Organizational Dynamics, Vol. 32, No. 2, pp. 107–121, 2003

www.organizational-dynamics.com

ISSN 0090-2616/03/$-see frontmatter
doi:10.1016/S0090-2616(03)00013-5

Available online at www.sciencedirect.com

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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 be captured in financial terms. Several studies have found that 30 to 40 percent of market appreciation is due to non-tangible factors. An Ernst & Young study has shown that intangible factors (e.g., strategy execution, managerial credibility, strategy quality, attracting and retaining talent, management experience, and compensation strategy) explain much of the variance in the market value of firms. These factors vary across industry; for example, in the computer industry, the quality of management explains as much as 13 percent of the total variance in market capitalization.

Thus, research has demonstrated that many targets of HR work can and do differentially impact a firm's financial outcomes. While this notion is often given lip service by firms, a growing body of evidence shows that what HR does can have a significant bottom-line effect. In a major research study, Huselid found that firms with sophisticated HR systems (also known as "high performance work systems") have a significant financial impact on profits per employee, sales per employee, and market value per employee. These findings have gained the attention of other academics and executives interested in better assessment of HR systems, as well as in redesigning executive appraisals to ensure that leaders are held accountable for enhancing their workforce's contribution to the bottom line.

One problem has been measurement effectiveness. A Conference Board survey of senior executives reported, as expected, that customer, financial, operational, and people measures were all seen as important but not equally effective. The test of measurement effectiveness was the executives' willingness "to bet their job" on the quality of the measures. The survey found significant discrepancies among domains, with the greatest discrepancy in people measures. Thus, substantial work is needed in the assessment of workforce measures in firms. Below we explore how to measure the workforce, the HR function, and firm leadership with respect to their impact on the workforce and ultimately upon a firm's strategic success.

FROM BUSINESS SCORECARD TO HR SCORECARD

Our approach starts with Kaplan & Norton's Balanced Scorecard, a familiar concept in most firms. While maintaining the scorecard's

FIGURE 1 BUSINESS SCORECARD

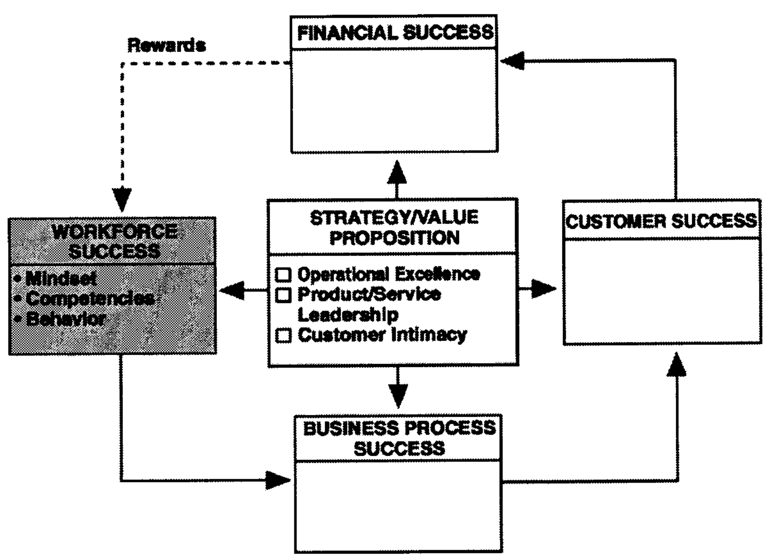
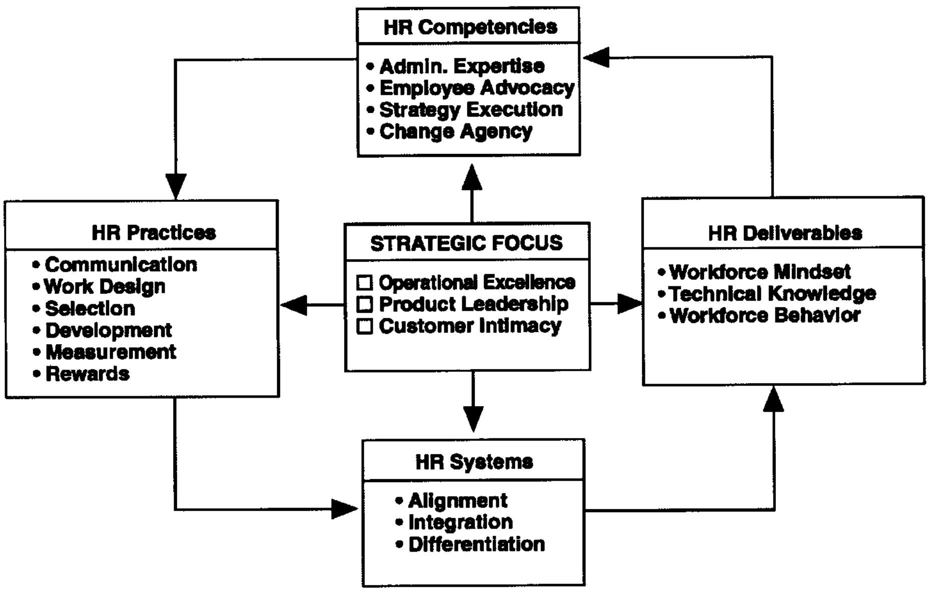


FIGURE 2 HR SCORECARD



core by retaining the financial, customer and business process success components, we have changed the component "Learning, Innovation, Etc." to "Workforce Success." We call this new scorecard the Business Scorecard (Fig. 1). Also notice that we prefer to use the word "success" as opposed to "satisfaction." Clearly firms can go out of business while satisfying customers and employees. Rather, the objective is to make both customers and employees successful in order to make the enterprise successful. We have also replaced terms such as "mission" and "vision" from the center of the scorecard with "strategic choice." For a non-diversified firm or for a business unit within a diversified firm, we believe that a strategic choice (or value proposition) should be articulated, such that the workforce can understand and embrace how the unit intends to be successful in its chosen market. To simplify, we chose Tearcy & Wiersema's scheme in which firms pursue value propositions of low-cost provider (operational excellence), innovator (product or service leadership) or customization/unique solutions (customer intimacy). Strategic choice significantly impacts the definition of customer success, business process success, and plays an important role in assessing what the workforce must do to be successful.

To make the workforce successful in the context of the scorecard system, we must specify the major targets of an HR system, or HR's deliverables: workforce mindset, competencies, and behavior. To produce these deliverables, components of the HR system must be assessed on the competencies required of the *HR* workforce, the HR practices used to produce HR's deliverables (e.g., communication, work design, selection, development, measurement, rewards, etc.), and the HR system's integration and alignment with the strategy of the business.

This approach yields an HR Scorecard (Fig. 2) that enables the development of HR dashboards that capture HR's contribution. Several firms are pursuing such measurements systems and have made substantial progress. Boeing, General Electric, South-

Corp Ltd., United Distillers & Vintners and Verizon are developing on-line, real-time metric systems to monitor HR processes and deliverables.

ASSESSING HR'S COMPETENCIES

Assessing HR's competencies refers to the competencies of the HR workforce (i.e., the people who populate the HR function, their strengths and weakness in specific areas of expected HR performance). We look at HR competencies through the lens of Ulrich, whose book, *HR Champions*, analyzes HR's roles in terms of its focus on people or processes, as well as its strategic or operational focus. Thus, these roles can be depicted as a two-by-two matrix. First, the HR function can be conceived as having a process and tactical focus on administrative efficiency in the delivery of HR transactions. Second is HR's "employee advocacy" role (formerly "employee relations"), with an operational focus on serving the workforce (i.e., people) and the growth and retention of critical components of the workforce. HR's third role is strategic, whereby HR better enables the firm to execute its strategy by aligning HR practices with business strategy. The fourth role is concerned with changing the workforce—HR's "cultural change" role. Obviously, HR functions do not focus only on one role, nor should they. The point is to determine to what extent HR is currently focused on each role, and where it will need to be focused to enable the firm to be more successful.

The focus of the HR function should correlate with the firm's life cycle phase and strategic choice. As these shift, HR's focus must shift. For example, a firm pursuing an operational excellence strategy would want an HR function concerned with administrative efficiency. A firm moving from a product leadership to operational excellence strategy (a common occurrence with the commoditization of products and services) would likely require significant HR competencies in cultural change, as well as in strategy execution. Firms pursuing a product or service leadership strategy (i.e., innovation) would most likely want HR focused on providing "A players in A positions." In other words, the HR focus is to help populate the firm with the very best R&D or technical/innovative talent in order to distinguish itself from its competitors by building applied innovative and creative products (or services) that can create large-scale demand and command premium pricing.

How success in each role might be measured is easily understood. Measures of administrative efficiency are relatively simple (e.g., benefits cost per employee, processing cost per transaction, response time for benefit information requested, etc.). Employee advocacy measures are somewhat more complex. They involve issues such as retention rates of critical human capital, growth rate of core competency human capital, retention rate of critical human capital during organizational transitions or transformation, retention rate of "A" players in "A" positions, etc. Strategy execution measures might include: the extent to which the workforce understands the business's strategy (as measured by survey), line management feedback on the HR system's alignment with business strategy, or the HR workforce's level of understanding of the criticality of the HR function's integration. For firms active in mergers and acquisitions, another measure might be the depth of excess capacity of executives to export to recent acquisitions. The cultural change role measures might include: success rate of external hires brought in to "seed" firm change efforts, employee knowledge of the status of change efforts, depth of bench strength in change efforts, measures of employee mindset or mindset shift towards strategic goals and objectives, and certainly management's satisfaction with HR's contributions to organizational transformation efforts. Thus, there are some relatively straightforward measures of the HR function in terms of its competencies, all of which are driven by what the HR function needs to accomplish at any point in time.

ASSESSING HR'S PRACTICES

HR practices can be assessed against "best practices," or benchmarking. What can the HR function learn from other firms? How well is it doing relative to others? There are many best practice studies and many purveyors of best-practice information. Thus, one way HR can assess itself and its processes in delivering basic HR practices (e.g., selection, rewards, measurement, training and development, communications, work design, etc.) is to collect best practice data from available sources or actually conduct site visits. Once the data is gathered, the function can compare itself against a baseline and decide what improvement initiatives to undertake. Firms of substantial size can build internal scorecards, whereby critical HR practices can be compared across business units to determine how well one unit is doing relative to the firm's other business units on factors such as retention, labor costs, scarce-talent compensation, customer satisfaction, etc.

There is one caveat in using best practice assessment. Focusing on one practice or process in a system to the exclusion of others can drive the system out of tolerance, rather than enhancing the *system's* contribution to the firm. This very important point was often emphasized by W. Edwards Deming, who stimulated attention to operational measurement in the United States based on his work on quality in Japan. Thus, we must realize that enhancing a given HR procedure or practice can be useful, but in doing so we must avoid diminishing the efficacy of other components of the HR system. This leads us to HR *systems* as a third way of diagnosing the impact of the HR function on firms.

ASSESSING HR'S SYSTEMS

We conceive of HR systems as the basic components of HR viewed as an interconnected whole with respect to a firm's strategy or value proposition. Our discussion explores three ways of assessing HR systems: alignment, integration, and differentiation.

Alignment relates to understanding that different business strategies require different cultures. Drawing on the seminal work of Schuler & Jackson, we use the three business strategies previously mentioned—operational excellence, product leadership, and customer intimacy—to demonstrate this point. In particular, there are significant cultural differences required of the primary workforce that must deliver the firm's value proposition.

Firms following an operational excellence strategy need a workforce that: identifies with business processes, is trainable, can learn rapidly, willingly follows the battle plan, is short-term focused, possesses a mindset that seeks to avoid waste and minimize costs, and is driven by incremental improvement. Because the objective of such firms is to build systems to drive the variance—and thus all the costs—out of the system, free spirits and ostentatious behavior are not welcome. The last thing that is needed in McDonald's is a creative hamburger-flipper! Firms that essentially follow this strategy include: Federal Express, Nucor, Wal-Mart, and, of course, McDonald's and most other fast-food franchisers. Such a value proposition 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., 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 relatively tight platform. This enables the capture of customer information (i.e., customer intelligence) to build and efficiently deploy knowledge capital throughout the system, such that unique solutions are developed to leverage the relationship with the customer. The customer solutions culture not only solves immediate customer problems but also anticipates future customer needs based on learning occurring throughout the firm. Learning from customers enables further customization and requires a *very* strong external focus that operates through a smart and efficient dissemination platform. Airborne Express and Dell are examples where a firm finds unique solutions to customers' delivery problems but within a system that is tightly structured to capture

FIGURE 3 ALIGNING HR PRACTICES AROUND VALUE PROPOSITIONS

WORKFORCE ALIGNMENT

Strategic Choices and Traditional HR Allignment

	Work Design	Performance Measures	Selection of Competencies	Competency Development	Rewards	Communication
	• Right Work • Key Processes • Job Design • Organizational Design	• Culture • Expectations • Feedback • Levels	• Hire • Move • Exit	• Orientation • Current Job • Career Level	• Behavior • Consequences • Reward Levels	• Strategy • Mindset • Status
	• Centralized/controlled • Strict policies/ procedures	• Total cost productivity • Errors • Waste • Abandoned calls • Lost customers/accounts • Net sales -> head count • Times/deadlines met	• Strong basic education: – Quantitative – Verbal * Written * Oral • Process competencies • Passive learners	• Strong orientation on expectations, rules • Predictable career ladder • Learning structured	• Team productivity awards • Profit sharing tied to performance criteria • Skill-based pay	• Strategic choice • Teamwork • Encourage process improvement • Productivity improvement feedback
	• More autonomy • Teams (cross functional)	• % Sales from new products (e.g., last 3 years) • Margin • New sales growth Customer growth • Industry accolades/recognition • Copyrights • Patents	• Technical/research competencies • Outside-the-box thinkers • Active learners	• Employees responsible for learning • Mandatory competency growth • Feedback on professional competency growth	• Team innovation awards • Competency-based pay	• Strategic choice • Antibureaucra tic • Candor • Humble • Encourage ideas/problem-solving • Let employees know what a winner "looks like" • Feedback on new product sales
	• Coordinated • Know the customers' needs	• Customer guarantees • Customer retention rate • No. refe rrals from current customers	• Active learners • Networking competencies • Resourcefulness	• Oriented toward long-term relationship with customer • Not a lot of ladders • Acts as a consultant to customer/partner	• Individual awards • System awards • Nonfinancial awards • "Fee for Service" awards	• Strategic choice • Customer advocates • Know your customers' needs
	Implications: What must we do (first? Second?) to align HR with our business strategy?					

customer intelligence and remain price competitive.

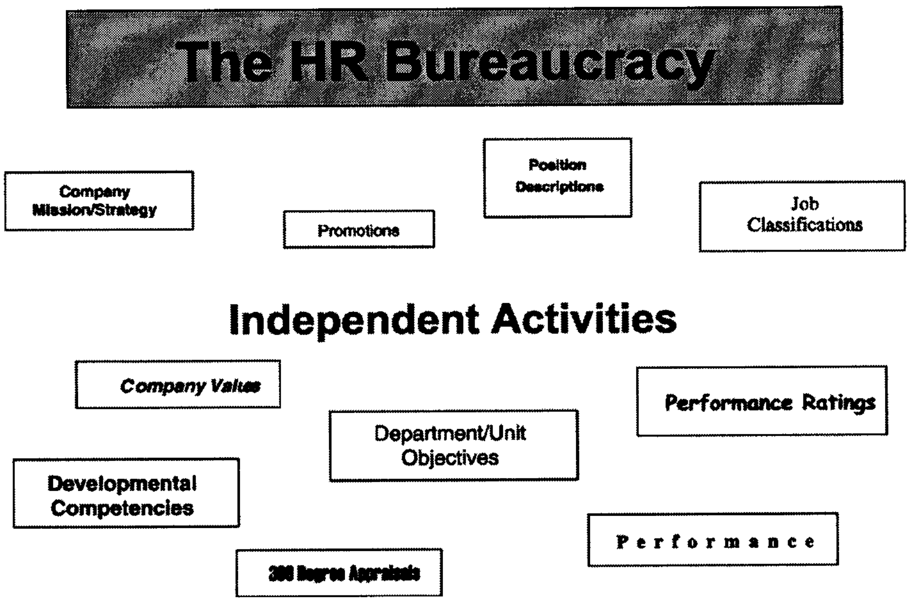
Strategic alignment means focusing HR practices on the firm's value proposition, as illustrated in Fig. 3. For example, in operational excellence one of the best workforce measures might be total cost productivity. The best rewards might be based on team productivity, since it would leverage the value proposition by creating "more with less." This would create self-funded productivity gains that can be shared with the workforce that enhanced productivity.

Product/service leadership measures might use sales from new products generated within, say, the last three years, and team innovation or revenue growth rewards based on new product sales, because these metrics are better measures of strategic success in delivering the value proposition created by the core workforce. Thus, revenue sharing incentives might be appropriate. Competency-based pay might also be appropriate for growing the competencies in the innovative, technical, and research units required by firms pursuing such a strategy.

In customer intimacy, customer guarantees, customer retention rates, and customer referrals might be important performance measures. Individual rewards for identifying new and better ways of serving customers, as well as system-wide team rewards, are appropriate for compensating the workforce for further leveraging the value proposition of customization.

Another *major* systems component is integration of the HR function. HR practices are seldom integrated (Fig. 4). In fact, one of the embarrassments of the HR profession is reliance on many different databases, all describing work or the workforce but using different language. The compensation staff has its language for job evaluation, training and development uses the language

FIGURE 4 COMMON LANGUAGE



of competencies, skills, knowledges, abilities, etc. The selection staff has a specific jargon having to do with job requirements and specifications found in job descriptions, different yet from the learning requirements of training and orientation efforts. Moreover, the performance measurement system often uses language entirely independent of workforce data from other areas of HR. In addition, top management can add to the language stew by using terms such as teamwork, integrity, leadership, etc. in a firm's mission and values statement. Such usage may not be conceptually different from HR's attempts to describe work or workforce but may not reinforce efforts to shape workforce mindset. Based on evidence, we believe that these systems need a common language and be supportive of one another.

Business strategy, communications about a firm's strategy and strategic direction, and the design of work all need to be aligned and integrated. Further, HR's basic system components—measurement, selection, development, and motivation—need to be aligned and integrated, with a common language as well. Since performance measurement is critical for gauging strategic progress, it must be consistent with the firm's value proposition. Because selection, development, and motivation efforts are all designed to enhance performance, it behooves firms to significantly improve their integration to leverage individual and firm performance. There is substantial evidence that this does not occur. Surveys report that neither managerial/professional nor hourly workers believe HR system components are well integrated.

Do alignment and integration make a difference? They certainly do. Substantial evidence from Huselid's survey of some one thousand firms indicates that alignment and integration of a firm's HR systems plays a critical role, with the impact varying by the quality of a firm's work system. Huselid

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

Source: Lepak & Snell, 1999

refers to these as "fit" and "complement," fit with respect to strategy and complement with respect to the components of the HR system. Huselid's findings demonstrate that substantial changes in market value occur based on the extent to which HR systems are aligned and integrated. For the least sophisticated one-fifth of firms in terms of HR, merely having an HR system is associated with >$40,000 increase in market capitalization per employee. However, for the next 40 percent of the sample, lack of alignment and integration do not seem to have much of an impact on market capitalization. (This may be one of the traps of best practices, for such firms may be engaging in various efforts to enhance one component of the HR system, without having a greater impact on the firm as a whole. In fact, best practices may create more variance within the HR function and therefore reduce its impact on the bottom line.) Finally, and most important, what the data shows is that for the top 40 percent, or most sophisticated HR systems, alignment and integration pay off substantially, adding *another* $40,000 to market capitalization per employee. Thus, alignment and integration of HR systems is not an academic issue. They impact a firm's financial returns.

Finally, a major emerging issue is workforce differentiation. Here we draw on the important recent work of Lepak and Snell. Fig. 5 illustrates the competitive advantage of human capital in organizations and the availability of this human capital in the market. Readily available human capital with little strategic leverage is referred to here as contract services. In other words, this is work that is far from core in creating or delivering the firm's value proposition and is a candidate for outsourcing. Strategic capabilities are those that are narrowly distributed in the labor market and have a significant impact on a firm's value proposition. Hence, the issue is how should a firm leverage its workforce. Another cell of the matrix we call professional partners—positions within firms not directly responsible for leveraging its value proposition. These positions differ depending on a firm's strategic pursuit. For a manufacturing firm, professional partners (i.e., not strategically core positions, yet professionals not abundant in the labor supply) include units such as law, finance, accounting, and even human resources. Although professional partners are narrowly distributed in the labor market, they do not directly contribute to the firm's competitive advantage in its chosen market. However, operational partners, although widely distributed in the labor market, have a significant impact on delivering the value proposition of the firm.

We concur with Lepak and Snell that each of these segments may call for a different focus in terms of HR systems. Contract services (work generally far removed from core) might require HR to assume a customer–supplier relationship with the firm, with HR's responsibility to make sure that the firm is getting the best, least expensive deal from a vendor. Obviously HR practices would be important here in terms of measurement, selection, and even development, and perhaps rewards to ensure that what is contracted for is delivered as specified. Professional partners would call for special treatment as professionals; at the same time, they are working outside their profession. They may be competent, but if they were *the* most competent, most likely they would be working in the professional firms within their discipline. Thus, from a compensation standpoint, they should probably be paid at or near midpoint and not much higher. Clearly if a firm finds itself in legal, financial or accounting trouble, it will likely go outside to find vendors with more qualified or specialized professionals.

Strategic capabilities, on the other hand, require the most care by HR because they leverage the firm's value proposition. How such individuals are selected, trained, measured, and compensated makes a difference. These individuals may be compensated above or well above prevailing rates if a firm wishes to attract and retain the very best for positions that have strategic leverage. In fact it may be that one cannot pay too much for such individuals if they actually provide significant strategic leverage. Operational partners, on the other hand, probably should be paid at market, but with significant group incentives, especially in systems such as operational excellence, where cost reduction is imperative. In other words, assessing HR performance involves not only HR alignment and integration (relatively new concepts to the HR function), but also differentiation—leveraging the HR system to maximize the contributions of the *core* workforce in delivering the firm's value proposition.

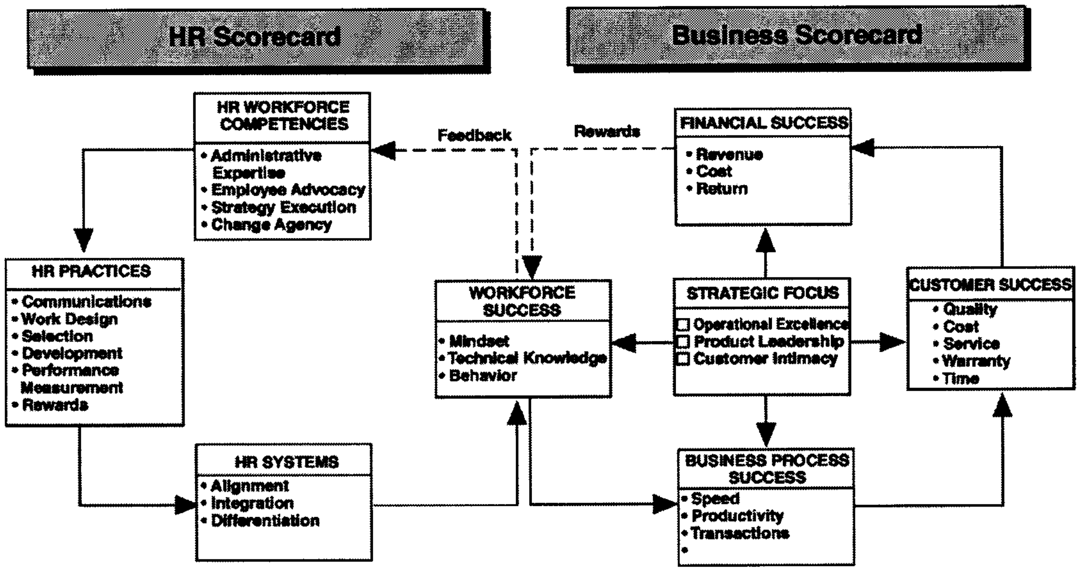
LINKING TO THE BUSINESS SCORECARD

As shown in Fig. 6, the HR Scorecard must be linked to the Business Scorecard, moving HR from focusing on doables to deliverables. What HR has been engaged in, as we have described it, is building competencies, aligning practices, and integrating and differentiating its systems to provide the workforce that can best leverage the firm's competitive advantage. But what it must *deliver* is a workforce. Workforce success is the ultimate objective of any HR system. How might this be assessed if we are truly to measure the HR system's effectiveness? One way is to measure the *mindset* of the workforce by eliciting answers to such questions as:

- Do employees know and understand the firm's strategy?
- Do employees know and understand the status of the firm's success with respect to the pursuit of that strategy?
- Do employees know and understand the firm's value proposition and how it is delivered?

Workforce mindset has been measured by various surveys. We believe such surveys should be much simpler and more frequent

FIGURE 6 LINKING HR SCORECARD TO BUSINESS SCORECARD



than in the past. For example, Sears' survey data, popularized in the *Harvard Business Review*, clearly support this. With ten questions Sears has been able to create a significant measure of workforce success (really a measure of workforce efficacy) and has demonstrated the impact of and improvements in workforce success on customer success and firm financial success.

Similar results have been reported elsewhere using other scorecards (e.g., by many statewide Baldrige award winners). The Gallup Organization has used a 12-question survey that captures factors impacting productivity, retention, profitability, and customer satisfaction, as well as explaining a significant amount of variance in firm performance. Their questions are very similar to Sears' 10-question survey. Research is ongoing in this area, and survey data can help identify measurements of importance. Clearly a relationship exists between workforce behavior, operational success, customer success, and the financial success of firms.

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

- Do employees know and understand what they are to do?
- Do employees believe they have the skills and knowledge necessary to do their job?
- Are employees provided the managerial support and support systems to do the job to the best of their ability?
- What level of competency is necessary in strategic resource positions now (and in the future)? Are individuals in these critical positions (e.g., sales representatives, customer service, etc.) delivering the behaviors expected of them?
- How many truly "A" players are there in "A" positions?
- How many "B" or "C" players are there in "A" positions?
- How many have passed behavior- or knowledge-based checkouts on specific competencies required for success in their jobs?

- Are our leaders behaving in ways that elicit "followership"?
- Do our leaders manage employee performance by detailing performance expectations, providing feedback, and conducting a meaningful review with an equitable reward conference?
- Are our leaders responsible for and assessed on their workforce's mindset, competency growth and behavior in strategic positions?

There have been many demonstrations of competency measure success, but the issue is which competencies to measure. Clearly competencies must be tied to business success. In fact, competencies should be tied to specific business deliverables (e.g., operational, customer and financial success). One problem in competency measurement is that competencies are often in "free-float" based on a firm's existing population, especially the firm's current executive officers, instead of the competencies necessary to win the firm's future. Competencies must be tied to business success and pass the "So what?" or "Because of?" test. Such competencies and their measurement are exemplified by mandated product knowledge and testing for sales associates (and executives) at Circuit City and Series 7 and 9 examinations in financial services to demonstrate General Electric's "Black Belt" proficiency.

The objective is to drive those behaviors with substantial impact on business process success that lead to customer success and ultimately result in financial success. Firms that are successful operationally and with their customers should experience firm financial success. From the perspective of HR, it is a continuous feedback loop. Financial success fuels the next generation of employee rewards. Customer success provides the feedback that enables the HR function to understand what needs to done to build better (or different) HR workforce competencies, enhance HR practices and determine the necessary steps to improve the alignment, integration, and differentiation of HR systems.

To achieve success HR must have a significant partnership with line management. While it is only reasonable to hold the HR function accountable for workforce success, line management should also be held accountable for the same workforce success metrics. If line managers wish to be successful in delivering on their business model (e.g., the Balanced Scorecard), they must be held accountable for workforce metrics such as workforce mindset, competency growth and behavior in delivering the unit's value proposition.

It is not unreasonable to ask what HR is willing to guarantee management in terms of workforce mindset, and behaviors. But the corollary is to ask what is line management willing to guarantee the firm, its workforce, customers, and its investors. Certainly line managers should be held accountable for financial success, customer success, business process success *and* workforce success. Workforce success for every manager can clearly be measured by metrics such as leader behavior (e.g., through 360°—or better yet 180°—assessments), workforce mindset and workforce competencies. Indeed, if we are willing to accept the value of intangibles and their impact on market capitalization, it would be prudent to have a significant portion of all executive incentive compensation driven by leader behavior and workforce measures for any unit for which a manager is responsible.

SUMMARY

Our objective has been to rethink the measurement of "soft-side" functions. While such measures may not always have the "hardness" of traditional business metrics, they are a step in the direction—the right measures, on the business's scorecard, and with greater robustness. We believe it is essential that the HR function be assessed on its deliverables, using simple outcome measures such as the improvement of the workforce mindset, its competencies, and critical behaviors. It is equally essential to ensure that line managers be held accountable on the *same* workforce attributes or firms will not be able to deliver the workforce necessary to make the firm's business model a reality. Thus, a partnership between line managers and HR using the same attributes for the measurement of workforce success is mandatory to deliver the success of the firm's business model as intended.

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