HR Staffing Ratio

Starting point for the HR Efficiency conversation

"How many HR employees do we need for a company our size?" Every HR leader has been asked this question multiple times in their career. In many cases, the question is asked in the context of improving company efficiency. So, the question should really be interpreted as, *"Can't you make do with less?"*

In this article, we provide a range of benchmarks as well as qualitative guidance on how to respond to these questions.

Understanding the HR Staffing Ratio

There are several metrics that show HR efficiency – the most frequently used ones being:

- **HR Staffing Ratio:** Ratio of total company FTEs to HR FTEs.
- **HR Spend Percent:** Total HR spend as % of company revenue.
- **HR Cost Per Employee:** Total HR spend divided by total number of company employees.

None of these metrics provides a full picture by itself. Ideally all three metrics should be used together to get a full picture of HR efficiency. For a broader picture of how HR is doing, these **efficiency** metrics should be considered along with **effectiveness** metrics such as employee engagement, regrettable attrition, time to hire, etc. This article is focused on only one of the efficiency metrics – the **HR Staffing Ratio** – often the most salient target measure for any HR transformation.

What Are the Benchmarks?

There is a wide range of benchmark values, ranging from ~50 to ~200 total company FTEs for every HR FTE.

SHRM has a benchmarking service[1] which provides data by company size (as measured by total FTEs). It shows that larger companies with over 5,000 FTEs have 1 HR FTE for every ~200 total FTEs[2]. The ratio drops to 172 for companies with 500 – 4,999 FTEs, 84 for companies with 100 –

[1] https://www.shrm.org/topics-tools/research/shrm-benchmarking#accordion-a5599cb1d9-item-b5dbc3c3b3
[2] The SHRM report shows a median value of 0.07 for companies with >5,000 FTEs, which would translate to a ratio of 100/0.07 = 1,429. We consider this an outlier and looked at the average of 208 instead of the median.

499 FTEs, and 38 for the smallest companies with 2 – 99 FTEs.[3] The overall median is 90 and the average is 59, suggesting that the data is skewed left (i.e., a longer tail of companies with lower ratios).

Gartner has a similar benchmarking service which provides data by industry[4]. The range is between a high of 78 for Manufacturing and a low of 49 for Banking & Financial Services. The cross-industry median of 58 is almost identical to the SHRM average (59), but significantly lower than the SHRM median (90).

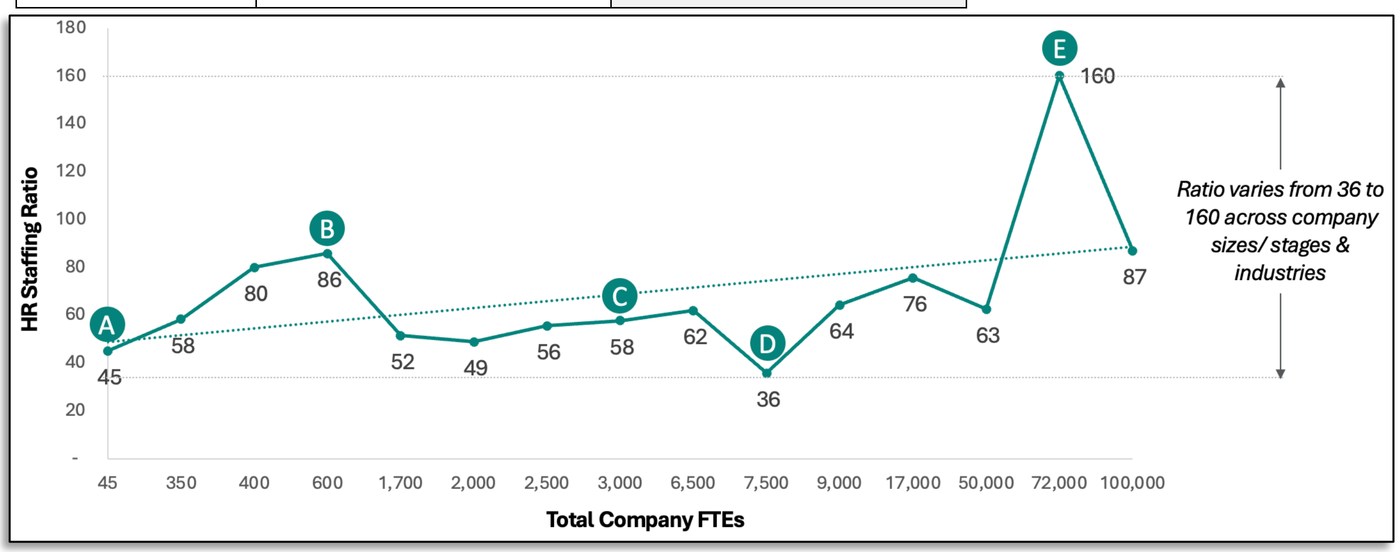
The size-based variation (SHRM) is 426% while the industry-based variation (Gartner) is 59%. This leads us to conclude that company size (as measured by total FTEs) is more of a driver than industry.

It is also worth noting what is and isn't included in these staffing ratios. They include all HR functions (compensation, benefits, talent, learning, HRBPs, HR shared services etc.). They do not include functions like Facilities, Communications, EHS, etc. that may report to the CHRO but are not HR functions.

For a final validation of these public-domain benchmarks, we turned to Insightory's own database. We selected 15 companies across a wide spectrum of size and industry. These are companies with whom we been working for several years, and where we have a good understanding of their HR Operating Models and the context behind their HR Staffing Ratios.

Insightory 15-Company Sample

	Total Employee FTEs	HR Staffing Ratio
Median	**3,000**	**62**
Average	**18,200**	**69**



There is a high correlation (R = 0.62) between Total Company FTEs and the HR Staffing Ratio.

The table below provides additional context behind the ratio for five of these companies.

[3] Other than the companies with >5,000 FTEs where we used the average, all other values are medians.
[4] https://www.gartner.com/en/human-resources/trends/benchmarking-hr-budgets-and-staffing

A	A 3-year-old SaaS startup with 45 employees. The HR leader is a team of one, though she leverages the PE team for talent acquisition, and a variety of consultants, brokers and advisors for projects as needed. Finance handles payroll. Will likely add an HR Coordinator by the end of 2024.
B	A 600-employee healthcare company that has grown through ~8 small acquisitions. HR has historically been completely decentralized, which has led to a wide range of programs and policies and created compliance risk. New CHRO is starting to centralize HR, but some shadow functions remain at the sites. The CHRO is using interim resources for project-based work.
C	A 3,000-employee tech services company. Rapid growth through M&A. Most acquisitions came without any HR staff, so the CHRO has cautiously grown HR headcount from 30 to 52 over a 5-year period commensurate with headcount and employee footprint (majority of the growth has been global).
D	A 7,500-employee software company. Recognizes there may be too many employees in HR, which was a result of a very high-touch business model and over 12 years of >40-50% growth during which cost structure was not a priority. Recently launched a transformation program across all G&A functions, targeting 15% efficiency improvement without impacting service delivery.
E	A 70,000-employee manufacturing company with plants in 4 countries and sales in over 50 countries. Had a high-touch staffing model until 2015 with HR Staffing Ratios in the ~80–85 range. A focused HR transformation drove higher efficiency (while maintaining eNPS) and heavy outsourcing of HR Operations. Including outsourced FTEs would show a ratio in the ~105 range.

What Is the Right Number for Your Company?

We recommend establishing a target ratio based on your company size (number of FTEs) first and industry second. You may need to consider additional factors which are typically not reflected in any benchmark data, e.g.:

1. Level of investment in – and usage of – HR technology.
2. Degree of centralization of different business units and functions.
3. Geographical dispersion of employees across sites and countries.
4. HR service philosophy – high touch vs. low touch.
5. Degree of outsourcing versus in-house support.

If an unusually large proportion of your HR team is outsourced, you may either add the outsourced employees into HR FTE count or establish a target ratio in the 75th percentile range. Similarly, you could have a frank conversation with your CEO and CFO about what it takes to maintain a high-touch HR model and establish a target that is ~10% below the median. However, you should be careful about making so many adjustments that the benchmarks lose their relevance. At a certain point, the benchmarks must be accepted for what they are, i.e., a **starting point for the HR efficiency conversation**.

As noted previously, this article does not cover effectiveness of the function. It is not uncommon to see an HR function that is well staffed (e.g., an HR staffing ratio of 45 in a large company) and yet not achieving its functional KPIs. Equally often, we see very lean HR functions (e.g., an HR staffing ratio of 80+ in a small company) that are delivering on all their commitments, and more.

A narrow focus on the staffing ratio alone won't help the HR team drive meaningful improvements. By the same token, saying that we can ignore the staffing ratio because "we don't have good HR technology" or simply because "we are different" isn't a sustainable proposition either.

In subsequent articles, we will explore the vectors that drive HR efficiency – including shared service centers, automation, process improvements, self-service and – increasingly – the use of AI.

Key Takeaways

1. The HR Staffing Ratio is a necessary (though not sufficient) metric for measuring HR efficiency.
2. The ratio tends to be in the ~50-200 range, with 60 being a representative number across company size and industry.
3. Company size has a bigger impact on the benchmark than industry.
4. The target values can be modified slightly for company-specific considerations (e.g., usage of technology).
5. Once a target is established, there is a range of levers available to improve the ratio over time.
6. The overall goal shouldn't be to improve efficiency at the cost of effectiveness (or vice versa). It should be about maintaining one while improving the other or improving both.