

OTHER TOPICS***THE EVALUATION OF HUMAN RESOURCES MANAGEMENT IN LARGE ENTERPRISES OF LATVIA*****Līga Peiseniece***BA School of Business and Finance**E-mail: liga.peiseniece@ba.lv***Abstract**

Similarly as in other European countries, the number of large enterprises in Latvia, where more than 250 employees work, is not more than 1% of all enterprises. For successful management of these enterprises entrepreneurs need not only to organize and to manage basic activities and to ensure the appropriate supporting functions, but they also need to evaluate these functions. One of the most important systems of conduct of a business is human resources management therefore it is necessary to evaluate this system to use appropriate methods of evaluating.

Researchers on human resources management have developed several methods of evaluating human resources management.

The purpose of this paper is to describe large enterprises of Latvia, what the methods of evaluating human resources management they use.

Keywords: large enterprises, human resources management, methods of evaluating human resources management.

Introduction

Taking into account, that Personnel Management and Human resource management (HRM) as scientific discipline exist slightly longer as forty years then the methods of HRM evaluation have been developing gradually improving each other. When developing Human resource management in theory and practice, there appeared necessity to evaluate HRM and efficiency and effectiveness of its functions.

The surveys which were conducted by European Association of People Management and the Boston Consulting Group from 2006 to 2009 indicate necessity to carry out HRM evaluation for achievement of different goals.

In 2006 it was indicated that one of the top future challenges is transforming HR into a Strategic Partner. For achieving this goal researchers suggested that the HR department must measure its performance against qualitative, quantitative, and financial metrics.¹

Besides, in 2008 report the researchers emphasized, that “many executives today have “dashboards” on their computer desktops that provide a quick picture of their company’s traditional financial and business performance metrics. These dashboards should also highlight quantitative and qualitative HR metrics”². Until top executives do not have a fuller and more accurate view of HR activities, the HR function will not achieve its proper role within the corporation.

The survey which was conducted in 2009 proved that many enterprises in time of crises have been under the necessity of doing the following activities: cutting back on recruiting, company events, bonus payments tied to company and individual performance, individual and functional trainings and laying off temporary and full-time employees etc. The realization of many of these activities requires the analysis of different HR metrics and costs.³

¹ European Association of People Management, the Boston Consulting Group report “The Future of HR in Europe/ Key Challenges Through 2015”, 5p, available at: www.bcg.com.

² European Association of People Management, the Boston Consulting Group report “Creating People Advantage”, 3p, available at: www.bcg.com.

³ European Association of People Management, the Boston Consulting Group report “Creating People Advantage in Time of Crisis”, 2009, available at: www.bcg.com.

As considers researcher J.Bratton evaluation of HRM refers to procedures and processes, how to measure, evaluate and report about added value of HRM practice in organizations⁴.

Overall review about HRM evaluation methods has been giving by American scientists J.J.Phillips. As he considers in the 1940s and 1950s, about the time the function became a legitimate and essential part of organizations, practitioners and researchers began to explore ways of measuring its contribution. By the late 1970s, evaluation became a part of some HR departments. Society for Human Resources Management identified the evaluation process as one of the ten specialty areas of the HR field in the early 1980s. By being classified in this way, the specialty areas of review, audit, and research are considered major functions of human resources along with such functions as training and development, staffing, compensation, and labour relations⁵.

J. J.Phillips has come to conclusion in his research that development of HRM evaluation could be divided in to three periods where each of these stages is characterized by its own approach to HRM functions. The closer bonds between HRM and achievement of the enterprise where being searched in the period of HRM evaluation development. ⁶ Figure 1 reflects HRM evaluation approaches development from 60s to nowadays.

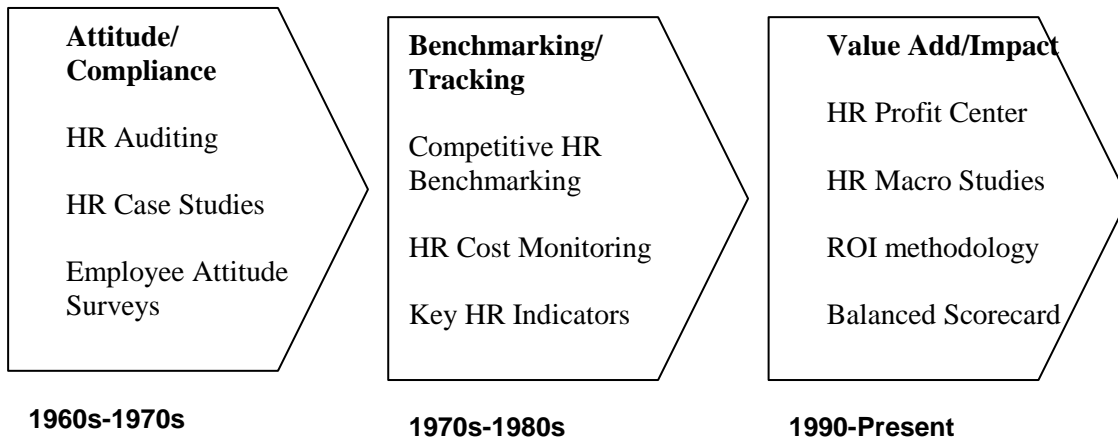


Figure 1: Approaches of HRM evaluation (J.J.Phillips)

Several methods of HRM evaluation, which are been discussed here, could be linked with effectiveness of Human Resource Management.

S.Gibb, while summarizing view of different authors about HRM evaluation, has concluded that four methods could be connected with effectiveness of HRM and they could be included in a united model. The model units are such methods as Best Practice Models, Fit with Business, Benchmarking with “excellence”, Manager and Staff Views. Figure 2 shows a map of perspectives on evaluating HRM effectiveness.

S.Gibb has created the model by observing HRM effectiveness in two dimensions. One dimension of map is considering the extent to which a concern with HRM effectiveness involves an internal, organizational orientation or an external, general standards orientation. The other dimension is concerned with the extent to which the value of either an objective or a subjective framework for operationalizing HRM effectiveness is adopted.⁸

4 Bratton, J., Gold, J. Human Resource Management: Theory and Practice, 2007. 523p.

5 Phillips, J. J. Accountability in Human Resource Management. - Butterworth: Heinemann, 1999. -33p.

6 Phillips, J. J. Proving the Value of HR: How and Why to Measure ROI, Society for Human Resource Management, 2005.-10p.

7 Phillips, J. J. Proving the Value of HR: How and Why to Measure ROI, Society for Human Resource Management, 2005. -10 p.

8 Gibb S.,Evaluating HRM effectiveness: the stereotype connection, Employee Relations, Vol 22.No.1, 2000. – pp.58.-59.

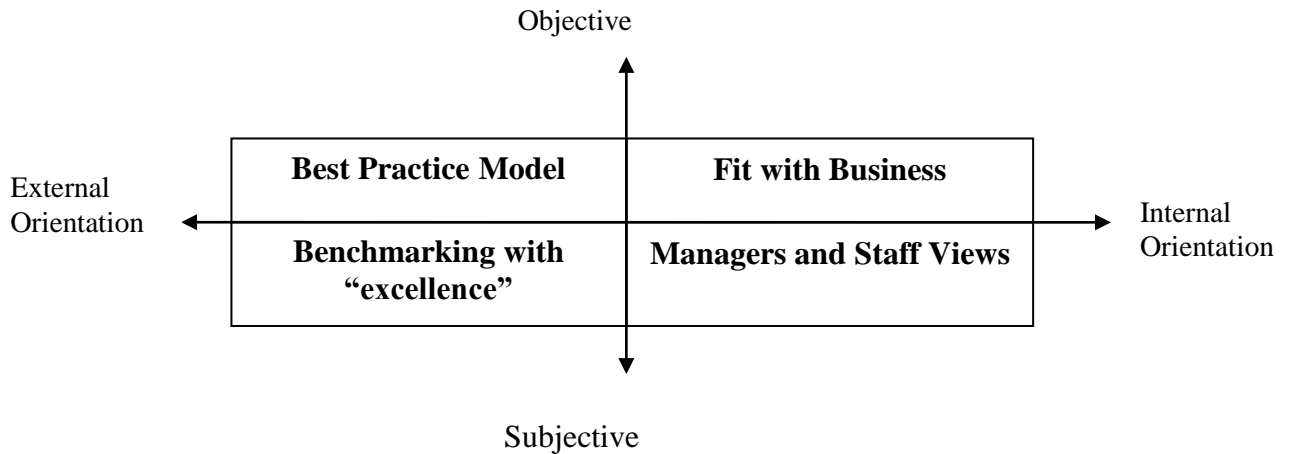


Figure 2: A map of perspectives on evaluating HRM effectiveness (S.Gibb)⁹

Developing new management path – Talent Management, the advocates of this path J. W. Boudreau, P. M. Ramstad have developed the different classification of HR evaluation in their research. Table 1 shows four key approaches of HR measurements and their examples.

Table 1: HR Measurement Alternatives (J. W. Boudreau, P. M. Ramstad, 2003)¹⁰

Measurement Approach	Examples
Efficiency of HRM operations	Cost per hire, time to fill, training costs. Ratio of HR staff to total employees.
HR activity and “best-practice” indexes	Human capital benchmarks. Human capital index.
HR dashboard or HR scorecard	How the organization or HR function meets goals of “customers, financial markets, operational excellence, and learning”.
Causal chain	Models link employee attitudes to service behaviour to customer responses to profit.

J. W. Boudreau’s and P. M. Ramstad’s classification of HR measurement is also supported by W. F. Cascio, who considers that HR measures must improve important decisions about talent and how it is organized.¹¹

If J. W. Boudreau’s and P. M. Ramstad’s classification of HR measurement is compared with J.J.Phillip’s classification, it is obvious that J. W. Boudreau and P. M. Ramstad use Key HR Indicators and HR Cost Monitoring for determining the efficiency of HRM operations. The authors apply the following methods – Competitive HR Benchmarking and Human Capital Measures for the evaluation of HR activity and the determining of “best-practice” indexes. HR scorecard is applied in both classifications for determining of HRM investment in business performance. Employee Attitude Surveys are used in the approach of Causal Chain. These two classifications mark the main methods of HRM evaluation. Next chapter of this article describes practice of HRM evaluation in large enterprises of Latvia.

The evaluation of Human Resource Management in large enterprises of Latvia

The author of this article conducted the survey in large enterprises of Latvia in February – March, 2009 where 42 enterprises (37 private companies and 5 state enterprises) with over

9 Gibb S., Evaluating HRM effectiveness: the stereotype connection, Employee Relations, Vol 22.No.1, 2000. -59.p
 10 Boudreau, J.W., Ramstad, P.M. Strategic HRM Measurement in the 21st Century: From Justifying HR to Strategic Talent Leadership. In HRM in the 21 st Century, New York: John Wiley, 2003.
 11 Cascio, W. F., Boudreau J. W. Investing in People. Financial Impact of Human resources initiatives, Pearson Education, 2008, 18 p.

200 employees participated.

The number of enterprises employing over 200 people in Latvia is relatively low. In accordance with data of Commerce Register of the Republic of Latvia, there were registered approximately 320 enterprises on December 31st, 2007. Unfortunately majority of enterprises did not respond. The response rate was 13 per cent. As authors of similar surveys recognize, the problem of non- response is difficult to avoid in company- level surveys, and in the most cases the problem remains.¹² Wherewith it could be affirmed that, this survey discloses trends in Human Resource Management in large companies of Latvia, but it does not discover causal relationships between different features of enterprises and its HRM.

The author used the questionnaire to reveal what kind of methods and indicators large enterprises of Latvia use for evaluation of Human Resource Management. The data was analyzed by such features of enterprises - a form of property and a field as well as competencies of HR manager – education and experience.

The enterprises represented different fields, but most of them were from wholesale and retail trade (10 enterprises), manufacturing (8 enterprises), information and communication (7 enterprises). 16 from respondents were domestic enterprises, 21- foreign enterprises, 5 – state enterprises.

The results of the survey showed that 76 per cent of enterprises evaluate Human Resources Management. Figure 3 reflects methods of HRM evaluation used by large enterprises of Latvia.

The data was analyzed separately by a form of property – state and private enterprises. Such approach was chosen because the activity of state enterprises is different from the activity of private enterprises.

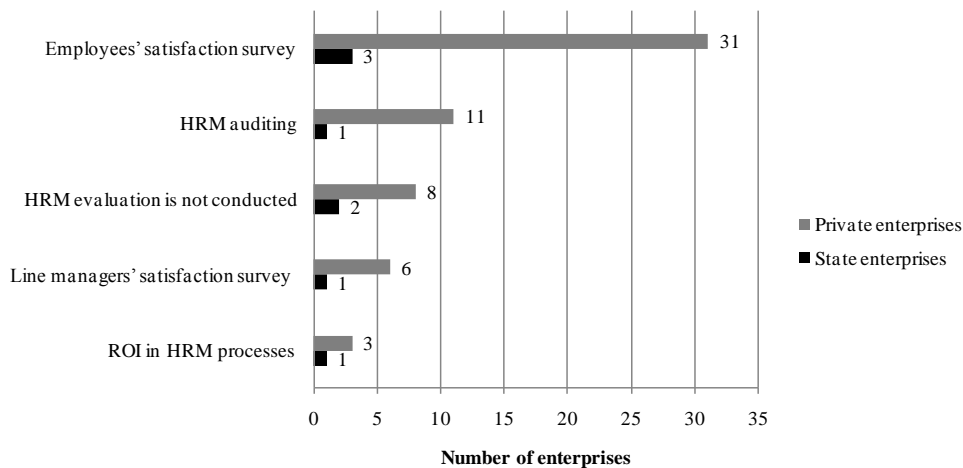


Figure 3: Usage of HRM evaluation methods (n=42, 5- state enterprises, 37- private enterprises)

Mostly enterprises use employee satisfaction surveys; more than 80 per cent of respondents realize it. As scientist R.L.Mathis considers employee opinions can be used to diagnose specific problem areas, identify employee needs or preferences, and reveal areas in which HR activities are well received or are viewed negatively¹³

These surveys are the most often used method of HRM evaluation both in state and private enterprises.

One out of three respondents performs HR auditing. According to American scientist Jack Phillips a human resources audit is an investigative, analytical, and comparative process that

¹² Vanhala, S., Kaarelon, T., Ruth, A. Converging human resource management. A comparison between Estonian and Finnish HRM, Baltic Journal of Management, Vol.1.Nr.1, 2006, p.88

¹³ Mathis, R. L. Human Resource Management, South-Western Pub, 2000.- 22p.

attempts to reflect the effectiveness of the HR function¹⁴. Principally this method is used by foreign enterprises, where HR managers have master's degree in human resource management or business administration. The results of the survey prove that state enterprises apply this method more rarely than private enterprises. The author considers, that it is connected with high costs of HRM audit realizing, which state enterprises cannot often afford.

Comparatively more rarely is the use of following methods by the enterprises: only 19 per cent of the respondents query line managers about performance of HR department and 10 per cent of the respondents analyze return on investment in Human Resources Management. These methods are seldom used both in state and private enterprises.

Respondents mentioned other methods of HRM evaluation: annual appraisal interviews, negotiations with management group; analysis of HR key indicators, costs and other quantitative data.

Wherewith, it could be affirmed that the most part of enterprises uses attitude approach and benchmarking approach for HRM evaluation.

The fact, that 24 per cent do not use any method of HRM evaluation, confirms that a part of enterprises does not consider Human Resources Management about significant component of enterprises management which would be necessary to evaluate and to improve.

When analyzing enterprises, which do not use any methods of HRM evaluation, according to different features – a size, a field, a form of property or competencies of HR manager, it was not possible to distinguish any separate group which would be characterized unambiguously.

Information about usage of key HR indicators is provided in Figure 4.

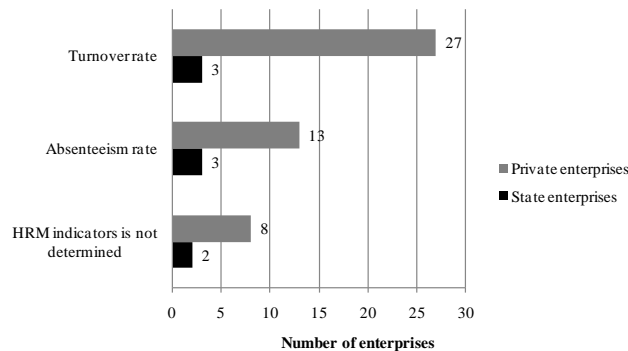


Figure 4: Usage of Key HR Indicators (n=42, 5- state enterprises, 37- private enterprises)

The most popular indicators of HRM evaluation are turnover rate and absenteeism rate. 70 per cent of respondents calculate turnover rate and 38 per cent – absenteeism rate. These rates are analyzed equally often both in state and private enterprises.

According to R.Howse turnover is often the first measurement that organization leadership requests when it is contemplating proposals for scarce resources, implementing new programs, or looking at whether change efforts have been successful¹⁵.

However it must take into consideration, that turnover rate characterizes only one aspect i.e. behaviour of employees in certain conditions wherewith it is not possible to evaluate human resource management in general analyzing only this rate.

HR managers had possibility also to mention, what other indicators are analyzed. Several respondents indicated that they analyze the rates of employee's productivity, training time, proceeds per employee, profit per employee, efficiency of sale staff, the number of carrier growth, the number of overtime hours, the number of employees being analyzed by education

¹⁴ Phillips, J. J. Accountability in Human Resource Management.- Butterworth: Heinemann, 1999. -37p.

¹⁵ Effective HR Measurement Techniques, Society for Human Resource Management, 2001. - 47p.

and gender, the number of certificates, the number of mistakes of recruiting and staffing, the number of worked hours.

The author considers the fact that 76 per cent analyze any indicators of Human Resources Management confirms that executives or HR managers are able to determine, which of HRM indicators are more significant and which would be necessary to monitor regularly.

The answers of the respondents showed that the enterprises analyze not only different rates but also costs of employees and HR functions. Mostly enterprises evaluate training costs per employee, 48 per cent of respondents do it. Some of them calculate and analyze personnel costs versus turnover, personnel costs versus financial indices of enterprise (turnover per an employee, profit per an employee etc.), personnel costs per an employee, recruiting costs.

Respondents were also asked to reveal what kind of activities was realized after HRM evaluation. Figure 5 reflects more frequently realized activities after HRM evaluation and absolute frequency of answers.

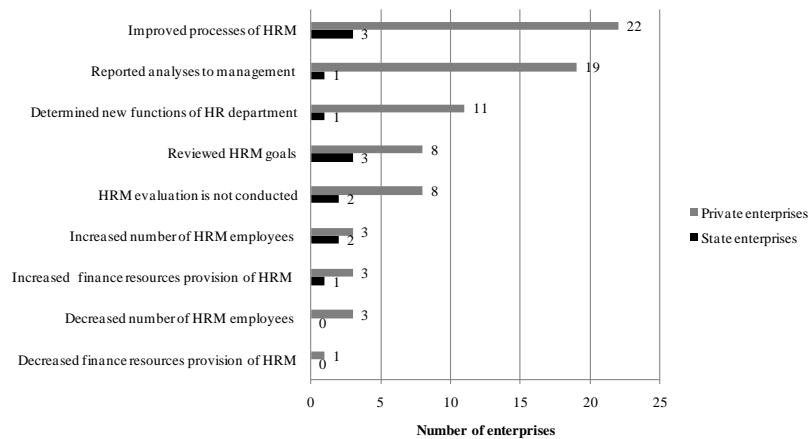


Figure 5: Activities after evaluation of HRM (n=42, 5- state enterprises, 37- private enterprises)

The most frequently enterprises have improved processes of HRM (60%) and reported analyses to management for making decision (48%). A third of respondents answered, that they had determined new functions of HRM department or reviewed HRM goals. The results of the survey prove that a part of enterprises improves processes of HRM and increases or decreases the number of HRM employees or costs, based exclusively on the results of surveys of turnover or employee’s satisfaction.

The results of the survey clearly show the existing problem – many enterprises of Latvia do not perform HRM evaluation or perform it partly.

Conclusions and Recommendations

The fact that 76 per cent of respondents evaluate HRM could be positively estimated.

Large enterprises analyze different HRM indicators according their comprehension. These enterprises mainly analyze turnover rates assessing if positive or negative trends are observed in providing necessary existing and future competencies.

Large enterprises analyze insufficiently work load, absenteeism and its causes – fewer than a half of large enterprises analyzes absenteeism rate. Only a half of them analyze training cost per employee.

According to results of the survey large enterprises also analyze different other HRM indicators, rates of employee productivity, costs of HRM processes, personnel costs.

Employee’s satisfaction surveys are as significant as the analysis of HRM indicators; they supply information about effectiveness of different HRM processes.

Large enterprises rarely use the following methods of HRM evaluation - line managers’ satisfaction surveys about performance of HRM department and determining return on investments of HRM processes.

Only the enterprises, where the quality control system has been fully or partly established, use HRM auditing for analyzing and improving HRM processes. This method is not applied in other enterprises.

Only several large enterprises evaluate HRM from different aspects – performing employee's satisfaction surveys, line managers' satisfaction surveys about performance of HRM department, HRM auditing and analyzing different HRM indicators.

Summarizing results of the survey it could be affirmed that enterprises are mainly focused on determining satisfaction of internal clients (employees, line managers) in evaluation process of HRM, wherewith organization of HRM processes and their effectiveness from the point of view of enterprise management are not evaluated.

A part of large enterprises does not consider HRM as a significant component of management and does not evaluate and improve it systematically.

Consequently it could be affirmed that there exists a gap for improvement of HRM in large enterprises of Latvia, using different methods of HRM evaluation.

In order to use the possibilities offered by HRM evaluation more often in enterprises of Latvia the author of this article considers that it would be necessary to realize different efforts in many levels – the enterprise, high education and society.

At the enterprise – level HR manager should master and apply different methods of HRM evaluation, in order to evaluate HRM from every point of view and obtain necessary information for improvement of HRM. HR manager should also inform management of the enterprise about advantages of HRM evaluation and practice in other enterprises of Latvia, and come to an agreement with management about necessity to realize HRM evaluation.

At the high education – level it would be necessary to include topics about HRM evaluation in the course “Human Resource Management” for students in programs of business administration. Programs of Human Resource Management should include courses about evaluation of HRM and practical studies of usage of HRM evaluation.

At the society –level it should be necessary to organize educational seminars, to publish articles about HRM evaluation and to continue research on practice of HRM evaluation.

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