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PwC Saratoga

# *The Saratoga Review*

Newsletter Issue: January 2011

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# What's happening at PwC Saratoga

The following key activities are coming up at PwC Saratoga:

- **January 2011:** PwC Saratoga launched the 2011 Human Capital Effectiveness Survey. PwC Saratoga members will be entering data over the next few months. Members will have access to early benchmark results for workforce productivity, HR cost, and turnover metrics in March.
- **January 2011:** PwC Saratoga launches our global technology workforce planning survey, which looks at FTE ratio, management span of control, and turnover for approximately 15 functions for nearly 20 countries throughout North and South America, Europe, and Asia. To learn more about this effort, please copy and paste the following URL into your web browser:  
<http://www.pwc.com/us/en/hr-saratoga/assets/pwc-saratoga-global/technology-workforce.pdf>

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- **February 22, 2011:** PwC Saratoga's first *Metrics 101* course of 2011 will be held in Chicago. The next day (February 23), we will host the first *Metrics 200* course of the year. The *Metrics 200* course remains part of our foundational metrics series, but will have a deeper focus on dashboard development, data analysis, and metrics analysis to build business cases. To learn more about the courses, or to register, please copy and paste one of the following URLs into your Web browser
  - *Metrics 101*– <http://www.seeuthere.com/ui/18/181564/Metrics101Sessions2011.pdf>
  - *Metrics 200* -<http://www.seeuthere.com/ui/18/181564/Metrics200Sessions2011.pdf>

We will host additional *Metrics 101* and *Metrics 200* courses in the Washington, DC metro area in April, Atlanta in May, San Jose in September, New York in October, and Dallas in November.

- **March 2011:** PwC Saratoga will launch its Latin American Human Capital Effectiveness Survey.

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

# PwC Saratoga US Human Capital Effectiveness Report executive summary

PwC Saratoga launched our latest human capital effectiveness survey in January, 2011. Full results will not be available to members until summer of 2011, but we wanted to provide an overview of results from our most recently published benchmark report. The following is the first in a series of articles highlighting key topics from the PwC Saratoga 2010/2011 US Human Capital Effectiveness Report executive summary. To view the full executive summary, please click [here](#).

As the economy struggles to steady itself in the wake of the worst financial crisis since the Great Depression, businesses and employees alike continue to feel the economic strain. Budgets remain tight from boardrooms to family rooms, with recovery a stubbornly elusive goal. The impacts are evident in PwC Saratoga's US Human Capital Effectiveness Report 2010/2011, which combines objective data and analysis to help organizations evaluate workforce performance and increase return on human capital investment.

The PwC Saratoga benchmark results were gathered in a year when businesses around the world sought signs of economic improvement while continuing to seek ways to control costs and manage an ever-evolving workforce. The key themes that emerged from the most recent report include:

**Recession takes a toll on productivity:** Workforce productivity decreased reversing the significant upward swing indicated by our 2009/2010 survey and representing the first year-over-year decrease since 2005.

**Voluntary turnover down sharply:** Voluntary separations have decreased 30 percent since 2006 and more than 20 percent in the past year.

**Employee costs increase:** Employee healthcare costs continue to rise, but at a slower rate than in the past.

**Recession improves quality of hire:** First-year turnover has decreased from 31.7 percent in 2007 to 23.6 percent in 2009. As the economy improves, historical trends suggest that turnover numbers will increase.

**Baby boomers bid time:** Baby boomers continued to leave organizations at the lowest rate among all demographic groups, with a voluntary turnover rate of just 4.9 percent in 2009.

**While overall eligibility for retirement increased for employees, it has declined for management:** While more than one in five employees are eligible for retirement within five years, the percentage of managers and executives eligible for retirement has decreased.

**HR costs increase while HR headcounts decline:** The increasingly strategic role of HR as a business partner is requiring a greater investment in HR labor costs and systems.

This month, we will focus on the impact the recession had on workforce productivity and the decrease in voluntary turnover. PwC Saratoga's 2010/2011 US Human Capital Effectiveness Report includes data from nearly 300 organizations representing 12 industry sectors, which provided information from the 2009 calendar year. These results represent all-industry medians. Individual demographic groups, especially industry groups, can produce substantially different results than the all-industry median.

## Recession takes a toll on productivity

After rising every year since 2005, workforce productivity fell in 2009: Revenue per FTE dropped 6 percent, from a high of \$413,690 in 2008 to \$387,993 in 2009. Nevertheless, 2009 results are 18 percent higher than 2006 results of \$330,060.

Revenue per FTE	
2006	\$ 330,060
2007	\$ 355,358
2008	\$ 413,690
2009	\$ 387,993

Human capital ROI, a key indicator of return on workforce investment, is down 23 percent to 43 cents in profit for every dollar invested in the workforce compared with the 2007 and 2008 result of 53 cents in profit for every dollar invested in the workforce. Additionally, PwC Saratoga results show that organizations have increased their investment in workforce compensation and benefit costs for each dollar of revenue generated. In 2008, organizations invested \$221 for every \$1,000 in revenue. In 2009, organizations invested \$259 for every \$1,000 in revenue. When viewed in conjunction with a decline in revenue per FTE, these downward trends suggest that productivity and profitability may have peaked.

### Voluntary turnover down sharply

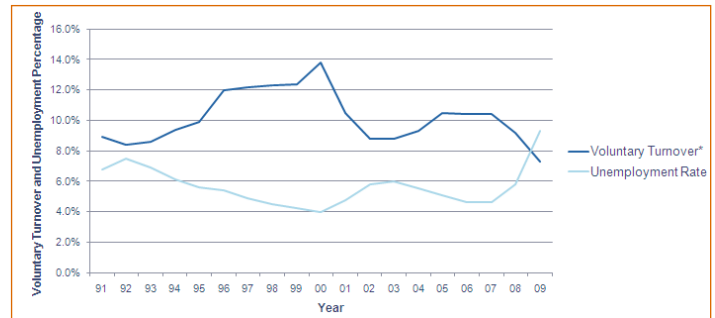
The voluntary separation rate is down sharply, with percentages for the overall workforce, high performers, and workers at all experience levels showing double-digit declines. The percentage of employees resigning or retiring has dropped 30 percent since 2006 and 21 percent since 2008. For high performers, the rates are also down by more than a third – from 5.7 percent in 2006 to 3.7 percent in 2009. The percentage of employees involuntarily departing organizations has increased 22 percent since 2008 and 38 percent since 2006.

Turnover			
	Voluntary separation rate	High performer separation rate	Involuntary separation rate
2006	10.4%	5.7%	3.2%
2007	10.4%	4.8%	3.3%
2008	9.2%	4.3%	3.6%
2009	7.3%	3.7%	4.4%

Historical trends demonstrate that after a recessionary cycle, voluntary turnover increases. As indicated by the following chart, when the unemployment rate fell in 1993, voluntary turnover increased 15 percent during the following two years. When the unemployment rate fell in 2004, voluntary turnover increased 11 percent during the following two years. Recognizing this trend, an increasing number of organizations are focusing on analyzing onboarding, engagement, and turnover data for pivotal roles\*, recognizing the likely uptick in turnover for these key groups as the economy recovers.

\*Pivotal employees are a subset of the workforce who play a disproportionate role in creating value for an organization. Pivotal employees can vary by organization and may change as an organization evolves

### Impact of the Unemployment Rate on Voluntary Turnover



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# Enhancing employee engagement

## Gaining meaningful data from employee surveys

### ***PwC Saratoga Services – Employee engagement surveys***

#### ***Why measure employee engagement***

A mid-size US public utility company was continuously seeking insight on how to influence employee engagement because employees represent one of the top four core values of the organization. “Leaders recognize that employees are instrumental to the organization’s success and are key drivers of two of our other core values — *customer satisfaction and earnings*,” said one of the company’s HR leaders. Despite low turnover and generally high tenure at the organization, senior leadership was not complacent and wanted to ensure that the organization maintained its strong reputation as a great place to work where employees can reach their career goals.

Some of the workforce challenges facing the organization were common (especially within the sector):

- **An aging workforce** – Nearly 50% of the employee population will be eligible to retire in the next five years, which means the company needed to build the competencies and strengthen the skills of its workforce while continuing to attract quality talent.
- **Regulated environment** – Operating in a highly regulated environment, every dollar invested in human capital must be supported by a strong business case. Thus, HR needs data with which to make evidence-based workforce decisions that will have the largest positive impact and return on investment.
- **Unionized workforce** – Managing a predominantly unionized employee population, HR had limited control over programs that otherwise might help motivate employees and drive productivity (e.g., salaries, benefits, scheduling), which required them to explore less traditional options for increasing engagement.
- **Evolving industry** – Operating in an evolving industry required individuals to be agile and flexible as the needs of the business change.
- **Turnover** – While low turnover is characteristic of the industry, HR must still minimize the potential loss of critical talent as the economy rebounds.

If handled correctly, an employee engagement survey can help organizations overcome these challenges by better understanding not only how “satisfied” its employees are with certain programs, but more importantly, can help them highlight the levers they can pull to encourage discretionary effort, increase productivity, and impact key business outcomes such as earnings and customer satisfaction.

#### ***Client’s experience with engagement surveys***

The client conducted regular employee engagement surveys over the past decade, using four different vendors. However, the client encountered a number of challenges with the process, including:

- **Static reporting** – Vendors provided a macro-level snapshot of the organization that did not provide the opportunity to drill down by different lines of service, department, etc., which limited its ability to establish accountability and action planning at a localized level within the organization.
- **Inflexible reporting** – Vendors did not provide the organization with the ability to run ad hoc reports that could support root-cause analysis and hypothesis testing.
- **Survey length** – One of the survey instruments was up to 118 questions with a large number of demographic questions asked directly, increasing survey fatigue, and decreasing the reliability of survey responses.
- **Project management and partnership** – Vendor support generally lacked a “partnership” feel and primarily provided survey administration.
- **Taking action from results** – The client felt that the delivery of results was generally a “data readout” and did not provide insight into the results and support on action planning.

## Partnering with PwC Saratoga

The client turned to PwC Saratoga for its employee engagement surveys, naturally expanding the HR metrics and benchmarking relationship it already had.

During the engagement, a PwC Saratoga survey architect worked closely with the client to review the existing questionnaire. The review included a factor analysis that identified the questions that were most relevant to understanding employee engagement, removed duplicative questions, and allowed for trending of historical questions. This exercise helped the client reduce its survey questions from 118 to 50, making the survey more manageable and improving its effectiveness. In addition, the majority of demographic data was coded to each survey so that respondents could focus on answering the questionnaire.

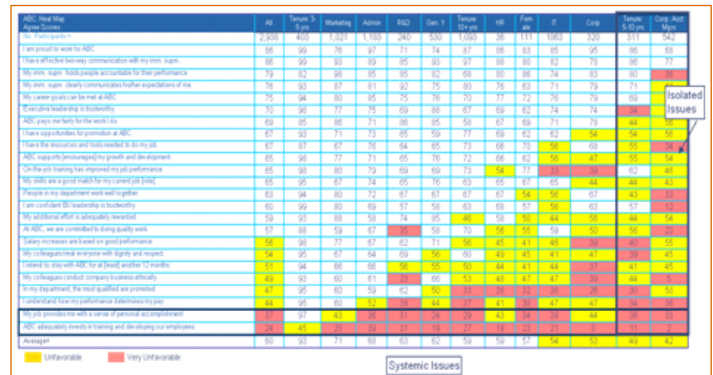
Throughout each part of the process, a dedicated project manager and coordinator managed the successful completion of key milestones and ensured a seamless quality process from start to finish.

To ensure high survey participation, PwC Saratoga deployed both an online and paper survey based on the needs of each department in the organization. In addition, a real-time response rate Web portal allowed the client to track participation rates, which helped it drive participation in underrepresented areas of the organization. When asked what it considered best practice regarding in communicating with employees and reaching response rate goals, the client responded:

- Announce the survey throughout the organization a few weeks prior to survey launch (posters around the organization, flyers, etc.)
- Advertise on the company intranet and send postcards to employees' homes
- Conduct proctored sessions for the union employee population
- Send automated email reminders to employees who had yet to complete the survey (sent by PwC Saratoga)
- Have senior leadership communicate the importance of the survey to employees

Within 10 days of closing the survey, PwC Saratoga provided an overview of the results for the entire organization via a heat map. The heat map consolidated survey information on a single page that easily identified the “noise” across the entire organization. The heat map quickly provided a glimpse of areas of strength and vulnerabilities across various key demographic groups in the organization, and an external benchmark was provided for comparison purposes.

### Heat map mock-up:



After delivering the heat map, PwC Saratoga developed a formal report for senior leadership. The report provided analysis of statistical drivers of engagement, analysis of the employee landscape (e.g., champions, disengaged, tenants, and captives), and variances in the results by key demographic groups. PwC held a one-day onsite meeting with the executive committee and senior leadership to deliver the survey results and discuss next steps and action planning. In addition, PwC delivered manager-level reports that enabled departments to understand their specific results, recognize trends from prior-year results, and compare their results to the overall organization and to external benchmarks.

PwC Saratoga also provided the client with a Web-based portal that allowed it to run additional ad hoc reports. The user-friendly interface allowed the client to analyze employee engagement by any combination of demographics and provide support to leaders wanting to dig deeper into their department results.

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### ***Impact on client***

The reports provided to the client were much more than simply data on a page. PwC Saratoga provided tools that helped the client differentiate between areas that could simply be “noise” and those that statistically drive engagement. As PwC Saratoga partner Nik Shah noted, “With limited resources (both time and money), we don’t want our clients to swing at every pitch, but instead we want to help them understand where they’ll get the most return for their investments and have the highest impact across the organization.” For example, while benefits may be an area where scores are low, it may not be an area that statistically drives engagement and therefore should be lower on the action planning list.

PwC Saratoga’s tools and methodology helped the client gain visibility into the factors that influence engagement across its various employee segments. Armed with this knowledge, individual departmental leaders could create an environment that engages staff. For instance, responses to questions regarding communication and interaction among employees were low for one of the departments. Open-ended comments further supported this data, as employees noted that because they were immersed in their own daily operations and projects, they were unaware of the projects taking place throughout the department and how they connected with one another to support the business strategy. As part of his action plan, the department leader implemented a quarterly town hall meeting that received strong positive feedback, made employees feel that they were being heard, and resulted in increased collaboration within the department.

Transparency was a big factor in successfully driving accountability for the survey results. The organization openly shared departmental results with its leaders and made each leader responsible for developing an action plan to address areas of vulnerability. Departmental leaders present progress on their action plans to senior leadership and their peers on a quarterly basis.

The organization remains pleased with the progress of the action planning process and believes that the emphasis on action planning will not only lead to more positive changes, but also foster an environment where employees know that senior leadership takes their feedback seriously.

The client's HR sponsor believes that PwC Saratoga has the insight, data, tools, and analysis skills necessary to do something with the results: “Kudos to PwC Saratoga. Anyone can produce a survey, but the competence of the team, knowledge, and caliber of professionalism across the entire project are key differentiators of PwC Saratoga”

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## *Metric of the month: Average retirement age*

With more and more baby boomers reaching retirement age each day, workforce planning teams in many organizations are finding it increasingly difficult to pin down the timing of these retirements. Although PwC Saratoga has measured current or future retirement eligibility for some time, we had not previously focused on the actual average age of retirees. However, PwC Saratoga fills that gap in its 2011 Human Capital Effectiveness Survey with a new metric: average retirement age. The metric is calculated as follows:

### **Total retirement age/total retirements**

PwC Saratoga's definition of total retirements includes both regular and early retirements (e.g., employees offered a severance package who voluntarily retired). Organizations can use this metric to better understand when its employees are actually retiring. While PwC Saratoga will have benchmarks available for this metric, assessing the actual results of the organization (and by key job group) is critical. By combining the actual age of retirement with vulnerability to retirement, workforce planning teams can better plan for the knowledge transfer from retirees.

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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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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](mailto:saratoga@us.pwc.com)

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