Mark Huselid and the HR Balanced Scorecard

⊘ Back

David Creelman

Mark Huselid is an Associate Professor of Human Resource Strategy at Rutgers University. We've always wanted to meet Dr. Huselid because his name kept showing up on important research cited by Jeff Pfeffer and our other favorite thinkers. The timing was perfect because Dr. Huselid is working on something of special interest to HR managers: the HR Balanced Scorecard.

Huselid's new book *The HR Scorecard: Linking People, Strategy, and Performance* (with Brian Becker and Dave Ulrich) will be published shortly by the Harvard Business School Press.

David Creelman spoke to Mark Huselid.

DC- What is an HR Scorecard?

MH- An HR Scorecard is a mechanism for describing and measuring how people and people management systems create value in organizations. Designing an HR Scorecard is not so much a *thing* as it is a *process.*

It is based on a *strategy map* – which is a visual depiction of "what causes what" in an organization, beginning with people and ending with shareholder or other stakeholder outcomes.

DC- Can you give me an example of a *strategy map?*

MH- Sure. For example, imagine a firm in the pharmaceutical industry.

> Their strategy is to grow revenues; and,

> Revenues are driven by developing innovative drugs and marshalling them through the regulatory process; and,

> Developing innovative drugs depends upon a stable, high talent R&D function.

The *strategy map* simply shows us the cause and effect links that show how, in this case, a pharmaceutical firm can grow revenue by creating a high talent R&D function.

DC- This is a good example for us because the strategy map leads us to an HR issue: staffing.

MH- Yes. The strategy map helps to identify the key deliverables for HR – that is, those things that HR does that really help the firm reach its objectives. In this case, how HR manages the staffing of the R&D function has a direct cause and effect relationship to growing revenue. The measures in the HR Scorecard are linked directly to those deliverables identified in the strategy map.

DC – In this example, what would the Scorecard measures be for staffing the R&D Function?

MH- More generally, we typically group the metrics we use into one of five categories:

1. *HR Manager Competencies* – Do the managers associated with the HR function have the competencies and capabilities that they need to design an appropriate HRM system? Generally, we use 360-degree performance appraisal data to represent HR competence in each key

competency area. For our pharmaceutical example we would measure competencies necessary for excellent recruiting.

2. *The High Performance Work System* – those key HR policies and practices that must be in place and implemented well to achieve the firm's strategy. An example of a metric in this area would be the extent to which a validated competency model serves as the basis for hiring R& D employees.
3. *HR Alignment* – the extent to which the HR practices that you deploy are (1) internally consistent and not working at cross-purposes, and (2) really the right ones to drive firm strategy. An example of a metric in this area would be the survey results from a scale that we have developed to measure what we call the internal and external alignment of the HR function.
4. *HR Efficiency* – the extent to which you are efficient in delivering HR services to the firm. An example of a metric in this area would be cost per hire.
5. *HR Deliverables* – the extent to which employee behaviors change in ways that make a real difference to the business. For our staffing example, a key metric in this area would be the percentage turnover among high performing R&D scientists.

DC- To what extent is HR already using these metrics?

MH- Our experience with a wide range of firms has been that:

(1) Most firms don't measure, report, and take action on *any* attributes of their HR architecture on a regular basis, and

(2) When they do, they tend to focus on measures of the HR *function* that reflect its *efficiency*.

We think this is a really narrow focus, and would like to see HR managers expand their thinking here. At a minimum, most HR functions these days are fairly efficient, so we probably won't see

great economic gains working in this domain. Working on HR deliverables is a very different matter – we think most firms can make huge strides here.

The difference between the balanced scorecard approach and conventional HRM is that the entire people *management* and people *measurement* processes are organized around HR's deliverables, and not around HR's sub- functions such as benefits, recruiting, compensation, etc.

DC- So through the strategy map HR knows *what to deliver*, and the balanced scorecard metrics tell us *if we are delivering*. That leaves the question of *how to deliver*.

MH- HR needs to ask: Are we doing the right things? And are we doing them in ways that are internally consistent and aligned? For example, we routinely see organizations that "talk the talk" about the importance of teamwork, but these same firms often link pay and promotions to individual accomplishment. Or firms that say that they want to use the performance management system to help instill a performance culture, but the top performer gets a 5% raise and the worst performer gets a 2% raise. So, designing and implementing an HR System requires doing the right things – as well as doing the right things right.

The next step in the process is to develop a measurement system to track HR's contribution to firm performance. If you have done your homework correctly in the steps above, this should be relatively simple. But we see far too many firms beginning the process with designing the measurement system, and not by developing a deep understanding of the processes they are trying to measure.

This is why most HR measurement systems that we see reflect fairly simplistic and superficial measures, more often related to the efficiency of the HR function, and not of how human capital creates value. This is the same point that I made above.

Choosing metrics and measures is almost the last step in the process.

It is really all about thinking systemically and systematically about how HR - the function, the broader HR system, and the resulting employee behaviors – create value. HR managers are often so focused on their own budgets and their own function that they have a hard time seeing how what they do is connected to the performance of the firm.

HR's impact on firm performance is indirect: it is felt through the other functional areas. And it also contains a considerable time lag: the executive development program that we develop today might not affect firm performance for 18 months or more. So, the focus on the "here and now" is understandable. But we also think it is quite limited, because it encourages short-term thinking and action. We see the HR Scorecard as a helpful way to think both out of the box and for the long term.

DC- At the start of the interview you say that the HR Balanced Scorecard isn't so much a "thing" as a process. And I've taken the position that it is really the thinking process that adds value. How does the process of creating a scorecard make a difference?

MH- We've seen that the discussions necessary to create an HR Scorecard can be extremely valuable in organizations. When we begin to build strategy maps, we always begin by asking firms to describe their strategy. Inevitably, the discussion turn's to HR's role in implementing that strategy. When you put senior HR and line managers in focus groups and begin to help them through this process, you frequently see a big discrepancy between what HR thought they were delivering to the business and the perceptions of line managers.

This process is especially salient when you start to discuss the measurement of HR – because if you don't have agreement on

the HR deliverables, you aren't likely to get agreement on the metrics, either. So, designing the scorecard is really a very nice platform that HR can use to discuss its role in the business and reach agreement on its accountabilities. In fact, I think that one might argue that the process that you have to go through to build the HR Scorecard might be as useful as the Scorecard itself!

The final steps in the process are implement the measurement system and, finally continually testing the quality of your measures and assumptions.

DC- Tell us about the process of implementing the HR Scorecard.

MH- In our view, developing a great HR Scorecard is really only half the battle. You also need to get people to buy-in and actually use the data contained in the scorecard if you want to drive change in the organization. Change is hard, and measurement can be threatening. Many people will avoid both if they can. In our book, we present a seven-step model for implementing scorecards, which is based on a model that was developed at GE. The highlights are:

1. Leading change – Who is responsible?

2. Creating a shared need – Why should we do it?

3. Shaping a vision – What will it look like when we are done?

4. Mobilizing commitment – Who else needs to be involved?

5. Building enabling systems – How will it be institutionalized?

6. Monitoring progress – How will success at implementing the scorecard be measured?

7. Making it last – How will it be initiated and sustained?

DC- That kind of full-fledged change management process will be familiar to our readers. Do you have any closing comments for our HR managers?

MH- HR Scorecards aren't a magic bullet: they won't fix a broken HR function. But HR Scorecards can provide the fastest way that we know of to link HR with the needs of the business – and to begin fulfilling the promise of HR's "business partner" role. And that ain't bad.

Post Your Comments

Author

David (Daud) Creelman is a **Knowledge Manager** at HR.com.

He has ten years of experience working for major international consultancies both in North America and Asia. He is a regular speaker at HR conferences and has

published many articles on management issues.

Prior to working in HR, David worked in Finance and IT.
He has an MBA and an Hons B.Sc. in Biochemistry and
Chemistry.

David Creelman
dcreelman@hr.com

HR.com

Email this article to a Friend | Printer friendly version

Ⓧ Back

Edit Profile | FREE Mail @HR.com | About Us
Contact Us

HRweb4