

Personnel Notebook

For Your Most Important Resource -- The Human Resource

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PART I. STAFF, BUDGETS, RESPONSIBILITIES

Some of us can remember the days of the personnel department when your job could be summed up by the phrase, "hire, fire, keep the records and carry watermelon to the picnic." Then employment regulations began to reshape the profession. Companies then began to concentrate on the importance of human relations and the development and fulfillment of the individual. Then in the early 1980s came the acceptance of the new title, Human Resources (HR). We are now at the point where employers know "we are who we hire." As the people change, so does the company. The company is the people. The profession is changing and the speed of change is increasing.

We need to stop occasionally and reorient ourselves to where we are and where we are going. This issue of "*Personnel Notebook*" will focus on the current demographics and statistics that tell us something about where we are now. Our next issue will take a look at some of the trends that are shaping the future of the HR function. We will use the following outline to do so.

- I. HR Staffs
- II. Budgets
- III. Responsibilities
- IV. Trends and Forecasts

In this issue of "*Personnel Notebook*," we will cover Sections I, II and III. In our next issue we will cover Section IV, Trends and Forecasts, which will reflect the changes we can now see and where they appear to be leading us.

Although drawn from many sources, the primary references for the data used in this issue of

"*Personnel Notebook*" are:

- "Human Resource Activities, Budgets and Staffs," Bureau of National Affairs (BNA)/ Society for Human Resource Management (SHRM) Survey No. 62 and No. 64.
- "Survey of Human Resource Trends Report," AON Consulting in partnership with SHRM.
- "Strategies, Practices, Trends and Retention Management," American Management Association (AMA) and the Saratoga Institute.

I. HR STAFFS

Despite a slight jump in HR staff size in 1995 followed by an equalizing drop in 1996, 1997 and 1998 reflected a reasonable norm for HR staff size, 1.0 staff members per 100 employees. The 1999 median dropped to 0.9. However, the surveys showed that differences occurred when such factors as specific industry and company size were considered. First, let's look at the differences for each of the 3 major industry sectors. Manufacturing companies reported 0.9 HR staff per 100 employees while non-manufacturing companies showed 1.0 HR staff per 100 employees and non-profit companies reported 0.8 HR staff per 100 employees. (See Chart No. 1.)

The size of the company was also a major factor in HR staff size. Smaller companies have a larger staff to employee ratio when compared to larger companies. Companies with less than 250 employees had 1.5 HR staff per 100 employees while companies with 2,500 or more employees

had 0.5 HR staff per 100 employees.

So, a company of 2,500 or more employees would normally have 12 to 13 HR staff full time. While a company of 800 employees would have 7 HR staff people. However, in that more than 90% of all U.S. workers work for small companies, the overwhelming majority of HR offices have 3 HR employees or less. (See Chart No. 1.)

Between the numbers, a few other items of interest are occurring.

- Forty-two percent (42%) of all reporting companies have been and are decreasing the HR staff. The majority of these staff reductions (56%) are in clerical or administrative support positions. Of those companies that have or are planning to add staff, the additions are almost all in the same clerical or administrative support positions.
- These figures are mostly useful for large companies and for those planning to be large. For small companies with 50 or more employees the reality is that due to the paper work load of regulations and documentation now imposed on companies, HR departments always have at least two or more employees. The HR principal and one (1) or two (2) administrative/clerical staff. Companies are sometimes very fortunate to have a knowledgeable HR principal who also does all the administrative and clerical load, however, usually one or the other function suffers.
- As company size increases (in number of employees), the ratio of HR staff to number of employees diminishes. That is to say that the number of HR people does not keep pace with the workload.

II. BUDGETS

Seven out of 10 companies require HR departments to submit and maintain a budget. Many small companies (under 250 employees) do not have a separate HR budget. In such cases, those expenditures are often covered in a governing department such as accounting or legal or as administrative or overhead costs.

The median cost for running an HR department was \$542,338. For companies under

250 employees, the amount was \$190,887 and for companies over 2,500 employees the amount was \$1,800,000. Note: HR department budgets include labor, materials, equipment, overhead and administrative costs, but do not include costs for company-wide benefits or insurances, only those of the HR staff. Recruiting costs were not used because 50% of the respondents charged some of the costs to the department hiring the candidate.

HR Budgets as a Percentage of Company's Total Operating Costs

When the HR budget was compared to the total operating costs of the company, the percentage for all companies combined was 0.8%. For manufacturers, it was 0.78%, for companies with less than 250 employees, HR represented 1.6% of the company's operating budget. (See Chart No. 2.)

Only slightly higher budgets are predicted over the next few years. This is largely attributed to expected increases in workforce sizes.

Budget Increases 1993 - 1999

1993	5.0%
1994	5.2%
1995	4.3%
1996	4.5%
1997	5.1%
1998	5.0%
1999	3.0%

HR Budgets as Employee Expenditures

Across the board, companies in 1999 spent \$740 per employee through their HR department. Manufacturers allowed HR budget totals equal to \$1,050 per employee. While companies with fewer than 250 employees spent \$1,246 per employee on their HR budgets. Companies with 250 or more employees allowed only \$346 per employee. (See Chart No. 3.)

HR Salaries

Median salaries for HR professionals for 1999 ranged from \$25,000 to \$165,100. The average increase in 1999 was 5.3%. Larger companies and business sector companies paid higher than smaller companies and non-business companies (schools, hospitals, non-profits, etc.).

The composite HR professional with the highest annual income (salary + cash bonus and/or cash profit sharing) in 1999 was an HR Director, graduate degree with 20 years or more experience, directing 50 or more HR practitioners in the full breadth of HR functions including industrial relations. He/she works for a manufacturer or a major merchandiser with 5,000 or more employees and annual sales in excess of \$1 billion. The median salary for this individual is \$80,000 with the highest paid exceeding \$550,000.

At the opposite end of this scale are the HR clerks supporting areas such as recruiting, interviewing, training, HRIS, benefits, compensation, etc. This group has a median salary of \$28,032 with the lowest earning just under \$16,000 per year.

In organizations with less than 500 employees, the HR Director's median salary was \$67,200. HR Directors with 20 years experience had a median salary of \$87,506. The median for those with 4 years experience was \$49,750.

HR Cost Per Hire

A common misconception is that the larger the company, the more efficiently they execute the recruiting process, thereby reducing their cost per hire. The statistics don't seem to bear that out. In fact, the smallest companies reported the lowest costs per hire figures. (See following Cost Per Hire, pg. 4.)

III. RESPONSIBILITIES

HR is certainly undergoing a state of change. While more responsibilities are being assigned to HR, almost half of all surveyed companies are reporting cuts in HR staff size. There is also more outsourcing of projects that would otherwise tie up the system or require specialized expertise. Twenty-seven percent (27%) of all surveyed companies are adding new responsibilities to the

CHART 1

HR STAFFING BY INDUSTRY (Number of HR Staff per 100 Employees)

	<u>1997</u>	<u>1999</u>
<u>All Companies</u>	1.0	0.9
A. Manufacturing	1.0	1.0
B. Non-Manufacturing	1.1	1.0
Transportation, Communications & Utilities	1.0	1.0
High Technology and Communications	1.2	1.2
Professional and Business Services	0.8	0.7
Banking and Finance	1.5	1.3
Wholesale and Retail Trade	0.6	0.7
C. Non-Business	0.8	0.8
Health Care	0.7	0.6
Education and government	0.8	0.8

HR STAFF BY COMPANY SIZE (Number of HR Staff per 100 Employees)

<u>All Companies</u>	1.0	0.9
Less than 250 employees	1.7	1.5
250 to 499 employees	1.0	1.0
500 to 999 employees	0.9	0.9
1,000 to 2,499 employees	0.7	0.7
2,500 or more employees	0.5	0.5

Cost Per Hire (All Companies)

Job Category	Lowest Percentile	Avg.	Highest Percentile
Clerical/Admin.	\$300	\$800	\$2,000
Production/Operations	300	800	2,000
Supervisor	1,000	2,500	7,500
Professional/Techn./Sales	1,000	3,000	9,800
Manager	2,000	5,000	15,000
Executive	4,000	15,000	40,000

Cost Per Hire (By Company Size)

Job Category	Less than 1,000	1,000 to 2,999	3,000 to 9,999	10,000+
Clerical/Admin.	\$700	\$800	\$1,000	\$750
Production/Operations	550	1,000	1,000	700
Supervisor	2,000	3,000	3,000	2,000
Prof./Techn./Sales	2,500	3,000	4,500	2,500
Manager	4,000	5,000	6,000	5,000
Executive	10,000	20,000	20,000	12,000

HR function, while only 7% are removing any responsibilities. Sixty-two percent (62%) are outsourcing HR programs to outside independent contractors. Programs being outsourced include employee assistance programs (EAPs), Affirmative Action Programs (AAPs), outplacement services, employee handbooks, position descriptions, management training and benefits administration.

There were no major differences in the responsibilities assigned to HR when comparisons were made by industry type or company size. Some of the differences noticed were as follows:

The HR departments of non-business organizations (schools, hospitals, non-profits, etc.) were assigned fewer responsibilities than business-related companies. Responsibilities normally not assigned to non-business companies included safety and facilities, college recruiting, recreation, communication, drug testing and organizational development.

Most companies assign HR activities exclusively to the HR department. In some companies, HR functions are shared between HR and other departments and in some cases specific HR activities were assigned to other departments. Chart No. 4 shows nine major HR activities and the percentage of companies that report assigning them exclusively to the HR department or shared with other departments or assigned to departments other than HR.

Between the numbers in Chart No. 4 are some additional items of interest.

Relocation services are available in 83% of the responding manufacturing firms, compared with just 66% of non-manufacturing firms and only 37% of the non-business firms. The same is true for productivity or quality programs. Manufacturing firms are far more likely to provide them (85%) than non-manufacturing (60%). While 64% of non-business firms reported using them. Manufacturers were also the most likely to use drug testing, profit-sharing, outplacement, international HR administration and labor relations.

Across the breadth of the HR activities listed in Chart No. 4, manufacturers report assigning all or most of these activities to HR exclusively. Non-manufacturers assign about 70%, while non-business firms assign a little over 50% of the list exclusively to HR.

A few final observations. As employee count increases, the amount companies spend per employee decreases.

The number of functions assigned to HR departments continue to grow but the budgets are not proportionately increased.

Hospitals, health care facilities, schools and non-business companies generally have the lowest HR staff to company size, budget allocations per employee and HR percentage of company's operating budget.

I hope this snapshot of the HR function will give you a guide or a benchmark with which you can better understand the changes that are occurring in our profession. In our next issue of "Personnel Notebook," we will examine the trends and forecasts shaping up for the future HR exclusively. Non-manufacturers assign about 70%, while non-business firms assign a little over 50% of the list exclusively to HR.

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occurring in our profession. In our next issue of "*Personnel Notebook*," we will examine the trends and forecasts shaping up for the future HR function. Is there a Generation X in your future?

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CHART NO. 2

HR BUDGETS AS A PERCENTAGE
OF TOTAL OPERATING COSTS

BY INDUSTRY:

	<u>All Companies</u>	0.9%
A.	Manufacturing	0.8%
B.	Non-Manufacturing	1.4%
	Transportation, Communications & Utilities	0.8%
	Banking and Finance	1.9%
C.	Non-Business	0.7%
	Health Care	0.8%
	Education and government	0.5%

BY SIZE:

Under 250 employees	1.6%
250 to 499 employees	1.7%
500 to 999 employees	0.8%
1,000 to 2,499 employees	0.8%
2,500 or more employees	0.4%

Note: Total Operating budget = labor, materials, overhead, sales and administration for entire company.

CHART NO. 3

HR DEPARTMENT EXPENDITURES PER EMPLOYEE
(1999)

BY INDUSTRY:

	<u>All Companies</u>	\$740
A.	Manufacturing	\$1,050
B.	Non-Manufacturing	\$1,008
	Transportation, Communications & Utilities	\$816
	Banking and Finance	\$1,289
	Wholesale and Retail Trade	\$458
C.	Non-Business	\$510
	Health Care	\$458
	Education and government	\$505

BY SIZE:

<u>All Companies</u>	\$740
Under 250 employees	\$1,246
250 to 499 employees	\$1,076
500 to 999 employees	\$850
1,000 to 2,499 employees	\$604
2,500 or more employees	\$346

CHART NO. 4

<u>ACTIVITY</u>	<u>RESPONSIBILITY IS ASSIGNED TO:</u>		
	<u>HR Dept. Only</u>	<u>HR & Other Dept.</u>	<u>Only Other Dept.</u>
Employment & Recruiting			
Interviews	29%	65%	6%
Recruiting (non-college)	66	32	2
Pre-employment testing (not drugs)	78	18	4
College recruiting	73	24	3
Training & Development			
New Employee orientation	56	41	2
Supervisory/Management training	45	45	10
Performance appraisal	35	56	10
Skills training	9	54	27
Tuition aid/scholarships	73	19	8
Career planning/development	42	50	8
Productivity/quality programs	12	58	30
Compensation			
Wage/salary administration	77	19	4
Job descriptions	55	43	2
Payroll administration	33	26	42
Job evaluation & analysis	68	30	2
Executive compensation	57	27	16
Incentive pay plans	48	42	10
Benefits			
Vacation/leave policies	78	20	2
Unemployment compensation	84	11	5
Insurance benefits	88	7	5
Pension/retirement	77	16	8
Profit sharing/stock plan	56	25	20
Employee Services			
Recreation/social programs	42	42	16
Employee Assistance Program (EAP)	82	8	10
Retirement counseling	84	9	8
Relocation	79	13	9
Outplacement	91	6	3
Employee and Community Relations			
Disciplinary procedures	45	51	4
Complaint/grievance procedures	55	42	2
Exit interviews	85	13	2
Award recognition programs	64	32	4
Employee communications/publications	35	47	18
EEO compliance/Affirmative Action Programs	85	11	4
Community relations/contributions	23	45	31
Attitude surveys	71	23	6
Suggestion systems	46	40	14
Personnel Records			
Personnel record keeping	82	17	2
Promotion/transfer/separation processing	69	29	2
HR information systems (HRIS)	68	28	3
Health and Safety			
Workers' Compensation management	66	21	13
Safety training and inspections	27	43	30
Health/wellness programs	72	18	11
Drug testing	78	13	10
Strategic Planning			
HR forecasting/planning	67	30	3
Organizational development	37	55	8
Mergers and acquisitions	43	48	10
International personnel/HR administration	55	35	9