Financial Services Corporation: Implementing an HR Balanced Scorecard

Laurie Burney
Mississippi State University

Amy Paul
HR Measurement Coordinator at Financial Services Corporation

INTRODUCTION

Amy Paul, Measurement Coordinator for the Human Resources (HR) Division of Financial Services Corporation (FSC)[1] , was responsible for developing the division's balanced scorecard (BSC). Amy commented, "Our BSC implementation process is giving us valuable experience regarding the issues and considerations that arise when adopting a management innovation. It's unusual in that it involves the human resources function of an organization. At FSC, as in most organizations, the HR function has not traditionally collected many measures, because HR is viewed as a transactional cost center. So, HR finds it difficult to quantify itself as a value-added partner in the organization's pursuit of its strategy. The BSC implementation is changing the thinking on this issue within FSC, because it is helping to clarify HR's role in relation to FSC's objectives."

FSC was undergoing changes in anticipation of an upcoming merger. On July 15, 2006, however, Amy's focus was suddenly shifted to a meeting that the new HR CFO had just scheduled to discuss the status of HR's BSC. Amy is asked to provide some background on the BSC process within HR, but more importantly to be prepared to discuss recommendations for improving the BSC process. Amy identifies her critical tasks in preparation for the meeting as: identifying the strengths and weaknesses of the current BSC process and relating the BSC to employee survey results collected by FSC.

COMPANY BACKGROUND

FSC is a large, national financial services institution headquartered in Atlanta, Georgia. The Corporation employs approximately 70,000 individuals in its offices and financial centers that are geographically dispersed, although primarily along the east coast. FSC's culture is one that adapts to frequent change because of a number of mergers and acquisitions over a ten-year period. In 2006, FSC announced its largest merger—a merger of equals—that is several months from consummation.

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1 The situation is real; however, the company's name, location, and the names of individuals have been disguised at the organization's request.
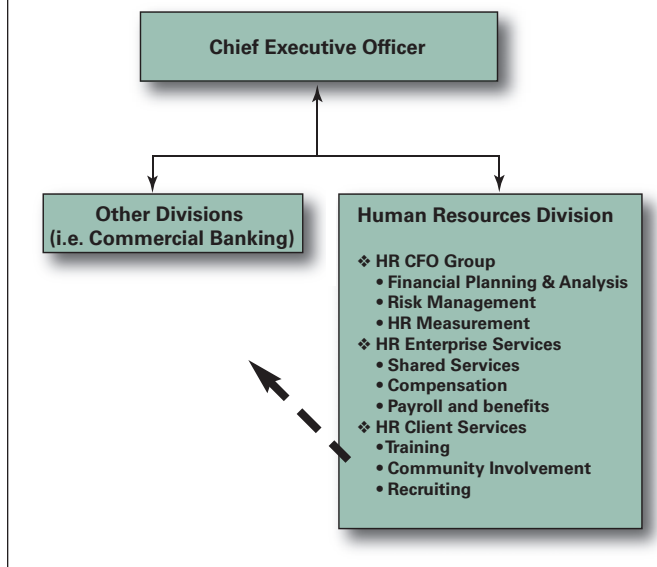
According to Amy, "Historically our corporation's overall measurement emphasized customer service and financial reporting rather than a strategy-related or a formal measurement solution. Our focus was on revenue growth, expense control, corporate core values, and employee satisfaction. However, because of the economy, competition, and increased emphasis on shareholder value, measurement for all aspects of the business is a growing interest of FSC's senior leaders."

HR DIVISION ORGANIZATIONAL STRUCTURE

After a five-year period involving several changes in its structure, in 2004, HR once again redesigned itself by consolidating its functions into three key areas: the HR CFO Function, Enterprise Services, and Client Services. The HR Division's clients included all divisions within the corporation (Exhibit 1). This organizational structure downsized the HR Division from a workforce of around 1,500 in 2003 to approximately 1,200 employees now.

In this 2004 organizational structure, the HR CFO Group emerged with a renewed corporate focus on expense control. The HR Division, realizing that it was a key cost center, sought to understand how the HR Division helped the corporation achieve its strategic goals. The Division also wanted to better understand performance of human capital in the corporation as a whole.

THE JOURNEY BEGINS

At the request of the bank's president, FSC conducted an internal quality process assessment in 2002 that was based on the Malcolm Baldrige National Quality Award methodology. The assessment highlighted several weaknesses within the HR Division that management felt needed to be addressed:

- Difficulty in translating strategy at every level
- Need for definable, measurable results
- Lack of meaningful indicators in the design of projects and processes
- Lack of in-process measurements that indicated how well a current process was working
- Few meaningful indicators for day-to-day operations
- Lack of benchmarking for key processes or functions

Overall, no integrated or uniform methodology existed for defining and measuring performance across the HR Division. Furthermore, none of these systems was tied to an overall, organizational strategic plan. In addition, the HR Leadership Team, which consisted of the HR CFO and managers of the various HR departments, did not regularly review departmental metrics or indicators; rather, it relied on anecdotal information from colleagues and internal customers relating to how the HR Division was performing.

Although HR was not facing any immediate demands to demonstrate its value to the organization or to report its performance against strategic goals, the process assessment did bring a realization that HR had the potential to significantly improve. Having identified a need to improve HR measurement processes and a desire to determine HR's contribution to corporate strategy, in 2004 the Leadership Team decided to use the balanced scorecard concept. Not all HR employees were happy with the idea of an HR scorecard. In response to the announcement of the scorecard process, an employee in HR Training said, "We seem to always change processes to follow the latest trends. Many of the changes are beneficial. However, sometimes I feel as if we change so often that I would be better off waiting until management shifts to the newest fad and using my limited time on other, more pressing issues."

Nevertheless, the HR Division BSC process began with two objectives:
1. to consolidate the numerous existing measures into an effective tool—the product, and
2. to engage the Leadership Team to use this tool in strategic activities—the process.

SCORECARD IMPLEMENTATION: PRODUCT AND PROCESS

Several attempts were made to create a scorecard, but no one had the time or expertise to make it happen. The process really began in 2005 when Amy Paul was hired as a Measurement Coordinator in HR's Financial Planning & Analysis Department. Previously, she worked with the BSC system in the Retail and Commercial Call Center Division at FSC. As HR Measurement Coordinator, she reported to the Measurement Manager within the HR CFO Group. Her first task was to accumulate all the resource documents, including several metrics the HR Division was already tracking. The measures collected in HR departments covered a vast array. According to Amy, "Over time, each department within HR had developed its own system for measuring and evaluating performance. With no overall HR strategy or measurement system, the diversity in the quality and extent of measurement was extensive." HR's measures included raw data for more than 75 items regarding headcount, FTE (full-time equivalent) employees, terminations, new hire data, employee survey data, exit interview data, diversity scorecards, and some benchmarking data.

Amy started the scorecard development with the measures that were being collected by the various HR departments. At this stage, a BSC was not used across the entire HR Division. Because some areas were traditionally better at measurement (e.g., recruiting and training), HR management decided to pursue BSC implementation in those areas first. "Our thinking behind this decision was that successful BSC implementation in these select areas would serve as an excellent model for other HR areas," said Amy.

The 2005 scorecard was a compilation of metrics that were categorized using several methods. The BSC was organized using 1) the four perspectives recommended by Kaplan and Norton (financial, customer, business process, and employee learning/growth) and 2) HR's nine strategic priorities at the time. The strategic priorities were the following:

- To be the best-in-class recruiting organization
- To improve employee commitment and retention
- To drive efficiency through employee/manager self-service
- To build an integrated HR Division (common process, products, and systems)
- To execute an effective Business Partner Model
- To deliver on performance promises

- To build a culture of accountability within the HR Division
- To improve communication, collaboration, and morale among employees in the HR Division
- To make it easier for people to do business with HR (simple, accurate processes and highly skilled customer service deliverers)

"Based on these strategic priorities, we established six goals," said Amy. "They include:

- To position FSC as an employer of choice;
- To build exceptional individual and organizational strength;
- To strengthen trust, relationships, and pride throughout the organization;
- To ensure sound HR practices that minimize company risk;
- To provide highest quality HR service at the smartest cost; and
- To ensure highly skilled, just-in-time talent."

The 2005 scorecard was presented to the HR Leadership Team; however, it presented several challenges. "This first iteration of the scorecard was so frustrating at times. The scorecard initiative was a stated priority for HR and management voiced support for the process, but there was no accountability for its success. With the many changes taking place in HR, the scorecard was relegated in priorities and, as a result, I encountered several delays in moving the scorecard process forward. Whenever I needed to schedule time with management concerning the scorecard, other commitments often took priority," said Amy.

She continued, "Our discussions over this iteration of the scorecard identified several concerns of the Leadership Team members. First, the Team did not collectively agree upon the purpose of the BSC. In addition, a major contention that members of the Leadership Team deliberated about was whether the BSC would track indicators of HR Division performance or human capital metrics for the corporation as a whole. Another point of debate among the Leadership Team members was the lack of clarity of exactly how the scorecard would influence and be influenced by the HR Division's strategy. Members also voiced concerns about whether the measures in the scorecard adequately encompassed the strategic objectives. Based on this feedback, we decided that a massive re-work of the scorecard was needed."

1 For FSC's purposes, the "smartest cost" encompasses the efficient and effective use of corporate resources.

A NEW APPROACH

The decision was made to continue work on a BSC, but with a new approach. The Leadership Team decided to continue to produce HR Statistics and Staff reports that included raw HR data and to learn from the difficulties of the 2005 BSC iteration in creating the new version. According to Amy, "Several key decisions were made to enhance the scorecard process. First, a cross-functional BSC Team was established.

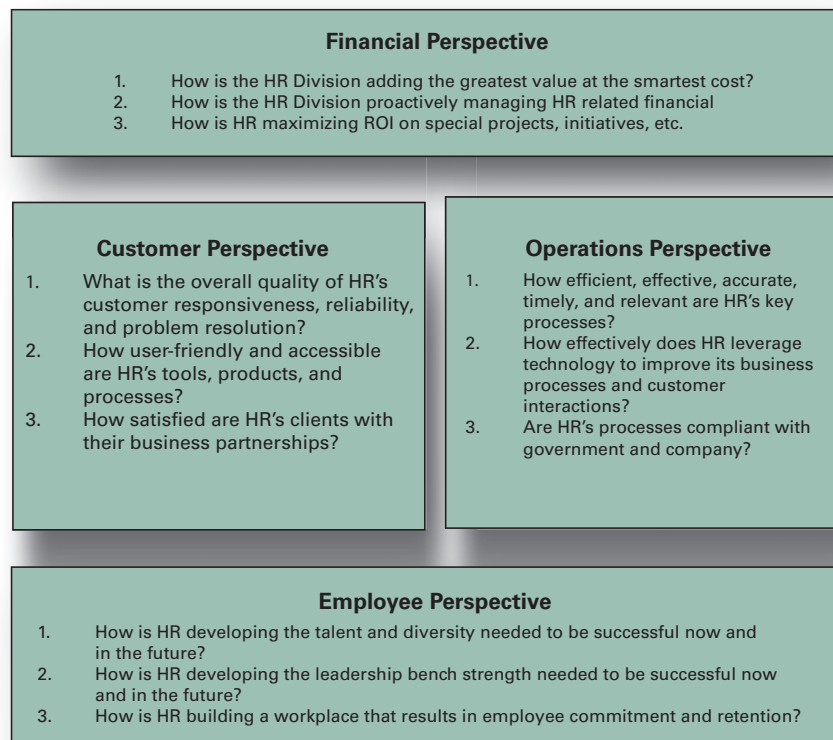**Exhibit 2.**
FSC's HR Scorecard "Path to Success"

1. Build the foundation for the HR Scorecard
   a. Definition
   b. Purpose
2. Identify the questions an HR Scorecard would attempt to answer
3. Identify the measures that would answer these key questions
4. Establish targets
5. Capture data

This BSC Team included members of the HR Leadership Team, HR Business Planning, HR Data Management and other measurement professionals. The purpose of the BSC Team was to provide ongoing feedback during the BSC development process and to create a sense of ownership and accountability for the metrics. In addition, an external best practice consultant was engaged to assist with the process. A vital step in moving us forward was the BSC Team agreeing to collectively sponsor and be actively involved in defining and setting the purpose for the scorecard as well as developing guiding principles and establishing the overall framework for it. This approach was different from what we had done previously, when responsibility for the BSC was entirely mine," Amy concluded.

To fulfill its responsibility, the BSC Team developed a new approach. It acknowledged the need for innovation by leveraging creative metrics, rather than simply measuring what was already collected. In addition, it recognized the need to engage technology where possible. Further, the new approach attempted to keep the scorecard simple by focusing on only a few critical performance indicators. Finally, the new approach

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Exhibit 3.
HR Scorecard Strategic Questions

Financial Perspective
1. How is the HR Division adding the greatest value at the smartest cost?
2. How is the HR Division proactively managing HR related financial
3. How is HR maximizing ROI on special projects, initiatives, etc.

Customer Perspective
1. What is the overall quality of HR's customer responsiveness, reliability, and problem resolution?
2. How user-friendly and accessible are HR's tools, products, and processes?
3. How satisfied are HR's clients with their business partnerships?

Operations Perspective
1. How efficient, effective, accurate, timely, and relevant are HR's key processes?
2. How effectively does HR leverage technology to improve its business processes and customer interactions?
3. Are HR's processes compliant with government and company?

Employee Perspective
1. How is HR developing the talent and diversity needed to be successful now and in the future?
2. How is HR developing the leadership bench strength needed to be successful now and in the future?
3. How is HR building a workplace that results in employee commitment and retention?

included the purpose of building a meaningful process to complement the HR scorecard product after its completion.

A "path to success" was developed from the ideals of the new approach. This "path" was designed to provide the systematic process that would be used to create the scorecard. Exhibit 2 shows the "path to success" that was identified by the HR BSC Team.
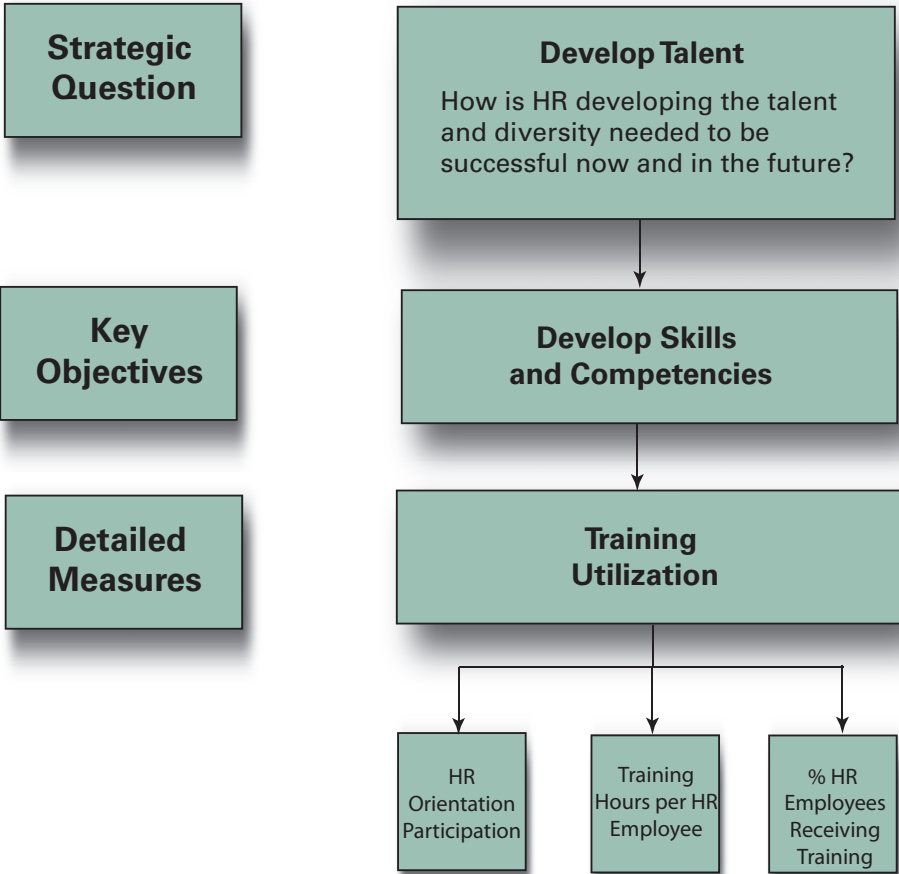
SCORECARD PURPOSE AND DEFINITION

The HR BSC Team began by defining the scorecard and determining its purpose. The stated purpose was to:
- *review HR Division performance,*
- *identify best practices,*
- *identify potential action plans or interventions to influence performance,*

- *communicate performance to HR leaders and employees, and*
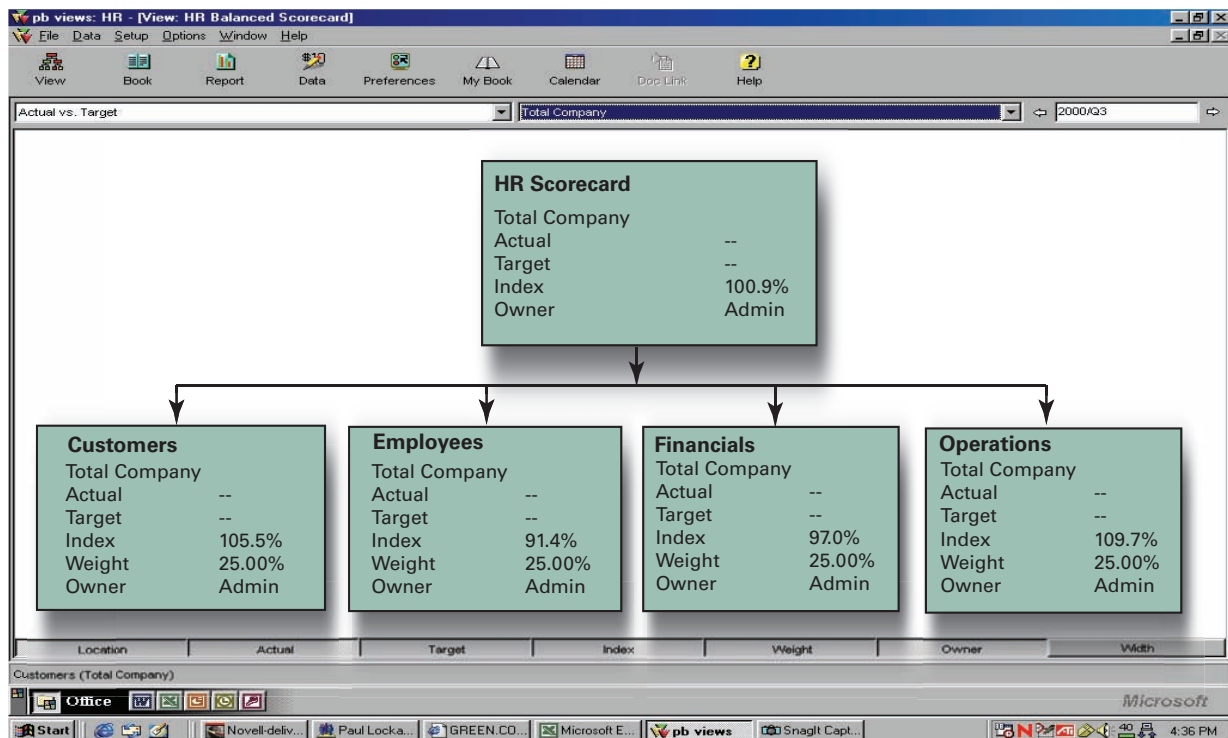- *reinforce HR's strategic priorities by updating key performance indicators to align with the HR scorecard.*

Amy said, "The Leadership Team wanted the scorecard to be used by HR employees to improve knowledge about and application of the BSC to HR Division functions. Employees would be able to evaluate tangible metrics of HR performance and trends based on the work that they contributed. The scorecard was established as a management framework within HR and as such it would not be used as a performance assessment tool." Ultimately, this decision meant that the HR Division would not tie employee performance evaluations or rewards systems to the outcomes of the BSC.

Exhibit 4.
Flow of Strategic Questions to Metrics
BSC Employee Perspective Example

Strategic Question	Develop Talent — How is HR developing the talent and diversity needed to be successful now and in the future?
Key Objectives	Develop Skills and Competencies
Detailed Measures	Training Utilization
	HR Orientation Participation · Training Hours per HR Employee · % HR Employees Receiving Training

Exhibit 5.
Screen Shot of On-line HR Scorecard Software

HR STRATEGIC QUESTIONS

"Just like the game of *Jeopardy*, our next step was to identify the questions that the HR scorecard would seek to answer," Amy said. These questions were selected by the HR Leaders to communicate an understanding of HR performance. Three questions per perspective were written. The questions were to create a linkage between the objectives and HR's priorities. Considerations in choosing the metrics were whether the measures reflected HR's priorities, and also were available, cost effective, and reliable. Exhibit 3 shows the strategic questions asked in each perspective.

Once the questions were created, objectives were developed for each question. Next, detailed metrics were identified that linked to those objectives. For example, a key question in the Employee Perspective was, "How is HR developing the talent and diversity needed to be successful now and in the future?" A key objective in this perspective was to develop skills and competencies of employees. Therefore, detailed measures outlining training utilization, such as "training hours per HR employee" and the "percentage of the total of HR employees

receiving training," became the key metrics to measure the objective. Exhibit 4 shows an example of this linkage.

THE METRICS

Amy explained how the metrics were determined: "The HR BSC Team used criteria—we call them filters—to determine which metrics would make their appearance on the final scorecard. The filters included: Does the metric have a strong linkage to the HR Division's Strategic Priorities? Are quality data available? And, is there strong linkage to the corresponding BSC perspective?" The BSC Team acknowledged that the measures would change over time as the business changed. The 2006 BSC was narrowed from a potential list of 200 measures to over 80 measures.

After the metrics were established, the HR leaders embarked upon a journey to define targets for the metrics. Amy explained, "The BSC Team first identified the difference between the actual, ongoing performance targets and 'ideal' targets, the desired levels as envisioned by the BSC Team. They used historical data and external benchmarks, such as those from the Saratoga Institute, as a resource to set the targets." Once the targets were established, the Team

Summary of Performance

Financial Perspective
The financial perspective looks great this quarter. In keeping with our expense control objective, HR total costs are down.
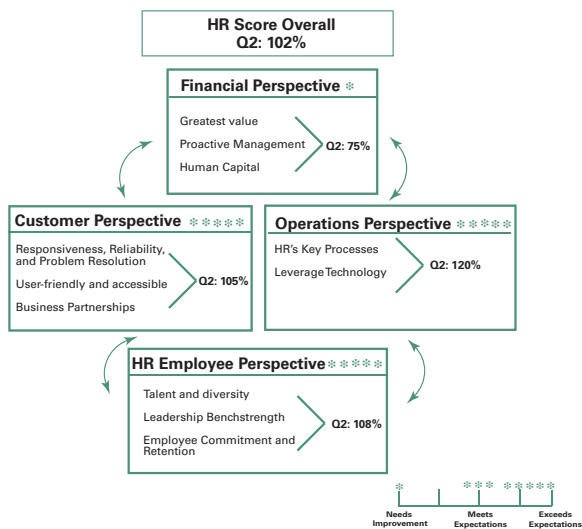
Customer Perspective
We continue to excel in all areas of our customer perspective. The majority of metrics met or exceeded target.

Employee Perspective
The employee perspective still continues to have opportunity for improvement. The reported number of employee training hours and the percentage of employees reported receiving training both are declining.

Operations Perspective
Migration to self-service continues to rise. Paperless transactions increased for the thrid quarter in a row.

HR Score Overall
Q2: 102%

Financial Perspective ✳
Greatest value
Proactive Management   Q2: 75%
Human Capital

Customer Perspective ✳ ✳✳✳✳
Responsiveness, Reliability, and Problem Resolution
User-friendly and accessible   Q2: 105%
Business Partnerships

Operations Perspective ✳ ✳✳✳✳
HR's Key Processes
Leverage Technology   Q2: 120%

HR Employee Perspective ✳ ✳✳✳✳
Talent and diversity
Leadership Benchstrength   Q2: 108%
Employee Commitment and Retention

✳ | ✳✳✳ | ✳✳✳✳✳
Needs Improvement <85 | Meets Expectations 95-105 | Exceeds Expectations 115<

used an indexing system to score the metrics. The index was based on the actual performance of the metric versus the goal.

HR employed a BSC software solution to assist with data collection and reporting. This solution allowed measurement owners in different HR departments to enter their scorecard data results for Amy to capture centrally. Viewing sub-measures was available through the software's "drill down" capabilities. Exhibit 5 shows a screen shot of what the software looks like.

Amy said, "The software enables us to automate processes and calculate indices quickly. It allows us to make the results available to all employees in HR. Managers can enter the system to view their quarterly performance at-a-glance. However, managers have not used the system as consistently as we had anticipated. So, we don't engage in routine discussions to improve the performance measures or processes."

The Financial Perspective of the HR Scorecard addresses the following questions:

1) How is the HR Division adding the greatest value at the smartest cost?
2) How is the HR Division proactively managing the HR-related financial risk?
3) How is HR maximizing the company's investment in human capital?

The overall score for the Financial Perpective in the 2nd Quarter is 75%.

SCORECARD MEASURES
Improves Productivity
HR Cost per Full-time unit Headcount
HR Cost as percentage of Full-time unit expense
HR Operating Cost per Hire
HR Cost per Training Participant
HR Client Services Cost per Headcount
Monitored Financials
Payroll G/L Account Recons. Completed on-time
Payroll G/L Suspense Acct. Balance Aged over 30 days
HR Savings
Corporate Cost savings
Executive Search Corporate Cost Savings
Employee Relocation Corporate Cost Savings

Key to Acronyms:
G/L General Ledger
Recons Reconcilliation

Exhibit 8.
Customer Perspective

The Customer Perspective of the HR Scorecard addresses the following questions:

1) What is the overall quality of HR's customer resonsiveness, reliability, and problem resolution?
2) How user-friendly and accessible are HR's tools, products, and processes?
3) How satisfied are HR's clients with their business partnerships?

The overall score for the Customer Perpective in the 2nd Quarter is 105%.

SCORECARD MEASURES
Call Center Wait Time (seconds)
First Call Resolution (percentage)
Monthly Survey (Q1)—"Quality Service"
Monthly Survey (Q3)—"Service Satisfaction"
Abandonment Rate of Calls (percentage)
Uptime of Pension System
Executive Search Client Survey—Q1 "Overall Satisfaction"
Executive Search Client Survey—Q5 "Peer Comparison"
Executive Search Client Survey—Q4 "Communication"
Quality Review Survey (Total)

THE 2006 PRODUCT

The 2006 scorecard was published for the second quarter. This scorecard was populated with first and second quarter data to illustrate trends in results. In addition to the actual metrics tracked in the scorecard, an executive summary with highlights of the results was created to accompany the scorecard's quarterly publication. The scorecard was presented to the HR Leadership Team. As part of the communication strategy, the HR scorecard was published on the internal HR Communication Electronic Network, accessible by all HR

Exhibit 9.
Employee Perspective

The Employee Perspective of the HR Scorecard addresses the following questions:

1) How is HR developing its talent and diversity needed to be successful now and in the future?
2) How is HR developing the leadership bench strength needed to be successful now and in the future?
3) How is HR building a workplace that results in employee commitment and retention?

The overall score for the Employee Perpective in the 2nd Quarter is 108%.

SCORECARD MEASURES
Training Hours per HR employee
Percent of HR Employees receiving Training
HR Voluntary Turnover Rate
Number of unique visitors to Learning Portal
Percent of HR employees viewing HR Essentials
Late merit reviews of HR employees
Number of marbles distributed (Employee Recognition)

employees. The HR scorecard was published for the past year, at each quarter-end.

This revised scorecard (see Exhibits 6 through 10) changed somewhat from previous publications because of a need to reduce the number of metrics in each perspective. Feedback from the HR BSC Team helped design an inventory of approximately 20 measures that were representative of the HR Division. This set of measures was selected after putting the narrowed list of existing measures through a "filtering" process where a cost-benefit analysis was performed. Although accumulating specific data might seem necessary, the measure had to be cost-effective to warrant its use.

One HR manager commented about the 2006 scorecard, "When I received the scorecard, it was much easier to read, because I could look at 20 measures instead of the 70-80 that I traditionally needed to review."

Exhibit 10.
Operations Perspective

The Operations Perpective of the HR Scorecard addresses the following two questions:

1) How efficient, effective, accurate, timely and relevent are HR's key processes?
2) How effectively does HR leverage technology to improve business processes and customer interactions?

The overall score for the Operations Perpective in the 2nd Quarter is 120%.

SCORECARD MEASURES
Percentage of Calls Handled Outsource Vendor
Percentage of Distributed Learning Hours
Percentage of Calls Handled by Oursource Vendor
Percentage of Paperless Items Processed
HR Report Turnaround Time (days)
Time to Fill Non-Exempt Open Positions (days)
Time to Fill Exempt Open Positions (days)
Internal Job Posting Response Time (days)

Some process improvements and cost savings were realized as a result of quarterly HR scorecard publications. For example, the scorecard's inclusion of shift overtime pay helped identify a time delay in discontinuing this pay differential after an employee began a new shift. The correction of this process potentially saved $1 million, annualized. Additionally, several data integrity issues were uncovered as part of the scorecard process and corrected.

As previously mentioned, at the time of this study, FSC was in the beginning stages of a new merger of equals. And, this merger would introduce new challenges to metrics tracking and measurement strategy for the organization as the two companies integrated processes and resources. This integration began with the naming of Marilyn Glenn as the new HR CFO. Marilyn held a similar position with the other party to the merger and had clearly demonstrated her confidence in the BSC philosophy. So, Amy was confident that her work over the last couple of years would continue in the new envi-

ronment. However, Marilyn scheduled a meeting for July 17th—just two days away—to discuss the status of the scorecard. Amy's supervisor, Joseph Stewart, asked her to provide some background on the BSC process within HR and to be prepared to discuss recommendations for improving the process. In her discussions with Joseph about the meeting, Amy commented, "I can prepare the report to summarize the scorecard process quickly by pulling together information recently presented to the HR Leadership Team. I believe the major work can be summarized in two tasks. First, I need to identify the strengths and weaknesses of the scorecard process so I can support improvement recommendations. Second, Marilyn recently received a copy of the employee survey results. So, I need to be prepared to review those results in light of the scorecard process." (See Exhibit 11 for a summary of the survey results.)

Amy thought, "As I reflect on the changes to the scorecard process over the last couple of years, I realize how much we have learned and the extent of progress we have made. However, we are still not relying on the BSC as a decision tool. And, the coming merger is bringing additional emphasis on measurement across the company, because of the need to integrate the two companies; thereby, making the BSC's role in HR even more important. This meeting will be an opportune time for me to gain support for changes in the BSC process. It is really vital that I take advantage of this chance and present a well-developed set of recommendations."

CASE REQUIREMENTS

1. What are the implementation issues faced when introducing a BSC in an HR Division?
2. What strengths and weaknesses should Amy highlight in her presentation about FSC's BSC system?
3. What recommendations should Amy make for modifying the BSC process?
4. What are the advantages and disadvantages to FSC's decision to not use the BSC as a performance tool—i.e., linking it to the employee evaluation and reward system?
5. What are the advantages of using a BSC in an organization that is merging different departments?
6. Based on the summary of the employee survey results for 2006 provided in Exhibit 11, discuss any trends that you see in the data when comparing the development of the performance measurement system. Are any of the results contrary to your expectations? If so, do you have any ideas about what may be causing the unexpected results?

Exhibit 11.
Results of Employee Survey

	Industry Benchmark*	FSC 2006 Overall	HR 2006 Overall	2006 Training	2006 Recruiting	2006 Organizational Effectiveness	2006 Relationship Teams	2005 HR Overall
Leadership	76	73	80	86	75	79	77	78
Teamwork and Communication	79	80	82	85	81	74	77	76
Empowerment	67	70	77	81	74	65	76	71
Performance Culture	60	71	71	76	66	75	67	62
Rewards	59	61	72	74	68	73	75	65
Quality and Customer Focus	77	74	78	84	74	73	73	77
Respect	66	71	77	78	74	71	81	74
Work Management	62	73	78	82	76	75	76	75
Satisfaction and Commitment	80	72	83	87	82	69	77	85

Additional details:

1.   The Training and Recruiting groups have the most advanced measurement systems in the HR Division.

2.   Organizational Effectiveness and Relationship Teams are not measurement-oriented. In fact, very few measures are collected in these areas. Also, the Generalists are very client-focused and face less ambiguity in their job tasks.

* Provided by management consulting group that was hired by FSC to prepare and analyze survey data.