

Saratoga
Human resource services

The Saratoga Review

Newsletter Issue: April 2009

In this issue

What's happening at PwC Saratoga	1
Establishing a workforce intelligence center of excellence	2
Key highlights from PwC's 2009 Global CEO Survey	5
Metric of the month: Succession pipeline depth	7

What's happening at PwC Saratoga

Some of the key activities coming up at PwC Saratoga include:

- April 7, 2009: Results for Health and Wellness survey will be delivered to members of PwC Saratoga's Utilities Consortium.
- April 28, 2009: Workforce and HR benchmark results will be delivered to members of PwC Saratoga's Federal Contractor Consortium at a member conference in Tysons Corner, Virginia.
- April 29, 2009: PwC Saratoga Metrics 101 course will be held in Chicago. To register or learn more, please copy and paste the following URL into your web browser: www.meetpwc.com/saratogametric101

To learn more about any of these activities, please see page 7 of this newsletter for the contact information of your local Saratoga representative or call (866) 727-2864.

Establishing a workforce intelligence center of excellence

This is a summary of a previous PricewaterhouseCoopers article also titled “Establishing a workforce intelligence center of excellence.” To read the article in its entirety, [click here](#).

Organizations often refer to employees as their “most valuable asset”—with good reason. The workforce represents most organizations’ single-largest annual investment; the one that can singlehandedly control the financial top—and bottom—lines; and the one that directly controls a company’s long-term competitiveness through its agility and innovation.

Yet most companies do not have the necessary baseline information to make good decisions regarding the workforce. Consider the following examples:

- An oil company estimated it would take six weeks to simply calculate how many employees it had, but by then the number would have changed.
- A consumer products company had to establish a four-week project to determine how many salespeople it needed to hire to meet sales projections, and even then the results were at best good guesses.
- A health insurance company did not recognize that it had two different scales for its annual performance rating: one where a “4” was a “star” performer and the other where a “4” was likely to be terminated.

Good guesses

Without a handle on the most basic workforce information, executives of successful companies readily admit that they got to where they are by making “good guesses” with people-related decisions. The world of good guesses isn’t the platform for building sustained success. Companies that crack the code on maximizing the return on workforce investment will create a sustainable competitive advantage.

In a world constantly pushing for improvement, the information base from which to make decisions on complex workforce issues may determine the winners and the losers. For example, consider whether your company understands:

- Fully loaded cost per employee by role—including direct costs (compensation and benefits) and indirect costs (facilities, training, travel, support, tools, etc.). With this information, organizations can make appropriate comparisons with labor alternatives such as contractors, off-shore, and outsource options.
- The degree to which performance management and management by objectives programs are (a) being met; (b) driving improved business results; and (c) encouraging appropriate behavior.

The need for information to support decision making has never been more acute, as the workforce finds itself in constant flux:

- On October 16, 2007, Kathleen Casey-Kirschling became the first baby boomer to retire—beginning a wave frequently referred to as the “Silver Tsunami.”
- Younger workers are voicing new priorities. A recent study by Students for Responsible Business found that 82.7 percent of recent college graduates surveyed chose an offer from a more “socially responsible” company if the salaries offered were equal, and PwC Saratoga’s recent data suggests that turnover rates for employees born after 1982 are double those of older generations.
- Technology is enabling a more transient and globally diverse employee population, thereby creating a whole new set of management challenges.

The workforce remains at the center of a dramatic disconnect: The asset is demonstrably important, yet its output and return on investment are rarely measured in a systematic and meaningful way. Organizations do not typically possess the information they need to drive effective and profitable decision-making as it pertains to their employee population.

The obligation to measure the workforce

With only 4 out of 10 CEOs believing that HR is adequately prepared to support change, how does HR fight back from this lack-of-confidence vote?

CEOs must task HR professionals with making their contributions more relevant to the current business environment and encourage them to become more innovative in competing for talent and driving organizational change. Companies should expect sustainable, scalable, and immediate sources of information from which to make decisions. Yet, for most organizations this source of information doesn't exist for the workforce.

Finance, for example, focuses on the inspection and reporting of all financial and fixed assets, while operations implements enterprise resource planning, which commonly measures its production rates, error frequency, the primary causes and results of those errors, and the costs associated with correcting (or preempting) them. In the past two decades, marketing has turned its focus to scientifically understanding customer profitability and customer behavior. In every case, front and back office functions have learned how to measure performance to make better-informed decisions.

HR, on the other hand, typically does not have this level of focus or measurement—a fact that often causes other functions to question its strategic value and financial relevance. Too often, HR is managed ad hoc, with numerous and disparate systems for core employee data, staffing and recruiting processes, benefits and compensation programs, performance, and development. Further, HR is frequently defended as a non-measurable function, better suited to assessment through intuition or “art” rather than consistent analysis or tools.

Consider some statistics from PwC Saratoga's annual Human Capital Effectiveness webcast the past two years. We asked the attending HR professionals: “How many FTEs [full-time equivalents] do you have dedicated to your Workforce Intelligence Center of Excellence?” In 2007, 68 percent of the companies reported having one or fewer FTEs. In 2008 we asked the same question, and the results suggested that no appreciable investment had been made, as 69 percent said they had one or fewer FTEs dedicated to their Workforce

Intelligence Center of Excellence. Without either the resources or investment, HR departments are unable to deliver on this corporate requirement.

To be fair, HR is not entirely to blame. Unlike finance, there are no regulatory bodies such as the SEC overseeing HR measurement, nor do HR standards have foundations laid over many decades. Moreover, the responsibility and ownership of these issues require a partnership between executives, line management, and HR.

A function to deliver workforce intelligence

Fortunately, the processes, standards, methodology, tools, and systems do exist for companies to gain the necessary information for solid decision making. To pull this all together, however, requires the creation of a function that does not exist in most organizations. Specifically, organizations can begin to optimize their workforce return on investment through the creation of a Workforce Intelligence Center of Excellence (WICoE), the first step en route to a successful establishment of a measurement culture in HR, similar to what already exists in finance, operations, and other departments.

HR must be prepared to step up the level of investment; and executives must demand it. After all, we are suggesting that business leaders make business-changing decisions based on workforce data analysis. To do so, that analysis must be “industrial strength.”

The WICoE will own and govern workforce measurement and analyze the workforce's impact on the business. It will influence business outcomes by monitoring and identifying solutions to workforce issues across staffing, retention, productivity, development, engagement, compensation, performance, etc. The WICoE will be responsible for developing a distribution channel that most efficiently gets the right workforce information to the right people at the right time and at the right frequency.

The responsibilities of the WICoE include delivering:

- *Workforce planning*—modeling and forecasting workforce and staffing requirements, including roles, locations, and capabilities.
- *Workforce analytics*—ad hoc analysis of root cause of workforce issues (e.g., what drives turnover within the high performer population).

- *Executive and operational workforce dashboards*—summary-level, routine reporting of key workforce outcomes.
- *Standard and ad hoc reporting*—routine delivery of workforce outcomes.

On a surface level, a WICoE can sound deceptively easy, which is why so many finance departments question why HR doesn't simply "get it done." In reality, establishing a WICoE that gets traction and makes a business impact requires far more than new reports or new tools; it's an organizational design challenge that requires partnership and buy-in from nearly every part of the company; it is a technology and a data challenge that requires transcending the siloed infrastructure that exists for most; and it is a significant change process for those expected to take action on the information.

The complex and lengthy process requires a business case and sizeable investment, and many companies are not yet up to that challenge. One common misconception is that an effective WICoE is all about technology: Put the right technology systems in place, so goes this thinking, and the rest takes care of itself.

Technology is, in fact, critical to an effective WICoE—but it's also important for a WICoE to establish data credibility by developing processes for cleaning and integrating data and establishing organization wide standards. It must work to build an organization that is complete with consulting and analytical skill sets not often seen in HR. Lastly, organizations must be committed to developing and cultivating HR and business professionals who can operationalize the new learnings to the company's advantage. Even the highest-performing sports car does you no good if you don't know how to drive it.

Partnering with an objective and independent human capital expert such as PwC Saratoga can enable companies to implement the right WICoE model for their businesses by establishing appropriate strategies, tools, processes, channels, and benchmarking capabilities.

To understand the workforce, companies must house workforce data, performance data, engagement and exit survey data, and business outcome data in the same place. The data must be managed by a department that can operationalize the use of workforce information in business decision making, including internal consultants who can support the existing decision-making infrastructure. This function must be chartered with data governance, defining the single source of the truth and automating the process of "who gets what when."

It's exciting to envision the possibilities that come with this information— and the delight of CEOs when their senior HR executives come to them with this level of insight. Imagine the impact of shaving percentage points off the labor cost as a percent of revenue ratio. The downstream impact on income per share is significant. This workforce information gives organizations a powerful platform from which to impact revenue performance.

If you'd like to talk more with PwC Saratoga about establishing a workforce intelligence center of excellence, please contact Michael Tindall at (646) 471-1296; michael.tindall@us.pwc.com or Scott Pollak at (408) 817-7446; scott.pollak@us.pwc.com

Key highlights from PwC's 2009 Global CEO Survey

PwC's 12th annual Global CEO Survey was conducted at a momentous time. A financial crisis of historic magnitude was unfolding as we set out to speak with 1,124 business leaders worldwide. We found CEOs operating in extreme conditions, with little margin for error. Many are still fighting threats to their companies' survival. At the same time, CEOs are also coming to terms with long-term, global trends that are challenging economic, political, social, and cultural structures around the world. This article summarizes the results of the latest PwC study; to view a full copy of the results, please [click here](#).

PricewaterhouseCoopers began tracking CEOs' economic forecasts in 2003. At present, CEO confidence is at an all-time low. Worldwide, just 21 percent of CEOs say they are very confident about revenue growth in the next 12 months, down from 50 percent in last year's Global Annual Survey.

Pessimism prevails across all geographic regions, business sectors and levels of economic development

Nearly 70 percent of CEOs say their companies will be affected by the credit crisis. Of those, nearly 80 percent say that they face higher financing costs, and nearly 70 percent say they will delay planned investments as a result. Companies in the banking, utilities, construction, entertainment and automotive sectors are most likely to be affected.

Only 15 percent of CEOs in North America and 15 percent in Western Europe express confidence about their growth prospects for the next 12 months. This compares with 21 percent in the emerging economies of Central and Eastern Europe, 31 percent in Asia Pacific, and 21 percent in Latin America. Most CEOs around the world are planning for a slow recovery.

CEOs want leadership and consistency from government

CEOs want more government action, particularly in areas where regulation enables business, such as climate change. More than 80 percent of CEOs favor clear, consistent government policies to address climate change. Fifty-seven percent believe that governments should drive the convergence of global tax and regulatory frameworks.

However, CEOs remain wary of regulatory overreach. Fifty-five percent of CEOs are concerned about overregulation as an obstacle to growth.

Cross-border joint ventures will overtake M&A as a growth strategy

The percentage of CEOs who believe that joint ventures will play a greater role than M&A in cross-border growth has surged, particularly in Western Europe and Latin America.

Energy and talent remain long-term challenges

Buffeted by the recession, along with volatile commodity and energy costs, more than 80 percent of CEOs are taking steps to reduce energy costs by finding efficiencies in their operations, and more than half are seeking alternative sources of energy.

Finding and retaining top talent also remains a major priority for CEOs; nearly 70 percent say that a shortage of candidates with essential skills is a key challenge.

Better information is needed urgently, particularly for managing global risks

61 percent of CEOs say that the dependence on carbon-based energy will have an impact on the long-term success of their businesses. Fifty-six percent say the same about climate change, 55 percent about overpopulation, and 50 percent about a scarcity of fresh water.

There is, however, a huge gap in the information required to identify, assess and respond to the effects of these global trends. While 92 percent of CEOs say that information about risk is important, only 23 percent say that they receive comprehensive information about it.

Next month, we'll focus on CEO views of attracting and retaining talent while reducing costs.

Metric of the month: Succession pipeline depth

According to the US Census Bureau¹, the number of Americans 65 years and older will grow from 40 million in 2010 to nearly 55 million in 2020; Americans between the ages 18 and 64 will only grow from approximately 195 million in 2010 to 205 million in 2020 (5.2 percent). While the current economic crisis is likely to delay the talent shortage, demographic trends paint a clear picture—companies will battle for key talent in the coming years.

Most organizations recognize the value in having a stable pipeline of key leadership and pivotal employees who understand the organization and can help manage through the most challenging economy in decades. However, training their staff members to meet these standards is lacking in sophistication. In our work with clients, the topic with the biggest gap between interest in and measurement of is succession planning. Organizations have a high desire to quantify the impact of their succession planning programs, but lack appropriate metrics and tools to do so.

PwC Saratoga offers a handful of metrics to help evaluate succession planning efforts. One of our key metrics in this area looks at the number of succession planning candidates for each of the key roles within the organization.

The formula for Succession Pipeline Depth is:

$$\text{Number of Succession Planning Candidates} / \text{Number of Key Roles}$$

Saratoga defines key roles as those for which the organization has created succession plans; they are typically limited to senior executive leadership. In addition to getting a high-level analysis of the depth of the succession pipeline that is provided through Succession Pipeline Depth, PwC Saratoga recommends looking at the number of unique succession candidates per key role as well as an analysis of how the succession planning pipeline is utilized. After all, what is more dangerous to an organization—a lack of formal succession planning program or a strong internal pipeline that disproportionately leverages external candidates?

1

<http://www.census.gov/population/www/projections/summarytables.html>

To learn more about PwC Saratoga's measurement programs, visit www.pwc.com/saratoga or call (866) 727-2864.

Key contacts:

Northeast

Michael Tindall
michael.tindall@us.pwc.com
(646) 471-1296

Midwest

Patrick Meyer
patrick.meyer@us.pwc.com
(312) 298-6229

Southeast

Nik Shah
nik.shah@us.pwc.com
(703) 918-1208

West

Scott Pollak
scott.pollak@us.pwc.com
(408) 817-7446

Have an idea or topic that you would like Saratoga to write about? If so, we would love to hear from you! Please send your ideas and/or topics to saratoga@us.pwc.com.

The Saratoga Review is copyrighted and protected by federal law. The re-use of its content is restricted (see copyright statement below), but we allow sharing it in part or whole so long as proper attribution and our copyright are included. However, you are permitted, in fact encouraged, to forward this newsletter, in its entirety, to as many of your associates and colleagues as you wish. Or, have them sign up for their own copy at saratoga@us.pwc.com.

To unsubscribe from the Saratoga Review, please send an email to saratoga@us.pwc.com. Make sure to include the word UNSUBSCRIBE in the subject field.

For more information, call 866-727-2864 or visit us on the web at <http://www.pwc.com/saratoga>

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a Delaware limited liability partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. PM-09-0627 DL

We're often asked about how metrics are impacting organizations and want to hear your experiences. How is your organization using metrics/measurement to influence change/reduce costs in your organization?

We'd love to hear your stories and feature your experience in one of our upcoming newsletters, which is read monthly by thousands of HR practitioners. If you have a story to share, please contact saratoga@us.pwc.com.