Saratoga
HR Innovation

Establishing a workforce intelligence center of excellence*

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Skills crisis on the horizon?

In PwC's 11th Annual Global CEO survey, 62 percent of the 1,150 executives responding say that they need to change the way they recruit, motivate, and develop employees. Only 43 percent of those same leaders say they believe that their human resources team is adequately prepared to support this change. The global CEO survey further shows that 89 percent of CEOs consider their people agenda as one of their main personal objectives. It's clear that the workforce is foremost in the minds of executive leadership.

Their concerns may be justified, given some eye-opening facts gathered as part of PwC Saratoga's Human Capital Effectiveness Report 2008/2009:

- The median organization in the US must annually invest $0.28 in just compensation and benefits to return $1 in revenue.
- Nearly a third of newly hired employees do not last a year with the organization.
- The average company has succession candidates for less than 64 percent of its key roles.
- To replace a departed employee, the salary cost of median replacement averages 110 percent of the previous employee's salary.

Good guesses

Executive management often refers to employees as the company's "most valuable asset"—and with good reason. The workforce represents most organizations' single-largest annual investment; and one that can single-handedly control the financial top—and bottom—lines; and one that directly controls a company's long term competitiveness through its agility and innovation.

Yet most companies do not have the baseline information they need to make good decisions regarding the workforce. Consider some recent examples: An oil company estimated that it would take six weeks to simply calculate how many employees it had, and 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.

Without a handle on even this simplest of information, executives of successful companies readily admit that they got to where they are by making "good guesses" when it came to 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 decide the winners and the losers. For example, consider whether your company understands:

- Fully-loaded cost per employee by role—including direct (compensation and benefits) and indirect (facilities, training, travel, support, tools, etc.)—so that it can make appropriate comparisons to labor alternatives like 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 new 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 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, meaningful way. Organizations do not typically possess the information they need to drive more 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 a 57 percent 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 this 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. "HR invests in recruiting, compensation plans, and benefits," the thinking goes, "but not metrics and analytics to improve these processes." This belief ultimately manifests itself in inconsistent behavior by management and HR, slow response to change, focus on non-value-added activities, and only a reactive response once problems arise.

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, the 175 attendees answered that 68 percent of the companies have one or fewer FTE. In 2008 we asked the same question, and the results from the 517 respondents suggested that no appreciable investment had been made, as 69 percent again said one or fewer FTEs. While this survey was not scientific, we believe the results still speak volumes. 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 have the information necessary for informed 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, much as 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 will 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. 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.

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

Here are some real-world client outcomes stemming from improved workforce measurement:

- A distributor realized that its lack of a scheduling and logistics system was costing it more in turnover and lost sales than the cost of a new system.
- A heavily unionized company recognized it would lose all of its savings attributable to outsource staffing because of a spike in first-year separations.
- A large hospital system was able to improve retention and hiring quality simply by monthly reporting of overall turnover and first-year turnover to each hospital general manager.
- A retailer determined that it would do more to improve customer satisfaction by investing in its employee in-store discount program than in its healthcare plan.

Components of a Workforce Intelligence Center of Excellence

A WICoE organization enables firms to create a methodology for systematically assessing and optimizing key workforce issues such as high performer retention and turnover, leadership effectiveness and sustainability, new hire quality, and career development. With this information, companies can understand where their workforces are most effective, identify tangible opportunities for improvement, and determine which investments are likely to offer the greatest return.

On a surface level, a WICoE can sound deceptively easy. It's why so many finance departments question why HR doesn't simply "get it done." Yet, 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-purchasing, internationally mandated, and M&A-created 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 misperception 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, critically important 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.

A WICoE: Understanding the Investment

Consider the ability to understand as much about your workforce as you do about your customers... The ability to unlock the potential of your workforce the way you have with operations... The opportunity to cut costs out of the labor force the way you have cut costs out of your supply chain. Many organizations have focused on these other areas but have not yet focused on the workforce. The results of focusing on the workforce can be as dramatic, if not moreso, given the workforce's ability to innovate, and its ability to influence each of the other arenas.

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 operational ize 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.

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