

Chapter

SHRM and the HR Scorecard

HR's Strategic Challenges

➤ *Strategic plan*

- A company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

➤ *Three basic challenges*

- The need to support corporate productivity and performance improvement efforts.
- That employees play an expanded role in employers' performance improvement efforts.
- HR must be more involved in designing—not just executing—the company's strategic plan.

The Strategic Management Process

➤ *Strategic management*

- The process of identifying and executing the organization's mission by matching its capabilities with the demands of its environment.

➤ *Strategy*

- A strategy is a course of action.
- The company's long-term plan for how it will balance its internal strengths and weaknesses with its external opportunities and threats to maintain a competitive advantage.

Business Mission and Its Vision

➤ *Vision*

- A general statement of its intended direction that evokes emotional feelings in organization members.
 - “Toastmasters International empowers people to achieve their full potential and realize their dreams. Through our member clubs, people throughout the world can improve their communication and leadership skills, and find the courage to change.”

➤ *Mission*

- Spells out who the company is, what it does, and where it's headed.
 - “Toastmasters International is the leading movement devoted to making effective oral communication a worldwide reality. Through its member Clubs, Toastmasters International helps men and women learn the arts of speaking, listening and thinking – vital skills that promote self-actualization, enhance leadership, foster human understanding, and contribute to the betterment of mankind.”

Strategic Management Process (cont'd)

➤ *Strategic management tasks*

- Step 1: Define the Business and Its Mission
- Step 2: Perform External and Internal Audits
- Step 3: Translate the Mission into Strategic Goals
- Step 4: Formulate a Strategy to Achieve the Strategic Goals
- Step 5: Implement the Strategy
- Step 6: Evaluate Performance

Overview of Strategic Management

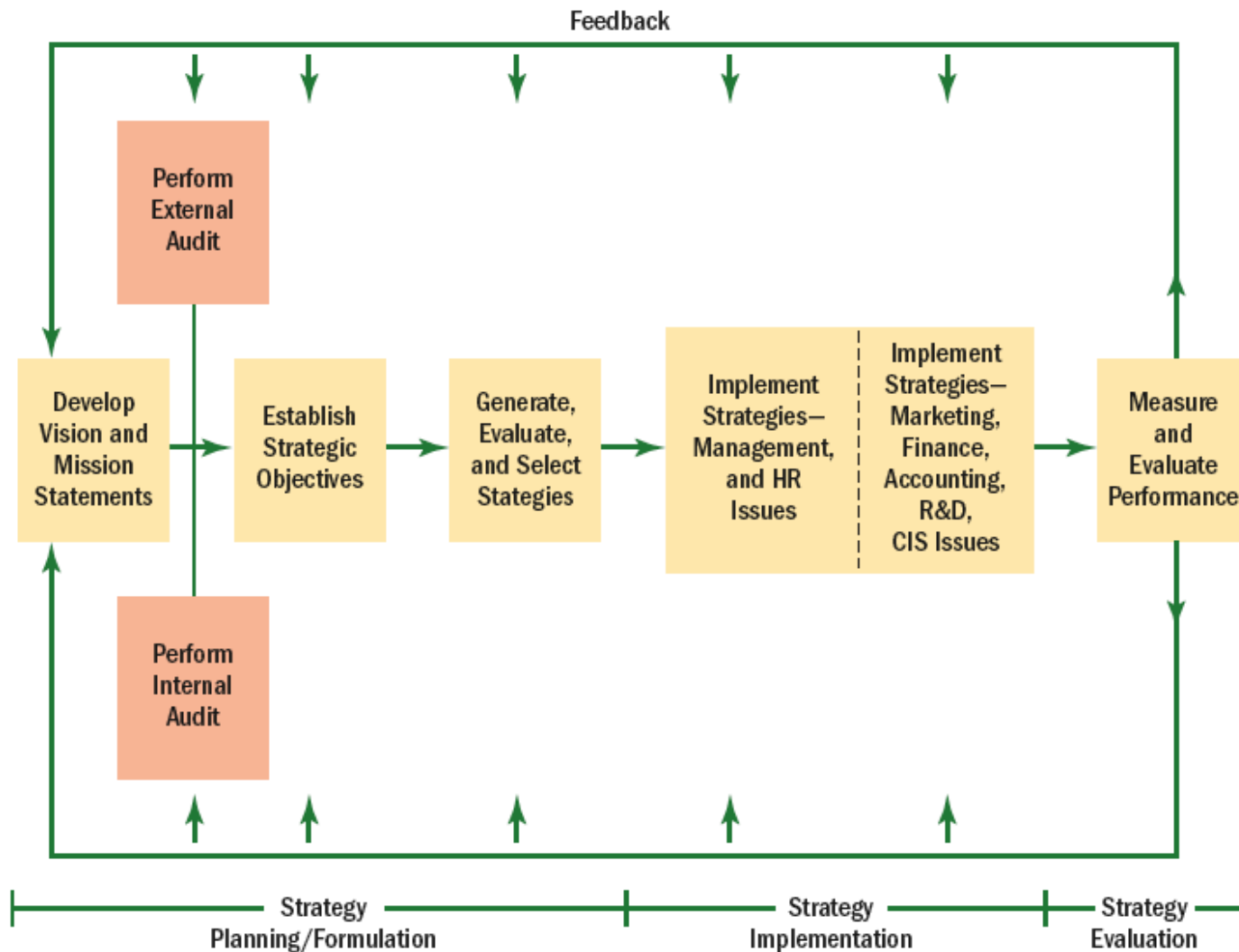


Figure 3-1

A SWOT Chart

SWOT Analysis

The use of a SWOT chart to compile and organize the process of identifying company

Strengths,
Weaknesses,
Opportunities, and
Threats.



Figure 3–2

Strategies in Brief

Company

Strategic Principle

Dell

Be direct

eBay

Focus on trading communities

General Electric

Be number one or number two in every industry in which we compete, or get out

Southwest Airlines

Meet customers' short-haul travel needs at fares competitive with the cost of automobile travel

Vanguard

Unmatchable value for the investor-owner

Wal-Mart

Low prices, every day

Types of Strategic Planning

➤ *Corporate-level strategy*

- Identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.
 - **Diversification strategy** implies that the firm will expand by adding new product lines.
 - **Vertical integration strategy** means the firm expands by, perhaps, producing its own raw materials, or selling its products direct.
 - **Consolidation strategy** reduces the company's size
 - **Geographic expansion strategy** takes the company abroad.

Types of Strategic Planning (cont'd)

➤ *Business-level/competitive strategy*

– Identifies how to build and strengthen the business's long-term competitive position in the marketplace.

- **Cost leadership:** the enterprise aims to become the low-cost leader in an industry.
- **Differentiation:** a firm seeks to be unique in its industry along dimensions that are widely valued by buyers.
- **Focus:** a firm seeks to carve out a market niche, and compete by providing a product or service customers can get in no other way.

Types of Strategic Planning (cont'd)

➤ *Functional strategies*

- Identify the basic courses of action that each department will pursue in order to help the business attain its competitive goals.

Achieving Strategic Fit

➤ *Michael Porter*

- Emphasizes the “fit” point of view that all of the firm’s activities must be tailored to or fit its strategy, by ensuring that the firm’s functional strategies support its corporate and competitive strategies.

➤ *Gary Hamel and C. K. Prahalad*

- Argue for “stretch” in leveraging resources—supplementing what you have and doing more with what you have—can be more important than just fitting the strategic plan to current resources.

HR and Competitive Advantage

➤ *Competitive advantage*

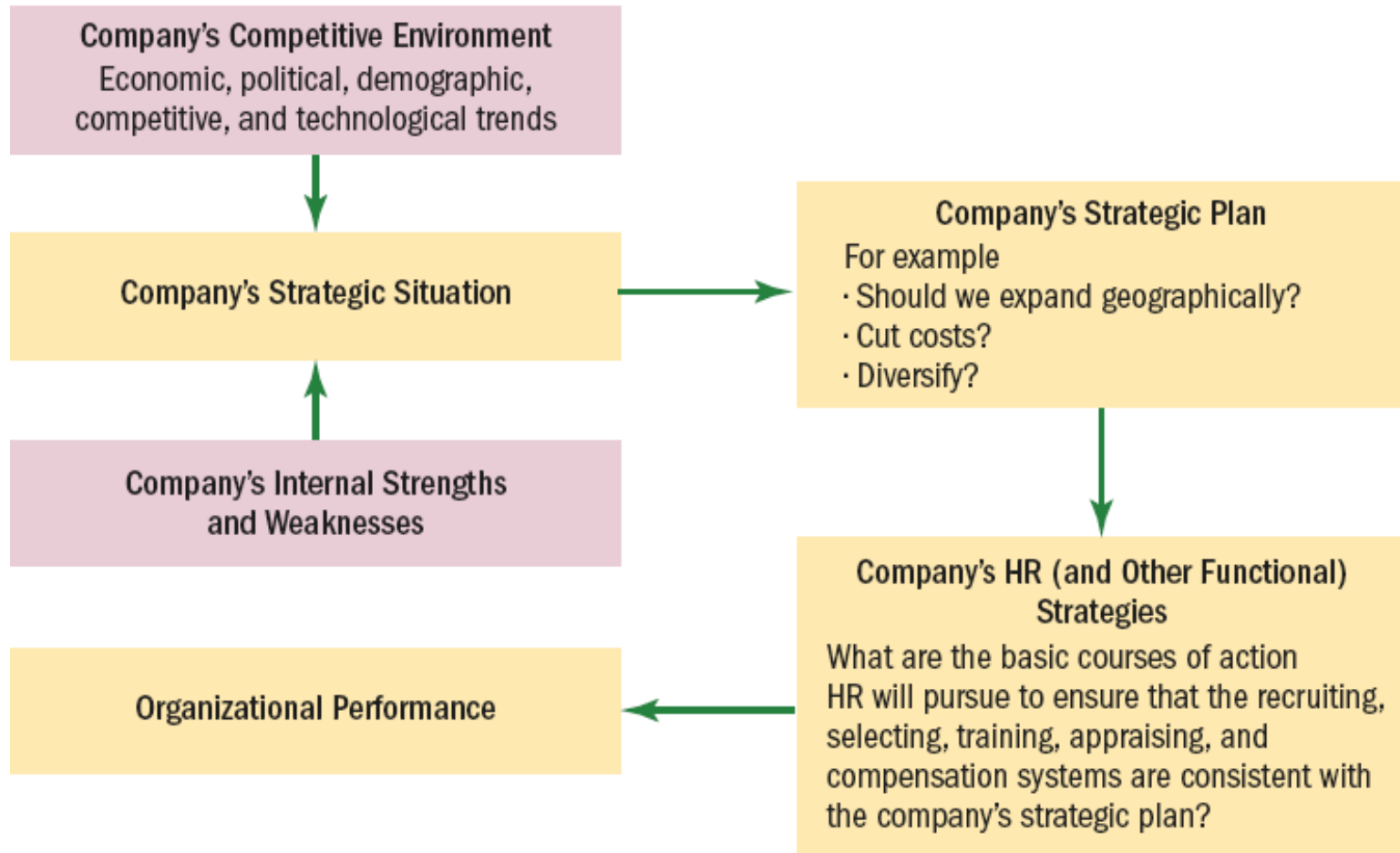
- Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.
- Superior human resources are an important source of competitive advantage

Strategic Human Resource Management

➤ *Strategic Human Resource Management*

- The linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility.
- Formulating and executing HR systems—HR policies and activities—that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

Linking Corporate and HR Strategies



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Figure 3–6

HR'S Strategic Roles

- *HR professionals should be part of the firm's strategic planning executive team.*
 - Identify the human issues that are vital to business strategy.
 - Help establish and execute strategy.
 - Provide alternative insights.
 - Are centrally involved in creating responsive and market-driven organizations.
 - Conceptualize and execute organizational change.

Creating a Strategy-oriented HR System

➤ *Components of the HR process*

- HR professionals who have strategic and other skills
- HR policies and activities that comprise the HR system itself
- Employee behaviors and competencies that the company's strategy requires.

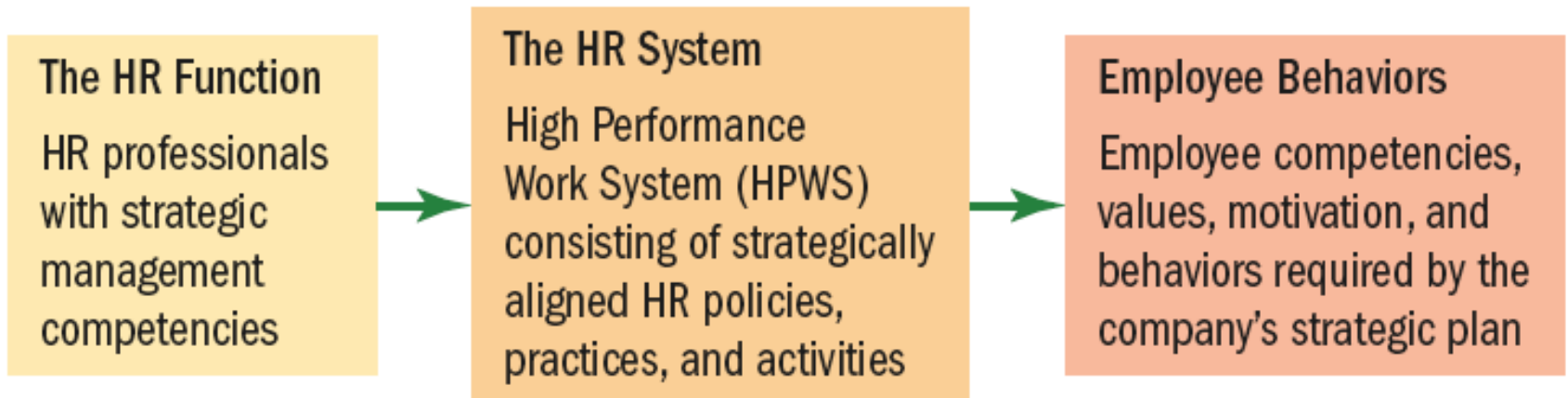
HR's Strategy Formulation Role

- HR helps top management formulate strategy in a variety of ways by.
 - Supplying competitive intelligence that may be useful in the strategic planning process.
 - Supplying information regarding the company's internal human strengths and weaknesses.
 - Build a persuasive case that shows how—in specific and measurable terms—the firm's HR activities can and do contribute to creating value for the company.

HR's Strategy Execution Role

- *The HR department's strategies, policies, and activities must make sense in terms of the company's corporate and competitive strategies, and they must support those strategies.*

The Basic Architecture of HR



Source: Adapted from Brian Becker et al., *The HR Scorecard: Linking People, Strategy, and Performance* (Boston: Harvard Business School Press, 2001), p. 12.

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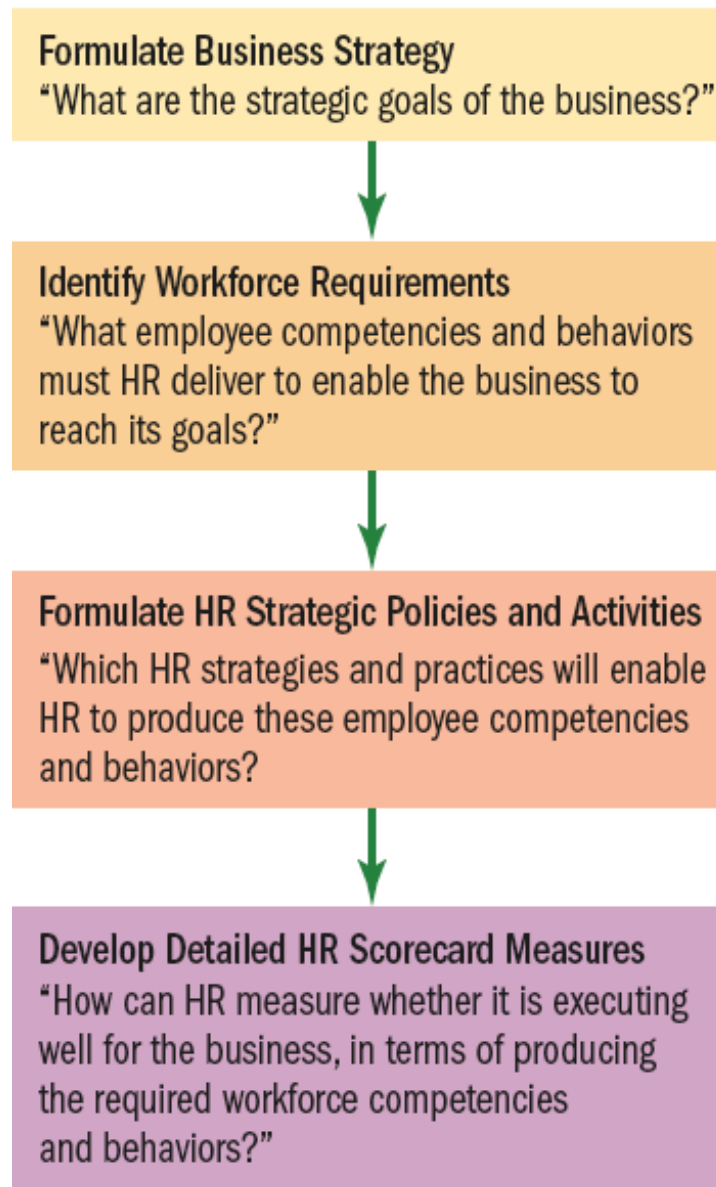
Figure 3–8

The High-Performance Work System

- *High-performance work system (HPWS) practices.*
 - High-involvement employee practices (such as job enrichment and team-based organizations),
 - High commitment work practices (such as improved employee development, communications, and disciplinary practices)
 - Flexible work assignments.
 - Other practices include those that foster skilled workforces and expanded opportunities to use those skills.

Translating Strategy into HR Policy and Practice

Basic Model of How to Align HR Strategy and Actions with Business Strategy



Source: Adapted from Garrett Walker and J. Randal MacDonald, “Designing and Implementing an HR Scorecard,” *Human Resources Management* 40, no. 4 (2001), p. 370.

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Figure 3–9

The HR Scorecard Approach

➤ *HR scorecard*

- Measures the HR function's effectiveness and efficiency in producing employee behaviors needed to achieve the company's strategic goals.

➤ *Creating an HR scorecard*

- Must know what the company's strategy is.
- Must understand the causal links between HR activities, employee behaviors, organizational outcomes, and the organization's performance.
- Must have metrics to measure all the activities and results involved.

HR Metrics

➤ *Absence Rate*

$$\left[\frac{\text{Number of days absent in month}}{\text{Average number of employees during mo.}} \times (\text{number of workdays}) \right] \times 100$$

➤ *Cost per Hire*

$$\frac{(\text{Advertising} + \text{Agency Fees} + \text{Employee Referrals} + \text{Travel cost of applicants and staff} + \text{Relocation costs} + \text{Recruiter pay and benefits})}{\text{Number of Hires}}$$

➤ *Health Care Costs per Employee*

$$\frac{\text{Total cost of health care}}{\text{Total Employees}}$$

➤ *HR Expense Factor*

$$\frac{\text{HR expense}}{\text{Total operating expense}}$$

Sources: Robert Grossman, "Measuring Up," *HR Magazine*, January 2000, pp. 29–35; Peter V. Le Blanc, Paul Mulvey, and Jude T. Rich, "Improving the Return on Human Capital: New Metrics," *Compensation and Benefits Review*, January/February 2000, pp. 13–20; Thomas E. Murphy and Sourushe Zandvakili, "Data and Metrics-Driven Approach to Human Resource Practices: Using Customers, Employees, and Financial Metrics," *Human Resource Management* 39, no. 1 (Spring 2000), pp. 93–105; [*HR Planning*, Commerce Clearing House Incorporated, July 17, 1996;] *SHRM/EMA 2000 Cost Per Hire and Staffing Metrics Survey*; www.shrm.org.

Figure 1–5

HR Metrics (cont'd)

➤ *Human Capital*

Revenue – (Operating Expense – [Compensation cost + Benefit cost]) ÷ (Compensation cost + Benefit cost)

➤ *Time to fill*

Total days elapsed to fill requisitions ÷ Number hired

Sources: Robert Grossman, "Measuring Up," *HR Magazine*, January 2000, pp. 29–35; Peter V. Le Blanc, Paul Mulvey, and Jude T. Rich, "Improving the Return on Human Capital: New Metrics," *Compensation and Benefits Review*, January/February 2000, pp. 13–20; Thomas E. Murphy and Sourushe Zandvakili, "Data and Metrics-Driven Approach to Human Resource Practices: Using Customers, Employees, and Financial Metrics," *Human Resource Management* 39, no. 1 (Spring 2000), pp. 93–105; [*HR Planning*, Commerce Clearing House Incorporated, July 17, 1996;] *SHRM/EMA 2000 Cost Per Hire and Staffing Metrics Survey*; www.shrm.org.

Figure 1–5 (cont'd)

HR Metrics (cont'd)

➤ *Training Investment Factor*

Total training cost ÷ Headcount

➤ *Turnover Costs*

Cost to terminate + Cost per hire + Vacancy Cost + Learning curve loss

➤ *Turnover Rate*

[Number of separations during month ÷ Average number of employees during month] × 100

➤ *Workers' Compensation Cost per Employee*

Total WC cost for Year ÷ Average number of employees

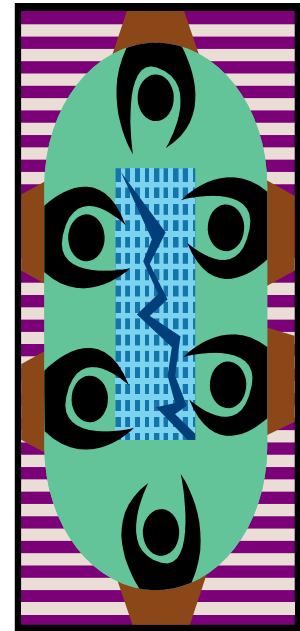
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Figure 1–5 (cont'd)

Measuring HR's Contribution

➤ *The HR Scorecard*

- Shows the quantitative standards, or “metrics” the firm uses to measure HR activities.
- Measures the employee behaviors resulting from these activities.
- Measures the strategically relevant organizational outcomes of those employee behaviors.



value chain



Interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage. A value chain typically consists of (1) inbound distribution or logistics, (2) manufacturing operations, (3) outbound distribution or logistics, (4) marketing and selling, and (5) after-sales service. These activities are supported by (6) purchasing or procurement, (7) research and development, (8) human resource development, (9) and corporate infrastructure.

The HR Scorecard Approach to Formulating HR Policies, Activities, and Strategies

Formulate Business Strategies (color #1)

① Define the business strategy

Identify Workforce Requirements (color #2)

② Outline the company's value chain activities

③ Identify the strategically required organizational outcomes

④ Identify the required workforce behaviors

Formulate HR Policies and Practices (color #3)

⑤ Identify the strategically relevant HR system policies and activities, such as new training and grievance systems

Develop Detailed "Scorecard" Measures (color #4)

⑥ Design the HR Scorecard measurement system

⑦ Periodically reevaluate the measurement system

Figure 3-11

Using the HR Scorecard Approach

- Step 1: Define the Business Strategy
- Step 2: Outline the Company's Value Chain
- Step 3: Identify the Strategically Required Organizational Outcomes
- Step 4: Identify the Required Workforce Competencies and Behaviors
- Step 5: Identify the Strategically Relevant HR System Policies and Activities
- Step 6: Design the HR Scorecard Measurement System
- Step 7: Periodically Evaluate the Measurement System

Strategic HR Relationships



Figure 3–10