

HUMAN RESOURCE ASSESSMENT, RECOGNITION, AND REWARD WITH A BALANCED SCORECARD APPROACH

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Abstract

This article develops a method that serves the team leaders and executive managers as a guide for assuring the accomplishment of the team's objectives. It spotlights the trend of human resource performance. The method introduced in this article focuses on Balanced Scorecard (BSC) as a revolutionizing tool in the management of performance and suggests a new and scientific way for assessment, recognition, and reward system. The innovative model introduced in this article can be used to evaluate personnel's performance, rank them, set job-related targets, and motivate them to improve their performance.

Key words: Human Assessment, Balanced Scorecard, Recognition and Reward

1. Introduction

Human resource role in organizational competitive advantages and ways of measuring his performance are studied in different literatures. In a recent study, Stavrou-Costea (Eleni Stavrou-Costea, 2004) examines the human resource management challenges in Southern EU and their effect on organizational performance. Results of the paper show that organizational performance is linked with the way human resources are managed, which in turn is directly related to the challenges identified.

Khandekar and Sharma (Aradhana Khandekar and Anuradha Sharma, 2005) examine the role of human resource

capability (HRC) in organizational performance and sustainable competitive advantage (SCA) in Indian global organizations, and reveal that human resource capabilities are positively correlated to organizational performance.

Aghazadeh (Seyed-Mahmoud Aghazadeh, 2003) demonstrates that human resource managers can contribute both to performance enhancement and cost reduction, and lead to more productivity of the organization. He adds that managers need to examine and review existing procedures to ensure that improved solutions can be designed and built. Managers need to emphasize the importance

of continuous progress and managing change through goal setting.

Ubeda and Santos (Cristina Lourenço Ubeda and Fernando Cesar Almada Santos, 2007) analyse the staff development and performance appraisal in a Brazilian research centre. They believe that to implement a consistent performance appraisal system which is capable of appraising the competences of each employee, it is necessary to check which knowledge, skills and attitudes should be developed in order to improve the internal processes of the organisation, without remaining focused only on jobs and tasks.

Also as mentioned by Hinkin and Tracey (Hinkin and Tracey, 1999), for organizations to improve and succeed in their industries, they have to apply innovative management, especially for their human resources, to result in both organizational and individual improvements. Today's highly competitive environment demands organizational excellence, an organizational challenge that needs to be addressed with the work of human resources.

This paper proposes an innovative model based on Balanced Scorecard approach for measuring human resource performance and ranking them. Section 2 describes the proposed model, problem statement, the reason for using balanced scorecard approach, and its advantages. A case study is used to illustrate the calculating steps and the advantages of the model in section 3. Finally, conclusion is in section 4.

2. PROPOSED MODEL

Before describing the model, the following notations are defined:

i: Personnel Number

j: Indicator Number

k: Perspective Number

n: Unit Number

H_{jk} : Weight of Indicator j related to perspective k according to its importance in organizations goals

P_{kn} : Weight of Perspective k for unit n according to type and importance of each perspective

G_{ijk} : Score of indicator j in perspective k for personnel i

TG_{in} : Total performance score for personnel i in unit n

2.1. Problem statement

This paper proposes an approach to solve two problems as the following:

- Why we use balanced scorecard approach in measuring personnel performance?
- How we build the model for evaluating performance using BSC?

2.2. Why we use balanced scorecard approach in measuring personnel performance?

The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results (Kaplan, & Norton, 1993; Kaplan, & Norton, 1996).

The balanced scorecard suggests that we view the organization from four perspectives, and develop metrics, collect data, and analyze it relative to each of these perspectives:

- Financial Perspective
- Customer Perspective
- Learning and Growth Perspective
- Internal Business Processes Perspective

Originally intended for orienting companies on their future financial measures to ensure good short-term financial results as well as to achieve their strategic results, balanced scorecard has been wide-spread to all management activities in companies as well as in activities where strategic planning is intended (Mooraj, Oyon, & Hostettler, 1999 ; Speckbacher, Bischof, & Pfeiffer, 2003). Over the years, several frameworks have been developed to address the performance management of organizational assets, both tangible and intangible (Abran and Buglione, 2003).

The balanced scorecard approach helps ensure that the measures chosen will drive performance toward stated program goals (Kaplan, & Norton, 1996). In addition to helping an organization describe a shared vision of its performance, the approach enables the organization to measure and evaluate as it progresses for continuous improvement.

We can't improve what we can't measure. Therefore, the goal of making measurements on personnel performance using BSC approach is to permit managers to see their

personnel performance more clearly - from different perspectives - and hence to make wiser long-term decisions.

2.3. Proposed method

This model evaluates human resource in the form of four perspectives (Financial, Customer, Learning & Growth, and Internal Processes). Here the customer, include the managers responsible for monitoring the personnel and those who evaluate him. For developing the model, first, organizational goals and strategies are studied. Later, key performance indicators (KPIs) of organization are determined. And in the final level, KPIs for personnel of each unit are defined in the four perspectives, and managers set related targets for indicators. Upon goal setting, measured indicators are compared with the targets and personnel performance score is calculated according to the following formula:

$$TG_{in} = \sum_k P_{kn} \sum_j G_{ijk} \cdot H_{ik}$$

Each of the perspectives and indicators are allocated a weight factor in accordance with their importance in organizational mission, goals, and strategies. All these factors are chosen by managers.

3. CASE STUDY

We use company A for illustrating the proposed model. Calculations related to the personnel of production unit are described below in 4 steps. The model can also be developed to the personnel of other units. Figure 2 shows key units of company A.

As mentioned above, the proposed model is used for measuring performance of production unit personnel and the results are reported. Defined indicators are shown in figure 3.

Step 1: According to strategies and goals of company A, model factors for production unit (shown as number 3), which has 5 personnel, are determined by managers as follow:

$H_{11}= 1, H_{12}= 0.5, H_{22}= 0.5, H_{13}= 0.2, H_{23}=0.8,$
 $H_{14}= 0.1, H_{24}= 0.8, H_{34}= 0.1, P_{13}= 0.6,$
 $P_{23}= 0.1, P_{33}= 0.1, P_{43}= 0.2$

Step 2: Required data is gathered for measuring the indicators. For indicators such as "Commitment toward Responsibility", "Job Discipline", "Keeping Safety and Health", and "Acting 5s Rules", the grades announced by related managers are considered for scoring calculations. Tables 1 to 4 show score range and personnel performance score in each of the four perspectives.

Step 3: According to personnel score for each indicator and considering indicators' weight factor, personnel score in the four existing perspectives is calculated in table-5.

Step 4: Using the allocated weight factor for each perspective, total performance score of each personnel is calculated.

Personnel No. 1 > $TG_{13}= 9.25$

Personnel No. 2 > $TG_{23}= 9.83$

Personnel No. 3 > $TG_{33}= 9.15$

Personnel No. 4 > $TG_{43}= 7.08$

Personnel No. 5 > $TG_{53}= 7.40$

In this case study, personnel 2 has the best performance and personnel one has the second best performance. Traditional systems, which only focus on financial

indicators, consider personnel 3 as having the best performance. Besides, they put no significant difference between the performance of personnel 2 and 5; while in the proposed method, this difference is clearly indicated. Measuring performance in a BSC-based method, which is in accordance with justice, adds to personnel's motivation and encourages them to improve their performance. The existing balance in the model, on the other hand, helps organization to evaluate personnel on both financial and non-financial indicators.

4. Conclusion

The proposed model in this paper evaluates human resource performance using balanced scorecard and measures that in four perspectives (Financial, Customer, Learning & Growth, and Internal Processes). The results driven from the model provides good information for managers and helps them recognize personnel with good/weak performance. Classifying, analyzing, and monitoring personnel performance trend, on the other hand, make it easier for managers to decide on reward allocation and personnel substitution.

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Figure-1: Levels of Developing Model

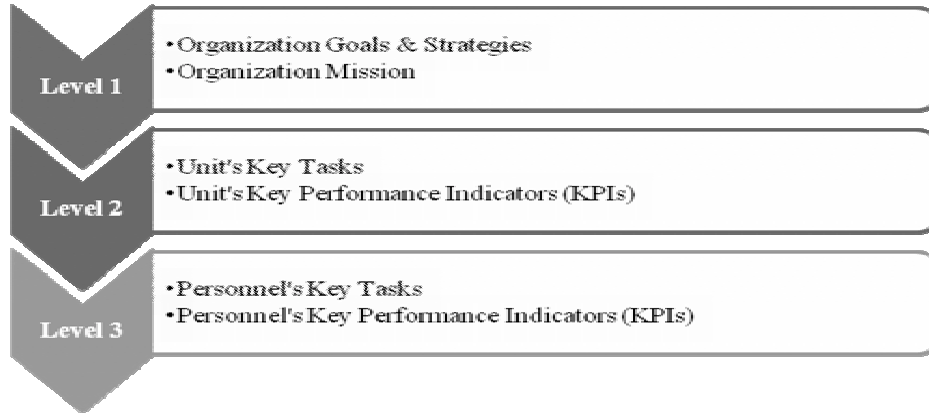


Figure-2: Available Units in Company A

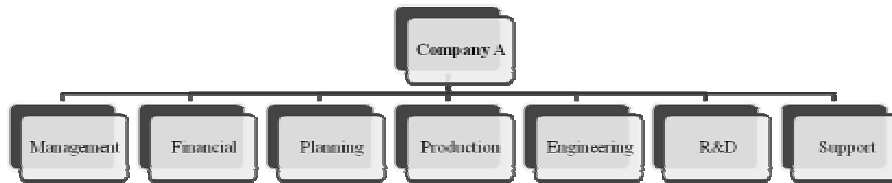


Figure-3: Defined Indicators for Production Unit Personnel of Company A

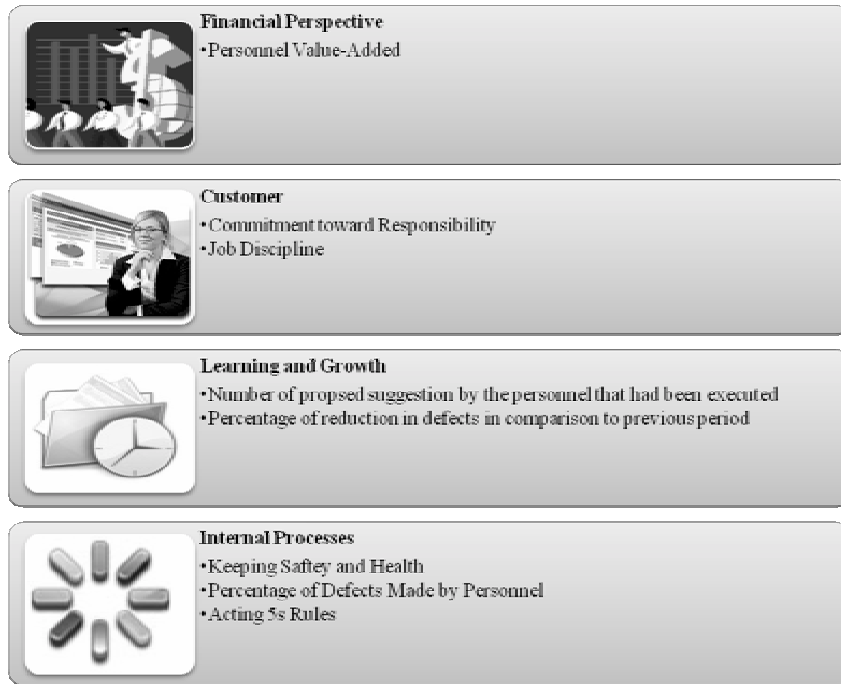


Table- 1: Personnel Performance Calculation in Financial Perspective

Financial Perspective				
Indicator Name: Personnel Value-Added				
Personnel No.	Personnel Performance			Score
1	1200 \$			10
2	1300 \$			11
3	1500 \$			13
4	650 \$			7
5	1200 \$			10
Score Range				
Less than 200 \$	200 to 500 \$	500 to 800 \$	800 to 1200 \$	More than 1200 \$
0 to 2 points	4 to 6 points	6 to 8 points	8 to 10 points	10 points plus 1 more point for each extra 100 \$

Table- 2: Personnel Performance Calculation in Customer Perspective

Customer Perspective	
Indicator Name: Commitment toward Responsibility	
Personnel No.	Score
1	8
2	10
3	6
4	6
5	6
Indicator Name: Job Discipline	
Personnel No.	Score
1	7
2	9
3	9
4	8
5	6

Table- 3: Personnel Performance Calculation in Learning and Growth Perspective

Learning and Growth Perspective				
Indicator Name: Number of executed suggestions proposed by personnel				
Personnel No.	Personnel Performance			Score
1	2 Suggestions			6
2	4 Suggestions			10
3	No Suggestion			0
4	1 Suggestion			4
5	No Suggestion			0
Score Range				
No Suggestion	1 Suggestion	2 Suggestions	3 Suggestions	4 Suggestions and more
0	4	6	8	10 points plus 1 more point for each extra suggestion
Indicator Name: Percentage of defects reduction in comparison to the previous period				
Personnel No.	Personnel Performance			Score
1	4.6 Percents			6
2	6 Percents			10
3	2 Percents			2
4	1 Percent			1
5	2 Percents			2
Score Range				
Less than 2 Percents	2 to 4 Percents	4 to 6 Percents	More than 6 Percents	
0 to 2 Points	2 to 4 Points	4 to 10 Points	10 Points plus 1 more point for each extra percentage	

Table- 4: Personnel Performance Calculation in Internal Processes Perspective

Internal Processes Perspective					
Indicator Name: Keeping Safety and Health					
Personnel No.	Score				
1	7				
2	9				
3	5				
4	7				
5	8				
Indicator Name: Percentage of Defects Made by Personnel					
Personnel No.	Personnel Performance			Score	
1	2			10	
2	3.3			6	
3	7			1	
4	1			11	
5	6			2	
Score Range					
Less than 2 Percent		2 to 4 Percent	4 to 6 Percent	6 to 8 Percent	More than 8 Percent
10 points plus 1 more point for each less percent		4 to 8 Points	2 to 4 Points	0 to 2 Points	0 minus 1 more point for each extra percent
Indicator Name: Acting 5s Rules					
Personnel No.	Score				
1	8				
2	7				
3	9				
4	6				
5	8				

Table- 5: Personnel Performance Score in Four Perspectives

Personnel No.	Score			
	Financial	Customer	Learning & Growth	Internal Processes
1	10	7.5	6	9.5
2	11	9.5	10	6.4
3	13	7.5	1.6	2.2
4	7	7	1.6	10.1
5	10	6	1.6	3.2