

Saratoga  
Human resource services

# The Saratoga Review

Newsletter Issue: October 2009

## In this issue

What's happening at PwC Saratoga

1

Managing Diversity

2

Executive summary of results from 2009/2010 US  
Human Capital Effectiveness Report

5

Metric of the month Labor cost revenue percent

9

# What's happening at PwC Saratoga

PwC Saratoga recently released results from its 2009/2010 South American Human Capital Effectiveness report to participating organizations and completed two scorecard training sessions for clients outlining the purpose and functionality of our new tool, which is provided to all PwC Saratoga metrics clients.

Key activities coming up at PwC Saratoga include:

- October: Membership renewals and outreach continue for PwC Saratoga's 2010/2011 US Human Capital Effectiveness Survey.
- October: Outreach begins for PwC Saratoga's Global Pharmaceutical Consortium.
- November 3: PwC Saratoga's next Metrics 101 course will be held in Philadelphia. To register or learn more, please copy and paste the following URL into your Web browser:  
<http://www.meetpwc.com/saratogametric101>.  
Future Metrics 101 sessions will be held in the following cities:
  - Minneapolis on December 1
  - Los Angeles on December 10

To learn more about any of these activities, please see Page 9 of this newsletter for the contact information of your local Saratoga representative, or call 1-866-727-2864.

# Managing diversity

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

An increasing number of studies indicate a correlation between the number of women in management positions and corporate performance. A 2001 survey found that Fortune 500 firms with more female executives outperformed their industry medians by 34 percent in terms of profit as a percentage of revenue and by 69 percent in terms of profit as a percentage of stockholders’ equity.<sup>1</sup> A 2007 survey found that among European companies, those with higher percentages of women in management saw their stock prices increase 17 percent more than the average in a two-year period.<sup>2</sup>

These results suggest that the cognitive range brought by just one dimension of diversity impacts the bottom line. The need to recruit, retain, and motivate a diverse talent base is a business imperative.

Executives, facing continued economic uncertainty and concerned with the short-term demands of meeting stakeholder expectations, may be tempted to cut budgets and programs designed not just to attract talent, but also to create, develop, and maintain diversity among that talent. But that would be a missed opportunity.

PricewaterhouseCoopers recently convened a Diversity Leadership Forum, in which more than 700 business leaders participated in a discussion about strengthening diversity efforts during challenging economic times. What emerged was a consensus that companies that cultivate cultural dexterity now, as a tool for effectively managing diversity, will be better equipped to weather today’s many challenges and will have a competitive advantage when the economy recovers.

Key messages coming out of this event include:

- Cultural dexterity is a business skill that enables effective collaboration and communication among people across multiple dimensions of diversity.
- Collaboration within a group of diverse people, who approach problems from different perspectives, improves corporate performance.

---

1. Rebecca Tuhus-Dubrow, “The female advantage,” Boston Globe, May 3, 2009, final edition.  
2. McKinsey & Co. 2007, Women matter: Gender diversity, a corporate performance driver, New York: McKinsey & Co.

- The environment a company creates can enable—or impede—the success of its employees.
- Leaders are personally accountable for creating a culture in which all employees clearly understand what success is and how to achieve it—and are actively encouraged to participate.

As illustrated in the table below, PwC believes that the nature of diversity programs has changed.

What may have begun as token diversity programs ...	... Are now strategic business imperatives:
Recruiting programs designed to meet legal obligations	Recruitment and retention programs that reflect how demographic trends will impact the labor market in the near future
An effort to hire and promote minorities	A culture of inclusion that allows and encourages all employees to contribute in different ways
A commitment to fairness and equality	An understanding that cognitively diverse organizations often outperform those drawing on homogeneous talent bases
The exclusive domain of the Human Resources department	The personal responsibility of everyone throughout the organization, not just those with assigned diversity responsibilities

All executives must accept personal accountability for cultural dexterity and examine their own behavior to create an environment of equal access and opportunity. Five key suggestions are outlined below.

**Acknowledge your own blind spots.** Studies show that people make approximately 11 judgments within the first seven seconds of meeting someone new. Examine and neutralize any unconscious bias that may underlie your own decision-making process.

**Start the dialogue.** Demonstrate that diversity and an environment of inclusion are important by initiating conversations. Often, leaders wait for others to bring up those subjects, even in the form of complaints. The more open and authentic the dialogues that take place, the easier it becomes to promote change.

**Search for behaviors of exclusion.** Whether exhibited by yourself or others, many exclusionary behaviors are unintentional—or even well-intentioned, such as assuming a working mother would refuse a weekend travel assignment. Constantly seek out and eliminate such behaviors.

**Create an environment of advantages.** Small, unintentional inequalities can become pervasive in a culture. A culture of inclusion fosters an environment of small advantages—such as candid feedback, special assignments, and invitations to contribute at meetings—that are available to all. Keep a record of those who are given such advantages and the impact that it has. Make a conscious effort to include everyone on your team.

**Be a visible champion of cultural dexterity.** Show your commitment by what you say and do. Broaden your perspective by becoming involved with people and groups outside your normal personal and professional social circles.

To have a deeper discussion about how managing diversity impacts your business, please contact:

**Reginald F. Butler**  
813-222-6228  
[reginald.f.butler@us.pwc.com](mailto:reginald.f.butler@us.pwc.com)

**Niloufar Molavi**  
713-356-6002  
[niloufar.molavi@us.pwc.com](mailto:niloufar.molavi@us.pwc.com)

# Executive summary of results from 2009/2010 US Human Capital Effectiveness Report

With the US and global economies still in the wake of the recession, employers and workers alike are scrambling to make ends meet and come out ahead. The challenge is unmistakable, but not insurmountable, as demonstrated by the survey results of PricewaterhouseCoopers (PwC) Saratoga's Human Capital Effectiveness Report 2009/2010.

This report combines objective data and analysis to help organizations evaluate workforce performance and increase their return on human capital investment. We offer key information drawn from data accrued from the 2007 and 2008 calendar years, with additional comparisons for select metrics dating as far back as 2004.

With economic pressure a prevailing concern and the C-suite watching every dollar for return on investment (ROI), our latest report shows that voluntary turnover is down and employees are producing more, with revenue per FTE up substantially.

At the same time, the baby-boomer<sup>1</sup> generation, while nearing retirement age, is not necessarily leaving the workforce in droves quite yet, at least not voluntarily. But the workforce is trending toward a younger cohort, with Generation X<sup>2</sup> and Generation Y<sup>3</sup> comprising larger shares of the demographic pie.

This executive summary provides highlights of results that were generated at the beginning of the recession. In upcoming newsletters, we will look at key themes from our soon-to-be-released annual executive summary on our US Human Capital Effectiveness Report. The key themes include:

- Economic stress makes employers, workers do more with less.
- Turnover decreases amid recession concerns.
- Younger workers edge baby boomers.
- Talent acquisition is stabilizing — for now.
- The cost of doing business remains high.
- Many, but not all, HR functions feel the impact of the economic strain.

---

1. Baby boomers are defined as those born from 1943 through 1960.

2. Generation X is defined for the purposes of this survey as those born from 1961 through 1981.

3. Also known as the Millennial Generation, it is defined for the purposes of this survey as those born in 1982 or after.

This month, we will focus on “Facing economic stress, employers and workers do more with less” and “Turnover decreases amid recession jitters.”

PwC Saratoga’s 2009/2010 US Human Capital Effectiveness Report includes data from more than 300 organizations representing 12 industry sectors that provided information from the 2008 calendar year. The average company in the report has annual revenue of \$5.7 billion and more than 17,000 employees. Though many participating clients are global companies, results included in the report refer only to US operations. PwC Saratoga also produces separate European and South American Human Capital Effectiveness reports.

The results described in this executive summary 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 than the all-industry median; and PwC Saratoga recommends organizations analyze results not in the aggregate, but by industry, company size, etc. For example, the revenue generated per FTE in the healthcare industry is \$170,329, compared with \$461,663 in the technology industry.

The full PwC Saratoga report contains thousands of additional benchmark results based on demographic segments including industry, size, revenue size, and revenue growth.

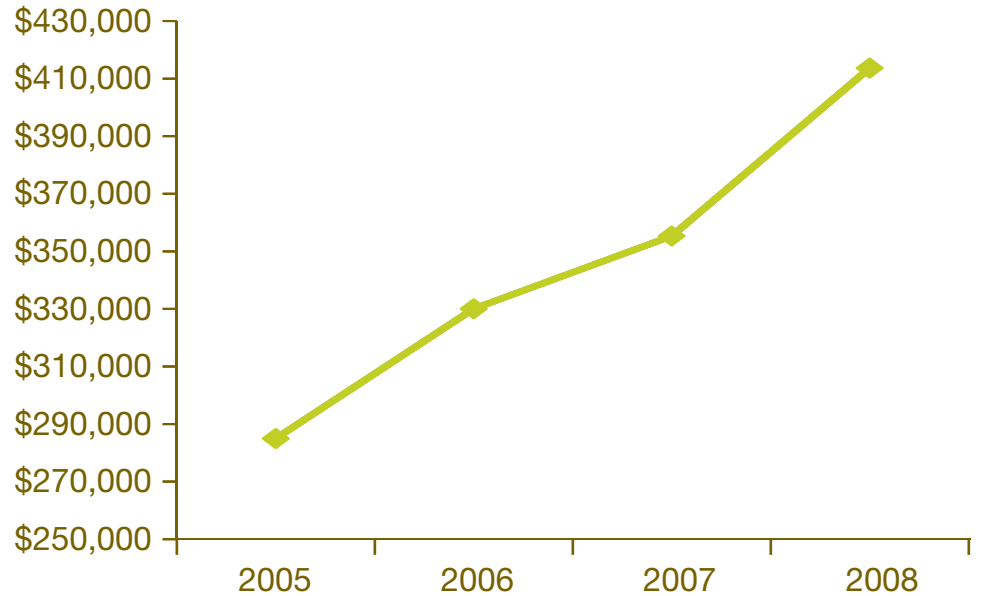
## Economic stress makes employers, workers do more with less

### **Workforce productivity improved as the recession set in**

Facing increased economic uncertainty, organizations and employees are producing more with less. PwC Saratoga’s most recent figures suggest that businesses continue to meet the immediate challenge of effectively managing workforce productivity.

Revenue per FTE has remained on an upward trajectory, as demonstrated by the 25.3 percent jump from 2006 to 2008. Year to year, the metric rose 16.4 percent from 2007 to 2008, following a 7.7 percent rise the previous year. Revenue per FTE has increased by 45.2 percent since 2005.

## Revenue per FTE



We believe organizations that are adept at leveraging flexibility in their approach to human capital resources are likely to experience productivity gains.

PwC Saratoga survey participants appear increasingly confident about their performance on this metric, with 54 percent—a 13 percent increase over 2007—rating their organizations flexible or very flexible in their ability to reallocate staff to projects across business lines and cross-line business teams.

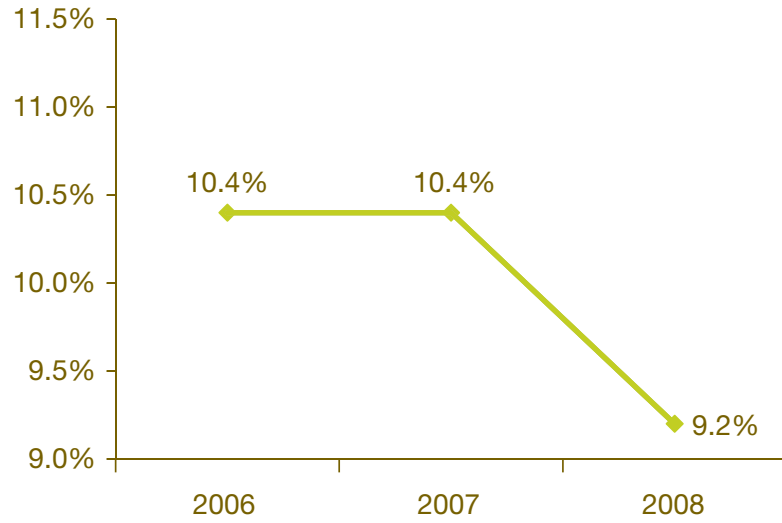
## Turnover decreases amid recession concerns

### **Voluntary and high-performer turnover dropped more than 10 percent between 2007 and 2008**

The shaky economy has workers digging in, with voluntary turnover and high-performer separations in decline.

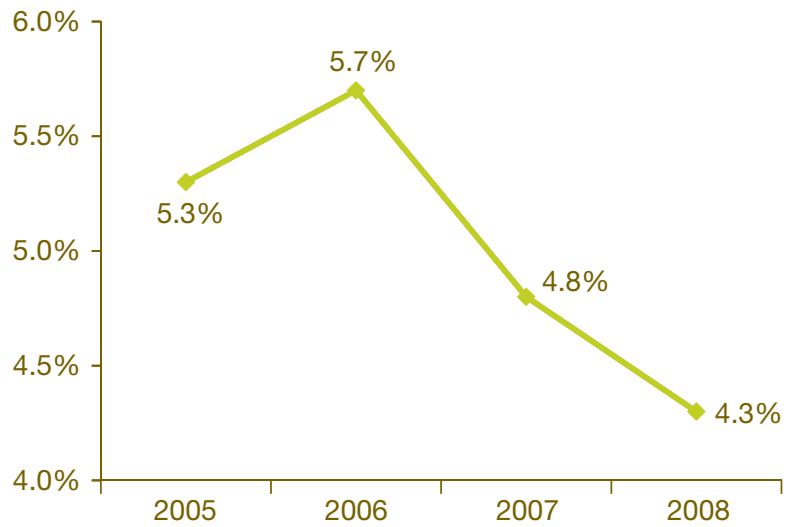
Voluntary turnover decreased from 10.4 percent in 2007 to 9.2 percent in 2008 after being flat the previous two years.

### Voluntary Turnover Rate



PwC Saratoga data also showed high-performer turnover<sup>4</sup> dropped to 4.3 percent in 2008, a significant decline from 2006.

### High Performance Separation Rate\*



4. High-performer rates include voluntary and involuntary separation.

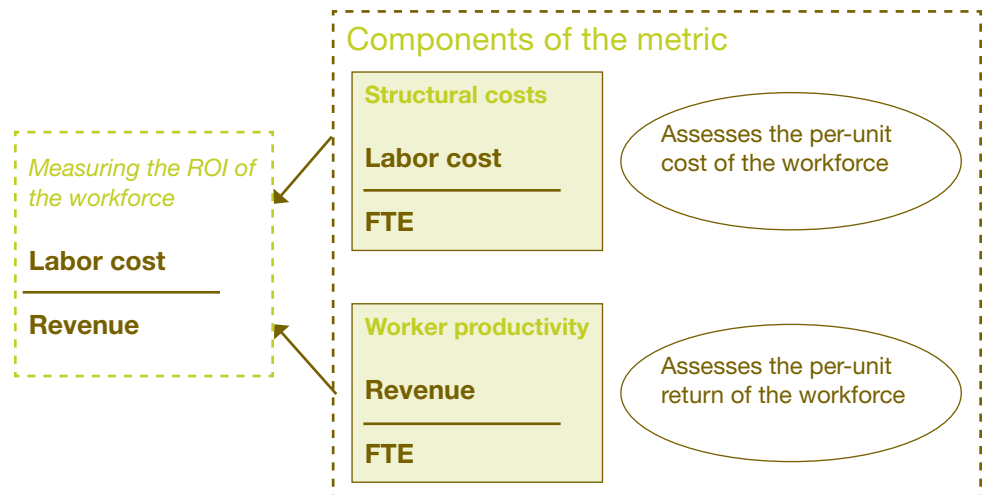
# Metric of the month: labor cost revenue percent

As organizations struggle to manage through the current economic crisis, an increasing number are working with PwC Saratoga to understand how their return on workforce investment compares with that of others. One of PwC Saratoga's key metrics on workforce return on investment is labor cost revenue percent. This metric assesses the investment that organizations make in workforce compensation and benefit costs to generate each dollar of revenue.

The formula for this metric is:

$$(\text{regular compensation cost} + \text{benefits cost}) / \text{revenue}$$

Labor cost revenue percent helps an organization better understand how the cost of its workforce compares to the productivity of its workforce. As a business partner, HR is responsible for managing the balance between the structural cost and productivity of the workforce. Moreover, many of the levers that HR pulls, through its programs, practices, and policies, are designed to influence productivity and structural costs.





Labor cost revenue percent results are expressed as a percentage and can easily be converted into financial terms. For instance, Saratoga's 2009-2010 US Human Capital Effectiveness median result for this metric was 22.1 percent, suggesting that organizations invested roughly 22 cents in labor costs for each dollar of revenue generated.

Results vary greatly by industry. "People-intensive" industries such as hospitals and professional services invest an average of more than 40 cents in labor costs for each dollar of revenue generated, while the insurance industry invests less than 10 cents in labor costs for each dollar of revenue generated.



When working with individual companies and developing dashboards, we modify the formula as needed. Changes can include netting out the impact of external factors such as interest rates, costs of raw materials, investment-related income, etc. We also evaluate the labor costs and whether we can incorporate nonemployee labor, such as contractors, consultants, outsourcers, etc.

For the purposes of benchmarking across industry, however, we leverage the formula outlined above.



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

#### Key contacts:

##### Southeast

Nik Shah  
[nik.shah@us.pwc.com](mailto:nik.shah@us.pwc.com)  
(703) 918-1208

##### East

Patrick Meyer  
[patrick.meyer@us.pwc.com](mailto:patrick.meyer@us.pwc.com)  
(312) 298-6229

##### West

Scott Pollak  
[scott.pollak@us.pwc.com](mailto:scott.pollak@us.pwc.com)  
(408) 817-7446

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)

The Saratoga Review is copyrighted and protected by federal law. The re-use of its content is restricted (see copyright statement below), but we allow sharing it in part or whole so long as proper attribution and our copyright are included. However, you are permitted, in fact encouraged, to forward this newsletter, in its entirety, to as many of your associates and colleagues as you wish. Or, have them sign up for their own copy at [saratoga@us.pwc.com](mailto:saratoga@us.pwc.com)

To unsubscribe from the Saratoga Review, please send an email to [saratoga@us.pwc.com](mailto:saratoga@us.pwc.com). Make sure to include the word UNSUBSCRIBE in the subject field.

For more information, call 866-727-2864 or visit us on the web at <http://www.pwc.com/saratoga>

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a Delaware limited liability partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. LA-10-0111 SL