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# *PwC Saratoga 2011/2012 US Human Capital Effectiveness Report*

## Executive Summary

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# Summary

As the economy gradually recovers from the worst financial crisis in a generation, many businesses see evidence of improving economic conditions. While in some ways, this represents a return to normalcy, we also see indications of lasting change.

The ramifications of the fluctuating economic environment are evident in PwC Saratoga's 2011/2012 US Human Capital Effectiveness Report, which combines objective data and analysis to help organizations understand workforce performance and return on human capital investment.

This executive summary highlights PwC Saratoga benchmark results gathered in a year when businesses around the world saw signs of economic improvement while continuing to control costs and manage an ever-evolving workforce. The major themes emerging from this year's report include:

***Post recession recovery varies by industry:*** While the overall productivity of the US workforce decreased slightly in 2010, certain industries fared better than others in the improving economy.

***Workforce planning will need to recognize new organization and workforce models:*** In the United States, Generation X is and will remain the majority of the workforce for the foreseeable future; diversity is on the rise in management ranks; and manager and director-level employees now directly support fewer domestic and more global employees.

***Voluntary turnover trends indicate increased demand for key workers:*** While overall voluntary turnover rates remain low, voluntary separation rates for key employee segments such as high performers and sales staff have begun to trend upward. These results signal a likely return to workforce shortages in pivotal roles, especially for those organizations that have not addressed talent management issues such as talent acquisition, development, succession planning, global sourcing, and performance management.

***Quality of hire continues to improve, but results appear to be linked more with economic cycles than improvements in HR processes:*** While 90-day and first-year turnover results are decreasing, PwC Saratoga sees evidence that improvements are a result of the "soft" economy. Companies that fail to address structural issues in the talent acquisition and onboarding processes can expect a return to pre-recession turnover levels within the next three years.

***Companies move to a global HR delivery model:*** In the past, global organizations operated HR on a regional basis, with relatively few HR functions working on a truly global basis until quite recently. This regional approach to HR created redundancies in jobs and systems, resulting in inconsistencies and complexities in processes. Companies are now finding cost improvement opportunities by globalizing HR delivery and aligning legacy systems acquired through acquisition.

# About the 2011/2012 US Human Capital Effectiveness Report

PwC Saratoga's 2011/2012 US Human Capital Effectiveness Report contains more than 375 unique metrics covering a wide array of topics, including:

- Workforce productivity
- Diversity
- Succession planning
- Quality of hire
- Turnover
- HR function effectiveness
- Compensation and benefits
- Span of control

The report includes data from more than 300 organizations representing 12 industry sectors that provided information from the 2010 calendar year. The average company in the report has annual revenue of $5.3 billion and 19,000 employees. While many participating clients are global companies, results included in the report refer only to US operations. PwC Saratoga also produces separate Global, European, Canadian, Latin American, and Asian Human Capital Effectiveness reports.

The results described in this executive summary represent the all-industry medians. Individual demographic groups, especially industry groups, can produce substantially different results than the all-industry median. PwC Saratoga recommends that organizations analyze results not in the aggregate, but by factors such as industry, company size, and revenue growth. For example, the amount of revenue generated per full time equivalent (FTE) in the retail industry is $158,782, compared with $939,491 in the utilities industry. The full PwC Saratoga report contains thousands of additional benchmark results based on more than 30 demographic segments. To learn more about PwC Saratoga's benchmark databases and measurement programs, please visit our website at www.pwc.com/saratoga or contact Nik Shah at (703) 918-1208 or Scott Pollak at (408) 817-7446.

# Post recession recovery varies across industries

While overall US workforce productivity dropped in 2010 (as measured by Revenue per FTE), we see variations across industries, with some faring better than others amid economic shifts. Productivity among professional services companies, for example, clearly outpaced other sectors, most likely because some of these firms compete at least in part by providing guidance on how to rebound in a recovering economy.

**Figure 1.** ***Revenue per FTE***

| | 2007 | 2008 | 2009 | 2010 | Percent change since 2009 |
|---|---|---|---|---|---|
| All industry | $355,358 | $413,690 | $387,993 | $344,432 | (11.2%) |
| Hospitals | $163,524 | $176,410 | $186,739 | $182,204 | (2.4%) |
| Insurance | $1,159,972 | $1,222,656 | $1,390,801 | $1,349,692 | (2.9%) |
| Professional Services | $397,925 | $241,244 | $233,505 | $283,681 | 21.5% |
| Technology | $503,514 | $414,858 | $468,372 | $335,522 | (28.3%) |

In contrast to variations in workforce productivity by industry, Profit per FTE increased overall across key industries, suggesting that cost controls put into place by many organizations are having the desired effect. Additionally, it's important to note that profitability increased most dramatically for the technology industry, which relies heavily on knowledge workers. PwC Saratoga will continue to monitor workforce productivity and profitability metrics as the economy improves, layoffs continue to decrease, and workers seek wage hikes to reflect workload increases.

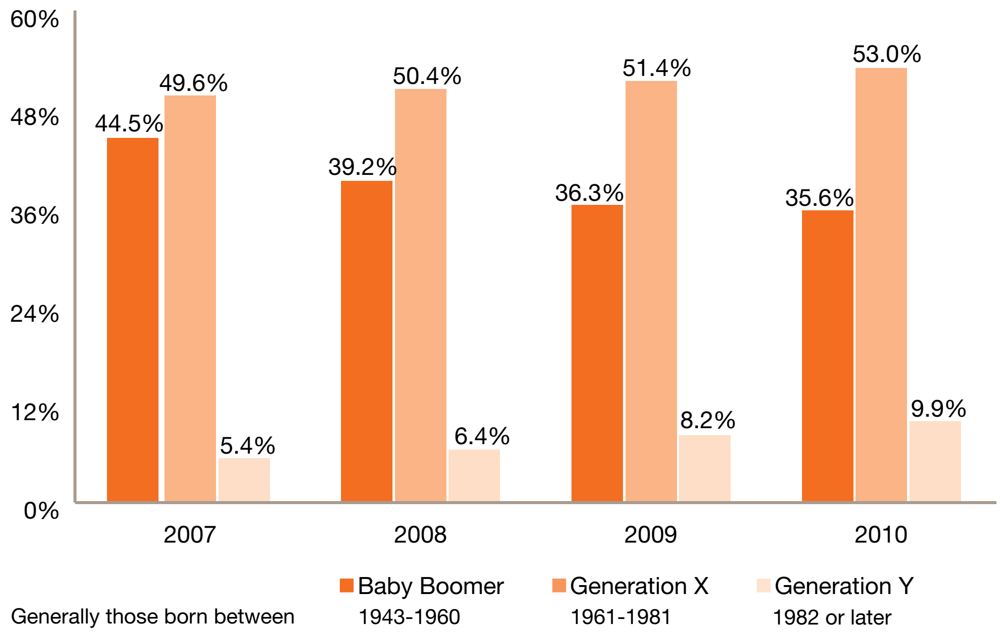
**Figure 2.** ***Profit per FTE***

| | 2007 | 2008 | 2009 | 2010 | Percent change since 2009 |
|---|---|---|---|---|---|
| All industry | $49,026 | $47,117 | $38,534 | $39,493 | 2.5% |
| Hospitals | $11,905 | $11,055 | $15,179 | $15,656 | 3.1% |
| Insurance | $61,715 | $59,805 | $67,430 | $96,492 | 43.1% |
| Technology | $32,859 | $37,237 | $61,285 | $86,318 | 40.8% |

# Workforce planning will need to recognize new organization and workforce models

The media has focused extensively on changing workforce demographics and the growth of Generation Y, but Generation X surpassed the 50% mark for workforce representation in 2008, extending its participation to 53% in 2010. Amid Baby Boomer retirements, Generation X has become the largest workforce presence.

**Figure 3.** ***Generational headcount percent****



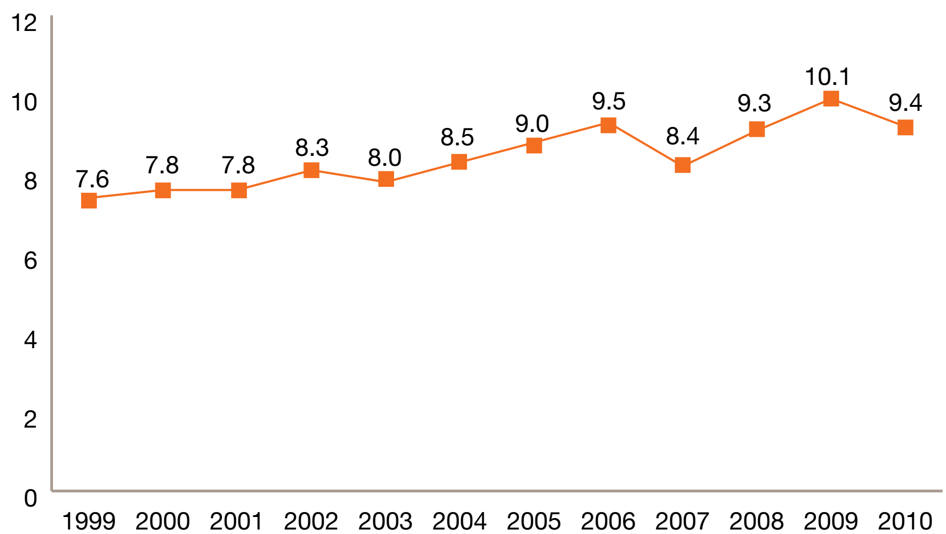

* Please note: The numbers in the chart do not add up to 100% due to variations in how companies represent the median result for each metric.

Although the influence of Generation Y is increasing, Generation X outnumbers the relative newcomers by more than five to one. As noted in Figure 3, current economic challenges and the decrease in retirement savings that have affected many workers have slowed Baby Boomers' workforce exit. Between 2007 and 2008, the percentage of Baby Boomers in the workforce decreased from 44.5% to 39.2% (a decrease of 11.9%). Between 2009 and 2010, Baby Boomers' workforce share dipped another 2%, from 36.3% in 2009 to 35.6% in 2010.

While organizations have been spending a lot of time figuring out how to attract, retain, and develop Generation Y, it is Generation X that will dominate the workforce for years to come, increasingly comprising senior leadership ranks and requiring substantial organizational attention.

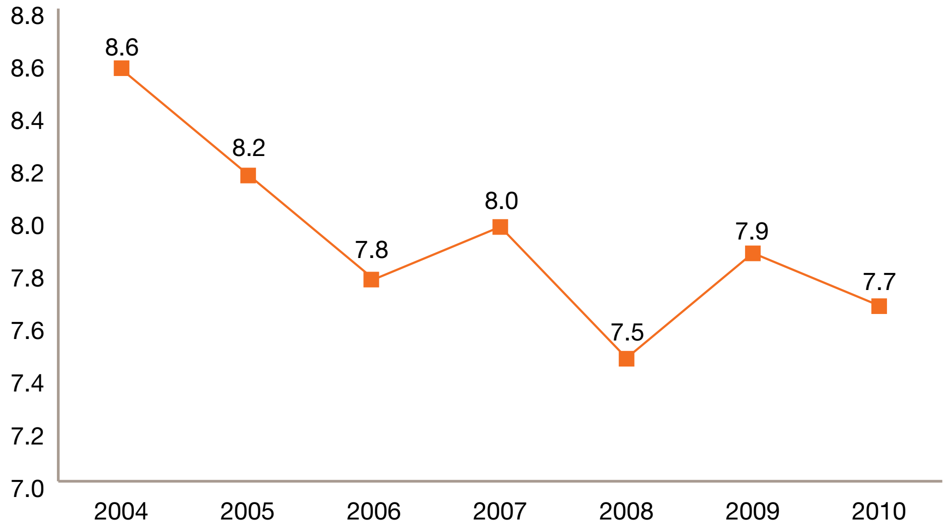
Generation X's influence can already be seen in average tenure findings. Contrary to widely publicized accounts, average tenure has not decreased because of Generation Y's workforce participation and a perceived tendency to act as free agents who skip from employer to employer. Over the past dozen years, average tenure has actually increased. While results fell between 2006 and 2007, and then again between 2009 and 2010, the long-term trend clearly suggests that workforce tenure is on the rise. We might see average tenure fall as Generation Y establishes a greater workforce presence, but this group might come to seek job security as it enters a life-cycle phase characterized by starting families and other increased responsibilities, much as we've seen among Baby Boomers and Generation X.

**Figure 4:** ***Average tenure***




After shedding millions of jobs, the economy appears to be recovering slowly, but organizations should remain aware of a number of lasting workforce changes. PwC Saratoga's Manager Span of Control results show that managers and directors have been supporting fewer US employees in each of the past three years. Given recent cost-cutting trends, reduced Manager Span of Control in the United States indicates a structural change in the US workforce. The outsourcing and offshoring of tasks has resulted in a more professional US workforce, with managers overseeing global teams, rather than those based only in the United States.

**Figure 5.** ***Manager span of control***




We increasingly see the multi-generational work environment as a critical focus area, one in which managers need broader and deeper insights into the skills and abilities of their workforce and a means to align these resources with business needs. HR should take the lead in working with managers to define and deploy new workforce planning models.

PwC Saratoga's US benchmark results also reveal increasing diversity among management. As businesses embrace global opportunities, leaders are drawing workers from a more diverse population to better reflect, and grow understanding of, customer and employee needs. This evolution is also evident in management ranks; the percentage of ethnically diverse management headcount increased from 12.4% in 2008 to 15.3% in 2010.

## *The case for skills assessments*

Organizations that recognize the imperative to react to change with a renewed commitment to resiliency should be equipped with an accurate inventory of their talent capabilities and a clear understanding of how those capabilities align with business and functional strategies.

A skills assessment provides a thorough program of interviews, tests, benchmarking analyses, and other services to help companies assess the skills and capabilities — the talent — that makes their employees distinctive contributors to their operations.

Leading companies use skills assessments to:

- Make sure the talent in pivotal roles aligns with the organization's leadership competencies
- Identify opportunities for training and development
- Identify talent gaps that can be filled through hiring or internal development
- Benchmark the organization against its peers
- Prepare for business combinations or new organizational structures
- Validate development strategy

## *Why diversity is not enough*

Diversity. Inclusion. What's the difference? And does it really matter? You bet. Far from a semantics debate, how you think about your diverse workforce makes a big difference. PwC considers diversity as the full range of human and organizational differences and similarities. Many organizations think of diversity in terms of attributes like generation, race, gender, ethnicity, and sexual orientation; however, there are more than 20 dimensions at play, including marital and parental status, where an individual lives or has lived, organizational position, recreational choices, religious affiliation, income, and more. Acknowledging and celebrating organizational diversity are only starting points.

The real payoff emerges in an environment of inclusion that prizes the contributions made possible by the variety of distinctly individual experiences and points of view — all brought to bear toward meeting — and exceeding — common goals and objectives. When individuals believe they're in a supportive and collaborative environment and that their voices are being heard, productivity, loyalty, and creativity thrive. This is where transformation takes place and where your business can realize long-term competitive advantage. With revenue growth originating outside of the United States for many global organizations headquartered here, the issue of talent sourcing and diversity is a pivotal one.[1]

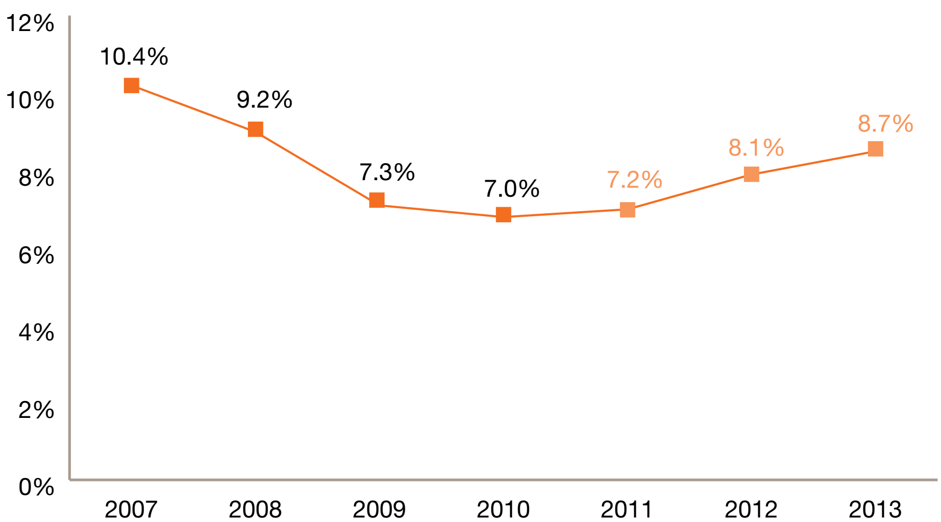
1 Source: PwC Worforce inclusion: maximizing business performance June 2011

# *Voluntary turnover trends indicate increased demand for key workers*

At 7.0%, Voluntary Turnover Rates continued the year over year decline we saw between 2007 and 2009, although the drop was less significant. Between 2008 and 2009, voluntary turnover results decreased by more than 20%, while the decrease between 2009 and 2010 slowed by slightly less than 3%.

Despite these declines, we project the overall voluntary separation rate will begin to rise next year when analyzed against historic, current, and projected economic figures such as the unemployment rate and GDP. Based on our analysis, we project that voluntary turnover will begin to climb in 2011, increasing to 8.7% by 2013.

**Figure 6:** ***Voluntary Separation Rate***




Voluntary separation rates for 2011, 2012 and 2013 are predicted by analyzing correlation between national unemployment rates and voluntary separation rates over the last 11 years.

When combined with the projected increase in voluntary turnover for the overall workforce, these results suggest that workforce shortages loom for organizations that have not optimized their talent management programs. Key segments within the workforce such as sales professionals and high performers (defined as the top 20% of employee base) have already begun to experience the predicted upswing.

Reversing a trend that began in 2007, turnover rates are up for these and other pivotal roles, suggesting that key employee groups are beginning to seek opportunities elsewhere. This is important to note, as historical trends show that high performer and sales turnover were approximately one-third higher prior to the recent recession.

**Figure 7:** ***High performer and sales turnover***


PwC sees the projected increase in turnover for key groups as an opportunity for HR to lead efforts in the creation of internal job markets and lateral redeployment career paths. Additional emphasis and visibility on employee talent profiles and workforce supply/demand enable HR to transform its sourcing and retention strategies to focus more heavily on redeployment and internal talent management.

# *Keeping your best employees amid marketplace demand increases*

Despite significant challenges leading to widespread workforce reductions, the attraction, retention, motivation, and development of top talent remain critical issues for the long-term success of any organization.

Reducing voluntary turnover and improving the quality of new hires is directly tied to your Employee Value Proposition — those attributes that current and potential employees perceive as the value they gain through employment in your organization versus that of a competitor.

The Employee Value Proposition extends far beyond the numbers on a pay check. It includes:

- Reward and recognition (e.g., pay and benefits)
- Career development (e.g., training and advancement opportunities)
- Work environment (e.g., culture and communication)
- Work-life balance (e.g., flexible hours, including work-at-home opportunities)

Successfully competing to attract and retain the best talent in today's marketplace requires that a company do more than just pay competitive current cash, though this appears to be a prerequisite. A broad definition of pay ("Total Rewards") must be adopted and communicated. In addition to salary, annual and long-term incentives and benefits, "nonmonetary" rewards — work-life balance, work environment, and career opportunity — often emerge as the most critical differentiators for successful talent acquisition and retention.

When organizations offer only 401(k) or defined contribution plans, employees tend to weigh account value heavily in determining when they can retire, thereby limiting flexibility in workforce planning. To boost the incentive for employees to remain with the organization, employers should consider extending vesting schedules and providing for increasing levels of benefits based on years of service.

Performance management is another often overlooked aspect of an employees' work experience — one that has critical importance to high performers. This group tends to seek out and thrive in pay-for-performance environments and to leave organizations that fail to adequately recognize their greater contributions relative to average performers.

Finally, generational differences need to be considered. One generation's "hot buttons" will not necessarily resonate with others. Whereas Baby Boomers may place a much greater emphasis on current compensation and benefits and building retirement income, those in Generations X and Y are more likely to be concerned with work-life balance and working for a "green" company.

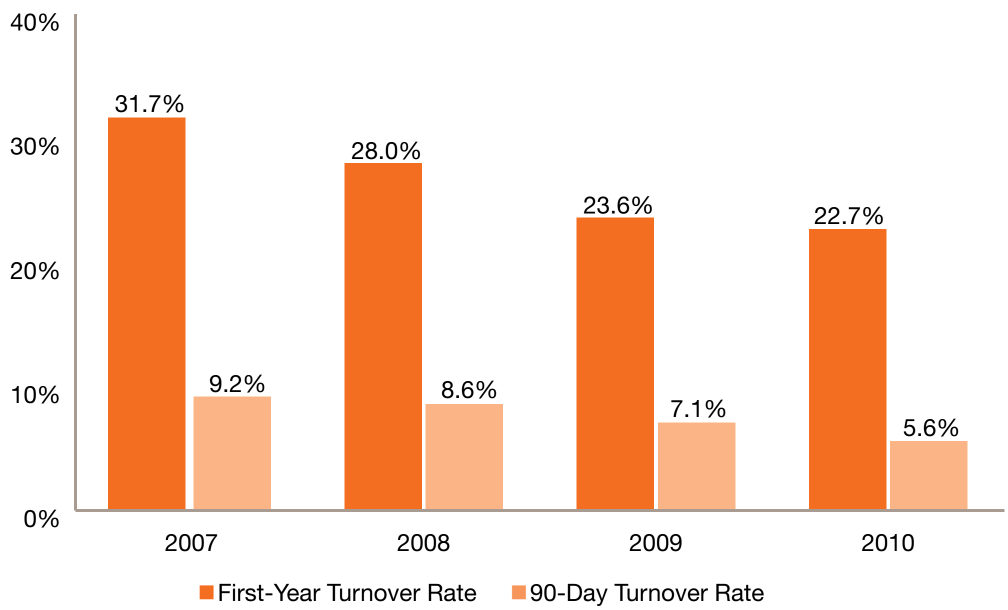
From a benefits perspective, given that Generations X and Y tend to place a high value on workplace flexibility and freedom, PwC expects to see a shift away from defined benefit (pension) plans toward defined contribution plans such as the 401(k). Still, many employees have seen their defined contribution retirement savings depreciate sharply, battered by the downturn; and losses were exacerbated by the increased focus on 401(k) investment fees following recent Department of Labor requirements. As a result, employers should be prepared to face increased employee scrutiny on related investment lineup offerings.

# Quality of hire continues to improve, but results appear to be linked more to economic cycles than improvement in HR processes

Media reports continue to show a high number of applicants per position. According to Bureau of Labor Statistics data analysis,[2] an average of five applicants applied for each available position in 2010, compared to a pre-recession average of about two applicants per opening.

The economic environment also appears to have led to a decrease in new-hire turnover, with metrics such as 90-day and first-year turnover declining since the recession set in. Pre-recession, nearly one in three employees left within the first year of service. That proportion dropped to less than a quarter in 2010.

**Figure 8.** ***Quality of hire***




Many organizations have invested significantly in systems improvements for talent acquisition, performance, and development. HR should make the most of these enhancements, lest they come to be viewed narrowly as technological tweaks inspired by the timing of the economic cycle and fail to address retention needs. We believe that without sustained structural improvements to talent acquisition processes, first-year turnover could reach 28% by 2013, based on our statistical analysis of historic, current, and projected government economic figures on unemployment, GDP, and first-year turnover.

2 http://www.stateofworkingamerica.org/articles/view/16

## *Addressing new hire quality in the healthcare industry*

PwC Saratoga's work with the hospital industry provides insights into how strategic healthcare providers are working to improve quality of hire and engagement in a pivotal employee group, Registered Nurses (RNs). For example, in addition to enabling each employee to participate in a traditional onboarding program for several days, many hospital systems offer new nurse hires intensive, tailored onboarding and training experiences that often last for weeks.

Additionally, a number of hospital systems offer HR resources as a new hire coach through the onboarding process, as well as offering formal new hire check-ins at the 90-day mark. More specifically, one hospital empowers the recruiter responsible for hiring RNs to own the onboarding process for a six-month period. Finally, to create a sense of community, one system sponsors informal gatherings such as movie nights and community events for key staff. While the strength of the economic recovery remains unclear, strategic HR teams recognize the need to develop strategic programs to increase retention and engagement among pivotal staff.

## *Impact of key trends in human capital on health and welfare benefits*

As the economy recovers and employers begin to see further increases in turnover rates, wellness and disease management programs might need to be revisited. Return on investment is not often realized in the first few years of implementation for these programs. But their ability to boost retention and cut turnover should be considered when wellness initiatives are in the planning and design stage.

Employers are also focused on the effectiveness of the disease management and wellness programs they already have in place and determining whether the investment is worth it — a particular concern in an environment where higher turnover is predicted. Health improvement programs focus on disease management for chronic conditions such as diabetes and asthma and wellness programs such as smoking cessation, weight loss, and nutrition. Employers should examine their programs through a robust analysis to identify how turnover has affected their investments in employee health improvement. The good news: Employers are seeing lower turnover rates in first-year results, which may help increase short-term program returns.

In addition, the slowing retirement among Baby Boomers has contributed to an increase in average workforce population age. This has a direct effect on increasing healthcare costs and might contribute to the higher-than-expected trend rates employers have seen over the last few years.

Finally, with Generation X remaining the majority of the workforce for the foreseeable future and Generation Y continuing to grow, employers will need to revisit their healthcare strategy and consider changes in benefits to attract and retain these groups. For example, employers may want to consider adding fitness centers, on-site clinics, and coaching services as work-life balance benefits sought by Generation Xers.

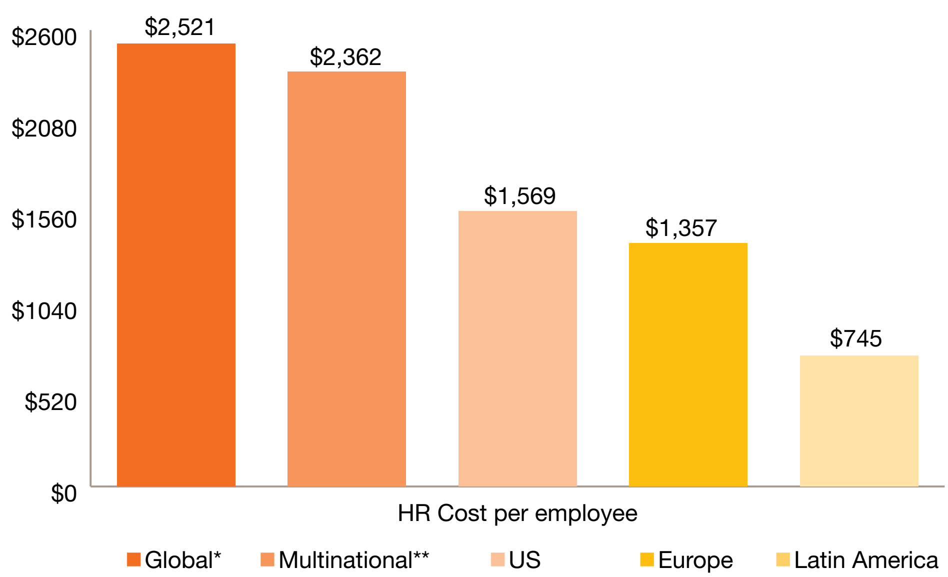
# Companies move to a global HR delivery model

As more and more organizations look beyond the United States to boost revenues, PwC Saratoga sees a change in how HR organizations deliver their services. Previously, when US-headquartered entities expanded outside of the United States, they delivered many centralized services from the United States, supported by generalists/centers of excellence operating in each country or region. These regional delivery models increased HR service delivery costs.

As the results in Figure 9 show, the cost of delivering HR services varies based on the scope of services being delivered. The cost of delivering HR services for multinational or global firms is the greatest, as organizations operating in a single country tend to have lower costs than those operating in multiple countries. Organizations operating globally have higher costs still; they're managing disparate labor and employee laws while also dealing with the complexities of international taxes on employee compensation and benefit plans.

Global organizations have traditionally used siloed regional delivery models, which in some cases can be rendered duplicative through historic acquisitions whose HR service delivery models have not been fully integrated. These redundancies increase the cost of HR service delivery. This HR delivery complexity is compounded by renewed vigor in cross-border M&A activity that PwC has seen over the last 18 months.

**Figure 9: *HR Regional Costs***




* Global organizations are those with significant operations in 3 of the 4 major regions—North America, Latin America, Asia Pacific and Europe. The majority of global organizations included in the benchmarks operate on an agglomeration of regional delivery models.

** Multinational organizations are those operating across multiple countries within (e.g., Europe and Asia) or across regions (e.g., US, China, and Japan), but are not operating globally.

Median All Industry Data Represented. All values have been converted to US dollars.

Post recession, PwC Saratoga has seen more organizations moving to a global delivery model for HR services. For example, one major global firm has located most of its HR customer service staff in Central America to support the United States, Canada, and South and Central America. This delivery model not only lowers the cost of delivery by removing redundancies, but it also provides a greater level of consistency in service delivery to staff.

The increase in global delivery models within HR and the supporting vendor and technology infrastructure needed to execute on these models will be a major area of focus for HR leadership as the economy improves. The rise of new global delivery model enablers, such as software as a service, improved HR outsourcing, and unified workforce data management services, will help HR deliver its value proposition more efficiently and effectively.

# *Global shared services delivery model points the way to enhanced efficiency and savings*

## *Issue*

A large global healthcare company faced significant HR management and reporting challenges. Operating in 70 countries, the skill levels and technological capabilities of its people vary widely from region to region — precluding the organization's HR function from functioning cohesively and efficiently. The company asked for PwC's help in enhancing its HR function.

## *Action*

PwC set out to formulate a plan for the HR function that would support company objectives, starting with a global activity analysis to support quantitative and qualitative assessments. A web-based survey distributed in seven languages enabled the firm to mine data from 450 of the client's HR employees worldwide and assess how their time was allocated. PwC developed an inventory of non-labor costs, such as system and maintenance expenses, and interviewed 50 business leaders worldwide to solicit feedback on the HR function. The team also conducted meetings in the company's four major geographical regions to better understand key differences among geographic locations.

Having determined that much of the company's HR talent was preoccupied by administrative tasks, PwC designed a global shared services delivery model through which administrative work would be delegated to a vendor, enabling HR to operate on a global basis and focus on more strategic functions.

PwC worked with the client to issue a Request for Capabilities to potential outsource vendors, assessed cost data and related information from five viable candidates, and drafted a business case that was compatible with three promising vendors. PwC also helped management identify program objectives as the basis for a Request for Proposal and visited several vendor regional sites to bring the business case to the next level.

## *Impact*

The shared services model, which is poised for full implementation, simplifies global reporting and promotes effective HR skills allocation — a solution that has the potential to save the client $100 million in 10 years and an additional $50 million to $80 million in cost-avoidance savings.

# Conclusion

The 2008-2009 recession deeply affected employers and employees alike. As economic conditions continue to evolve, the US workforce is undergoing dramatic changes of its own. While Generation Y has garnered much attention, we see Generation X as the crucial demographic group that should be drawing employers' deepest attention. They outnumber Generation Y by more than five to one in the workforce and have been and will continue to take on increasingly senior levels of responsibility as Baby Boomers retire. At the same time, the workforce is becoming increasingly diverse, overall and within the management ranks. HR itself is also undergoing change. We see evidence that managers and directors are supporting fewer — and, we believe, a greater number of professional-level employees — than in the past.

Since Generation X will be the dominant group in the workforce of tomorrow, HR should advise leadership to adapt the workforce environment in ways that fulfill Generation X values to effectively attract and retain this pivotal group. Generation Xers value freedom and responsibility in the workplace, dislike micro-management, and approach authority with a more casual attitude than their Baby Boomer predecessors. They also take a more balanced approach to life at work and beyond, and prefer to have fun in the workplace.

Although the first-year turnover rate decreased during the recession, this should not give employers a false sense of security; we anticipate an increase in the next couple of years. Results also show that turnover results for key segments such as sales and high performers are on the rise, which may foreshadow further turnover challenges. As the economic situation improves and the artificially low turnover rates revert to normal levels, the time is right for HR to develop solid employee retention plans.

Finally, as organizations continue to expand their global operations, HR departments appear to be moving on a parallel path, transitioning from delivering operations regionally to delivering HR services on a global basis. While this affords the advantage of centralized control over global operations, the associated skill set and costs associated with delivering HR globally exceed the cost of single-country or regional service delivery. HR's ability to demonstrate to leadership the value of this investment will be a critical test for HR effectiveness in today's ever-evolving workforce and economy.

# About PwC Human Resource Services

With our global network of 6,000 HR practitioners in 153 countries, including 1,500 practitioners in the US, we assist clients in improving the performance of all aspects of their HR organizations, both management of Human Capital (HC) and HR operational excellence, through thought leadership and innovation.

# About PwC Saratoga

As part of PwC's Human Resource Services, PwC Saratoga is the world's leading source of workforce measurement, teaming with hundreds of executives and HR departments each year to apply a more vigorous, evidence-based approach to decision-making around their workforce.

PwC Saratoga has leveraged technology and meaningful metrics to help organizations maximize return on HR investment for more than 30 years.

Today, we integrate employee attitudinal research and metrics to drive execution action and support clients who are looking to develop and deploy dashboards, employee surveys, predictive solutions, conduct workforce planning initiatives and benchmark the workforce and HR function.

***Metrics and Benchmarking***

- Regional measurement available for the United States, Canada, Europe, Asia, and Latin America
- Industry consortia
- Metrics selection workshop
- Dashboard strategy support

***Employee Surveys***

- Employee engagement surveys
- Exit surveys
- New joiner surveys
- Employee financial fitness assessments

***Predictive Analytic Solutions***

- Employee flight risk
- Quality of hire
- Employee performance

***Workforce Planning***

- Workforce demand
- Technology and process roadmapping

***HR Department Efficiency***

- HR activity analysis
- HR voice of the customer
- HR/payroll total cost of ownership

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