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Bring Out the Best in Your Employees with Workforce Scorecards

Most companies, says HR strategist and author **Mark Huselid**, keep a better inventory of widgets in their warehouses than of their employees' skills and contributions. The author of the new book, "*The Workforce Scorecard: Managing and Measuring Human Capital to Drive Strategy*," urges HR executives to develop a top-down workforce strategy that will reveal which key metrics to track.

WI: What has changed to make measuring employee contributions especially critical today?

MH: As the conventional sources of competitive advantage get "competed away" in the global marketplace and we move more and more toward a knowledge economy, the workforce is really the last sustainable and renewable source of competitive advantage.

The problem is that we have a lot of 19th and 20th century notions about managing the workforce that are being applied to this new context. Many of these ideas can actually destroy instead of create value.

WI: Can you give an example?

MH: One conventional model is that people are a cost to be minimized; that is, we hire and fire people the way we lease buildings or cars. Another conventional model is that most HR management systems treat all jobs, often employees holding those jobs, in the same way, regardless of their strategic contributions.

Imagine a pharmaceutical business, where there are a few key or strategic "A" jobs: research and development, legal and compliance, manufacturing, and sales. Those are roles that you positively have to get right. The problem is that many firms treat those roles no differently from any other role in the business. And as a result, they end up over-investing in non-strategic positions, such as a clerical role, and under-investing in the strategic roles.

Here's another way to think about it: Most major businesses have segmented their customers and have product-marketing strategies based on that segmentation. But if you look at their workforce strategies, they're almost completely undifferentiated. For firms which compete on the basis of knowledge or intellectual capital, this can be disastrous. This is why many firms are beginning to identify and nurture "A" jobs as well as "A" employees.

Our main thesis in *The Workforce Scorecard* is that managers and leaders need a strategy for the business, a strategy for the workforce and a strategy for the HR function. As a corollary, they need a series of metrics and measures for each: a balanced scorecard, a workforce scorecard and an HR scorecard. That process begins by developing an understanding of the unique processes through which the workforce creates value throughout the business.

WI: What do HR professionals need to do to develop a workforce strategy?

MH: The process needs to begin from the top down – from strategy to workforce to HR function – and be grounded in a very clear understanding of how the workforce contributes to the firm's success. This is counterculture for a lot of HR functions. Many HR leaders feel the need to start from the bottom up, from HR to strategy, because they're under pressure to show that they are creating value, right now. As a result, they often turn to conventional measures of HR efficacy that focus on transactions, such as HR expense per 100 employees or the days it takes to fill an open position.

The problem is that there's no evidence showing that those transactions are linked to companywide outcomes. The top-down approach means we need to understand, from a strategic position, what our business is all about Where do we compete? How do we manage? And what are the strategic capabilities – the human and organizational assets – that we need to get us there?

Once we know what those strategic capabilities are, we can begin to ask the questions, "What are our strategic, or "A" jobs? What are the jobs that really matter in this organization?" And then we can ask, "What does world-class performance look like in these jobs?"

WI: What happens when an HR organization begins to ask these top-down questions?

MH: Continuing with the pharmaceutical example, we were working with a firm that had a general sense that R&D cycle time – the amount of time it takes to bring a drug to market – is a driver of success. That's pretty well known. But the company didn't understand the discovery process and *how* drugs get designed and made. While they had world-class chemists among the R&D scientists, they lacked knowledge-sharing and "teaming" skills, which were especially critical since the business worked across multiple locations.

So, the company discovered that it had been over-investing in technical training and under-investing in other "softer" areas, such as team building and cross-functional communication skills. The challenge for firms like this is to be more thoughtful and proactive about developmental options and more clear about how they define and measure success.

WI: What is a workforce scorecard and how does it advance the model you propose in your previously published book, "*The HR Scorecard*"?

MH: The workforce scorecard has four key elements. The first element is what we call workforce success. Here the key question is, "Has the workforce accomplished the key strategic objectives for the business?"

The second element is leadership and workforce behaviors. Are the leadership team and workforce consistently behaving in a way that will lead to achieving our key strategic objectives? We've found that often senior managers aren't as articulate as they might be about what they're looking for from their workforce.

Next is workforce competencies. Does the workforce, especially in the key or "A" positions, have the skills it needs to execute strategy? It's very important to understand, if there is a workforce issue, whether the root cause of the problem is that the employees can't succeed or whether there's some enabler or disabler in the workplace that keeps them from success.

Finally we get to workforce mindset and culture. Does the workforce understand the strategy, embrace it and have the culture needed to support its execution?

WI: Can you give an example of how a company uses workforce scorecards?

MH: **Dell** is using a series of these scorecard concepts to train its workforce in business literacy. **Cardinal Health**, a distributor of medical products and supplies, uses these concepts to communicate to the workforce how customer satisfaction drives purchases.

WI: So it sounds like it's as much a tool for educating the workforce as a metric for assessing performance...

MH: Yes. A lot of the time HR folks see measures as punishment, but when it's done right, it's really a way of communicating what really matters and providing feedback on it.

WI: Please describe more of the benefits of your approach.

MH: One of the key advantages is that it forces managers to operationalize their thinking – to get it all out on the table. One of the things I've learned is that each time you have a conversation with leaders about measuring anything, you may uncover very different points of view that hadn't yet surfaced.

For example, in customer and employee satisfaction, often two managers will agree that satisfaction is a key driver of business success. But until you get into the *measures* of customer satisfaction, you don't realize that those managers are focusing on different drivers or different elements of customer satisfaction. So, one of the key advantages is that the process of determining the metrics helps you to clarify your strategy.

In addition, developing a workforce scorecard forces HR and line managers to ask questions such as, "Where do the high performers come from?" and "How can we get some more?" The answers to these questions can make a huge difference to the bottom line.

You can look at it this way. In most Fortune 500 companies, the total spend on the workforce is 60 percent to 70 percent of revenue. If we could increase the efficacy of the workforce by five percent to 15 percent, that could have a dramatic impact on the bottom line.

WI: Once HR and line managers have developed a workforce scorecard, how do they get people to buy into and use the data?

MH: That's the challenging part. The measures we discussed are not difficult to develop if you understand what it is you're trying to achieve. The hard part is executing on that understanding. In other words, if you build it, will they come?

The process of buy-in starts in the design phase, not the implementation phase. If you've done it right, by the time you have the scorecard together, it should be clear to the workforce how those measures, or how higher performance on those measures, can help them be more effective in their role.

WI: How well are firms doing this today?

MH: Many firms have very well-developed measurement systems for inventory. They can tell you where every nut and bolt, washer, car and appliance comes from. But many of those same firms don't have any infrastructure to tell you where their current best employees come from or where their next ones will come from.

Still, lots of firms are doing parts of it well. We're seeing a significant shift away from HR functional measures to these broader workforce measures, and my coauthors, Brian Becker and Dick Beatty and I see this as a very positive development.

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