Saratoga

2009/2010

US Human Capital Effectiveness Report
Executive Summary

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Summary

In a down economy: Highs and lows in workforce trends

With the US and global economy still in the wake of the recession, employers and workers alike are scrambling to make ends meet and come out ahead. The challenge is unmistakable, but not insurmountable, as demonstrated by PricewaterhouseCoopers (PwC) Saratoga's Human Capital Effectiveness Report 2009/2010 survey results.

This report combines objective data and analysis to help organizations evaluate workforce performance and increase their return on human capital investment. We offer key information drawn from data accrued from the 2007 and 2008 calendar years, with additional comparisons for select metrics dating as far back as 2004.

With economic pressure a prevailing concern and the C-suite watching every dollar for return on investment (ROI), our latest report shows that voluntary turnover is down and employees are producing, with revenue per FTE up substantially.

At the same time, the Baby Boomer[1] generation, while nearing retirement age, isn't necessarily leaving the workforce in droves quite yet, at least not voluntarily. But the workforce is trending toward a younger cohort, with Generation X[2] and Generation Y[3] comprising larger shares of the demographic pie.

This executive summary provides highlights of results that were generated at the beginning of the recession. The key themes analyzed in this report include:

Facing economic stress, employers, workers do more with less: Workforce productivity improved as the recession set in.

Turnover decreased amid recession concerns: Voluntary and high performer turnover dropped more than ten percent between 2007 and 2008

Younger workers edge Baby Boomers: Generation X moved from just under one-half of workforce headcount up from 49.6% in 2007 to 50.4% in 2008.

Talent acquisition is stabilizing—for now: The recession has resulted in lower new hire turnover and higher offer acceptance rates.

The cost of doing business remains high: Bonus pay dropped, but labor, healthcare costs remained high.

Many, but not all, HR functions feel the impact of the economic strain: Compensation and talent management functional cost rose amid overall HR functional declines.

1 Baby Boomer is defined for the purpose of this survey as those born between 1943 and 1960.

2 Generation X is defined for the purpose of this survey as those born between 1961 and 1981.

3 Generation Y is defined for the purpose of this survey as those born after 1981.

About the Human Capital Effectiveness Report

PwC Saratoga's 2009/2010 US Human Capital Effectiveness Report includes 350 metrics covering a wide array of topics, including:

- Workforce productivity
- 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 who provided information from the 2008 calendar year. The average company in the report has annual revenue of $5.7 billion and more than 17,000 employees. While many participating clients are global companies, results included in the report refer only to US operations. PwC Saratoga also produces separate European and South American Human Capital Effectiveness reports.

The results described in this executive summary represent the all-industry medians, which are the midpoint values for all organizations in PwC Saratoga's database. Individual demographic groups, especially industry groups, can demonstrate substantially different results than the all-industry median and PwC Saratoga recommends organizations analyze results not in the aggregate, but by industry, company size, etc. For example, the amount of revenue generated per FTE in the healthcare industry is $170,329 compared to $461,663 in the technology industry. The full PwC Saratoga report contains thousands of additional benchmark results based on demographic segments including industry, size, revenue size, and revenue growth.

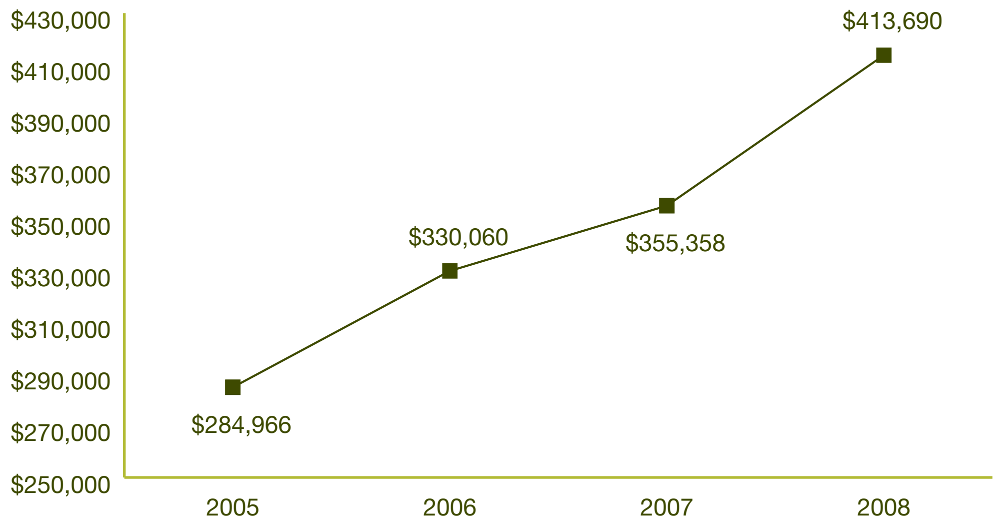
Facing economic stress, employers, workers do more with less

Workforce productivity improved as the recession set in

Facing increased economic uncertainty, organizations and employees are doing more with less. PwC Saratoga's most recent figures suggest that businesses continue to meet the immediate challenge of effectively managing workforce productivity.

Revenue per FTE has remained on an escalating upward trajectory, as demonstrated by the 25.3 percent jump from 2006 to 2008. Year to year, the metric rose 16.4 percent from 2007 to 2008, following a 7.7 percent rise the previous year. Revenue per FTE has increased by 45.2 percent since 2005.

Revenue per FTE



We believe organizations that are adept at leveraging flexibility in their approach to human capital resources are likely to experience productivity gains. PwC Saratoga survey participants appear increasingly confident about their performance on this metric, with 54 percent—a 13 percent increase over 2007—rating their organizations flexible or very flexible in their ability to reallocate staff to projects across business lines and cross-line business teams.

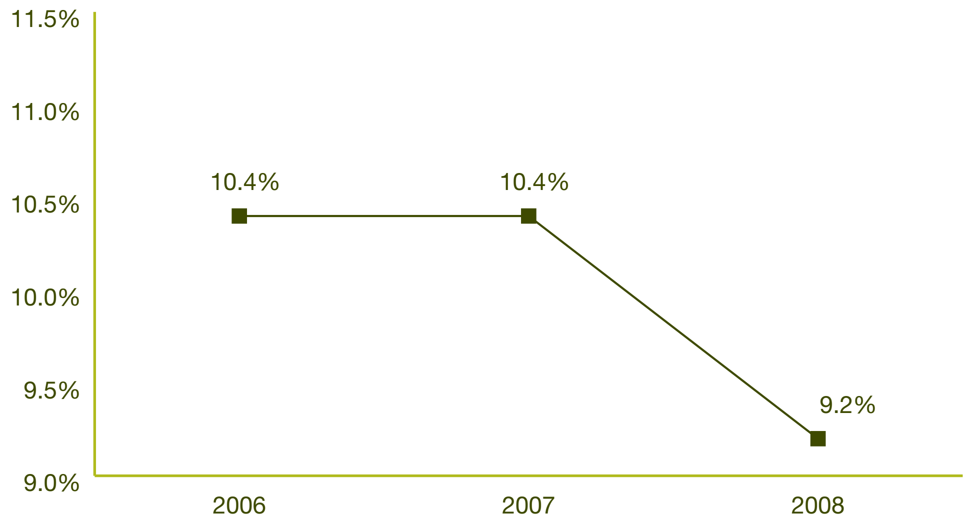
Turnover decreased amid recession concerns

Voluntary and high performer turnover dropped more than ten percent between 2007 and 2008

The shaky economy has workers digging in, with voluntary turnover and high-performer separations in decline.

Voluntary turnover decreased from 10.4 percent to 9.2 percent after being flat the previous two years.

Voluntary turnover rate



PwC Saratoga data also showed high performer turnover dropped to 4.3 percent in 2008, a significant decline from 2006.

High performance separation rate[4]

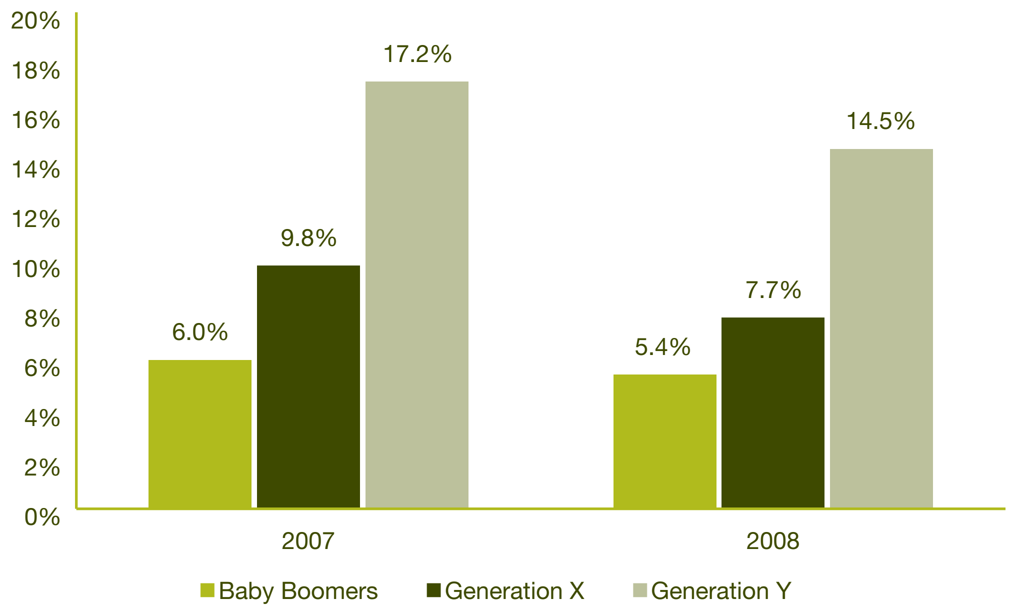
4 High performer rates include voluntary and involuntary separation.

Voluntary turnover dropped across the board along with the economy

The recession has resulted in voluntary turnover decreasing across the board. But with increasing numbers of economic prognosticators saying the recession may be winding down, these rates are not expected to last.

The percentage of workers leaving by each generational category revealed some interesting insights. Older workers voluntarily left in lower proportions (5.4 percent), compared with Gen-Xers (7.7 percent), and Gen-Y (14.5 percent). As in 2007, the youngest workers outpaced Gen-X and Boomers in voluntary separations. But even the voluntary turnover rate for Generation Y decreased from 17.2% in 2007 to 14.5% in 2008.

Generational voluntary separation rate



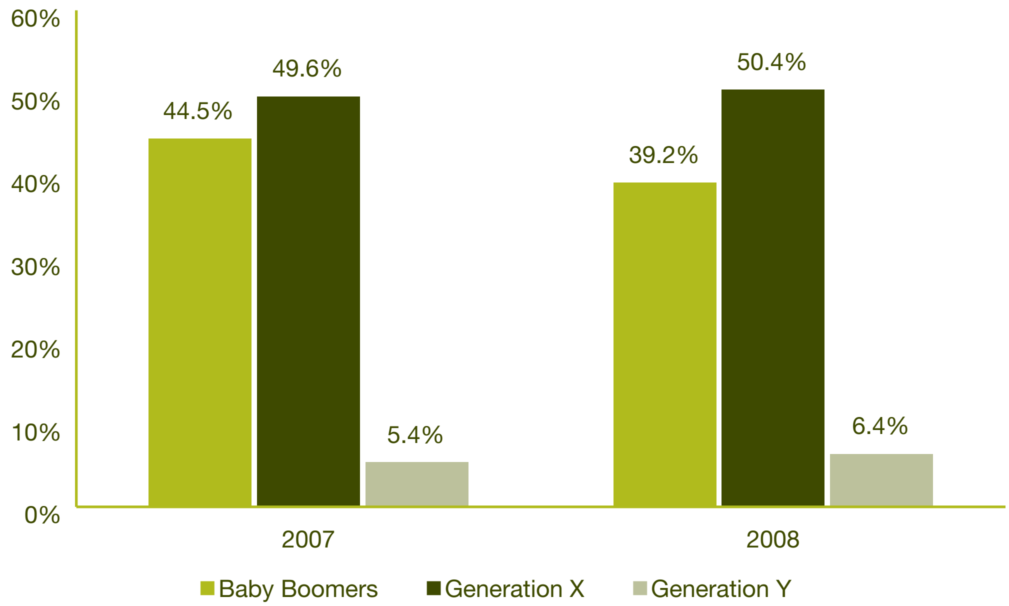
Organizations seeking competitive advantage should focus on the reasons underlying turnover of their top talent by examining what is driving key employees to depart in the midst of the current economic environment. While PwC Saratoga data shows that two in five survey participants report that their organizations are unable to make effective changes based on exit interview results, a well designed and executed exit survey program must yield actionable information on the drivers of turnover (and equally important, key drivers of engagement for current employees).

Younger workers edge Baby Boomers

Generation X moved from just under one-half of workforce headcount up from 49.6% in 2007 to 50.4% in 2008

Generation X headcount rose above the 50 percent mark–increasing from 49.6 percent in 2007 to 50.4 percent in 2008.

Generational representation



At the same time, the Baby Boomer headcount shrank from 44.5 percent to 39.2 percent, an 11.9 percent decrease since 2007. While retirements are clearly impacting the decrease in Baby Boomer Headcount Percent, the low voluntary turnover results may suggest that the economic crisis has had a disproportionate impact on this group through involuntary turnover.

While in 2007, Baby Boomers and Gen-Xers comprised 94.1 percent of the surveyed workforce, that representation fell nearly 5 percent in 2008, to 89.6 percent. Generation Y, still a relatively small workforce population segment at 6.4 percent, is increasing its representation by 18.5 percent from 2007 to 2008.

Retirement eligibility pool will continue to increase

The pool of workers who will be eligible for retirement in the next five years grew by 11.4 percent, to 18.6 percent, from 2007 to 2008. Managers and executives form a large segment of this population: Where nearly one-half of managers and executives were eligible for retirement in 2007, that representation now tops 63 percent, an increase of 32.4 percent over the previous year.

Retirement eligibility

PwC Saratoga benchmarks suggest that organizations are taking steps to offset anticipated changes in the top talent pool. Those entities that have formal succession planning programs report an average of 1.6 succession planning candidates for each key role—an improvement of nearly 50 percent over 2007.

Although cost containment is a focal point today, employers should remain attuned to future trends and business needs, and the critical role that human capital plays in business success. Despite today's job market, critical global labor shortages are widely anticipated, along with a knowledge drain, indicating that businesses will need to find ways to fill the right positions with the right talent in coming years—talent that will be in short supply.[5]

5 Managing tomorrow's people, Millennials at work—perspectives from a new generation, PwC, 2009.

Talent acquisition is stabilizing—for now

The recession has resulted in lower new hire turnover and higher offer acceptance rates

As the economy softened in 2008, metrics looking at the impact of the talent acquisition process improved and PwC Saratoga anticipates these improvements will continue through 2009. To begin, first year of service turnover decreased to 28 percent, an 11.7 percent drop from 2007 and below the 2006 result of 29 percent. Nevertheless, PwC Saratoga believes controlling first year turnover continues to be a key issue since more than one in four new hires depart during their first year of service.

First year turnover

Offer Acceptance Rate returned to its 2006 level of 91 percent, after falling to just over 90 percent in 2007. These results show that organizations are finding it easier to sell their value proposition to talent. This finding represents the first rise in the Offer Acceptance Rate metric since it began to slide following a 2003 high of more than 94 percent.

Offer acceptance rate

Still, many organizations spent 2008 with recruiting and talent retention challenges. Time to Accept climbed to 49 days (compared with 48 days in 2007 and 46 days in 2006), while at $2,675 Cost per Hire remained fairly consistent with the 2007 median of $2,658.

While talent acquisition results have improved as the economy fell into recession, the demographic changes present a long-term challenge to organizations as they recruit, manage, and retain Generation Y.

The cost of doing business remains high

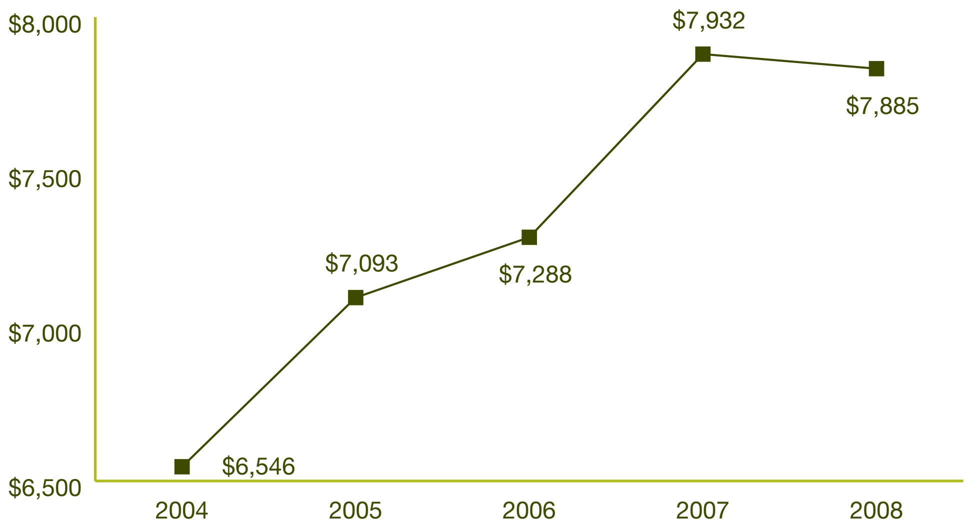
Bonus pay dropped, but labor, healthcare costs remained high

At $89,778, labor cost per FTE was consistent with 2007 results. Yet, the structure of the labor package has changed.

The percentage of compensation costs devoted to performance bonus pay dropped from 8.8 percent to 7.2 percent, an 18.2 percent decrease.

For the first time since PwC Saratoga began tracking Healthcare Costs per Active Employee, results decreased.

Healthcare costs per active employee



PwC Saratoga sees two potential factors influencing this decrease.

1. Baby Boomers who are heavy users of healthcare costs are leaving the workforce.
2. PwC Saratoga participants may have reached a tipping point on the amount of healthcare costs they are willing to absorb.

Each year, PwC conducts a survey which focuses on medical and prescription drug plan designs and costs, wellness and disease management programs and future healthcare strategies. This year's survey contains detailed benefits information provided by 694 participating companies. Results from this survey suggest that while one in five expects healthcare costs to decrease or remain the same, most organizations expect healthcare costs to continue to grow between 2008 and 2009 at an average of 6.1%.

Many, but not all, HR functions feel the impact of the economic strain

Compensation and talent management functional cost rose amid overall HR functional declines

Most HR functions showed the strain of operating under economic pressure, though as the economy recovers, we anticipate a renewal of increased investment in certain functions such as Recruiting and Staffing. The per employee investment in the Recruiting and Staffing and Workforce Mobility[6] functions were impacted the most, falling by 32 percent and 44 percent respectively.

Per-employee investment in HR decreased 9.2 percent to $1,462 in 2008. HR workers, like their contemporaries and the entities they support, are operating with more limited resources. While the average HR employee supported 85 employees in 2007, that number increased to 95 employees in 2008. PwC Saratoga's Recruiting and Staffing FTE Ratio[7] excludes contingent contractors. A flat Recruiting and Staffing FTE Ratio between 2007 and 2008 suggests that non-staff contract recruiters were the first to depart organizations when the job market weakened.

Companies in 2008 invested slightly more than they did the previous year in the Compensation and HR Talent Management functions,[8] indicating that they are keeping an eye on long-term planning, even as they trim costs in deference to financial constraints.

HR functional cost

6 PwC Saratoga defines Workforce Mobility Services costs as those associated with employee transfer processing, relocation services, severance plan administration, outplacement services, expatriate administration, service award administration, and performance management administration.

7 Recruiting and Staffing FTE Ratio measures the average number of employees supported by recruiters and support staff.

8 PwC Saratoga defines HR Talent Management costs as those associated with workforce strategy and program design, succession strategy and program design, performance management design, and organizational development.

An analysis of HR cost breakouts shows that cuts in the HR function between 2007 and 2008 focused on systems and labor costs, with increases going toward consultant and contractor costs and outsourcing:

Decreases

- HR systems cost per employee served declined 32 percent to $62.
- HR labor cost per employee served declined 16 percent to $920.

Increases

- HR consultant and contractor per employee costs rose 17 percent to $124.
- HR outsourcing cost per employee served rose 7 percent to $97.

To comprehensively assess HR efficiency, PwC Saratoga recommends that organizations benchmark their HR costs and structure, understand the strategic value of tasks being performed by HR staff, look to outsource, automate or create centers of excellence for administrative tasks, and survey HR customers (including leadership and line employees) to gain a better understanding of the function's strengths and weaknesses within their enterprise.

Conclusion

On top of the recession, employers today also must manage a workforce comprised of multiple generations of employees, dramatic demographic changes, decreased HR investment, and difficult choices. Short- and long-term implications and expectations often collide, as organizations try to balance the comings and goings of masses of workers with immediate and future balance sheet imperatives and business needs.

Employers are already focused on compensation and talent management as key sources of current value and future growth. As a larger share of managers and executives edge within five years of retirement, the key Baby Boomer cohort yields to new generations of workers, and talent wars threaten, leadership will need to remain attuned to succession planning, knowledge transfer, and long-term talent strategies.

The ability to continually generate strong productivity while managing the emerging workforce, pending labor shortages, and ongoing economic uncertainties will distinguish those who realize sustainable gains from those who merely survive today's challenges.

Summary of results

The table below summarizes the 2009/20010 US Human Capital Effectiveness Report results for the metrics referenced in this document. Please note that:

- HR results exclude learning and development, payroll, security and safety functions.
- Contingent employees are excluded from all calculations.

Metric	Formula	2008 Result
Facing economic stress, employers, workers do more with less		
Revenue per FTE	Revenue/Regular FTE	$413,690
Turnover cools amid recession jitters		
Voluntary separation rate	Total voluntary separations/ Regular headcount	9.2%
High performer separation rate	Total high performer turnover/ High performer headcount	4.0%
Baby boomer voluntary separation rate	Voluntary separations for employees born between 1943–1960/Regular headcount born between 1943–1960	5.4%
Generation X voluntary separation rate	Voluntary separations for employees born between 1961–1981/Regular headcount born between 1961–1981	7.7%
Generation Y voluntary separation rate	Voluntary separations for employees born in 1982 or later/Regular headcount born in 1982 or later	14.5%
Younger workers edge Baby Boomers		
Baby boomer headcount percent	Regular headcount born between 1943–1960/Regular headcount	39.2%
Generation X headcount percent	Regular headcount born between 1961–1981/Regular headcount	50.4%
Generation Y headcount percent	Regular headcount born in 1982 or later/ Regular headcount	6.4%
Percent of employees eligible for retirement within five years	Employees eligible for retirement within five years/Regular headcount	18.6%
Percent of managers eligible for retirement within five years	Managers eligible for retirement within five years/Manager headcount	27.4%
Percent of executives eligible for retirement within five years	Executives eligible for retirement within five years/Executive headcount	36.0%
Succession pipeline depth	Number of succession planning candidates/ Number of key roles	1.6

Metric	Formula	2008 Result
Talent acquisition is stabilizing—for now		
First year of service turnover rate	Total turnover with 0 to 1 Year of service/ Regular headcount with 0 to 1 year of service	28.0%
Offer acceptance rate	Total offers accepted/Total offers extended	91.0%
Time to accept	Total days to accept/Total hires	49
Cost per hire	Total hiring costs/Total hires	$2,675
Workforce costs remain high		
Labor cost per FTE	(Regular compensation cost * (1 + (Total benefit costs/Regular compensation cost)))/ Regular FTE	$89,778
Performance bonus pay percent	Performance bonus pay/Regular compensation cost	7.2%
Healthcare costs per active employee	Employer contribution towards healthcare coverage for active employees/Employees participating in healthcare plan	$7,885
Many, but not all, HR functions feel the impact of the economic strain		
HR costs per employee	Direct HR costs/Regular headcount	$1,462
HR headcount ratio	Regular headcount/Direct HR headcount	95
Recruiting and staffing FTE ratio	Regular FTE/Recruiting and staffing FTE	535
Compensation function costs per employee served	Compensation function costs/Regular headcount	$103
HR talent management function costs per employee served	HR talent management function costs/ Regular headcount	$115
Recruiting and staffing function costs per employee served	Recruiting & staffing function costs/Regular headcount	$162
Workforce mobility services function costs per employee served	Workforce mobility services function costs/ Regular headcount	$14

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To learn more about participating in PwC Saratoga's annual human capital survey and/or accessing benchmarks based on industry, please contact us at 1-866-727-2864.

About PwC Saratoga

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 rigorous, 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 nearly 30 years.

Today, we integrate employee attitudinal research and metrics results to drive executive action and support clients who are looking to develop and deploy dashboards, employee surveys, increase the efficiency of HR and benchmark the workforce and HR function.

Dashboards

Dashboard strategy and metric selection

Dashboard prototype

Dashboard tool implementation

Training and change management

Employee Surveys

Exit survey

Employee engagement survey

Onboarding survey

Employee assessments

HR Department Efficiency

HR activity analysis

HR customer value survey

Total cost of ownership

HR size and cost benchmarks for 14 HR functions

Benchmark Databases

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