

Saratoga
Human resource services

The Saratoga Review

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Results from Saratoga's 2008/2009 US Human Capital Effectiveness Report

Part 1 of 4

Twenty-eight cents. That's how much the average company spends on wages and benefits to generate a dollar of revenue. The most successful companies seek to drive that number down by 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 organizations' human resources departments to quantify and manage the overall impact of the workforce.

PwC Saratoga's 2008/2009 US Human Capital Effectiveness Report offers objective data to assist organizations in evaluating workforce performance and optimizing return on their human capital investment. This executive summary provides trend analysis based on data collected from 2005 to 2007.

More than 300 organizations, representing 12 industry sectors, provided information from the 2007 calendar year. The average company in the latest report has a \$5.7 billion annual revenue and roughly 17,000 employees. Although many participating clients are global companies, results in the report refer only to US operations. PwC Saratoga also produces separate Global and European Human Capital Effectiveness reports.

The results below 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 from the all industry median. For example, the revenue generated per employee in the healthcare industry is \$163,144, while in the banking industry it is \$264,897.

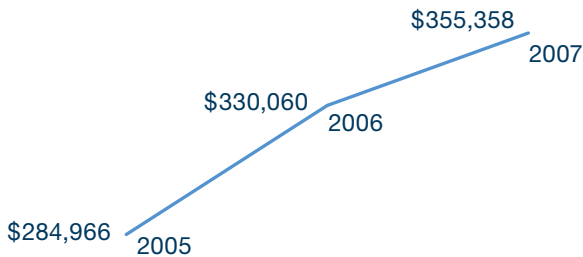
We'll be highlighting key themes from the US Human Capital Effectiveness Report in upcoming newsletters. The key themes include:

- Despite economic instability, productivity improved.
- Younger workers left at a higher rate.
- The talent acquisition crisis continued.
- Human resources spending did not reflect talent initiatives.

This month, we are focusing on productivity improvements.

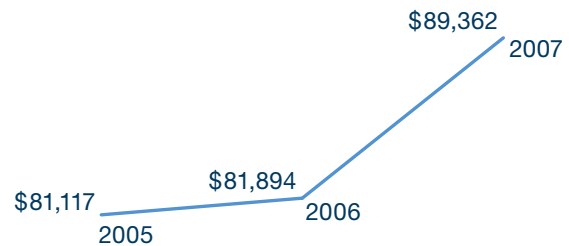
PwC Saratoga's annual study results show that workforce productivity, as measured by metrics comparing labor costs with revenue, increased in 2007. Labor costs as a percentage of revenue dropped to 28 percent, the lowest level since 2005.

At the same time, revenue per full-time equivalent (FTE) grew to \$355,358—an increase of almost 8 percent over 2006.



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 9 percent. This data may suggest that staff reductions have affected lower-wage workers disproportionately.



With economic uncertainty expected to continue in the near term, hiring is unlikely to increase. Labor costs per FTE, driven by fewer but more expensive employees, likely will remain high compared with historical standards.

Next month we'll discuss key talent management issues, including the volatility of skilled labor and working more diligently with the talent a company already has.

How leadership must change to meet the future

This is a summary of a previous PricewaterhouseCoopers article also titled “How leadership must change to meet the future.” To read the article in its entirety, [click here](#).

In today’s uncertain times, the impact of leadership has perhaps never been more critical. In our work with clients, we see an increased focus on developing and managing succession programs for top talent. Organizations able to stay ahead of the rapid pace of change, anticipate talent needs, and take the lead in developing innovative strategies will likely be tomorrow’s winners.

Successful business leaders must shape their organizations to be more nimble and flexible, less hierarchical, and more networked—in short, better organized to deliver value. Organizations need to start now to build a strong leadership pipeline that demonstrates the right competencies. Four key competencies of future leaders are agility, authenticity, talent, and sustainability. An overview of each of these key competencies appears below.

Agility: A successful organization is poised to anticipate and drive change. Leaders must demonstrate agility and embed it into the way work is done throughout the organization. This means encouraging and appropriately rewarding innovation so that individuals are willing to test the status quo and take the risks that go hand-in-hand with defining new products and services. Leaders also need to empower others rather than limiting decision-making to a select few at the top. Agility is a key factor in attracting the best talent and establishing a stronger employee value proposition.

Authenticity: If leaders are to define and execute their business agenda in today’s ever-changing environment, they must be realistic about what it takes to make change happen and have the courage to take a stand. Those with the ability to articulate a vision and communicate with impact and empathy can help to create optimism, clarity, and certainty in uncertain times.

Talent: According to one executive in PricewaterhouseCoopers’ 2007 Global CEO survey, “Maximizing talent—attracting, retaining, developing, and promoting outstanding talent—is one of the critical capabilities that will distinguish a successful organization now and in the future.” As the talent field gets more competitive, it will become ever more difficult to attract and retain high-potential people. Leaders must ensure that they have the right talent with the right skill sets in place when and where it is likely to be needed. Winning the “war for talent” today will have a large impact on how well-positioned organizations are to succeed in the dynamic business environment of tomorrow. Rather than focusing only on tangibles such as compensation and benefits in choosing where they want to work, today’s top talent are also taking a close look at intangibles such as flexibility in the workplace, development opportunities, greater autonomy, and an appreciation for diversity.

Sustainability: Recognizing that it will take more than just short-term results to drive future success, savvy leaders are striving to foster a business climate that balances bottom-line results with the public good and to establish business practices focused on social as well as personal responsibility. For example, both consumers and employees are demanding a greater focus on green issues and taking active steps to help ensure environmental sustainability. Research shows that sustainability is a key concern when candidates are deciding where they want to work; it's also one of the issues employees consider when deciding whether to remain with a company or move on. According to a recent study conducted by PricewaterhouseCoopers, 90 percent of US respondents said they would actively seek out employers whose corporate responsibility behavior reflects their own. Sustainability will be a major differentiator for a leader's success in the future. Ultimately, it may contribute to the long-term survival of an organization and serve to reshape the business climate.

Although the formula for success is a moving target, organizations that wish to drive their achievements must begin building leadership strength now in those four key areas.

Complacency is not an option. To quote an executive from PricewaterhouseCoopers' Global CEO survey, "Global trends are hitting faster, harder, and wider, with results that can be both exhilarating and devastating for companies, industries, and entire regions." Organizations with strong leaders who demonstrate agility, authenticity, connectivity to their talent, and sustainability will be the winners of tomorrow. These leaders will use their skills to remain at the ready, anticipate and harness the power of change, and stay ahead of the shifting business environment.

Metric of the month: Employer Contribution to Healthcare Coverage for Active Employees

Organizations spend an average of \$7,932 on healthcare costs per active employee, according to Saratoga's 2008/2009 US Human Capital Effectiveness Report. Saratoga data also reveals that the per-employee cost of healthcare has increased each of the past 10 years.

As healthcare costs continue to grow, organizations struggle to provide competitive plans while controlling prices. One of Saratoga's metrics that helps organizations assess the competitiveness of their healthcare plan is Employer Contribution to Healthcare Coverage for Active Employees. The formula for this metric is:

$$\frac{\text{Employer Contribution Toward Healthcare Coverage for Active Employees}}{\text{(Employee Contribution Toward Healthcare Coverage + Employer Contribution Toward Healthcare Coverage for Active Employees)}}$$

To get a more complete view of employee rewards, Saratoga recommends tracking Employer Contribution to Healthcare Coverage for Active Employees in conjunction with Healthcare Costs per Active Employee, Average Benefits per Employee, Compensation Cost per FTE, and Labor Cost Revenue Percent.



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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.