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Trends in People Analytics

With excerpts from the 2015 PwC Saratoga Benchmarks



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Growing impact of people analytics

Talent is top of mind to senior executives, and that is more evident than ever today. For the first time in eight years, results from PwC's Annual CEO Survey show that 34% of US CEOs are "extremely concerned" about the availability of key skills.¹ They are right to be concerned—talent drives the top line. It drives the achievement of business strategy. It creates innovation, controls cost, and drives change. And, according to PwC Saratoga US Human Capital Effectiveness benchmarks, issues related to talent should be a high priority for CEOs.

Executives are increasingly pressuring HR to produce evidence-based insight on critical talent to develop solutions: Do we have the right talent mix to achieve our business objectives? How engaged are our top performers in aligning to the new business strategy? Can we do more to predict who are going to be the right leaders of the future and what experiences we should give them? Can we identify potential talent flight risks in our most important roles?

People analytics is a new domain for most HR departments. A new function is being born as companies look to better drive the return on their investments in people. The old approaches of "gut feel," and "doing what everybody else is doing" are not sufficient anymore. We believe in making decisions based on evidence, not hunches.

This report highlights our recently published PwC Saratoga benchmarks, and from those, several improvement opportunities leaders may examine related to their people. In last year's summary, we provided several trends in people analytics, which we still see as relevant solutions to today's workforce issues. However, there are a number of new people analytics trends we outline in this report.

¹ PwC's 18th Annual CEO Survey

With 34% of US CEOs "extremely concerned" about the availability of key skills,¹ the need for hard data on people is greater than ever before.

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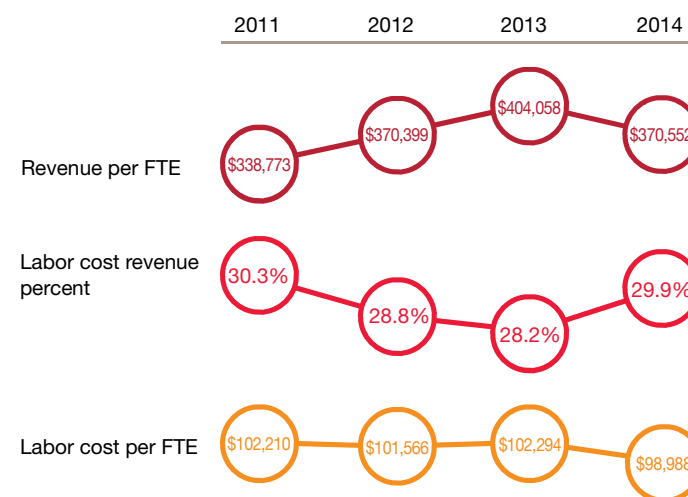
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What the benchmarks say about the state of the workforce

The recently released PwC Saratoga Human Capital Effectiveness benchmarks represent 2014 calendar year data from the US entities of 435 participating organizations covering a range of industries, company sizes, and revenue. All results shown reflect median benchmark values across participating organizations.

Return on workforce investment is declining

A critical measure of workforce productivity, Labor Cost Revenue Percent, rose from 28.2% to 29.9%, indicating a decline in return on workforce investment. Though productivity has remained high in post-recession years, it is leveling off after several years of consistent increases; the decline in Labor Cost Revenue Percent² was primarily driven by a decrease in Revenue per Full-Time Equivalent (FTE) (from \$404,058 to \$370,552). Despite a drop in Labor Cost per FTE (from \$102,294 to \$98,988), companies earned less revenue on their investment. Organizations may be hesitant to continue to invest in talent the way they were as the economy bounced back several years prior; however, this lack of investment may cause productivity to decline over the long term.



²PwC defines Labor Costs as the sum of compensation cost and benefits cost

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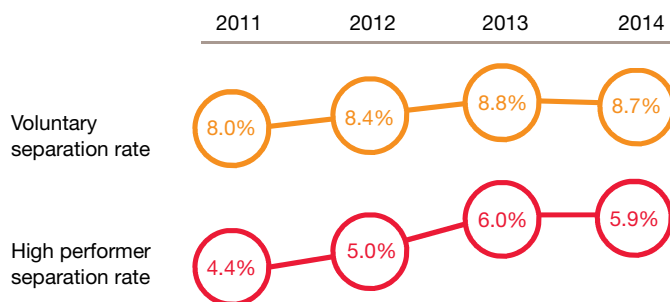
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High performer turnover trend continues

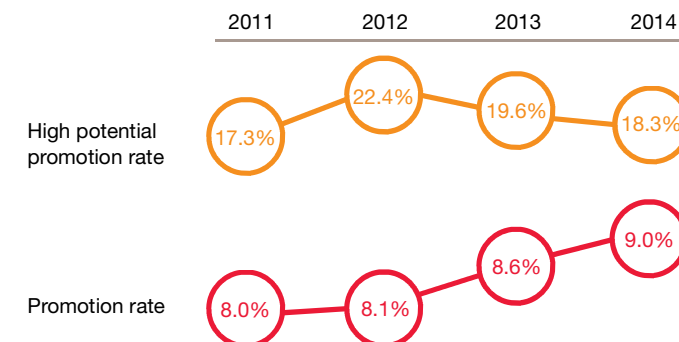
Turnover decreased in 2014—however, the proportion of high performers leaving remains concerning. With overall Voluntary Separation Rate dropping from 8.8% to 8.7%, and High Performer Separation Rate³ dropping from 6.0% to 5.9%, the gap between the two remains quite narrow. High performers, despite being among the most valuable employees, are not being driven to stay with their organizations.



³ PwC defines high performers as employees with performance ratings in the top 20% of the organization

High potential promotions slip

Similar to high performers, high potentials are also showing concerning career trends. High Potential Promotion Rate⁴ decreased from 19.6% to 18.3%, while overall Promotion Rate increased from 8.6% to 9.0%. This is the smallest differential between the two in several years, indicating that high potential promotion readiness may be an area of needed focus for leadership development programs today.



⁴ PwC defines high potentials as individual contributors or management level employees identified by the organization as having leadership potential and are in line to move into a more senior role

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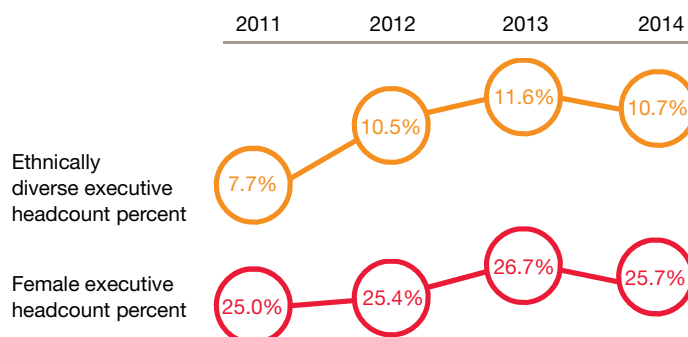
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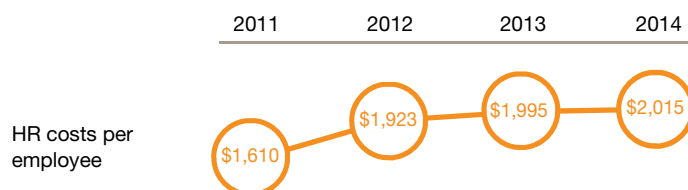
Diversity stalls

Headcount of diverse leaders is also declining somewhat after showing progress for several years. Ethnically Diverse Executive Headcount Percent decreased from 11.6% to 10.7%, and Female Executive Headcount Percent declined from 26.7% to 25.7%. As diversity programs gain more attention, a lack of progress tends to call into question the effectiveness of efforts in this area.



Investment in HR increases

As HR is increasingly being asked to solve strategic human capital issues, the function is receiving increased funding to deliver.



For leaders, these results raise the question, “How do we improve?” The rise of people analytics and an abundance of data provides the opportunity to analyze root causes for critical human capital issues through programs such as employee surveys, predictive modeling, and advanced workforce data analysis.

Trends in people analytics

To execute on those programs more effectively, we are seeing the following trends commonly appear in this area:

#1 Building a people analytics function

#2 Growing dissatisfaction with current approaches to data governance

#3 Building targets and benchmarks into analytic tools

#4 Taking predictions of flight risk to the next level

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People analytics Trend 1: Building a people analytics function

Organizations are quickly recognizing that they need a dedicated people analytics function in order to produce insights from the complex data that is gathered across the employee lifecycle.

Investment in people analytics is on the rise

In a recent pulse survey, a stunning 86% of PwC Saratoga participants reported that creating or maturing their people analytics function is a strategic priority for the next one-to-three years. And nearly one-half (46%) of those organizations already have a dedicated people analytics function.

Today, the median organization in our database has one individual focused on people analytics per 3,567 employees. Not one participant expected to see a decline in the resources dedicated to people analytics over the next three years. In fact, every one of our participants said they expect the number of resources to increase or at least remain consistent with today's levels.

Data integration and insight are primary objectives

Many organizations recognize that the reason they need a standing function is the level of effort involved in successfully driving the production, distribution, and adoption of analysis, reports, and insight.

When asked about the biggest barriers to successfully producing workforce reports and analytics, the top response was the presence of “multiple unintegrated sources” of people and organizational data, all of which needs to be synthesized to support meaningful analysis. More than one-half (69%) of participants cited this challenge as a top

barrier to a successful program. Another major concern was the extent of “manual processes” required to produce reports and analytics, with more than one-half (56%) citing this issue.



Participants reported that creating or maturing their people analytics function is a strategic priority



Already have a dedicated people analytics function

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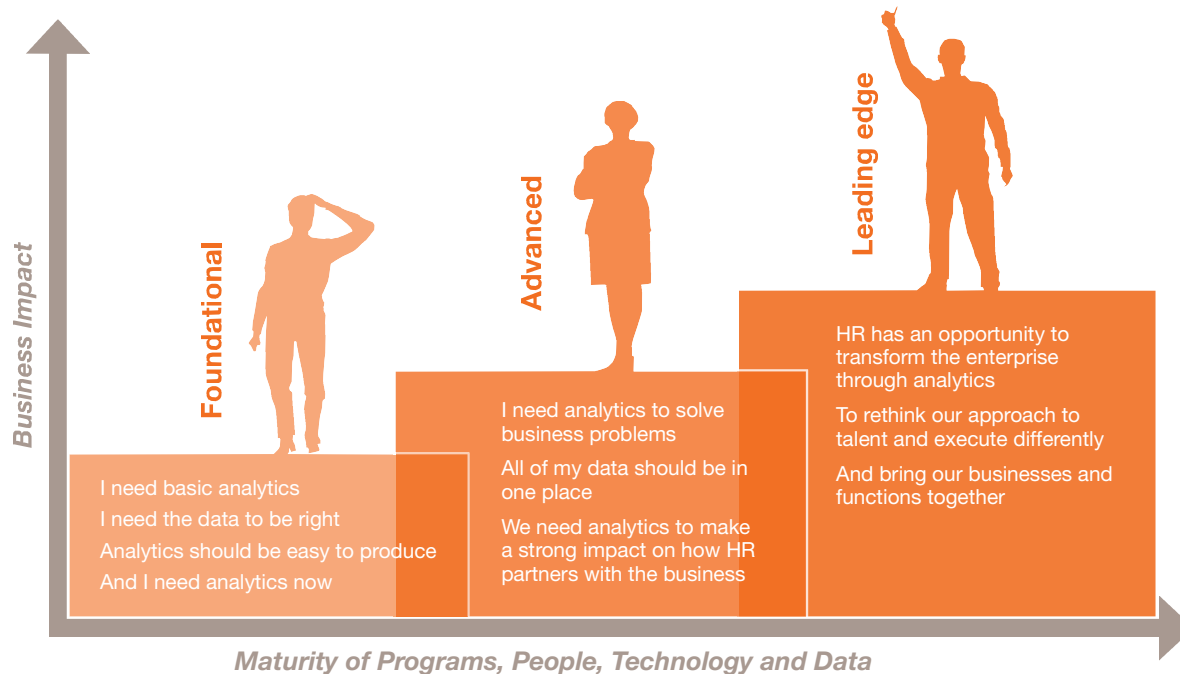
The solution: Too much for technology tools alone

Many analytic technology solutions are emerging in the market to address these concerns, and the interest from participating organizations has been significant. Organizations across industries are investing in or creating the business case for building or buying a technology solution to join siloed data sources and automate processes. Based on PwC's 2014 HR Technology Survey,⁵ 56% of organizations have a formal HR Technology roadmap/strategy, and 25% plan to move their HR analytic technology to the cloud over the next one-to-three years.

But building a sustainable people analytics capability requires more than a technology tool, whether an organization wants to achieve foundational success—or become more advanced, or even leading edge. We find that developing people analytics is a journey for most organizations; the stages are depicted in the graphic below.

Only a full strategy and adoption plan will enable sustainable impact and long-term success. Without the right functional roadmap, data processes, programs, operating model, training, and change management in place, organizations will fail to realize the full return on their technology investment.

People Analytics Journey at a Glance



⁵PwC's 2014 HR Technology Survey: Moving HR to the Cloud? Navigate key barriers to boost success

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Managing change to create sustainable people analytics

Creating a people analytics function from scratch is not an overnight task—it takes time to develop programs, implement technology, and hire the right people. Even so, the speed to a full capability might still outpace stakeholders' ability to consume so much new information. While there's often a pent-up demand for reports and analytics, there will still be an effort required to facilitate the adjustment to a new operating model, and incorporate new data into old ways of working.

A few principles of change management to keep in mind while working through the establishment of people analytics:

- **Clearly define and articulate a “case for change”** – To create full buy-in from the whole suite of executives, a critical first step is to define what decisions are being made with limited or inaccurate data and identify how an enhanced capability will

address these challenges. Laying out the full strategy, as well as the benefits that will be recognized by the business and a methodology for tracking success, will further strengthen that case.

- **Establish active executive sponsors** – While the CEO and other C-suite leaders may crave workforce data, there may be operational leaders stuck in old ways of thinking, where data from HR failed to make an impact. Close attention should be paid to observing if leaders are resisting or not utilizing people analytics in decision making, and if so, understanding why. Strong advocates for change should demonstrate how they use data to drive business decisions in order to help pave the way for others.
- **Engage the entire organization to embrace analytics** – Build compelling communications from leadership that clarifies how analytics will be embedded into work process and decision making, what the leader and staff roles and expectations are, and how non-compliance will be addressed.
- **Identify and address key changes required to embed people analytics** – In building the new operating model, there will be new roles within and outside the function. This will need to be accompanied by new models of interaction, new skills, and new behaviors. Consider what tools stakeholders will need in order to fully take advantage of people analytics.
- **Define and roll out 21st century learning** – Employ new learning techniques available and think about how gamification or online simulations can be leveraged to help build capability and engage individuals in the usage of data.

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People analytics Trend 2: Growing dissatisfaction with current approaches to data governance

Consistency counts

A critical—but sometimes underappreciated—component of building a sustainable people analytics capability is the creation of a data governance approach to address processes for standardization and to develop enterprise-wide agreement on definitions, formulas, hierarchies, maintenance, and the like.

Yet the impact of poor data governance becomes visible for those companies without it:

- **The technology company that can't define who is an engineer** and needs to determine, for example, whether to include individuals who started as engineers but moved to more administrative roles as they progressed in their careers, engineering managers, and individuals who have an engineering degree but now work in a corporate function.
- **The professional services firm with no defined manager hierarchy**, and needs to identify to whom an individual reports, be it their project manager, their matrix manager, the person responsible for their cost center, or the person who gives them their performance rating.
- **The hospital that can't calculate labor costs**, and needs to determine whether to include unscheduled overtime, per diems/PRNs, or traveling nurses.
- **The organization that doesn't know who came over in the recent acquisition**, and needs to address overlaps and inconsistencies in data, since both still operate from their own legacy systems.

- **The global organization that operates in siloes by business unit**, and needs to find a way to create a regional aggregate view of the organization.

No—or very little—satisfaction with governance

These issues are frequent sticking points for many organizations, serving as significant obstacles that can impede real progress in analytics when left unresolved. Only 6% of 2015 PwC Saratoga benchmarking participants reported being “very satisfied” with the quality of their people data. Nearly one-third (29%) cited poor data quality as a top barrier to successfully producing workforce reports or analytics, and 25% cited a lack of agreement on data definitions.

6% Participants reported being “very satisfied” with the quality of their people data



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People analytics Trend 3: Building targets and benchmarks into analytic tools

Creating context

Organizations are increasingly investing in analytics technologies to integrate and visualize their people data. Once those reports are built, they typically generate a simple question from leaders: “How do we compare?”

Obtaining metric results and having them available at your fingertips is just the first step. It’s important to provide context for your data. Benchmarks added to reports and dashboards help set context to enable you to evaluate how a measure stacks up against other organizations in a given sector or region, or next to those similar in headcount or revenue. They can also help the organization establish targets, which can be used to color code reports, making them more easily digestible for leaders looking to determine whether they are “red” or “green” in certain areas.

Building the best targets

Establishing these targets isn’t always a simple process, even when benchmarks have been established. Leading organizations are considering their targets with great care. It’s important to look at several areas:

- **Business and people strategies:** Is this measure a focus area for us? Is it important to our employee value proposition?
- **Differences in benchmarks:** Is an industry benchmark the best means of comparison for a given measure? Or is it more sensible to use a regional norm, or a benchmark for organizations similar in size? Should we display the median or the top quartile?
- **Variability within the organization:** How are our top business units or managers performing on these measures? What’s attainable within our environment?
- **Historical trends:** How have our results changed over time? Since last year? Last month? In what direction are we headed?

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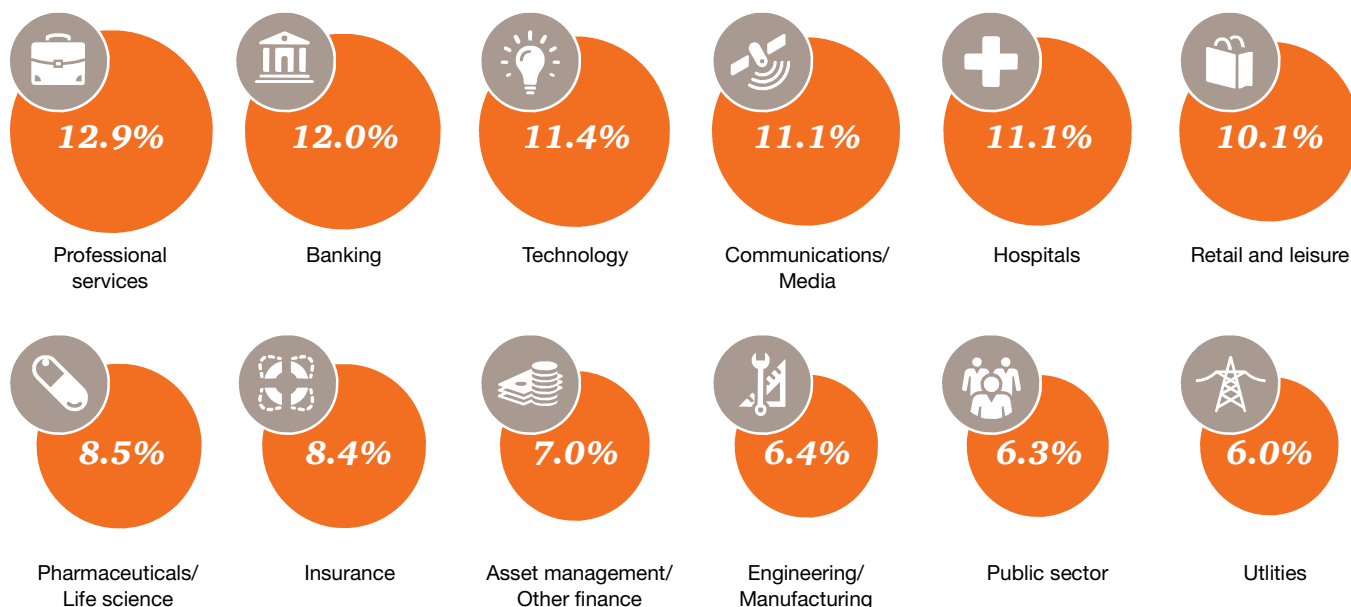
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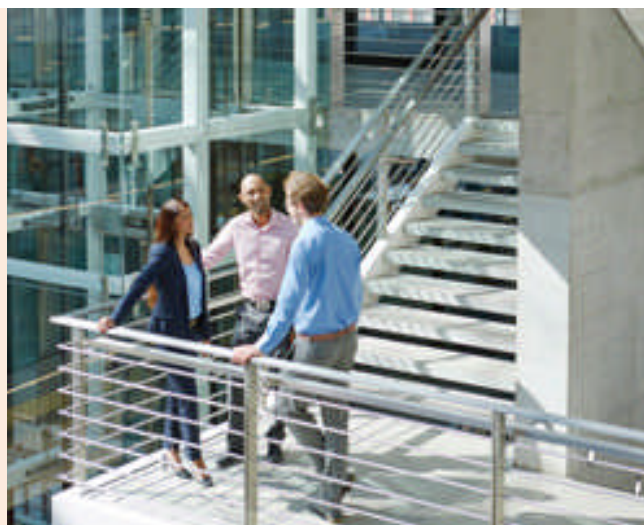
Defining “goodness”

The rationale for using peer comparisons to help define what is “good” comes to life just looking at variability in a metric, such as the voluntary separation rate across various industries. We see a range in median voluntary separation rates by sector, with Professional Services (12.9%) and Banking (12.0%) industries being the highest, according to our 2015 PwC Saratoga benchmarks. The Utilities industry is among the lowest at 6.0%. Differences across organizations in different sectors, regions, size bands, etc. make finding the right benchmark critical for attainable target-setting.



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Utilizing people analytics in compensation practices

Compensation, particularly with respect to incentives, remains a hot button HR issue for organizations today. Most organizations have tackled the wave of shareholder, regulatory, and media scrutiny, but remain focused on compensation strategy to appropriately reward and recognize employees in ways that maximize their employee value proposition. As people analytics come to the forefront of HR, insights from data are playing more heavily into those strategic compensation decisions.

Identifying the “right” compensation programs and mix for the organization

The structure of management pay has shifted, with payouts hinging much more heavily on pre-set, explicit, data-based performance standards. Leaders are often using analytics to answer questions like:

- Which corporate, business unit, and individual metrics are most aligned with organization success? Are there absolute cutoffs, or is relative performance considered? How should these be incorporated into incentive programs?

- What is the appropriate payout curve and how sharply should payouts vary based on performance?

Ensuring that participants understand the value of compensation programs, and creating a clear line-of-sight to influence behaviors

Despite decreasing labor costs, spend on employee rewards remains high across many industries. In order to maximize their investment, organizations must weigh the economic costs with the value proposition offered to employees, and find the right balance for their workforce. People analytics functions are utilizing advanced analyses of employee survey data as well as predictive models to understand what provides the most “bang for the buck.” Leading edge organizations are also conducting conjoint analysis, or “tradeoff” surveys, to understand which incentives are most appealing to employees, versus which are likely be discounted and thus ineffective.

But not lose sight of attraction and retention fundamentals

Companies have struggled to make do with limited merit budgets for many years now. At the same time, they face a remarkably pitched talent battle across many pivotal roles, whether those are hard-to-find skillsets, high-volume jobs, or roles that produce a disproportionate high level of value compared to others. Analyzing people data can help to identify these pivotal roles and high performers in order to ensure their rewards packages are working concertedly to attract and recognize these individuals for long-term success.

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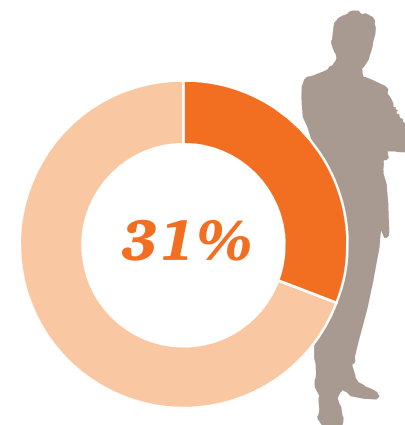
People analytics Trend 4: Taking predictions of flight risk to the next level

Shoring up skill sets

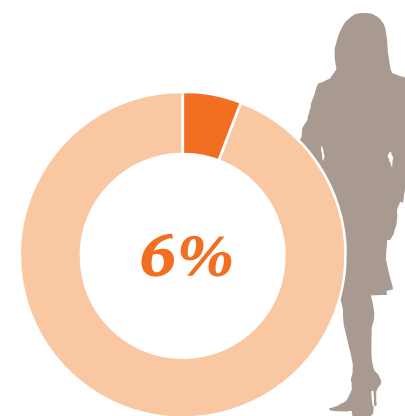
Getting to “predictive” is the objective of many HR departments as they begin their people analytics journeys. Yet companies that have built such models recognize that it’s not the end of the journey, but in fact just the beginning. The question becomes, “What do we do with these results?”

We often see a significant skill gap in business partners’ ability to effectively interpret and use data. In fact, among PwC Saratoga participants, about three-quarters use business partners in their HR operating model.⁶ Yet only 31% of this group said that most of their business partners have the right level of analytical skill to interpret and use outputs of predictive models to address business problems. And only 6% of our survey participants said that all (100%) of their business partners had the right level of analytical skill.

⁶PwC defines business partners as Director and above HR employees who work primarily with senior business leaders designing and executing business strategies



of survey participants said that most of their business partners have the right level of analytical skill



of survey participants said that all (100%) of their business partners had the right level of analytical skill

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Closing the gaps to cross the analytics divide

To take full advantage of the insight made possible by people analytics, we see leading organizations taking a number of next steps beyond model creation.

- **Interrogate the results to gain a full understanding:** If high performers within one demographic group are a high flight risk, ask “Why?” Follow-up analysis through means such as focus groups may be necessary to flesh out insights further.
- **Establish a program to address the root causes:** For example, if manager effectiveness is found to be linked to flight risks, that needs to be addressed through systematic training and coaching enterprise-wide.
- **Decide whether individualized outreach is appropriate:** Predictive results are often individual employee level data that should be treated with sensitivity. You should have a plan for how and when a manager or HR representative broaches the issue with an individual employee—or, in fact, if this should happen at all.
- **Communicate to stakeholders:** The data can be complex and needs to be explained in a consumable and action-oriented manner. This communication should be formulated in conjunction with a change management plan to help others understand how these findings will be integrated into day-to-day talent processes.
- **Integrate the results into existing technologies:** Flight risk scores can be built into existing dashboards and reports in order to track various statistics (like actual turnover) by those flags. Understanding the metric results for high and low risk employees can help to inform retention strategies across the organization.
- **Refresh the data on an ongoing basis:** The volume of data sometimes requires the establishment of a data warehouse, so that periodic snapshots of all datapoints of interest are adequately captured in a way that makes the data aggregation and analysis a straightforward process. Many analytic tools can further ease the process by linking the predictive model directly to the employee source data, and automatically re-scoring individuals.

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People analytics trends of the future

With the advancement of technology tools and analytic techniques in the market, the future of people analytics is bright. There are a variety of trends on the horizon, waiting for organizations to capitalize on their value in the human capital arena. A few examples include:

- **Wearable technologies.** From smartwatches to fitness devices, wearable technologies (or “wearables”) are gaining momentum across the globe. As more individuals embrace these gadgets, what if HR could use data from these to boost productivity or monitor employee health? Based on PwC’s 6th Annual Digital IQ Survey, 54% of top performing companies will be investing more in sensors in the coming year—with the ubiquity of this technology, companies can take advantage in the workforce by embedding into employee badges or other devices. Ideas from leading edge companies include tracking employee locations on a factory floor to gain productivity data in real-time, or gathering fitness application data to track employee wellness metrics. A major barrier will be increasing the comfort level of individuals with sharing this data

with employers, as only 21% of consumers reported being willing to share more personal data with companies,⁷ a figure that could likely be even lower among employees.

- **Gamification.** As companies use game simulations to engage users across the realms of retail, sporting, classrooms, and others, the next frontier will inevitably become the workplace. Some organizations already tout the benefits of gamification in candidate assessments—this could be taken a step further with efforts on workforce planning or even employee surveys. Imagine the task of scenario planning with HR and site managers, brainstorming different possibilities of turnover spikes, declines in hiring, retirement waves—but fed through a simulation in game format. Also imagine the multitude of employee surveys that are sent out on an ongoing basis—but now conducted in a way that recognizes individuals with virtual rewards to encourage participation. The space for gamification techniques in the people analytics area is plentiful.
- **Social network analysis.** With an increased focus on adaptability and a connected employee experience, many organizations are creating more permeable boundaries and flattening organizational structures with the aim of creating a more efficient and flexible workplace. As a result, work is increasingly occurring through informal networks of relationships rather than through formal reporting structures or prescribed work processes. Social network analysis—a strategy for understanding complex webs of relationships and connections—allows you to uncover these hidden networks. Understanding the reach of individuals and their connections to others across the organization not only shows the interconnectedness of the company, but can also shed light on the impact of employee engagement, for example. An engaged employee who is central to the network can boost morale and productivity, but similarly, a disengaged employee can be destructive to the work environment. Social network analysis can reveal exactly where positive work—and potential damage—might be done through these key individuals.

⁷PwC’s 2015 CEO pulse on personal data

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Conclusion: Insistent on insight

As executives set the talent strategy for the future, people analytics are poised to inform those decisions in a major way—if HR is up to the challenge. Building out a people analytics function requires strategic thought to the long-term roadmap for data, technology, programs, and operating model—as well as the change management required for full adoption.

Keeping up with the trends in people analytics is critical for organizations to become more advanced, whether that's building or refining a data governance approach, building comparison data into analytic tools, or taking action from predictive data. These are just a few of the leading edge practices out there—with more emerging each day, people analytics will advance rapidly over the coming years.



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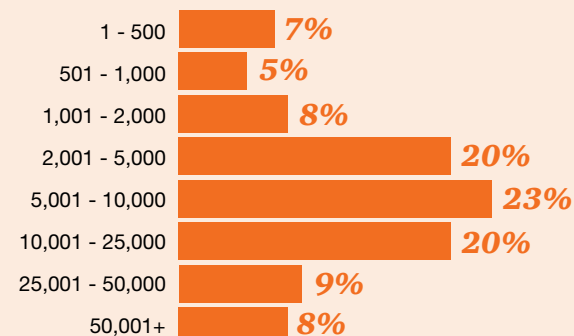
Appendix: Additional data charts

Results from PwC Saratoga's 2015 Human Capital Effectiveness benchmarks represent US 2014 calendar year data from 435 participating organizations covering a range of industries, company sizes, and revenue:

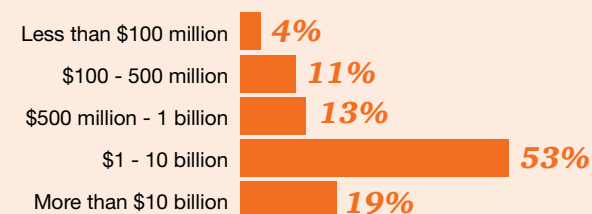
Represented industries:



Represented company size:



Represented revenue size:



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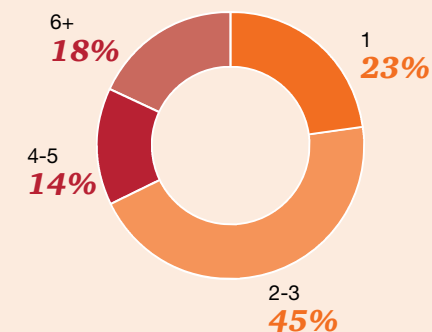
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Full results of people analytics market trends, based on PwC Saratoga member responses:

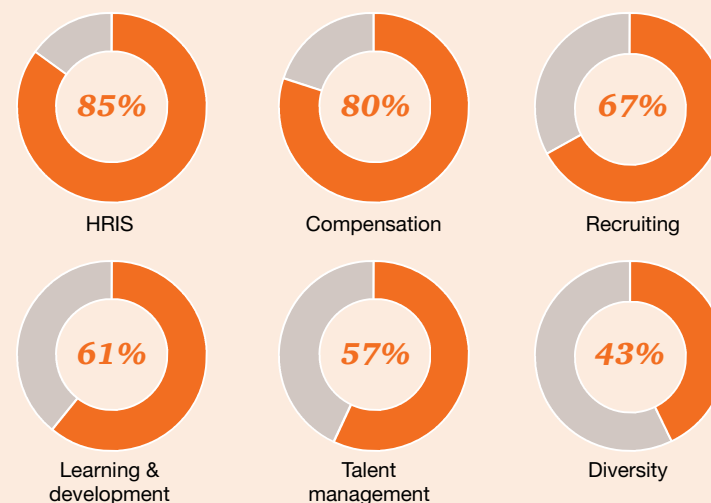
Does your organization have a dedicated people analytics function?



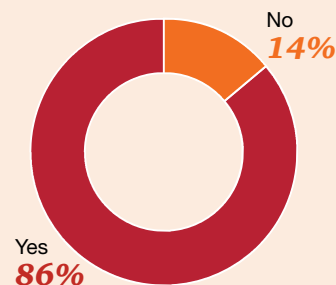
If yes, how many FTEs report to the function?



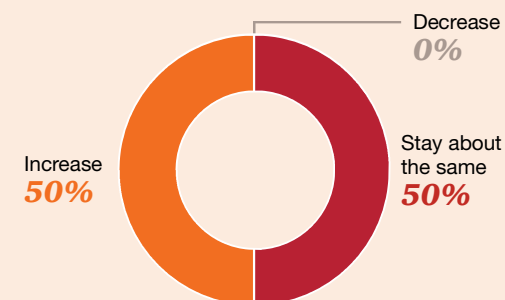
Which other HR functions [also] produce reporting/analytics?



Is creating/maturing your people analytics function a strategic priority for the next 1-3 years?



How do you expect the number of resources in your analytics function to change over the next 3 years?



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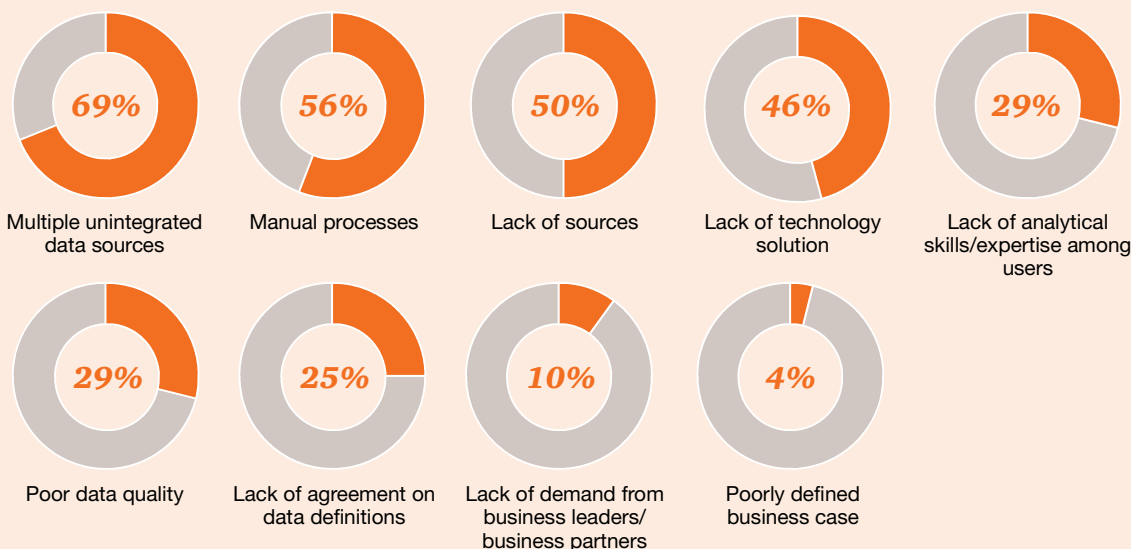
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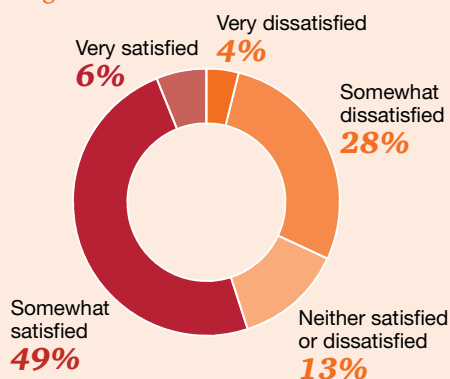
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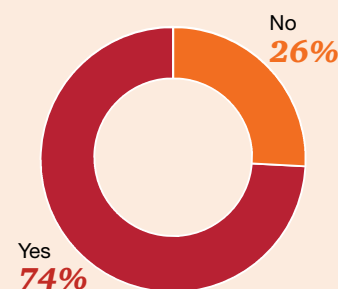
What are the top 3 barriers to successfully producing people reports/analytics at your organization?



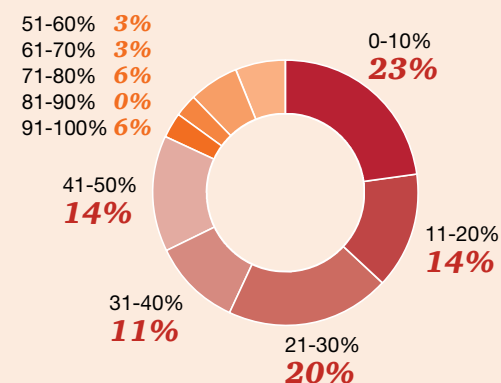
How satisfied are you with the quality of the people data within your organization?



Does your organization have business partners?



What percentage of your business partners have the right level of analytical skill?



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About PwC People Analytics

Don't just collect data. Generate insight.

There's a quiet revolution taking place in human resources and talent development departments around the world. Faced with a growing need for meaningful insights into the workforce, companies are beginning to recognize the enormous, untapped potential in what they already know, and what they could know, about their own workforce. It's called "people analytics," and it's changing the way companies think about everything from attracting and developing talent to employee engagement and retaining talent.

PwC is a global leader in people analytics because we go beyond simple data reporting and surveying. We are a full-service people analytics provider, with a thorough understanding of the specific workforce issues faced by companies in your industry. We offer a broad range of services, from Saratoga benchmarking to advanced analytics to comprehensive workforce surveying. PwC can also work with you to build a people analytics capability that allows you to do more with your data including Big-Data for HR. We help you to take the guesswork out of your most important workforce decisions, supporting your efforts to improve operational and financial results.

PwC, your full-service people analytics provider.

At PwC, we are passionate about our mission: to help our clients use their workforce data to get better insights, and to use these insights to drive better talent, financial, and operational results.

About PwC US

PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms, which has firms in 157 countries with more than 195,000 people. We're committed to delivering quality in assurance, tax, and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com/US.

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To learn more about PwC People Analytics, how we can help you on your people analytics journey, or to become a member of PwC Saratoga benchmarking, please visit our website at www.pwc.com/hr-analytics.

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