

DESIGNING AND IMPLEMENTING AN HR SCORECARD

Garrett Walker and J. Randall MacDonald

Verizon HR has effectively designed and implemented a strategic management system, which is based upon the balanced scorecard model of Dr. David Norton and Dr. Robert Kaplan of Harvard Business School. The HR Balanced Scorecard was conceived with New Economy organizational dynamics in mind. The scorecard uses a broad range of “leading and lagging” indicators—overall strategy, operational processes, customer perceptions, and financials to evaluate the effectiveness of HR initiatives to the bottom line. The HR Balanced Scorecard provides the means to monitor workforce indicators, analyze workforce statistics, diagnose workforce issues, calculate the negative financial impact, prescribe solutions, and track improvements. © 2001 John Wiley & Sons, Inc.

Introduction

Most business leaders will agree that the employees in their companies—their “human capital”—are one of the key drivers of their competitive advantage. Some leaders even go so far as to state this publicly in their annual reports. It is widely believed that in the next ten years the primary source of competitive advantage for most businesses will continue to increasingly focus on the talent within the organization, which means that the ability to effectively manage the employee talent within the organization is becoming more critical every day. While management makes decisions continuously about how to invest in human capital, few companies have an effective process to measure the value created by this “most valuable” asset.

What if HR could effectively manage the value created by thorough investments in employees? Managers know now how much

is paid to reward, hire, train, develop, and provide benefits to employees. What managers need to know, however, is where the investments are most effective and valuable. Should the business expand the incentive pay program? Should they outsource safety administration? What is the most effective use of training dollars? How much should be spent on recruitment? Should employee services be in-sourced, out-sourced, or co-sourced? Should executive bench strength be built or bought? What is the cost in human capital terms to break into a new market? Is the acquisition target a good fit and does it add or dilute our competitive advantage in terms of talent? Do the current investments in employees match the strategic objectives of the business? Is the HR organization a partner with the business to manage our employees as assets?

To answer these questions, management needs more information not just simple cost

figures. We in management need to track our financial results while monitoring progress in developing our human capital and acquiring the talent and capabilities we will need for business success. The Balanced Scorecard (Kaplan & Norton, 1996) provides a system that leverages the traditional financial and efficiency measures we have available currently for Human Resources with metrics of performance from three additional perspectives—customers, internal business processes, and learning and growth.

Background

In 1996, J. Randall MacDonald, Executive Vice President—Human Resources of GTE Corporation, was facing the biggest challenge of his career—to create the HR strategy and plans to support GTE’s workforce through a major business transformation. The Telecommunications Act was transforming the regulated world of protected markets and established profit margins into a turbulent, highly competitive business environment for the telecommunications giant.

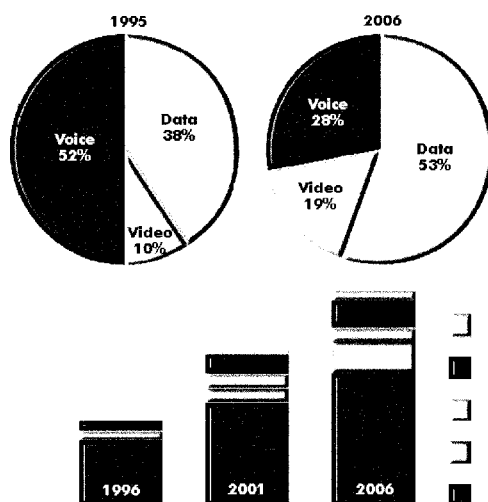
Historically, GTE had emphasized a focus on infrastructure quality and customer service. Now GTE’s senior business leaders were pre-

paring to transform the company into a market-focused organization that would be the communications provider of choice to targeted customer markets. Significant emphasis on new markets and additional services was part of the strategy. The telecommunications world following deregulation was turbulent. Technology acceleration, emerging customer needs, and data and video transmissions were changing how business operated. GTE’s customers were becoming price sensitive and could now demand superior service and advanced support. The competition was in price, products, and technology. New mergers and partnerships were beginning to occur; brand preferences and aggressive tactics from nontraditional competitors were all part of the mix. GTE Business Strategies were global in scope and translated directly to clearly communicated targeted business results (see Figure 1).

Workforce Environment

Additionally, the workforce environment was dramatically different and highly competitive. GTE faced the lowest United States’ unemployment in 24 years. The employer–employee relationship had changed; employees were less likely to remain with a single em-

Projected Industry Revenue Shift



Leadership 2000 Findings

Our leadership 2000 findings project that by 2006, we will emerge as a market-leading nationwide provider of telecommunication services with revenue of approximately \$58 billion.

Business Goals*

- Revenue growth of 10% (compared to actual revenue growth of 7% in 1996 and an average of 2% in 1993-1995)
- Earnings per share growth of 13% to 15%.
- Increase of in-franchise wallet share from 31% to 38%.
- \$5 to \$6 billion in new businesses—outside of our traditional services.

*This is a snapshot of where we were in 1997. Because this is a fast-moving industry, things have clearly changed since then, but the HR Balanced Scorecard is designed to adapt and produce value in a continuously changing environment. For current information link to <http://www.verizon.com>

Figure 1. Targeted business results.

ployer; specialized talent was hard to find; employees expected more work/life balance; and the diverse talent pool most sought had differing interests and needs. Creating the value proposition to acquire the talent to drive the business was more difficult to define and changed rapidly.

HR Challenge & Strategy

The Human Resource Challenge was to translate the new business strategies and targeted business results into human capital needs. Recognizing that GTE's employees were a critical component in achieving the business goals, GTE HR leaders inventoried the current skills and abilities that would provide value both in the short-term and into the future. HR professionals then identified the critical people imperatives necessary to grow that talent to increase the value delivered by the workforce. GTE would need new behaviors, actions, and capabilities to drive the business results.

To focus the HR organization on the achievement of these people imperatives, GTE developed a new HR strategy to support the specific people requirements of the business strategy. This HR strategy was defined in five strategic thrusts:

1. *Talent:*
enlarge the talent pool
invest in employees' development
ensure diversity
2. *Leadership:*
establish a system to assess high-potential employees
provide coaching and development
establish accountability and rewards for leadership behavior
3. *Customer Service & Support:*
create an environment that fosters employee engagement
increase business intelligence within the workforce
provide solutions to retention issues
4. *Organizational Integration:*
create better systems for knowledge management
enhance union partnerships
5. *HR Capability:*
develop core HR competencies
identify key talent for growth and development

invest in technology
invest in employee self-service
better understand the relationship of HR actions to business outcomes

These elements and their interrelationships can be seen graphically in Figure 2. When asked how he expected to implement such a comprehensive transformation for the business from a people perspective, MacDonald said:

My biggest problem is communicating and reinforcing the linkage between HR actions and business results. The business has a clear strategy and targeted business results. The HR Strategy is directly linked to the needs of the business and expressed in terms of HR strategic thrusts. What I need now is to effectively communicate and execute on strategic intent, motivate and track performance against organization and business goals, and to align HR actions with business results.

The Team

A newly formed HR Planning, Measurement, and Analysis team was created to design and implement a tool that would quantify HR's contribution to the business. The Balanced Scorecard model, which was at the time a leading edge corporate performance assessment tool, was selected as the framework to adapt and build an HR Measurement model.

J. Randall MacDonald served as the senior executive champion for the HR measurement initiative. This role was critical to the success of the project. Randy MacDonald actively influenced his senior leadership team within HR to secure their buy-in and to hold them accountable for supporting the project.

The newly formed Planning, Measurement, and Analysis team included a director and four employees solely dedicated to the design, development, implementation, and operation of the HR Measurement System. An "HR Measurement core team" included eight subject matter experts representing each of the functions within HR and the business units. The core team members were instrumental in

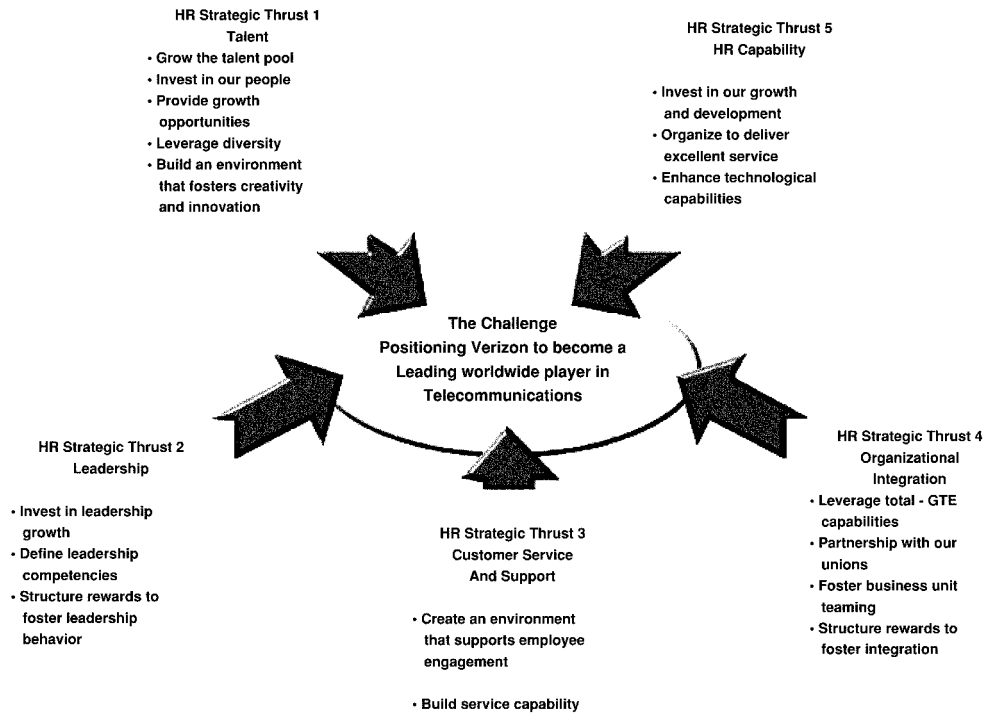


Figure 2. Delivering to the business.

assuring alignment of the measurement model and communicating and training HR departments on the applications and uses of the HR Scorecard (see Table I).

The HR Balanced Scorecard

The Balanced Scorecard, as articulated by Kaplan and Norton (1996), is a conceptual measurement model for assessing an organization's performance. This model complements financial measures of past performance with measures of drivers of future performance. Unlike other accounting models, the Balanced Scorecard incorporates valuation of organizations' intangible and intellectual assets such as:

- High-quality products and services
- Motivated and skilled employees
- Responsive internal processes
- Innovation & productivity

The HR Scorecard approach used slightly modifies the initial Balanced Scorecard model, which at the time was most commonly used at the corporate level. The approach, however, remains focused on long-term strategies and

clear connections to business outcomes.

The HR Balanced Scorecard includes four perspectives:

— *Strategic Perspective*

- Measures our success in achieving the five strategic thrusts. Since the basis for the HR Balanced Scorecard is achieving business goals, the aligned HR Strategic objectives are the drivers for the entire model.

— *Operations Perspective*

- Measures HR's success in operational excellence. The focus here is primarily in three areas: staffing, technology, and HR processes and transactions.

— *Customer Perspective*

- Includes measures of how HR is viewed by our key customer segments. Survey results are used to track customer perceptions of service as well as assessing overall employee engagement, competitive capability, and links to productivity.

— *Financial Perspective*

- Addresses how HR adds measurable financial value to the organization,

TABLE I

What Is a Core Team Member?
<ul style="list-style-type: none"> • Common link: Selected by functional VP • Knowledgeable on key processes within your HR functional area • Dedicated to building awareness and accountability toward achieving better outcomes • Focused on measuring what matters to enable better decision making and resource allocation
Key Responsibilities
<ul style="list-style-type: none"> • Attend Core Team meetings • Communicating to your function the message of why we are measuring HR • Establish SMEs within your function • Identify key processes within your function • Establish key performance indicators/measures reflecting key processes • Submit data within designated timeframe • Responsible for overseeing target setting process for your functional area

Source: Stephanie Field, Verizon Communications

including measures of ROI in training, technology, staffing, risk management, and cost of service delivery.

The Process

A deliberate approach to the project was clearly defined and communicated to each member of the team and to the HR organization. The project was established and organized into four major components. *Planning and Alignment, Assessment, Development, and Implementation.*

- *Planning and Alignment* set the foundation for the project. Project plan, objectives, and milestones established. Team education and training on business performance management, the balanced scorecard methodology, and its application to HR measurement.
- *Assessment* focused on understanding what we currently measure to evaluate HR performance and to assess the relative value to the business.
- *Development* begins the actual process of designing the HR measure-

ment model. Defining the measurement criteria and scorecard measures, establishing targets, defining the process for collecting and tracking results, and creating the communications strategy are the key deliverables in this phase.

- *Implementation* operationalizes the HR Scorecard from the drawing board to a management tool for HR to assess performance and value added to the business. Data collection, results reporting, evaluation, and analysis all come together as the scorecard is implemented. Communications and training are delivered to the HR organization as the HR Scorecard rolls out.

Once the team was selected, and the mission and objectives were established and communicated, the work to link Business Strategy to HR Strategy began. Figure 3 illustrates the initial model used to align Business Strategy to HR Strategy and Actions and lists the specific outputs within each step.

Beginning with a clear understanding of the business strategy and goals, the HR team worked with the business leaders and HR lead-

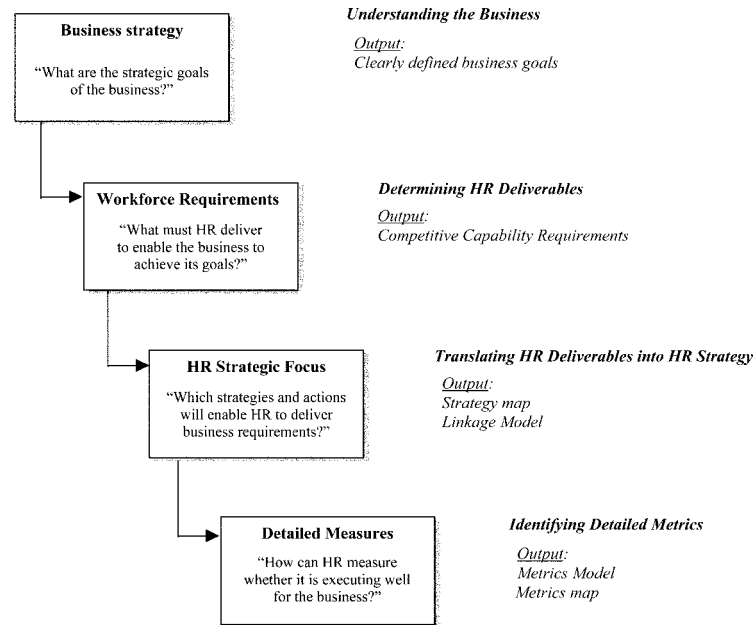


Figure 3. Initial model used to align HR Strategy and Actions to Business Strategy.

ers to determine the key questions to be answered for the business and to determine what key drivers of the business would translate into clear people requirements. The outcome was an understanding of what questions need to be answered and of the competitive capabilities required for current and future business success. This provided the detail to build a strategy map which would support the design and development of the HR Balanced Scorecard. Figure 4 describes the process followed to determine people requirements and business drivers.

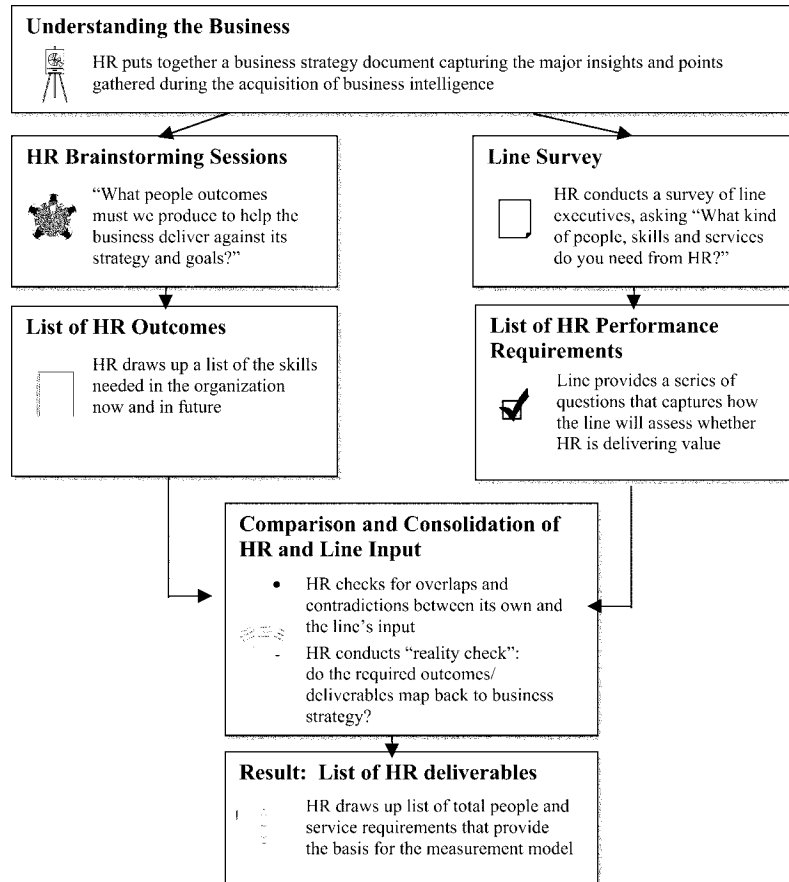
The people requirements defined the HR Strategy that then translated into specific HR initiatives that should directly support the attainment of HR Strategy. Having this alignment allowed us to develop a strategy map which illustrated the cause and effect linkage between HR Strategy and business objectives. Using the strategy map as the guide, we were then able to evaluate the strategic objectives in terms of measures and outcomes (see Figure 5 on page 372). We could then further refine these into lagging measures (which tell how well a company has already done) and leading measures (which are indicators of future performance).

In addition to aligning the scorecard measures to the business objectives, we developed causal links between the objectives and the

measures. For example, one of the financial objectives, Minimize HR Cost, was expected to be an outcome of the HR Strategy. To create a clear line of sight across the perspectives, we linked Minimize HR Cost back to objectives in the Customer, Operations, and Strategic Perspectives that were performance drivers for these outcomes. This cause and effect relationship described that if HR integrated the organization, implemented technology enablers and optimized service delivery through streamlined processes the costs for service delivery would decrease and reduce overall HR expense.

Once we had defined the link from our financial objectives, we now focused on the critical human capital requirements defined by the business. Previously our HR Performance measurement had focused solely on improvement of administrative and transactional efficiency such as the error rate in employee benefit processing and the number of training hours delivered per month. Now the focus was expanding to include new processes for the HR organization to develop best in class service delivery and increased employee value while ensuring a focus on cost and value.

As we developed the measurement model to support the business's people requirements, the process naturally led to objectives and



Source: Verizon Communications and Corporate Leadership Council research

Figure 4. The people requirement and business driver determination process.

measures for Talent, Leadership, and Organizational Capability (see Table II). We recognized our employees would need to expand their skills and increase their productivity to provide the new products and services that our business would provide. Our sales representatives needed to be able to serve as our customers' telecommunications solution provider. Our customer service representatives also would need ready access to customer account information and be trained to quickly recognize possible customer needs and to communicate optimal mixes of products, services, and price plans to customers. We needed new incentive systems to encourage the new behavior and skill acquisition as well as retention plans for critical skill employees. Providing workforce solutions and ensuring alignment and a strategy-focused workforce all contribute to a more capable and skilled employee population, who will then drive profitability.

Historically, HR had a difficult time communicating to the business and maintaining their focus on the investments and initiatives designed to build employee capability. Strategic skill development, leadership development, and employee development programs were all discussed with business leaders and generally accepted as valuable. When financial pressure was applied, however, these types of programs were the first to go. Now with measures, which link leadership development with competitive capability, people can see the relationship between investing in these programs and achievement of long-term business goals.

Early Results

An early benefit of the HR Scorecard work was that it provided a process for the senior HR team to focus on a clear and common objective: to establish a common strategy for

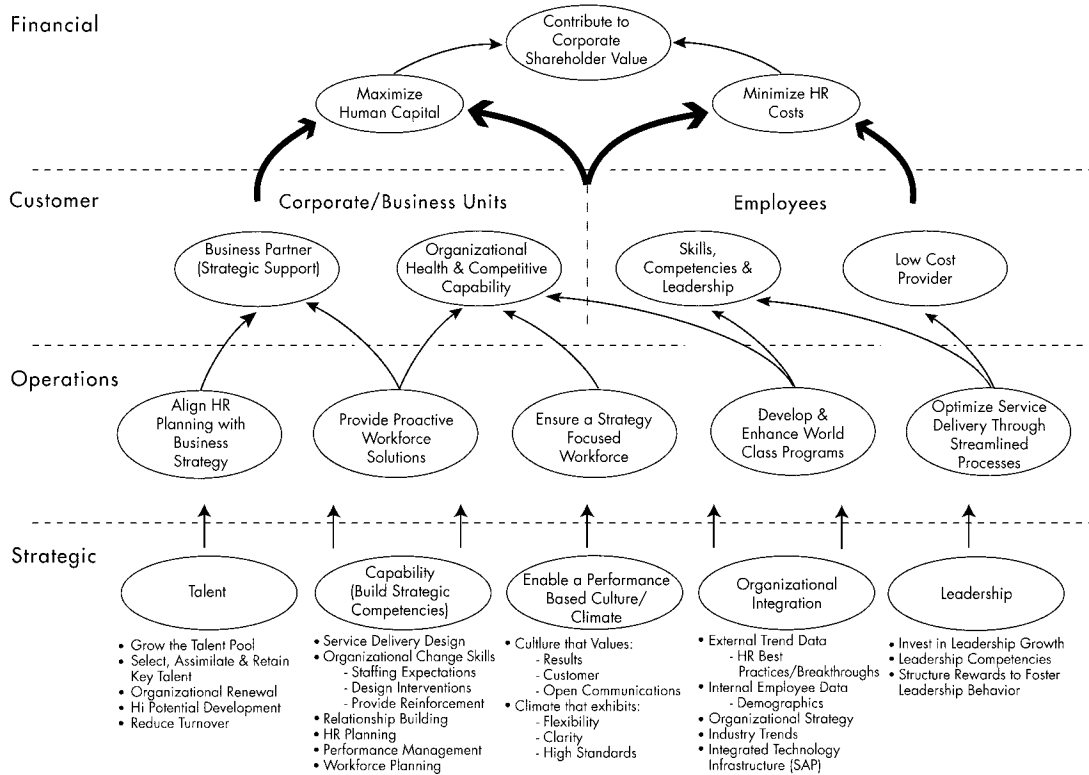


Figure 5. GTE linkage model.

TABLE II GTE linkage model

	Objectives	Enterprise Measures (Lagging Measures)	SBU Measures (Leading Measures)
Financial	F1 - Maximise Shareholder Value	<input type="checkbox"/> Total Shareholder Return <input type="checkbox"/> Revenue per Employee	<input type="checkbox"/> Human Capital Value Added
	F2 - Maximize Human Capital Performance	<input type="checkbox"/> HR ROI (Index) <input type="checkbox"/> Total HR Cost/Employee	<input type="checkbox"/> Total Labor Cost Percent <input type="checkbox"/> Competitive Capability Index
	F3 - Minimize Human Resources Costs	<input type="checkbox"/> Budget Variance	
Customer	C1 - Business Partner (Strategic Support) C2 - World Class Standards	<input type="checkbox"/> Rating on Corporate Service Agreements <input type="checkbox"/> Ranking of HR Practice Development/Audit (vs. Benchmark)	<input type="checkbox"/> Employee Engagement Index <input type="checkbox"/> Comparative Analysis Results Hi Tech, RBOC's, IT Paergroups
	C3 - Responsive Quality Service	<input type="checkbox"/> Employee Satisfaction Survey Results <input type="checkbox"/> Benefit Center Satisfaction Percent	<input type="checkbox"/> Hewitt - Average Time to Resolve <input type="checkbox"/> Fidelity Percent Resolved 1st Call
	C4 - Low Cost Provider	<input type="checkbox"/> HR Cost Factor Indices	<input type="checkbox"/> Cost of Service vs. Benchmark
Operations	O1 - Align HR Planning with Business Priorities O2 - Provide Quality Consultative Advice	<input type="checkbox"/> % of HR Strategic Plans Implemented <input type="checkbox"/> % of HR Customized Recommendations Implemented	<input type="checkbox"/> Time Spent with Executives <input type="checkbox"/> % Service Coverage/Client
	O3 - Ensure a Strategy Focused Workforce	<input type="checkbox"/> % Productivity Improvement Goals Established <input type="checkbox"/> % Compensation Schemes Aligned to Strategy	<input type="checkbox"/> % Participation in Goal Setting Process Linked to Strategy
	O4 - Develop & Enhance World Class Programs	<input type="checkbox"/> Benchmarking Ranking <input type="checkbox"/> % Programs Executed	<input type="checkbox"/> Program Development Cycle Time <input type="checkbox"/> Key Initiative Tracking vs. Milestones
	O5 - Optimize HR Services through Alternative Delivery Channels	<input type="checkbox"/> Cost Per Delivery Channel - HR Interaction, Automation, Outsourcing <input type="checkbox"/> Cycle Time to Fill <input type="checkbox"/> Cost per Transaction	<input type="checkbox"/> HR Technology ROI & Payback Period <input type="checkbox"/> % Training Delivered - CBT
Strategic	S1 - Capability (Build Strategic Competencies) S2 - Talent (Select, Assimilate & Train)	<input type="checkbox"/> LD Participation <input type="checkbox"/> Voluntary Separation Rate/Separation Cost	<input type="checkbox"/> Critical Skill Attainment <input type="checkbox"/> % New Hires Retention 6 mths/1 yr Ratio <input type="checkbox"/> Targeted Workforce Churn Rate
	S3 - Performance Based Culture/Climate	<input type="checkbox"/> Rating on Viewpoints Survey <input type="checkbox"/> Organizational Health Index <input type="checkbox"/> Reporting % accurate 1st Request <input type="checkbox"/> Turnaround time for ad hoc Request	<input type="checkbox"/> Internal Promotion Rate <input type="checkbox"/> Data Availability
	S4 - Organizational Integration (Information for Decision Making)	<input type="checkbox"/> LDP Benchmarking <input type="checkbox"/> Diversity <input type="checkbox"/> Executive Coaching	<input type="checkbox"/> High Potential Retention <input type="checkbox"/> Offer Acceptance Rate <input type="checkbox"/> Executive Retention
	S5 - Leadership		

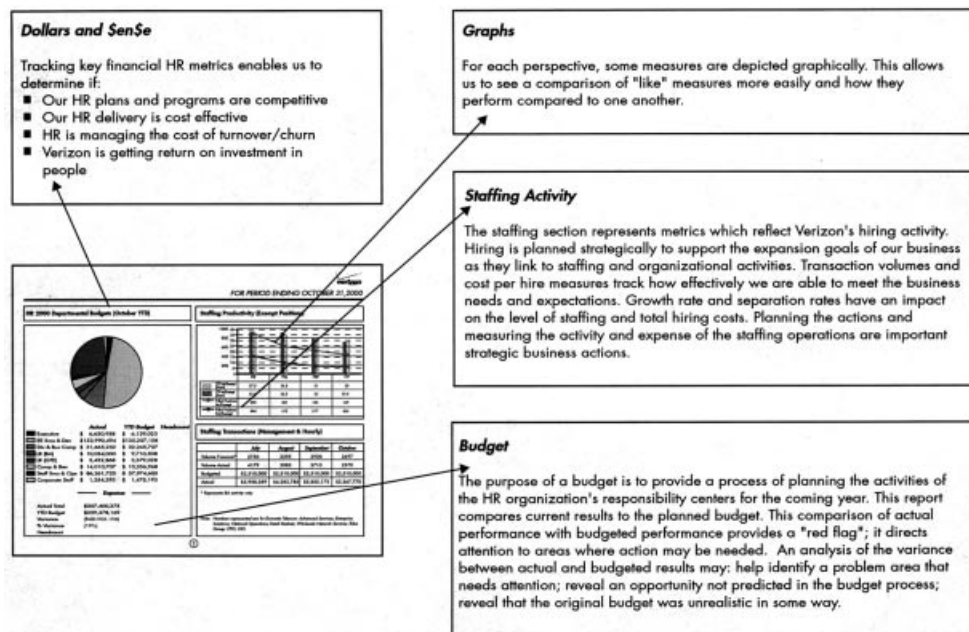
HR in support of business objectives. Everyone generally agreed on a high level strategy: "Be a partner to the business". Rarely, however, did all of the HR leadership agree on how to implement the strategy because each person had a different opinion about what being business partner really meant and whom exactly the customer was. Taking strategy and translating it into a measurement and management model gave specific and operational definitions for being a business partner and targeted business customers.

Communicating the HR Scorecard

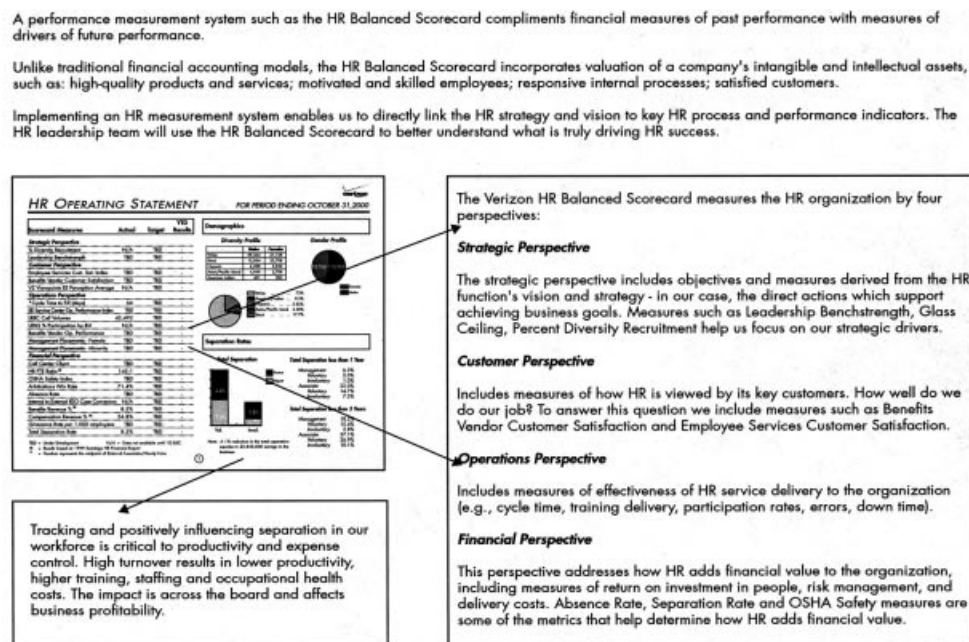
Communicating the HR Scorecard across the HR organization and the business was critical aspect of successful implementation (see Figure 6). The development process increased learning and understanding but was only visible to the top leaders within HR and the business. To use the HR Scorecard to drive change throughout the organization, the Planning, Measurement, and Analysis team developed a phased approach to communicate and train

Figures 6a and 6b. Understanding the balanced scorecard.

6a)



6b)



Source: Garrett Walker Verizon Communications

the managers and their departments on this new management tool. The emphasis on the scorecard was on the value the tool provided in communicating strategy and alignment to the business. It also served as a tool that provided proactive solutions to employee issues before a negative impact could occur to the bottom line. Performance measurement was also an essential component, and all in the HR organization had their incentive compensation tied to the results of the HR Scorecard. Training and communication material was used extensively to reinforce understanding of the new management tool. An interactive teaching tool was developed to train HR professionals to use the HR Scorecard results in problem-solving workforce issues.

Measures do not manage, and simply tracking results was not the only intended use of the HR Scorecard. The value was to use the information provided in the scorecard and take action to influence and improve business performance; this was the real value added for

this tool. For example, one of the most important areas to manage in terms of cost is employee turnover or “churn”. Turnover, particularly within target front-line workforce centers, is critical to productivity and expense control. High turnover results in lower productivity, higher training, and staffing and occupational health costs. The impact is across the board and affects business profitability.

Starting in 1998, with a new disciplined process using the HR Scorecard, HR professionals tracked and analyzed turnover statistics, determined reasons for turnover, calculated the negative financial impact, prescribed solutions, tracked improvement trends, and showed dramatic results. In partnership with the business leadership in targeted call centers, significant costs were avoided by reducing the regretted turnover (see Figure 7).

Linkages between business processes and value chains to human resource actions and services were clearly defined as the HR

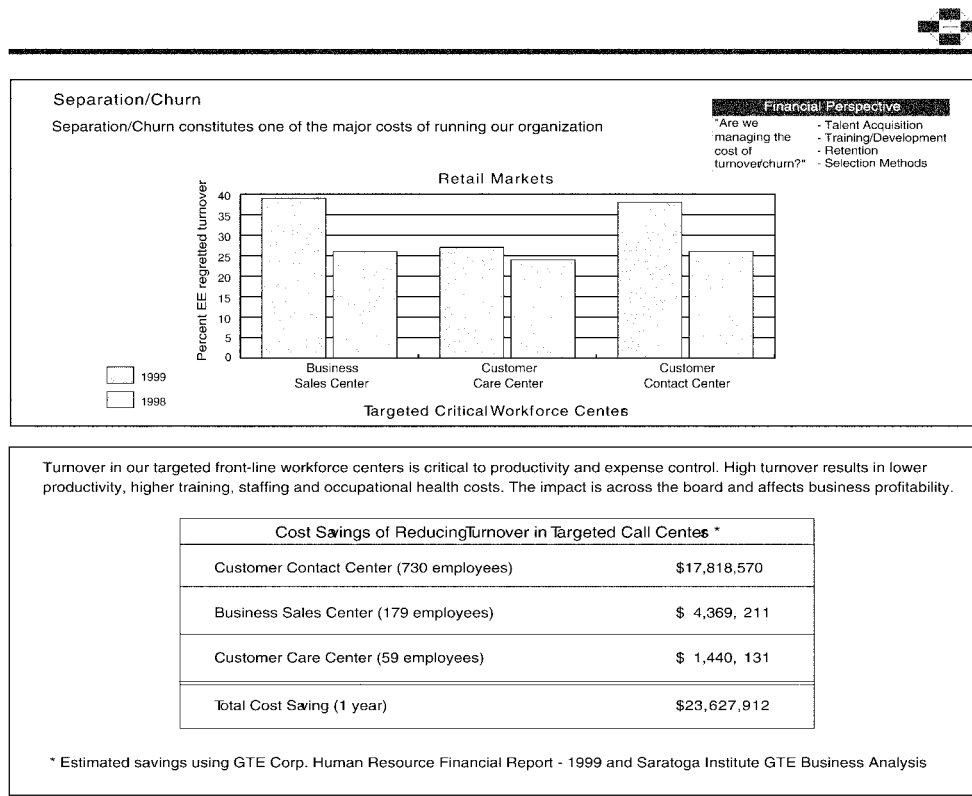


Figure 7. GTE HR Balanced Scorecard—“HR that works”.

This particular screen tells you, at a glance, where we are excelling and where extra attention is needed.



This screen is called a “briefing book.” It allows us to see the “big picture” in easy-to-read charts and graphs that track relationships and trends in the data.



Source: HR Technology, Verizon Communications

Figure 8. HR Balanced Scorecard desktop software

Scorecard became a business tool understood and used across the HR organization. Not only are human capital initiatives needed to increase employee value delivered to the business, they are vulnerable to business process changes and the measures taken in isolation can be misleading. For example, in a regional call center, our external business measures of customer satisfaction were trending downward and accelerating. When HR reviewed the call center results from the HR Scorecard, there was no single indicator that showed any direct relationship to the customer satisfaction issue; however, the measures, together with input and analysis by HR professionals and line management, pointed to both an issue and solution not readily apparent. The HR metrics showed a very low cost per hire, a very quick cycle time to fill jobs, and an average employee separation rate. On the surface nothing unusual—in fact the staffing metrics showed a high efficiency and cost control. Drilling deeper showed a high cost of training, a very high separation rate for short service employees, and declining employee satisfaction for long service employees. Further analysis re-

vealed that six months prior a significant expense reduction effort had been put in place for this call center. HR responded to the required reduced expense by changing talent pools and reducing the investments in selection methods. This action kept costs low while bringing in applicants who were ready to start quickly but were harder to train and keep. It was a bad trade-off. It made sense to accept a longer cycle time and more cost to ensure the right person was put in the right job.

Drill down capability below the summary level results of the HR Scorecard is enabled through a technology architecture, which at the top level uses a Web-based application to deploy and communicate to the desktop HR Scorecard results in a “virtual briefing book.” Figure 8 illustrates the HR Scorecard user interface which is available on-line to all HR professionals. The “virtual briefing book” is easy to use and uses color (green, yellow, and red) to indicate whether a metric has exceeded, met, or fallen below target.

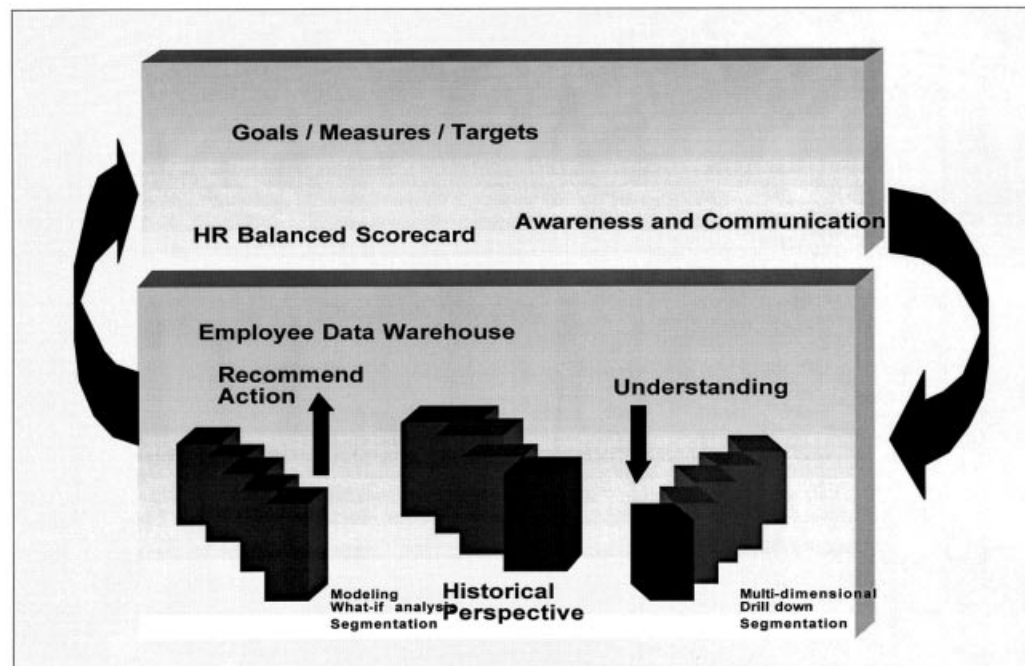
The underlying technology supporting the “virtual briefing book” provides links to ERP systems (SAP and PeopleSoft) and a data ware-

house using a data-mining tool to drill down below the HR Scorecard results to analyze and model cause and effects. Predictive modeling to evaluate workforce decision impacts (positive and negative) prior to execution is the primary objective of this investment in technology. Figure 9 illustrates the technology architecture. Shehan Xavier, the key architect for the technology platform, describes the value to the business.

The Employee Data Warehouse provides the intelligence behind the measures tracked by the HR Scorecard. Our HR professionals have access to a rich base of employee data integrated from 16 different HR systems including 20 years of history. Users have a suite of reporting tools that enable them to perform sophisticated multi-dimensional workforce analysis and predictive modeling. Hidden correlation between measures to prove or disprove what business managers previously knew only through hypotheses or hunches can now be determined.

To fully appreciate the value of the HR Scorecard within Verizon, it is important to understand how it served as a catalyst to pull together the two HR leadership teams during the merger integration planning. The process of defining the role and strategy of HR in the new company provided a common objective for integrating the HR leadership team. Articulating a common strategy and business alignment for HR services provided a positive perspective—a clear focus on the customer and a shared sense of the enormous potential to deliver world class programs.

The newly merged company faces a highly competitive environment where a competitive cost structure, consistent revenue growth, controlled expense, and excellent investment management are critical to win in the market place. The Verizon HR Scorecard continues to provide the forum for HR leaders to actively discuss performance and future targets. HR leaders now have a tool which supports a focus on tactical excellence while ensuring alignment with business strategy.



Source: Shehan Xavier, Verizon Communications

Figure 9. HR Balanced Scorecard technology architecture.

The HR Balanced Scorecard has made it possible for HR managers to understand how they align to business objectives. They are able to explain not only what they are tracking but also how they are performing on essential strategies for the business. Business environment and the objectives and strate-

gies will continue to evolve, and HR managers will continue to be flexible and creative in supporting the changes. The value of the HR Scorecard as a tool is that it can get us to the new goals and measures and through the process ensure continued learning and change management.

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J. RANDALL MACDONALD joined IBM in August 2000 as senior vice president, human resources. In this position he is responsible for the human resources practices and policies of the organization and reports to the Chairman and CEO, Louis V. Gerstner, Jr. Prior to joining IBM, Mr. MacDonald was the executive vice president of human resources and administration for GTE (now Verizon Communications). He serves on the Board of Directors of Covance, formerly known as Corning Pharmaceutical Services. He is a member of Cornell University's Center for Advanced Human Resources Study and is Chair of its Executive Board; the Cowdrick group; the Personable Roundtable; the Labor Policy Association and serves on its Board of Directors as Vice Chairman.

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