

THE METRICS STANDARD

Establishing Standards for Core Human Capital Measures

Offered by the Corporate Leadership Council in partnership with Infohrm



www.executiveboard.com



www.infohrm.com

HR EXPENSE BREAKDOWN—FUNCTION

Application	This measure will be most useful for organizations that wish to understand the functional investment and focus of the human resources function.
Description	Distribution of HR expense by HR function.
Formula	$\text{HR Expense}.\text{[HR Function]} / \text{HR Expense} * 100$

Interpretation HR Expense Breakdown—Function indicates the composition of human resources operating expenses by functional area. Graphically, the data are presented as a percentage of total HR expenses, i.e., a stacked bar graph. Included in this metric are expenses from those functions that have an identifiable organizational connection to the Human Resources department. Expenses might include staff compensation and benefits, travel, technology, training, and other operating costs.

HR functions may be considered in terms of “core” and “noncore.” Core HR functions, those that typically fall into HR’s area of responsibility, include

- Compensation and Benefits
- Staffing/Recruiting
- Learning and Development
- Generalists/Line Support
- Industrial and Employee Relations
- HR Policy, Strategy, and Organization Development
- HR Function Management and Administration

Noncore functions, those that frequently report through other organizational areas, include payroll, diversity, performance management, HR information management, and occupational health and safety.

HR Expense Breakdown—Function can help a human resources function understand where functional emphasis lies (in terms of investment in those functions) and how that emphasis supports business strategies. For example, an organization growing rapidly might expect to have a functional emphasis in staffing and recruiting to help ensure new positions are staffed efficiently and effectively. An organization undergoing a workforce skills transformation might expect a heavy functional emphasis on learning and development to effect skills enhancement.

In addition to organizational and human capital strategy, other factors that influence HR Expense Breakdown—Function includes the operational efficiency of functions, the centralization or decentralization of functions, and the balance between strategic and transactional activities within HR.

Data Sourcing Organizations typically obtain HR expense information from financial ledger tables. Functional expenses are often identified by either the cost centers to which expenses are applied within an organizational structure or by an identifier applied to expense line items. Overhead expenses might be assigned to functions through expense allocation processes.



Cost



Composition



Bench-M



Data-M

Considerations

Analysis	Limitations
<p>Where applicable and feasible, organizations may analyze this measure by organizational unit or geography to understand how investment in human resource functions varies across the organization. It may also be useful to analyze functional expenses by expense type to understand not only the relative magnitude of functional investments but also the nature of those investments.</p>	<p>HR Expense Breakdown—Function does not indicate the value received by the organization from investment in any human resource function, nor does it indicate how HR expenses compare to other operating expenses.</p>

Targets Organizations would need to set targets for the individual components of this breakdown measure. Targets will depend on the staffing model and organizational structure used within HR, as well as the relative emphasis on particular functional areas in support of organizational strategies. Targets may also depend on the size of the organization, as some HR functional areas can benefit from economies of scale as the workforce grows.

Variations	Related Measures
<ul style="list-style-type: none"> • HR Expense Breakdown—Function—Outsourcing/Consulting • HR Expense Breakdown—Function—Overhead • HR Expense Breakdown—Function—Staff Costs • HR Expense Breakdown—Function—Technology 	<ul style="list-style-type: none"> • Average Termination Value • Employee Retention Index • Employment Brand Strength • Grievance Rate • HR Customer Satisfaction • HR Expense Breakdown—Type • HR Expense per FTE • HR Operating Expense Rate • HR Revenue Expense Rate • HR Staffing Breakdown • HR Staffing Coverage Ratio • On-Time Talent Delivery Factor • Recruitment Cost per Hire • Return on Human Investment Ratio • Training Quality • Work Units per FTE

HR SERVICE DELIVERY: HR Expense