WORKFORCE ANALYTICS: A CRITICAL EVALUATION

How Organizational Staff Size Influences HR Metrics

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Introduction

HR professionals who move to a new organization that is larger or smaller than their previous organization often find changes in HR metrics. As companies grow in size, organizational life cycle theory suggests they face a range of problems, including HR problems.[1] For example, in small start-up organizations, when the focus is on firm survival, HR practices may appear unstructured and lack documentation, which can increase risk should a hiring decision or employment termination be legally challenged. Large organizations, which usually have established business strategies to reliably produce revenue, often institute formal business practices (such as formal job descriptions, established pay scales and standardized performance reviews) to manage that risk. Generally as staff size grows and organizations become complex, the HR function becomes more formalized and sophisticated.[2] In addition to staff size, the type of industry can often drive changes in HR metrics. In high-tech firms, where the demand for technical skills is high but available talent is low, cost-per-hire (CPH)[3] is $4,372.[4] This CPH is high when compared with the food services and accommodations industry, which has a low CPH of $2,967[5] because the skills and talent are readily available.

Executives in HR and other functional areas attempt to fit policies and processes to business needs, yet the business needs vary depending on organizations' stages of development.[6] HR professionals work to implement new systems to help facilitate the success of those initiatives, often requiring significant change management support. HR professionals who work in small, medium or large organizations know staff size affects how they go about implementing HR initiatives. For example, implementing an employee appraisal system for a single-site organization of 100 employees is vastly different than implementing a system across multiple sites totaling 5,000 employees. However, as HR practices change to fit and support organizations' size and business environments, HR professionals may be unaware that key HR metrics also change. In this report, although the type of industry contributes to changes in HR data, the findings only focus on how changes in organizational size affect HR metrics.

Unless noted otherwise, results presented in this report are from the 2014 SHRM Human Capital Database of over 2,000 organizations. Key HR metrics were compared against organizations of small (1-250 employees), medium (251-1,000 employees) and large (1,001-10,000 employees) staff sizes.[7] This report examines the following HR areas:

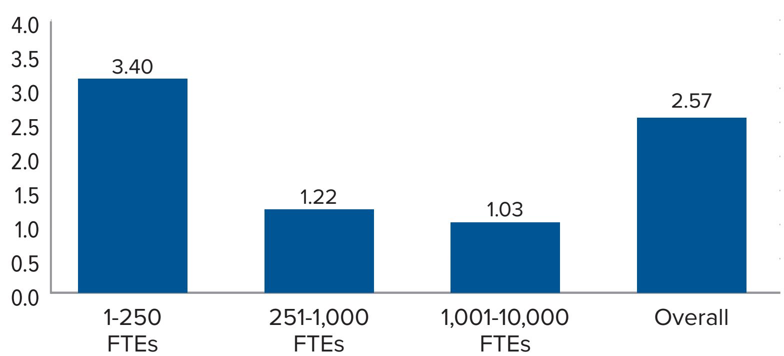
- HR-to-employee ratio.
- Percentage of HR staff in supervisory roles.
- HR-expense-to-FTE (full-time equivalent) ratio.
- Use of structured interviews.
- Time-to-fill.
- Employee tenure.

HR-to-Employee Ratio

- The HR-to-employee ratio compares HR staffing levels between organizations by showing the number of HR FTEs supporting 100 FTEs in an organization.[8] The average HR-to-employee ratio was 2.57 for all organizations. As staff size increases, however, the HR-to-employee ratio decreases. For example, small organizations had a significantly higher HR-to-employee ratio of 3.40, compared with medium and large organizations that had ratios of 1.22 and 1.03, respectively.[9] A large HR-to-employee ratio for small organizations suggests that it takes a minimum number of HR employees to deliver core HR services, such as recruiting, benefits and employee relations. But once a minimum number of HR staff members are hired, the incremental amount of HR FTEs required to support large organizations does not increase at the same rate.

- There are various reasons this difference in ratios exists as organizational size increases. First, although the ratio is smaller for larger organizations, the actual number of HR staff is greater. With more HR staff, there is more flexibility to offset peak work demands in one HR area with staff from another. For example, during the labor-intensive process of recruiting, if extra help is needed, it is easier to temporarily pull HR FTEs from other functional areas, such as employee relations or benefits, for additional support. Second, roles for HR professionals in firms with large numbers of employees usually have higher degrees of specialization. In large organizations, HR departments may have multiple benefits professionals, but even within the benefits area, one FTE may be dedicated solely to managing retirement planning and another to managing health care. Such role specificity allows for greater efficiency and economies of scale, because more roles require more effort and more time to switch between tasks that are different from each other.[10] Third, many HR departments have less staff because they outsource HR functions to a preferred employer organization (PEO) or other HR outsourcing vendors. When this occurs, the HR-to-employee ratio may decline, but actual HR expenses may go up to pay for outsourcing costs.

FIGURE 1.
AVERAGE EMPLOYEE-TO-HR RATIO, BY STAFF SIZE

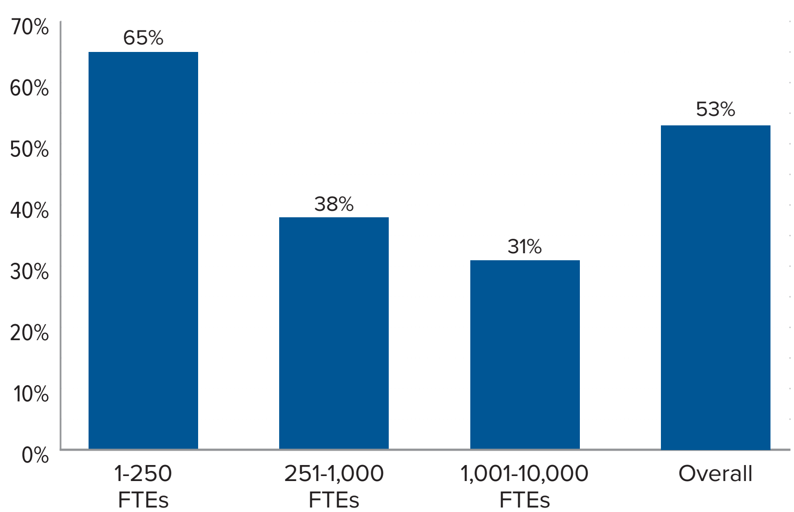


Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

Percentage of HR Staff in Supervisory Roles

- The percentage of HR staff in supervisory roles (i.e., supervisor, manager, director or above) is calculated by taking the number of HR supervisory positions (FTEs) and dividing it by the total number of HR staff (FTEs). When organizations design their HR departments, this is a useful metric to benchmark the number of supervisory staff members other organizations in their industry use to implement the HR function. The percentage of HR staff in supervisory roles was 53% for all organizations. As the organization staff size grows, this percentage decreases in a similar way that HR-to-employee ratios decrease. Small organizations had a significantly higher percentage of supervisory HR staff (65%) compared to medium (38%) and large (31%) organizations.[11] This metric for medium organizations was also significantly higher than for large organizations, suggesting that the percentage of HR supervisory staff is sensitive to changes in staff size.
- Small organizations may have a higher percentage of supervisory staff because organizations may first hire supervisory talent to lead a functional HR area, such as employee relations or benefits, and then hire less-experienced staff if more resources are required. The fact that medium and large organizations have lower percentages of HR staff in supervisory roles also suggests that as organizations grow, supervisory HR staff members have capacity to increase their span of control by having more HR FTEs reporting to them, both directly and indirectly.

FIGURE 2. AVERAGE PERCENTAGE OF HR STAFF IN SUPERVISORY ROLES, BY STAFF SIZE

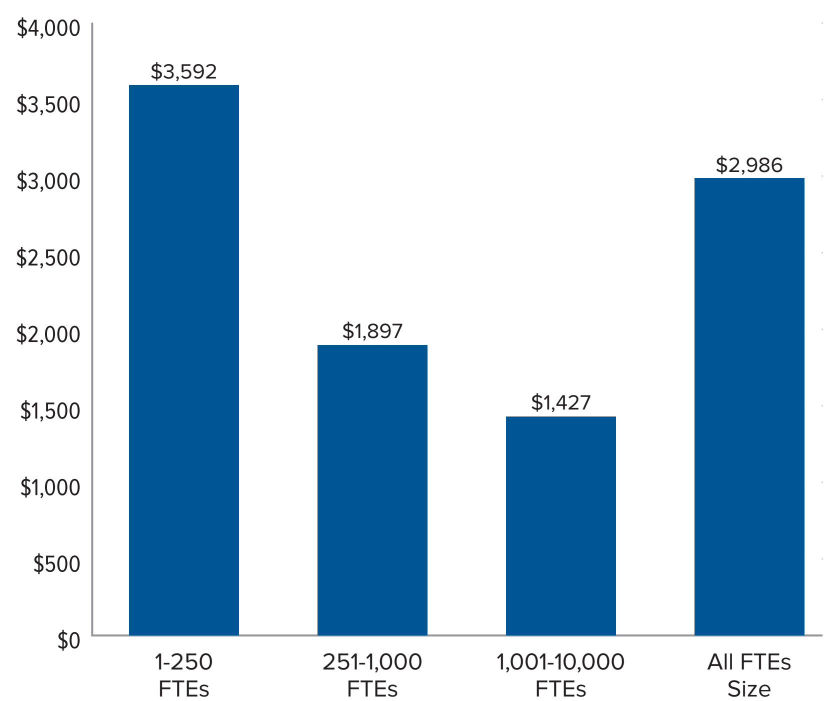


Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

HR-Expense-to-FTE Ratio

- The HR-expense-to-FTE ratio represents the amount of human resource dollars spent per FTE in the organization.[12] The average HR-expense-to-FTE ratio for all organizations was $2,986. As organizations grow in staff size, the total costs of the HR function increase. HR expenses for small, medium and large organizations were $306,044, $840,015 and $3,393,775, respectively.[13] Although total HR costs increase when staff size grows, the amount of HR dollars spent per employee decreases. Small organizations had significantly higher HR-expense-to-FTE ratios ($3,592) than medium ($1,897) and large organizations ($1,427).[14]
- Such results suggest that early development of the HR function in small organizations requires higher infrastructure and outside consulting investments. Such investments may include an applicant tracking system, performance management software or external recruiting support, which once purchased can cost-effectively scale to support larger organizations so that HR expense per FTE declines. In essence, as organizations increase in size, they are able to disperse total HR costs among more employees.

FIGURE 3. AVERAGE HR-EXPENSE-TO-FTE RATIO, BY STAFF SIZE

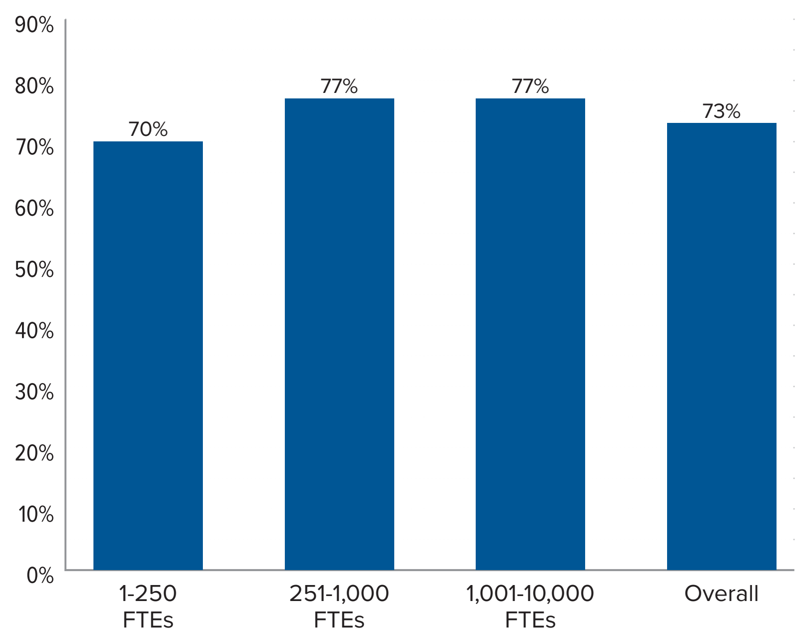


Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

Structured Interviews for Selecting Talent

- Selecting new talent for organizations is a critical HR function. Organizations that consistently bring on new hires whose knowledge, skills and abilities align with their firms' overall strategy and culture outperform their competition.[15] Structured interviews in which candidates interviewing for the same position are asked similar questions based on job content have been shown to improve interview reliability and validity.[16] Structured interviews prevent the interviewer from asking different questions depending on the job candidate, thus limiting interviewer bias and avoiding skewing the evaluation of the candidates. Seventy-three percent of all organizations used structured interviews as part of their selection process. Small organizations (70%) were significantly less likely to use structured interviews compared with medium (77%) or large (77%) organizations.[17]
- Because hiring activity is less frequent in small organizations, they may be less likely to invest resources to develop structured interviews as their HR-expense-to-FTE ratio is already high. For example, the annual number of positions filled for small organizations was only 24, significantly less than medium (124) and large organizations (568).[18] Small organizations may also lack buy-in from hiring managers to use structured interviews given that hiring managers in small organizations are likely to use their informal networks and referrals to staff the openings that occur.[19]

FIGURE 4. AVERAGE PERCENTAGE OF ORGANIZATIONS USING STRUCTURED INTERVIEWS, BY STAFF SIZE

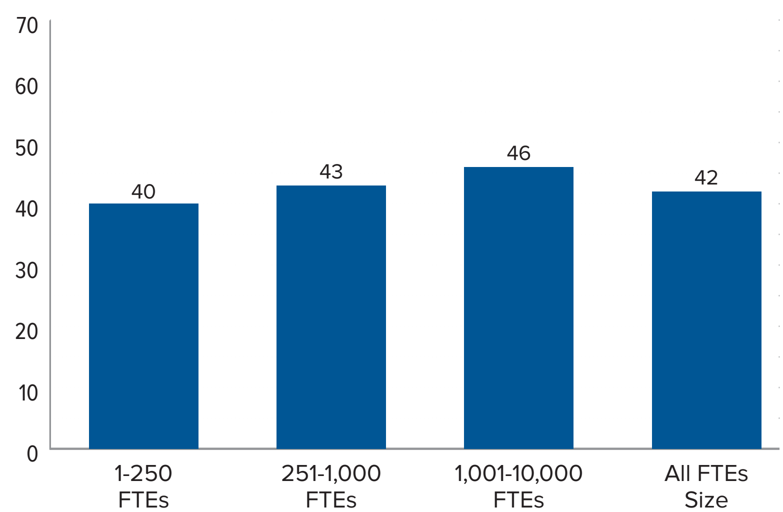


Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

Time-to-Fill

- Time-to-fill (TTF)[20] represents the amount of time in days it takes to fill a position. Although the average TTF for all companies was 42 days, TTF varied by company staff size. Small organizations had an average TTF of 40 days compared with medium (43) and large (46) organizations.
- Due to the high number of openings that large organizations annually filled on average (568), they may often apply more structure and formal processes to ensure consistent and legally defensible hiring practices. Such structure can take the form of additional interviews to make a hiring decision, more signatures required for offer approval, and additional selection testing and background checks—all of which increase time-to-fill. In addition, with a smaller HR-to-employee ratio in larger organizations, HR staff may be unable to process new-hire decisions as quickly due to the sheer number of applicants.

FIGURE 5. AVERAGE TIME-TO-FILL IN DAYS, BY STAFF SIZE

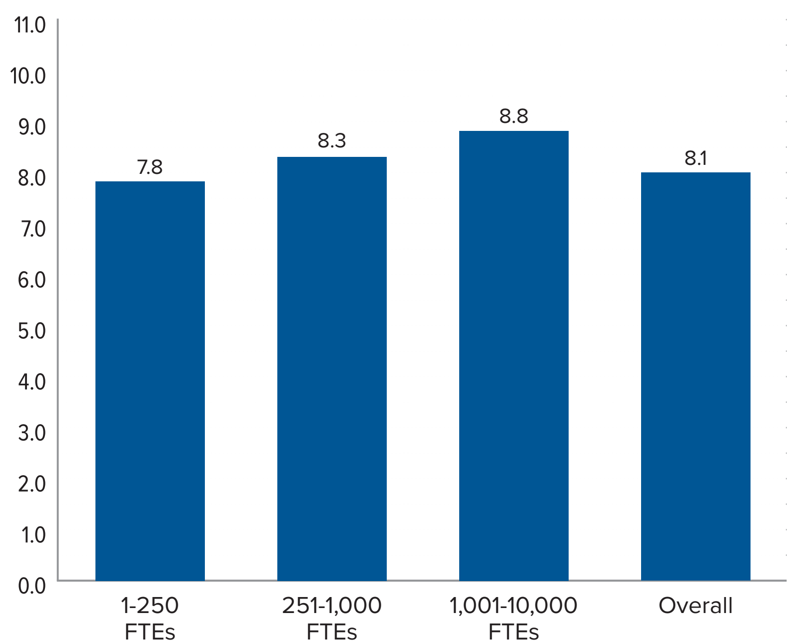


Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

Employee Tenure

- Employee tenure is the amount of time in years that an employee is employed by an organization. The average employee tenure for all organizations was 8.1 years. Large organizations had significantly higher employee tenure (8.8 years) for their employees compared with tenure in small (7.8 years) and medium organizations (8.3 years).[21]
- Employees may stay longer at large organizations because they see more career progression opportunities and a wider range of benefits offerings than found in small or medium organizations. In addition, unionized environments, which tailor their pension and other benefits strategies to reward employee tenure, are prevalent in large organizations. Large organizations (42%) were significantly more likely to be unionized than medium (21%) or small organizations (8%).[22]

FIGURE 6
AVERAGE EMPLOYEE TENURE, BY STAFF SIZE



Source: Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

Conclusion

As the data in this report indicate, as organizational staff sizes grow, changes occur in key HR metrics. Decreases in the HR-to-employee ratio, the percentage of HR staff in supervisory roles and the HR-expense-to-FTE ratio as staff sizes increase suggest that HR departments in small organizations require a baseline of financial investments for staff and other resources, but that they gain efficiencies when organization size increases. Alternatively, increases in the use of structured interviews, time-to-fill and employee tenure as staff sizes increase suggest that organizations develop more sophisticated and formal ways to select and retain talent to manage large and diverse workforces. In addition, large organizations may have more resources to hire experts to develop valid selection tests to improve hiring practices and also to use employee surveys that give insight in developing retention programs.

Knowing that staff size affects changes in HR is helpful when HR professionals seek to evaluate their metrics in light of their HR programs, investments and other outcomes. In benchmarking, it is best to compare HR metrics against organizations of similar staff size to ensure that the comparisons are relevant. However, although staff size clearly affects HR outcomes, other factors such as industry and firm profitability may also influence such metrics. To effectively interpret changes in HR data, HR professionals must decide up front what factors may (and may not) affect their HR analytics, including staff size, the external environment, trends in their organizations' industry, and other internal and external factors.

Methodology

Since 2005, SHRM has been collecting human capital benchmarking data on an annual basis. The current 2015 SHRM Human Capital Benchmarking Survey was conducted to create a database of human capital metrics across various industries. In February 2015, an e-mail that included a link to the survey was successfully sent to 27,614 SHRM members, and 3,018 HR professionals responded. 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 for 2014, along with expectations for hiring and revenue changes in 2015. The response rate was 10.9%. Given the level of response to the survey, SHRM is 98% confident that responses given by respondents can be generalized to all SHRM members with a margin of error of approximately +/-4%. 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]Griener, L. E. (1972). Evolution and revolution as organizations grow. *Harvard Business Review, 50*(4), 37-56.

[2]Hornsby, J. S., & Karatko, D. F. (1990). Human resource management in small business: Critical issues for the 1990s. *Journal of Small Business Management, 28*(3), 9-18

[3]Cost-per-hire (CPH) is the average amount of recruiting dollars required to fill a position.

[4]SHRM Human Capital Database. [Unpublished data].

[5] Ibid.

[6]Baird, L., & Meshoulam. (1988). Managing two fits of strategic human resource management. *Academy of Management Review, 13*(1), 116-128.

[7]Super-large organizations of 10,000 or more employees were excluded as a staff-size breakdown because they were underrepresented in the sample.

[8]The HR-to-employee ratio is calculated by dividing the number of HR FTEs by the total number of FTEs in the organization and multiplying by 100.

[9]Mean differences are significant at the .05 level.

[10]Microsoft Research. (2004). *A diary study of task switching and interruptions.* Retrieved from http://research.microsoft.com/en-us/um/people/horvitz/taskdiary.pdf

[11]Mean differences are significant at the .05 level.

[12]HR-expense-to-FTE ratio is calculated by taking the HR expense for a given fiscal year and dividing that number by the number of FTEs in the organization.

[13]Mean differences are significant at the .05 level.

[14]Mean differences are significant at the .05 level.

[15]Datta, D., Guthrie, J. P., & Wright. (2003). *HRM and firm productivity: Does industry matter?* Ithaca, NY: Cornell University, School of Industrial and Labor Relations, Center for Advanced Human Resources.

[16]Eder, R., & Ferris, G. (1988). *The employment interview* (pp. 145-147). Newbury Park: Sage Publications.

[17]Mean differences are significant at the .05 level.

[18]Mean differences are significant at the .05 level.

[19]Kotey, B., & Sheridan, A. (2004). Changing HRM practices with firm growth. *Journal of Small Business and Enterprise Development, 11*(4), 474-485.

[20]TTF represents the number of calendar days from when the job requisition was opened until the offer was accepted by the candidate.

[21]Mean differences are significant at the .05 level.

[22]Mean differences are significant at the .05 level.

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