

# UNIT 5 Measures of HRM

## □ BALANCE SCORE CARD

- A Balanced Scorecard is a performance management tool used by executives and managers to manage the execution of organizational activities and to monitor the results of actions.
- Fundamentally a balanced scorecard provides a summary level view of organizational performance at a quick glance and includes key performance indicators (KPIs) across four main areas or perspectives:
  - ❖ Financial Perspective: KPIs for productivity, revenue, growth, usage, and overall shareholder value.
  - ❖ Customer Perspective: KPIs for customer acquisition, customer satisfaction rates, market share, and overall brand strength.
  - ❖ Internal Process Perspective: KPIs for resource usage, inventory turnover rates, order fulfillment, and quality control.
  - ❖ Learning / Growth Perspective: KPIs for employee retention, employee satisfaction, and employee education, training, and development.

# BALANCE SCORE CARD

The <sup>2</sup>balanced scorecard allows managers to look at the business from four important perspectives. It provides answers to

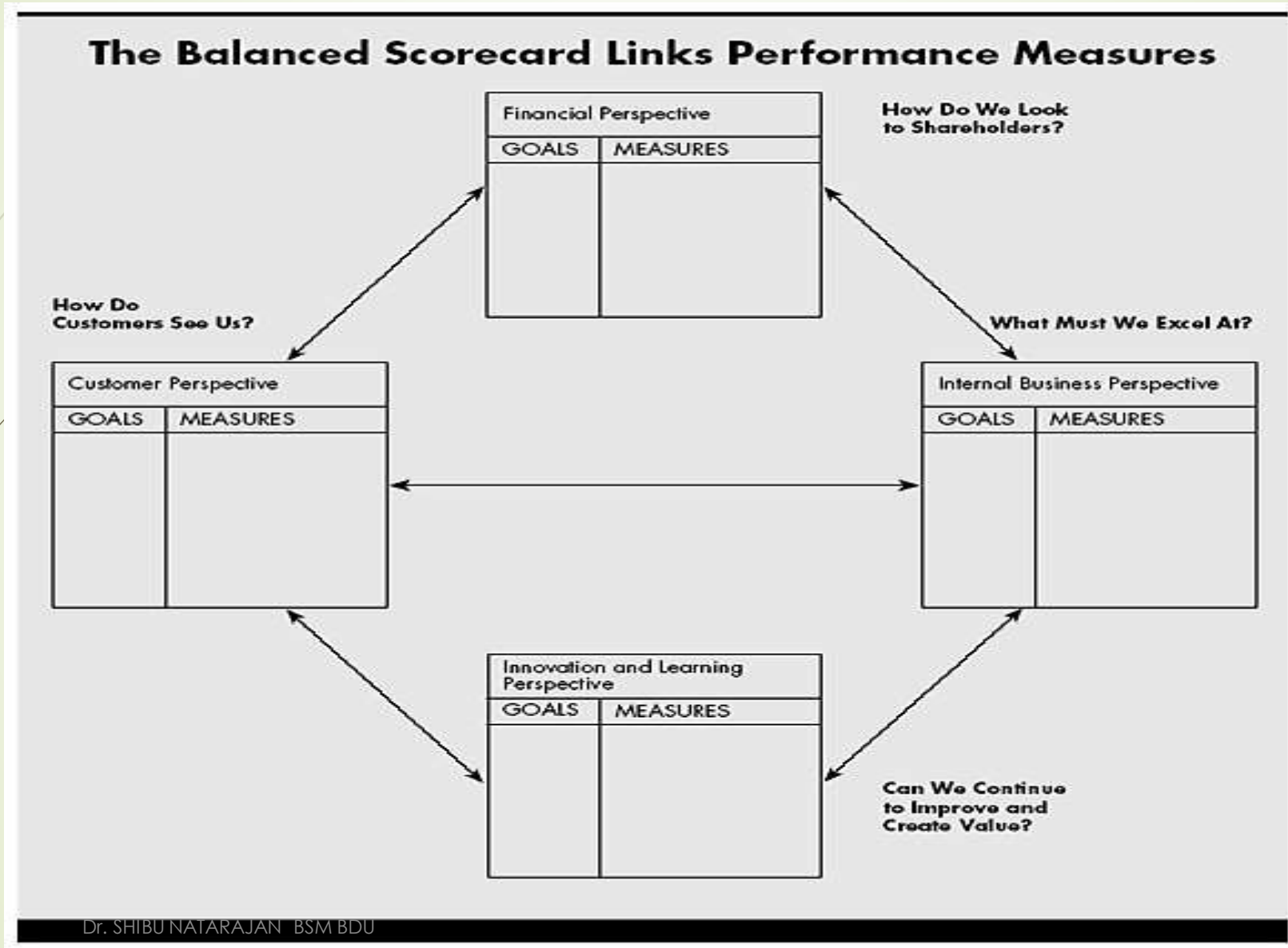
four basic questions:

## The Balanced Scorecard Links Performance Measures

- ➔ How do customers see us? (customer perspective)
- ➔ What must we excel at? (internal perspective)
- ➔ Can we continue to improve and create value? (innovation and learning perspective)
- ➔ How do we look to shareholders? (financial perspective)

# BALANCE SCORE CARD

3



# BALANCE SCORE CARD

## 4 Customer Perspective: How Do Customers See Us?

- ▶ The balanced scorecard demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers.
- ▶ Customers' concerns tend to fall into four categories: time, quality, performance and service, and cost.

### ❖ Internal Business Perspective: What Must We Excel at?

- The internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction—factors that affect cycle time, quality, employee skills, and productivity,
- For example: Companies should also attempt to identify and measure their company's core competencies, the critical technologies needed to ensure continued market leadership.
- Companies should decide what processes and competencies they must excel at and specify measures for each.

# BALANCE SCORE CARD

## 5 Innovation and Learning Perspective: Can We Continue to Improve and Create Value?

- ▶ A company's ability to innovate, improve, and learn ties directly to the company's value. That is, only through the ability to launch new products, create more value for customers, and improve operating efficiencies continually can a company penetrate new markets and increase revenues and margins—in short, grow and thereby increase shareholder value.
- ❖ Financial Perspective: How Do We Look to Shareholders?
- ▶ Financial performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement. Typical financial goals have to do with profitability, growth, and shareholder value.

# BALANCE SCORE CARD

6



# HUMAN RESOURCE SCORE CARD

- HR scorecard is meant to measure leading HR indicators of business performance.

7

- Leading indicators are measurements that predict future business growth. These are called HR deliverables.

- They are also known as HR metrics, and more specifically HR KPIs, as they are metrics that are linked to the business strategy.

- There are five steps to create an HR scorecard:

1. Create an HR strategy map

2. Identify HR deliverables

3. Creation of HR policies, processes, and practices

4. Aligning HR systems

5. Creating HR efficiencies

## 1. HR Strategy Map

- The strategy map helps to identify how HR is driving these business outcomes. The question here is: what HR practices drive the strategic goals of the company?

# HUMAN RESOURCE SCORE CARD

8





# HUMAN RESOURCE SCORE CARD

9

Eg: In the above , the company's strategic goal is on top. Next, HR has identified its recruitment contribution to this goal. The contribution is to hire more qualified professionals. The way to do this is through becoming a more attractive employer in the labor market, and through a decrease in the time it takes to hire a new employee (lead time).

## 2.HR deliverables

To measure this, HR deliverables or KPIs are created. This HR scorecard example shows how these strategic goals can be measured.

For example, the lead time is measured as the 'time to hire in days', which is currently 38, but has to be decreased to 25, a 34% improvement!

# HUMAN RESOURCE SCORE CARD

Recruitment Strategy Map			HR Scorecard		
			KPI	Current score	Target
<b>Strategic</b>	Most innovative organization in the sector		<ul style="list-style-type: none"> <li>Position in the sector-wide innovation benchmark</li> <li>Time to market of last 5 new products in days</li> </ul>	5 121	Top 3 95
<b>Employee growth</b>	Hire more qualified professionals		<ul style="list-style-type: none"> <li>Satisfaction score of manager after 1 year (<i>quality of hire</i>)</li> </ul>	0.70	0.85
<b>Financial</b>	Decrease of recruitment cost		<ul style="list-style-type: none"> <li>Recruitment cost in Dollars</li> </ul>	4 MM	3.5 MM
<b>Process</b>	Decrease of lead time	More attractive employer	<ul style="list-style-type: none"> <li>Time to hire in days</li> <li>Acceptance ratio in %</li> <li>Top employer benchmark</li> </ul>	38 70% Top 40%	25 90% Top 20%

# HUMAN RESOURCE SCORE CARD

## 3.HR policies, processes, and practices

- ▶ Another element of the HR scorecard is concerned with policies, processes, and practices. In the previous example, the key deliverables include a decrease in lead time and a high ranking in the top employer benchmark.
- ▶ These deliverables can be supported through:
- ▶ **Policies:** A strong employer branding policy will help in building a strong reputation that will help in becoming a top employer
- ▶ **Processes:** Key to decreasing lead time will be an optimization between how recruiters and managers communicate. Often, managers take a long time to review resumes and plan interviews with candidates. Changing these slow processes into workflows that guarantee next-day action, can decrease the time to hire with days, sometimes weeks. This is one of the many processes that can be implemented to enable better performance on the HR deliverables.
- ▶ **Practices:** This looks at the specific practices that help HR achieve the aforementioned deliverables.

Creating policies, processes, and practices that create synergies is referred to as 'bundles' of practices. These practices act together to create synergy for the HR deliverables. This is also the core focus of the next step in the scorecard, aligning HR systems.

# HUMAN RESOURCE SCORE CARD

## 4. Aligning HR systems

It is about aligning the different HR practices to create synergy. Aligning these HR systems is key in performing on the HR deliverables.

For example, the employee branding efforts should focus on the type of workers that the employer is actually looking for. In addition, decreasing lead time by rushing through the process may lead to a lower quality of hire, resulting in a mismatch between what HR is doing, and some of the goals it tries to achieve.

# HUMAN RESOURCE SCORE CARD

13

## 5. Creating HR efficiencies

Traditionally, HR has focused a lot on creating efficiencies. When it comes to creating an HR scorecard, some efficiencies have to be removed.

For example, a higher quality of hire, your cost to hire someone might go up.

In our example, the quality of hire is a strategic HR measurement. Investing money into increasing the quality of hire is well worth it. This justifies investments in assessments, employer branding projects, and other HR initiatives that boost the main HR deliverables.

# HUMAN RESOURCE SCORE CARD

14

## People Costs

- Compensation cost: Revenue
- Benefit costs: Revenue
- HR cost per person

## Performance

- Revenue per employee
- Earnings per employee
- Market cap per employee

## Commitment

- Turnover rate
  - Critical skills
  - High performers
  - All employees
- Commitment pulse

## Deployment

- Vacancy rate
- Internal–external fill ratios

# HR Audit

15

Human Resource Audit is a comprehensive method of objective and systematic verification of current practices, documentation, policies and procedures prevalent in the HR system of the organization.

- ▶ An effective HR audit helps in identifying the need for improvement and enhancement of the HR function.
- ▶ HR audit, helps in analyzing the gap between 'what is the current HR function' and 'what should be/could be the best possible HR function' in the organization.
- ▶ Though HR auditing is not mandatory like financial auditing, yet, organizations these days are opting for regular HR audits in order to examine the existing HR system in line with the organizations policies, strategies and objectives, and legal requirements. HR auditor can be internal or external to the organization. Generally, HR consulting firms render the service of external HR auditors.

# HR Audit

## PURPOSE OF HR AUDIT :

16

- Examining compliance with legal requirements and organization's policies,
- Identifying problem areas to avoid crisis situation with appropriate planning,
- Analyzing ways to better serve the needs of relevant parties – employees, partners or society, measuring the work processes,
- Seeking HR related opportunities available within the organization, dealing with situation of merger and acquisitions, etc.



# HR AUDIT

## BENEFITS OF HR AUDIT

17

- 1) Clarification of the HR department duties and responsibilities.
- (2) Ensuring timely compliance with legal requirements.
- (3) Creation of increased acceptance of the necessary changes in the HR department.
- (4) Stimulation of uniformity of HR policies and practices.
- (5) Encouragement of greater responsibility and professionalism among members of the HR department
- (6) Identification of the contributions of the HR department to the organisation.
- (7) Improvement of the professional image of the HR department.
- (8) Finding solution of critical personal problems.
- (9) Reduction of HR costs through more effective personnel procedures.
- (10) Also review of the department information system.

# HR AUDIT

## SCOPE OF HR AUDIT

18

- scope of HRM audit includes all aspects of HRM which are as follows:
- 1. HR strategies and policies,
- 2. HRM functions,
- 3. HR compliance, and
- 4. HR climate.

### **1. HR Strategies and Policies:**

The starting point of HRM audit should be an evaluation of HR strategies and policies and the way these are in tune with those of the organization.

# HR Strategies and Policies

19 The audit may evaluate the extent to which various HR strategies and policies have been formulated and what their qualities are.

- Various HR strategies and policies may be audited by evaluating their:
  - i. Consistency with the organizational objectives, strategies, and policies;
  - ii. Consistency with the environment;
  - iii. Appropriateness in the light of organizational resources;
  - iv. Appropriateness in the light of time horizon; and
  - v. Workability.

**2. HRM Functions:** The major thrust of HRM audit is on evaluation and review of various HRM functions relating to acquiring and employing human resources, developing human resources, compensation management, integration and maintenance of human resources, and industrial relations.

# HRM Functions

20

The audit should measure and evaluate these functions in the following context:

- i. The type of HRM functions performed;
- ii. The degree to which these functions are related to HRM objectives; and
- iii. The degree to which these functions are performed effectively.

## ➤ 3. HR Compliance:

➤ HR compliance refers to the adherence to various HR strategies and policies by line managers and adherence to legal requirements.

In this context, evaluation revolves around the following:

- i. The extent to which line personnel adhere to various HR policies in dealing with personnel working under them; and
- ii. The extent to which there is compliance with the legal requirements as provided under various legal Acts relevant for management of human resources.

# HR Climate

21

## 4. HR Climate:

- Quality of HR climate has important impact on motivation, job satisfaction, morale, and performance of human resources.

HR climate can be evaluated by various outcomes which are as follows:

- i. Degree of employee turnover,
- ii. Degree of employee absenteeism,
- iii. Degree of accidents,
- iv. Status of grievances and disciplinary actions, and
- v. Findings of attitude and morale surveys.

# HR Audit Cycle

