

The incalculable benefits of Human Resources

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Although HR activities are viewed as strategically vital, measuring their impact on the company's bottom line remains a huge challenge.

HR policies undoubtedly play a role in a company's success. But do they generate returns on investment (ROI)?

Ask an HR manager of a Spanish company, and you will probably be met with silence, as only 1 in 20 HR departments says it has the appropriate tools for measuring the returns generated by its activities.

This is one of the findings of a [study](#) prepared by IESE's International Research Center on Organizations (IRCO) and ADP, a global provider of business outsourcing solutions.

A strategic area

Nearly 3 out of every 4 companies surveyed view the HR department as key to the company's strategic operations.

Admittedly, those surveyed were all HR directors. Yet this bias aside, their organizational importance was reflected in the fact that 56 percent of the companies appointed the HR director to the management committee.

That said, not all the functions carried out by the HR department are viewed in the same strategic light. While training and development policies are considered long-term priorities,

compensation and benefits policies are generally seen as less strategically important.

Cost or profit center?

HR activities are still broadly viewed by Spanish companies as costs rather than benefits.

For example, 80 percent of respondents treat training and development as an expense, and more than 60 percent perceive compensation and other benefits in the same light.

In fact, the only activities considered to be investments are related to recruitment and selection, with 46 percent of respondents believing these are activities that add value.

Most common indicators

When weighing up HR policies, companies seem to lack appropriate tools for measuring the return.

For example, when assessing the value of recruitment, companies often limit the analysis to calculating the average time required to fill a vacancy, or the percentage of those filled internally, while failing to assess the suitability or adaptability of candidates.

Similarly, in terms of staff development policies, companies tend to measure the average number of training hours per employee, rather than the usefulness or transformative impact of the training.

In the case of compensation and benefits policies, companies tend to take into consideration the cost of wages as a percentage of income and the percentage of employees in the salary bands.

Moving toward outsourcing

The study also reveals a significant upward trend in the outsourcing of HR functions, a practice used by just 12 percent of companies in 2010 and which has since climbed to 33 percent.

The companies that get the most out of these services tend to be either very large or very small. For larger companies, outsourcing helps them cut costs and raise productivity, while smaller firms often do so because they lack sufficient personnel to justify setting up their own in-house HR departments.

Currently the most commonly outsourced activities are staff training and recruitment. By contrast, evaluation and benefits have largely been kept in-house.

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