

## Human Resource Scorecard: A Road Map to Balanced Scorecard

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*Of all resources, human creates differences in performances of an organization. But, there is found a rift in properly detecting and attaching human resources to achieve organizational pre-set goals. Human Resource Scorecard (HRSC) is an approach to valuations of human resource of an organization. This is a key strategic HR concept. HRSC is defined as valuation of human resources to reveal contribution in alignment of organizational strategy. It includes three perspectives such as HR Competency Perspective – prevailing resources of human, HR Engagement Perspective – commitment and involvement of human with organization and job, and finally HR Performance Perspective – outcomes of human that align to organizational strategy. The study found that 78% of respondents believe HR valuation to be upon three above perspectives though only 6.7% respondents out of them, in practice, value HR through those perspectives, which permit those firms to avail HR as strategic partner. In spite of a general trend towards HR valuation, it's a rather slow trend with a lot of key challenges and issues still unresolved. This empirical study explores what and how to make HR valuation. A mixed-method research approach involving questionnaire survey and case study are used for data collection.*

**Keywords:** Human Resource Valuation, Human competency, Engagement, Alignment, Strategic partnership.

### 1. Introduction

The businesses of today face myriad challenges because of dizzy technology, rapid communication and breakneck competition. Each organization crafts recipe for success and executes them to achieve organizational goals. An organization can wage in competition if it has repository of human expertise who manage other resources with intangible competencies. Now-a-days, human resources are considered critical factors to success. Human are immensely potential. Roles of HR are largely felt as source of sustainable competitive advantage by the firms now a day.

Research shows (Becker and Huselid, 2003, p-1) that firms can seal up long term competitiveness for the organization creating valuable competencies from HR stronger than creating competencies from any other resources. Knowledge, orientation, training, reward system etc contribute to develop effort and skill. Development of human capacity also closes organization to meeting pre-set goals. Organizations bring people and invest on them to help grow up.

But studies found that competent human resources are not effectively engaged. Innovative minds get frustrated if surrounding environments allow them no buttress to

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implement their zest. The paradox is here that some organizations recruit best people but they engage little to organizational advancement. Therefore, research found that competency of human resource can only boost up organizational success if environmental and competencies are aligned duly. It can be viewed that human resource must be made best fitted rather than best practiced. Anyway, these competencies can be established distinctively in the industry, which finally may ensure competitive advantage in the competition. Valuable, non-substitute, rare and non-imitable distinctive competencies in human resource with other corresponding resources will lead organization to gain above-average return in the industry. Constantly dynamic environment cripples competitive advantage of the firm soon. It is realized that organization with value-oriented strategy can make vulnerability of market irrelevant. The correlation among human resource practices, string of human competencies, competitive advantage and above-average return are obvious. More interestingly, HR as leading indicator is producing financial outcomes as lagging indicators. Resource-based model (RBM) suggests that organization can outperform externally with other competitors if it has sound internal competencies. Since HR is claimant of celebrating internal competencies, RBM is unthinkable without it. The root of all these is people because they are agents for changes. Employees are regarded as the most important tool (Argyris, 1994) or the most worthy strategic asset (Ducker, 1994).

The conventional performance appraisal system of human resources suffers from two major flaws. *Firstly*, human resource performance appraisal is done what employees did. This is quite dubious. Each organization plans a course of action e.g. strategy. And, employees are recruited and employed to run organization through that tunnel. Thus, performance appraisal needs to be as per organizational strategy rather than employee's ability. It is to note that a high performer is less contributing to organization if his performance does not reflect strategic need of the organization than an average performer who reflects strategic need of the organization. *Secondly*, performances are outcomes that hold very little portion of total human resources. Conventionalists tend to miss what and how to cause those outcomes. Competency and engagement of employees precede employee performances that are sidelined in conventional performance appraisal systems.

Human Resource Scorecard (HRSC) is defined as valuation of human resources to reveal contribution in the alignment of organizational strategy. It makes valuation of human resources from three perspectives, which are interconnected and interdependent. Here perspective means context. Three perspectives of HRSC include *HR competency perspective, HR engagement perspective, and HR performance perspective* (discussed later in details).

This paper is constructed aiming at establishing comprehensive HR valuation model, which will pave the way to incorporate HR contribution to execute organizational all level strategies. An intensive scouring literature review is followed by methodology of the study. Afterwards, the relationship between BSC and HRSC is clearly expounded. Then, an elaborate description was made lucidly on HRSC and its three perspectives. Finally, sample survey result was revealed to erect HRSC as HR valuation model.

## **2. Objectives of the Study**

This proposed research aims to go back to basic and closely explore the following three fundamental questions concerning human resource valuation:

1. What are the human resource valuation dimensions?
2. How does HRSC relate with BSC?
3. What happens regarding strategic partnership of HR in Bangladesh?

## **3. Literature Review**

There is very scanty literature regarding Human Resource Scorecard (HRSC). Literature is reviewed here in two sections - *firstly* to explore HR dimensions of an organization and *secondly* to relate to Balanced Scorecard (BSC). The essence of the competitive advantage has shifted from tangible assets to intangible ones. The competitive forces that managers face today and will continue to confront in the future demand organizational excellence that must be the work of HR (Ulrich, 1998). The focus in the business world has shifted from physical to knowledge and information, i.e. intellectual capital; and effective management of human and intellectual capital poses new challenges in the organization for leadership and managerial capabilities (Rennie W H, 2003) . "Companies today face five critical business challenges. These challenges require organizations to build new capabilities. It is HR's opportunity to play a leadership role in enabling organizations to meet these competitive challenges such as globalization, profitability through growth, technology, intellectual capital and change, change, more changes". (Ulrich, 1998). The challenge remains robust to adapt people with those challenges. The most knowledgeable and skilled worker still requires training so as to adapt into the organization and become valuable contributor to the team (Quinn, Anderson and Finkelstein, 1996). The HRSC is a measurement as well as an evaluation system for redefining the role of HR as a strategic partner (Haridas).

The concept of the Balanced Scorecard (BSC) was developed in the early 1990s as a new approach to performance measurement due to problems of short-termism and past orientation in management accounting (Kaplan and Norton, 1992). BSC takes into account non-financial issues such knowledge, creativity, customer satisfaction, error-free business processes etc as the indicator of long-term performance of the organization. The BSC's four perspectives can be characterized as follows (Kaplan and Norton, 1997, p. 24, 2001, pp. 23, 76) such as financial perspectives, customer perspectives, internal business process perspectives and learning and growth perspectives. Here, the BSC is used to communicate and coordinate the translation of the business strategy (Kaplan and Norton, 1997, 24, p. 34): the gap between strategic and operative planning can be bridged and the long term achievement of the strategic objectives guaranteed by means of a consistent application and formulation of a previously defined business strategy in the four perspectives of the BSC (Kaplan and Norton, 2001, p. 65). Unconventionally, BSC capitalizes on both non-financial factors as leading indicators whereas financial factors as lagging indicators. The cause and effect relationship adds new dimension to measurement system.

Though human resource is playing pivotal role in organizational goal attainment, there is no comprehensive measurement tool available at practitioner's hand. The traditional performance appraisal systems tell only a bit about organizational human resources. These are unable to tap what the stock of human competencies is, how employees

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engage with organization and job, and to what extent performance align to organizational goals and strategies. Human Resource Scorecard can be an appropriate measurement tool of human resources in organization as Balanced Scorecard (BSC) is in organizational view.

### 4. Methodology

This is a basic type research. A theory propounded by Robert S. Kaplan and David P Norton has been based. Balanced Scorecard by Kaplan and Norton is considered dependent on Human Resource Scorecard (HRSC). The proposed HRSC is made critical factor and strongly viewed that HR is supporting BSC to be effective. A survey was conducted in Bangladeshi context in 140 medium to large firms to substantiate empirically. FBCCI (Federation of Bangladesh Chamber of Commerce and Industries) and NBR (National Board of Revenue) directory were used to define target population (medium and large firms).

#### Sample Size Determination

A pilot survey among 20 firms was conducted to estimate population proportion. 18 out of 20 firms positively answered that they have HR department and practices at least.

Sample size,  $n = z^2 pq / d^2$

Where,

P= .90

Q=1-.90=.10

$z^2 = 1.96$  at 95% level of significance.

D = .05

Thus,

$$N = (1.96)^2 (.90)(.10) / (.05)^2$$

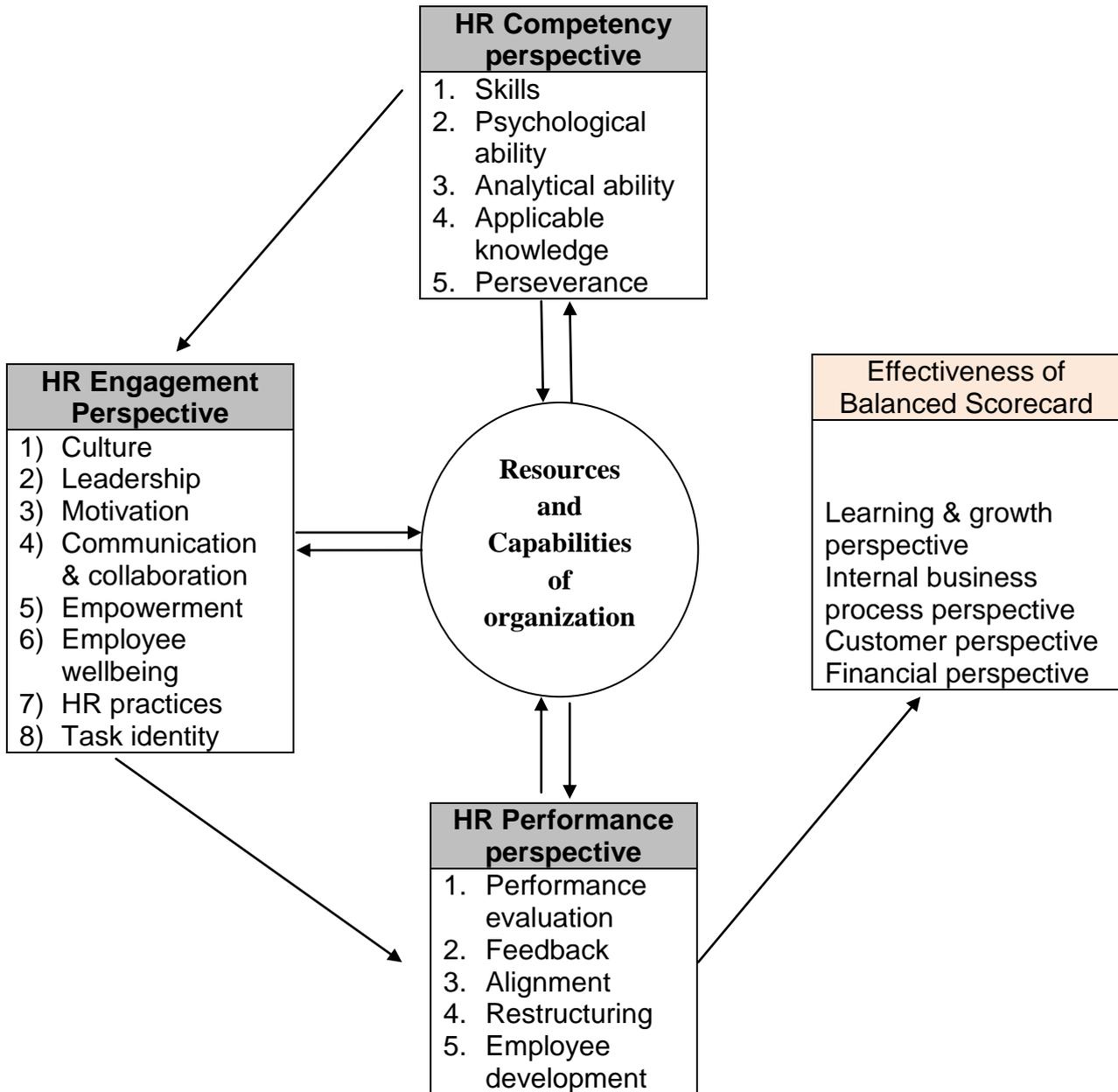
$$= 138 \text{ or } 140 \text{ (rounded)}$$

### 5. Relationship between Human Resource Scorecard and Balanced Scorecard

Balanced scorecard and HR scorecard both act as the alignment of activities with vision and strategy of the organization. But the former aligns with overall activities and on the other hand, the latter aligns human activities with vision and strategy of the organization. HR as leading indicator mostly spawn stronger competency that causes sustainable competitive advantage .HR is connected to learning and growth perspective of BSC. It is deduced from our research that BSC is waned if learning and growth perspective recedes or remains stagnant without upgrading forward. Incompetence of HR (that is Human Resource Competency), unsupporting environment (that is HR engagement), and imperfect performance alignment (that is HR performance) lead to under productivity resulting into inefficient business process. Consequently, defections of output soar up and cost as well.

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Figure 1: Relationship between Human Resource scorecard and Balanced scorecard



Firm loses competitiveness gradually in market as products no more attract customer due to either low quality or higher prices. Customer apathy plummet market share and declines growth constantly. The result on financial perspective becomes obvious. Ultimately, organization gets its position emaciated and ruined. Then far less competitive advantage, survival matters seriously. We can now view that HR is the root of BSC that is, organizational success. Here, HR scorecard validates its position emphasizing and developing strategic partner. HR provides focus on long term vision and formulation & execution of strategy making organization competitive internally and externally.

## 6. Human Resource Scorecard

Organization needs to perform continuous valuation of all its resources. Organization attains the goals if performance properly aligns to strategy. All scorecards validate here. In same way, Human Resource Scorecard is valuation system, which considers human performance either is aligning to vision and strategy of the organization. This is quite worth measuring human performance. Because, It helps other resources measure. Successful companies put first internal customer (HR) as a way of attaining and retaining external customers with expected satisfaction. However, HR Scorecard captures HR performance that assists managers to decide whether they (behaviors) align to strategy execution. There are three indicators of HR Scorecard such as HR competency, HR engagement, and HR performance.

### 6.1 Human Resource Competency Perspective

The RBM as a basis for competitive advantage of a firm lies primarily in the application of the bundle of valuable interchangeable, intangible and tangible resources at the firm's disposal (Mwailu & Mercer, 1983, p-142; Wernerfelt, 1984, p-172). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Peteraf, 1993, p- 117). Compared to tangible resources, intangible resources are a superior and more potent source of core competencies (Hitt & Ireland, 2002, p-4). Becker, Huselid and Ulrich (2001) defined competency of an individual as the knowledge, skills, abilities or personality characteristics that directly influence one's performance. Critical to the building of competitive advantages, capabilities are often based on developing, carrying and exchanging information and knowledge through the firm's human capital (Hitt, Bierman, Shimizu and Kochhar, 2000, p-232). Measurement of competency of human capital unveils the story of human stock in a firm. Consensus is found among HR scholars in the issue of competency measurement though debate continues what the HR competencies are. Brockbank, Ulrich and James (1997) identified five major HR competencies such as strategic contribution, personal credibility, HR delivery, business knowledge and HR technology. Yeung, Woolcock and Sullivan (1996) identified HR competencies as business knowledge, customer orientation, effective communication, credibility & integrity, and systemic perspective. However, human resource competency includes talent, commitment, flexibility, personal credibility, knowledge, innovativeness, uniqueness in work, passion for strategic responsibility etc. Authors view that the list continues to rise as per changing environment of business, adopted strategy and organizational culture. Each organization faces twofold challenges - *first*, what the HR competencies are and how to *measure them*, *second*, those competencies must be aligned with organizational strategy.

### 6.2 Human Resource Engagement Perspective

The second perspective of Human Resource Scorecard is engagement perspective. Employee engagement is derived from two earlier management concepts- Commitment and Organizational Citizenship Behavior-OCB (Robinson, Perryman and Hayday, 2004; Rafferty et al., 2005). Perrin's Global Workforce Study (2003) defines the term as "employees' willingness and ability to help their company succeed, largely by providing discretionary effort on a sustainable basis." But Gallup organization focused on emotional involvement. This is also supported by others. Employee

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engagement is emotional and intellectual commitment to the organization (Baumruk 2004, Richman 2006 and Shaw 2005). Dernovsek (2008) and Robinson et al. (2004) said positive employee attachments and commitment to the definition. Robinson et al also added that an engaged employee is aware of business context, and works with colleagues to improve performance within the job for the benefit of the organization. Harter, Schmidt and Hayes (2002) define employee engagement as "the individual's involvement and satisfaction with as well as enthusiasm for work". An engaged employee is one who is committed to, involved with and satisfied over job. Thus the full engagement equation is obtained by aligning maximum job satisfaction and maximum job contribution.

The sophistication and ever-changing business environment have called for productive contribution of human resources. Employee engagement report of a firm provides a description of attachment to organizational goals built on employee side. An engaged employee with required competency can only ensure recipe for success of an organization. Any initiatives of improvement which are taken by management cannot be fruitful without willful involvement and engagement of employees (Markos & Sridevi, 2010). Evidence suggests that engagement influences other major human resource goals, such as retention, job performance, absenteeism, and (indirectly through the employer's reputation) recruitment. Siddhanta & Roy (2010) admitted that most if not all, of the other key measures that reflect and drive organizational performance (customer satisfaction, innovation, profitability, productivity, loyalty and quality) are products of engaged employees. An engaged employee brings about and adjusts changes with high commitment and involvement. Harter *et al* (2002) concluded that, "...employee satisfaction and engagement are related to meaningful business outcomes at a magnitude that is important to many organizations". Research has consistently shown that employee engagement is powerfully linked to a range of business success factors such as: employee performance/efficiency, productivity, safety, attendance and retention, customer service and satisfaction, customer loyalty and retention, profitability (Right Management Survey). A strong direct relationship is shown from research findings between employee engagement and organizational performance. An engaged employee says, stays and strives extra effort for the organization, which are building block to remain competitive in turbulent business environment. Moreover, a competent employee with disengagement is underproductive even sometimes destructive.

The factors that drive employee engagement include culture of the organization, leadership style, motivation pattern, communication & collaboration among vertical and horizontal people, empowerment, employee wellbeing, HR practices and meaningfulness of contribution. To measure level of employee engagement, Gallup's twelve-question survey, JRA six item engagement indexes, Corporate Leadership Council's four questions are mostly acclaimed.

### 6.3 Human Resource Performance Perspective

Human Resource performance perspective tells the alignment of employee performance with organizational strategy. An organization crafts and executes strategy to gain higher competitiveness and to be ahead of competitors. The focus of business strategy is to create sustained competitive advantage whereas that of HR strategy is to maximize the contribution of HR towards the same goal. Thus, employee performance contributes to execution of strategy. The greater challenge for today's manager is to

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keep employee performance on track amenable to strategy of the organization. An organization directs employee behaviors to a way that aligns to strategy execution. Savvy HR professionals create HR initiatives and systems that ultimately deliver employee performance behaviors required to execute the firm's strategy (Becker and Huselid, 2003, p-61). It is worth noting that management will continuously evaluate employee performance through time to time feedback and detect the deviation to adopt remedial steps. Management may decide restructuring through either downsizing or downscoping if necessary to run along strategy.

### 7. Results

HR valuation can develop strategic partnership of HR to ensure competitive advantage of the firm. Thus it is prerequisite that HR understands what the firm's competitive advantages are. This survey which is based on sample of 140 medium to large companies in Dhaka city reveals that 90% of the respondents know and understand what the firm's competitive advantage and sources are. But interestingly, 54% responded that strategy formulation does not consider what HR are needed and how to engage HR to execute those strategies. It is also found from the survey that only 28.6% firms align their HR performance with organizational strategy. However, 6.7% firms ultimately use HR as strategic partner effectively because they focus on HR valuation through HRSC. The following table shows the detail

**Table 1: Responses on strategic partnership of HR**

Strategic Question	Yes	No
Do you know what your organizational competitive advantages are?	90%	10%
Are strategic decisions made with your input?	46%	54%
Do you align your functions with organizational strategies and goals?	28.6%	71.4%
Are you considered strategic partner of the organization?	6.7%	93.3%

Thus, above data reveal that though Human Resource is not properly valued to make them strategic partner, on that issue, it was asked that what can be the explanatory variables to use HR as strategic partner. The result shows that 88.3% respondent believes (though they do not practise) that HR as strategic partner is dependent on how HR of an organization is valued. However, 78% respondents agreed that proper valuation of HR include the following perspectives-

- ❖ Human Resource Competency Perspective (HRCP)
- ❖ Human Resource Engagement Perspective (HREP)
- ❖ Human Resource Performance Perspective (HRPP)

The immediate following question was "If agree, put down percentage on them considering contribution of these three variables on strategic partnership leading to Human Resource Success". Here 110 respondents responded. The response was on constant-sum scale. The response shows that 34.57% of HR success depends on HR Competency Perspective and 34.08% of HR success depends on HR Engagement Perspective. The rest is on HR Performance Perspective that is 31.34%.

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**Table 2: Explanatory variables of Strategic Partnership**

Variables	%
Human Resource Competency Perspective (HRCP)	34.57
Human Resource Engagement Perspective (HREP)	34.08
Human Resource Performance Perspective (HRPP)	31.34
Total	100.00

Thus, the empirical data substantially shows that “Learning and Growth/ HR Success” can be achieved if above three variables HRCP, HREP and HRPP are effectively acquired, bundled and managed. Therefore, this paper recommends that HR valuation should be scored in above three areas whether they are capable of being used as strategic partner or not for gaining organizational competitiveness. That is here named HR Scorecard.

### 8. Conclusion

Human Resource valuation has been a key to organizational success in today’s business environment. Improper valuation has cost greatly to organization. Human Resource Scorecard (HRSC) will pave the way to reveal HR contribution aligning with organizational strategy. HRSC includes three perspectives for HR valuation such as HR Competency perspective, HR Engagement perspective and HR Performance perspective. This study furthers the challenge whether HR valuation is numerically calculable to show up in financial statement or is only confined to qualitative gauge on account of subjectivity. The study only covers Dhaka City medium to large cross industry business firms.

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