Building and Using the HR Scorecard/Dashboard

Developing an HR Scorecard/Dashboard for Assessing and Reporting HR's Impact on Your Company's Bottom Line

Russell consulting, inc.

Presented by Jeffrey L. Russell

Co-Director

The Failure of HR Strategy

In a 2002 industry survey by SHRM . . .

- Only 34% of executives view HR as a strategic partner

- Only 44% of respondents indicated that their organization communicates its strategy well

- Only 22% indicated that general employees understand company's strategy

- 21% indicated that HR only deals with operational issues vs. strategic ones

- Only 23% indicated that HR strategy was tightly integrated with company strategy

- Only 25% of HR departments use a balanced scorecard on HR's contribution to strategy

[SHRM Research, N=1310, Aligning HR with Organization Strategy Survey]

Our Learning Objectives

1. Describe the value and role of the HR Scorecard/Dashboard.

2. Discuss the difference between *leading* and *lagging* indicators as measures of HR effectiveness.

3. Identify the components of the HR Scorecard.

4. Identify the key performance drivers and enablers that constitute the primary HR deliverables.

5. Develop some preliminary HR Scorecard/Dashboard measures for your HR department and company.

What is the Value of Tracking HR Effectiveness?

How are you currently measuring HR effectiveness?

Why Track HR Effectiveness?

- **To guide decision making** — It helps HR staff in how best to manage the HR system to support the company.

- **To evaluate program/department effectiveness** — It constitutes a "report card" to guide improvement efforts.

To Be Most Effective . . .

The most effective measures of HR :

1. Identify a clear, consistent, and compelling *connection* between the company's strategy and the work of each employee.

2. Zero in on the *critical few measures* that have the greatest impact on the company's bottom line.

3. Document the effects of HR on company performance in *credible ways* that employees, line supervisors, and managers can understand.

The HR Deliverables

■ **HR Performance**
Drivers ⟶ **Results**

■ **HR Performance**
Enablers ⟶ **Reinforcing the Drivers**

Measuring HR Results . . .

- How do you know if your HR efforts are *successful*?

- How do you *measure* the effects or results of these HR, training, and OD efforts?

- How will you *know* that your efforts and initiatives have paid off?

Measuring Human Health

- What are the key signs of *human* health?

- How do you **know** if you are healthy or unhealthy?

- Which of your "**vital signs**" might you chart over time?

- What might happen if you **ignore** these vital signs?

Measuring Health <u>After</u> the Fact

- Tracking your "vital signs" along the way can give you an early warning of emerging health concerns.

- Failing to measure these vital signs — or ignoring the signs can lead to . . .

Lagging Indicators

Lagging indicators are *outcome measures* that help you gauge your HR progress by examining the final end result or *outcomes* of your collective efforts.

Use of the "lagging" term reflects the delay or gap between your actions and a change in the final end result.

Characteristics

- *Outcome* measure.

- Indicates the *end result* of the system.

- Tells you what happened, not what *is* happening.

- Less effective at measuring the effects of specific changes made to the system.

Lagging Indicator Examples

Non-HR Examples . . .

- **Health** — heart attack, liver failure, stroke, **death!**
- **Automobile** — arrived safely at destination (or not), engine failure, blown tire, citation from traffic enforcement, etc.
- **Economy** — GNP growth, national debt, unemployment rate, etc.

HR Examples . . .

- Employee retention.
- Employee performance.
- Organizational performance.
- Customer retention.
- Employee productivity.
- ?

Lagging indicators have a *direct* bearing on a company's bottom line. There is a business interest in and a direct financial benefit from improvement in these areas.

Your Turn . . .

What are some *lagging* indicators that you could use to measure the <u>results</u> of the effectiveness of your HR efforts?

Leading Indicators

Leading indicators are *process measures* that help you gauge *incremental* progress you are making toward key HR outcome (lagging) measures.

❑ Since leading indicators measure the results from your processes, there is less of a delay between your actions and a change in the system.

❑ They are the *performance drivers* — the key factors that enable the overall end result (outcome) you want to achieve.

Characteristics

- *Process* measure.

- Immediate feedback to the system.

- Tells you what *is* happening now.

- Can be tracked over time.

- Provides an "early warning" of emerging results.

- Very responsive to changes in the system

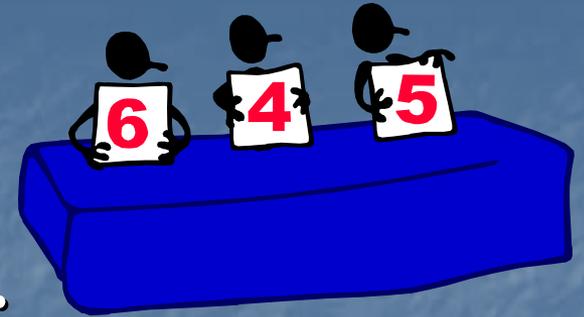# *Leading* Indicator Examples

Non-HR Examples . . .

- **Health** — Heartbeat, body temperature, blood sugar levels, cholesterol levels, blood pressure, etc.

- **Automobile** — gas gauge, engine temperature, speedometer, odometer, oil level, indicator lights, rumble strips on the roadway, GPS coordinates, etc.

- **Economy** — home starts, capital equipment purchases, layoffs, stock market value, public confidence, exchange rates, etc.

HR Examples . . . Increasing retention

- A reduction in absenteeism in key positions.

- % increase in internal people expressing interest in position

- Number of positive comments from customers

- ?

Leading indicators have an *indirect* bearing on a company's bottom line. While there <u>is</u> a business interest in improvement in these areas, there may not be an immediate financial benefit to the company.
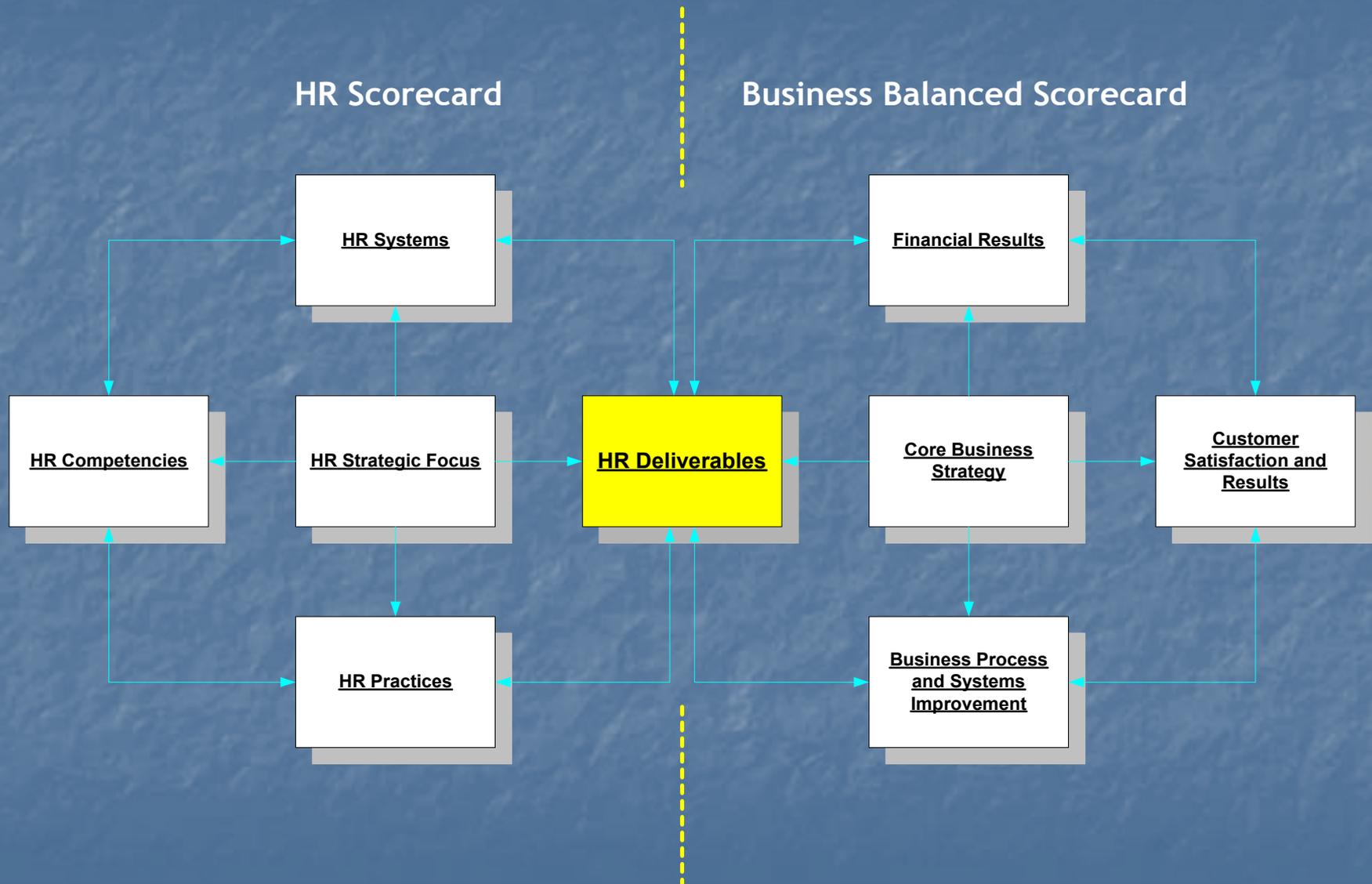
The HR Scorecard

1. Focuses on *leading* indicators.
2. Identifies the differences between HR *doables* and HR *deliverables*.
3. Demonstrates HR's contribution to strategy implementation and to the company's bottom line.
4. Helps HR managers focus on and manage their strategic responsibilities.
5. Encourages HR flexibility and change.

The HR Dashboard

HR Dashboard - December 2002

Composite QWL Score
Composite Core Values Score
Job Satisfaction Score

Meets   Far Exceeds

HR and the Business Scorecard

　　　　Business Balanced Scorecard

HR Systems

Financial Results

HR Competencies

HR Strategic Focus

HR Deliverables

Core Business Strategy

Customer Satisfaction and Results

HR Practices

Business Process and Systems Improvement

Strategic Objectives

People First Credit Union

Be the Financial Institution of Choice

Increase Financial Strength

Attract and Retain High Investment Members

Increase Assets

Reduce Cost Per Member

Financials

Scorecard Dimensions

Manage loan portfolios

Offer above market rates

Increase return on assets

Reduce bad loans ratio

Members

Increase member satisfaction

Expand membership

Identify product and service differentiators

Increase member retention

Offer diverse financial products

Cross-sell products

Develop member self-service

Increase online banking

Performance Drivers

Ensure reliability

Develop specialized financial products

Manage member relationships

Develop sales tools for MSRs

Streamline processes

Increase efficiencies

Operations

Develop targeted marketing program

Develop superior service capability

Develop marketing program

Conduct competitive analysis

Automate processes

Reduce transaction costs

HR Performance Drivers

HR Deliverables

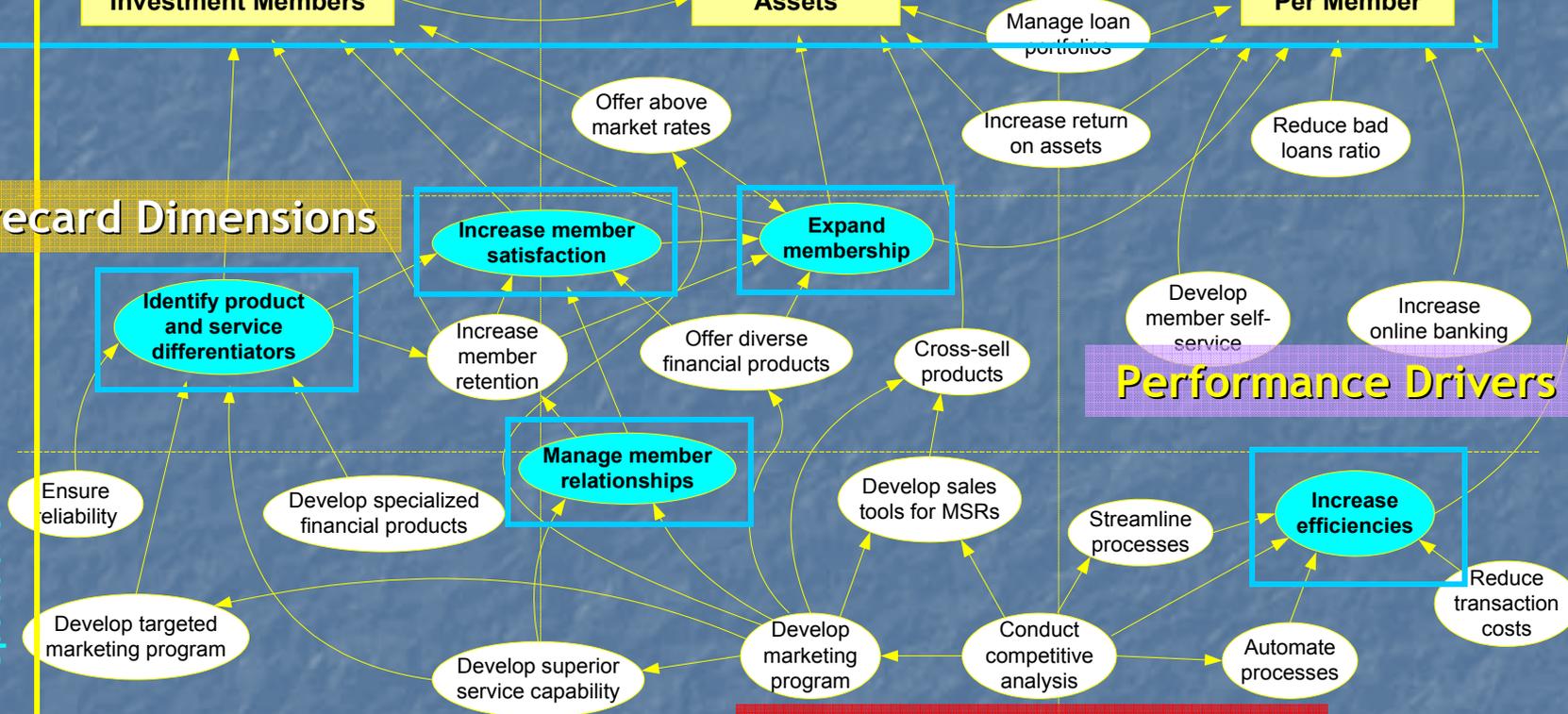| High levels of employee job satisfaction	High levels of internal customer satisfaction	Low turnover in the MSR position	Highly competent MSR staff	Staff knowledge of the Credit Union's Strategy
[Leading]	[Leading]	[Lagging]	[Lagging]	[Leading]

Developing Your Scorecard

1. Define/Describe Your **Business Strategy.**

2. Develop a **Strategy Map**.

3. Identify the **High Leverage** HR Deliverables.

4. Identify Key Components of the **HR Architecture** that Support the HR Deliverables.

5. Develop the **HR Scorecard/Dashboard.**

Your Turn . . .

- **Define your company's business strategy . . .**

- **Begin developing your strategy map . . .**
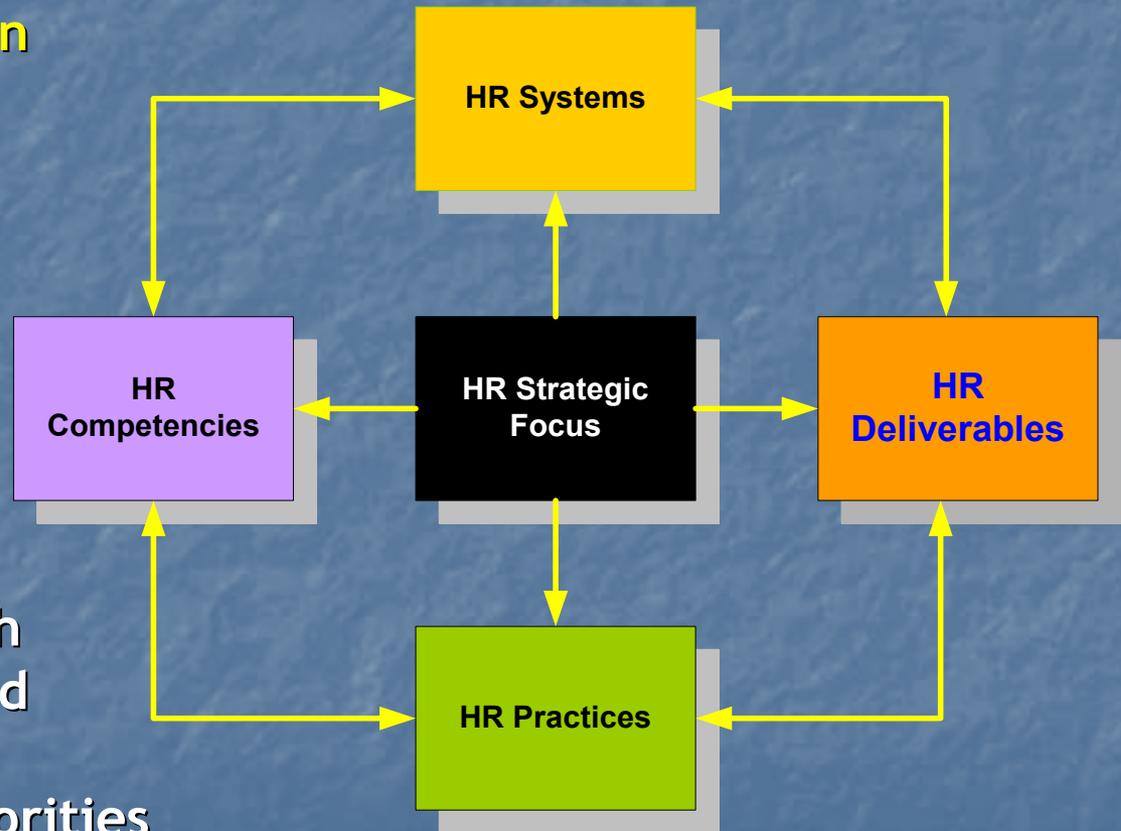
- **Identify high leverage HR deliverables . . .**

High Leverage
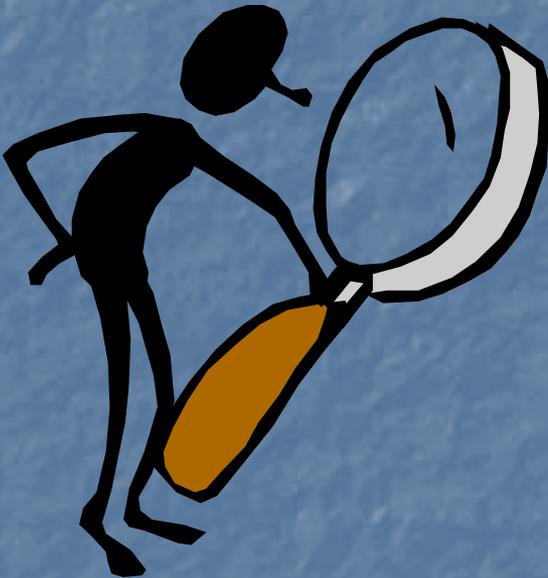
Specific actions where a small, well-focused effort could produce the most significant and *enduring* improvements or changes in the target outcomes.

The HR Scorecard

Balancing **value creation** with **cost controls** and efficiencies

Involves identifying both performance *drivers* and *enablers* to support the company's strategic priorities

```
                    ┌──────────────┐
                    │  HR Systems  │
                    └──────────────┘

┌──────────────┐    ┌──────────────┐    ┌──────────────┐
│      HR      │    │ HR Strategic │    │      HR      │
│ Competencies │    │    Focus     │    │ Deliverables │
└──────────────┘    └──────────────┘    └──────────────┘

                    ┌──────────────┐
                    │ HR Practices │
                    └──────────────┘
```

HR Competencies

HR Competencies
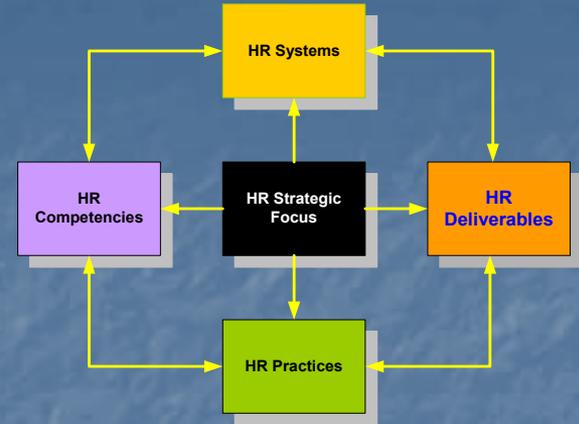
- Operational efficiency

- **High Performance Work System** — knowledge and use of best practices in HR

- Employee relations/advocacy

- Strategy execution

- Change agent

High Performance Work System

- Links selection and promotion decisions to a validated competency model.

- Develops strategies that provide timely and effective support for skills required for strategy implementation.

- Enacts compensation and performance management policies that attract, retain, and motivate high-performance employees.

Example Elements of HPWS

- Average merit increases granted by job classification and performance
- Number and quality of cross-functional teams
- Number of employee suggestions generated and implemented
- Percent of total salary at risk
- Quality of employee feedback systems
- Number of hours of training received by new employees

- Merit pay differential between high-performing and low-performing employees
- Proportion of the workforce that receives formal performance feedback from multiple sources (360 feedback)
- Number of exceptional candidates recruited for each strategic (key) job opening

From <u>The HR Scorecard</u>

HR Practices

HR Practices
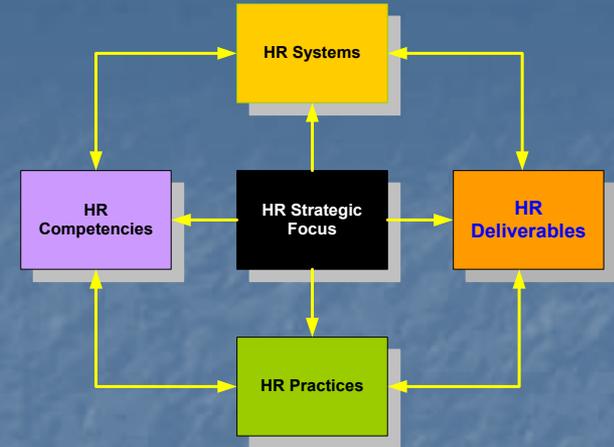
- Staff competency model

- Recruitment and selection

- Employee orientation

- Compensation and benefits

- Performance measurement

- Labor-management relations

- Effective work design

- Internal customer satisfaction

- Communication

- Training and development

- Succession planning

HR Systems

HR Systems
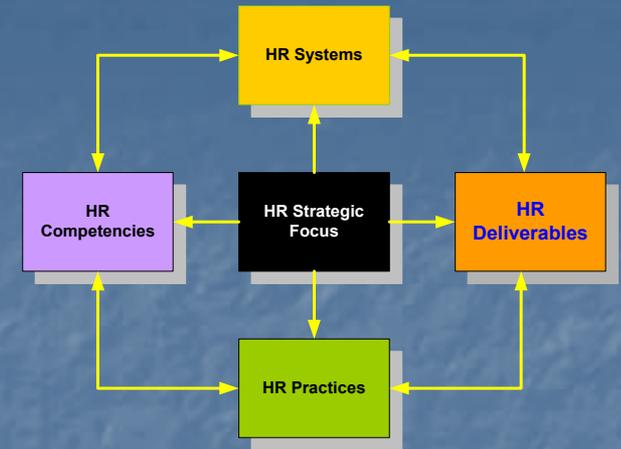
- Internal HR alignment

- HR alignment with company strategy

- Matching HR strategy to the company culture

- Differentiating HR services to match the different needs of different departments/strategic business units

Your Turn . . .

Building from your **HR Deliverables** . . .

- Identify your key "**high leverage**" HR "doables" and enablers in your:

  - HR **Competencies**

  - HR **Practices**

  - HR **System**

Creating Measures of Your HR System Alignment

- Assessing staff perceptions of the *internal* alignment of your HR practices — Are they internally consistent with one another?

- Assessing staff perceptions of the *external* alignment of your HR practices:

  - To what extent do your HR deliverables enable the company's performance drivers and strategic objectives?

  - To what extent do your HR practices enable/support your HR deliverables?

Measuring *Internal* HR System Alignment

Measuring the "fit:"

-100 = at cross purposes

0 = little or no effect

100 = mutually reinforcing

HR Practices	Recruitment & Selection	Training and Development	Performance Management	Comp. & Benefits	Work Organization	HR Cost Control	HR Value
Recruitment & Selection	––	-25	0	-50	-35	+25	-10
Training and Development	-25	––	+25	0	+75	+45	-20
Performance Management	0	+25	––	+20	-5	+10	-5
Compensation & Benefits	-50	0	+20	––	0	0	-35
Work Organization	-35	+75	-5	0	––	0	-15

Measuring *External* HR System Alignment

Measuring the "fit:"

-100 = counter productive

0 = little or no effect

100 = significantly enables

HR Deliverables

People First Performance Drivers ↓	High levels of job satisfaction	High levels of internal customer satisfaction	Stability in MSR position	Highly competent MSR staff	Staff aware of CU strategy
Increase member satisfaction	+80	+50	-80	-20	+20
Expand membership	+20	+30	-80	-30	+15
Manage member relationships	+50	+30	-50	-30	+15
Increase efficiencies	-10	+20	-40	-80	+10
Develop product differentiators	+20	+30	0	-80	+15

Measuring *External* HR System Alignment

Measuring the "fit:"

-100 = counterproductive

0 = little or no effect

100 = significantly enables

HR Practices

↓ HR Deliverables ↓	Recruitment & Selection	Training and Development	Performance Management	Compensation & Benefits	Work Organization
High levels of job satisfaction	+75	+30	+10	+20	+40
High levels of internal customer satisfaction	+30	0	-10	0	-20
Stability in MSR position	-30	+10	-20	-20	+20
Highly competent MSR staff	+20	+50	+10	+5	+10
Staff aware of CU strategy	+10	+20	+10	+40	+30

TPI at Sears

[Total Performance Indicators]

Key performance drivers at Sears:

- Attitudes about the job . . .

- Attitudes about the company . . .

About the Job . . .

1. I like the kind of work I do.

2. My work gives me a sense of accomplishment.

3. I am proud to say I work for Sears.

4. How does the amount of work that you are expected to do influence your *overall attitude* about your job?

5. How do your physical working conditions influence your overall attitude about your job?

6. How does the way you are treated by those who supervise you influence your overall attitude about your job?

About the Company . . .

7.   I feel good about the future of the company.

8.   Sears is making the changes necessary to compete successfully.

9.   I understand our business strategy.

10. To what extent do you see a connection between the work you do and the company's strategic objectives?

Dimensions of the EAS

- **Quality of Worklife Dimensions**: *leadership, communication, supervision, pay/benefits, etc.* [53 questions]

- **Core Values** — Measuring the "gap" between *actions* and *aspirations*.

- **Job Descriptive Index** — six dimensions.

- **Overall Job Satisfaction** — 10-point scale.

- **Open-Ended Questions** — (a) what people lik*e* best about working for credit union and (b) ideas to *improve* QWL.

Quarterly HR Dashboard

1. **Quarterly Survey** — (a) 20 questions, (b) five core values, (c) overall satisfaction, and (d) two open-ended questions.
2. **Sample Size** — 60 to 65 employees.
3. **Validity** — accurate +/- 1%.
4. **Administration** — e-mail link to survey.
5. **Confidentiality** — external consultant.
6. **Reporting Results** — Three "instruments" on the HR Dashboard

Example Survey Statements

Strongly Disagree	Disagree	slightly disagree	slightly agree	Agree	Strongly Agree
☐	☐	☐	☒	☐	☐
1	**2**	**3**	**4**	**5**	**6**

- I feel pride and a sense of accomplishment in the work that I do.

- I have input into how I perform my job.

- I feel appreciated for the good work that I do.

- My direct supervisor gives me clear performance expectations that enable me to do quality work.

- The Credit Union's managers and supervisors have clearly communicated the future direction and goals of the Credit Union to me.

Example **Value** Statements

- **Embrace change**: proactively seek improvement; anticipate and support change to meet corporate strategies and goals; take calculated risks and learn from experience.

Current

Never	Almost Never	Sometimes	Generally	Almost Always	Always
☐	☐	☒	☐	☐	☐
1	2	3	4	5	6

Desired

Never	Almost Never	Sometimes	Generally	Almost Always	Always
☐	☐	☐	☐	☒	☐
1	2	3	4	5	6

The difference between "current" and "desired" = A "gap of 2.0

Overall Job Satisfaction

Considering everything, how satisfied are you _**overall**_ with working at People First Credit Union? Place a mark in the box that best reflects your _overall_ job satisfaction level here.

Very Dissatisfied	1	2	3	4	5	6	7	8	9	10	Very Satisfied
	☐	☐	☐	☐	☐	☐	☐	☒	☐	☐	

What is the HR Dashboard?

The Credit Union's HR Dashboard is a panel of indicators that present a reading of the relative health/satisfaction of credit union employees on three dimensions:
QWL Score, Core Values, and *Overall Job Satisfaction.*

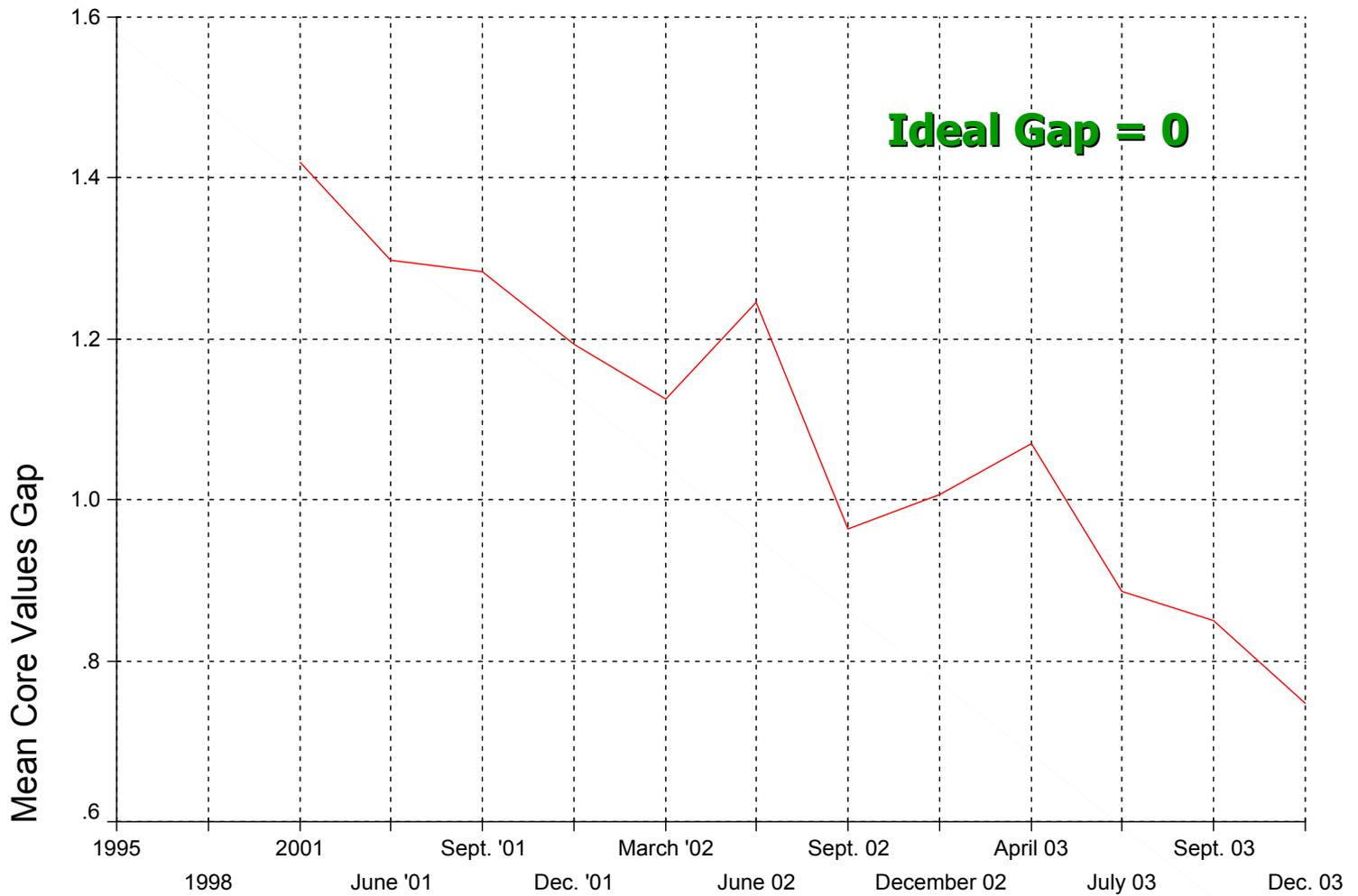# HR Dashboard -- QWL Dimensions

QWL Dimensions

Dimension	Mean
Leadership	4.36
Management	4.44
Communication	4.24
Pay & Benefits	4.64
Empowerment	4.18
Job Pride	4.69
Work Environment	4.44
Dept. Cooperation	4.22
Employee Growth	4.13
HR Scorecard	4.36

Dashboard Value

Mean

4.00 4.10 4.20 4.30 4.40 4.50 4.60 4.70 4.80

December 2003
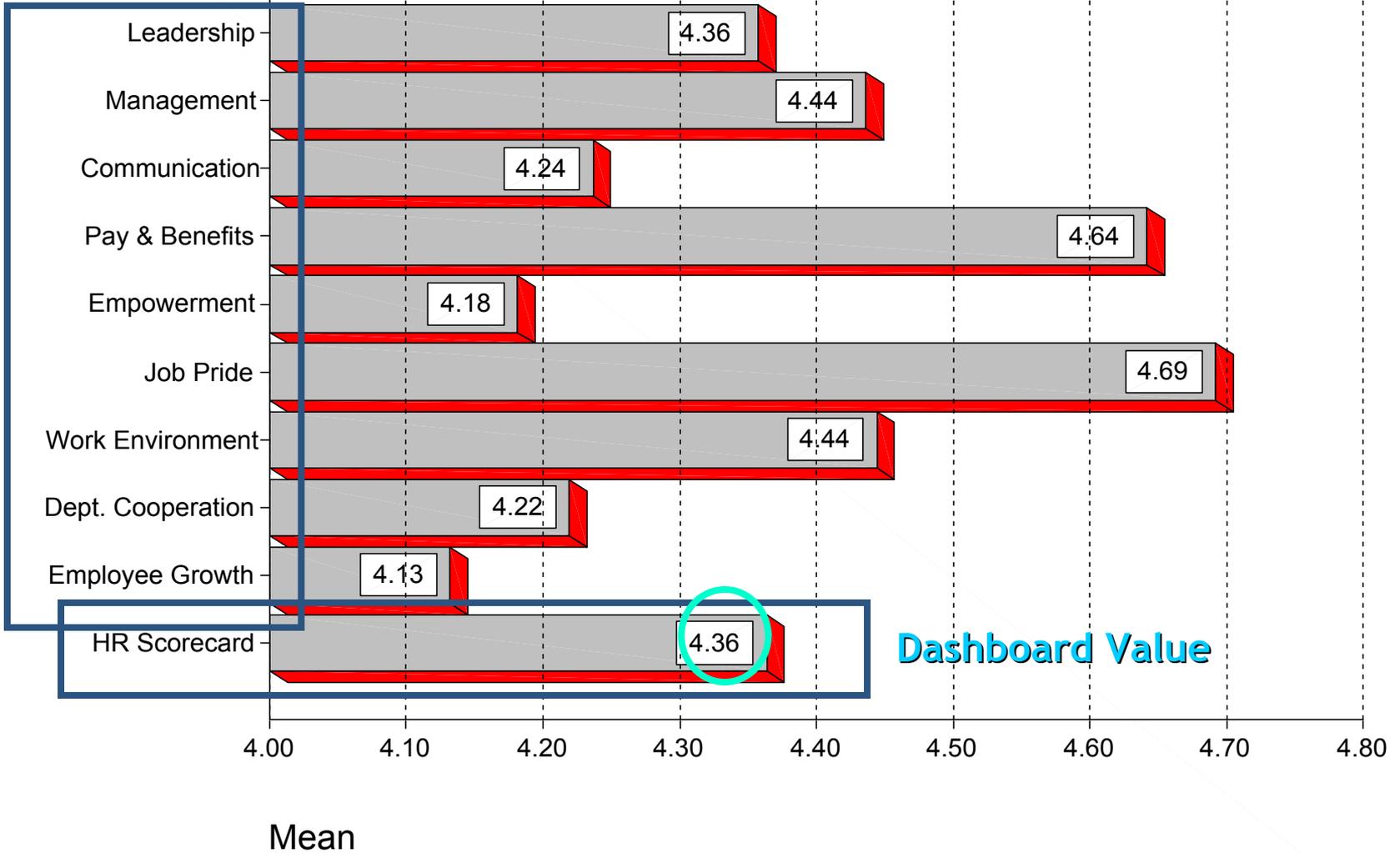
HR Dashboard: Composite QWL Score
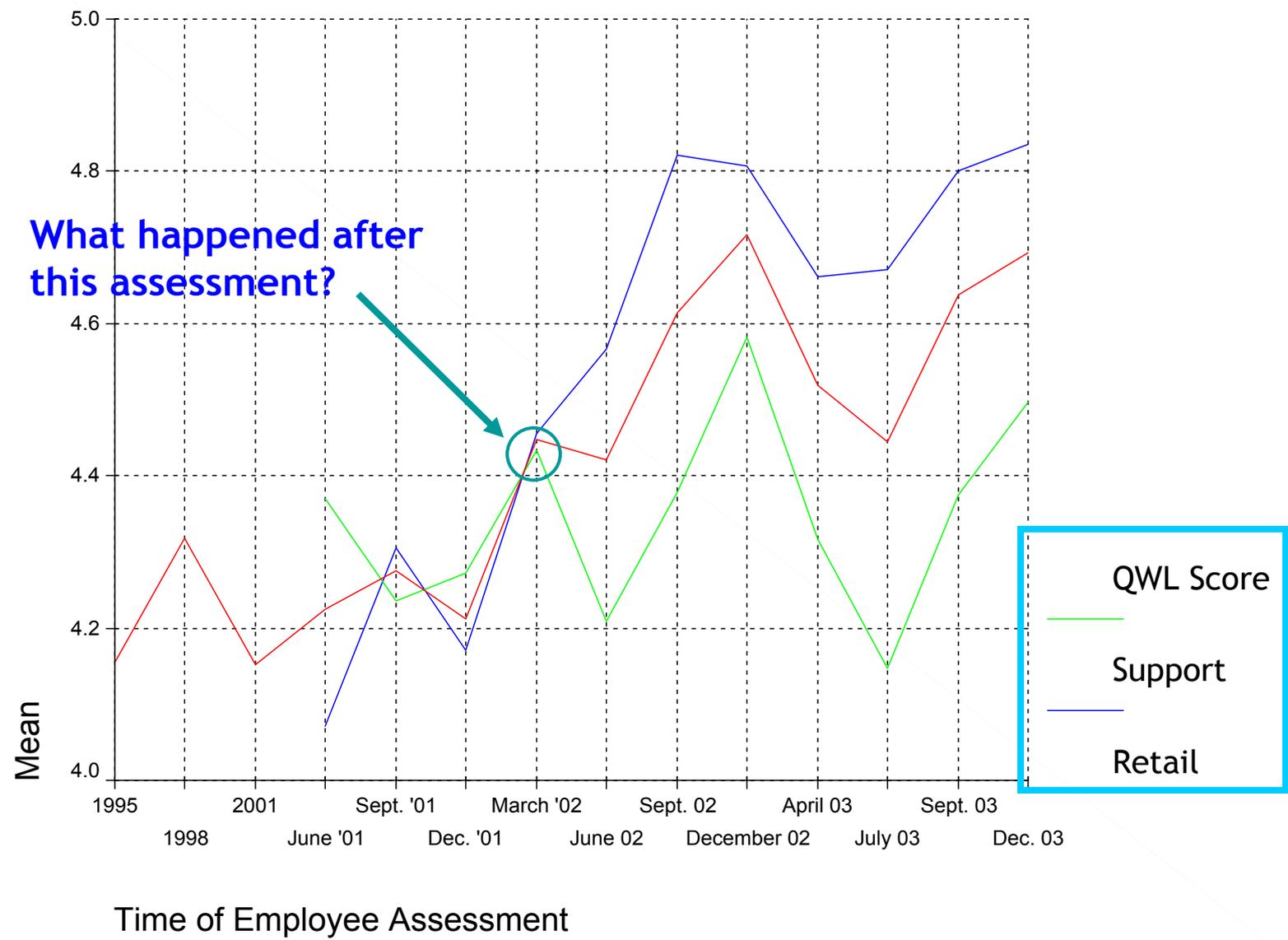
HR Dashboard: Job Satisfaction
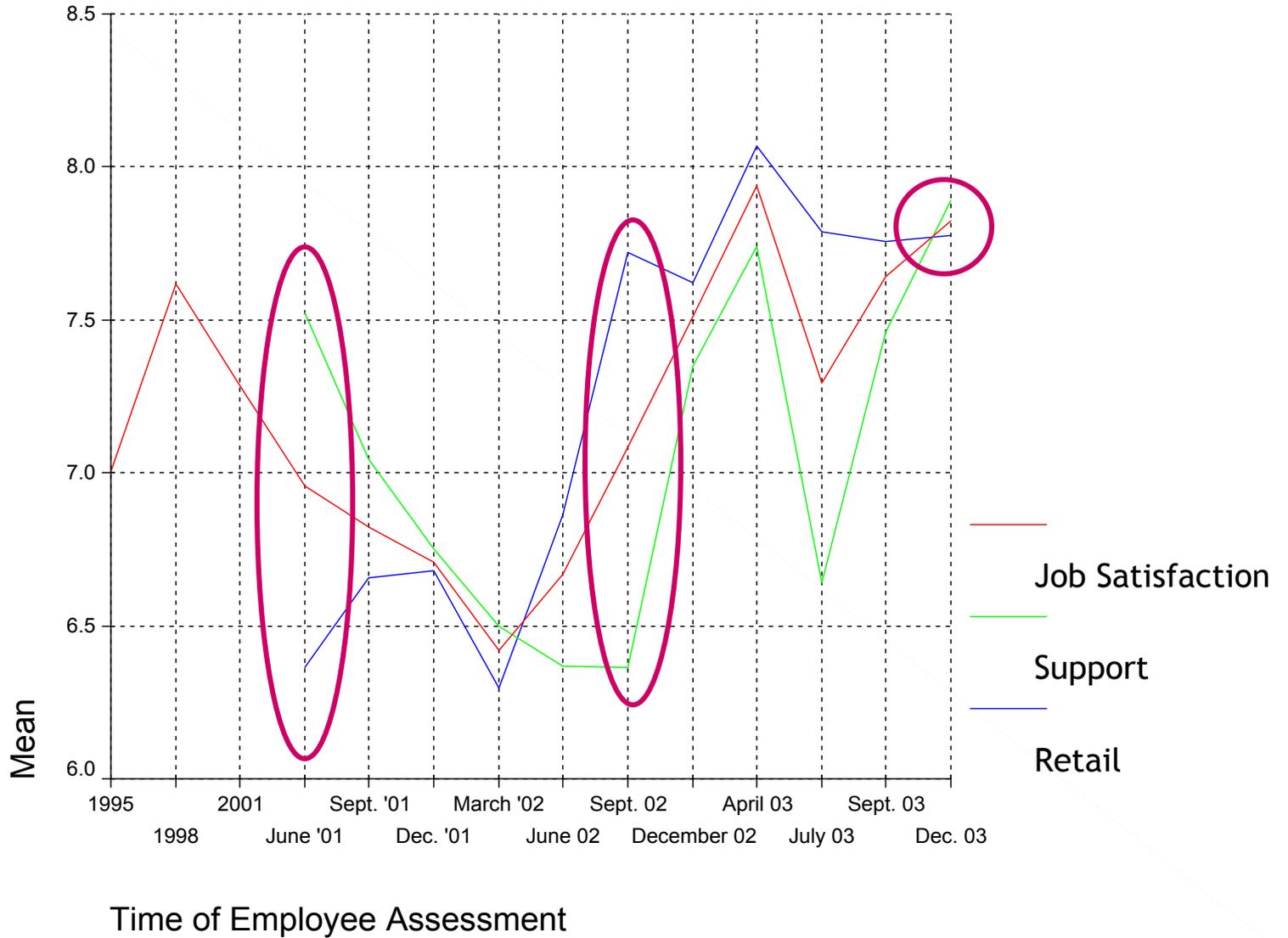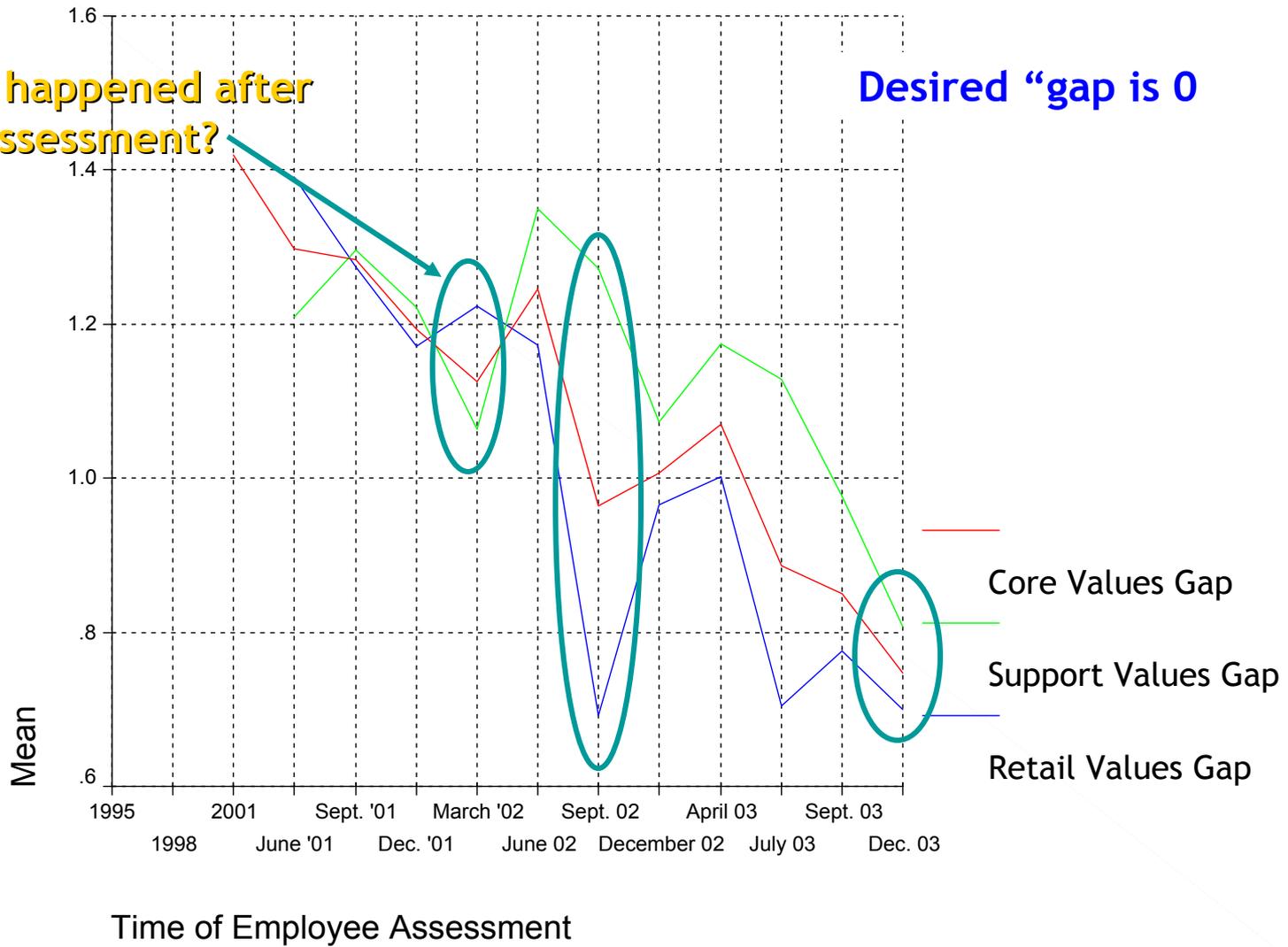
Applying the Dashboard

1. HR programs and services.

2. Managerial performance feedback.

3. Variable pay.

4. Lessons learned — *What did we do that worked? Didn't work?*

Applying the Dashboard

5. Relationship to other critical measures:
    - Member/Customer Satisfaction
    - Member Retention
    - Financial Performance
    - Employee Satisfaction
    - Internal Customer Service

6. Focus of monthly management meetings.

7. Explore the differences between groups (retail vs. support).

Comparison of Financial Critical Measures

The Business Scorecard: Critical Measures

ROA Financial Score
Cust. Satisfaction
ETA
QWL HR Dashboard
OJS HR Dashboard
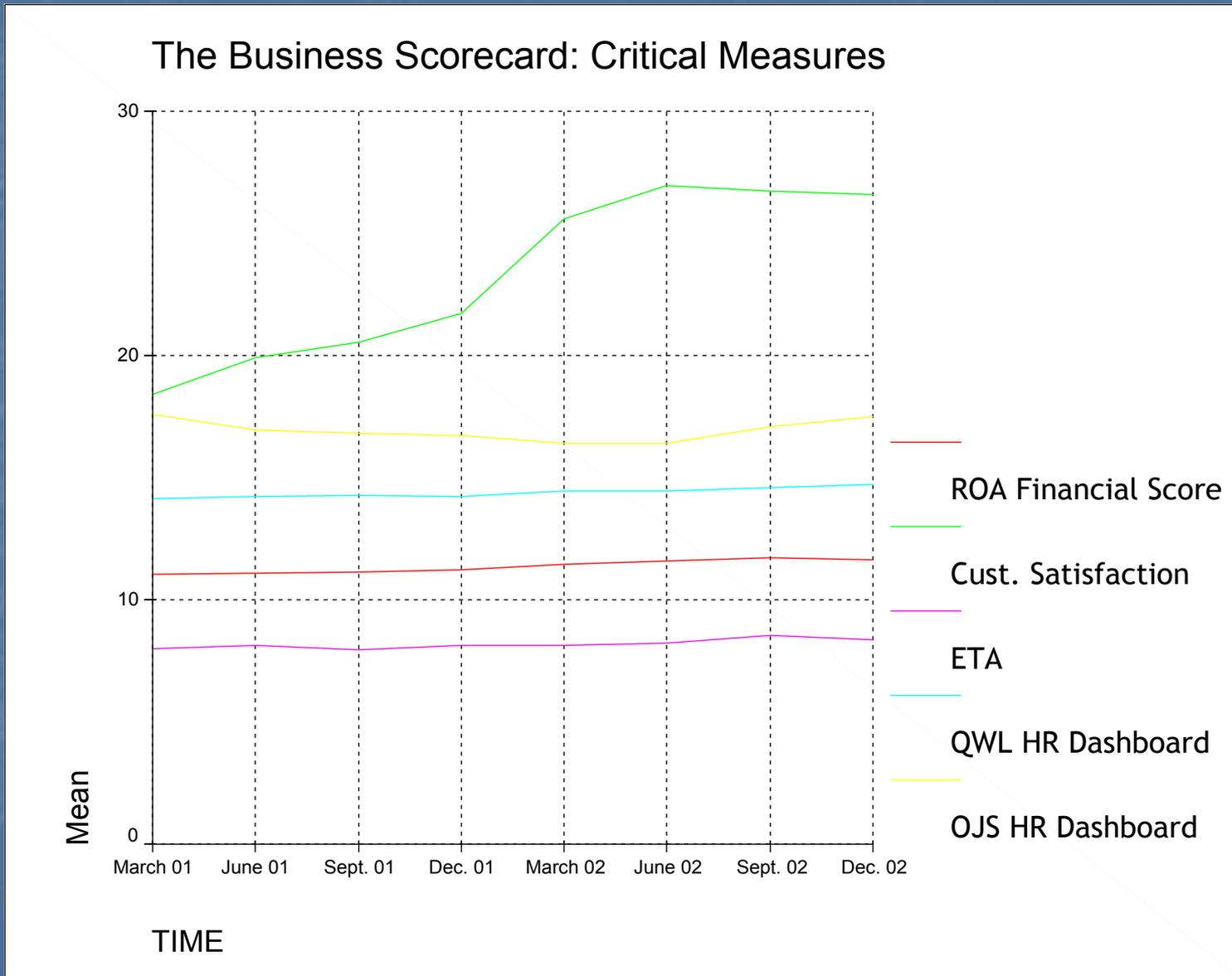
Thank you for the opportunity to guide you along the HR Scorecard journey!

Best of luck in your efforts at strengthening the effectiveness of HR programs

For more information on HR, OD, and organizational performance issues, visit our website: www.RussellConsultingInc.com