ASSESSING HUMAN RESOURCE EFFECTIVENESS:
THE EMERGENCE OF THE STAKEHOLDER APPROACH

by

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Abstract

Although human resource departments are becoming more critical for organizational success, very little research on HR control and effectiveness is available. Surveys indicate that only handful of firms use formal evaluation procedures to monitor their HR activities. Thus, this paper provides an overview of the methods and procedures for evaluating HR functions, activities and departments, and discusses in more details the emerging approach entitled: **Stakeholder Approach**. Guidelines are provided for a step by step procedures for using this approach and its relative advantages and disadvantages are discussed as well. Finally, we report on results for using the Stakeholder Approach in two settings: Public Sector (27 hospitals) and Private Sector (22 Paper Mils).

Résumé

Désormais la gestion des ressources humaines est perçue comme une fonction phare pour l'atteinte de l'efficacité organisationnelle. L'intérêt croissant des gestionnaires pour des pratiques et des politiques efficaces en ressources humaines a posé le dilemme du choix des méthodes d'évaluation. S'inspirant de différents modèles d'efficacité organisationnelle, les experts ont proposé des méthodes qualitatives et quantitatives. Récemment, une approche d'évaluation originale, s'inspirant des principes de la qualité totale, a connu un succès indéniable. L'approche des «constituantes multiples» (stakeholder approach) a le mérite de combiner les aspects quantitatifs et qualitatifs. Cet article introduit une réflexion sur l'opérationnalisation de cette approche client et précise ses avantages et inconvénients pour le gestionnaire des ressources humaines.

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The ever-increasing pressure on human resource departments (HRDs) and human resource managers to increase their effectiveness cannot be understood without focusing on the present world economic and political changes, and projecting the future behaviour of private sector organizations. As this is being written, the world economic and political situation is in upheaval. Here are some examples:

Unemployment in many countries, including Canada, is very high. One of the biggest unemployment-related demonstrations since the end of World War II took place in Germany in May, 1996. The downfall of communist governments in Eastern bloc countries is gaining momentum in Russia, Poland, and others that were unable to establish economic order during the transition to a western type economy. Japan's long-established system of management is coming under scrutiny and changes are inevitable. Hong Kong will come under the jurisdiction of China in 1997, and many of its entrepreneurs and professionals are immigrating to Canada. China is becoming a world power as its economy is growing at an exponential rate. South Africa has ended years of apartheid. Western Europe is venturing into the Economic Common Market. The North American Free Trade Agreement (NAFTA) now includes the U.S., Canada and Mexico. There are tentative attempts to unite the Pacific Rim countries into a common market comprising Australia, Japan, Korea, Taiwan, Singapore, and others. Finally, the peace prospects in the Middle East are opening the possibility for another large common market in this area to include Israel, Egypt, and other Arab countries.

Why is their Greater Need to Assess HR today? Most firms today are taking a great leap forward: the globalization of the world' s economic activities and human resource predominate the list of issues to consider. Failure to take a global perspective in HR policies and practices will result in the organization's inability to compete successfully. Thus, effective HR strategies must be developed to use a diverse workforce. Like all other facets of the corporation, HRM is evolving into a global operation. Many

firms realize that to survive in this new world order, they cannot continue with "business as usual" in their management style. Thus, pressure is mounting on all parts of the firm to become more competitive, adaptive, and to fully utilize the most important asset they have, the human resource. Consequently, like anyone else in the organization, HRDs are being pushed toward continuous improvement, self assessment and examination of all of its functions to become more innovative, creative, and efficient.

Why aren't firms assessing their HRDs? The pages of newspapers and professional journals are filled with stories about companies who find new and better ways to select, evaluate, train, compensate, and negotiate with their employees. Yet, there is a major block in HRDs' attempts to improve effectiveness. Unlike other organizational branches such as accounting, marketing, or finance, HR does not have set formulas to follow, and no one answer provides all the solutions to manage people. One of the most difficult tasks that HRDs are confronting is effectively to manage a diversified workforce, sometimes in various geographical locations. Additionally, a major difficulty for HRDs is that many of its activities are not tangible enough to permit a simple and straightforward assessment.

An apparent paradox in this regard is that while senior management recognizes the increasing importance of their HR departments, surveys show that only a few companies have formal procedures to assess the effectiveness of their HRDs. The reason given for not so doing is the absence of rigorous evaluation devices and the complexity in using existing tools. To make things worse, there is no consensus on the definition of HRD effectiveness or the criteria for measuring it. The result is that only a handful of companies conduct formal assessments of their HRD. For example, only 20% of all firms surveyed in Quebec undertook formally to evaluate their HRD (Dolan et al., 1989), and similar results were reported for the United States by Cashman and McElroy (1991).

Why is it Happening? The answer is not simple, and there is little research on HR effectiveness. In a broad sense, performance control is felt to be necessary to control costs and as a basis for auditing the effectiveness and efficiency of HR practices. Senior managers are quick to proclaim that the major strength of their organization is their employees, but when asked to justify the HR budget or to explain HR budget cuts, they are unable to provide a practical rationale. Many HR managers themselves face a similar dilemma when they are asked to justify the economic rationale for the introduction of a new HR program or service. How do they present the anticipated tangible outcome of an attitude survey, a stress management program, a

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performance appraisal procedure? Most senior executives understand and respect HR activities when the costs and benefits are translated into dollars and cents. Thus, there's a need to develop a systematic, logical framework for estimating, monitoring, and assessing these activities.

There are four basic reasons for assessing HRD effectiveness: (1) the renewed recognition that *people* make the difference between the success and failure of an organization; (2) wages are often the firm's largest controllable cost; (3) society, through social and labour legislation, requires firms to produce an HR effectiveness report in compliance with the law (e.g., regarding employment equity); and (4) so little is known about what it really takes to manage personnel that it requires constant assessment to advance our understanding (Dolan & Schuler, 1994).

Although everybody understands the need for HR assessment, the approaches and valid instruments available to carry out this task are not well developed. On the other hand, research shows strong correlations between overall organizational effectiveness and the use of systematic measures to assess HR outcomes.

What do we Know about HR Assessment Tools and Approaches? An HR effectiveness assessment can vary greatly in scope and focus. It can involve the purpose, goals, objectives, structure, activities, and results of the HR department. It can also examine a single HR function, such as training, recruitment, or compensation. Another focus can be on how the HRD is controlling turnover, promoting health and safety, or handling disciplinary problems. Overall, there are two general perspectives for assessing HR effectiveness: (a) The "universal excellence" model holds that there is one best way of carrying out effective HR management. (b) The "fit" model argues that effective HR management is not universal but involves matching HR policies and practices with those of the organization's strategy (Dolan & Schuler, 1994). The diverse approaches, scopes and perspectives for an HR assessment are summarized in Figure 1. On the vertical axis, the methods are listed; on the horizontal axis are the target and scope for the assessment. Targets and scopes are divided into three categories: HR functions (staffing, training, etc.); HR services (quality of service to customers); and HR outputs (absenteeism, number of accidents, grievances, etc.).

Figure 1: Typology and Scope for Assessing Human Resources in Organizations

Method/Approach	HR Functions	HR Services	HR Outputs
Qualitative Approaches			
Audit	X	X	X
Work Analysis/Budget	X		X
Quantitative Approaches			
HRM Indexes	X		X
Costs/benefits and Utility Analysis			X
HR Accounting			X
Emerging Approaches			
Multiple Constituency (Stakeholders)		X	

Why is the Stakeholder Approach Gaining Popularity? Because audits and work analyses are *qualitative* approaches and there are no universal tools to utilize them, and because *quantitative* analyses such as HRM indexes require reference points for each organization and industry (normally unavailable), firms are turning to the **Multiple Constituency (or Stakeholder) Approach**. It represents a mix of qualitative and quantitative approaches, it is straightforward, and it uses firms' own norms for the assessment.

This approach is closely tied to the **Total Quality Management** philosophy, which is itself a management panacea for the 1990s. Accordingly, the effectiveness of an HRD is measured by tapping into the level of the HRD clients' expectations and satisfactions. The bigger the gap between clients' expectations

and their satisfaction from services received, the less effective the HRD. This approach departs from more traditional definitions of effectiveness that concentrate on observed differences between strategic plans and reality. This approach focuses on what HRD clients expect. It infers that the interests of HRD clients are compatible with the interests of the company.

The stakeholder approach is similar to the "Total Quality Management" assumption that continually to improve the quality of services or products, all clients, internal and external, should be satisfied. Principal groups in the organization have different needs and expectations, and these in turn depend to a large extend on their hierarchical status, level of education, and other personal and group characteristics. One objective of this approach to effectiveness is to identify these factors to have a better understanding of clients and their needs.

The strengths attributed to the stakeholder approach are numerous. For instance, (1) It reminds the HRD that it is indeed a "service" whose performance cannot be evaluated without taking into account the satisfaction level of its different clients. (2) This method is measured by many criteria drawn from the clients, making the concept of "performance" more complete. (3) It leads to improved credibility of the HRD, having shown that it is ready to listen to its clients. (4) Even if the interdependence between management and those in charge of the HRD is increased, measuring the effectiveness of advice is possible and service offered by the latter in determining management's satisfaction in using this advice and service. (5) The stakeholder approach can be carried out before the introduction of change, or during or afterward. (6) Finally, this approach enables an understanding of the client's viewpoint, and enables better chances to meeting expectations and overcome resistance to changes.

However, to ensure that the stakeholder approach is indeed performing, a few conditions must be met. These include: (1) Clearly identifying the distinct groups/clients or users of the HRD. Measuring the effectiveness of the HRD requires careful identification of the client groups who will be evaluating it, and classifying them in order of their importance. Accuracy helps avoid omitting some evaluators who could be critical to the proper functioning of the organization. We can define a stakeholder group of HRD as a group of individuals having dependence or influence on the HRD who also share similar preferences in terms of the services offered. The use of this method requires the evaluator to create small groups of clients having approximately the same expectations vis-à-vis HRD services offered. Before going on to one such function, the evaluator must distinguish between the two main categories of HRD client groups; clients inside the

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company and those outside. Internal client groups are usually identified according to the organizational structure that places them on different hierarchical levels. It is also possible to identify them with the help of an informational flow chart. (2) It is necessary to assemble two separate evaluation questionnaires. The first should be administered to clients to assess their needs or expectations and their level of satisfaction with the services offered by the HRD. The second questionnaire should be directed toward the person in charge of the HRD who, in turn, provides some general information about the HRD (size, number of professionals, strategy, etc.). (3) It is important to collect and analyse data according to established performance criteria; analysing the data requires knowledge of psychometrics and statistics. Additionally, a consensus should be reached about the performance criteria or standards, e.g., the level of satisfaction at which we will consider our HRD to be efficient. (4) Finally, the evaluation process should be followed by recommendations and a period during which its results and the new orientation of the HRD are communicated. The clients who took part in the study expect that their needs will be considered and that the HRD is committed to meeting them, or at least will provide an explanation why it has not done so.

What kind of Empirical Experience do we have in Using the Stakeholder Approach? A group of us at the University of Montreal has been studying the stakeholder approach to assess HRD effectiveness for the past several years. We have developed a model and a set of tools and procedures that we tested in both the public sector (27 hospitals)and the private (22 pulp and paper mills) (Belout & Dolan 1996; Belout et al, 1997; Dolan et al, 1995)

Our experience indicates that using the stakeholder approach requires a few consecutive steps to fully use it. They include:

Step I: *Identifying key Stakeholder Groups* In accordance with the stakeholder approach, the first step that we carried out was collating as much information as possible on the typical organizational structure of the two industries that were studied: The Quebec Hospital Industry and the Quebec Pulp and Paper Mills, and on their internal communication processes. With the help of an Employment and Immigration Canada report and information from The Quebec Hospital Association and mill managers, we could identify the principle stakeholder group for each industry.

Step II: *Sampling Stakeholders* After identifying these client groups who will evaluate the HRD, it is necessary to determine a minimum number of individuals in each occupational category who will respond to the questionnaires. The principal reason for this methodology is that we need to tally each of the individual scores to fix an average for each of the preselected client groups. Therefore, the analysis requires that there be more than one respondent per group. Finding this number depends on sampling issues and the size of each stakeholder group.

Step III: *HR Activities to be Measured* The third step is to identify HR functional activities on which clients will render a judgement about their expectation and satisfaction. It is on the basis of those activities that the HRD will be judged effective or not. For example, in our study in the hospital and paper industries, we selected the following:

1. Staffing/planning   2. Training and development   3. Performance appraisal
4. Compensation   5. Employee assistance   6. Occupational health and safety
7. Labour relations   8. Respect for policies   9. Respect for legislation

Following statistical analysis (factor analysis) we were able in both industries (public and private sector) to reduce these activities into two principal axes. This procedure showed that there is an underlying structure for these 9 dimensions that could be summed up into two scales: one representing the traditional **HR activities**, and the other concerning **labour relations**.

Step IV: *Collect data on Stakeholder Characteristics and HR Characteristics* To understand stakeholder expectations and satisfaction, we need to collect data on some of their respective characteristics. For example, the HRD can provide data on organizational and group characteristics (size of the firm, size of the HRD, strategy of the HRD, etc.); Stakeholders can provide data on themselves (sex, seniority, contacts with HRD, etc.)

What are some findings based on this Research? Overall we wanted to answer the following two questions:

1.   Are there differences between the expectations and the satisfaction levels of HRD stakeholders? If yes, how can an HRD satisfy its stakeholders? Are stakeholder expectations conflicting or complementing each other?

2.   What are the critical factors that affect the satisfaction levels of the various HRD client groups in the organizations we studied?

Here are the answers we found:

■ **Client Satisfaction (HRD Effectiveness)** In analysing the data, we observed differences in the satisfaction levels of the different stakeholder groups on the two axes that we labelled Traditional Human Resources (HR) and Traditional Labour Relations (LR). This means that on average, each client group judges HRD effectiveness differently, depending on whether the context is HR or LR activities. In the public sector, stakeholders varied in their satisfaction only on the LR axis, but in the Pulp and Paper Industry, they varied on both. For example, in the hospitals, senior managers were the most satisfied from the way their HRDs dealt with LR issues, and the least satisfied were the blue collar workers. In the mills, the stakeholder groups to be most satisfied with LR activities were again the department heads and the mill managers; the least satisfied were the maintenance employees. On the other hand, the most satisfied employees from the HR services were operational employees (in the mills), and the least satisfied were the engineers. The other stakeholder groups were in between.

■ **Client Expectations :**   In the public sector, significant differences were found for stakeholder expectation on both LR and HR, but variation in expectation for the private sector was found only for the LR axis. We noted that in the public sector, senior managers are the most satisfied and have the least expectation from their HRDs. By contrast, in the private sector, senior managers are the most satisfied in LR related matters but they also have the highest level of expectations from their HRD.

■ **Two critical Factors influencing Stakeholder Satisfaction**: The most important determinants of stakeholder satisfaction in the private and public sectors include: (a) the frequency of contacts with the HRD (i.e., the more the client has contacts with the HRD in the public sector, the less it was satisfied; by contrast, the more the stakeholder group has contacts in the private sector, the more it was satisfied), and (b) client expectations from their HRD (the less the expectation, the more the satisfaction in the public sector; the more the expectation, the more the satisfaction in the private sector).

CONCLUSION

The incompatibility of expectations and satisfaction among stakeholder groups is a phenomenon that complicates this approach because it means that the evaluator is confronted by two kinds of strategies. The first consists in satisfying only the client group considered most important, either in terms of power (having the greatest financial resources) or in terms of numeric proportion vis-à-vis the effective total (operational employees in paper mills, or nurses in hospitals). The other strategy is to satisfy, at the minimum, several client groups that appear important to the organization. The latter strategy has been adopted by many theorists and fits the stakeholder approach perfectly in the sense that it encourages listening to the opinions of more than one client group, thus reducing the subjectivity that might be present in the judgment of only one group.

If, during the statistical analysis, we find that expectations and satisfaction of various client groups differ excessively vis-à-vis some HRD activities (at a point where their incompatibility cannot be denied), we may suggest the following. One way a company can help its clients arrive at more compatible expectations is to develop an organizational culture that instills expectations that are homogeneous, positive, and compatible with the company's.

The phenomenon of stakeholder expectations is complex. But rejecting those that do not conform does not align with the idea of the model, which envisions moving toward attaining global effectiveness. Ideally, strategies developed by the HRD should try to optimise the satisfaction of more than one group of clients.

The results obtained show that the effectiveness of HRDs in both the public and private sector varies as a function of either their Labour Relations activities or HR services offered. Thus an HRD can be theoretically effective in the HR arena but be ineffective in LR matters, and that for the same stakeholder. Judgements on effectiveness varied from one client group to another along the two evaluation axes (HR or LR). Additionally, we observe that clients' expectations are low, which lets us assume that some stakeholders ought be more aware of the mission of their HRD.

The stakeholder approach to measuring HR effectiveness can pinpoint gaps between clients' expectations and their degree of satisfaction (HRD effectiveness). Therefore, corrective actions could be started in a global manner by most HRDs. The goal should be to reduce the gap between clients' expectations and their satisfaction. There is, however, the fact that expectations change over time, and arbitrary factors may come into play if clients are not acting in the interests of the company. However, one way of avoiding this

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divergence of interests is by spreading the results of the evaluations and justifying any changes to be carried out with a cost/benefit analysis. The last point to keep in mind concerning this approach is that not only can diverse client groups have different expectations and perceptions of satisfaction, but that these may also be incompatible. An HRD can help reduce incompatibilities by educating stakeholders, maintaining reasoning and high visibility for the different HR operations, and actively seeking stakeholder feedback about its policies and practices.

Finally, although the stakeholder approach to assessing HRD effectiveness has many advantages and could be rendered operational (as demonstrated above), it should not be used as the only means to assessing HRD. Rather, the stakeholder approach should be used with any of the other quantitative or qualitative approaches mentioned in Figure 1 above.

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