IS YOUR HR SCORECARD UP TO DATE?

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IS YOUR HR SCORECARD UP TO DATE?
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ABSTRACT

HR Scorecards are becoming more and more popular as a measurement of HR. Today, 32% of all HR departments have adopted scorecards as a measurement tool\(^1\), placing the HR Scorecard at the top of all measures. HR Scorecards help HR to demonstrate its strategic value to the board. With scorecards, HR can raise its own profile within the company and help HR to gain a seat on the board. However, most HR professionals struggle to answer two important questions: “What to measure with the HR Scorecard?” and “How to measure?”

This article provides HR professionals with a framework to create an HR measurement tool. It focuses on two innovative scorecards to assess HR performance.

Strategic contribution-driven scorecards provide a framework for identifying the correct measures, assessing the alignment of HR with the corporate strategy and relating HR deliverables to the key success factors of the company. They define the role of the HR department as a strategic business partner and leverage the importance of the HR function inside the company.

Leadership Development Scorecards as an integral part of the HR Scorecard address the value of people as the most important asset of a company. They make sure that the HR strategy proposition will be communicated and implemented within the company.

This article highlights the importance of converting HR measures to monetary value to convince top executives of the operating impact of HR.

Using this article as a roadmap to creating an HR Scorecard will assist HR professionals to identify the correct and appropriate measures and to relate these measures to the overall success of the company.

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\(^1\) Weekes, S.: “Getting the Measure of Human Capital” in Personnel Today
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1 LEVERAGING HUMAN RESOURCES SCORECARDS

Applying the Balanced Scorecard developed by Robert Kaplan and David Norton offers huge opportunities to leverage the performance of Human Resources within the company. However, before introducing the scorecard as a personal performance measurement tool for employees and managers, HR needs to set up the HR Scorecard as a measure for the performance of the HR architecture.

When evaluating the efficiency of Human Resources, HR professionals need to consider two dimensions of measuring performance. Cost Control directly relates to the financial efficiency of the Human Resources department. Cost control of HR processes may not play a vital role within a company, as HR only makes up for a small proportion of total costs. Nevertheless, the efficiency of HR processes has a direct effect on the operating efficiency of a company as a whole (line of sight).

The second and more important dimension for measuring performance relates to HR deliverables. In other words, to what degree can HR create value for different stakeholders inside the enterprise? The ability to create value depends to a great degree upon introducing High-Performance Work-Systems and aligning HR practices to the overall strategy of the company. Future strategies of a company usually relate to corporate goals such as revenue growth, which derives from higher customer satisfaction, or product innovation and higher productivity, which requires HR to optimize its process structure whilst retaining an optimal staffing level inside the company. When evaluating the value creation approach of Human Resources management, HR professionals should keep the company’s strategy and future goals in mind.

1.1 The classical approach to HR Scorecard

The classical functional approach to Balanced Scorecard in a Human Resources context refers to the roles of HR professionals defined by Dave Ulrich: strategic partner, administrative expert, change agent and employee champion. As a result functional scorecards usually include four dimensions. The financial perspective defines HR professionals as strategic partners helping line managers to reach their financial objectives. The customer perspective displays the role of HR managers as a strategic partner for external stakeholders. The operational dimension shows HR professionals as employee champions adding value for employees by optimizing HR practices. The strategic dimension evaluates the capability to

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implement and communicate change processes. Although functional scorecards may be a good starting point for companies which have not yet introduced a general strategic map, they use a more past-oriented focus on financial figures. When applying functional scorecards to HR, all performance measures relate to the financial perspective, determining the efficiency of the HR architecture. Functional scorecards relate HR’s performance to the overall performance of a company. They express the success of an implemented HR strategy in terms of financial figures such as Return on Investment or Shareholder Returns. Functional scorecards do not allow for a future-oriented view to identify strategic performance drivers that will contribute to the future success of a company. The question arises, whether the implementation of traditional Balanced Scorecards is justified in an HR context.

1.2 Strategic-contribution oriented Scorecards

In order to measure HR’s strategic impact, HR professionals may want to direct their attention to strategic performance drivers. To what degree can HR contribute to the future strategic focus of the company? Instead of merely balancing financial performance and future goals, strategic-contribution scorecards try to identify strategic performance drivers. Financial surpluses from the past may be used to leverage performance drivers to ensure the future growth of the company.

When identifying elements of the proposed strategic-contribution oriented scorecards, HR professionals have to focus on indicators that really matter. In other words, what performance drivers will actually generate higher future returns? Simultaneously, HR professionals need to attend to cost/benefit relations of HR deliverables. The future financial benefits associated with leveraging deliverables may not justify the costs associated with implementing these deliverables. Managers should pay attention to the balance of cost control and value creation. Concentrating on cost/benefit ratios has direct impact on identifying leading and lagging indicators. For that reason, HR managers should not give to much attention to the operational efficiency of HR, or what is commonly referred to as “HR doables”. Operational efficiency is a must with every HR department, but as mentioned previously, it offers little return opportunities. As HR transforms to focus more and more on a value added approach, administrative work (which correlates directly with operational efficiency), contrary to transformational strategic work, becomes less important. However, a lack of efficiency may draw HR’s attention away from delivering value to stakeholders. Therefore, efficiency still requires some attention in the HR scorecard.

According to Becker, Huselid, Ulrich (“the HR Scorecard”), HR scorecards are combined of four essential elements⁴. Those elements include two leading indicators (or future-oriented indicators), HR Deliverables and High-Performance Work Systems, as well as two lagging indicators, HR System Alignment and HR Efficiency. The following section will explain the four elements of the proposed HR Scorecard in more detail.

1.2.1 HR Deliverables
Deliverables can greatly leverage HR responsibilities within the company. They refer to HR’s ability to position itself at the centre of a company and to the ability of becoming a strategic business partner, who implements and leads the change process. When measuring HR deliverables, managers should evaluate organizational capabilities and individual competencies within HR. This includes the ability to lead change processes and to create organizational flexibility. However, deliverables need to be related to company-level performance drivers. When identifying performance drivers, HR professionals have to be aware of the strategic impact of deliverables on fulfilling the overall strategy and purpose of the company. Organizational and personal capabilities are not directly linked to the strategy implementation process. They more or less refer to the operational efficiency of HR practices. Efficient HR practices include reliable on-time remuneration or filling of open positions. However, other performance drivers have a significantly larger impact on the outcome of a strategy implementation process.

Measuring HR Deliverables is a testimonial to the credibility and commitment of HR to contribute to the strategy of the company. Hence, one of the major leading indicators of an HR scorecard should be the ability to attract and retain a high talent workforce that is able to implement change processes and innovation. Furthermore, HR scorecards should measure the degree to which HR supports employee and leadership competency growth (training, competency development). Relating hiring, remuneration and promotion to employee competency adds to the credibility of the change process. This involves estimating the degree to which the strategy is communicated to and understood by employees and leaders. The extent of top and line management commitment to change processes greatly depends on HR’s ability to communicate the company’s strategic focus and goals (management buy-in). A good measure to judge the success of internal communication is the extent of strategy turned into departmental and personal objectives. The extent of information sharing with employees or the credibility of personal measurement systems (personal scorecard) can add to the strategy

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implementation process. HR Deliverables rely on the working environment as well. The degree of diversity or the extent of a common set of core values and a shared mind-set are supportive attributes in terms of communicating change throughout the company.

The Leadership Development Scorecard, as an example, will explain in more detail the assessment of HR deliverables and how they relate to key performance drivers within the company.

1.2.2 High-Performance Work Systems
High-Performance Work Systems have to be evaluated in terms of how they align with the company strategy. Measuring High-Performance Systems includes the extent of competency models as a basis for high talent staffing and for the development, management and remuneration of all employees. High-Performance Work Systems determine the performance appraisal of employees. In other words, HR professionals should evaluate how the performance of employees is being assessed and how performance measurements relate to the corporate strategy.

High-Performance System Measures contain the proportion of high talents recruited (backup talent and the implementation of a leadership pipeline), the total time spent for training employees, the development of competencies (employee development plan) and the proportion of employees assessed through a performance appraisal. Other measures include the proportion of variable components of compensation or the incentive compensation differential. This guarantees the alignment of remuneration with the employee performance appraisal. Job performance feedback and benchmarking of compensation plans with competitors facilitate the attraction and development of high talent and should therefore be an essential part of every HR scorecard. The degree of cross-functional teams employed helps to assess High-Performance Work Systems in terms of communicating and implementing change across departmental and organizational borders and aligning objectives with the corporate strategy.

1.2.3 HR System Alignment
HR practices need to be aligned with the overall company strategy. Consequently, every HR professional should assess the degree of internal and external alignment of HR Systems. HR practices should respond to line managers’ and business unit managers’ demands and help them reach their financial objectives. Other processes to bring into line with company strategy include sourcing processes for high-talent, staff training and remuneration and recruiting
cycles (pipeline management). System alignment has great impact on the recognition of HR as a strategic asset within the company.

Measures to include in scorecards are the focus on competitive remuneration to attract high talent and the linkage between selection/promotion and competency models. When appraising the external alignment of HR Systems managers need to concentrate on how HR deliverables align with the strategy map and respond to key success drivers of the company. System alignment accounts for a substantial part of the HR Scorecard and will be dealt with in greater detail at a latter stage of this article.

### 1.2.4 HR Efficiency Measures

As mentioned before, efficiency measures relate to the cost/benefit ratio of deliverables. Efficiency measures give HR professionals an impression of cost standards within the HR department. Efficiency measures can be divided in core efficiency measures that evaluate activities not directly contributing to the firm’s strategy (e.g. cost of compensation or efficiency of HR information systems), and strategic efficiency measures that assess processes designed to produce deliverables. The cost/benefit relation should serve as a guideline to which measures to include and which not to.

Some common strategic efficiency measures are the HR expense per employee, recruiting expenses per hire or the effectiveness of employee development/training. Processing speed of salaries and benefits, total benefit costs or efficiency of information systems can be regarded as core efficiency measures. One important measure to take account of is the efficiency of the leadership pipeline and the time necessary to fill open positions.

HR professionals should centre on cost standards that hold the greatest future benefits.

### 1.3 Benefits of Strategic-Contributor Oriented Scorecards

Strategic-Contributor Oriented Scorecards allow for a distinction of HR doables and deliverables. The emphasis on measuring deliverables enables HR professionals to assess the success of the strategy implementation process. Furthermore, HR managers can balance two objectives, which are cost control on one hand, and value creation on the other. Strategic-contribution oriented scorecards link HR decisions to deliverables and identify the key performance drivers of Human Resources. They facilitate change and make HR departments more flexible to adopt to new performance drivers. This requires HR manager to constantly track performance and adjust them accordingly to guarantee the effectiveness of the Balanced Scorecard.
Strategic- Contribution Oriented Scorecards underline the importance of Human Resources as a strategic business partner, who implements the corporate strategy and supports the company to reach its aspired goals.

Even though HR Scorecards may greatly differ from company to company, the general principles outlined in this chapter for crafting a scorecard should apply to any business. Appendix 1 depicts the framework for a Strategic- contribution oriented scorecard, which can serve as general model for any company.
2 HR SYSTEMS ALIGNMENT – ASSESSING THE POTENTIAL OF HR

Alignment of HR Systems with corporate strategy is a crucial success factor for the recognition of HR as a strategic asset. The HR architecture must be in line with the corporate strategy implementation process. The degree of HR systems alignment is displayed by two dimensions: Alignment between strategy implementation and the HR System and alignment between the role of HR as a strategic business partner and HR competencies available. Firstly, HR professionals have to evaluate whether the HR architecture displays a strategy-focused organisation. Secondly, HR professionals have to assess the external perception of HR’s role within the company. In other words: do line managers, external stakeholders and HR professionals have a shared view of the role of HR. The importance of HR as a strategic asset is determined by the degree to which line managers and customers believe that HR can help them reach their financial objectives.

Measuring alignment processes of the HR architecture requires evaluation of the extent of internal and external alignment.

2.1 Measuring Internal Alignment

HR professionals may estimate the potential of current HR systems by assessing the alignment among different HR systems (internal fit). HR management sub-systems such as training, work organization and compensation have to be aligned to leverage the performance of HR. Internal alignment refers to the degree to which these sub-systems work together harmoniously (degree of fit). Each relationship between sub-systems has to be evaluated and rated within the HR Scorecard. Faulty implementation of one HR sub-system System can have a negative impact on another. A discordant HR architecture can send conflicting signals about organizational values and the overall corporate strategy. HR professionals should consider the following sub-systems when assessing internal systems alignment: Planning processes, recruiting, training, performance-appraisals, compensation, work organisation and communication.

The HR Planning Process has influence on all other sub-systems. If planning processes are not in line with training or remuneration processes, these systems are likely to not comply with

each other. In other words, one would not expect compensation to reflect performance appraisals, if performance enhancement training and remuneration were planned separately. Recruiting processes should comply with compensation policies, expected competency levels and work-structures (e.g. team-work). Scorecards may assess the alignment of hiring processes by measuring the degree of validated selection tests employed.

Alignment of training systems usually involves the implementation of High-talent training or leadership development programs in order to justify performance-appraisals and variable remuneration. Measures can be the proportion of non-traditional/non-routine (“broad”) job descriptions or the impact of training programs on leadership behaviour.

Aligning performance-appraisals requires HR managers to relate appraisals to the success of training programs and measure the individual improvement of each participant. HR professionals should assess the ability of talent audits and 360-degree feedbacks on leadership to connect to training programs.

Compensation plans need to connect with performance-appraisals. HR Scorecards should evaluate the relationship between performance reviews and remuneration, for example by measuring the share of performance-related variable remuneration compared to total salaries. The scorecard should consider the competitiveness of remuneration in order to attract a high-talent workforce (recruiting process) and the alignment with individual or team-based structures (work organisation).

The extent of team-based working structures on the one hand or silo-based organizational structures on the other has influence on HR’s ability to deliver services to employees. A functional structure impedes cross-organizational communication of shared mindsets or company values. Performance appraisals may be unjustified when employees do not know what is expected of them.

Like work organization, communication systems can facilitate or prohibit the successful delivery of HR services. The quality of information systems can be measured by the degree to which HR data is accessible by other employees, the reliability and accuracy of data provided to staff. Reliable information systems improve the communication of strategic objectives and recruitment, performance or compensation standards\(^7\). The flow of information from HR to other departments as well as the reliability of compensation systems depends to a great deal on software quality and usability (e.g. compatibility of HR information programs with Enterprise resource planning systems [ERP]\(^8\)).

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\(^7\) Hagood, W.O.; Friedmann, L.: “Using the Balanced Scorecard to Measure the Performance of Your HR Information System” in *Public Personnel Management*

\(^8\) „Tips on Selecting Software for HR/Compensation Apps” in *IOMA’s Pay for Performance Report*
A matrix serves best in evaluating the alignment of interrelated HR-subsystems. A general outline of an internal alignment matrix can be found in Appendix 2.

### 2.2 Measuring external alignment

Measuring external alignment is about assessing the ability of HR Systems to implement the firm’s strategy and the relationship between HR Systems, deliverables and key performance drivers of the company. HR professionals have to answer the following questions: Are HR deliverables in line with key performance drivers of the company? Do HR Systems produce the necessary deliverables through training, work organisation and remuneration?

A brief example explains the proper alignment of systems, deliverables and performance drivers. Short Research & Development-cycles are a key performance driver for any innovative, future-oriented company. This corporate objective requires the retention of a highly qualified and experienced workforce and a lower employee turnover (HR deliverable). HR systems can provide higher salaries (remuneration) to retain High-talent in the company. HR professionals need to approximate the relationship between above-market-rate salaries and lower employee turnover and whether a lower turnover really shortens Research & Development-cycles.

In order to measure this relationship, questionnaires about the external perception of HR deliverables can be put into practice. Line managers and customers are in a position to estimate, whether HR deliverables actually add value to their operations. HR deliverables to measure against HR systems usually include employment and management stability (turnover), high-talent staffing, leadership behaviours or team-focussed organisations. Training, organisation and remuneration are the primary means by which HR delivers these requirements.

Similar to measuring internal alignment, a matrix table in Appendix 3 provides a framework for assessing external alignment.

### 2.3 Management and Employee Buy-in

Aligning People in the company with corporate strategy can be a challenging task for HR professionals. It is very important that employee and leadership attitudes comply with the strategic focus of the company. Leadership behaviour can become a hurdle for change processes when managers are not willing to adapt their attitudes to the new strategic focus.

Assessing the alignment of HR Systems depends to a great deal on the degree of top management support for change processes (management buy-in). HR Professionals have to
align personal scorecards with organizational scorecards to be able to differ between personal performance and team effort\(^9\) (cascading scorecards).

Measures on the HR Scorecard to assess management buy-in and employee support comprise of the layout of performance-appraisals that recognize personal ambition as well as the individual contribution to the organization. Also, HR manager have to check whether leadership roles align with the corporate strategy. The Leadership Development Scorecard is a valuable tool when assessing management buy-in. Another critical measure to assess the alignment of HR Systems and to gain the support of managers and employees is the extent of organizational integration an implementation of HR best practices across the company (the number of HR sub-departments aligned to corporate level).

### 2.4 Measuring Compensation Alignment

The degree of non-financial measures as a determent of employee and management remuneration is imperative to the assessment of compensation alignment. Managers would tend to focus on operational issues rather than on strategic activities, if compensation was solely tied to financial figures. Financial gains of strategic activities lie in the future, thus managers concentrate on creating short-term benefits in the present to make sure they receive their incentive pays\(^10\). Employees are likely to focus on what is being measured in the performance appraisal. Compensation plans should therefore reinforce the firm’s objectives and reward employees for creating value\(^11\), linking compensation directly to the corporate strategy.

HR Scorecards should evaluate the types of performance appraisals in place (360-degree evaluations, personal scorecards), the amount of non-fixed salary components for non-managers\(^12\), the ratio of team-based compensation vs. individual compensation, the ratio of short term-financial incentives to strategy-bound remuneration and the frequency of compensation plan updates. Measures of employee buy-in may take into account the similarity and fairness of compensation plans between organizational sub-units (one-firm-concept), the recognition of seniority in terms of remuneration or the proportion of employees fully understanding compensation models and methods of performance appraisals.

Compensation should be rated according to its fairness, justification, credibility, employee motivation and its ability to align with other HR Systems.

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\(^9\) Angel, R.; Rampersad, H.: "Improving People Performance – the CFO’s New Frontier" in *Financial Executive*


\(^11\) Boomer, L.G.: “Balanced Scorecard eases compensation debate” in *Accounting Today*

\(^12\) Stimpson, J.: “The New Compensation Models” in *Practical Accountant*
There are three important reasons to focus on Leadership Development Scorecards when assessing the HR strategy implementation. Firstly, managers and leaders will implement the change process and communicate the HR strategy to all employees. Therefore, leadership development is crucial to the success of strategy implementation. Secondly, Leadership Development Scorecards can be used as a framework to assess the ability of HR to train and develop high talent. Thirdly, people are the most valuable asset of any company today. Businesses rely on the expertise, skills and commitment of their employees. It is the responsibility of HR departments to help people develop skills and knowledge to cope with the challenges of tomorrow. Dave Ulrich emphasizes this new role of HR by stressing the importance of HR professionals acting as Human Capital Developers. When developing leadership, HR professionals should act as coaches to help leaders to govern organizations in the appropriate way, as well as motivate leaders to develop suitable attitudes towards change processes and changing business environments.

Leadership Development Scorecards assess the quality of HR’s approach to develop and train leaders within the company. It is a valuable tool to measure the quality and effectiveness of leadership development programs. This article introduces an evaluation framework to measure leadership development on the basis of Balanced Scorecards. Although the focus lies with assessing leadership training, the proposed scorecard may as well be used to evaluate the quality of training programs for other employees. Scorecards should prove to be valuable in measuring a company’s ability to train and develop high talent on all levels.

The importance of measuring leadership development programs derives from difficulties associated with attracting talented leaders from the outside. HR professionals may find it easier to build up a leadership pipeline to quickly fill positions with people who actually know the company and its business. Also, recruiting talent from the insight may hold cost cutting benefits. HR departments can lower their cost for recruitment, but should always compare these costs with expenses for development programs.

Besides increasing HR efficiencies, advancing the quality of learning programs for managers improves employee satisfaction and business climate. Capable and committed leaders motivate employees on all levels to perform on high standards.

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3.1 Why Leadership Development Scorecards?

Leadership Scorecards guarantee that objectives compulsory to fulfil the corporate strategy are actually completed. Scorecards can assess the degree to which development programs align with the overall corporate strategy. Leaders communicate crucial objectives to all employees and implement necessary change processes. Consequently, HR has to make sure that leadership development programs are capable of educating managers to adapt their behaviour and attitudes to the new corporate strategy.

Scorecards help HR to identify strengths and weaknesses in training programs, to communicate and promote leadership development to managers and to structure development programs accordingly. In addition, scorecards help to identify priorities of funding.

3.2 Evaluation Framework

Becker, Huselid and Ulrich suggest a seven step approach to create a Leadership Development Scorecard as a separate part of the HR Scorecard14. Step one requires HR professionals to measure the scope of leadership development programs currently in place. Scope of development programs refers to the number and variety of learning programs as well as the number of employees (or leaders) participating in each program. HR managers have to identify the total hours spent by leaders in leadership development programs. Measuring the scope of development programs implies estimating the total investment amount for training programs and other costs associated with leadership development, either through total costs or costs per employee. HR managers have to record the cost/benefit ratio of every training program to identify programs that actually add value and create employee equity. The following additional elements should be a part of the Leadership Scorecard when evaluating single training programs (Step two to seven).

3.2.1 Measuring Leaders reactions to Development Programs

It is essential for the success of any training program that participants are committed to the learning experience. Leaders dissatisfied with the content of training programs will not apply what they have learned. “Customer Satisfaction” is vital when it comes to educating leaders. Contrary to employees on lower levels, managers may actively resist development programs. Leaders combine authority and power to hinder training programs or even prevent them from happening at all.

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Measuring satisfaction can be conducted through questionnaires that include questions about the appropriateness of content of programs, the quality of instructional materials, methods of delivering learning content, program relevance for the individual manager and the effectiveness of the instructor. HR professionals should note that it is important to include managers in the process of drafting the questionnaire.

3.2.2 Measuring the learning success

What are the improvements in knowledge, skills and attitudes for each individual manager? This element of the scorecards helps HR professionals to assess the change of proficiency in leadership through the implementation of development programs. Simulations or self-assessments may be helpful when evaluating the success of educating leadership behaviour. To measure the learning success, HR professionals can use checklists of the skills that should have been acquired during the training process and rate the overall success of development programs.

3.2.3 Measuring Application / Measuring Business impact

HR professionals have to make certain that skills and attitudes acquired are actually being implemented by managers. Scorecards should rate changes in on-the-job behaviour and the frequency of new skills used. Besides rating the application of learning program contents, scorecards should relate these figures to actual benefits in the prospective business area. In other words, to what degree did changes in managerial behaviour improve customer satisfaction, increase output or improve quality, reduce costs and processing time and better employee satisfaction. Information concerning application and business impact are more important than statistics about leadership reaction and learning success. Application and business impact help HR professionals to evaluate whether training programs in place actually address the problems at hand. Development programs can improve leadership skills, but they may have no relevancy for the actual business conducted. The benefits of leadership development programs depend on the alignment of these programs with corporate strategy and core objectives. For example: after completing the training, a manager may have been able to improve the process of dealing with customer complaints. The objectives of the company might have been increasing the overall quality of products instead. The training program failed. It did not address the actual problem at hand.

Measures of application and implementation may comprise of questions about the ability to improve the organization of a business unit, the ability to better the work climate or to enhance communication within the business unit and the degree to which coaching or job
enrichment has been implemented. Estimating the impact of learning programs will require measures about quality, cost control, efficiency, employee turnover/absenteeism, customer satisfaction etc. In the case of an action plan, questionnaires should refer to the extent to which the plan has been implemented.

### 3.2.4 Measuring tangible benefits

In the end the success of a business depends on financial figures. Therefore HR professionals should relate the previous measures to financial benefits. A program may have been successful in terms of improving customer satisfaction. But increased customer satisfaction does not necessarily lead to higher revenues. The cost of training managers to be more customer-focused may exceed the financial benefits of higher customer satisfaction. As with the HR Scorecard, HR managers need to direct their attention to the cost/benefit ratio when evaluating the overall efficiency of learning programs. Financial measures are usually expressed as Return on Investment.

### 3.2.5 Measuring non-monetary benefits

Some advantages of leadership development programs may not directly be related to the financial success of the company. These benefits include measures about the operating efficiency of HR. For instance, the proportion of leadership positions filled from the inside or the proportion of positions filled by leadership development program participants. Other measures can be the average length of time to fill leadership positions, the extent of cross-functional job movement (job rotation) or the average time of leaders working in one position (retention). These measures give valuable feedback to HR professionals about the effect of training programs on HR operating efficiencies.

### 3.3 Benefits of Leadership Development Scorecards

Leadership Scorecards allow HR managers to assess the effectiveness of existing training programs, to identify gaps in the number and variety of programs and to act timely to align training programs with corporate strategy. Leadership Development Scorecards can be used interchangeably to assess the effectiveness of other training programs as well. The outline to estimate the quality of training a specialized workforce (high talent) will be the same as for the Leadership Development Scorecard, although there may be some differences in implementation and the degree of participation in lower levels. Leadership Development Scorecards should be a central part of every HR scorecards and are equally important for all businesses.
Leadership and Development Scorecards are central to the assessment of HR’s ability to manage people. Employee and leadership development is the most important HR deliverable. Leadership scorecards can be used as a framework to design employee development scorecards, which allow the assessment of HR’s role as Human Capital Developer. A framework for crafting a Leadership Development Scorecard can be found in Appendix 4. The general outline will hold for any business, measures though may vary for each company.
4 RELATING THE HR SCORECARD TO FINANCIAL AND NON-FINANCIAL BENEFITS

4.1 Why measuring the Return on Investment?

Relating HR Scorecard measures to financial results such as the Return on Investment (ROI) adds credibility and accountability to HR processes. Many top executives today demand a ROI-oriented assessment of corporate functions. Measuring the ROI gives HR a competitive advantage over other functions in obtaining scarce financial resources.

ROI measures allow HR professionals to see the contribution they make to line managers and customers. Maintaining the balance between soft and hard data measures (non-financial and financial data) adds to the credibility of the HR impact study. Some managers prefer soft data such as customer or client feedback, others focus on hard data such as output, quality, cost or time. The ROI approach includes both data types in the HR impact study. Appendix 5 shows the process of converting HR benefits into monetary value and including it into the HR impact study.

4.2 Isolating effects of HR strategy implementation:

HR managers should put a strong emphasis on isolating the portion of results that can be linked to HR programs in order to improve the professional image of HR. Phillips, Stone and Phillips propose a three step approach to determine the actual influence of HR processes on corporate performance. Firstly, HR professionals have to find out to what degree the change in corporate performance relates to HR programs. HR programs are rarely the only source of improvement within a company. Secondly, HR professionals have to relate certain HR processes and deliverables to business result improvements. Thirdly, HR has to determine the chain of impact. For example: After implementing a performance management process, HR has to assess on-the-job application of processes by line managers and measure the actual change in business results resulting from on-the-job application (Chain of impact).

In order to isolate the effects of the HR strategy implementation, HR professionals have to identify reasons for performance improvement other than HR strategy implementation. Considering different reasons for improved business results will enforce the credibility of the HR impact report. There are two main strategies to isolate the HR impact. The first uses control and experimental groups to measure performance differences after program

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implementation. The experimental group receives the HR program whilst the control group does not receive the program. Alternatively, a pilot group within the company may be the only test group to receive the program. The problem with this strategy is to identify identical control and experimental groups. Therefore, HR professionals should implement a second strategy as well. Program participant feedbacks allow HR to obtain information about the effectiveness of HR programs through questionnaires (see 3 Leadership Development Scorecard). Participants should know best to what degree programs have improved their skills and knowledge. In the questionnaire, two questions have to be addressed. Firstly, what percentage of improvement that can be attributed to the application of skills/knowledge learned during the program (Isolation factor)? Secondly, what is the level of confidence for this statement (confidence factor)? An outline for isolating the effects of an HR program is included in Appendix 6.

### 4.3 Converting Benefits into Monetary Value

Benefits have to be converted into monetary value for two reasons: To compare the monetary value of an HR programs with its costs, and to determine the hard data of performance (output, quality, cost and time) as well as the soft data (e.g. managerial behaviour standards). The process of converting HR benefits into the ROI can be divided into five steps. For instance, to convert the benefits of a Customer Relationship Management (CRM) process into monetary value, HR professionals have to define a unit of measure. This unit can be hard data (e.g. customer response time) or soft data (one-point change in customer satisfaction index). Next, HR professionals have to determine the value for each unit by referring to organizational records or historical costs (e.g. costs associated with 1 hour of customer response time). It may not be feasible to identify costs for soft data. These benefits will be included in a separate section of the HR impact report (see 4.4 Identifying Intangible Measures). To add to the credibility of the HR impact study, HR managers should refer to the most conservative value for each unit. After determining the value for each unit, HR managers have to calculate the change of value (e.g. difference in customer response times before and after process implementation). By multiplying the change in performance with the value of each unit, HR managers can calculate the value of improvement and determine the annual amount of improvement. The last step requires HR managers to relate cost benefits of the process implementation with costs of the process (e.g. the costs of CRM process implementation) to receive the Return on Investment (ROI). This five step process to convert benefits into monetary value is depicted in Appendix 7.
4.4 Identifying Intangible Measures

It may be impractical or too costly to convert all benefits resulting from HR process implementation into monetary value. Nevertheless, these improvements can be more important than monetary benefits for some programs. For instance, Employee Compensation Programs may not have a direct impact on business results. The financial benefits of such programs lie in the future and cannot be easily estimated. Typical intangible measures include the change in employee / customer satisfaction, the change in leadership attitude (see 3 Leadership Scorecard) or the change in business climate.

Intangible benefits will be recorded along the ROI results in the HR impact study.
5 PUTTING IT ALL TOGETHER

This article has stressed the importance of identifying the right measures to assess the performance of HR. Scorecards are necessary to add to the credibility of HR and to enable HR professionals to lead change processes within companies. By implementing scorecards to assess the HR function, HR professionals can redefine the role of HR as a strategic business partner. The HR Scorecard defines HR strategy implementation as a key factor to the operating success of the company. Strategic contribution-oriented scorecards are future-oriented and stress the importance of leading factors. They link HR decisions to deliverables and identify the key performance drivers of HR.

Aligning the HR architecture to the corporate strategy guarantees that the HR function is regarded as a strategic asset of the company. System alignment leverages the role of HR and helps HR professionals to become strategic business partners. The perception of HR is determined by the degree to which HR can help customers and line managers to reach their objectives. The alignment of HR with the corporate strategy makes sure that HR deliverables comply with key performance drivers of the company.

Leadership Development Scorecards as a central part of assessing HR deliverables are important to determine, whether the HR strategy proposal is communicated and implemented at all corporate levels. They can be used to estimate the capability of HR to develop and retain leaders and high talent inside the company. They pay credit to the fact that people have become the most important asset of a company.

Calculating the financial benefits of HR adds to the credibility and accountability of HR processes. It allows HR managers to communicate the importance of HR to top executives. Also, HR professionals can relate the benefits of HR processes with the actual costs of process implementation. Hence, HR professionals can differ between efficient and non-efficient processes. The HR impact report includes financial and non-financial measures to display the importance of HR for the success of the company.

With the framework of this article, HR professionals can identify appropriate measures to assess the performance of HR with scorecards. Using this article, HR managers should be able to answer the following two questions: “What to measure?” and “How to measure?” HR professionals not only have to make sure to use the HR Scorecard, but to include the correct measures and relate them to the financial success of the company. This article provides HR professionals with the necessary tools to address both challenges.
The author

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He is currently completing the Master of Business Administration (MBA) at the University of Stellenbosch (South-Africa).
6 APPENDIX

6.1 Appendix 1: Framework Strategic-contribution oriented Scorecard

<table>
<thead>
<tr>
<th>Scorecard Element</th>
<th>Objectives</th>
<th>Measures/Data</th>
</tr>
</thead>
</table>
| HR Deliverables         | Leadership Development                               | **Leadership Development Scorecard**  
(ref. 3 Assessing HR Deliverables)  
Leadership Pipeline Analysis  
High-talent development  
Talent Pool Analysis  
Lower employee turnover  
% of employee turnover  
Competitive remuneration systems  
Benchmarking with competitors |
| High-Performance Work Systems | Implementation of competency models                   | % employment of competency models as basis for remuneration  
Recruiting High-talent  
% high talents recruited  
(of total workforce)  
Implementation of employee development plans  
% of workforce with development plans  
Implementation of performance appraisal systems  
% of employees assessed through performance appraisal  
Strategy-focussed compensation plans  
% of variable remuneration (of total salaries) |
| HR Systems Alignment    | Internal Alignment                                    | **Internal Alignment Matrix**  
(ref. 2 HR Systems Alignment)  
**External Alignment Matrix**  
(ref. 2 HR Systems Alignment) |
| HR Efficiency Measures  | Lower costs for remuneration processes                | Expense per employee  
Lower costs for recruiting processes  
Recruiting expense per hire  
Efficient information systems  
Data processing speed  
Shorter times to fill open positions  
Average time to fill positions |
### 6.2 Appendix 2: Internal Alignment Matrix

**INTERNAL ALIGNMENT**

-100 The two sub-systems work at **cross-purposes**
0 The two sub-systems have **little or no effect on each other**
100 Each subsystem is **mutually reinforcing and internally consistent**

<table>
<thead>
<tr>
<th></th>
<th>HR Planning</th>
<th>Recruiting and Selection</th>
<th>Training and Development</th>
<th>Performance Appraisal</th>
<th>Compensation and Benefits</th>
<th>Work Organization</th>
<th>Communication Systems</th>
<th>HR Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Planning</td>
<td>-30</td>
<td>0</td>
<td>-20</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Recruiting and Selection</td>
<td>0</td>
<td>-10</td>
<td>-20</td>
<td>-30</td>
<td>0</td>
<td>0</td>
<td>-10</td>
<td></td>
</tr>
<tr>
<td>Training and Development</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Performance Appraisal</td>
<td>0</td>
<td>-30</td>
<td>-20</td>
<td>-20</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation and Benefits</td>
<td>-50</td>
<td>0</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work Organization (Teams)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication Systems</td>
<td>0</td>
<td></td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR Performance Measurement</td>
<td>0</td>
<td></td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6.3 Appendix 3: External Alignment Matrix

**EXTERNAL ALIGNMENT**

-100 The sub-system is **counterproductive** for enabling this deliverable
0 The sub-system has **little or no effect** on this deliverable
100 The subsystem **significantly enables** this deliverable

<table>
<thead>
<tr>
<th></th>
<th>HR Planning</th>
<th>Recruiting and Selection</th>
<th>Training and Development</th>
<th>Performance Appraisal</th>
<th>Compensation and Benefits</th>
<th>Work Organization</th>
<th>Communication Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Stability</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-50</td>
<td>-20</td>
<td>0</td>
</tr>
<tr>
<td>Team-based behaviours</td>
<td>0</td>
<td>0</td>
<td>-30</td>
<td>-20</td>
<td>-40</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>customer focussed behaviour</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>40</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>High-talent staffing</td>
<td>0</td>
<td>-50</td>
<td>0</td>
<td>-50</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
### Appendix 4: Framework Leadership Development Scorecard

**LEADERSHIP DEVELOPMENT SCORECARD**

<table>
<thead>
<tr>
<th>Level</th>
<th>Objectives</th>
<th>Measures/Data</th>
<th>Data Collection Method</th>
<th>Data Sources</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reaction/Satisfaction</td>
<td>5 - point rating scale</td>
<td>Questionnaire</td>
<td>Participants</td>
<td>End of Program</td>
</tr>
<tr>
<td></td>
<td>Participants rate the program as relevant to their jobs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Participants rate the program as important to their job success</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Learning</td>
<td>5 - point rating scale</td>
<td>Questionnaire (Self Assessment)</td>
<td>Participants</td>
<td>End of Program</td>
</tr>
<tr>
<td></td>
<td>Participants demonstrate acceptable performance on each major competency</td>
<td>Observation of skill practices</td>
<td>Facilitator</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Application/Implementation</td>
<td>5 - point rating scale</td>
<td>Questionnaire</td>
<td>Participants</td>
<td>After 3 months</td>
</tr>
<tr>
<td></td>
<td>Participants utilize competencies with team members on regular basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Business Impact</td>
<td>Work unit measures</td>
<td>Questionnaire</td>
<td>Participants</td>
<td>After 3 months</td>
</tr>
<tr>
<td></td>
<td>Participants drive improvements in business measures</td>
<td>(e.g. Output, costs, quality, time)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>ROI</td>
<td>Achieve a x% ROI</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
6.5 Appendix 5: Creating the HR impact study

Data Collection During HR Program Implementation → Data Collection After HR Program Implementation → Isolate Effects of HR Program → Convert Data Into Monetary Value → Calculate Costs of HR Program

- HR Deliverables
- High Performance Work System
- HR Systems Alignment
- HR Efficiency Measures

Identify Intangible Measures → Calculate ROI

HR Impact Study
### 6.6 Appendix 6: Isolating the effects of an HR program

**LEADERSHIP DEVELOPMENT PROGRAM FOR NEW MANAGERS (Example)**

<table>
<thead>
<tr>
<th>Program Participant</th>
<th>Annual Improvement Value</th>
<th>Basis for Value</th>
<th>Confidence Level</th>
<th>Isolation Factor</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>R 24.000</td>
<td>Improvement in Customer Response Times (e.g. from 8 hours to 6 hours.) Estimated Value: R 2,000/month</td>
<td>85%</td>
<td>60%</td>
<td>R 12,240</td>
</tr>
<tr>
<td>5</td>
<td>R 2.500</td>
<td>5% Improvement in Effectiveness Calculated Value: R 50,000 x 5%</td>
<td>60%</td>
<td>40%</td>
<td>R 600</td>
</tr>
<tr>
<td>8</td>
<td>R 20.000</td>
<td>Reduced Employee Turnover (e.g. ./. Two turnovers per year) Cost per Hire: R 10,000</td>
<td>85%</td>
<td>80%</td>
<td>R 13,600</td>
</tr>
<tr>
<td>40</td>
<td>R 10.000</td>
<td>Absenteeism Reduction (e.g. 50 absences per year x $200)</td>
<td>90%</td>
<td>90%</td>
<td>R 8,100</td>
</tr>
<tr>
<td>32</td>
<td>R 8.000</td>
<td>Project Completed ahead of Schedule (e.g. 10 days x salaries per day)</td>
<td>70%</td>
<td>45%</td>
<td>R 2,520</td>
</tr>
</tbody>
</table>

**TOTAL**

R 37,060
6.7 Appendix 6: *Five steps to convert benefits into monetary value*

**Example: Customer Relationship Management Process**

1. Define Unit of Improvement
2. Determine Value of Each Unit
3. Calculate the Change in Performance
4. Calculate Annual Value of Improvement
5. Relate to Process Costs (ROI)

- **Customer Response Time**
- **Cost associated with 1 hour Response Time**
- **Difference in Customer Response Time before and after Process Implementation**
- **Change in performance x value of unit**
- **Relate to costs of CRM process implementation**
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