# Using a Human Capital Scorecard as a Framework for Analytical Discovery

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The HR profession is increasingly focused on measuring its own performance and its contribution to the businesses and other organisations it supports. The reasons for this shift in focus include a desire to be more like the rest of the business, and to have data and intelligence available to support management decision making about people. There is also a frustration that whilst many organisations recognise the prime role that people play in these organisations' success, there is suspicion that the fact that many of the outcomes of people management are intangible, and therefore cannot, at least easily, be measured, leads to a lower than optimal investment in people.

In response to these concerns, HR functions have emphasised the need to become more analytical - that is more comfortable with, and knowledgeable and skilled in, the use of measures, metrics, indices and analytics to support decision making.

Commentators like Rob Briner and Jeffrey Pfeffer emphasise the need for HR to become more evidence based - that is aware of research that has been conducted within the profession, and within each HR professionals' own organisation too, to save on expenses and increase the impacts of HR and management activities. John Boudreau even takes this a recommendation a stage further forward suggesting that HR should become a decision science in which people management is focused on the financial worth of individual employees and organisations as a whole. In his view, actions should only be taken if they are predicted on the resulting increase in financial worth providing an appropriate return on investment (ROI).

These trends are certainly positive ones, yet like most areas in business and life in general, they can also be overplayed. The demand for better measurement must not be placed above the demand for better management, and perhaps needs to be balanced with more creativity and the acceptance of intuition too.

Engagement surveys provide a good example – these have become standard features in most large and medium sized organisations, yet in most of these, it is generally quite clear what needs to be changed to improve engagement, and the use of surveys has not interfered with a gradual reduction in levels of engagement. This suggests that what is needed is not more measurement, but more and better targeted actions on the surveys' results.

## The Need for Better Measurement

Linked to the above, many HR functions have realised that the need is not for more measurement but better measurement. Better measurement involves two main requirements.

Firstly, HR needs to focus on measuring what is important, rather than what is easy to measure. This is difficult because many of the most important measures in HR are the most intangible. It is easy to measure a programme to drive down sickness absence both in terms of the inputs (eg adherence to policies) and outputs (eg costs of absence). It is much harder to measure a programme of executive coaching to encourage collaboration – something which is likely to result in a bigger return but for which both inputs (including executive time spent on reflection) and outputs (eg amount and effectiveness of collaborative behaviours) are less easy to measure.

You can also see the impact of this in methodologies like Jack Phillip's approach to calculating ROI. This does lead to a fairly precise ROI figure, but also an additional bucket of intangibles. The obvious criticism of this approach is that the resulting ROI figure may be accurate but is not that useful. In his recent book, The Design of Business, Roger Martin suggests that this type of data is reliable but is not valid. And Jay Cross describes ignoring the unknown bucket of intangibles which may be many times more valuable than the known ROI as simple nonsense.

Some HR functions are responding to this challenge by educating their colleagues from the rest of the business to be more accepting of qualitative and even subjective measures as well as quantitative and objective metrics. Qualitative measures include stories, personal examples, anecdotes and gut feel resulting from conversations. A good example of the approach was provided by Greg Dyke while he was still at the BBC. Dyke used to say that he could walk round the BBC and talk to a few people and that this would tell him better than any formal evaluation whether an HR programme was working or not.

Secondly, HR needs to ensure that measurement informs real decision making, and does not simply result in data which is seen as interesting, but which does not lead to particular actions being taken. HR tends to focus too much on lag measures which describe what has already happened in the past, rather than lead measures which help understand what may happen in the future. Increased staff turnover for example may be a result of decreasing customer satisfaction rather than something which of itself will impact financial performance. Participation in learning and development activities on the other hand may be something which has a real and substantial impact on business performance

Understand what does truly drive business performance requires the measures to be more meaningful, ie allowing more intelligence to be generated from using them. This is the field of analytics.

**The Use of Analytics**

Analytics combine measures and presents these in ways which provide more meaning. For example, rather than just presenting general turnover figures, an organisation may present trends by level, tenure and key demographic variables. Linking these to actual and potential recruitment levels or even something from the rest of the business like customer loyalty figures may start to provide more valuable knowledge for decision making.

Analytics are further enhanced by ensuring that all measures are truly comparable, and also that the same information is reported over time, helping to establish trends and also so that managers and business leaders learn to be able to quickly decipher any particular analytic.

Good examples of analytics includes the business impact modelling tools like internal labour market analysis described by Haig Nalbantian and his colleagues from Mercer in the book Play to your Strengths. Other examples include the business tools like kano analysis and risk-value analysis that John Boudreau suggests will have more resonance in the business than traditional HR tools since business managers are experienced in using them.

Another analytical approach is to link measures to each other through a series of causal or at least associated relationships. The most famous example of this approach is the development of an employee customer profit chain by Sears in the 1990s. This profit chain linked measures for Sears becoming a compelling place to work (personal growth and development and empowered teams) to being a compelling place to shop (meeting customer needs and customer satisfaction) to being a compelling place to invest (financial measures linked to revenue growth, sales per square foot and inventory turnover).

More recently, similar analysis has been conducted by Best Buy, B&Q, Nationwide, Omnicom, RBS, Standard Chartered and other organisations. There is still an existing need to ensure analytics are truly linked to the things which drive business performance. RBS' human capital model may have helped the company identify how taking advantage of more benefits improves engagement, but it failed to raise cautions about their CEO's leadership style! Supporting this, a study on HR analytics by Northgate Arinso in September 2010 found that 60% of respondents indicated that they do not have strategic goals attached to the data they gather.

The main need is that analysis starts with what a company needs to do – its key strategic objectives – and things which might interfere with its performance – the key strategic risks – not just correlations between things in HR and the business. Later on, Sears may have swapped its compelling place to work measures from personal growth to employees' attitudes towards their job and the company as a whole, as it found that these had a better direct causal pathway to being a compelling place to shop and invest. But these new measures were still things which supported Sears' overall strategy, they were not just picked out of the air (or their data warehouse).

I think this is what Jac Fitz-Enz was talking about in a recent conversation with David Creelman* when he says:

> "When we talk about predictive analytics everyone thinks you need to be doing statistics, but that is not necessarily the case. There are two steps. First you need a logical framework or mental model, to think through what your problem is and identify the key variables. Then you may need statistics or metrics to help determine the best decision; but people forget the first part and fixate on the metrics."

**Case Study: Electrosupport**

Electrosupport (not the company's real name) is a leading global manufacturer of electronic components employing several tens of thousand employees in plants in many countries around the world including Ireland and Central Europe.

The company has recently implemented a new HR system which incorporates analytic capabilities and HR is finding value from the information these provide. The system's ability to display and render graphs and to drill down into the data is being seen as particularly helpful. And they have also been able to construct a standardised dashboard displaying related metrics which provides important information on people management within the business.

For example, rather than just turnover, the company now reports on cost of turnover and has found this has helped gain business leaders' attention, particularly as it has started to draw links with other measures on quality of performance reviews, amount of training and so on. But the company suggests that what has been most helpful in ensuring that measures drive decision making has been focusing on only measuring things they believe will be valuable to them, for example they do not measure things they know they will not do anything about (reward, for example).

Electrosupport's HR measurement is therefore concentrated on the things that will drive its business performance. The company's strategic differentiator is its ability to manufacture new products quickly and efficiently and it has therefore focused on HR information which will inform decisions in this area. For example, the HR team are now able to compare productivity rates across different manufacturing plants in different countries for their different products and use this to support decisions on which new products will be manufactured where.

The company also sees developing measurement as an iterative process. With hindsight, they wish they had focused more heavily on defining measures to ensure an apples with apples comparison as they are currently limited in comparing some of their data across countries. And they now plan to better integrate HR information with the data from other business management systems to further improve the quality of decision that they are able to take.

**Developing a Human Capital Scorecard**

Many organisations are not going to be able to afford to do this sort of technology based research, but they can still take advantage of the type of analysis through the use of a human capital scorecard.

Scorecards were first introduced to support business planning and measurement by Robert Kaplan and David Norton. The balanced business scorecard links measures in four perspectives: learning and growth; business operations, customer and financial success. Although learning and growth was initially focused on IT, it has gradually developed a greater focus on people and many organisations using scorecards simply use people as the name of this perspective.

What makes the business scorecard particularly useful is that the measures used within are supposed to be generated through the development of a strategy map, which is a diagramme showing how objectives within each of the four perspectives relate to and inform each other. Once objectives have been identified, it become much easier to select the appropriate measures.

From an HR perspective, the business scorecard has always suffered because all people objectives and measures are contained in the one perspective: people, or learning and growth. A number of attempts have been made to provide a scorecard for HR use. Firstly, some organisations have tried applying the same perspectives as the business scorecard to HR activities but these organisations have mainly been frustrated by the process. Brian Becker and Mark Huselid** provide a good explanation of the problem:

> "These categories work well when applied to an entire firm. They don't perform well, however, when applied to elements of the workforce. We have seen many HR professionals who have tried to apply these four 'boxes' to HR functions and/or the workforce, and they have been consistently frustrated by the outcomes. The problem is that the categories, which were intended to be used to describe how all of the elements of firm success contribute to the bottom line, don't work well when we are interested in highlighting the contribution of a single element – for example, the workforce."

Becker and Huselid provide their own HR Scorecard and a linked Workforce Scorecard that contain many useful measures and indicators such as the High Performance Work System index. However, these scorecards have generally proved to be too complex for many organisations, and also suffer because they are not based on a strategy map.

A better basis for an HR scorecard may be a system called Human Capital Bridge proposed by John Boudreau. This is a measurement system which focuses on measures of efficiency of HR activities, effectiveness of their outputs (for example, human capital) and impacts on the business. It is also useful to add inputs or investments to the start of this human capital strategy map so that financial inputs can be compared to business impacts to produce a ROI.

In many ways, the human capital strategy map consisting of inputs, activities and human capital outputs is a separate map from the business one consisting of operations, customer and financial success. This is the reason that the CIPD refer to human capital as a bridging concept between HR and the business, and why many business strategy maps and scorecards fail to show any linkages between the learning and growth and other perspectives. Human capital outcomes inform everything else in the business and can therefore be thought of as ends in their own right (capital), rather than simply things (resources) that support other business needs.

Organisations can use this strategy map to identify objectives for people management strategy and enable the development of a scorecard identifying measures for these strategies, and then the selection of analytics to add value to the chosen measures. This provides the best approach I know of for ensuring that HR measures and analytics are linked to strategic objectives.

Engagement surveys play a useful role within this approach, because these link measures of activity (satisfaction) with measures of output (engagement). If the items used in the survey have been developed to support a particular organisation's strategy, then the obtained responses will be useful measures in the scorecard. However, there are many other tools which can support this approach. For example, analytics from web 2.0 tools measuring collaborative activities can be linked to outputs from social network analysis providing measures of collaborative behaviour.

**Summary**

Putting an organisation's HR measures into a human capital strategy map ensures that the measures used by HR do support, inform and align with key business strategies and also that these are important lead measures which will drive predictive analysis. Once the right measures have been identified, HR professionals can also think about how these measures can be combined with others or presented most usefully to drive management decision making.

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## Biography

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Jon Ingham supports innovation in people management and organisation development. As a consultant, Jon works with business and HR leaders to develop more ambitious people management and strategies which will have more impact in these organisations. He also designs and implements strategic people management and measurement programmes, for example in talent management and organisation development. And he helps increase value in individual HR processes and technologies eg in performance management, the use of social media etc. Lastly, but potentially most importantly, he also help business leaders and HR teams develop their own strategic capabilities. Jon is the author of 'Strategic Human Capital Management: Creating Value through People' (2006).