

HR Department Benchmarks and Analysis™ 2005-2006

A comprehensive survey-based report on the state
of the human resources function.



BNA®

Essential information. Expert analysis.

Targeted HR Metrics and Benchmarks that are Easy to Use

How does your spending for HR activities and programs compare with that of other organizations? What is the normal range of HR staff levels for a company of your size and is your use of HR specialists in line with industry norms? Compared with other HR departments, how do your evaluations of outsourcing initiatives measure up in terms of service quality, cost savings, and related criteria?

HR executives who need to make data-driven choices affecting HR staffing, spending, outsourcing and more, shouldn't settle for less. For over 20 years, BNA's **HR Department Benchmarks and Analysis report** has set the standard for research excellence in the HR space. It's not just data you can trust, but concise results you can easily interpret and insights you can readily use to make more informed strategic decisions.

What follows on the next several pages are selected highlights from the 2005-2006 HR Benchmarks and Analysis report. The full 150-page report includes:

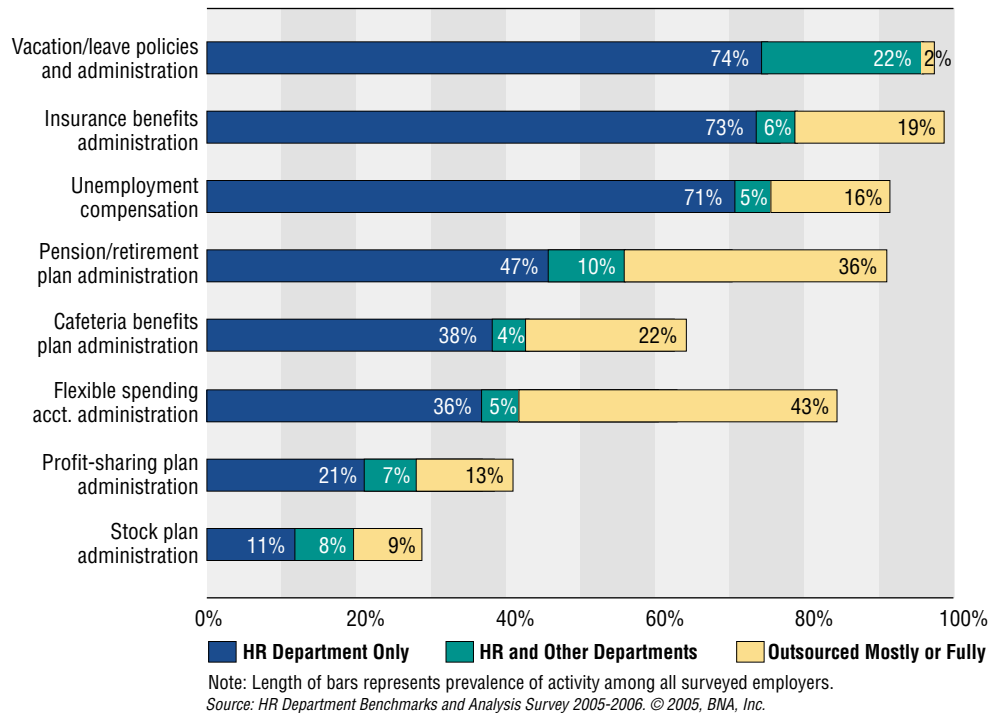
- **Authoritative metrics and benchmarks** for HR department staffing and budgets including: per capita HR staff ratios, proportion of HR specialists employed, year-over-year changes in HR staffing by type of position, per capita HR expenditures, year-over-year changes in HR expenditures, HR budget as a percentage of operating costs, and HR salary ratios.
- **Focused sections on outsourcing and HR measurement** that address a variety of topics including: (1) top drivers of HR outsourcing decisions, (2) HR departments' use of key measurement and planning tools, (3) self-ratings of outsourcing initiatives, and (3) insights from HR thought leaders on measurement issues.
- **Benchmarks for 60 core HR department activities** along with the recently added "activity load" metric, which allows for more accurate benchmarking.
- **Readily accessible metrics with clear accompanying explanations** of how we calculate them, making it easy for users to make apples-to-apples comparisons. For additional reference, a complete copy of the survey question set is also included in the report.
- **Focused articles from BNA reporters** that provide additional context on important HR topics, with examples and insights from HR professionals, academics, and other thought leaders.
- **A demographic profile** of organizations that participated in the survey.
- **Clear organization, professionally produced charts and graphics**, sidebars, and call-outs that make it easy for you to find and interpret the data you need. The result is a report that successfully combines substance with style, rigor with accessibility, and benchmarking with insights into emerging issues.

HR Department Responsibilities: Employee Benefits

Although many employee benefits activities are still handled in house by HR departments, the use of outsourcing vendors continues to increase.

Figure 1

Benefits – Who Handles It?



The report provides similar analyses for 60 HR activities in the following areas:
 (1) employment and recruiting,
 (2) training and development,
 (3) compensation,
 (4) employee services,
 (5) employee relations,
 (6) personnel/HR records,
 (7) health and safety, and
 (8) strategic planning.
 Results are also presented by organization size and employment sector.

- As shown in Figure 1, a substantial majority of HR departments still maintain full responsibility for vacation and leave policy administration (74 percent), insurance and benefits administration (73 percent), and unemployment compensation (71 percent).
- The most frequently outsourced benefits activities are flexible spending account administration (43 percent) and pension retirement plan administration (36 percent).
- Additional analyses in the report show that larger organizations are far more likely than their smaller counterparts to use outsourcing vendors for some benefits activities. For example, while only 7 percent of the smallest organizations (fewer than 250 employees) outsource unemployment compensation, the comparable outsourcing figure rises steadily to 40 percent among organizations with more than 2,500 employees.

Outsourcing of Employee Benefits and Services Activities

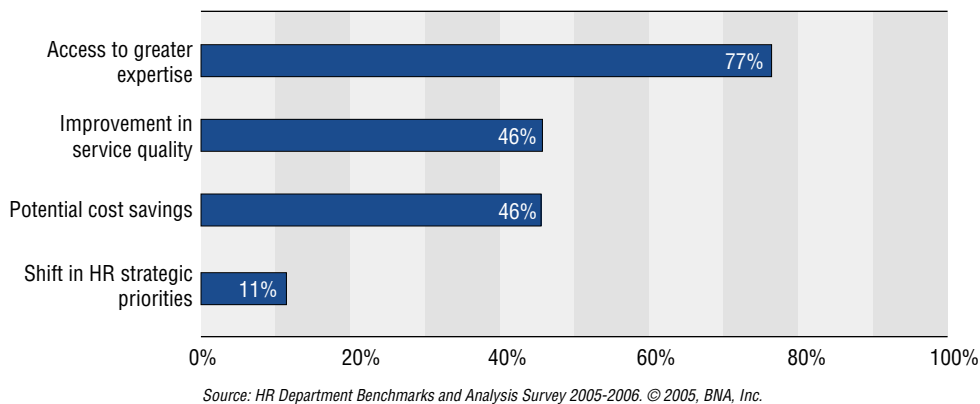
Cost cutting is common but not critical in many outsourcing decisions.

While study after study has identified the outsourcing of select human resources activities and even BPO as a growing trend, cost issues are not always the main motive for HR departments to outsource.

Figure 2

Leading Drivers of HR Benefits and Services Outsourcing

Percentage of employers who outsourced one or more activities



The full report includes employer ratings on seven categories of outsourcing success.

- Contrary to anecdotal evidence, Figure 2 shows that “access to greater expertise” is by far the top reason cited by HR executives (77 percent) for outsourcing employee benefits and services activities. While still important, “service quality” (46 percent) and “cost savings” (46 percent) motives were cited far less often.
- At the same time, the results in Figure 3 reveal key differences in outsourcing drivers among larger organizations—those with more than 2,500 employees. A much higher proportion of large organizations outsource to gain cost benefits (58 percent), compared with their smaller counterparts (40 percent overall). Conversely, service quality is a less important motive for large organizations (29 percent) than for smaller ones (44 percent overall).

Figure 3

Motives for Outsourcing by Organization Size

	Overall	Less than 250	250 to 499	500 to 999	1000 to 2499	2500 or more
Access to greater expertise	75%	78%	89%	70%	65%	68%
Potential cost saving	40	34	47	30	38	58
Improvement in service quality	44	42	38	58	56	29

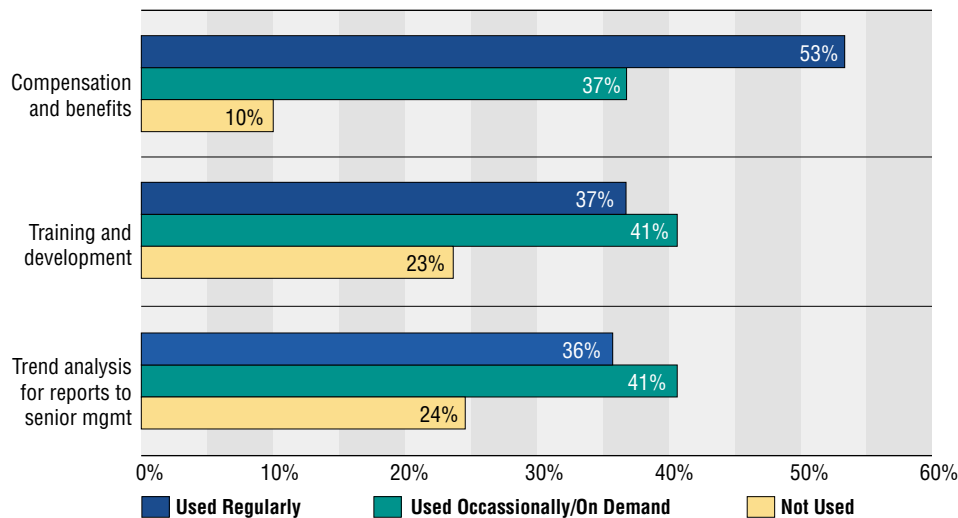
Source: HR Department Benchmarks and Analysis Survey 2005-2006. © 2005, BNA, Inc.

Measurement Activities of Human Resources Departments

Among HR departments overall, regular measurement and tracking of human resources and related business activities is still not the norm. The survey results suggest that, in most areas, the majority of HR departments use measurement tools either occasionally or not at all.

Figure 4

Top Three HR Measures Used Most Frequently



Source: HR Department Benchmarks and Analysis Survey 2005-2006. © 2005, BNA, Inc.

- As shown in Figure 4, the human resources areas that HR departments most regularly measure are compensation and benefits, training and development, and trend analyses. By contrast, succession planning and organizational effectiveness (not shown) are among the areas that receive relatively scant measurement attention from HR departments.
- Additional analyses in the report show key differences in HR measurement activities by company size. For example, regular use of HR productivity measures (e.g., measuring ROI, turnover costs) is highest among organizations with more than 2,500 employees (47 percent) and lowest among those with fewer than 250 (24 percent). Similarly, trend analysis is a regular HR activity in most large organizations (57 percent) but few small ones (18 percent).
- The survey also finds positive links between regular human resources measurement and HR executives' assessments of departmental involvement in broader strategic initiatives.

HR Staff Ratios and Staffing Levels

Relative to total employment in organizations, HR department staffing has remained stable in recent years. However, differences by industry and organization size are still apparent.

- For the past three years, HR departments' overall staffing ratios—the proportion of human resources staff to employees served—have fluctuated around 1.0 HR staff persons for every 100 employees. The staffing ratio metric, which can be used in a variety of ways to inform staffing decisions, is explained thoroughly in the report and is broken out by organization size, industry, employee type, and other factors.
- As in previous years, the 2005-2006 report reveals wide variations in HR department staff ratios across industry classifications. For instance, human resource staffing remains comparatively low (under 1.0) among hospitals and other health care facilities, while higher staffing ratios (over 1.2) are more common among industries in the services/nonmanufacturing sector. HR staff ratios also tend to decline as total employment increases, providing economies of scale for HR departments in larger organizations.
- Additionally, the report identifies conditions under which increases in HR staff ratios may not signal good news for organizations. For example, staff ratios can still rise if the total workforce size shrinks without a proportional reduction in HR staff. The report details the implications.

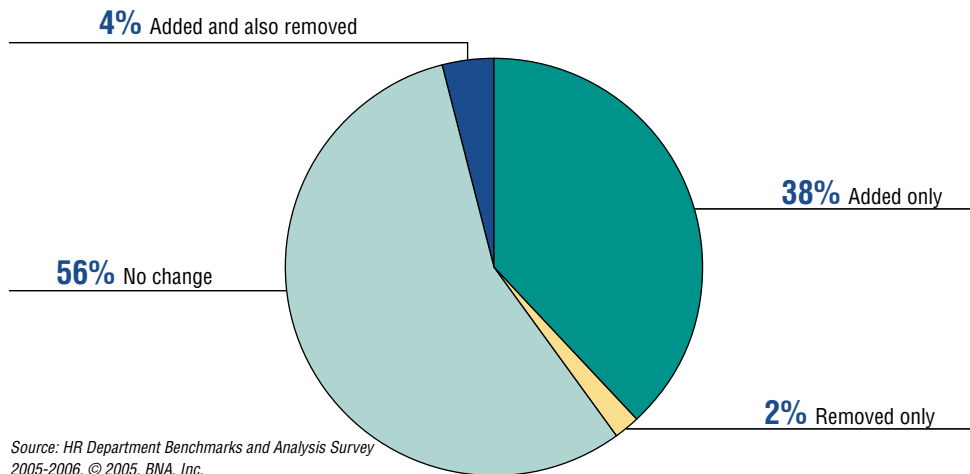
The full BNA report provides detailed examinations of HR staff ratios by employment sector, industry classification, and workforce size. New measures of activity load allow more accurate comparisons between your own staff ratios and those reported.

Changes in HR Responsibilities

Many HR departments report taking on substantial new responsibilities within the past year. In line with previous survey reports, HR departments are far more likely to have added responsibilities in the last year than to have reduced them.

Figure 5

Changes in HR Responsibilities Within the Past Year



- ▶ As Figure 5 shows, 42 percent of HR executives report that their departments added new responsibilities in the past year (38% + 4% = 42%), while just 6 percent said they removed at least some existing responsibilities.
- ▶ While the trend toward adding responsibilities is not new to HR, the net change recorded for 2005 (adds minus removals) is the highest seen in over 10 years. With HR staffing levels appearing to hold fairly constant, the results suggest that many human resources departments will find themselves further challenged to do more with the same resources.