HR DEPARTMENT BENCHMARKS AND ANALYSIS 2015–2016

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The following individuals contributed to the research and questionnaire design, data collection and tabulation, analysis and interpretation of survey findings, writing, copy editing and organization of this report.

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Executive Summary

For nearly four decades, Bloomberg BNA has published its annual report on the state of the human resources function, *HR Department Benchmarks and Analysis*. Since the survey's inception in 1978, the questionnaire and report have undergone continual revision, refinement and expansion, ensuring that each report is as comprehensive, timely and enlightening as possible. As a result, the annual survey-based report has remained an authoritative, trusted source of research, analysis and perspective on human resource department staffing, expenditures, responsibilities, priorities and influence.

In keeping with that tradition of continuous evaluation and improvement, this year's report incorporates several noteworthy enhancements. *HR Department Benchmarks and Analysis 2015-2016* contains new and expanded historical analysis and perspective, including examinations of HR department responsibilities and autonomy over the past two decades, the tenacity of demographic patterns in HR staff ratios and key factors in the recent decline in human resources staffing relative to the employee population. As always, charts and tables have been added, updated and refined. This year's "perspective" pieces convey HR executives' views and experiences on a variety of topics, including impediments to the use of metrics and benchmarks in human resources; growing emphasis on recruitment, hiring and retention among HR departments; and the strategic position and influence of human resource officers and departments.

HR Department Benchmarks and Analysis 2015-2016 is based on responses from 348 human resource executives and professionals representing a broad cross section of U.S. employers. (See "Profile of Participating Employers" on page 9 for more details on the enterprises and institutions represented.) Most respondents are at or near the top of the HR profession, heading up the human resources function at their organization, division or facility.

Key findings of this year's survey report, organized by major topic, are summarized below.

HR Department Staffing

After reaching all-time highs in 2013 and 2014, human resources staffing relative to the workforce tumbled a bit in 2015. This year's median ratio of human resources staff to total employee headcount is 1.1 full-time equivalent staff members for every 100 employees served by the department, down from 1.3 HR staff per 100 employees in both 2013 and 2014.

Workforce growth triggered the decline in HR staff ratios over the past year. Just 12 percent of responding HR departments suffered some loss in full-time equivalent staff during the past year, while 24 percent of HR offices added positions between 2014 and 2015. Over the same time span, total headcount increased at nearly two out of three organizations (65 percent), with just 12 percent of employers reporting reductions-in-force. (The HR staff ratio declines if the size of the workforce increases, unless there is an equivalent or greater proportional increase in HR staff.)

Despite the dip in HR staff ratios this year, survey findings over the past decade indicate an upward shift in human resource staff levels relative to employment. This year's median HR staff ratio for all responding employers is down from the record highs of 2013 and 2014 but still clearly at the high end of midpoint ratios recorded since the survey's inception in 1978. Moreover, the median ratio last fell below one HR staff member for every 100 workers in 2002, and the midpoint figure has come in at 1.1 per 100 or higher in nine of the last 11 years.

The impact of economies of scale on HR department staffing remains substantial and consistent. Staff ratios decline steadily and predictably as the employee population rises, this year from a median of 1.6 human resource staff members for every 100 workers in the smallest organizations (fewer than 250 workers) to well under half that figure (0.6 per 100) among the largest responding establishments (2,500 or more employees).

The composition of the HR staff remains highly dependent on the size of the workforce served by the department. Managers predominate in departments serving the smallest companies (fewer than 250 workers), but the makeup of the HR staff shifts quickly as workforce size increases. Supervisors and managers typically make up well over half of the HR department staff in the smallest companies, compared with about one-third of human resource contingents in the largest organizations (2,500 or more employees). Overall, managers and supervisors constitute an average of 41 percent of the HR departments responding for 2015, followed closely by HR's professional and technical contingent (an average of 37 percent). Secretaries and administrative assistants usually make up a considerably smaller portion of the human resources staff (21 percent).

HR Expenditures and Budgets

Recent adjustments to HR's annual appropriations represent substantial improvement from 2009-2011, when the median change in the HR department budget plunged to roughly 2 percent per year. However, recent HR budget modifications (2012-2015) have been well short of levels observed in the decade before the Great Recession, when the median year-to-year change in the human resources budget routinely exceeded 5 percent, peaking at more than 7 percent in both 2006 and 2007.

In each of the last four years (2012-2015), the median annual adjustment to HR's funding has been an increase of about 4 percent. For 2015, the median budgeted change in HR's appropriations—the percentage difference between actual expenditures in 2014 and budgeted outlays for 2015—is a boost of 4.2 percent, little changed from the midpoint figures for 2014 (+3.9 percent), 2013 (+3.8 percent) and 2012 (+3.6 percent).

While roughly three-quarters of the surveyed HR offices have budgeted greater outlays for this year than they spent in 2014, those funds are being stretched thinner by workforce expansion. Overall, budgeted HR expenditures per employee for 2015 are down modestly from a year earlier, as overall employment growth at responding firms has outstripped the pace of funding increases for human resources. The median budgeted per capita expenditure for human resource activities in 2015 is $1,375 per employee, down about 6 percent from the median outlay budgeted for 2014 ($1,465 per worker).

HR's per capita expenditures in hospitals, schools and other nonbusiness establishments continue to fall well short of annual outlays per worker in the business sectors, and that disparity has only widened over the last 10 years. HR funding growth in the nonbusiness sectors has slightly exceeded inflation over the course of the last decade, while growth in per capita expenditures among manufacturing companies and nonmanufacturing enterprises has been more than double the national inflation rate since 2005, according to the survey findings.

On the whole, HR departments have gained a larger overall share of their organizations' financial resources over the last decade. Human resources funding for 2015 constitutes a median of 1.4 percent of the surveyed employers' budgeted operating expenses for the year, the largest median proportion of total operating costs represented by HR budgets in the survey's history (also reached in 2013). The median HR share has been at least 1.1 percent of budgeted operating costs in 10 of the last 11 years. From 1997 to 2004, human resources routinely received less than 1 percent of total operating expenditures budgeted by their organizations.

HR Metrics, Strategic Planning and Priorities

Compensation and benefits still sit atop the analytical heap in human resources. Pay and benefits programs are subject to some degree of quantitative analysis and/or strategic planning at nearly nine in 10 responding organizations (89 percent), including 59 percent that conduct regular examinations of their wage, salary and benefits systems.

Since 2005, measurement and planning have grown more prominent in some areas of human resources, languished in others and ebbed in a few. The greatest analytical inroads have been made in recruitment and selection, where nearly half of HR executives surveyed in 2015 (48 percent) reported routine use of metrics or formal planning, compared with 36 percent of respondents in 2005.

Improvements in the economy apparently have spurred a modest reshuffling of HR department priorities, with recruitment and retention topping health-care cost control for a third consecutive year. The vast majority of HR officers (85 percent) characterized “attracting and retaining qualified employees” as “extremely important” or “very important,” while about three out of four surveyed executives (73 percent) put “controlling health benefits costs” among their greatest priorities for 2015. (Four years ago, 86 percent of respondents ranked health benefits cost control as a top concern.)

Human resource officers might not have a key to the executive washroom, but they often report to someone who does. The head of human resources answers directly to the organization’s president or CEO at a solid majority of the surveyed establishments (54 percent). Reporting relationships continue to matter; HR’s corporate influence is strongest when its leader answers directly to top brass.

Only 25 percent of responding HR executives reported that human resources has “full” involvement in corporate decision-making, the same percentage indicating complete strategic integration a decade ago. Roughly four in 10 HR officers (38 percent) reported “substantial” influence on corporate strategy, while 26 percent indicated “moderate” involvement in major business decisions. Few respondents characterized their departments’ strategic involvement and influence as “minimal” (7 percent) or nonexistent (2 percent).

HR Activities

The pace of change in human resources’ responsibilities has been slowing. Less than three in 10 HR executives responding this year (29 percent) and last (27 percent) reported some change in their offices’ duties or functions within the previous 12 months, compared with more than two-fifths of survey respondents a decade earlier (42 percent in both 2005 and 2004) and roughly half of HR officers responding in 2006 and 2007.

The HR department remains much more likely to acquire new responsibilities than to have any tasks or programs removed from its duty roster. About one in four HR departments surveyed in 2015 (23 percent) acquired new functions within the past year, while less than one-tenth (9 percent) relinquished one or more activities during the previous 12 months.

While HR has secured a seat at the corporate table at many, if not most, organizations, its strategic role still tends to be collaborative or supportive. Employers are largely disinclined to give the HR department exclusive control over organization development (25 percent) or succession planning (11 percent), and very few companies with merger and acquisition functions have assigned those duties to human resources alone.

Employee benefits are HR's bailiwick, usually without assistance or interference from elsewhere in the organizations. The HR department manages all aspects of insurance benefits, unemployment compensation and leave programs and policies at more than seven in 10 surveyed organizations, and a strong majority of companies entrust their cafeteria benefits, pension and retirement programs and flexible spending accounts to human resources alone.

Outsourcing

Outsourcing of HR activities has fallen off somewhat from a decade ago, but the use of outside contractors is in no danger of vanishing from the human resources landscape. Roughly two-thirds of all employers responding in 2015 (65 percent) outsourced at least one HR activity at the time of the survey, little changed from a year earlier (62 percent) but well short of the high water mark of 79 percent in 2005.

HR usually calls the shots on moving an activity or program to a third party. Among human resource executives queried about their most recent outsourcing initiatives, about two-thirds (64 percent) reported that HR made the decision to farm out the program or function. Six percent reported that the company's president or CEO directed the switch, 6 percent said the chief financial officer mandated the change and 5 percent indicated that the finance department made the determination.

Contractor expertise and desired improvements in service quality most often spark the decision to outsource. About three out of four surveyed HR executives indicated that access to greater expertise was an "extremely important" (37 percent) or "very important" (39 percent) consideration in their most recent outsourcing initiative, followed closely by expected gains in the quality of service (33 percent and 39 percent, respectively). Less than two in five respondents cited cost savings as an "extremely important" (14 percent) or "very important" (24 percent) factor.

HR executives are generally satisfied but not often enamored with the performance of contractors and vendors. Most respondents indicated that the contractor had met expectations in key performance areas, while only a handful deemed the vendor's performance to be substantially better than anticipated. For instance, 66 percent of the HR executives reported that their most recent outsourcing initiative "met expectations" for improvements in service quality, with only 11 percent reporting that the contractor's performance "exceeded expectations."

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