KPMG

cutting through complexity

HR Structure and Staff Headcount

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Introduction

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2014 was a challenging year for Russian companies for a number of reasons. The market situation and business climate were changing very rapidly, which had a great impact on the decision-making process in companies. When making decisions, companies cannot now rely on last year's data, and when developing new strategies and setting budgets for the forthcoming year, the most up-to-date and relevant information is needed. With this in mind, we decided to launch a rapid survey to assess the changes witnessed in 2014.

We hope that this report will help HR Directors and Top Managers evaluate the effectiveness of their HR management functions and provide them with the necessary information to make the right decisions in relation to their HR functions.

We wish to thank everyone who participated in the survey and we look forward to further productive collaboration in the future.

Kind regards,

Alevtina Borisova
Partner, Head of People Services Group
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ABOUT THE SURVEY

Timeframe

Data were collected between 12 September and 3 October 2014.

Respondents

79 leading Russian and foreign companies from various industries took part in the survey. More detailed information about the respondents is given in the Information on respondents section below.

Methodology

Data for the survey were collected via an electronic questionnaire. The information in the final report is presented as a statistical summary – the report does not contain individual data on the companies which participated.

Key findings

The headcount of HR functions saw no significant change during for the first half of 2014 (1H14); no pronounced trend towards making lay-offs was observed.

The most traditional HR functions are the following: Administration, Recruitment and Adaptation, Learning and Development, Performance Appraisal, Headcount and HR Cost management, Benefits Administration and HR Analytics.

Average employee turnover during 1H14 was 14.8 percent. Industry specifics greatly affect this indicator; however, there is no apparent correlation between the number of HR Specialists and employee turnover.

The data showed that the workload per HR Specialist working in the most popular HR functions is 82 employees, while the average workload in the HR Administration function is 336, and in Payroll 633.

The most frequently outsourced functions are Migration (14 percent); Recruitment and Adaptation, Learning and Development, and Payroll (all 9 percent). Shared Service Centres (SSCs) are less popular and only 5 percent of companies use these to calculate payroll.

The optimisation of HR functions through the use of HR software tools remains low: only 5 percent of respondents use comprehensive IT systems to optimise and link HR functions.

The level of development for HR Analytics continues to be rather weak: the majority of companies regularly evaluate and track only 11–15 basic metrics related to employee performance. In addition, there appears to be no steady correlation between the use of HR software tools and the development of HR Analytics.

HR Structure

HR structures have witnessed significant changes in recent years. When jobseekers had the upper hand in many industries, employers had to adjust to the rules of a “jobseekers market” and expand their HR Departments accordingly, with a focus on recruitment, employer brand promotion, educational and corporate programmes, and improving compensation packages in order to be able to retain and attract employees. Through the survey we sought to ascertain whether the changing economic conditions were having an impact on HR structures and headcount.

HR Business Partner

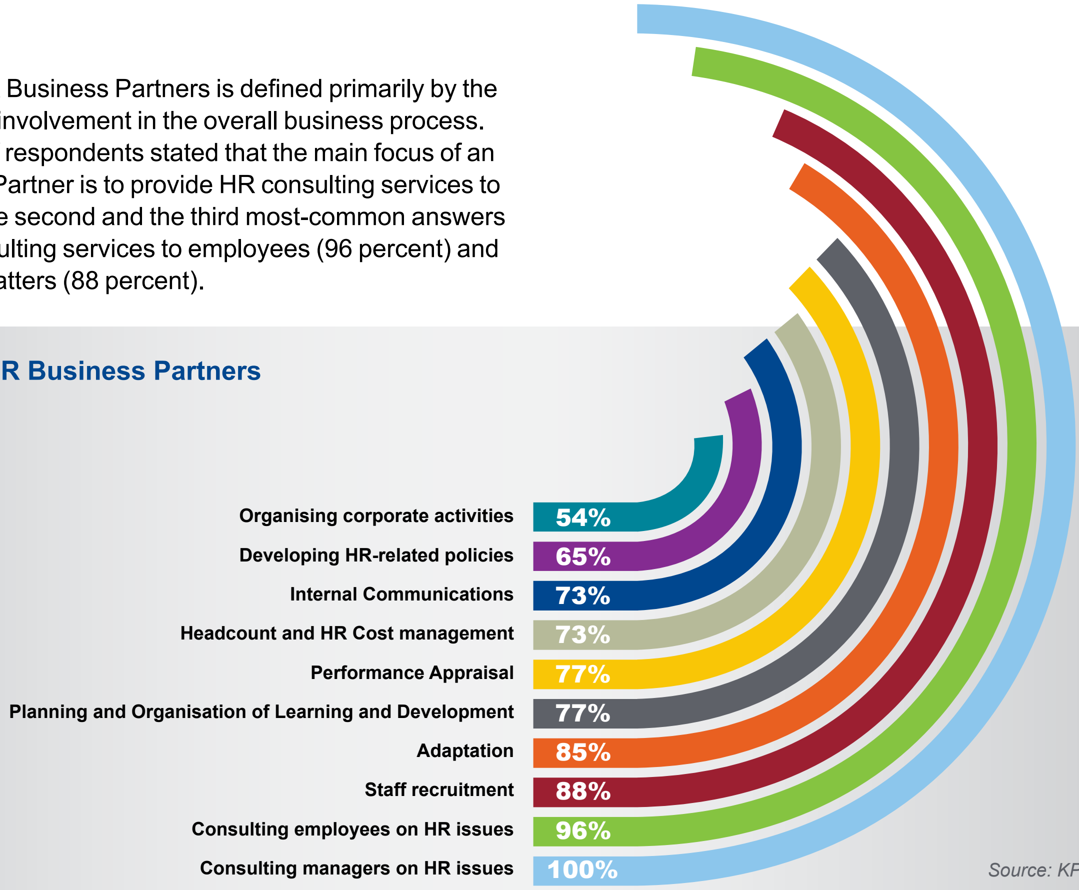
*Only **37 percent** of companies indicated that the position of HR Business Partner exists within their HR structure. Worth noting is that most of these companies employ more than 1,000 staff.*

HR structures in contemporary Russian and foreign companies are based not only on functional split. Apart from HR Generalists, which exist in large- and medium-sized companies with regional branches, HR Business Partners serve as internal customers that order services from central HR Units in such areas as Recruitment and Learning and Development. We observed that there is no clear understanding of the term “HR Business Partner”. During the data-collection process, respondents asked various questions about this position, and got it mixed up with HR Manager and HR Generalist. Therefore, one of the aims of the survey was to find out how companies interpret this function. Traditionally, HR Business Partners are professionals who are actively involved in the business process and contribute to the realisation and development of HR management strategies. In essence, HR Business Partners serve as internal consultants who work within a particular department and support business leaders on various HR matters. They also help develop HR management solutions aimed at bringing maximum benefit to the business.

According to the survey results, only 37 percent of companies indicated that the position of HR Business Partner exists within their HR structure. Worth noting is that most of these companies employ more than 1,000 staff, and companies with HR Business Partners are represented by both foreign and Russian companies.

The role of HR Business Partners is defined primarily by the extent of their involvement in the overall business process. 100 percent of respondents stated that the main focus of an HR Business Partner is to provide HR consulting services to managers. The second and the third most-common answers were HR consulting services to employees (96 percent) and recruitment matters (88 percent).

Roles of HR Business Partners



Source: KPMG analysis

A small number of respondents indicated that in their organisations a number of specific functions are performed by an SSC (primarily, payroll services). However, in HR Departments there appears to be no clear understanding of what an SSC means. For instance, many companies long ago centralised learning and development activities by establishing learning centres or even corporate universities, but still do not classify these under the SSC concept.

The most frequently outsourced functions to individuals (sole proprietors) or external providers (companies) are Migration (14 percent); Recruitment, Learning and Development, and Payroll (all 9 percent). Companies outsourcing HR functions usually have a workforce of between 1,000 and 5,000.

According to the survey results, 3 percent of companies regularly use freelancers to perform certain Recruitment and Learning and Development functions, in order to economise on fixed costs and to avoid an increase in headcount.

13 percent of respondents indicated that in 2015 they plan to transfer certain HR functions to an SSC or to use outsourcing. Out of these, nine companies are considering establishing an SSC, and are mainly planning to outsource HR Administration, then Payroll, Recruitment, Learning and Development and Reporting. Furthermore, three companies plan to outsource functions such as Recruitment, HR Administration, Payroll, Work Space Evaluation and Performance Appraisal

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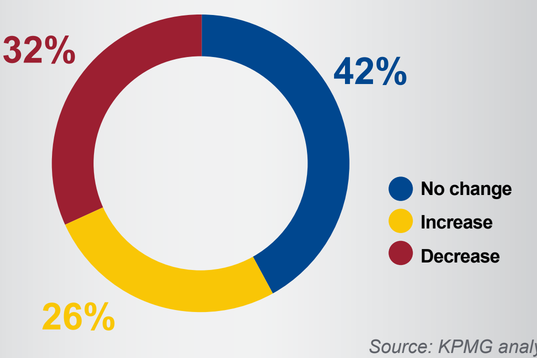
Changes in HR headcount in 1H14

The first half of the year did not see any significant movements in HR headcount, which remained stable in 42 percent of companies, decreased in 32 percent and rose in 26 percent. The overall magnitude of change did not exceed 10 percent.



Source: KPMG analysis

Average workload per HR Specialist

Data obtained during the survey showed that HR structures in companies vary, which makes the process of comparing different HR functions in terms of headcount more complex.

Large companies indicated that there is no clear functional split in regional HR Departments, which means that dividing their HR headcount by functions becomes a quite complicated task.

HR structures vary from company to company. The most traditional functions include Recruitment and Adaptation, HR Administration, Learning and Development, Headcount and HR Cost management. However, even these functions are missing in some companies. Therefore, for the sake of data accuracy, we applied a number of approaches to assess individual workloads per HR Specialist.

According to our survey, the average workload per HR Specialist serving in the most popular HR functions is 82 employees. If the headcount of HR Specialists is calculated according to all HR functions, the figure declines to 66.

Workloads per HR Specialist

The survey results showed considerable variations in workloads for HR Specialists working for Russian and foreign companies.

No correlation was identified between HR workload and level of employee turnover. This may be explained by the involvement of HR Line Managers in Recruitment, Adaptation and Learning and Development activities in companies which have high levels of employee turnover. Average employee turnover in 1H14 was 14.8 percent. However, this indicator is very dependent on industry specifics.

Due to large differences in HR structure and the level of development of HR functions, the workload per employee was calculated only for Recruitment, HR Administration and Payroll. These results showed considerable variations in workloads for HR Specialists working for Russian and foreign companies. For example, the HR Administration Specialist in a Russian company on average serves 366 employees, whereas the figure for a specialist working in a foreign company is 304. A more significant difference can be observed in the Payroll function, where one HR Specialist in a Russian company serves 750 employees, compared to 563 in a foreign one.

Average workload per HR Specialist

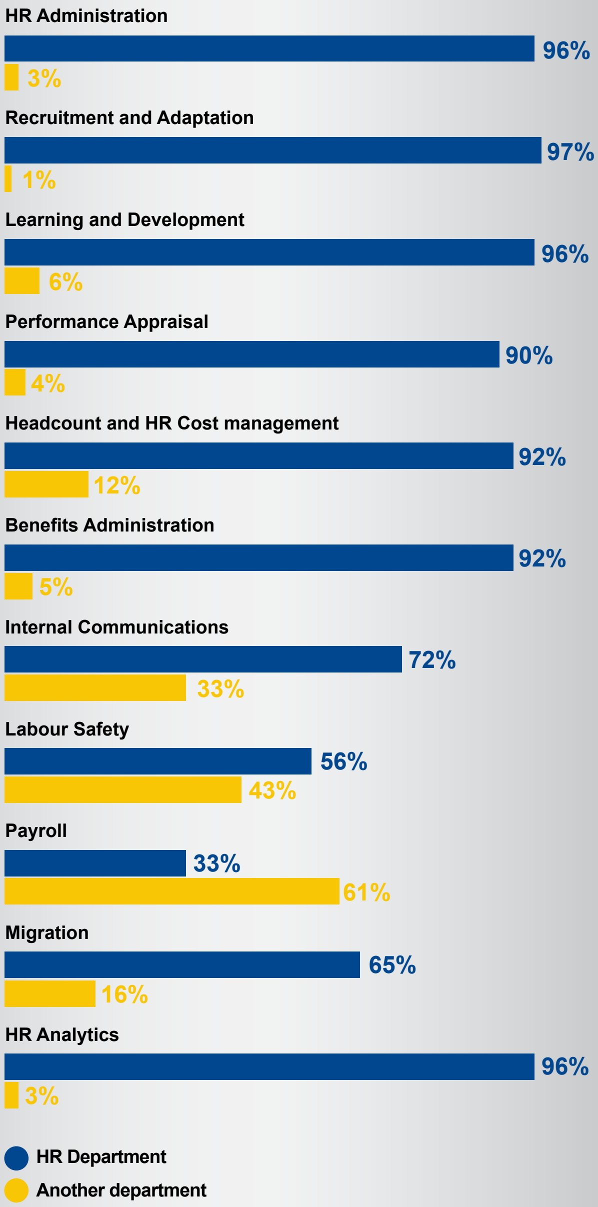
Source: KPMG analysis

HR Department functions

The most traditional HR Department functions (according to more than 90 percent of responses) are HR Administration, Recruiting and Adaptation, Learning and Development, and also Performance Appraisal, Headcount and HR Cost management.

According to the survey, the Payroll (61 percent), Internal Communications (33 percent), Labour Safety (43 percent) and Migration (16 percent) functions are often established in other departments of the company. In addition, 12 percent of respondents stated that the Headcount and HR Cost management functions are also performed in other units.

Localisation of HR functions



Source: KPMG analysis

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HR Administration

The HR Administration function traditionally falls under the remit of the HR Department. Out of all respondents, only two reported that the HR Administration is a function of another department, while a further two outsource this function. SSCs, supporting the HR Administration function of various divisions in one region, have been set up in two companies.

Compensation and Benefits

Traditionally, the Headcount and HR Cost management function can be performed by specially allocated units, such as Payroll and (partially) by the HR Administration function. In some companies this function is performed by the department of organisational development. The Administration of Benefits does always come under the remit of HR Departments – in 5 percent of companies other departments perform this function.

Recruiting and Employee Adaptation

Only one company out of all respondents outsources the recruitment function to an external provider, while two companies regularly engage freelancers. The average number of monthly vacancies per Recruiter for 1H14 was 13.

According to the survey results, HR Business Partners in companies are also responsible for the Recruitment function, with this taking up an average of 18.5 percent of their working time.

Payroll

According to the survey results, the Payroll function is usually the responsibility of another department (61 percent). 5 percent of respondents stated that this function is handled by an SSC (mainly companies with a workforce of between 1,000 and 5,000). A slightly larger number of survey respondents (9 percent) outsource Payroll – usually these are medium-sized companies with a staff of up to 5,000. In the next year, three more companies are planning to begin outsourcing payroll.

The workload per Payroll Specialist is 633.

Evaluation, Learning and Development

Based on the respondents' answers it is difficult to make definite conclusions on the structure and size of these functions, since among the large companies surveyed, employees are not separately allocated to this function. For example, in a number of large companies with a high level of staff turnover, a specific sales business unit performs this function. According to the survey results, the workload per one Learning and Development Specialist in some cases can reach 1,800, thus indicating a lack of attention being paid to this function in organisations.

Migration

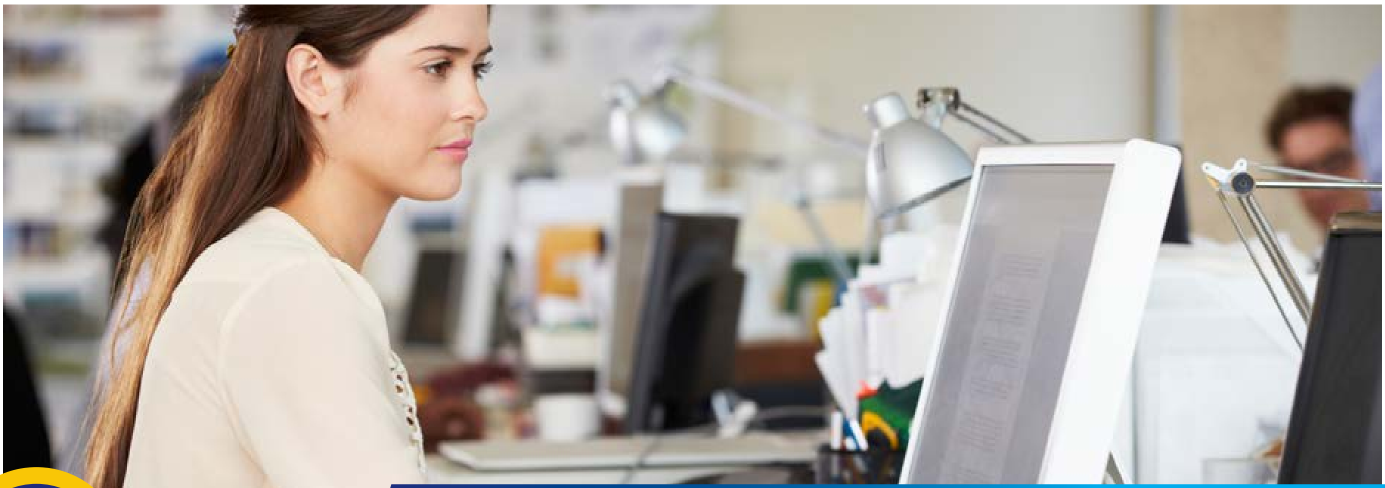
This function does not exist in all companies. For instance, only 65 percent of companies have this function as part of their HR Departments, and, as a rule, it is integrated as part of HR Administration. 14 percent of companies stated that this function is outsourced (typically in companies with foreign capital).

Internal Communications

HR Departments usually share this function with other departments (for example, the PR Department). According to the survey results, this function is present in companies with a workforce exceeding 1,000.

Labour Safety

The size of this function depends on the industry in which the company operates and the number of employees. Thus, a large number of Russian companies (57 percent) stated that this function is part of the HR Department.

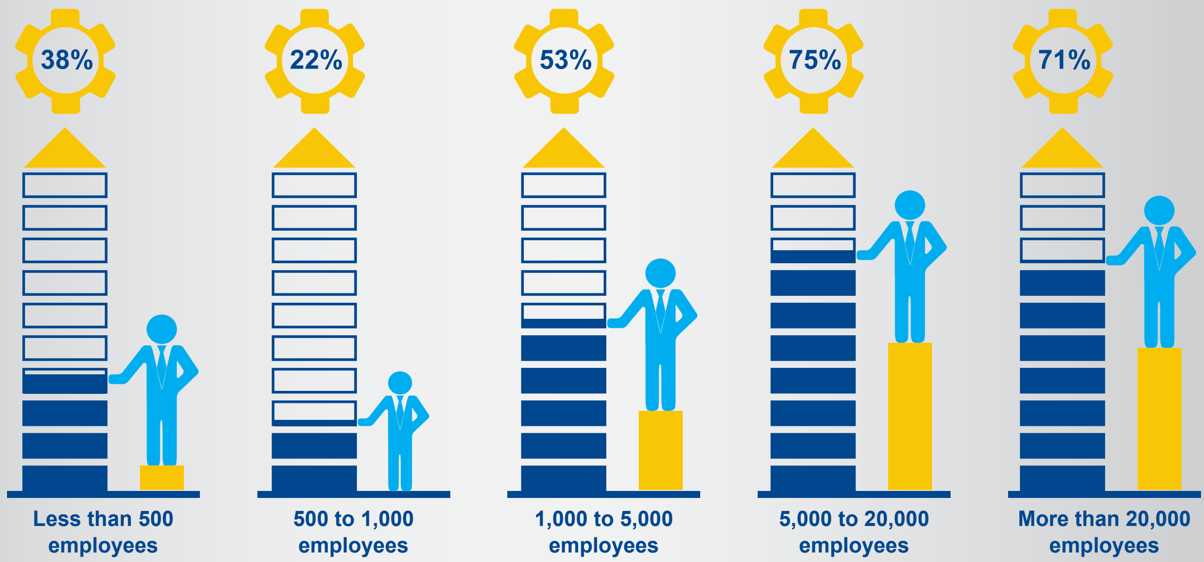


Level of HR function automation

The data obtained showed a low level of automation of HR processes, which appears to indicate extensive potential in the area. Only 5 percent of companies have a unified system to automate all HR functions. Furthermore, all HR processes, although performed in various systems, are also automated in 17 percent of companies, while another 37 percent of companies automate the majority of HR functions (6–7), and 13 percent automate only Payroll and HR Administration. The level of automation grows in proportion to the size of a company's headcount: in companies with a workforce of up to 1,000 approximately a third of functions are automated, whereas in companies with over 5,000 employees, three-quarters of functions are automated.

Administrative HR functions, such as HR Administration and Payroll, have for a long time been performed using software. The most widespread software is 1C, which is used by more than half of companies (61 percent). In some companies, more than one type of software can be used. The most frequent combination is 1C and SAP (with the latter being used for administrative functions).

Level of HR function automation (6–8 functions) in companies



Source: KPMG analysis

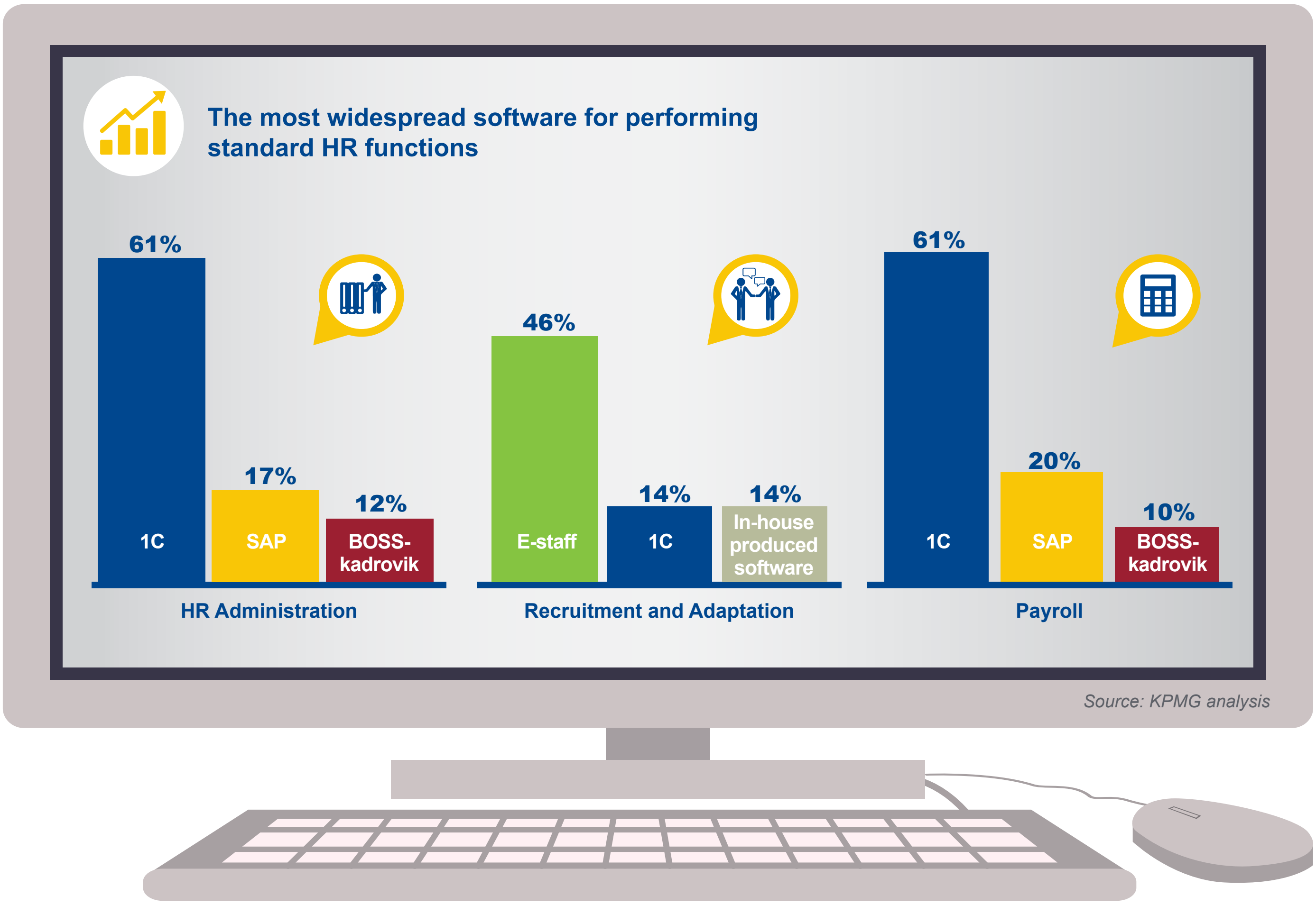
The lowest level of automation (43 percent) was observed in the field of headcount and HR Cost management, where MS Excel remains the main tool for collecting information and preparing reports in the majority of companies.

Despite 1C being the main choice for performing standard HR functions, it is not currently possible to identify a clear leader in the automation of other HR processes. Many survey respondents specified that there are a number of software products which allow the specific problems of one HR function to be solved. Web Tutor was cited as a leader in assessment processes and staff training. In addition, many companies also work with local web platforms or individually developed programmes. To conduct employee surveys, approximately 32 percent of companies prefer to engage external providers or to use various public online questionnaires. In general, the data obtained showed that the management of companies see no need to automate HR functions, and that there is still much room for improvement in HR automation.

Automation of HR functions

The data obtained showed that the management of companies see no need to automate HR functions, and that there is still much room for improvement in HR automation.

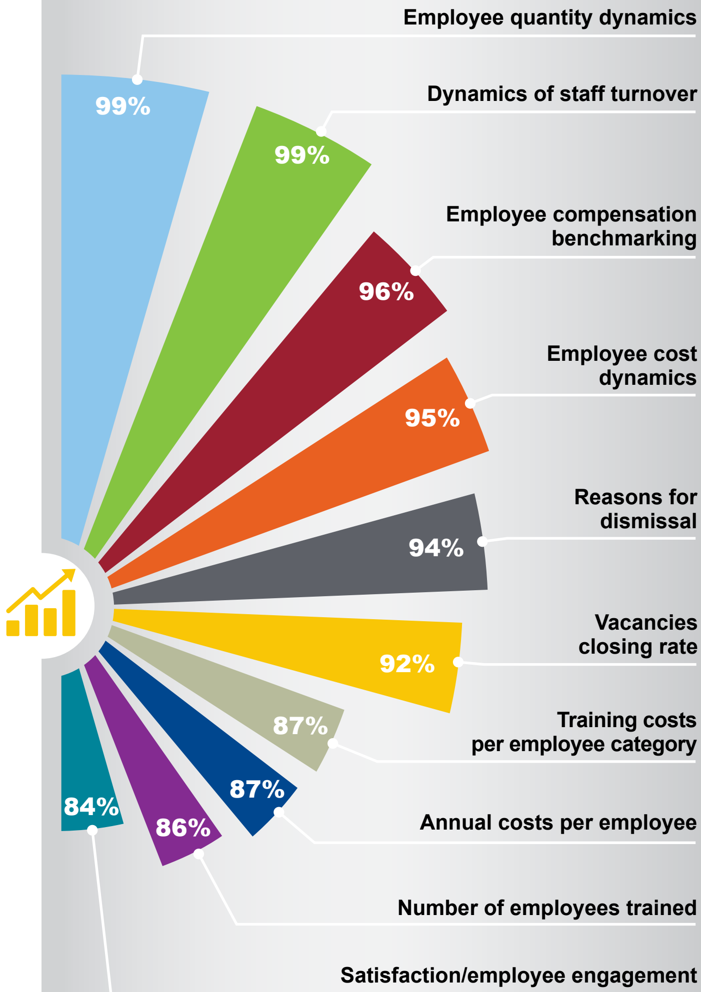
As we initially assumed, the use of complex automation systems as a rule increases the efficiency of HR Specialists. For example, the workload per payroll employee using SAP to calculate payroll is almost double the average, at 1,140 employees (with the average workload being 633). However, working with SAP is not significantly reflected in a growth in workload of HR Administration staff, and equals 375 (average: 336).



Source: KPMG analysis

Analysed HR indicators

Top-10 HR indicators



Source: KPMG analysis

During the survey a list of the 22 most widely used (in our opinion) HR indicators were suggested to respondents. According to the survey, 69 percent of companies analysed more than half of these indicators on a regular basis.

The survey identified the top-10 most popular indicators most often analysed by HR Specialists (←).

Among additional indicators selected by survey respondents are the following: level of KPI performance, demographic characteristic of the team, percentage of vacancies filled by internal candidates, and total amount of overtime. However, worth noting is that a significant number of respondents do not have an established system of HR Analytics, and indicators are not analysed systematically and regularly and cannot form a basis for making personnel-related decisions. In addition, the survey results did not demonstrate a clear correlation between the level of HR process automation and the level of HR analysis development.

HR Analytics

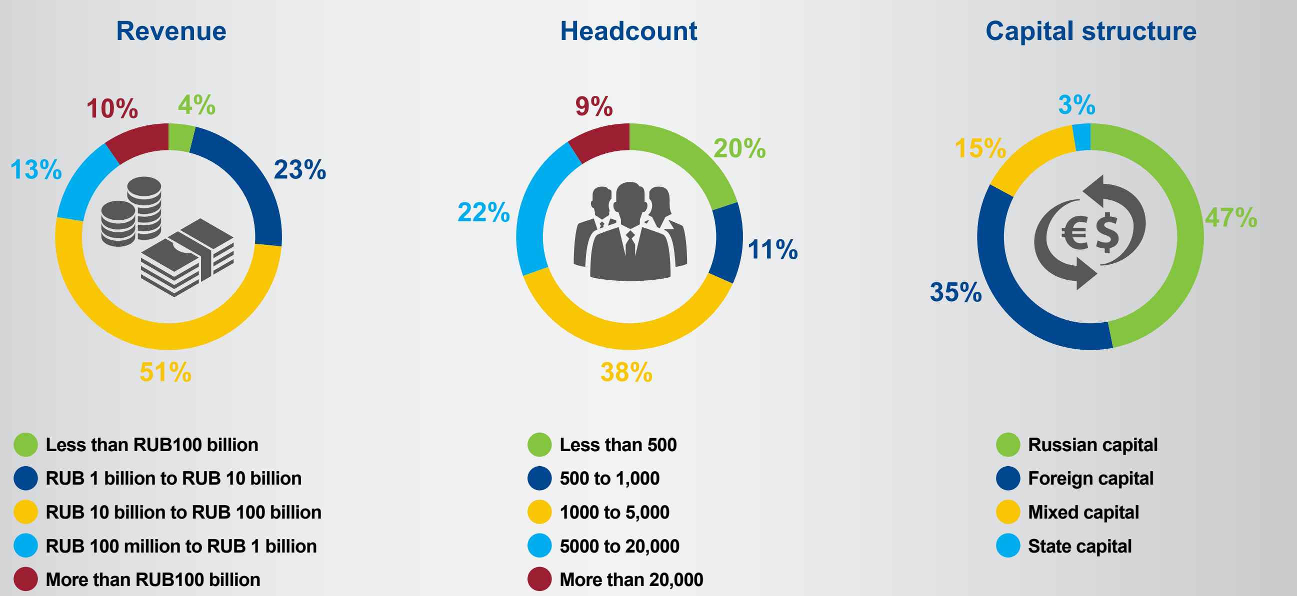
A significant number of respondents do not have an established system of HR Analytics, and indicators are not analysed systematically and regularly and cannot form a basis for making personnel-related decisions.

Information on respondents

79 leading Russian and foreign companies from various industries took part in the survey.

A separate category was allocated to sectors showing the most significant industry trends. These sectors were consumer goods, financial services, and the pharmaceutical industry.

Since companies wished to remain anonymous, and because KPMG strictly adheres to principles of confidentiality, the survey results are presented as a summary, with no mention being made of specific companies.



Source: KPMG analysis

ECONOMIC SECTORS

Banks and finances **18%**

Consumer goods **15%**

Pharmaceuticals and medicine **13%**

Retail trade **9%**

Insurance **8%**

Production **5%**

IT **5%**

Services **4%**

Construction and real estate **4%**

Other **20%**

Source: KPMG analysis

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