

# Examining approaches to HR evaluation

## The strengths and weaknesses of popular measurement methods

HR evaluation is often simply not conducted because of its inherent difficulties. But without measurement, HR will struggle to shake off its administrative image. This article considers the reasons for conducting evaluation, the pros and cons of six popular approaches, and suggests a workable – though not perfect – means of conducting acceptable evaluations.

**E**VALUATION IN HR IS consistently seen as an important phase in the professional application of the field. In spite of this, it has proved difficult to perform in a way that the results are widely accepted. The difficulty of performing evaluation and subsequent failures to include it has, in some cases, jeopardized its implementation. This article, therefore, addresses these basic questions regarding HR evaluation:

- Why is it important to determine how well HR works?
- How have we tried to do this in the past and how successful have we been?
- How can we do a better, though not perfect, job?

### Why is it important to know how well HR works?

Before answering these questions, we need to define what we mean by evaluation. Evaluation is “a set of planned, information-gathering, and analytical activities undertaken to provide those responsible for the management of change with a satisfactory assessment of the effects and/or progress of the change effort.”<sup>1</sup> There are many reasons why it’s important to evaluate HR:

- Determine future investments in HR.
- Improve HR processes.
- Identify alignment of HR with business strategies.
- Build intellectual capital within the organization.
- Stop doing what isn’t effective.
- Be accountable to stakeholders and ensure employee and management accountability.
- Reflect on and improve the overall climate and health of the organization.
- Avoid fads and “flavors of the month” – HR seems particularly vulnerable to fads and evaluation can be a means for it to determine whether a new intervention is truly a quality improvement.
- Lead the organization in keeping employees motivated and productive.
- Improve HR’s image within the organization by showing how much it contributes to organizational success.

### What’s the story so far?

There have been a number of efforts to use evaluation approaches to determine how well HR has performed. In general, studies aren’t very encouraging.<sup>2</sup> They often conclude that attempts to identify the level of impact that HR policies, processes and practices have on business performance meet with limited success. Problems of credibility, marginality, and ambiguity also relegate HR to a relatively disconnected set of administrative or “welfare” duties.

There is some evidence, however, that HR has – at least in some settings – added to business value. For example, Web-based HR self-service technology brings the following advantages:<sup>3</sup>

1. Reduces HR’s administrative workload.
2. Improves data accuracy and timeliness.

- Replaces costs associated with other technologies as they are replaced, e.g., voice response systems and article-based transactions.

There is also evidence of the impact of training on the bottom line. An examination of the impact of various training programs on business and financial results in 50 Canadian organizations found that improvements in organizational performance were directly linked to training activities that yielded significant benefit-to-cost ratios.<sup>4</sup> Thirty percent of the organizations exceeded a benefits-cost ratio of 10:1. For example, “a series of training courses for new supervisors at CIGNA Corporation yielded ROI estimates ranging from 730 to 4,500 percent.” These are ROI figures that would receive front-page coverage in any other function!

In general, there’s contradictory evidence about whether HR has been effective in making contributions to the performance of organizations. Perhaps this inconsistent evidence contributes to the negative image that HR often has within the business community.

### Metrics currently used in HR

By exploring how HR actually attempts to evaluate itself, we can identify, at least in part, why organizations are not satisfied with how we evaluate work. A recent study<sup>4</sup> identified that many HR measures are activity-based rather than performance-based (see Figure 1, above right). Even when the measures used are performance-based, there’s virtually no way to show that the outcome measures result from something that HR has done, rather than that they have occurred through some other function, or from changes in the environment or the competitive situation. No wonder our efforts at evaluating HR interventions/activities are viewed suspiciously.

There will never be a perfect solution to the complex question of HR evaluation. No matter what approach is chosen, there will be problems. However, the following weighs up the various strengths and weaknesses of six common approaches to HR evaluation.

### Kirkpatrick’s four levels

Probably the most widely used evaluation model, certainly for training and development, has been Donald Kirkpatrick’s four levels of evaluation. First popularized in the late 1950s and early 1960s, it was updated in 1998, and continues to be widely used. The approach suggests there are four levels that need to be evaluated:

- Reactions (usually measured by a short survey, though focus groups are sometimes used).
- Learning (usually measured with a written test or a demonstration of performance).
- Behavior (based on observations of supervisor, a third party, or self-report).
- Organizational Impact (bottom-line measures).

*Strengths:* There are many reasons why Kirkpatrick’s model has proven to be so capable of withstanding decades of use and review. Perhaps the two most common are that it is simple and easy to understand. Further, because of their long-term and extensive use, the levels are well-understood, providing the profession with a common vocabulary. There is also the implication of a systems perspective because the system is multivariate and explores a variety of outcomes that one might expect from an HR intervention, in particular.

*Weaknesses:* In spite of its widespread use, however, there are many weaknesses associated with Kirkpatrick’s four levels. The major concerns are:

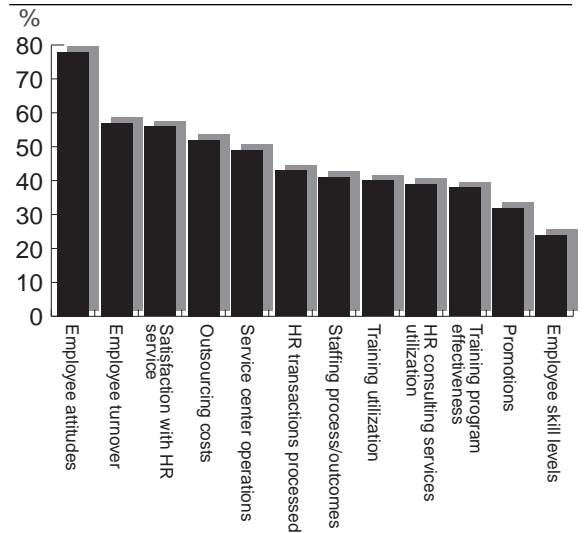
- Lack of research validation; research has shown a weak link between Reaction and Learning on performance.
- The term “level” is inappropriate; one level doesn’t necessarily lead to the next.
- No help in identifying how to do level four, by far the most important and most difficult of the four levels.
- Provides excuses for not doing a systematic evaluation of all four levels.
- Simplistic; a taxonomy rather than a model.
- Designed primarily for evaluating training and may not fit other HR functions very well.

### Repeat measures used in needs assessment

This approach assumes that something triggered an awareness of the need for the intervention in the first place. Perhaps it occurred through employee or customer feedback or a problem with quality or production identified through statistical process control (SPC) charts. Repeating that process may indicate whether or not the intervention was effective in changing whatever problem was originally identified.

*Strengths:* In some respects, this approach may have the greatest validity, because it replicates the very process that indicated a need for the intervention in the first place. Further, whatever measures were used originally are already in place, reducing the costs of having to create new measurement instruments. Finally, the stakeholders who

Figure 1. Metrics currently used in HR departments



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- ◀ initially created an awareness of the need for the intervention will feel validated and listened to when they are again consulted regarding the impact of the intervention.

*Weaknesses:* If the original process included interviews or surveys, it may be time consuming and expensive to repeat. Further, as employees and customers tire of completing surveys, there may be a low response rate or the process may not be taken seriously. Also, if the original process was not valid or reliable, repeating it will not yield valid or reliable outcomes. Finally, if technical processes have been involved (such as SPC), management (and HR employees) may not know how to interpret the results.

### Return on Investment models

Return on Investment (ROI), and a similar approach called Human Resource Accounting, attempt to convert all inputs and outputs into financial terms and then determine how much the HR function has contributed to the organization, resulting in a percent that indicates what the return on HR investments has been. This provides opportunities to compare human capital investment to investment in other types of capital.

ROI begins by accepting the four-level model, emphasizing the fourth level that looks HR's contribution to the bottom line. Because there's no way to make a perfect connection or link between HR inputs and outputs, estimates are provided by managers or other subject matter experts, based on their best guesses, or the organization may require the use of control and experimental groups (see below for discussion on this approach).

The rationale for this approach is that businesses function on finances and often make decisions based on the bottom line. One might well ask, however, how ROI is applied to other organizational support functions such as advertising, marketing, finance, accounting, facilities, etc. It's as difficult for these functions to make the ROI case as it is for HR.

The formula for determining ROI is:

$$\text{ROI (\%)} = \frac{\text{Benefits} - \text{Costs}}{\text{Costs}} \times 100$$

*Strengths:* The allure of ROI resides in the fact that it provides organizations with quantitative information in monetary terms. As this approach uses the currency of business, it is aligned with the business objective and, therefore, often with its strategies. This is the approach that's most familiar to managers and improves communications about the business benefits of HR. In fact, the process directly involves management in the computation of the ROI numbers, thus actively involving them with HR. It also becomes difficult for management to argue with their own numbers. Finally, the focus is on HR as an asset, not as an expense, thus influencing how dollars invested in HR are viewed.

*Weaknesses:* In spite of the efforts of many to use ROI in evaluating HR, and even the demand by some organizations that HR take an ROI approach, it is unfortunately impossible to measure because of intervening variables; no direct cause-effect evidence can be developed. There are many other reasons why ROI isn't the perfect solution:

- There is a lack of agreement among estimators (low inter-rater reliability) as to what the numbers to be used are.
- Because there is no way to determine accurately what the numbers are, they are based only on guesses.
- The use of control groups can reduce the impact of good programs on the organization; if the programs are beneficial, the whole organization wants to benefit (see below for more on this point).
- ROI can be expensive to implement because of the need for active involvement of management and other personnel in the process.
- ROI is based on the false assumption that other aspects of business can prove ROI.
- In a rapidly changing world, ROI takes too long.
- Not all intangible benefits are financial, e.g., employee satisfaction, ethical business decisions, etc.
- Costs often omit important factors, e.g., depreciation, overheads, lost productivity.
- ROI could be politically sensitive, overstating benefits that actually occur from other functions and overassigning costs to other functions.
- In spite of widespread rhetoric in support of ROI, it is difficult to identify successful applications. If desired and practical, many organizations would be using it.
- With ROI, it's easy to manipulate results.

As Thomas Pipal, director of training and development for Worldcom, concluded, "ROI in industry today is dead. Change occurs so rapidly that there isn't time to use traditional ROI. Financial benefits have to be so great that no one asks about ROI."<sup>5</sup>

### Balanced Scorecard

According to Kaplan and Norton, authors of "The Balanced Scorecard," strategy formulation and evaluation should be undertaken from four perspectives, with appropriate questions that need to be answered for each of these categories:

- Financial Perspective. What must we achieve to satisfy our owners?
- Customer Perspective. What must we achieve to satisfy our customers?
- Internal Business Perspective. What processes must we excel at?
- Innovation and Learning Perspective. What must we do to ensure that we learn and grow?

Balanced scorecards are very popular, not only for HR, but also for other business functions; in spite of their

popularity, however, they, also, are not the perfect solution to evaluation problems.

**Strengths:** Perhaps the reason why this approach has been so popular is because it appears to be strategic and focuses on the bottom line. In addition, it focuses on the organization's strategy implementation, which requires constant change and flexibility. Other reasons for its popularity include that it is currently popular, with vocabulary that is becoming increasingly familiar; it distinguishes between deliverables and doables; and its focus is on human capital, typically 85 percent of a company's value.

**Weaknesses:** The balanced scorecard approach shares many of the problems of ROI evaluation. Notable among these are:

- There is difficulty in determining quantitative measures for the most important outcomes; the system forces attention on the most easily measured outcomes.
- There is no established cause-effect link between Innovation and Learning and other perspectives.
- It's an overly simplistic strategic model (focusing its questions in just four areas).
- Start-up costs, for training and for developing systems, are high.
- Goals in a balanced scorecard can become obsolete quickly (contrary to one of its stated strengths), unless there is consistent effort to keep them up to date.

### Control group experiment

Using control and experimental groups to determine whether differences exist between those who have experienced a given intervention and those who haven't is probably the most powerful approach that can be used – when feasible. However, it's seldom implemented in a business setting for a variety of reasons:

- Small numbers make it difficult to obtain statistical significance.
- For business (and perhaps even legal) purposes, all employees may need the intervention at the same time.
- Because of schedules, work teams, union agreements or other purposes, it may be difficult to assign employees randomly.
- It may be difficult to have trained and untrained employees working together.
- Such an approach may be very time consuming before an answer to the evaluation can be determined. This could also make the process very costly.

### Systems perspective evaluation

A systems perspective recognizes that no one of the preceding approaches to evaluation can be effective. Rather, there is an affirmation of the concept of triangulation; the use of multiple measures provides a variety of ways to look at the effectiveness of the intervention.

In a systems perspective, HR works in partnership with management to identify the information they

want from evaluation and determine what deficiencies they are willing to accept. Then, HR uses multiple forms of evaluation to provide a broader perspective of HR outcomes. In this approach, HR establishes criteria and desired outcome levels with stakeholders prior to the intervention. Then, both qualitative and quantitative feedback is included in reports, with the measures being identified to determine HR performance. Using all of these factors, the ultimate goal is to perform the job so well that no one questions HR's value-added.

### HR's strategic imperatives

Given that each individual approach to evaluation has at least as many weaknesses as strengths, some lessons can be identified that will help HR to be most effective in performing its functions:

- Tie every HR activity to the company's strategy (which implies knowing the company's strategy) with a strategic business plan.
- Know what management expects from HR and deliver it.
- Work strategically with partners in the company.
- Measure what's important to management.
- Share the outcomes of effective HR widely within the organization.
- Foster learning within the HR group – "What can we learn from this?"
- Use triangulation – multiple measures that show the same outcomes will provide stronger evidence of the contributions of HR.

### Conclusion

We know how important human resources are to an organization; as HR professionals, we have the obligation to ensure that management also knows how important human resources are. To do that, we must use what we know, provide effective evaluation and avoid the fads and traditions that don't work well for us. HR that isn't business-driven will not survive – and that's not good for the organization, for its people, or for us as HR professionals.



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