

Saratoga
Human resource services

The Saratoga Review

Newsletter Issue: August 2009

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What's happening at PwC Saratoga

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

- August 10: PwC Saratoga's Federal Contractor Consortium will launch a pulse survey focused on rewards and onboarding. Results will be delivered in September
- Mid-August: PwC Saratoga's Federal Contractor Consortium members will receive results from a midyear survey on key staffing and turnover metrics
- Late August: PwC Saratoga's Hospital Consortium will launch a compensation survey for medical directors
- August 25: Data entry deadline for PwC Saratoga's South American human capital effectiveness survey. Benchmarks results will be delivered in September
- August 27: PwC will host a webcast presenting our methodology to quickly and cost-effectively identify opportunities that will reduce spending and drive efficiency throughout the organization. To register for this event, please [click here](#)
- PwC Saratoga's next Metrics 101 course will be held August 11, 2009, in San Francisco, California. To register or learn more, please copy and paste the following URL into your web browser: www.meetpwc.com/saratogametric101

Future sessions will be held in the following cities:

- Atlanta on September 1
- New York on September 16
- Houston on October 13
- Boston on October 20
- Philadelphia on November 3
- Minneapolis on December 1
- Los Angeles on December 10

To learn more about any of these activities, please see page 9 of this newsletter for the contact information of your local Saratoga representative or call (866) 727-2864.

A more comprehensive assessment of HR effectiveness and efficiency

PwC Saratoga’s metric of the month article discusses HR costs per employee served—a lightning rod number for HR departments everywhere as they look to determine the right level of resources and the right way to respond to the current economic conditions.

While metrics focused on costs per employee served are excellent data for assessing the current level of resources allocated to HR, we think it represents little more than an initial step toward assessing overall HR performance. Indeed, this metric is a step up from its sibling the HR headcount ratio —as the HR costs per employee served takes into account the total resources allocated to HR, including labor, consulting, outsourcing, systems, etc. Yet the metric still evaluates only HR’s efficiency in using its budget dollars. This simplified view of HR perpetuates its position as a cost center and does not address the level of service being delivered or the impact on the business.

PwC Saratoga’s methodology for assessing an HR department recognizes that HR must do more than simply “not spend money” to be top performers. Top-performing HR departments must be both effective within their organizations and efficient in their service deliveries. Even within this definition of “effectiveness” and “efficiency,” we believe there are different axes that need to be evaluated, and these are outlined in the graphic below.

Summary Assessment of Human Resources

How **effective** is HR?

Return on workforce investment	Low ROI	High ROI
Workforce risk mitigation	High workforce risk	Low workforce risk
HR delivery effectiveness	Low delivery effectiveness	High delivery effectiveness

How **efficient** is HR?

PS cost	Low cost	High cost
PS process efficiency	High delivery effectiveness	Low delivery effectiveness
PS structure	Efficient structure	Structure fragmentation

To assess the effectiveness of HR, PwC Saratoga evaluates three components

Return on workforce investment	Evaluates: <ul style="list-style-type: none"> • The return on labor investments (e.g., labor costs) based on financial productivity • Performance management/strength of pay for performance effectiveness
Workforce risk mitigation	Assesses how effective Human Resources is in managing workforce-related risks including: <ul style="list-style-type: none"> • Bench strength/succession planning • Retention strategy of high and low performers • Diversity
HR delivery effectiveness	Evaluates the effectiveness of HR programs to support the business objectives including such items: <ul style="list-style-type: none"> • Quality of hire • Learning and development • Reward design • Workforce planning

To assess the cost efficiency of HR, PwC Saratoga evaluates two components

Process efficiency	Assesses the efficiency of HR processes including: <ul style="list-style-type: none"> • Process fragmentation and duplication of efforts • Timeliness of process (e.g., talent acquisition) • Automation of workflow and dataflow within and across HR functions
Structure efficiency	Assesses the structure of HR to ensure: <ul style="list-style-type: none"> • Appropriate allocation of resources to complete transactional versus strategic initiatives • Optimal structure to partner with businesspeople • Appropriate sourcing strategy

We believe that this comprehensive assessment of HR is required for departments that are looking for not just an understanding of how appropriately resourced they are, but also how to drive investment strategies and organizational performance. The assessment can serve as the front end of an HR transformation or more confined objectives such as evaluating sourcing strategies, developing business cases for systems and self service, and reorganizing roles and delivery strategies.

PwC Saratoga has developed a series of tools to provide a multifaceted assessment —one that takes into account not just quantitative, but qualitative input. We also look at the HR department both from an internal and activity level, and from the customer perspective. Tools that Saratoga leverages include:

- **Workforce and HR Department Benchmarks** to assess performance externally
- **Activity Analysis** to understand process flow and delivery structure
- **Total Cost of Ownership** to determine the drivers of cost and performance
- **Voice of the Customer Survey** to understand the input of senior level staff about HR's performance
- **Process and Technology Workshops** to determine how work and output is currently produced
- **Executive Interviews** to understand the goals, objectives, and level of support expected of HR

If you are interested in learning more about PwC Saratoga's approach to assessments, please contact us at saratoga@us.pwc.com or (866) 727-2864.

PwC Saratoga's scorecard tool

In the United States, PwC Saratoga benchmark clients have access to a number of key reporting tools including:

- US Human Capital Effectiveness Report, which contains 350 metrics and thousands of individual benchmarks from more than 300 US-based organizations
- A customized report comparing organizational metrics against any of PwC Saratoga's 35+ benchmark comparator groups (e.g., industry, company size, revenue, etc.)

To help our clients better communicate the value of their workforce and the HR function using evidence-based information, PwC Saratoga has released a new scorecard reporting tool. This tool enables PwC Saratoga clients to:

- Create a customized scorecard that includes PwC Saratoga benchmarks and targets
- Report on customized metrics or benchmarks (e.g., employee engagement index)
- Create and share scorecards by role (e.g., chief financial officer-focused scorecard on the workforce versus one for the vice president of rewards, focused on compensation and benefit costs)
- View quarterly and/or annual data to identify any trends
- Project annualized results
- Document key issues to address by metric
- Document the audit trail used to pull data for each scorecard metric
- Link directly to PwC Saratoga's benchmark report page containing available benchmarks for any scorecard metric
- Export into Microsoft Office application

A sample of the scorecard tool appears below.

Metric	Demo Company Results							Professional Service Guide	All industries Guide
	Annual 2006	Annual 2007	Annual 2008	1st Qtr 2009	2nd Qtr 2009	3rd Qtr 2009	4th Qtr 2009		
HR Efficiency									
HR Costs per Employee	\$3,840	\$3,486	\$3,483	\$3,071	\$3,611	-	-	\$1,422	\$1,462
HR Headcount Ratio	97	98	98	103	94	-	-	81	95
Return on Workforce Investment									
Labor Cost Revenue Percent	16.6%	14.0%	15.2%	15.3%	15.4%	-	-	38.6%	13.4%
Human Capital ROI	2.38	2.62	3.41	3.41	3.40	-	-	1.54	2.40
Unit/Structural Costs									
Compensation Cost per FTE	\$111,804	\$111,612	\$116,139	\$114,702	\$120,655	-	-	\$84,985	\$74,204
High Perform Salary Differential	-	-	10.46	15.90	9.04	-	-	-	1.42
Average Benefits per Employee	\$40,881	\$40,301	\$37,733	\$35,814	\$39,121	-	-	\$19,907	\$15,273
Management Span of Control	6.0	5.9	6.2	4.9	6.0	-	-	9.3	7.2
Workforce Productivity									
Revenue per FTE	\$918,505	\$1,086,440	\$1,008,503	\$993,834	\$1,038,889	-	-	\$343,822	\$794,124
Pipeline Utilization	-	26.5%	39.7%	35.6%	39.7%	-	-	-	77.5%
Internal Management Hiring source	-	-	1.4%	1.4%	2.0%	-	-	-	59.4%
Voluntary Separation Rate	4.6%	5.0%	4.8%	0.4%	5.0%	-	-	11.7%	6.5%
High Performer Separation Rate	2.9%	2.6%	2.9%	0.2%	2.9%	-	-	3.0%	3.0%
First Year of Service Turnover Rate	34.5%	29.2%	25.0%	14.7%	25.0%	-	-	15.0%	18.0%
<div style="display: flex; justify-content: space-around; margin-top: 10px;"> Export to Excel Export to Word Create New Scorecard </div>									

PwC Saratoga’s scorecard tool is the first step in developing a workforce analytics program in that it demonstrates the results of a workforce measurement program. PwC Saratoga believes that HR should adopt an analytics technology strategy that matures with it, and we typically see this advancing through three stages:

Stage 1 Proof of concept	Flexible, repeatable, credible, usable	PwC Saratoga scorecard tool
Stage 2 Presentation automation	Drillable, presentable, adaptable, excitable	Data visualization tool/datamart
Stage 3 Analytics	Scalable, updatable, reliable, expandable	BI tool/data warehouse

PwC Saratoga scorecard tool is a key communication tool between HR and operations. It links directly to PwC Saratoga’s full suite of benchmarks for all standard scorecard metrics, and the scorecard can be customized for any audience.

PwC Saratoga will be hosting a clients-only training session on the scorecard in August. To learn more about PwC Saratoga’s scorecard tool, please contact us at saratoga@us.pwc.com or (866) 727-2864.

Metrics of the month: HR costs per employee served

According to PwC Saratoga's 2009-10 US Human Capital Effectiveness Report, the average organization invests \$1,462 per employee in the HR function. PwC Saratoga's definition of HR excludes costs associated with training, payroll, and safety. This represents an investment of \$1.4 million for each 1,000 employees.

As economic uncertainty continues, HR investments are under additional scrutiny from senior leadership. PwC Saratoga offers hundreds of metrics to assess the cost and efficiency of the HR function. While HR costs per employee is our most frequently used HR cost metric, other key HR cost breakouts Saratoga measures include:

- Cost to run an HR function
- Labor costs
- Outsourcing costs
- Consultant and contractor costs
- Systems costs

Saratoga also measures corporate overhead allocations. Saratoga recommends organizations evaluate HR costs on a per-employee-served basis, as this provides a standard method of comparison among organizations. For instance, let's say Organization A has 1,000 employees and a \$2 million HR budget that invests \$1.4 million in labor costs. This organization devotes 70 percent of its HR costs in HR labor costs and has a per-employee investment of \$1,400.

Organization B operates in the same industry as Organization A and has 1,000 employees and a \$2.5 million HR budget that invests \$1.4 million in labor costs. This organization devotes 56 percent of its HR costs in HR labor costs and has a per-employee investment of \$2,500.

An analysis of PwC Saratoga's US Human Capital Effectiveness Report shows how the HR function is being affected by the economy and an increase in transformation. Among the HR functions, all saw decreased investment between 2007 and 2008 except compensation and HR talent management, which both experienced small increases between 2007 and 2008 —demonstrating the value organizations place in these functions.



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.

Among the HR functions seeing decreased investment, recruiting and staffing and workforce mobility function costs decreased by the largest margin. 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. As the economy recovers, we anticipate the investment in these HR functions will increase.



Finally, an analysis of HR cost breakouts shows that cuts in the HR function have focused primarily on people, and HR systems implementations/upgrades are on hold. For example:

- HR labor cost per employee served **decreased** 16 percent between 2007 and 2008 to \$920
- HR systems cost per employee served **decreased** 32 percent between 2007 and 2008 to \$62
- HR outsourcing cost per employee served **increased** 7 percent between 2007 and 2008 to \$97
- HR consultant and contractor costs **increased** 17 percent between 2007 and 2008 to \$124



PwC Saratoga recommends that organizations benchmark their HR costs and structure, understand the strategic value of tasks being performed by HR staff, and 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 HR's strengths and opportunities for improvement.

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

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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

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