

# The Saratoga Review

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# What's happening at PwC Saratoga

The key activities coming up at PwC Saratoga include:

- **May 2010:** PwC Saratoga's *Latin American Human Capital Effectiveness Report* remains under way. This year's survey will consist of approximately 50 metrics and will cover South and Central America as well as Mexico. *Coming soon*—we will also be announcing our plan to extend these efforts across India. To learn more, please contact **Scott Pollak** at [scott.pollak@saratoga.pwc.com](mailto:scott.pollak@saratoga.pwc.com) or (408) 817-7446.
- **June 16, 2010:** PwC Saratoga Metrics 101 course will be held in Dallas, Texas. To register for the course, please access the link or copy and paste the following URL into your Web browser: [www.meetpwc.com/saratogaworkshops](http://www.meetpwc.com/saratogaworkshops). After Dallas, the Metrics 101 and 200 series will be held in New York City in September.
- **Summer 2010:** PwC Saratoga will release the 2010/2011 US Human Capital Effectiveness Report.

To learn more about any of these activities, please see page 10 of this newsletter for the contact information of your local Saratoga representative or call 1-866-727-2864.

# Transforming HR— Reconnecting HR to the bottom line

The following article is a summary of a recent PwC publication titled **“10Minutes on transforming HR.”** To view the full article, please [click here](#).

In the uncertain new reality for global business, every function, including human resources (HR), must provide clear, direct value to the bottom line. Currently, HR professionals spend more than 75 percent of their work hours carrying out administrative transactions, a PricewaterhouseCoopers (PwC) analysis of HR activities shows. As companies emerge from the current recession, their leaders are demanding that HR transform itself into a function focused clearly on strategic human capital issues.

This emphasis is driven in part by the lessons of the financial crisis, during which the performance of those in key positions proved a critical differentiator between companies that suffered terrible brand and financial damage and those that emerged in stronger shape.

However, most HR departments are still not equipped to help grow the bottom line, quantify talent needs, find and hire the best candidates, and develop and retain the highest performers.

The key to transforming HR into a strategic value multiplier resides in reconnecting the HR model to the business model in four vital areas.

## Building the brand externally and internally

An HR department serves the dual role of externally supporting the brand and internally promoting the desired corporate culture.

An excellent HR team can serve as a valuable proxy for the entire company. Interaction with recruiters is often one of the first encounters that potential employees have with an organization. HR professionals who creatively personify the brand help attract top-tier talent. HR can enhance that interaction by creatively employing leading-edge tools, whether announcing job fairs on social networking websites, twittering a company’s newest product launches, or publicizing important new hires in the industry press.

Internally, HR must evolve beyond its reputation for personnel and compliance administration by building trust as a function that truly serves and manages its workforce.

For instance, if flexible work arrangements are available for staff, HR should actively promote them for employees seeking flexibility in pivotal roles. Acting as an employee advocate is just one way for HR to break out of its compliance role.

HR can further distinguish itself as a steward of the brand by creatively promoting internal and external activities that reflect the brand. These could include leadership development, diversity initiatives, community service, and wellness programs for employees.

### Aligning human capital development with corporate strategies

In many companies, HR has not earned the right to sit at the strategy table. Without this access, HR may not appreciate the specific skills needed to keep pace with changing strategies. In fact, according to PwC's 13th Annual Global CEO Survey, 79 percent of CEOs intend to refocus on how they manage people through change, suggesting a fundamental need to align HR strategies with the overall business strategy.

Deprived of HR insights, senior executives may not properly consider the labor market, educational trends, and other talent-related factors when crafting the corporate vision, which could lead to crucial, fundamental flaws in a company's talent strategy. For example, the failure by many players in the publishing industry to anticipate their changing business model can at least partly explain why so many media companies had to decrease the size of their workforces during the past year.

The right to be heard, however, carries responsibility: HR leaders must prepare themselves for a strategic, big-picture outlook. That means fully educating themselves on the industry, the challenges within each of the company's various business or product lines, the important core skills and job positions in different parts of the company, the relative strength of the company's collective core skills compared with the competition, and whether the company's long-term goals can be supported by labor market demographics.

### Focusing on the bottom line

Many companies have initiated HR transformation efforts designed to link HR investments and capabilities with business strategies, creating a truly integrated relationship between HR leadership and senior management. Companies find this common ground in various ways, such as establishing rotations for HR leaders in other parts of the business and encouraging key business unit leaders to take leadership roles in HR.

The troubled economy has made HR budget reductions necessary at many companies. But truly sustainable HR contributions to the bottom line must involve far more than just belt-tightening.

For example, HR can use technology to focus in on the best recruits, provide higher-quality service for employees, and produce more actionable human capital data. Dramatically improved HR software applications can help managers and executives make better and faster human capital decisions.

## Measuring success

The challenge for corporate leaders is to find the best way to quantify the success of individual employees and the company's overall return on its investment in its talent.

All too often, though, HR departments produce just a few standard measurements of cost and activity, such as recruiting cost per employee and requisition-to-hire days. Instead, HR, in concert with management, should develop fact-based HR effectiveness metrics, which will provide more and better information about an organization's return on its talent investment.

Viewing talent from new perspectives often elicits surprising insights about a company's return on investment. One underutilized metric of corporate performance is profit-per-full-time-employee, which upends the formula traditionally used for measuring a company's ability to create wealth. Instead of focusing on return on invested capital, this yardstick measures a company's success by the cumulative value created by its employees.

Although accounting for intangibles such as employee knowledge, corporate reputation and customer relationships is a bit trickier than standard financial reporting, it can provide additional insight into how a company creates value.

In such ways, HR professionals can transform their operations and add lasting tangible value to the business.

# Talent Mobility 2020— The next generation of international assignments

*The following article is based on a recent report published by PricewaterhouseCoopers' International Assignment Services practice. To download a copy of the complete report, visit [www.pwc.com/managingpeople2020](http://www.pwc.com/managingpeople2020).*

With the economic crisis, the ongoing war for talent, demographic pressures, and a continued focus on emerging markets, the tendency by organizations to move top employees around the globe will accelerate, and today's employees are set to be on the move as never before.

A new report in PricewaterhouseCoopers' "Managing tomorrow's people" series explores the array of socioeconomic factors behind the upsurge. In "Talent mobility 2020: The next generation of international assignments," PwC consultants argue that international mobility is becoming more commonplace and diverse. An aging workforce and falling numbers of younger employees in Europe and the United States are causing multinationals to review mobility strategies and source talent from far and wide.

While the current crunch in financial services has caused some organizations to operate their international mobility programs on a more modest scale, Alan Johnson, director in PwC's Human Resource Services UK practice, says that particular trend will soon reverse. "In the expatriate programs that we manage for clients, we have seen a fall in international assignments of around 15 percent to 20 percent, as companies come under pressure to cut costs. Once we get over those current cost constraints, we expect to see a sharp increase," he says.

Yesterday's model, however, will remain as only a part of the picture, he says. "The traditional assignment, with largely managerial, older employees moving in order to import skills and often the culture of the head office to overseas locations will become less predominant," he says. Tomorrow's assignments will be shorter and less costly for organisations, he adds.

The report argues that international assignments will increasingly be filled by millennials or Generation Y—individuals born after 1980—who the authors refer to as "the most important generation to fuel business growth and stability by 2020." These individuals show a hunger for experience, desire to travel and familiarity with technology and with networking internationally.

"Millennials will increasingly view the organization and the world without boundaries," the report says. "They will happily begin their careers outside their home countries if the employment prospects are greater abroad. A significant majority of the young workers we surveyed—80 percent—want to work abroad, with 70 percent expecting to use non-native languages in their careers and 94 percent stating they believe they will work across geographic borders more than their parents did. The typical millennial employee might also expect one to three secondments over time."

Not only that, but the destinations for international assignees are also evolving. As the report shows, between 1970 and 1990, multinationals in Europe and the United States led the way on global mobility—typically sending individuals from the United States into Europe and vice versa. Assignments generally lasted for two to five years.

From 1990 to 2010, we have seen demand for globally mobile talent increase as companies have sought to sell products and services in emerging markets and also exploit these territories—Asia Pacific in particular—as low-cost centers for manufacturing. And looking forward to 2020, global mobility becomes the norm, with individuals moving east to west and west to east with increasing ease. International regulatory frameworks, the report’s authors argue, will become more closely aligned, and information technology will help HR departments track and administer their mobile workforces.

So what will tomorrow’s workforces look like? Johnson says that in addition to company-sponsored moves, we are likely to see more individuals from China and India moving of their own volition as skills and experience from these powerhouse economies come under increased demand. We will see even more diversity in ethnicity and gender in locations across the world, and technology will play an important role with virtual teams managed by millennials. He also sees much more willingness to move to places not traditionally covered by ex-pat programs, such as Africa and Eastern Europe, as well as a continued focus on Asia, especially China, Indonesia, and Vietnam. “Potentially the biggest growth is likely to come from developing economies,” he says.

Though signs of the global economy are beginning to emerge from the downturn, cost pressures are unlikely to ease just yet, and multinationals will continue to seek out lower-cost models wherever possible. “This is a different world now; offshoring and outsourcing have had an impact,” says Johnson. “Also at an economic level, very well-funded executive remuneration and pension and benefit packages are under pressure. So salaries will start to harmonize in the Western world to start with. That means mobility will become even easier.”

With their international outlook, millennials are a good fit for today’s organizations, he argues. “We expect more short-term assignments that cost the organization less. Traditional international assignment models have used a balance sheet approach, which protects disposable income and builds in benefits to compensate assignees on matters like housing and schooling. So [these packages] have been high cost and generously funded—sometimes three or four times salary.”

With millennials prizing experience and development and being prepared to move more than once, that model is as outmoded as it is costly. “They see assignments as their next opportunity. They value the idea of relocating as development experience, so they do not necessarily expect parity on things

like cost of living. We're suggesting that if companies are not providing as generous a package as previously, that is not necessarily a disincentive for the employee."

International assignments are unlikely to provide answers to business leaders' current talent woes, however, without the right strategic approach and without strong managerial input both from HR and line managers. In fact, as international programs become more complex and diverse, the need for sound talent management becomes even greater.

"The challenge for the organization will be providing the right career-focused opportunity to the individual while balancing the economic realities with business opportunity. Organizations are less willing to spend at the kind of levels they have in the past, but they still want individuals to have the opportunity because that is important to the culture of the organization and to the individual," Johnson says.

Organizations will also need to become adept at selecting assignees who will deliver value. "For instance, a 12-month assignment might require much more management," says Johnson. "The individual will need to understand what is required of them, whether they are expected to evolve into a particular role and then teach that role or function to a local hire before moving on at the end of their assignment."

Though millennials, broadly speaking, may view international opportunities as a rite of passage, there are dangers to assuming it is the right course of action in all circumstances. Chris Roebuck, a consultant and former global head of talent at UBS, argues that the fit between business need and individual circumstances must be a good one.

"We have to get out of this mind-set of global moves being the best solution for all. The idea that everyone needs a new role or a change in location every two years is erroneous," he says. "Those organizations that fall into that trap really are not looking at how they are tailoring opportunities to individuals to get the best performance. Organizations need to ask themselves about the objectives they are trying to achieve. And if their end is to develop a particular person, they then need to ask whether that could be achieved by moving them to another function in another part of the business, but across the road rather than on the other side of the world."

When managing the careers and expectations of the very top performers, HR directors and senior managers will need to bear in mind that these individuals will be in demand. "Businesses will come under pressure to impart to millennials the reward structures they desire," argue the report's authors. "It is not outlandish to suggest that, rather like the professional sports arena, highly prized millennials will have their own agents. Their remuneration packages and employment terms will be subject to frequent negotiation."

In this kind of scenario, employment loyalty may be in short supply, says Johnson.

“Millennials won’t necessarily have that same level of loyalty that we have seen in the past. People will be prepared to move company more frequently.” That coincides with the now quite different picture that we have in employee benefits, Johnson says. “Many defined benefit pension schemes are now closed to new members and under pressure. Traditionally these have been heavily funded and have lent themselves to employees participating over a great length of time. But costs have increased as companies have found themselves paying out for longer. Today’s emphasis on defined contribution schemes means there is more onus on the individual to save over the long term, so if there is less protection of the pension. That too will make millennials more mobile from one company to another.”

So how can organizations engage with a more flexible, but potentially less loyal, workforce? Alan Johnson says that the focus on international assignments as part of the development program for senior individuals will be swapped for closer attention to the aims of the organization. “In the past, organizations have looked at international assignments as part of individuals’ development program. In the future, international experience will still tend to get you further up the ladder. On the other hand, there will need to be better management of these assignments so that assignees get up to speed quickly in their new location, whether technically or culturally.

“Organizations will also need to make sure they leverage the experience in the next assignment. There has been an element of ‘out of sight, out of mind’ in the past, and there will perhaps need to be greater focus on keeping tabs on international assignees, determining what that assignment is doing for the organization.”

# Metric of the Month: First-year separation rate

The month's article on "Transforming HR" references the need for departments to move away from simply looking at cost-based metrics and to begin looking at business impact metrics. One excellent example occurs in talent acquisition and onboarding. For years, staffing departments have oriented themselves to such metrics as cost per hire and time to fill. Often this focus results in low-cost, low-cycle time hires and a subsequently high failure rate.

Rather than just focusing on cost and cycle time—both efficiency-based metrics—Saratoga often recommends to clients that they evaluate first-year separation rate as a way to assess the effectiveness of talent acquisition processes. This metric looks at all separations that occur in the first year of service, whether voluntary or involuntary, as a percent of employees with less than a year of service. The supposition is that if new hires do not make a full year of service that something has gone wrong in the process of selecting the candidates, positioning them in the correct role, onboarding them, etc., regardless of whether the employee or organization made the decision to terminate.

While the metric does not determine where the problems in process effectiveness are and whether the root cause lies with HR, line management, or elsewhere, it does provide an excellent assessment of the process overall. For many companies, the process of talent acquisition and onboarding is fragmented, disjointed, and not owned by any single individual or department, which makes it very prone to error. A metric that cuts across all of these internal machinations and idiosyncrasies is precisely what most companies need to drive consensus and improvement.

Saratoga also considers other metrics for assessing the quality of hire. For companies or roles that have a high degree of natural turnover—retail or call centers, for example—companies may consider a 90-day separation rate. In certain cases, companies are able to measure average time to competency/time to quality—such as in sales or operations roles.

Some companies have considered metrics related to new hire performance scores or promotions. These metrics might include average performance score for new hires, percentage of new hires who become high performers, or average time to first promotion. For the most part, this class of metric proves unsatisfactory because of poor underlying processes to assess first-year performance and the one- to two-year lag it takes to assess results.

### Median first-year turnover—US Human Capital Effectiveness Report



As the chart demonstrates, many companies have significant issues with first-year turnover. Even at the beginning of the recession, the median company was losing more than 1 in 4 employees in the first year. A focus on the effectiveness of talent acquisition can allow HR departments to address the “big dollar” costs of lost compensation, benefits, lost productivity, and lost opportunity, rather than just the functional costs to hire another person.



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

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