WORKFORCE ANALYTICS: A CRITICAL EVALUATION

The HR Roller Coaster Ride

Are Key HR Metrics Back to Prerecession Levels?

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The HR Roller Coaster Ride: Are Key HR Metrics Back to Prerecession Levels?

All HR professionals have their own stories to tell about how their organization faced the Great Recession. After it began in December 2007, revenues fell more than 50% as the demand for goods and services dried up.[1] Organizations slashed operating expenses, including staff and benefits costs, to stay afloat, leaving HR professionals wondering when the HR roller coaster ride—with its ups, downs, twists and turns—would end.

Starting in 2010, however, employee productivity levels began to improve. Other metrics, such as employee turnover, cost-per-hire, recruiting difficulty and time-to-fill, began to grow—a *sign* that some employment-related metrics were moving to prerecession levels. The number of positions filled, however, remained relatively flat since 2010, supporting economists' claims of a jobless recovery.

So are key HR metrics back to normal? The answer is *not quite yet*. HR metrics have not reached prerecession levels, although they are moving in that direction. But reaching past results could be elusive. A new normal may exist whereby organizations will continue to work with a lean workforce, placing more emphasis on doing more with less.[2]

Unless otherwise noted, results presented in this report are from the SHRM Human Capital Benchmarking Database of over 1,700 organizations. These metrics link organizational financial results, such as revenue, to human capital activities, such as hiring and turnover. To better illustrate trends over an eight-year period, the following metrics are averaged over two-year intervals.

- Revenue.
- Revenue-per-FTE.
- Number of positions filled.
- Cost-per-hire.
- Annual turnover rate.
- HR expense to operating expense ratio.

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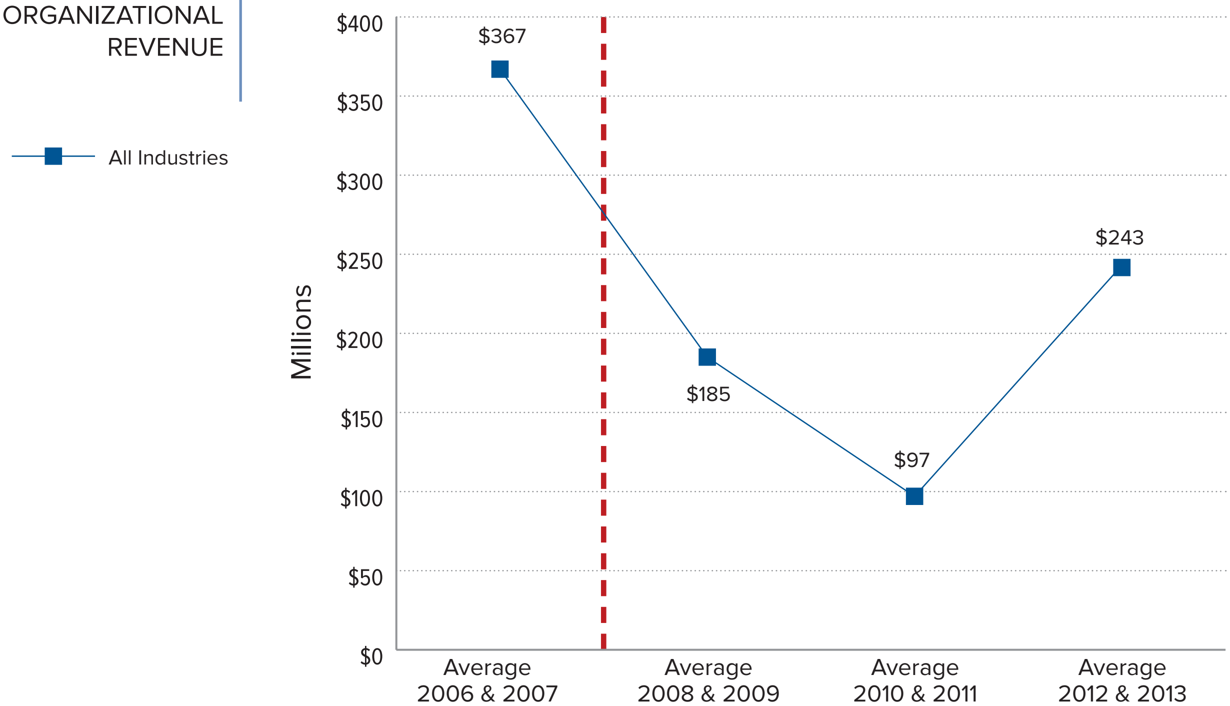
Revenue

- Revenue[3] plummeted over a four-year period after the recession's onset in December 2007. Average revenue decreased by 50% from a high of $367 million for years 2006/2007 to $185 million for years 2008/2009. Two years later, during years 2010/2011, revenue further declined an additional 48%, to $97 million. As revenue dropped, organizations began staff layoffs and other cost-cutting measures. In fact, 43% of organizations laid off between 1% and 5% of their workforce.

- In 2010 the economic outlook improved. Sixty-five percent of HR professionals expected organizational revenue to increase over the previous year, nearly matching prerecession optimism of 71%. Organizational revenue sharply rose to an average $243 million for years 2012/2013, a 66% increase over 2010/2011. Could it be that HR professionals have a crystal ball into the economy?

FIGURE 1. AVERAGE ORGANIZATIONAL REVENUE



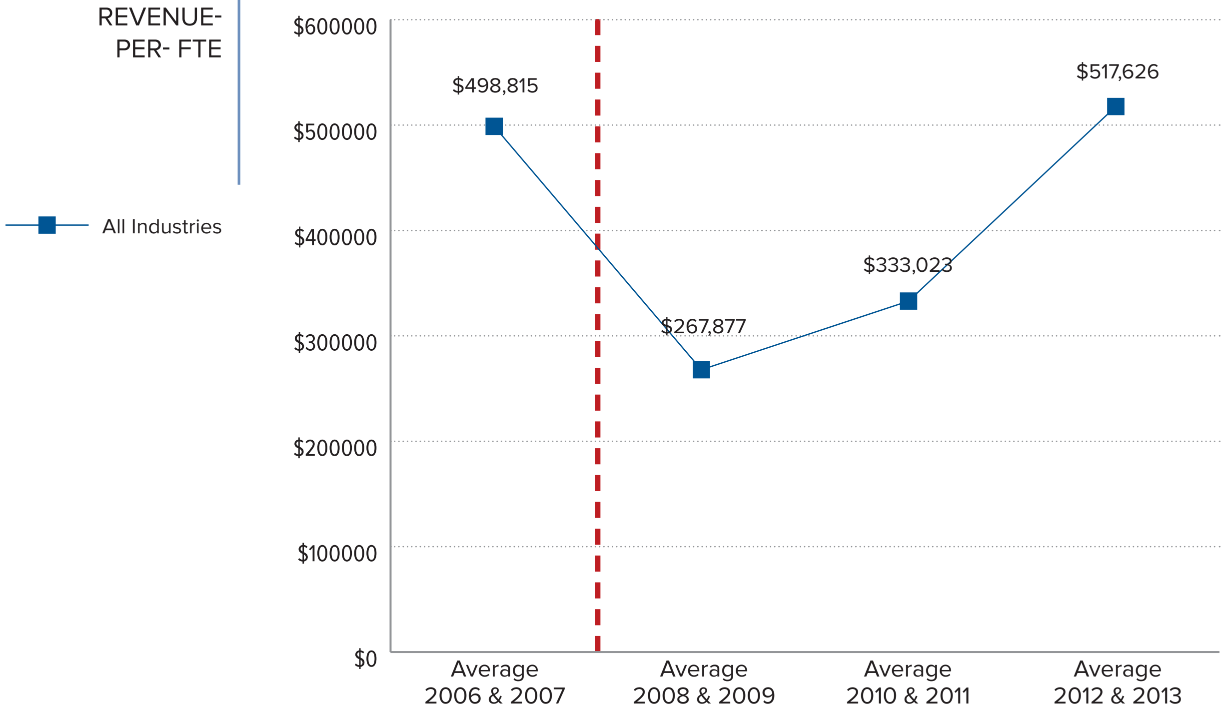
*Note: The red line represents onset of the Great Recession, December 2007.
Source: SHRM Customized Benchmarking Database [unpublished data]

Revenue-per-FTE

- Revenue-per-FTE (full-time-equivalent)[4] is a measure of employee productivity. Average revenue-per-FTE fell sharply from 2006/2007 to 2008/2009: from $498,815 to $267,877, representing a decrease of 46%. This amount tracks with a 50% decrease in revenue during the same time period.

- Average revenue-per-FTE increased by 24% from 2008/2009 to 2010/2011 and later shot up 55% to $517,626 during 2012/2013. This increase pushed employee productivity beyond prerecession levels, suggesting organizations are doing more with less as they hold back hiring despite increased revenues. Pushing employees harder is sustainable for the short term. But if the pace continues and the job market improves, employee turnover could increase as workers switch to employers offering better work-life balance.

FIGURE 2. AVERAGE REVENUE-PER- FTE



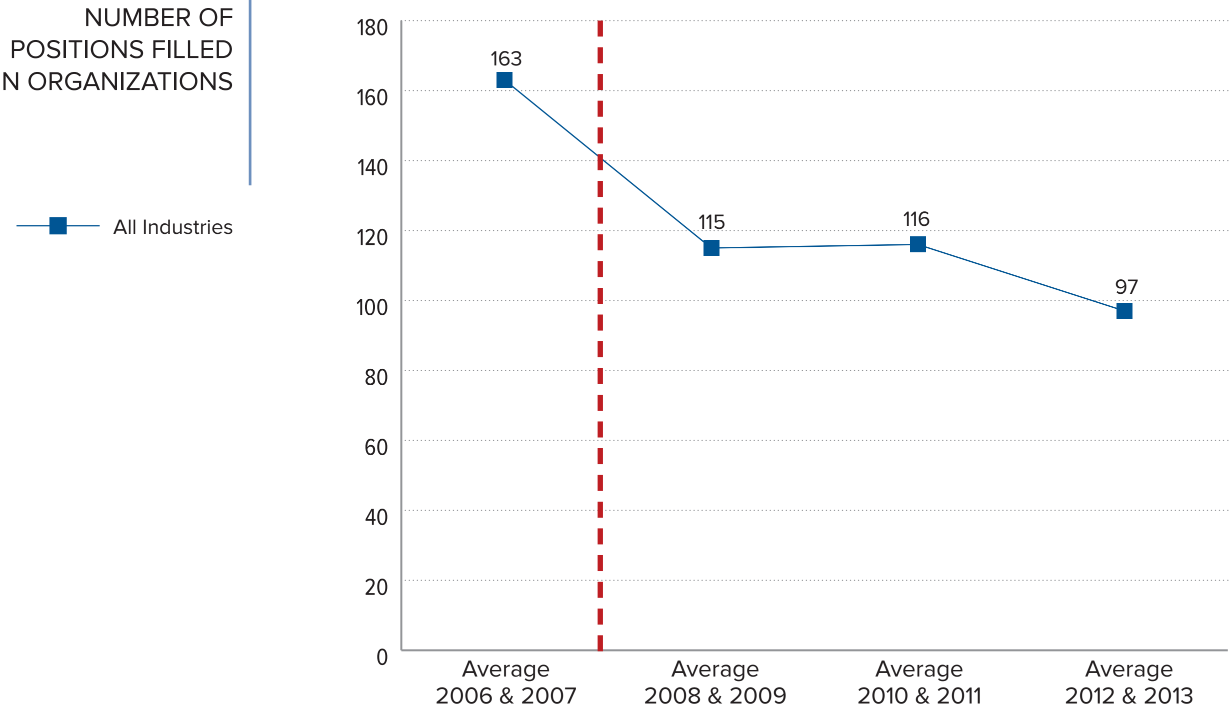
*Note: The red line represents onset of the Great Recession, December 2007.
Source: SHRM Customized Benchmarking Database [unpublished data

Number of Positions Filled

- The average number of positions[5] filled during prerecession years 2006/2007 was 163 positions. Yet during 2008/2009, two years after the recession's onset, the average number of hires plunged 29% to 115.

- For the next four years after 2009, average number of positions filled fell to 106. Yet, recruiting difficulty, as tracked through SHRM Leading Indicators of National Employment (LINE), increased every year in the service sector from 2010 to 2013.[6] The fact that organizations found it difficult to fill positions while millions of people sought work suggests that a skills mismatch exists between job seekers and open positions.

FIGURE 3.
AVERAGE ANNUAL NUMBER OF POSITIONS FILLED IN ORGANIZATIONS



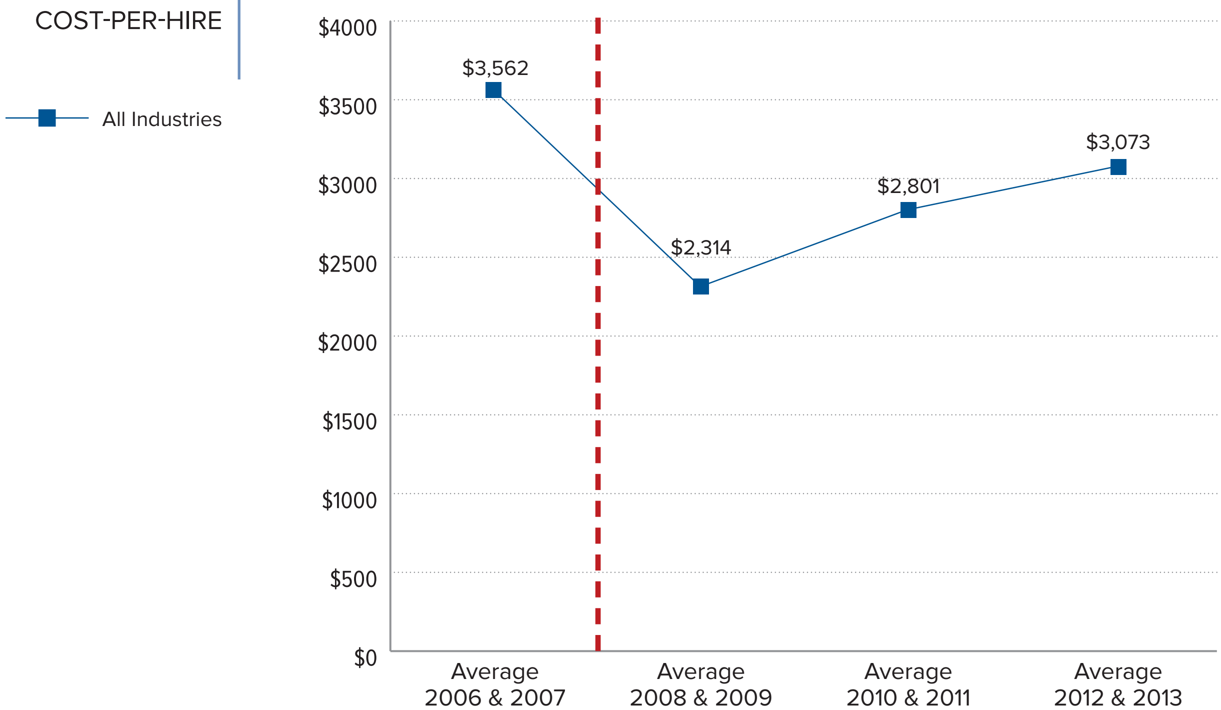
*Note: The red line represents onset of the Great Recession, December 2007
Source: SHRM Customized Benchmarking Database. [Unpublished data]

Cost-per-Hire

- Cost-per-hire (CPH)[7] represents the amount of recruiting dollars to fill a position. During the prerecession years of 2006/2007, average CPH was $3,562. CPH fell 35% to $2,314 during 2008/2009, at a time when hiring activity also dropped. Once the economy and job market improved, competition for talent increased, and the costs to find and recruit candidates shot up. CPH grew 21% to $2,801 in years 2010/2011, and further increased 9.7% to $3,073 in 2012/2013.

- Many factors—industry, staff size, position job family and level—influence CPH. For hard-to-find talent in technology, average CPH was $3,268, but in food and accommodations, this number is only $1,973 because talent is more easily available.[8] Average CPH for large-staff-sized organizations (1000 employees or above) was $4,285, but only $3,079 for small organizations, because large companies spend proportionately more for employer branding and diversity recruiting activities than small organizations. Increase in time-to-fill (TTF) trended with increases in CPH. But unlike CPH, TTF does not vary much, as evidenced by data showing that average TTF only ranged five days (30 to 35 days) over eight years.

FIGURE 4. AVERAGE COST-PER-HIRE



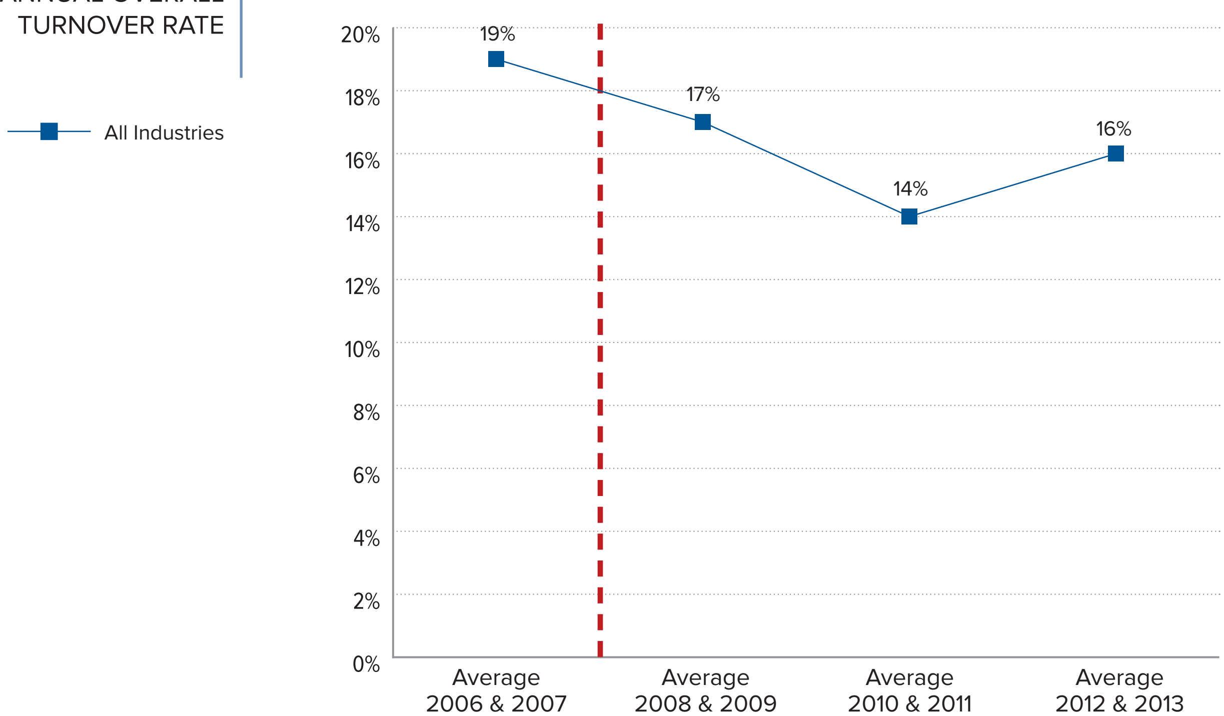
*Note: The red line represents onset of the Great Recession, December 2007
Source: SHRM Customized Benchmarking Database. [Unpublished data]

Employee Turnover

- During years 2006/2007, before the recession's impact took hold, the average overall annual turnover rate was 19%. A robust economy gave job options to employees who wanted to leave their existing organizations and work elsewhere. Further turnover analysis revealed that voluntary turnover, at 17%, eclipsed involuntary turnover, at 7%, during this period.

- During years 2008/2009, however, when the shrinking economy forced companies to freeze new hiring and then downsize staff, average overall turnover dropped to 17%. The makeup of turnover shifted. Staff reductions increased involuntary turnover to 10%, whereas voluntary turnover fell to 13%. In fact, during 2009 alone, involuntary turnover equaled voluntary turnover rate of 8%. That same year, however, employee job satisfaction peaked, with 86% of employees saying there were satisfied with their current job. In the midst of a very poor economy, employees were simply happy to have a job.[11]

FIGURE 5. ANNUAL OVERALL TURNOVER RATE



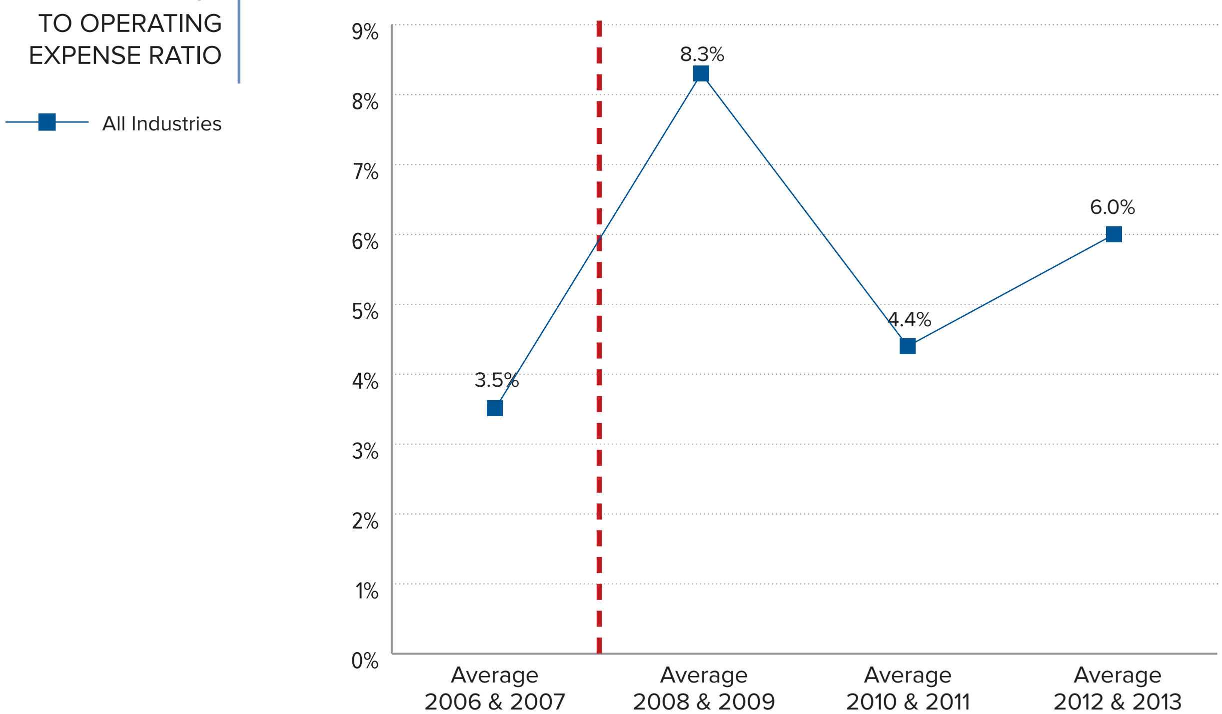
*Note: The red line represents onset of the Great Recession, December 2007.
Source: SHRM Customized Benchmarking Database. [Unpublished data]

HR Expense to Operating Expense Ratio

- HR expense to operating expense ratio is calculated by dividing the organization total HR expenses by the operating expenses for a given fiscal year. Because this ratio depicts the amount of HR expense as a percentage of total operating expenses, it measures the relative HR investment organizations make compared with other expenses so they can operate their business.

- The average HR expense to operating expense ratio was 3.5% during 2006-2007. When the recession's economic impact took hold during 2008-2009, the ratio shot up to 8.3%. HR expense per FTE also grew during this time. But as both HR expense ratios were increasing, revenue and revenue per FTE *decreased* during the same period. Two years later, these metrics reversed direction—HR expense ratios fell, but revenue-per-FTE increased. This suggests that organizations *first* seek deeper cuts in non-HR operating expenses, such as staff salaries supplies and equipment *before* cutting HR expenses at the same rate. During organizational upheavals business executives may be hesitant to cut HR expenses because they realize they will need a full range of human resource capabilities to keep employees engaged during a crisis. When the turbulence subsides, however, organizations often reduce HR expense ratios to previous levels.

CHART 6
HR EXPENSE TO OPERATING EXPENSE RATIO



**Note: The red line represents onset of the Great Recession, December 2007.*
SHRM Customized Benchmarking Database. [Unpublished data]

Conclusion

The HR roller coaster ride that arose from the Great Recession is over. Devastating revenue losses that forced organizations to cut operating expenses and shed staff have stopped. Out of the tumult, however, many HR professionals report that their organizations now employ business strategies adopted during the recession to improve their company's financial health. Are key HR metrics such as employee turnover, CPH, number of positions hired, etc. back to prerecession levels? Not quite yet—although they are moving in that direction. It is possible, however, that a new normal may exist where companies are using fewer resources with the expectation of achieving higher results. If that is the case, it may be some time before HR metrics return to prerecession levels.

Methodology

The SHRM Human Capital Benchmarking Study was conducted in order to collect metrics about human capital across various industries. The study collected data on human capital metrics, such as succession planning, turnover, cost-per-hire, time-to-fill and salary increases. In addition, organizational data, such as employee size and geographic region, were obtained. Data were collected from 2007 through 2014. The survey was created by SHRM's Workforce Analytics Program and was reviewed by the SHRM Human Capital Measurement/HR Metrics Special Expertise Panel.

Endnotes

[1]SHRM Customized Benchmarking Database. [Unpublished data].

[2]Society for Human Resource Management. (2014). *Future insights: The top ten 2014 trends according to SHRM's HR subject matter expert panels.* Alexandria, VA: SHRM.

[3]Revenue is defined as the amount of money that an organization receives from sales of products and services to customers.

[4]Revenue-per-FTE (full-time equivalent) relates a financial outcome (revenue) to human capital (number of FTEs) and is calculated by dividing the organization's revenue by the number of FTEs in the organization.

[5]Number of positions reflects the number of positions for which individuals were hired during the fiscal year. This metric includes both internal and external hires.

[6]SHRM Leading Indicators of National Employment (LINE). [Historical data].

[7]CPH is calculated as the sum of recruiting costs divided by the number of hires.

[8]SHRM Customized Benchmarking Database. [Unpublished data].

[9]Society for Human Resource Management. (2012). *Executive brief: What factors influence cost-per-hire?* Alexandria, VA: SHRM.

[10]TTF measures the amount of time, in days, it takes to fill an open position form the time the requisition was opened until the position was accepted.

[11]Society for Human Resource Management. (2012). *2012 employee job satisfaction and engagement: How employees are dealing with uncertainty.* Alexandria, VA: SHRM.

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