate an Ethics Program

The Balanced Scorecard doesn't explicitly have a facet on global ethics, but that doesn't mean you can't add one. Fostering business-ethics awareness in today's multicultural workplace and global marketplace is only the beginning. The following initiatives can be implemented to your corporate ethics program:

- Uncover or discover what the burning ethical issues are in your organization worldwide. This may involve conducting a broad survey to a cross section of all employees, covering all areas and departments of the organization worldwide.
- Make ethics explicit by developing a clear code of conduct that is based on values and that deals directly and cross-culturally with issues. Once articulated, the challenge is to communicate and inculcate this explicit code throughout the organization.
- Provide opportunities to learn about ethical dilemmas and how to resolve them. Practice doing so in nonthreatening, experiential ways, such as through simulation training or case studies. This might involve creating an ethics program built around the organization's explicit code of conduct.
- Network with others in your industry and with ethics personnel from other organizations and industries. This is an effective way to learn the best practices in the field and to benchmark your organization.
- Review the "ethical state of health" on a continual basis by repeatedly revisiting your research, communication and training programs, code of conduct, and so forth. Times change, and strategies shift. Thus there is always a need to revisit the subject. Don't expect the core values to change. However, one word in a definition may need to be edited or replaced, or a new value may emerge that is critical to the future character and success of your business.

The BMO Bank of Montreal has taken this step. "What we're trying to do at the Bank of Montreal is to build learning into what it is that people are doing," said Jim Rush of the Bank of Montreal's Institute for Learning. "The difficulty with training as we once conceived it is that you're taken off your job, you're taken out of context, you're taken away from those things that you're currently working on, and you go through some kind of training. And then you've got to come back and begin to apply that. Well, you walk back to that environment and it hasn't changed. It's not supportive or conducive to you behaving in a different kind of way, so you revert back to the way you were, very naturally." To overcome this, the bank conducts training such that teams bring in specific tasks on which they're working, so that they learn by doing. This removes the gap between learning in one context and applying it in another. The bank then looks at performance indices directly related to the bottom line. "If we take an entire business unit through a program designed to help them learn how to increase the market share of a particular product, we can look at market share and see if it improved after the training," Rush said. Jim Rush, interview by Andrea Meyer, *Fast Company*, July 1995.

Motorola has adopted a similar approach, using action learning in its Senior Executive Program. Action learning teams are assigned a specific project by Motorola's CEO and are responsible for implementing the solutions they design. This approach not only educates the team members but also lets them implement the ideas, so they're in a position to influence the organization. In this way, the training seamlessly supports Motorola's goals.

As you can see in these examples, organizations need employees to apply their knowledge to activities that add value to the company. In planning and applying human capital measures, managers should use both retrospective (lagging) and prospective (leading) indicators. Lagging indicators are those that tell the company what it has accomplished (e.g., the Bank of Montreal's documenting the effect that training had on a business unit's performance). Leading indicators are forecasts that help an organization see where it is headed. Leading indicators include employee learning and growth indices. Leslie A. Weatherly, "The Value of People: The Challenges and Opportunities of Human Capital Measurement and Reporting," *SHRM Research Quarterly* 3 (2003): 14–25, accessed February 6, 2011, <http://www.shrm.org/Research/Articles/Documents/0303measurement.pdf>.

Ethics in Action

As Mark Vickers of the Human Resource Institute points out, global corporations often have to operate in nations where bribery, sexual harassment, racial discrimination, and a variety of other issues are not uniformly viewed as illegal or even unethical. Mark R. Vickers, "Business Ethics and the HR Role: Past, Present, and Future," *Human Resource Planning* 28, no. 1 (2005), accessed January 28, 2011, http://www.entrepreneur.com/tradejournals/article/131500182_1.html. As a result, companies must grapple with maintaining an enterprise-wide standard of ethics in countries where these practices are not the norm and may even be counter to local traditions. For many companies, China may be the test bed for dealing with these issues. A recent study reported that in China "there is a need to harness the (largely neglected) ethical dimension to transform business practice along international standards... At a minimum, fraud and corruption must be suppressed in an atmosphere where contract and property rights are clearly defined and honored." Philip. C. Wright, Szeto Wing-Fu, and S. K. Lee, "Ethical Perceptions in China: The Reality of Business Ethics in an

International Context,” *Management Decision* 41, no. 2 (2003): 182. As countries work together to develop multinational trade and labor agreements, a common set of ethical norms will develop over time, but the process will not happen overnight. In the meantime, companies will need to think internally about how to handle ethical issues in a way that makes sense at home and abroad. Philip C. Wright, Szeto Wing-Fu, and S. K. Lee, “Ethical Perceptions in China: The Reality of Business Ethics in an International Context,” *Management Decision* 41, no. 2 (2003): 180–89.

The Payoff

Given the complexity of trying to measure intangibles with metrics and a scorecard, some managers may be inclined to ask, “Why bother doing all this?” Research by John Lingle and William Schiemann provides a clear answer. Companies that make a concerted effort to measure intangibles such as employee performance, innovation, and change in addition to measuring financial benchmarks perform better. Lingle and Schiemann examined how executives measured six strategic performance areas: (1) financial performance, (2) operating efficiency, (3) customer satisfaction, (4) employee performance, (5) innovation and change, and (6) community/environment issues. To evaluate how carefully the measures were tracked, the researchers asked the executives, “How highly do you value the information in each strategic performance area?” and “Would you bet your job on the quality of the information on each of these areas?” The researchers found that the companies that paid the closest attention to the metrics and had the most credible information were the ones that had been identified as industry leaders over the previous three years (e.g., 74 percent of measurement-managed companies but only 44 percent of others) and reported financial performance in the top third of their industry (e.g., 83 percent compared with 52 percent). Leslie A. Weatherly “The Value of People: The Challenges and Opportunities of Human Capital Measurement and Reporting,” *HR Magazine*, January 30, 2011, findarticles.com/p/articles/mi_m3495/is_9_48/ai_108315188.

The Workforce Scorecard is vital because most organizations have much better control and accountability over their raw materials than they do over their workforce. For example, a retailer can quickly identify the source of a bad product, but the same retailer can’t identify a poor manager whose negative attitude is poisoning morale and strategic execution. Brian E. Becker and Mark A. Huselid, “Strategic Human Resources Management: Where Do We Go from Here?,” *Journal of Management* 32, no. 6 (2006): 898–925.

KEY TAKEAWAYS

- The Balanced Scorecard, when applied to HRM, helps managers align all HRM activities with the company’s strategic goals. Assigning metrics to the HRM activities lets managers track progress on goals and ensure that they’re working toward strategic objectives. It adds rigor and lets managers quickly identify gaps.
- Companies that measure intangibles such as employee performance, innovation, and change perform better financially than companies that don’t use such metrics.
- Rather than investing equally in training for all jobs, a company should invest disproportionately more in developing the people in the key strategic (“A”) jobs on which the company’s success is most dependent.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. Define the Balanced Scorecard method.
2. List the elements of a Workforce Scorecard.
3. Discuss how human capital can be managed like a strategic asset.
4. Why is it important to align HRM metrics with company strategy?
5. What kind of metrics would be most useful for HRM to track?

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