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How do firms evaluate investments in HRD? - a study of two large Swedish accounting firms

Bachelor thesis in business administration
and financial management.

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Abstract

- Title:** How do firms evaluate investments in HRD?
- a study of two large Swedish accounting firms.
- Course:** FEG 316
- Authors:** Andersson, Alexander and Lindqvist, Edward
- Tutor:** Olov Olsson
- Keywords:** HRD, Human Resource Development, Investments in HRD, Evaluation of investments in HRD and Evaluation.
- Research questions:** The study aim to answer the following research questions;
-How do firms evaluate investments in HRD?
-Is there a need for additional evaluation methods?
- Purpose:** The purpose of the study is to understand how these companies evaluate investments in HRD.
- Method:** The method used is a case study of two large Swedish accounting firms where theoretical and scientific ideas and methodologies are compared with empirical data from interviews with appropriate interviewees from selected companies
- Theoretical framework:** The study's theoretical framework is based on Kirkpatrick's four-level model of evaluation and Russ-Eft and Preskill's systems model of evaluation.
- Empirical research:** To gather empirical data qualitative interviews are conducted with two representatives from selected companies.
- Conclusions:** The companies conduct evaluations of their investments on a too basic level to determine the investments affect on employee performance and organisational goals.



Table of contents

1. Introduction.....	1
1.1 Problem background.....	1
1.3. Problem discussion	2
1.4. Problem definition	3
1.5. Limitations	4
2. Theoretical framework.....	5
2.1 Kirkpatrick's four-level model of evaluation	5
2.1.1 Measuring the fourth level with ROI.....	6
2.1.2 Arguments against ROI.....	6
2.1.3. Criticism against Krikpatrick's four-level model.....	7
2.2 Russ-Eft and Preskill's systems model of evaluation.....	7
2.3 Our theoretical framework.....	11
3. Research Method	12
3.1 Research method	12
3.2 Data sources	12
3.3 Selection of companies.....	12
3.3.1 Selection of sector and segment.....	12
3.3.2 Selection of companies in the segment.....	14
3.3.3. Selection of respondents.....	14
3.4 Interviews	15
3.5 Choice of questions.....	15
4 Empirical Data	16
4.1 Evaluation methods.....	16
4.2 Financial evaluations.....	18
4.3 Purposes of investments in HRD.....	19
5. Analysis	20
5.1 How do firms evaluate investments in HRD?.....	20
5.1.1 Discussion	22
5.2 Is there a need for additional evaluation methods?.....	22
5.2.1 Discussion	23
6. Conclusions	24
6.1 How do firms evaluate investments in HRD?.....	24
6.2 Is there a need for additional evaluation methods?.....	24
7. Suggestions to further research	25
8. Bibliography	26
Appendix.....	1
1 - Interview guidelines.....	1
2 - Retriver information about the four giants.....	5
3 - Definitions.....	6



Tables, figures and equations index

Table	Headline	Page
3.3.3.1	Interviewees	15
5.1.1	Level of evaluation scorecard	20

Figure	Headline	Page
2.2.1	Systems model for evaluation	10

Equation	Headline	Page
2.1.1.1	ROI	6

1. Introduction

This chapter describes the contemporary social and environmental background to this thesis and defines the problem and its formulation.

1.1 Problem background

Goals are all around us in our everyday life. In business, politics, university studies or sports. No matter where, there are always goals to be reached; budget goals, votes, grades or results. In our efforts to achieve our goals the process of evaluation play an important part in order to judge the success of our efforts.

We set goals, determine how to reach them, try to make it happen and eventually we evaluate the results and why it turned out like it did. Some goals are easy to measure, some are tougher. Evaluating goals where people and their efforts are measured can be amongst the tougher. For instance, the Swedish school grading system has been up for debate longer than we can remember.

In a corporate setting, the issue of evaluation is also ever present and equally important. To achieve the superior goal of maximising profits, subordinate goals of more operative nature are formed for different parts of the organisation. Evaluation is important to acknowledge whether the measures taken are successful or not, and to create a foundation for managerial decisions.

The importance of careful evaluation depends on how important the evaluated area is for the company's success. For many companies the area of human resources is increasingly important. This especially within the sector of knowledge intense companies, a rapidly growing sector (Gapminder, 2011). When trying to stay ahead of the competition one important area of investment is Human Resource Development, HRD.

Despite the increasing importance of these investments, little seems to be known about how they evaluate these investments. This is where our interest about the subject arouse. We want to understand how companies argue for investments in certain education, whether the

education is for a group of people or a specific person. From a student's point of view it is interesting to know how future employers determine if a training programme has been successful and on what basis they make decisions about further investments in HRD. Hopefully this study can bring a little light to these questions.

1.3. Problem discussion

The issue of evaluating something as abstract as an investment in human resource development, HRD, is at least problematic (SRS, 2009). One reason is that the effects of coaching and training are hard to measure credibly as they are difficult to isolate and quantify. In order to measure return on investments, ROI, one has to be able to measure and isolate the organisation's cost and benefits of the particular investment from that of others to be able to produce a fair measurement (G. Wang, 2002).

These problems reduce a company's ability to perform unbiased quantitative evaluation of HRD investments. But it doesn't change the fact that there is a demand from the private sector to measure the impact of their investments.

I will not fund any employee training project which cannot be demonstrated to increase sales and profits.

- Dave Dillon, CEO of The Kroger Company (Murphy, 2007)

Even though most managers would hesitate to be that harsh in their statements, there is an increasing reliance on data and metrics in business, to design and evaluate management practices (Huselid, 1997). Schwarz and Murphy (Schwarz, 2008) claims that to generate greater institutional support for management programs, and to compete with other business areas for capital allocation, there is a need for methods to measure output in a comparative way.

In today's business environment, knowledge have become increasingly important to stay ahead of competition. On the frontier of this movement are the knowledge-based companies,



such as business consultants, accountants, management consultants, science and technology consultants, law firms etceteras. (Skyrme, 1997)

In that particular sector, knowledge is what drives the business and there is a constant effort to increase the accumulated knowledge within the firm. In knowledge-based companies costs regarding this type of investments are potentially large and therefore theoretically important to evaluate accurately. (Spokesperson-B, 2011, Spokesperson-A, 2011)

Out of the knowledge-based companies, large accounting firms are particularly interesting. In the belief that they, given their financial expertise and importance as economic consultants as well as their organisational size, are more likely to have developed methods to evaluate their HRD investments.

1.4. Problem definition

How do firms evaluate investments in HRD?

- a study of two large Swedish accounting firms

The question seems simple at first glance but the area of human resources is complex. In order to understand the way investment evaluations are made, we need to understand the various reasons why HRD-investments are made and for who the evaluations are compiled. In our analysis we also aim to determine whether applied evaluation techniques form an adequate basis for managerial decisions or if there is a need for additional methods of evaluation. Therefore our question is twofold:

-How do firms evaluate investments in HRD?

-Is there a need for additional evaluation methods?



1.5. Limitations

This study is limited to describing the formal evaluation methods used within the targeted organisations, see 3.3.2, despite the possible occurrence of informal evaluations. This study neither investigates this issue, nor how these formal evaluation methods were developed, but how the methods are used and perceived by management with respect to their needs.

Further, the study is focused on educational efforts that fall within the definition of an investment, stated in chapter 1.2, primarily formal education and training programs.

The study is further limited by the period of eight weeks whilst there is no limit of the volume of the study.

2. Theoretical framework

This section will explain the model that most theories on the subject either is based on or relates to, namely Kirkpatrick's (2005) four-level model of evaluation. Also a modern theory on the subject that presents a different way of looking at the issue, Russ-Eft and Preskill's (2005) systems model of evaluation, will be presented. The final part of this section will explain how these theories are to be used in this study.

2.1 Kirkpatrick's four-level model of evaluation

In 1959, Donald Kirkpatrick (2005) introduced a four-level model for evaluating training and performance in organisations. Kirkpatrick's (2005) four-level model of evaluation has been a great influence within the field and a majority of later models for evaluation are based on Kirkpatrick's work either directly or indirectly.

Kirkpatrick (2005) identifies four possible outcomes for training evaluations; reactions, learning, behaviour and results. He divides those into four-levels. At level 1, reactions, the evaluation aims to determine whether the participants enjoyed the training, questions are asked regarding their thoughts and feelings about things like the learning environment, trainers, etc.

At level 2, learning, evaluation intends to measure learning among the participants'. Relevant questions at this stage have to do with how the participants' skills and knowledge have improved as a result of the training. (Kirkpatrick, 2005)

At level 3, behaviour, evaluation aims to determine the extent of implementation of the acquired knowledge and skills into the participants job in terms of increased performance. (Kirkpatrick, 2005)

At level 4, results, evaluation seeks to determine the organisational impact of the training in terms of business results or other superior organisational goals such as customer satisfaction or productivity. (Kirkpatrick, 2005)

2.1.1 Measuring the fourth level with ROI

The most discussed way of measuring the organisational impact is through a model which is most often used in a financial analysis situations, the Return On Investment model, ROI. The model have many supporters amongst those scholars who believe in the possibility of numerical measurements (G. Wang, 2002). The formula (equation 2.1.1.1) measures the financial prosperity, or the fourth level of Kirkpatrick's model, the organisational impact in terms of financial consequences from the investments.

Equation 2.1.1.1 ROI = Return On Investments (G. Wang, 2002)

$$ROI = \frac{(\alpha - \beta)}{\beta}$$

α = Total benefit of investment
 β = Total cost of investment

2.1.2 Arguments against ROI

The numerical model of ROI leaves out some important parameters to this complex problem. For instance the financial benefits of customer retention, employee satisfaction or loyalty to the employer are strenuous to measure with a financial measurement of an investment (G. Wang, 2002). This difficulty makes it hard to completely position ROI under the fourth level of Kirkpatrick's model. Further Wang (G. Wang, 2002) allege the difficulty of several parameters effect on this type of measurement.

Others argue that the percentage from a ROI-calculation is not enough to give stakeholders or managers enough information as to whether the investment was successful or not (Russ-Eft, 2005). Russ-Eft (2001) argues the need of a measurement of several variables such as; environmental and organisational factors during and after having finished the investment;

whether short- and long-term effects have been met. Or even easier, if the expectations to the investments are met (Trochim, 1998).

2.1.3. Criticism against Kirkpatrick's four-level model

Criticism against Kirkpatrick's straightforward approach is based on the model's implicit assumption, that positive reactions to a learning program or process eventually leads to a positive bottom-line effect (Russ-Eft, 2001). Russ-Eft & Preskill (2005) claim that the possibility to establish those cause-and-effect chains mislead stakeholders into believing that the optimal evaluation method is a measure of return on investment. Because it can measure the fourth and "highest" level in Kirkpatrick's model.

Further criticism is based on the fact that Kirkpatrick's work is more of a taxonomy than a model in the sense that it doesn't provide any specific techniques for evaluation (G. Wang, 2002). Wang is of the opinion that the greatest contribution of Kirkpatrick's model/taxonomy is that it provided a common vocabulary for HRD-practitioners.

2.2 Russ-Eft and Preskill's systems model of evaluation

Darlene Russ-Eft and Hallie Preskill's (2005) systems model is based on three critical factors they claim are often overlooked when evaluating HRD initiatives.

1. Evaluation occurs within a complex and dynamic environment.
2. Evaluation is an inherently political activity.
3. Evaluation needs to be implemented in a purposeful, planned and systematic manner.

If evaluators do not consider these critical factors carefully it is very likely that the data collected for evaluation purposes is of little or no use. (Russ-Eft, 2005)

The systems approach model, as figure 2.2.1 describes, recognises that there are external factors affecting how an organisation functions. These factors consist of competition, customer expectations, workforce diversity, legal requirements, change in technology and de-

mands of dealing in a global environment. According to Russ-Eft and Preskill (2005) these factors have an implicit influence on stakeholders' perceived need of information.

Also essential in the systems model framework is the importance of the HRD evaluation process to be working as a complement and support together with other organisational efforts. Such as balanced scorecard or six sigma, with the superior goal of achieving the organisation's mission, vision and strategic goals. The ultimate goal of HRD evaluation is to help decision-makers understand in what way HRD investments help the organisation doing that (Russ-Eft, 2005).

Determinants for the potential success of the evaluation can be found in the organisation's infrastructure, which Russ-Eft and Preskill (2005) have divided into culture, leadership, systems & structures and communications. Culture, in the way in which the climate of the organisation supports collaboration, risk-taking and decision-making, determines whether the members of the organisation will find the evaluation process meaningful and hence their commitment to the evaluation.

Leadership's support of an evaluation process will affect both the participation rate and whether the evaluation results actually will be used for decision-making. The systems and structures of the organisation, including how accessible the work environment is and whether there are clear and visible connections between the work of individuals and organisational goals, do not only affect the ease of conducting an evaluation but also the participants' attitude towards the evaluation process. (Russ-Eft, 2005)

Finally, the organisation's communication system affects its HRD evaluation process quality, as it influences the ability and willingness to communicate evaluation information and ultimately how, and to what extent, it is used for decision making (Russ-Eft, 2005).

Leaving the contextual factors, moving on to the inner circle of the systems model framework, figure 2.2.1, the focus shifts towards the process of designing and conducting evaluations. Managing an evaluation consists of a number of activities, namely focusing the evaluation, determining the design and data collection methods of the study as well as collecting

the data, analysing the collected data and finally reporting and communicating the results (Russ-Eft, 2005).

In addition to the contextual factors, there are three additional variables affecting the success of the evaluation during the design and implementation phase. These factors are the political context in which the evaluation takes place; the intended use of the findings for stakeholders and the evaluators' characteristics, e.g. expertise and reliability. (Russ-Eft, 2005)

The systems model puts much emphasis on focusing the evaluation in order to succeed with the subsequent activities in the model. This process includes creating an understanding of the purpose of the HRD investment and the context in which it takes place, the purpose of the evaluation, who the stakeholders are and developing a series of superior questions that work as guidelines for evaluation (Russ-Eft, 2005).

Russ-Eft and Preskill (2005) suggest using a group of stakeholders to develop a logic model. The focus of an evaluation through a logic model aims to produce a common understanding and consensus about what the stakeholders want to learn from the evaluation, also how they will use the results. To develop the logical model Russ-Eft and Preskill (2005) recommend that the stakeholders are asked to discuss and answer the following questions;

- What are the underlying assumptions to this program?
- What resources (human, financial, organisational) will be used to accomplish this program or process?
- What activities will be undertaken with the resources to produce the products and outcomes?
- What direct products (or outputs) will provide evidence that the program or process was actually implemented?
- What immediate outcomes do you expect from this program or process?
- What long-term outcomes do you expect?

With these questions answered, the foundation for how the evaluation is to be designed, conducted and communicated is set (Russ-Eft, 2005).

Although the model doesn't rule out the use of ROI measurements, Russ-Eft and Preskill state that the outcome of the focusing process more often concludes the need of other non-financial measurements. (Russ-Eft, 2005)

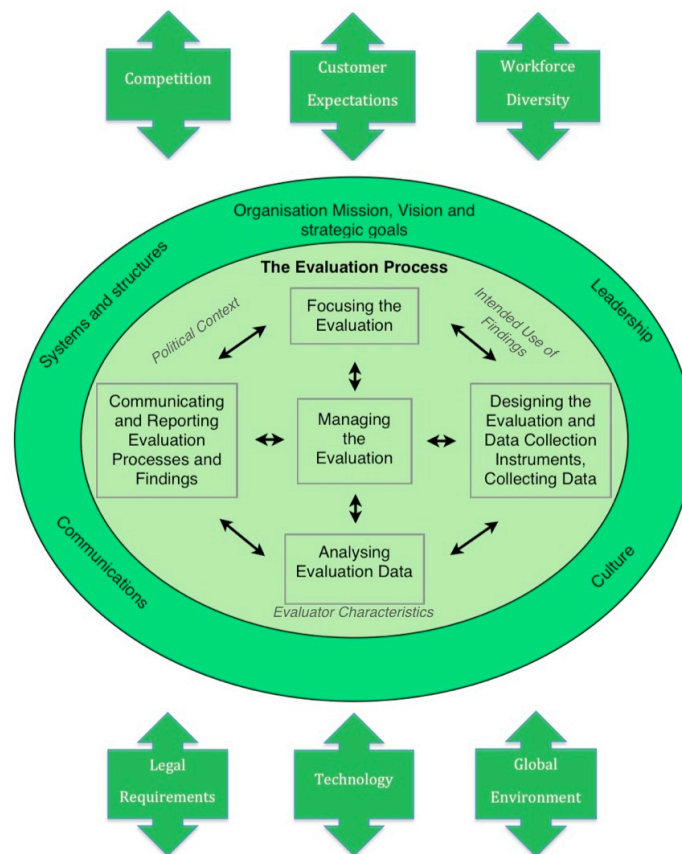


Figure 2.2.1



2.3 Our theoretical framework

The theories presented earlier in the theoretical framework is the basis for gathering empirical data, analyse data, and draw conclusions. Here we will present in which way we intend to use the theories presented.

Kirkpatrick's (1959) four-level model of evaluation will be used to answer our main question; How do firms evaluate investments in HRD? The model has set a common vocabulary for HRD-practitioners when it comes to evaluation, even though everyone doesn't share the assumptions the model imply, which makes it appropriate to describe the evaluation efforts in an accessible manner.

Russ-Eft and Preskill's (2005) systems model of evaluation is used to analyse the study's underlying question; Is there a need for additional evaluation methods? The theory is used to identify needs for additional methods by looking on contextual factors surrounding the evaluation process, further described in the previous section. A systems model considers more factors than a strictly hierarchal model such as Kirkpatrick's (1959), which makes it suitable for this study considering the prospect of gathering this information through interviews.

3. Research Method

This section describes how the study is conducted from a scientific perspective, why the study is limited to a certain business sector, segment and geographical area and how information is gathered and from what sources.

3.1 Research method

The research method chosen for this study is case studies on two companies by conducting qualitative interviews. In contrary to quantitative studies that use large samples and rigid protocols a case study is a qualitative research method that denotes to intensely study one or a few subjects or events within its context, a preferred method when looking for detailed information that can not be obtained through quantitative studies. The choice of case studies as a research method is motivated by the wish to reach a deep understanding about the process of evaluation and the context surrounding it. The case studies on two companies allow us to compare their evaluation methods and contextual factors present in and around the organisations. To use interviews as our primary data collection method is motivated by the time effectiveness of the method in relation to the richness of the obtained data (Ryen, 2004).

3.2 Data sources

The data for the theoretical framework, used to analyse the empirical data, is at large based on scientific articles collected from scientific databases on the Internet. The keywords used for the search were similar to: evaluating investments in human resource development. The search was carried out in both Swedish and English with different combinations of the keywords. For the empirical research the primary source of information is interviews with relevant people from the selected companies described in 3.3.2.

3.3 Selection of companies

3.3.1 Selection of sector and segment

As stated earlier the importance of evaluating HRD investments is assumed to be greater in companies with large dependence in knowledge. Knowledge-intensive business services,



KIBS, is considered one of the sectors most reliant on knowledge and a rapidly growing sector.

A quote from KPMG's global learning and development department (KPMG, 2011b), describes the importance of their human capital:

The skills, knowledge and capabilities of our people are absolutely central to the success of KPMG and so we invest significant amounts of money, time and energy in developing our people.

Amongst the KIBS we primarily find computer services and business services. (EMCC, 2005) This study focus on the area of business services. These companies; accountants; management consultants and other types of enforcing economic consultants live on providing economic advices to other businesses. This is considered as an indication they would have the means and competence as well as the motive to evaluate their investments in knowledge, HRD. Their evaluation methods are also presumably similar to the methods they encourage their clients to use which would indicate how investments in HRD in the broader perspective are evaluated.

Further limiting this study to accounting firms specifically creates a more narrow selection. These companies are professionals in economic measurements and financial control. They depend on their Human Capital to maintain competitive strength and educate their clients in how to enhance organisational learning and development (Deloitte, 2011a). Accounting firms are bound to educate their employees with the latest news according to sound audit procedure (SRS, 2011), why this business sector and segment is appropriate for this study. Presumably they, if anyone, have the means and models to measure their investments in HRD, why we chose to focus our study at those companies.

When selecting large Swedish accounting firms, we know that training is of great importance in these organisations as they recruit many graduates who are in need of further training, in a way smaller firms don't. Given that the largest firms are more dependent in these investments

and thereby more active we can argue: if we can't find evolved methods for evaluating these investments in the large companies, there will probably not be smaller firms with economic potential, gain or office strength to evaluate them thoroughly either.

Limiting the study of large Swedish accounting firms to two of the six possible companies (Retriever, 2011) reduce the possibilities to generalise from our results, thus we can't with absolute certainty claim our results account for all the six large accounting firms. The focus of this study is rather to ensure that the conducted interviews are of high quality to establish a better understanding about how these companies actually work with these questions rather than generalising how the industry do. The initial ambitions to conduct a larger study had to be abandoned as time and travel budget was limited, we did not want to compromise with the quality of the study by interviewing respondents with little insight in the questions asked.

3.3.2 Selection of companies in the segment

When choosing companies to interview to collect empirical data, we approached the four largest accounting firms in Sweden, also known internationally as the Big-4; PWC; Ernst & Young; KPMG and Deloitte (Retriever, 2011). The choice is motivated by the size of these companies and the fact that they have explicit policies to support graduates with research projects (Deloitte, 2011b, KPMG, 2011a). After contact with all of the Big-4, two had the possibility to perform interviews with appropriate interviewees.

The geographical limitation to Sweden is based on the relatively easy accessibility, but as all companies within our target segment is part of global organisations we expect their policies in these questions to be influenced by international ones.

3.3.3. Selection of respondents

After having presented the case to contact persons responsible for student relations and spoken to several representatives, the opportunity to conduct interviews with respondents with insight in the research subject appeared. Both of them high-ranking managers with insight and influence over the company's HRD-policy and its evaluation as described in table

3.3.3.1

Interviewees <small>table 3.3.3.1</small>	Company A	Company B
Title	Responsible for audit learning and development	Head of Learning and Development
Rank	Partner	Manager
Responsibility	National	National

3.4 Interviews

When conducting interviews, we chose to perform them in Swedish to ensure we understand the interviewee right. A broader vocabulary makes it easier to gradate the questions. This implies that all quotes from the interviews will be translated from Swedish to English. Having conducted the first interview, the comprehensive view was that the template covered the essentials, yet with too many questions, why it was revised to enhance the quality and reduce repeating to the second interview. Recording interviews; transcribing it and providing the same as an appendix will according to Ryen (2004) secure the scientific reliability, why this approach was chosen. The duration of the interviews is approximately one hour each.

3.5 Choice of questions

The questions asked in the interviews are divided into two categories. The contextual questions, that helps us understand the environment in which the evaluation process takes place, primarily deal with HRD. The specific questions deals with existing evaluation of HRD investments, its use, purpose and the company and respondents views on the subject. Interview questions are attached in appendix 1.

4 Empirical Data

This section summarise gathered empirical results from conducted interviews.

Spokesperson B (2011), head of Learning and Development at Company B, confirms that their business is indeed knowledge-intensive, as do Spokesperson A (2011), partner and head of learning and development for audit consultants at Company A.

Spokesperson B has some objections to the assumption that companies working within economic consulting are more focused at evaluating investments in HRD. His objection is based on the fact that companies in this business have a very direct connection between HRD and services performed, in addition to a mandatory education and testing system supervised by authorities and independent organisations, especially within auditing. He concludes: Evaluation might be more crucial for organisations that don't have this connection and supervision. (Spokesperson-B, 2011)

The amount of educational efforts and the type of training is different depending on business area. Auditing has the most structured educational program, primarily due to the rigorous testing process to become an authorised auditor. The first five years within the firm consists of 7-8 % of formal education and Spokesperson A even claim that the first year almost equals to 100% education when measuring both formal and on the job-training. (Spokesperson-A, 2011)

4.1 Evaluation methods

Company A, unlike Company B, partially apply a scientific model when evaluating their investments in HRD. This is Kirkpatrick's (2005) model, see chapter 2.1, where at least the first two levels are applied in immediate connection to conducted education. Level three and four are said to be tougher to apply and according to Spokesperson A never are, even though it is desirable. The difficulties in isolating costs and benefits from a particular educational moment are the stated reasons why they are not applied. (Spokesperson-B, 2011, Spokesperson-A, 2011)



Company B do not apply a theoretical model to the evaluation of HRD investments but have an approach similar to Company A's, where attention is put to the participants and trainers perceived quality of the initiative. Standardised questionnaires are used to gather this data from the participants and the teacher responsible in both cases. This is a continuous and subjective evaluation process which is the primary basis for changes in the specific courses. (Spokesperson-B, 2011, Spokesperson-A, 2011)

Company A conducts knowledge tests to determine participant learning effects on some courses targeted as especially important. Company B does not implement testing on specific courses, to ensure learning. The formal testing element present in Company B's educational programme is focused on a more general level of learning. They apply an internal knowledge test two years after hiring. Both organisations also use external tests that asses learning on a more general level in their evaluation process. These tests are the IREV knowledge test three years after hiring (Akademi, 2011), auditing exam after four years and higher auditing exam after 5 years. (Spokesperson-B, 2011, Spokesperson-A, 2011)

According to both Spokespersons the external test results are used for evaluation of HRD initiatives. Deviations from desired results are used to revise the training programme and its components to find the reasons for the deviation. (Spokesperson-B, 2011, Spokesperson-A, 2011)

These external tests are also used for benchmarking the quality of the educational programme against competitors. Primarily the other Big-4, according to both respondents. (Spokesperson-B, 2011, Spokesperson-A, 2011)

As stated, the Spokespersons claims the most important purpose of the HRD investments is to affect the behaviour of participants in their profession, to implement their acquired knowledge. This level of implementation is to some extent measured in what is referred to as the "Performance management process" in both companies. The process, of course, differs be-

tween the companies but both seek to monitor employee performance. (Spokesperson-B, 2011, Spokesperson-A, 2011)

The Spokesperson for company A says their performance management process intensifies after projects longer than 40 hours, after which every employee have the right to get an efficiency evaluation of the technical and business skill improvements during the project. (Spokesperson-A, 2011)

In company B every employee has a performance manager, often his service line manager, that he meets with regularly to monitor performance, personal development, set personal career goals and set a plan for career development. The performance management process is handled through discussion between the two parties. It is based on performance data, with various degrees of subjectivity since it is often based on impressions from other managers. (Spokesperson-B, 2011)

4.2 Financial evaluations

Both Spokesperson A and B express interest in financial bottom line measurements to evaluate HRD investments. Spokesperson A claim that the issue has been discussed at management meetings. Both respondents claim that the process of finding and implementing appropriate methods to do so is not necessarily that difficult but just not prioritised in the organisations. Spokesperson A thinks that the lack of priority is due to the fact that it is not a problem area, as long as business performance is good and both employees and management are pleased with the output and content of HRD initiatives. If this were to change, the issue would catch management's attention and new evaluation methods might be an area of priority. (Spokesperson-B, 2011, Spokesperson-A, 2011)

When faced with the practical implementation of financial bottom line measurements both respondents comment on the implicit problems in isolating, quantifying and valuing the impact of HRD investments. Spokesperson A also mention the issue of vast amount of informal



education, such as on the job training, and how to determine if the bottom line effect is to be credited to formal or informal education. (Spokesperson-B, 2011, Spokesperson-A, 2011)

4.3 Purposes of investments in HRD

The primary purpose of the educational efforts is to enhance employee performance in order to be perceived as the most competent firm on the market. Spokesperson A (Spokesperson-A, 2011) phrase it like this:

If you want to be the best advisor, you need to make sure the personnel gets as proper and effective education as possible.

Or as Spokesperson B (Spokesperson-B, 2011) said:

*Our commitment and competence is what's going to separate us from the others
It's not an option not to invest in HRD.*

A secondary objective for company B is to maintain and develop employee satisfaction in order to be a "magnet for talent", as stated in their global business strategy (Ledwith, 2010). As for Company A their spokesperson argues the importance of marketing themselves to students. By providing a program that enables the students' future growth and career possibilities they gain a better reputation among students. (Spokesperson-B, 2011, Spokesperson-A, 2011)

5. Analysis

The first part of this section aims to answer the main question; the second seeks to explore the underlying question. In both sections the results from the empirical section is analysed with respect to the theoretical framework.

5.1 How do firms evaluate investments in HRD?

The empirical research concerning the first research question is summarised in table 5.1.1 below. The table explains the empirical findings through Kirkpatrick's four level model of evaluation and answer the research question

Table 5.1.1

Level of evaluation	Company A	Company B
Level 1 - <i>Reactions</i>	X	X
Level 2 - <i>Learning</i>	X	
Level 3 - <i>Behaviour</i>		
Level 4 - <i>Result</i>		

In the case of large Swedish accounting firms the empirical data does not support assumptions about the use of a common scientific model for evaluating HRD investments.

One of our respondents, Company A, have adopted a scientific model; Kirkpatrick's four-level model for evaluation (Kirkpatrick, 2005). The implementation of the model is limited to step one and two of the model, reactions and learning are measured on specific initiatives. Step three and four of Kirkpatrick's model (Kirkpatrick, 2005), implementation and organisational impact, is not measured in the organisation. The partial implementation is motivated by a perceived lack of use in relation to the cost of a full implementation, since HRD is not viewed as a problem area by management at the moment according to Company A. Company B, on the other hand, do not adapt a scientific model as a foundation for their HRD investment evaluation process (Spokesperson-B, 2011).



Both companies conduct evaluation of participant- and teacher-reactions through questionnaires (Spokesperson-B, 2011, Spokesperson-A, 2011), equivalent to the first step in Kirkpatrick's model (Kirkpatrick, 2005).

Company A conducts tests of participant learning on specific courses considered extra important (Spokesperson-A, 2011). This action is equivalent to step two in Kirkpatrick's model (Kirkpatrick, 2005).

Both respondents also evaluate the effects of their HRD investments in terms of learning, using results from external tests such as IREV's knowledge test and auditing exams. These results are more difficult to relate to individual courses and also look more on accumulated learning effects from all formal and informal education (Spokesperson-B, 2011, Spokesperson-A, 2011). As the connection to specific educational initiatives is not obvious these tests can't be seen as a full implementation of step two in Kirkpatrick's model.

In a similar fashion both companies evaluate the performance of individual employees through a performance management process. To some extent this process assesses the implementation of knowledge acquired from education to the job, Kirkpatrick's third level of evaluation (Kirkpatrick, 2005). But, in the same way as external testing, this evaluation is on an aggregated level. (Spokesperson-B, 2011, Spokesperson-A, 2011)

None of the companies use any measurements equivalent to Kirkpatrick's fourth level, organisational impact, to evaluate HRD investments. This level aims to determine financial results of the investment such as return on investment, ROI, or other organisational goals. Both respondents though, find the idea of identifying the financial effects of HRD initiatives interesting and useful for managerial decisions. The stated reasons for not implementing measurements of this type are consistent with scholars (G. Wang, 2002) criticism concerning the difficulties of isolating and quantifying effects of single initiatives. That training programs are perceived to be working desirably and therefore is not a focus of management attention is also mentioned as a reason. (Spokesperson-B, 2011, Spokesperson-A, 2011)

Despite the lack of a common scientific model, the methods for evaluating HRD investments are similar between the two firms. The exception is that Company A, with the guidance of Kirkpatrick's four-level model of evaluation, have begun to test learning from specific courses. (Spokesperson-B, 2011, Spokesperson-A, 2011)

5.1.1 Discussion

Our initial approach to this study was based on an assumption that economic models to evaluate HRD investments would be present in this kind of companies, who are not only knowledge-based but also specialists in designing economic models. When performing the study we soon realised that was not the case, which surprised us. We also realised that there are a number of problems occurring when trying to credit financial impact to particular HRD investments. The most obvious problem is: These companies have multiple HRD initiatives running simultaneously making the connection between financial results and specific HRD investments hard to isolate. Perhaps this connection is easier to make in companies with less comprehensive training programs.

5.2 Is there a need for additional evaluation methods?

The primary purpose of investments in HRD, according to both respondents, is to increase participants business performance, despite the focus for course-specific evaluation is participant and teacher reactions and to some extent participant learning. (Spokesperson-B, 2011, Spokesperson-A, 2011)

According to Russ-Eft and Preskill (2005) the key element for a successful evaluation is to focus the evaluation, preferably by developing a logical model. This process generates a consensus about the investment's purpose, expectations and design among stakeholders. When the logical model is determined the evaluation should be designed to measure to what extent the investment aligns with the logical model. Each HRD investment should have its own logical model since purpose and expectations as well as stakeholders' perceived need of information varies depending on the purpose (Russ-Eft, 2005).



Using participant performance as the primary purpose of HRD investments and hence basis for evaluation in these companies, is consistent with respect to both important external and internal factors which influence organisational behaviour in Russ-Eft and Preskill's (2005) systems model. External factors, such as competing for customers with high demands, puts pressure on everyone in the organisation to keep performing better. Something reflected in the company-culture and leadership of both responding companies who emphasise a performance management process to determine and develop employees' overall performance. According to Spokesperson B the presence of partners in the daily operations add to the focus on employee performance. (Spokesperson-B, 2011, Spokesperson-A, 2011)

5.2.1 Discussion

During the empirical research participants identified increased performance as the primary purpose of investments in HRD. We have concluded that this factor is not subject of evaluation when it comes to specific investments. So, to obtain a better basis for managerial decisions concerning the composition of training programs we suggest that a greater focus is put on evaluating courses aiming to increase participant performance with measurements that can be related to that particular goal. Since we, from our interviews, know that the firms measure employee efficiency our recommendation is to use these existing measurements for evaluation purposes. Given that the quality of the information is adequate, and there is a relevant connection between efficiency measurements and the investments, these measurements can be used to evaluate effects on employee performance. We believe that such a connection can be made.

6. Conclusions

Conclusions from the analysis are accounted for in this section. Conclusions are separated with reference to the two folded question.

6.1 How do firms evaluate investments in HRD?

- When evaluating direct effects of investments in HRD the primary measurement is to gather participant and trainer reactions equivalent to level one in Kirkpatrick's four-level model.
- Company A measure participant learning effects, or level two in the implicitly hierarchical four-level model.
- None of the respondents measure behaviour or result effects of single investments.
- Company A, who apply a scientific model, have come further in developing their evaluation process.
- To our surprise the findings do not support our initial assumptions about evolved methods of evaluating HRD investments in these companies.

6.2 Is there a need for additional evaluation methods?

- There is a demand from companies for refined methods to evaluate their investments in HRD.
- There is a gap between purpose of investments in HRD and what is evaluated.
- The stated purpose of investing in HRD is increased employee performance.
- According to Russ-Eft and Preskill's systems model every investment in HRD should be evaluated with respect to its defined purpose.



7. Suggestions to further research

To further understand the field of this study the authors presents examples to further research that could improve the understanding and knowledge within the field.

To ensure the conclusions of this research, a broader sample of companies would probably be a good suggestion for further research. A broader sample, as in companies within the same industry but with different size, would also be an interesting angle for further research. The questions could also be applied to other industries with substantially different budgeting for investments in HRD. For instance, companies who are more capital intensive than selected firms this thesis. These suggestions could, with its broader focus, draw a better picture of evaluations of investments in HRD.

Furthermore research in other applicable methods of evaluation or an in-depth analysis concerning efficiency measurements to achieve demanded results are inspiring suggestions to further research.

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Appendix

1 - Interview guidelines

Mål, syfte och förutsättningar

Målet med intervjun är att lyssna till era metoder att utvärdera investeringar i personalens vidareutbildning.

Syftet är att använda intervjun som underlag till det empiriska material som vi grundar vårt resultat av frågan till.

Förutsättningar

Vi redovisar alla svar som vi får enligt Era önskemål. Önskar ni vara anonyma överlag redovisar vi inte var från vem vi fått uppgiften. Gäller det endast specifika frågor kan vi anonymisera just dessa. Är ni beredda att vara öppna med allt uppskattar vi självklart detta mycket.

Inledande frågor:

Syftet med denna del är att skapa en kontext som ligger till grund för mer specifika frågor om utvärdering av HDR-investeringar. Som Russ-Eft och Preskill (2001) beskriver kan man inte designa en utvärdering utan att känna till miljön den syftar till att utvärdera. På samma sätt anser författarna att det omvänt inte går att förstå och analysera en utvärderingsdesign utan att förstå dess bakgrund.

1. Vilken är din anknytning till HRD-frågor på Company B?
2. Varför genomför ni vidareutbildningar av personalen?
3. Finns det ett uttalat syfte på managementnivå?
(personalnöjdhet, skapa värde, performance, lojalitet)
4. Hur många anställda har ni i Sverige?
5. Hur många timmar lägger ni i snitt per anställd på utbildning per år?
6. Hur stora resurser lägger ni i snitt per anställd på utbildning per år?
7. Gör man en differentiering på affärsområde? Hur ser i så fall fördelningen ut och framför allt, är det skillnad i utvärderingsförfarandet?
8. Hur stor är er personalomsättning?



9. Vilka i organisationen är del i beslutsfattandet av HRD budgeten? (Internationellt, landsbasis, lokalt)
10. Får de ta del av utvärderingen (om den finns)?
11. Vad är en investering i en utbildning för er?

Specifika frågor

Syftet med denna del av intervjun är att skapa en djupare förståelse för hur företaget arbetar med utvärdering av HRD-investeringar. Om företaget använder sig av en uttalad modell för utvärdering eller om en modell kan definieras, hur denna modell och därmed utvärderingspolicy ställer sig till de utvalda teorierna på området (Kirkpatrick's four-level taxonomy, Phillips's modell för att beräkna ROI, Russ-Eft och Preskill's Systems model of evaluation och Wang's Approach to evaluation). Dessa teorier beskrivs i den teoretiska referensramen.

Hur stor vikt fäster ni vid utvärdering av dessa investeringar?

Har ni någon modell för att utvärdera HRD-investeringar? Förklara den? Syfte? Hur upplevs den? Varför inte modell? Känner ni till Kirkpatrick's fyra nivå's modell för utvärdering?

Vad är de viktigaste parametrarna som utvärderingen syftar till att utvärdera?

Hur ser ni på ROI? Andra finansiella mått?

Vilka är målgruppen/intressenterna för utvärderingen?

Vilka utför utvärderingen?

Fortlöpande eller summerande?

Hur används resultatet av utvärderingen? Formativt?

Följer ni upp utvärderingarna? Hur då?

Hur påverkar det faktum att ni är ägarledda er investering och utvärdering i HRD?

Hur påverkas denna process av det internationella ägandet?

Styr ni själva utvecklingsprocessen eller följer ni internationella mallar och hur ser i så fall de ut och varför då?

Utvärderas investeringarna olika beroende på syfte, målgrupp etc.

Är utbildningen individanpassad? Hur påverkar det svårigheten att följa upp dessa investeringar?

Vad ger en utbildning den anställde? (löneförhöjning, befordran etc)

Eller är det en del av en utbildningsplan som alla förväntas följa?

Vad förväntar ni utbildningarna ska resultera i?



Vänder ni er helst till interna resurser eller externa utbildningsfirmor, varför då, varför dessa?

Om extern utbildningsfirma/institution, hur stor vikt fästs vid att det är namnkunnigt?
Utvärderas en sådan investering annorlunda?

Hur skulle ni kunna förbättra ert utbildningssystem och dess utvärdering?

2 - Retriver information about the four giants.

Bolagsnamn	Antal anställda, Personalkostnader per anställd	Personalkostnader (tkr)	Rörelseresultat	Totala tillgångar	Compare personnel costs with total assets
Deloitte AB	1 076 -	704 612	235 456	552 209	128%
Ernst & Young Aktieföretag	1 741 -	1 367 752	556 169	1 347 769	101%
Ernst & Young Sweden AB	1 814	1 446 334	556 202	1 348 569	107%
KPMG AB	1 465	1 156 056	385 485	824 313	140%
PricewaterhouseCoopers i Sverige AB	3 402	2 501 469	598 134	2 152 459	116%

3 - Definitions

Value word	Definition
Investments	Considering investments in HRD, we define them as expenses related to educational studies within the field of the employees' special competence, to increase the company's future earnings. Whether the education is arranged in-house, by a commissioned consultant or at an external supplier does not matter as long as the company covers the expenses for the education and agrees to incorporate the education as working hours.
Evaluation	Form an idea of the amount, number, or value of; assess (Oxford, 2009)
HRD	<p>Human Resource Development is the framework for helping employees develop their personal and organisational skills, knowledge, and abilities. Human Resource Development includes such opportunities as employee training, employee career development, performance management and development, coaching, mentoring, succession planning, key employee identification, tuition assistance, and organisation development. (Heathfield, 2011)</p> <p>Swanson explicates this with his: "...organisation development and personnel training and development for the purpose of improving performance." (Swanson, 1995)</p> <p>Furthermore, Swanson (Swanson, 1995) defines the two components of HRD</p> <ol style="list-style-type: none">1. Training and development: A systematic individual process of developing expertise and improving performance.2. Organisation development: Also a systematic organisational change process to improve performance.
Learning	Martin and Pate (Pate, 2001) claim learning is: Intuiting: Preconscious recognition of the pattern and/or possibilities inherent in a personal stream of experiences.
Performance	Swanson's description of performance is impeccable. When a system maximises its performance, they involve each level of the pyramid and keep enforcing their methods with new inventions and a continuous improvement philosophy. (Swanson, 1994)
On The Job-training	Education and training conducted on the job, where you whilst completing your task get taught by your superior on the scene. (Spokesperson-A, 2011)