Saratoga

2008/2009

US Human Capital Effectiveness Report
Executive summary

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Summary

Twenty-eight cents. That's how much the average company spends on workforce compensation and benefit costs to generate a dollar of revenue. The most successful companies seek to drive that number lower, through aligning their workforce with business goals and using performance metrics to guide decision-making.

PricewaterhouseCoopers (PwC) Saratoga, a pioneer in human capital measurement, partners with Human Resources (HR) departments to quantify and manage the overall impact of an organization's workforce.

PwC Saratoga's 2008/2009 US Human Capital Effectiveness Report offers objective data to help organizations evaluate workforce performance and optimize return on their human capital investment. This executive summary provides trend analyses based on the data collected from 2005 to 2007.

We have organized this summary of metric results and trends around several key themes:

Despite economic instability, productivity improved: Workforce productivity improved in 2007, with labor costs declining relative to revenue generated. At the same time, labor costs per full-time equivalent (FTE) increased, suggesting that reorganization efforts have focused more on lower cost employees.

Younger workers left at a higher rate: Voluntary turnover and high performer turnover continued to trend downward. Yet, organizations are having difficulty retaining their youngest workers, who left their jobs at a much higher rate than their older colleagues.

The talent acquisition crisis continued: Recruiters successfully managed hiring costs and cycle times, yet decreases in offer acceptance rates and increases in first-year turnover suggest the "war for talent" remains a top priority for organizations.

HR spending did not reflect talent initiatives: The median HR spend remained stable, and there is little evidence that companies are allocating more of their HR resources to talent-related functions.

About the Human Capital Effectiveness Report

PwC Saratoga's 2008/2009 US Human Capital Effectiveness Report includes nearly 350 metrics touching on a wide variety of topics, including:

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

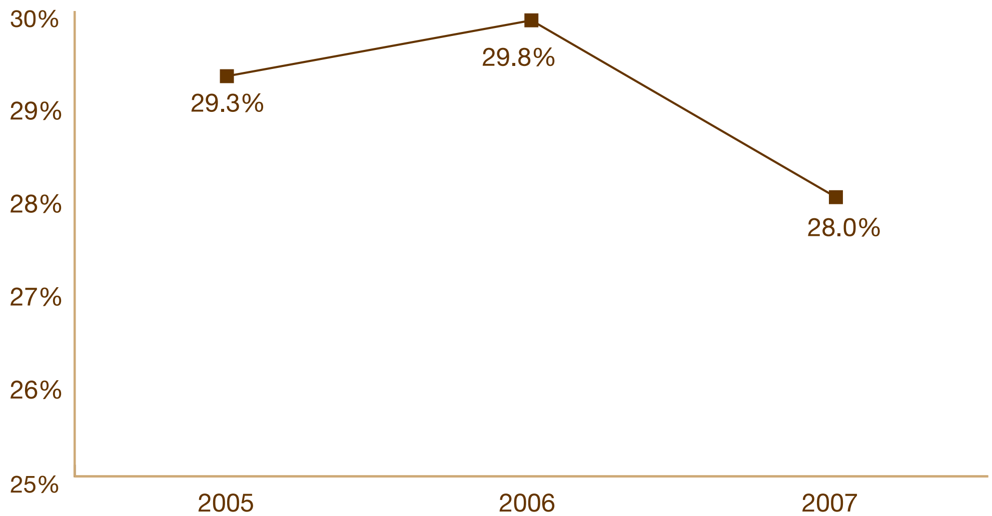
More than 300 organizations, representing 12 industry sectors, provided information from the 2007 calendar year. The average company in the report has annual revenue of $5.7 billion and roughly 17,000 employees. While many participating clients are global companies, results included in the report refer only to US operations. PwC Saratoga also produces separate Global and European 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. For example, the amount of revenue generated per employee in the healthcare industry is $163,144, and in the banking industry that figure is $264,897.

Despite economic instability, productivity increased

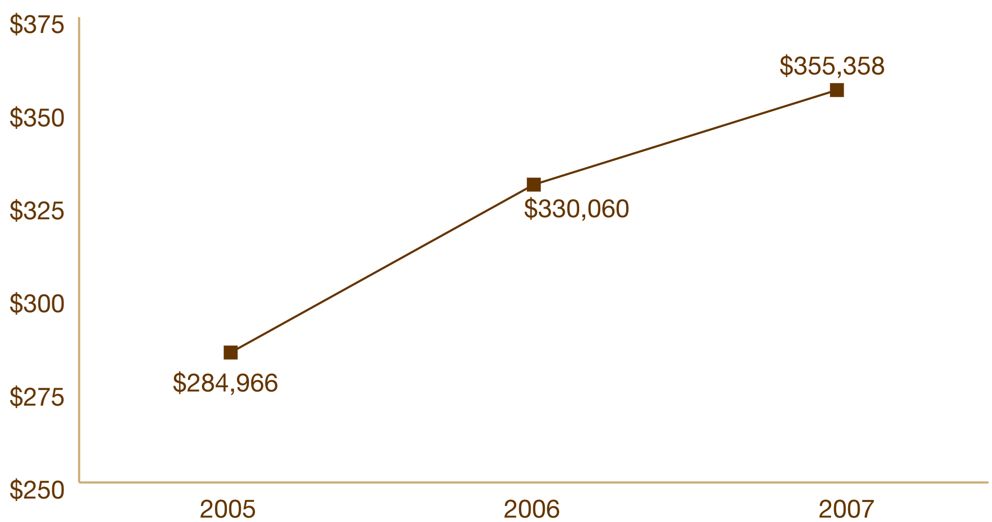
PwC Saratoga's annual study results show that workforce productivity, as measured by metrics comparing labor costs with revenue, increased in 2007. Labor costs as a percentage of revenue dropped to 28 percent, the lowest level since 2005.

Labor costs as a percentage of revenue



At the same time, revenue per FTE grew to $355,358: an increase of almost eight percent over 2006.

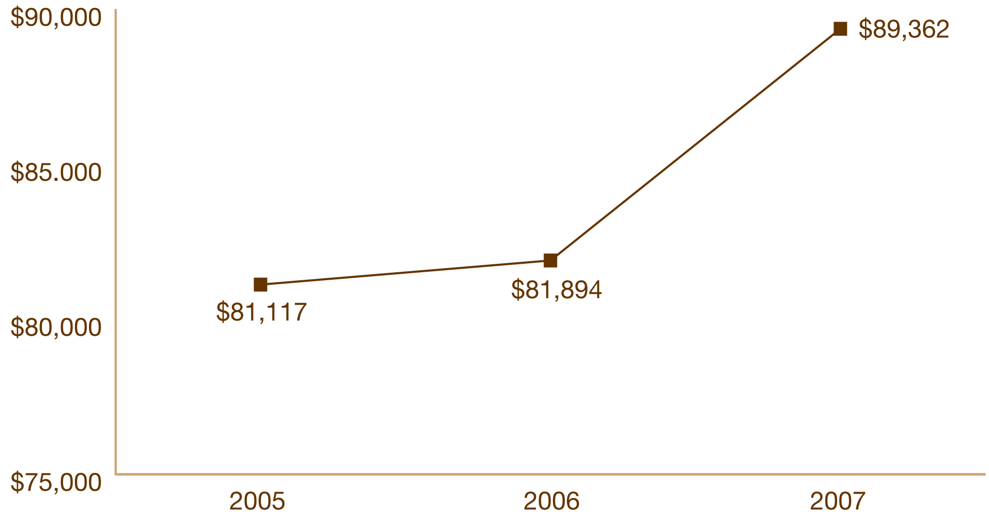
Revenue per FTE



These productivity figures suggest company leaders are successfully managing their workforce investment. However, labor costs per FTE spiked in 2007 from $81,894 to $89,362, an increase of more than nine percent. This data may suggest that staff reductions taken in response to economic troubles have affected lower wage workers disproportionately.

Despite economic instability, productivity increased

Labor cost per FTE

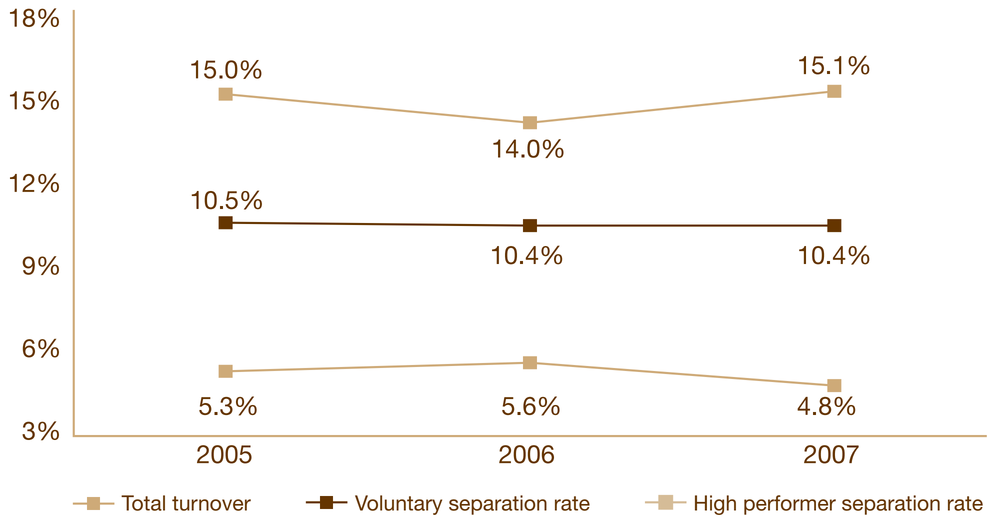


With economic uncertainty expected to continue into next year, hiring is unlikely to increase. Labor costs per FTE, driven by fewer, but more expensive employees, likely will remain high by recent historical standards.

Younger workers left at a higher rate

Three high-level PwC Saratoga metrics suggest organizations are controlling workforce turnover. Total turnover and voluntary separation rates remain flat, at 15.1 percent and 10.4 percent. Most encouraging, the high-performer separation rate has dropped to 4.8 percent.

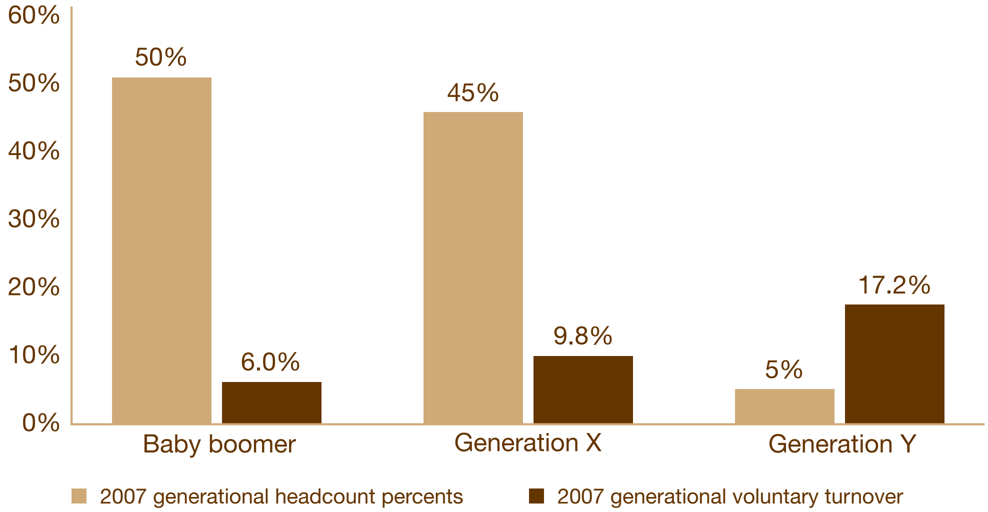
Turnover



PwC Saratoga introduced generational measures of workforce volatility to this year's survey, and the results were striking. Results show that the Baby Boomer (born 1943–1960) and Generation X (born 1961–1981) age cohorts make up 95 percent of employees.

Members of Generation Y (born 1982 and later) make up just five percent of employees in the companies surveyed but left organizations at a much higher rate than each of the other two cohorts. Generation Y voluntary turnover rate topped 17 percent in 2007.

Generational representation



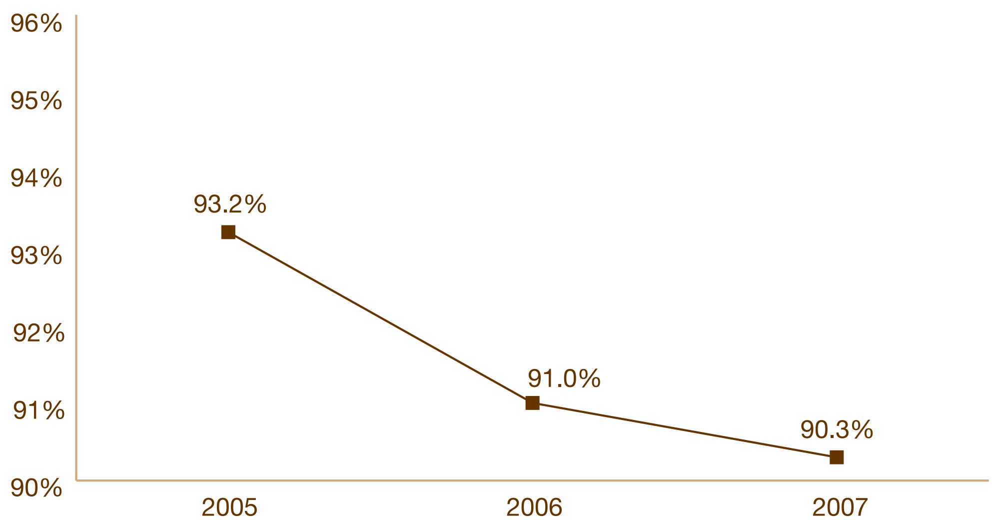
The data is inconclusive in determining specific drivers of this turnover. It may just be that younger workers move more frequently. Or there may be some cultural factors keeping younger workers from finding a comfort zone at work. In any event, the relationship of the millennial generation and the workplace bears more study.

The talent acquisition crisis continues

The talent acquisition crisis for companies operating in the United States worsened in 2007, even as weakness in a number of economic sectors softened the labor market. Two key PwC Saratoga metrics highlight this finding:

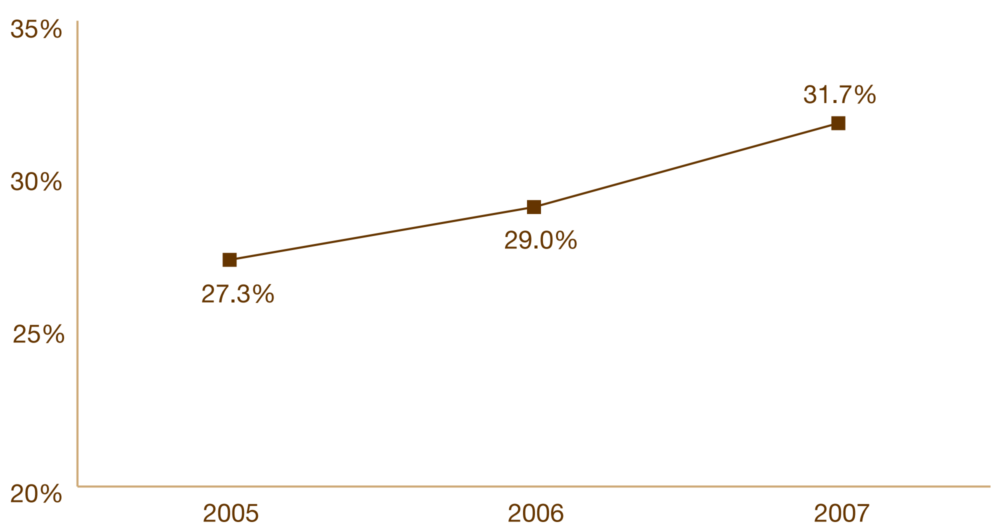
1. The offer acceptance rate declined again, dropping to 90.3 percent from 91 percent. This measurement has trended downward for years.

Offer acceptance rate



2. At the same time, approximately one in three new hires leave a company within the first year of employment. First-year turnover rate grew to 31.7 percent in 2007, continuing an upward trend.

First year turnover



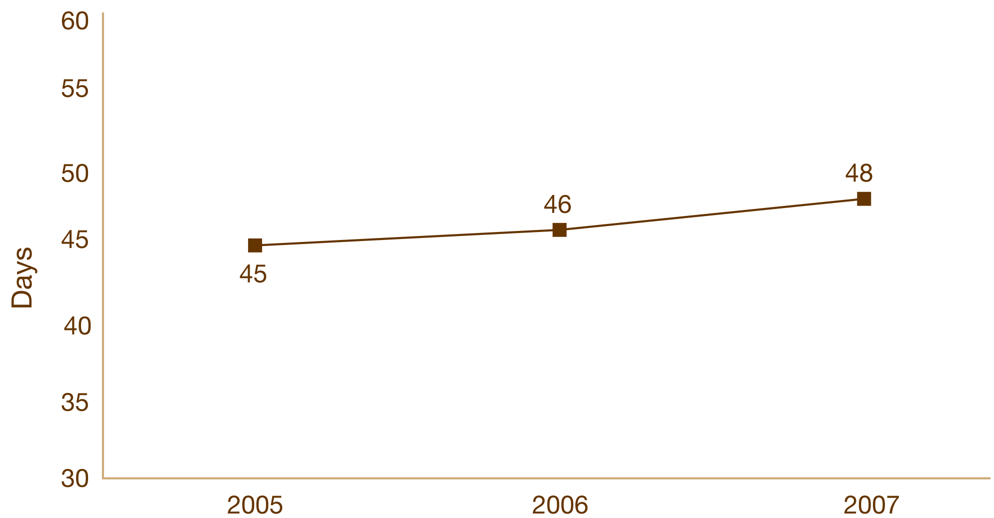
Some key talent management questions for organizations to address include:

- Why are potential hires more likely to turn down offers now than they were in 2005, when national economic conditions were far better?
- Why are new hires increasingly likely to leave a new job and accept the risk that leaving an organization entails?

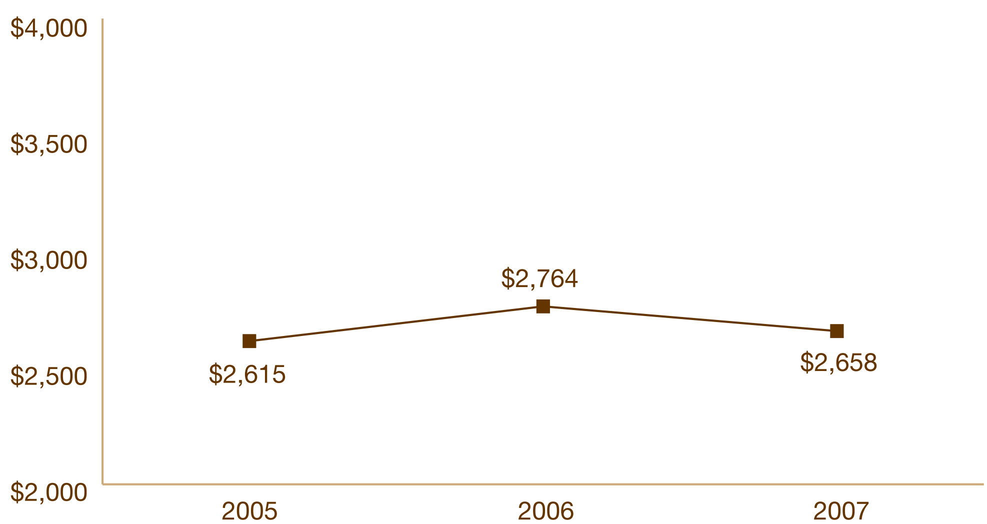
PwC Saratoga believes that a number of organizations are in poor position to answer these questions. Only 34 percent of organizations report measuring new hire quality, and fewer than half (47 percent) report measuring effectiveness of the on-boarding process.

Nevertheless, not all the hiring process news is negative. Time to accept an offer and cost per hire have both remained consistent over the past few years. However, companies need to be careful to not overemphasize talent acquisition efficiency metrics at the expense of talent effectiveness metrics.

Time to accept



Cost per hire

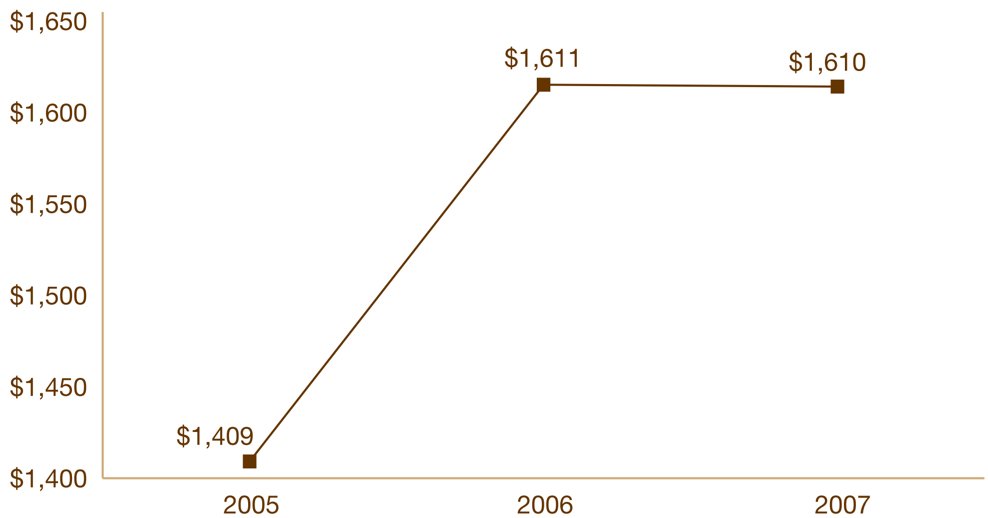


HR spending did not reflect talent crisis

According to PwC Saratoga data, the top issues shaping HR strategies include: talent diversity and succession planning; improving service delivery levels; increasing the agility of the workforce; and developing data for decision-making. These issues have remained remarkably stable for the past four years.

After growing more than 14% between 2005 and 2006, HR costs were flat between 2006 and 2007.

HR spend per employee



There is little evidence that organizations are reshaping their HR workforce to address the talent and on-boarding crisis, which may be the greatest internal challenge they face. As noted by the chart below, the number of employees being supported by key HR functions has remained relatively stable for the past few years.

HR ratios

	HR functional ratios	**2005**	**2006**	**2007**
Decreasing in size	HR FTE ratio	89	89	94
	Recruiting and staffing FTE ration	463	441	543
	Business partner FTE ratio	941	974	1,016
	Employee/labor relations	1,073	945	1,194
	HR leadership & strategy FTE ratio	1,092	1,180	1,282
	Compensation FTE ratio	1,157	1,254	1,635
Increasing in size	Benefits FTE ratio	879	771	746
	Talent management FTE ratio	1,478	1,619	1,395

Conclusion

As macroeconomic troubles squeeze sales and revenue, organizations will need to increase focus on managing their human capital and maximizing the productivity and value of each employee and new hire. Every dollar saved through avoiding unnecessary turnover can be added to the bottom line. Every high performer retained enhances an organization's value.

HR departments that use objective, systematic approaches to measuring employee productivity, turnover, and engagement will have a strategic advantage over competitors that do not.

Summary of results

The table below summarizes the 2008/2009 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

Managing human capital in volatile economy

Metric	Formula	2007 result
Labor cost revenue percent	(Regular compensation cost + total benefit costs)/revenue	28.0%
Revenue per FTE	Revenue/regular FTE	$355,358
Labor cost per FTE	(Regular compensation cost + total benefit costs)/regular FTE	$89,362

Generational aspect to turnover

Turnover rate	Total turnover/regular headcount	15.1%
Voluntary separation rate	Total voluntary separations/regular headcount	10.4%
High performer separation rate	Total high performer turnover/high performer headcount	4.8%
Baby boomer headcount percent	Regular headcount born between 1943–1960/regular headcount	44.5%
Generation X headcount percent	Regular headcount born between 1961–1981/regular headcount	49.6%
Generation Y headcount percent	Regular headcount born in 1982 or later/regular headcount	5.4%
Baby boomer voluntary separation rate	Voluntary separations for employees born between 1943–1960/regular headcount born between 1943–1960	6.0%
Generation X voluntary separation rate	Voluntary separations for employees born between 1961–1981/regular headcount born between 1961–1981	9.8%
Generation Y voluntary separation rate	Voluntary separations for employees born in 1982 or later/regular headcount born in 1982 or later	17.2%

The talent acquisition crisis continues

Metric	Formula	2007 result
Offer acceptance rate	Total offers accepted/total offers extended	90.3%
First year of service turnover rate	Total turnover with 0 to 1 year of service/regular headcount with 0 to 1 year of service	31.7%
Time to accept	Total days to accept/total hires	48
Cost per hire	Total hiring costs/total hires	$2,568
Talent crisis not reflected in HR spending		
HR costs per employee	Direct HR costs/regular headcount	$1,610
HR FTE ratio	Regular FTE/direct HR FTE	94
Recruiting & staffing FTE ratio	Regular FTE/recruiting & staffing FTE	543
Business Partners FTE Ratio	Regular FTE/business partners FTE	1,016
Employee & labor relations FTE ratio	Regular FTE/employee and labor relations FTE	1,194
HR Leadership & Strategy FTE Ratio	Regular FTE/HR leadership & strategy FTE	1,282
Compensation FTE ratio	Regular FTE/compensation FTE	1,635
Benefits FTE ratio	Regular FTE/benefits FTE	746
HR talent management FTE ratio	Regular FTE/HR talent management FTE	1,395

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.

For more than 25 years, PwC Saratoga has leveraged technology and meaningful metrics to help clients maximize return on HR investment. Today, we integrate employee attitudinal research and metrics results to drive executive action. To learn more about us, please visit www.pwc.com/saratoga or call us at 1-866-727-2864.

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