

Saratoga
Human resource services

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What's happening at PwC Saratoga

There is lots of activity at PwC Saratoga with the start of the new year. Over the past few weeks, we have:

- launched our 2009 annual human capital effectiveness survey.
- launched industry focused measurement consortiums for federal government contractors, insurance, health insurers, large multi facility hospitals, teaching hospitals, oil and gas, technology, and utilities. To learn more about our industry consortiums, please click **here**.
- delivered an action planning tool as a follow up to an employee engagement survey. This tool provided our client with a centralized repository to document its improvement opportunities.

Results from 2008/2009 US Human Capital Effectiveness Report

Part 4 of 4

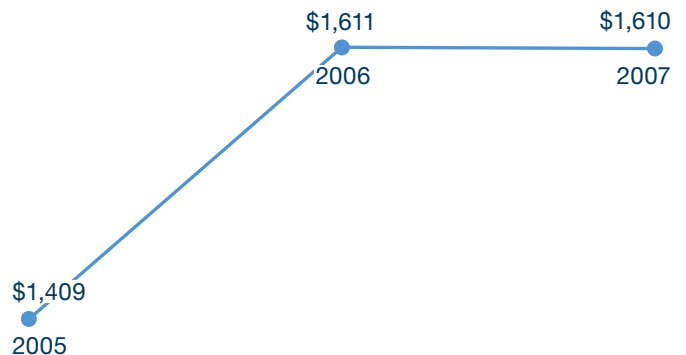
Last month, we discussed the talent acquisition crisis. This month we conclude our review of the key trends noted in Saratoga's 2008/2009 US Human Capital Effectiveness Report with a review of HR spending.

A reminder: The results described in this article represent the all-industry medians, which are the midpoint values for all organizations in PwC Saratoga's database. Individual demographic groups, especially industries, can demonstrate substantially different results than the all-industry median. For example, the revenue generated per employee in the healthcare industry is \$163,144, and in the banking industry that figure is \$264,897.

The top issues shaping HR strategies, according to PwC Saratoga data, 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 three years.

After growing more than 14 percent from 2005 to 2006, HR costs were flat from 2006 to 2007.

HR spend per employee



We see little evidence that organizations are reshaping their HR workforce to address the talent and onboarding crisis described in the November and December 2008 and January 2009 Saratoga Review newsletters. The talent and on-boarding crisis may be the greatest internal challenge HR organizations 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 suggesting HR may not be adapting to the changing demands of business.

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.

HR ratios

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

Increasing in size

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Decreasing in size

Do you have the talent to thrive through the downturn?

This is a summary of a previous PricewaterhouseCoopers article titled “10Minutes on rethinking pivotal talent.” To read the article in its entirety, click [here](#).

The global financial crisis has created a fast-emerging set of challenges and opportunities in the talent market. Before reflexively introducing traditional strategies such as across-the-board headcount reductions, companies should reevaluate their approach to “pivotal talent”—those game-changing employees whose performance can make or break the bottom line.

Why? Because as market conditions continue to evolve and companies quickly change business objectives—rethinking everything from growth projections to whether a merger or divestiture is necessary—they need the right blend of critical skills.

Highlights

Refocusing efforts on pivotal talent—those employees positioned to add the most value and determine the success of a company—can provide a major competitive advantage over the next 18 to 24 months.

Companies are recalibrating objectives to weather the current financial storm and exploit emerging opportunities.

An approach to talent management based on rigorous research and measurement can help a company quickly adapt and meet new business objectives.

Three out of four CEOs say that a lack of key skills is one of the biggest threats to their business.

A first step: rejecting four common talent myths that can hold companies back—especially when the going gets rough.

Letting go of four talent myths

1. **In a downturn, my pivotal talent will stay.** Many companies lose skilled employees during a slow economy, either by cutting too close to the bone or being outbid by opportunistic competitors.
2. **If we treat employees well, they’ll be loyal to our organization.** Corporate loyalty is as scarce these days as typewriters and carbon paper. Today’s employees believe in a mutually beneficial relationship with employers, and anticipate several different opportunities—at least—in their careers.
3. **We can always rely on the flow of foreign-born technical talent to the United States.** Not only is the world’s working-age population growth slowing, but the talent pipeline also is drying up because of home-country opportunities and US immigration policy.
4. **Talent ROI metrics are famously hard to produce.** Tools exist to measure the impact of talent on business objectives, the ROI of talent solutions and solution delivery effectiveness.

The initial phase of the financial crisis has left many companies just trying to survive. By following these fact-based strategies, organizations can be in a position of strength 18 to 24 months from now.

Approach compensation as just one piece of the puzzle.

Compensation is just the first step in attracting and retaining pivotal talent during tough times. For example, in a recent PwC survey, “compensation” lagged behind “lack of career development” as the main cause of turnover for pivotal employees.

Reassess pivotal positions and external talent.

In today’s market, companies should be regularly reassessing which pivotal positions are open and what talent is available in the marketplace. A competitor’s headcount reduction or poor performance could lead to many high-quality candidates entering the job market.

Connect the dots between risk management and talent issues.

The financial crisis has demonstrated again how important it is to place the right professional in the right job. This will be especially true as companies scramble to hire new leaders, divest of non-core businesses, recast products and services and adapt to potential new regulation.

Challenge valued employees.

To retain pivotal talent, companies should strategically expose them to different areas of the organization, promote when ready, and provide cross-cultural and foreign assignment opportunities if applicable.

Develop stronger talent leadership.

A new breed of HR leader has emerged, one who can upgrade basic employee programs and technologies, even while articulating the goal of aligning talent priorities with business objectives. An economic downturn could be an ideal time for companies to redefine what they want out of their talent leadership.

Metric of the month: HR Costs per Employee

As economic uncertainty impacts more organizations and cost-cutting grows, senior leadership is giving additional scrutiny to HR investments to understand how their organization compares with others. One of PwC Saratoga's most-used metrics to assess HR investments is HR Costs per Employee. The formula for this metric is:

$$\text{Direct HR Costs} / \text{Headcount}$$

PwC Saratoga's Direct HR Costs include labor costs (compensation and benefits), outsourcing costs, consultant and contractor costs, systems costs and any corporate overhead allocations. Costs associated with training, payroll and safety are excluded.

To comprehensively assess HR efficiency, PwC Saratoga recommends that organizations survey HR customers (including leadership and line employees) to gain a better understanding of HR's strengths and opportunities for improvement.

Though many metrics can be used to assess the investment in HR including HR Costs per FTE and HR Costs relative to operating costs or revenue, PwC Saratoga prefers to analyze HR investments on a per-employee basis because:

- Investment per full-time equivalent (FTE) can skew results depending on the nature of an organization's workforce. For example, organization A has Direct HR Costs of \$1 million and 1,000 employees. Its HR Costs per Employee would be \$1,000. Let's assume that this organization has a large part time workforce and has 750 FTEs. This would bring its HR Costs per FTE to more than \$1,300. It is our experience that the time spent by the HR function supporting a full-time and a part-time employee are often very similar and, thus, in this instance, HR Costs per FTE would overstate the investment in HR.
- HR costs typically make up about one percent or less of revenue or operating costs. As such a 10% reduction in HR costs would only show up as one tenth of one percent reduction (e.g. 1.00% to 0.90%).

An analysis of PwC Saratoga benchmarks reveals that financial services organizations tend to invest most heavily in HR while hospitals invest the least. Finally, PwC Saratoga results reveal that the size of an organization influences HR spending. Organizations with fewer than 1,000 employees invest more per employee than organizations with more than 10,000 employees.

To learn more about Saratoga's measurement programs, please visit our website www.pwc.com/saratoga or call us at 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

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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.