As Lean as Anyone Else:

How Operational Efficiency of Human Services Compares among Illinois Industries

ILLINOIS PARTNERS for HUMAN SERVICE

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On average, Illinois human service organizations operate as efficiently as organizations in other major Illinois industries according to a study utilizing individual and county business pattern data from the U.S. Census.

For decades, human service organizations have been financially pressed. One often hears arguments that consolidation of organizations would lead to greater efficiency and cost savings, suggesting non-profit human service organizations should operate more like the private sector. These arguments are often made by analogy to how the private sector operates. This report tests some of the assumptions behind the arguments by comparing data indicative of operational efficiency and effectiveness of human service organizations versus organizations in other industries.

- Analysis of patterns of staffing and salaries within Illinois industries shows that human service provider organizations spend lower percentages of staff salaries on management and have a higher percentage of staff allocated to production than do other major industries.

- Human services and other industries allocate comparable staffing and salary resources on sales and fundraising.

- With regard to assignment of employees, human service providers allocate a greater percentage of their resources to actual mission work than do other major industries.

- Educational services, Health Care and Social Assistance enterprises are about as likely to be small or large as are other service lines.

- Annual employee turnover rates nationally for Health Care and Social Assistance are mainstream among U.S. industries, and substantially better than for the Construction, Accommodation and Food Services, Retail, and Entertainment industries.

- Considering the sizes of their establishments, human service industries and the enterprises operating within them, are no more nor less in need of mergers or other efficiencies than are other industries operating in Illinois.

We hear constantly about the need to be competitive in business: cut fat, operate lean, operate efficiently, cut waste, and eliminate unproductive bureaucrats. The ongoing budget and financial crisis of Illinois state government has put tremendous pressure on human service, education, and health care providers to operate as efficiently as possible as slowed payment or even non-payment for services delivered has put unprecedented pressure on organizational cash flow. State officials, funders and commentators have questioned whether human service organizations should consolidate – the implication being that they could operate more efficiently on less revenue if they did so. The implication is also often expressed that private sector firms operate more efficiently, and are more likely to merge, creating leaner operating industries. If only the non-profit sector, which provides most human services, could act more like the private sector.

On the other hand, recent analysis by Bridgespan published in Stanford Innovation Review suggests that many non-profits operate with underfunded overhead – possibly performing more "efficiently" than they should. (Jeri Eckhart-Queenan, Michael Etzel, & Sredhar Prasad, Pay-What-It-Takes Philanthropy, Summer, 2016) Observation of the operations of numerous human service provider non-profits suggests that to remain in business, these organizations often skimp on information systems, finance and accounting, lack human resource functions, utilize volunteers, and often multi-task supervisory personnel so as to get as much done with as little as possible.

So how efficiently do non-profits run, and how do human service enterprises and industries compare organizationally to other industries where few if any observers advocate for shakeouts or mergers? Should people who care about these fields, and the clients of human service organizations, be advocating for mergers and change? Would further privatization or competition lead to the type of efficiency reputed to be found in the U.S. private sector?

This report seeks to provide evidence to help answer that question. The state of data collection in most human service fields, in part because of lack of resources, limits what can be said about actual efficiency in production. Publicly available data on outcomes and inputs exists for public education, but not for any other human services field. We can, however, compare how enterprises in different industries allocate their staff and salary resources and we can compare the distribution of sizes of enterprises across different industries.

What does efficiency look like? While different industries have different staffing requirements to operate effectively - law firms may not benefit from the same staffing patterns as construction companies - we can make some basic propositions:

1. ***Devoting more staff and salary resources to the actual work of the enterprise, i.e. production or service, than to managers and support staff that do not actually do the work of the organization, is better.***

   Every organization must have sufficient management and support to operate effectively and different tasks and settings may require different proportions. But as a general proposition, better to add more players than coaches; better to have more line workers than bureaucrats.

2. ***Greater equity in distribution of salary and wages between management and workers is preferable to less equity.***

   Some CEOs deserve more than others and top management makes essential contributions to strategic planning, sales, production priorities and many other decisions warranting high compensation. On the other hand, the U.S. economy is suffering from increasing divergence between the compensation of the upper 10% and the bottom 50% and increasing divergence is not a good thing. Additionally, most enterprises would benefit from having well—paid employees from top to bottom which results in measurement of greater salary equality.

3. ***Low employee turnover is preferable to high employee turnover***.

   High levels of employee turnover can lead to lower productivity and high human resources costs for recruiting and training. While high industry turnover can be an asset for young people first entering the workforce who are looking for a low-commitment temporary or part-time job, for most other workers, and in most other employment settings, it is not desirable. While low wages for many human service occupations contribute to turnover, the desired model in the field is a stable workforce of well-trained employees.

4. ***A mix of small and large enterprises within an industry is preferable to dominance of a particular size.***

   Economic myth and theory support both ends of this polarity. Large amounts of job growth come from small businesses, all large businesses were small once, and innovation often comes from start-ups that are inherently small and "nimble". On the other hand, large enterprises can often spend more on research and development, are capable of using economies of scale to deliver lower prices, create standardized platforms and interfaces, and can better accommodate high fixed or sunk costs. But again, different organizational structures are inherent to different industries. Far easier to open a small corner restaurant than to launch a major aircraft or auto manufacturer. But, as we shall see in the following data, most industries contain a mixture of many small enterprises and relatively few very large ones. In the right circumstances, either small or large can be a good thing.

Methodology

The first portion of the study relies on data from the U.S. Census Public Use Microsample (PUMS) data sets. This is data drawn from the Census "long form" and presented in the Census database in disaggregated form, just as would be an individual's responses to a conventional survey. Among many items, a PUMS record for an individual carries the industry they worked in, their occupation, and their earnings from work. These records can then be analyzed to create occupational profiles of all Illinois industries. For the study, human service industries were compared to a set of comparison industries that are either quite large (construction, manufacturing, retail) or that, like human service industries, work primarily with people (legal, finance, real estate, advertising and restaurants). Each of these industries are highly competitive and might be expected to be organized to maximize efficiency. The PUMS files do not distinguish between non-profit, for-profit, and government employment so human service industries identified in this portion of the study include employees of all three.

There is no uniformly accepted taxonomy of organizational functions. This study places employees into one of four categories: Management, Support, Sales or Operations. Management is defined as the top managers in each functional category within an enterprise. Support includes mid-level professionals in areas such as information technology, accounting, human resources, janitorial and other support functions within an enterprise, as well as secretarial and clerical. Sales is defined as persons responsible principally for bringing in revenue, in human service organizations these are fundraisers, in other industries they are sales staff, bill collectors. Both human services and other industries utilize public relations in various forms. Finally, operations include all personnel, including "first line supervisors" immediately responsible for the organization's product.

An occupation may be defined as support in one industry and as operations in another. For instance, cooks and servers are the operational work of restaurants but would be support staff in a large insurance company with a cafeteria. Most sales people are operational staff in retail, where the very purpose of the industry is sales, but would not be operations in manufacturing. Because it is impossible to tell from the data whether clerical and secretarial staff are integrated into operations, those positions were uniformly assigned to the support category. A contrary argument could be made in financial or legal industries that these staff are part of operations, but in both cases, clerical occupational categories specific to those fields are identified, such as "legal secretary" and applied to operations, so non-designated clerical or secretarial are deemed "support".

The method has the limitation that firms in some industries purchase services from consultants, financial firms, advertising/media firms or trades to perform specific tasks rather than directly hiring these personnel. To the extent that this occurs more in one of the four employment categories than another, the proportion of workers an industry is ultimately allocating to that function is under-counted. Were it possible to include these workers, they would probably be found disproportionately in support and sales functions.

To avoid the potential double-counting positions in firms, the data set analyzes only workers who said they were currently employed in their industry. Because the PUMS data set is a sample, results are subject to potential statistical error. To summarize, the 95% confidence interval for large industry breakouts is +/- approximately 1% and for the smaller industries +/- around 5%. The confidence interval for the two smallest, Community Food and Housing and Vocational Rehabilitation is approximately +/- 10%.

The second portion of the study utilizes data from U.S. Census County Business Patterns tables that report various data for Illinois firms and their establishments aggregated by size. This analysis allows us to compare the "shape" of each industry and understand whether non-profit human service providers are more likely to be small operators than are private sector industries. Data from the U.S. Bureau of Labor Statistics for monthly employment and terminations by industry are used to calculate annual industry employee turnover rates utilizing the Bureau's recommended calculation method.

Efficiency of allocation of resources to production

- ***Human service enterprises on average allocate a greater proportion of their staff to production/operations than do most other Illinois industries.***

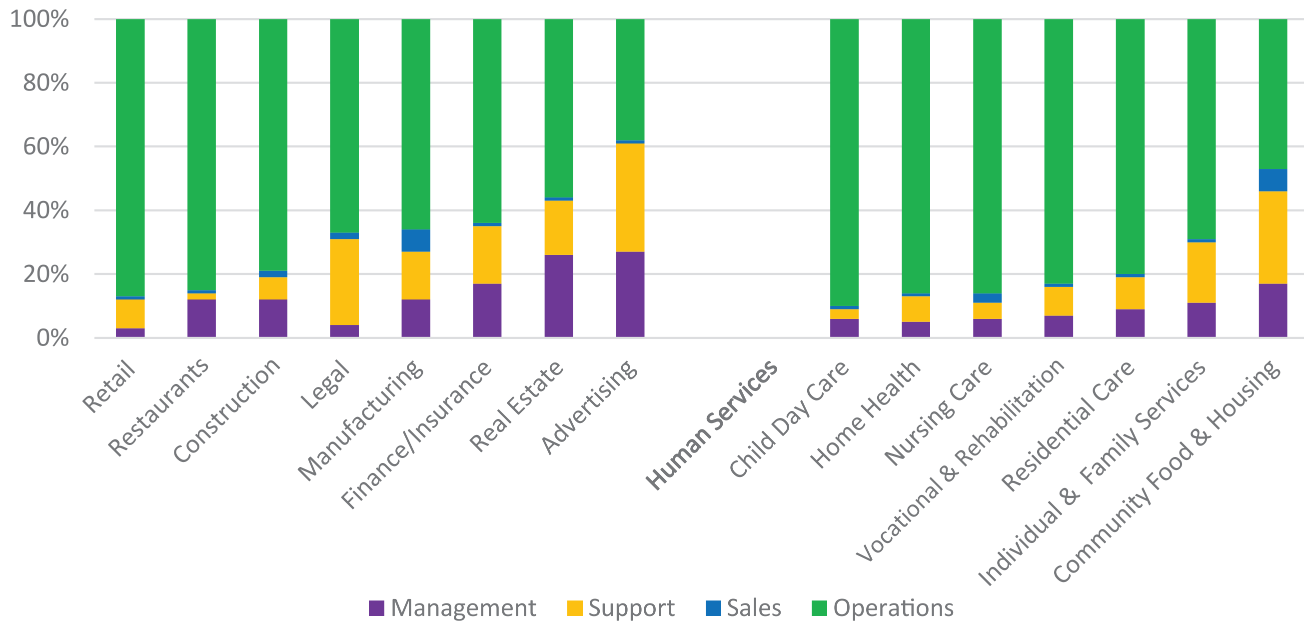
As the graph below shows, organizations that provide Illinois human services collectively allocate higher proportions of their staff to their mission operations than do organizations in other industries.

Firms in advertising and real estate allocate much larger percentages of their workforce to top managerial occupations than do other industries in Illinois. Twenty-seven percent of employees in advertising and 26% of employees in real estate are high-level managers. The highest percentage in human services is the 17% of employees in Community Food & Housing organizations that report being top management. Whereas only two human service lines, Individual and Family Services and Community Food and Housing allocate as many as 10% of personnel to Management, at least 6 other industries do: Construction, Manufacturing, Finance/Insurance, Advertising, Real Estate and Restaurants.

Non-human service industries are also much more likely to allocate higher percentages of workers to support functions such as clerical, information technology, human resources and purchasing. Of the eight non-human service industries analyzed, five allocated 15% or more of personnel to support functions while only three of seven human service lines did.

Human services and other industries were about equally efficient in their allocation of staff responsible for organization revenue. In human services this is represented by fundraisers while in other industries more by sales staff and bill collectors. Each averaged around 2% of staff in that role. Each industry has a unique structure defined either by tradition, function, or organizational structure.

Allocation of staff across occupations within Illinois industries



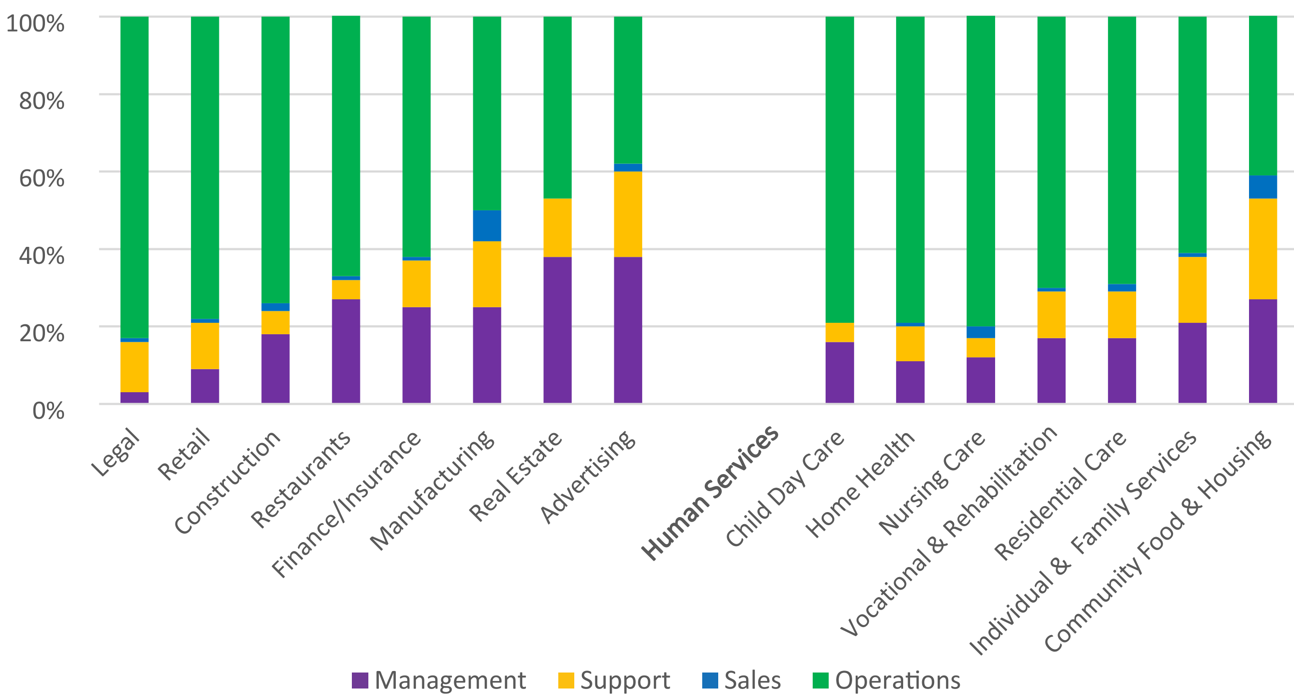
Source: Data compiled from U.S. Census 2013 Public Use Microsample data 1% sample for Illinois

- ***Human service industries allocate a higher percentage of their total salaries and wages to staff in operations.***

Firm and industry allocation of wages and salaries tends to follow the pattern of staff allocation. Again, as the graph below shows, the highest allocation of resources to top management in industries studied occurs in non-human service industries: Manufacturing, Finance/Insurance, Advertising, Real Estate and Restaurants. Among the human service lines, only Community Food and Housing allocated as much as 25% of compensation to top management.

Only three of eight non-human service industries (Construction, Retail and Legal) allocated as much as 70% of salary and wages to operations. However, four of seven in human services (Home Health, Nursing Care, Vocational and Rehabilitation and Child Day Care) did. A fifth, Residential Care, allocated 69%.

Allocation of wages and salaries across occupations within Illinois industries



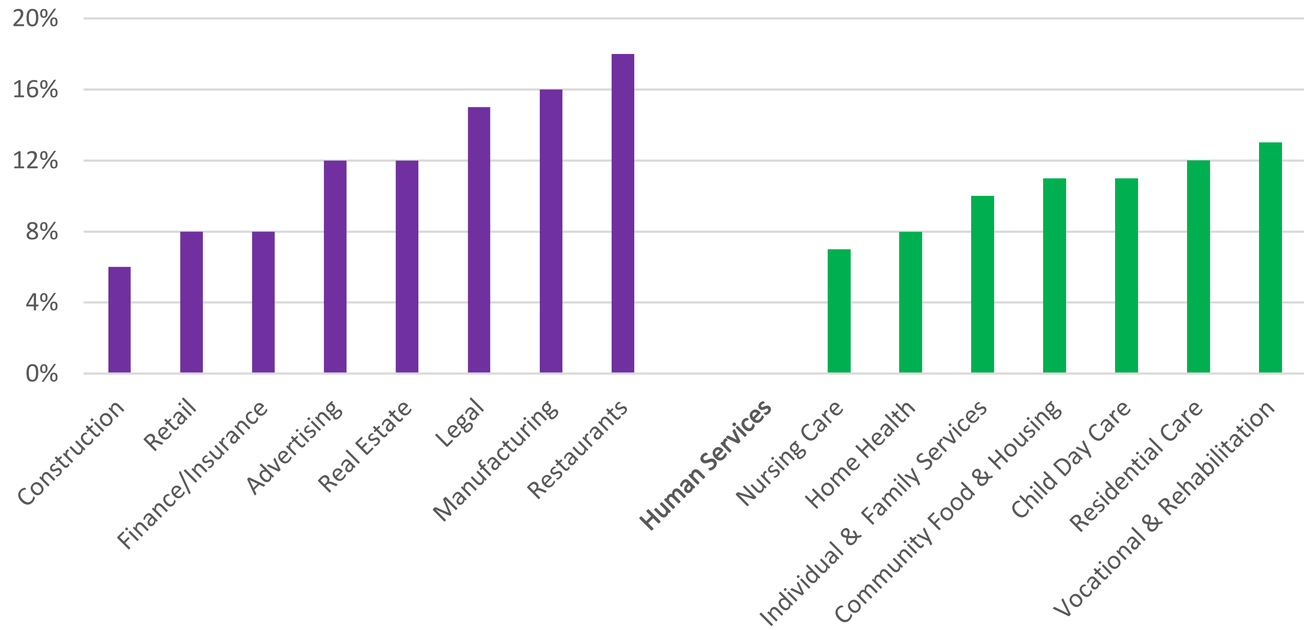
Source: Data compiled from U.S. Census 2013 Public Use Microsample data 1% sample for Illinois.

- ***Top management takes a smaller proportion of wages and salary in human service industries than in other industries meaning that a higher percentage of its wages and salaries go to implementing the industry's mission.***

The allocation of pay across different occupations is more equitable in human service organizations than in most other industries. In all industries, managers make more on average than do operational employees, but the pattern is less extreme in human service industries. The graph provides a calculation of the percentage of wages and salary that would need to move within each industry for the proportional allocation of wages and salaries to match the proportional allocation of employees across functions.

As the graph shows, in three industries, Manufacturing, Legal, and Restaurants, 15% or more of total wages and salaries would need to be redistributed for wage and salary allocation to align with proportions of staff in the four categories. The highest disparity among the human service providers is Vocational and Rehabilitation at 13%. Only in Legal, where the industry has large firms where operations workers, i.e. lawyers, often make tremendous amounts of money, is the allocation of salary to top management less than the proportional allocation to operations.

Percent disparity of wages and salaries between occupations in Illinois industries
Lower figure indicates greater equality of salary across the organization.



Source: Data compiled from U.S. Census 2013 Public Use Microsample data 1% sample for Illinois.

Enterprise and Establishment Size in Comparison

- ***Human Service industries in Illinois look about like most other industries with respect to the percentage of enterprises that are small, that have multiple establishments, and in their distribution of employees and payroll across large and small enterprises.***

One way of thinking about efficiency in an industry is to consider the distribution of size of the industry's enterprises and whether employees and payroll tend to be in larger or smaller enterprises. Business data in the U.S. Census allows us to analyze the shape of individual industries in Illinois, separating for-profit industries from non-profit human service providers.

While financial structure, marketing, how work is organized, capital needs, and other factors shape the occupational structure and size of each industry and its establishments, a consistent pattern exists across most with half or more employees working in small establishments and enterprises and relatively fewer in the very large ones. If we broke out industries into greater detail, then we would find some, such as aircraft or auto manufacturers, with very high percentages in large establishments and enterprises. However, capital needs tend to determine the size of these industries. Likewise, many companies in fast food have large numbers of workers in large enterprises, but in these cases the business model is to attain as much uniformity in the product as possible.

Probably because of the immense amounts of resources spent on advertising and branding, there is a popular impression that big business dominates the economy. But this perception isn't true. Of over 5 million employer firms in the nation, 99% employ fewer than 500 workers and the clear majority employ fewer than 20. According to the Small Business Administration, small businesses create over half of new jobs. Because of the value of their capital, rather than their labor, large businesses produce a disproportionate amount of the nation's Gross Domestic Product, around 50%. (Small Business GDP: Update 2002 – 2010)

The following tables utilize data from the Bureau of the Census County Business Patterns to compare patterns of size of Illinois non-profit human service industries with major private sector industries with respect to employment and wages paid.

Note:
An "establishment" is a single place where business is conducted. An "enterprise" or "firm" is a business entity that may have multiple establishments.

In a few instances, two adjacent data cells in a table are merged and contain a single figure. That occurs when the number of establishments in a category were sufficiently small that the Census suppressed the figure in order to avoid identifying a specific responding business. Totals for two combined cells therefore protect the identity of businesses that might have been identifiable were their data reported in a single cell.

Number of Establishments

- ***Non-Profit human service providers are typical of Illinois industries in the distribution of the size of their establishments.***

The vast majority of establishments in most Illinois industries are small, with fewer than 20 employees. About two-thirds of human service establishments have fewer than 20 employees, which is about the same as Manufacturing, Wholesale Trade, and Accommodation and Food Services. More small establishments are found in Construction, 93% have less than 20 employees, Agriculture (87% small), Transportation and Warehousing (78% small), and Professional, Scientific and Technical Services (87% small). Non-Profit Outpatient Mental Health and Vocational Rehabilitation Services are distinctive in that they have significantly fewer small establishments (51% and 52% respectively) and more establishments with from 20 to 99 employees (42% and 33% respectively).

Percent of industry establishments by number of employees in establishment 2014

	<20	20-99	100-499	500+	Total Employees
Agriculture, Forestry, Fishing and Hunting	91%	8%	1%	0%	5,426
Mining, Quarrying, and Oil and Gas Extraction	87%	10%	3%	0%	564
Utilities	60%	26%	11%	2%	492
Construction	94%	5%	1%	1%	26,541
Manufacturing	67%	24%	8%	1%	13,531
Wholesale Trade	84%	14%	2%	1%	18,893
Retail Trade	84%	13%	3%	1%	39,252
Transportation and Warehousing	88%	9%	3%	1%	14,439
Information	80%	15%	4%	1%	5,426
Finance and Insurance	91%	8%	1%	1%	22,067
Real Estate and Rental and Leasing	95%	4%	1%	1%	12,434
Professional, Scientific, and Technical Services	92%	6%	1%	1%	38,986
Management of Companies and Enterprises	61%	24%	11%	3%	2,352
Admin & Support and Waste Management & Remediation Services	84%	11%	4%	1%	16,912
Educational Services	76%	19%	4%	1%	4,255
Arts, Entertainment, and Recreation	82%	14%	3%	1%	4,616
Accommodation and Food Services	76%	26%	2%	1%	27,571
Non-Profit Human Services					
Individual and Family Services	72%	25%	3%	1%	1,563
Community Food Services	89%	10%	1%	0%	149
Outpatient Mental Health and Substance Abuse Services	51%	42%	6%	0%	173
Residential Intellectual and Developmental Disability Svcs	90%	8%	2%	1%	898
Vocational Rehabilitation Services	52%	33%	15%	1%	295
Child Day Care Services	73%	25%	2%	0%	651

Source: Compiled from U.S. Bureau of the Census, 2014 County Business Patterns, Geography Area Series: County Business Patterns by Legal Form of Organization.

Employment

- ***Non-Profit human service industries are in the mid-range in the proportion of total staff employed by large enterprises.***

Enterprises are comprised of their establishments and major for-profit industries in Illinois have about the same proportion of employees in small enterprises as do non-profit human service providers. Many for-profit industries, Utilities, Transportation, Information, and Manufacturing, to name a few, have over 20% of their Illinois employees in enterprises with over 500 employees. But so too do Individual and Family Services (20%), and Residential Intellectual and Developmental Disability Services (23%).

While some non-profit human service industries have few or no enterprises with over 500 employees, only a small percentage of Illinois employees in Construction, Retail Trade, Real Estate, Entertainment and Food Services work for large enterprises.

Percent of employees in size of establishment by Illinois industry 2014

	<20	20-99	100-499	500+	Total Employees
Agriculture, Forestry, Fishing and Hunting	33%	28%	39%		2,020
Mining, Quarrying, and Oil and Gas Extraction	26%	24%	40%	10%	9,089
Utilities	6%	21%	41%	32%	28,412
Construction	43%	32%	19%	4%	182,749
Manufacturing	10%	27%	39%	24%	544,488
Wholesale Trade	25%	33%	25%	17%	314,398
Retail Trade	30%	33%	35%	1%	605,655
Transportation and Warehousing	16%	24%	32%	29%	231,473
Information	16%	29%	30%	25%	124,909
Finance and Insurance	26%	20%	20%	34%	328,292
Real Estate and Rental and Leasing	51%	28%	12%	9%	76,466
Professional, Scientific, and Technical Services	26%	22%	22%	29%	419,062
Management of Companies and Enterprises	4%	14%	29%	54%	199,481
Admin & Support and Waste Management & Remediation Services	10%	17%	29%	43%	471,702
Educational Services	9%	21%	19%	50%	164,407
Arts, Entertainment, and Recreation	20%	36%	32%	9%	78,114
Accommodation and Food Services	26%	55%	15%	3%	498,190
Non-Profit Human Services					
Individual and Family Services	17%	38%	19%	26%	43,591
Community Food Services	31%	44%	25%		1,639
Outpatient Mental Health and Substance Abuse Services	12%	64%	25%	0%	5,359
Residential Intellectual and Developmental Disability Svcs	41%	15%	21%	23%	16,041
Vocational Rehabilitation Services	7%	29%	53%	11%	14,019
Child Day Care Services	31%	49%	13%	0%	12,098

Source: Compiled from U.S. Bureau of the Census, 2014 County Business Patterns, Geography Area Series: County Business Patterns by Legal Form of Organization.

Payroll

- ***Non-Profit human service providers are typical of Illinois industries with two-thirds of total payroll allocated to their larger enterprises.***

The Illinois private sector tends to have somewhat higher concentration of total payroll in enterprises with over 500 employees than do non-profit human service providers but the allocation in human services is similar to what is found in Transportation and Warehousing, Information, Finance and Insurance, Administrative and Support and Waste Management. Construction and Real Estate are notable for their high percentages of payroll, 34% and 29% respectively, located in enterprises with 20 or fewer employees. Food Services, Real Estate and Retail Trade for the small percentage of payroll in large enterprises.

Percent of payroll in size of establishment by Illinois industry 2014

	<20	20-99	100-499	500+	Total $ in thousands
Agriculture, Forestry, Fishing and Hunting	36%	24%	40%		95,274
Mining, Quarrying, and Oil and Gas Extraction	20%	24%	46%	10%	687,618
Utilities	5%	20%	40%	35%	2,847,432
Construction	35%	35%	22%	5%	12,922,995
Manufacturing	8%	25%	37%	30%	31,569,319
Wholesale Trade	21%	30%	25%	23%	22,849,875
Retail Trade	29%	35%	33%	2%	15,334,060
Transportation and Warehousing	15%	24%	28%	33%	11,001,144
Information	14%	27%	32%	26%	9,574,494
Finance and Insurance	18%	23%	26%	34%	31,126,417
Real Estate and Rental and Leasing	46%	31%	14%	9%	4,224,693
Professional, Scientific, and Technical Services	22%	24%	28%	26%	32,193,782
Management of Companies and Enterprises	4%	13%	30%	53%	21,998,993
Admin & Support and Waste Management & Remediation Services	15%	21%	30%	34%	15,957,463
Educational Services	6%	16%	18%	60%	6,470,717
Arts, Entertainment, and Recreation	17%	24%	46%	9%	2,624,645
Accommodation and Food Services	25%	50%	20%	5%	8,904,565
Non-Profit Human Services					
Individual and Family Services	20%	42%	18%	7%	1,072,103
Community Food Services	22%	29%	49%		58,384
Outpatient Mental Health and Substance Abuse Services	12%	66%	21%	0%	170,499
Residential Intellectual and Developmental Disability Svcs	42%	14%	19%	25%	344,268
Vocational Rehabilitation Services	14%	35%	39%	12%	234,965
Child Day Care Services	29%	50%	18%	3%	278,591

Source: Compiled from U.S. Bureau of the Census, 2014 County Business Patterns, Geography Area Series: County Business Patterns by Legal Form of Organization.

Number of Firms

- ***Educational and Health Care and Social Assistance firms have about the same percentage of their employees in firms with less than 20 employees as do other Illinois industries.***

74% and 86% of firms in the Educational Services and Health Care and Social Assistance industries have fewer than 20 employees, typical of most industries. Construction (94%) and Real Estate and Insurance (92%) and Professional, Scientific, and Technical Services (91%) have significantly more. Educational Services and Health Care and Social Assistance are similar to most Illinois industries with 3% and 1% of firms having 500 or more employees. Only Utilities, Management of Companies and Enterprises, and Information have significantly higher percentages of their firms with 500 or more employees.

Percent of industry enterprises by number of employees in enterprise

	<20	20-99	100-499	500+
Agriculture, Forestry, Fishing and Hunting	94%	2%	2%	2%
Mining, Quarrying, and Oil and Gas Extraction	83%	7%	4%	6%
Utilities	60%	20%	6%	14%
Construction	94%	5%	1%	0%
Manufacturing	67%	20%	7%	6%
Wholesale Trade	77%	13%	5%	5%
Retail Trade	88%	8%	2%	2%
Transportation and Warehousing	88%	6%	3%	4%
Information	73%	11%	6%	9%
Finance and Insurance	86%	7%	3%	4%
Real Estate and Rental and Leasing	92%	5%	2%	2%
Professional, Scientific, and Technical Services	91%	5%	2%	2%
Management of Companies and Enterprises	11%	17%	27%	45%
Admin & Support and Waste Management & Remediation Services	85%	8%	3%	4%
Educational Services	74%	18%	5%	3%
Health Care and Social Assistance	86%	10%	3%	1%
Arts, Entertainment, and Recreation	84%	12%	3%	2%
Accommodation and Food Services	78%	18%	2%	1%

Source: Department of the Census, 2013 County Business Patterns Statistics of U.S. Businesses Number of Firms, Number of Establishments, Employment, and Annual Payroll by Enterprise Employment Size for States, NAICS Sectors: 2013

Industry Consolidation

- ***Illinois human services are typical of all industries for establishments per firm and employment per firm.***

Averaging just over one establishment per firm, Educational Service providers and Health Care and Social Assistance providers in Illinois are similar to most other Illinois industries. Retail, Information, Finance and Insurance and Management are somewhat more likely to have multiple establishments in single firms. Although Retail and Food Service each have very large chains, they also have thousands more small operators.

Educational Service and Health Care and Social Assistance enterprises are neither the largest nor smallest in Illinois, averaging 42.8 and 29.8 employees per firm respectively. Utilities, Manufacturing, and Management have the largest average employment per enterprise. Many industries are in the single digits.

Number of establishments and employment per firm operating in Illinois

Industry	Establishments per Firm	Employment per Firm
Agriculture, Forestry, Fishing and Hunting	1.1	6.6
Mining, Quarrying, and Oil and Gas Extraction	1.2	18.6
Utilities	2.8	167.5
Construction	1.01	6.4
Manufacturing	1.1	43.4
Wholesale Trade	1.2	19.6
Retail Trade	1.6	24.2
Transportation and Warehousing	1.1	18.5
Information	1.7	40.9
Finance and Insurance	1.8	24.2
Real Estate and Rental and Leasing	1.2	21.2
Professional, Scientific, and Technical Services	1.1	10.7
Management of Companies and Enterprises	1.6	134
Admin & Support and Waste Management & Remediation Services	1.2	32.5
Educational Services	1.1	42.8
Health Care and Social Assistance	1.3	29.8
Arts, Entertainment, and Recreation	1.1	18.2
Accommodation and Food Services	1.3	22.9

Source: Department of the Census, 2013 County Business Patterns Statistics of U.S. Businesses Number of Firms, Number of Establishments, Employment, and Annual Payroll by Enterprise Employment Size for States, NAICS Sectors: 2013

Employee Turnover

As with other measures, at 31% the Health Care and Social Assistance annual turnover rate nationally is typical of other industries, higher than some, but lower than others.

The annual employee turnover rate across the Health Care and Social Assistance sector is 31% as measured by the summed monthly employee separations divided by average monthly total employment. The Health Care and Social Assistance rate is most similar to Wholesale Trade, Nondurable Manufacturing, Education, and Information. Among the highest turnover rates are Construction (52%), Retail (55%), Business Services (61%), Accommodation and Food Service (74%) and Arts, Entertainment and Recreation (82%).

U.S. Annual Percent Employee Turnover by Industry, October 2015-September 2016

Industry	Annual Percent Turning Over
Government	19%
Finance and Insurance	25%
Manufacturing Durable Goods	26%
Wholesale Trade	28%
Manufacturing Nondurable Goods	29%
Educational Services	29%
Health care and Social Assistance	31%
Information	32%
Real estate	36%
Transportation, Warehousing, Utilities	39%
Construction	52%
Retail Trade	55%
Mining & Logging	58%
Professional and Business Services	61%
Accommodation and Food Service	74%
Arts, Entertainment & Recreation	82%

Source: Calculations from Bureau of Labor Statistics U.S. Department of Labor News Releases, Job Openings and Labor Turnover for November 2015, January 2016 and November 2016.

Conclusion

Comparison of the allocation of staff and salary across functions within firms and comparison of the distribution of size of enterprises across Illinois industries shows that human service providers operate as efficiently and in some cases more efficiently, than do other Illinois industries.

For years, many have asserted that the human services field needs to consolidate to operate more efficiently. If that is true for human services, ostensibly because there are too many small providers, then the same is true for most other industries operating in Illinois. Small restaurants, real estate offices, and construction companies are equally, or far more, common. Very large may be essential for industries with high sunk costs, such as manufacturing aircraft, or automobiles, steel, or machinery. It may also be essential where national or global reach is inherent to the business model, such as for Amazon, American Airlines or Chase Bank. But in many other industries, particularly those where the principal resource is people and where uniformity is not necessarily beneficial, smaller can thrive alongside larger and efficiency is not necessarily created by merely aggregating a lot of smaller units.

In some cases, consolidating management, accounting and finance, purchasing or information management could create greater net quality and efficiency. In other instances, that consolidation could come at the cost of local responsiveness, creativity and price. Bottom line, possible consolidations need to be evaluated case by case to ascertain how much value is in the proposition. There is no evidence that operators in human service industries need to consolidate simply to look more like other private sector industries; they already pretty much do.

Another measure of efficiency used in this study was the proposition that enterprises should allocate as much of their staff and payroll toward the staff making product or delivering service. Again, the data indicates that human service providers do this as well as, and in many cases better than, other industries. Human service organizations appear to have smaller "bureaucracies" and pay their top management less than do other industries. Like restaurants, retail, accommodations, and much manufacturing, they also have large numbers of very low paid workers, although national data presented here indicates that health and human services employee turnover rates are much better than for those industries. So in terms of reaching a productive destination, a dollar donated or contracted with an Illinois human service provider is as well, or better, spent as a dollar spent to buy a private sector product or service.

ILLINOIS PARTNERS *for* HUMAN SERVICE

Illinois Partners for Human Service is a statewide coalition that works to create a stronger and more stable human services sector in Illinois. This network of more than 800 community organizations representing every legislative district in the state supports civic leaders through education, collaboration, and advocacy. Working with public and private sector leaders across the state, Illinois Partners develops collaborative approaches to support *quality services, adequate funding and measurable results* that are the bedrock of healthy and safe communities.

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