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# *Trends in HR effectiveness*

Assessing HR and Key Sub-functions, with excerpts from 2017 PwC Saratoga® US benchmarks



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## Introduction – Review of HR assessments

Last year, PwC Saratoga outlined a model for evaluating the HR function – one that combines the need for HR to fulfill its responsibilities to employees, achieve an appropriate control over service delivery, and contribute to the success of the business. PwC's model for HR assessment holds HR to a higher standard by gauging its impact as a value driver and is comprised of three interdependent components:

1. **HR operations efficiency:** Measures the extent to which HR is properly managing its resources
2. **Business impact:** Measures the extent to which HR helps deliver top- and bottom-line results to the business via talent
3. **Employee impact:** Measures the extent to which, either directly or through leadership and management, HR creates an employee experience that is aligned to business strategy

Last year, we identified that HR had done a good job of managing its budget, but was not improving impact to the business or employees. Based on results from our current annual PwC Saratoga US Human Capital Effectiveness Report, HR continues to succeed at controlling operational costs, and has begun making improvements to influence business results and employee impact. However, there is more to do – especially in the area of employee impact. It's time for HR to focus on employee impact, as the function is not fully positioned to address key workforce trends, such as the rise of the "Gig Economy", artificial intelligence/robotics and an increased focus on diversity and inclusion.

To advance our analysis, we will explore HR sub-functions as part of the specific opportunities to improve the ability for the HR function as a whole to deliver more value.



*The analysis and discussion in this report are informed by the results from our annual PwC Saratoga US Human Capital Effectiveness Report. For more than 30 years, PwC Saratoga benchmarking has been a leading source of HR data. The report is based on data representing the 2016 calendar year for over 250 dimensions of people management, from nearly 500 US participants. These members represent more than 15 industries and constitute a diverse landscape of the American business community – including global and domestic footprints, workforces that are unionized and nonunionized, and range in size from about 1,000 employees to over 200,000 employees. We believe that this composition provides a strong dataset from which we can draw insights about the current state of Human Resources, as well as Recruiting, Rewards, and Deals in particular.*

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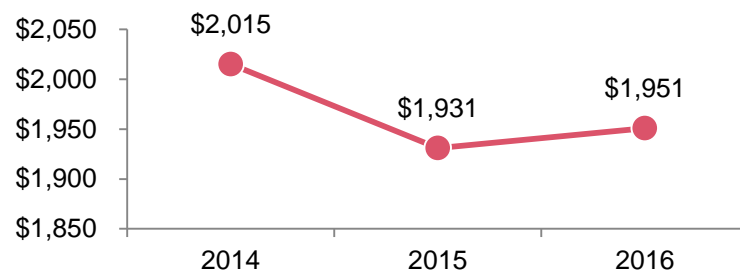
## Introduction – Review of HR assessments

Top level view of HR this year:



**HR operations efficiency:** HR is controlling HR spending, and the downward trend of HR spending from 2014 to 2015 has essentially remained flat from 2015 to 2016, especially if one considers the costs are not inflation adjusted.

HR Costs per Employee



**Employee impact:** While employee engagement has recovered from last year's low, engagement still remains below levels from 2013.

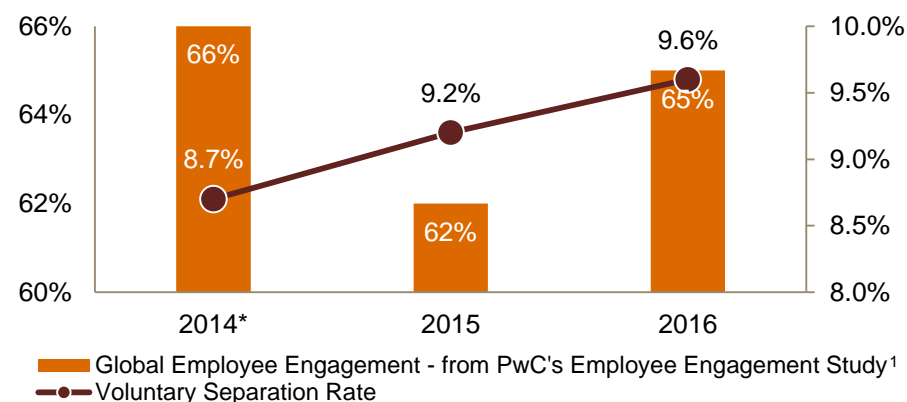
Employers are seeing voluntary separation rate rise, and it has made a material increase again this year. Although engagement has increased a bit, the slight uptick in voluntary separation rate is not surprising: it is possible that a greater proportion of voluntary departures represent those who were not as engaged.



**Business impact:** Business impact of HR has shown improvements from the last year. Revenue per FTE increased, indicating that the workforce is becoming increasingly productive.

Year	2016	2015	Percent Change
Revenue per FTE	\$471,312	\$436,857	7.9%

Employee Engagement & Voluntary Separation Rate



Note: Unless otherwise noted, numbers throughout this report represent the all industry median.

<sup>1</sup>Employee Engagement results represent the percent of respondents that selected 'Agree' or 'Strongly Agree' across the six items that comprise PwC's Engagement Index.

\*2013 for engagement results

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## *Continued pressures on HR's ability to deliver business value*

Global and workforce pressures continue to change the landscape in which HR needs to deliver value. As business leaders place greater importance on talent strategies to deliver business results, and as demographics and worker preferences evolve, HR's challenge to deliver a competitive advantage becomes harder.

While there are several forces impacting talent such as the future of work and digital transformation, we have selected two to discuss below – diversity and inclusion, as well as flexibility – given most leaders have prioritized the former as an area of focus, and the “Gig Economy” is continually growing. In neither do US organizations seem to be making dramatic progress. This limited progress, and the concerning results for employee impact demonstrate a future problem for employee impact, and suggest an area where HR will need to invest to deliver.



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## Inclusion, diversity and the employee mix

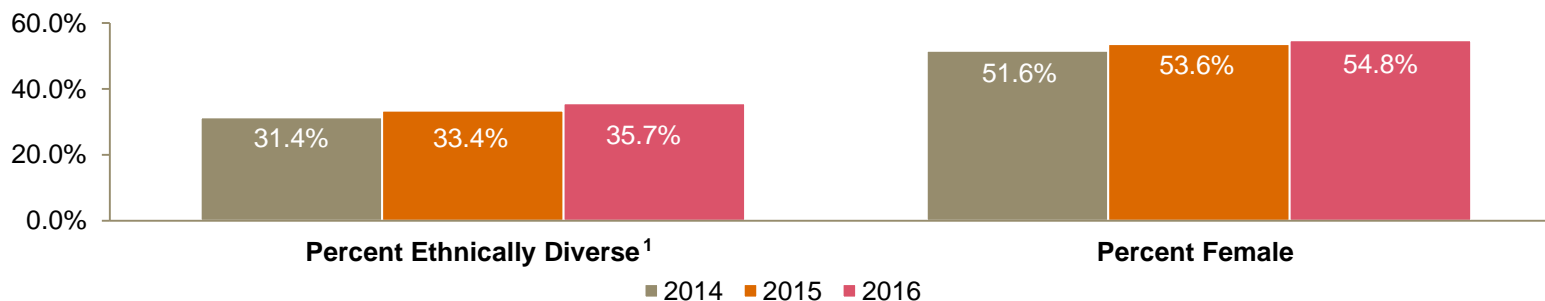
HR teams have traditionally viewed diversity from a compliance and tactical perspective. While this approach remains relevant, executives are looking for diversity in the organization to increase talent pools, heighten innovation, and lead to improved financial performance. Despite executive focus and belief that diversity impacts the business, results are still slow to change among management and leadership. HR's ability to deliver employee impact will be made more difficult because it hasn't completely solved this issue.

Diversity and inclusion is absolutely a top of mind issue for US businesses. PwC's 2017 Diversity & Inclusion (D&I) Survey found that D&I is a stated value or priority area for 87% of organizations. Also, PwC's 2017 report entitled "Winning the Fight for Female Talent" found that 80% of employers have aligned their diversity and recruitment strategies; 78% of large organizations are actively trying to recruit more females; and 76% of organizations have incorporated diversity and inclusion into their employer brands.

The activity is designed to deliver improved business outcomes, including more highly skilled talent that is more diverse and adaptable – and therefore more innovative. According to one recent PwC Global CEO Survey, 85% of CEOs reported that their company's diversity strategy had enhanced business performance. "Winning the Fight for Female Talent" also revealed that 61% of women look at the diversity of a potential employer's leadership team and 67% review whether the potential employer has positive role models similar to them.

This year's PwC Saratoga research shows good news – that HR has been increasingly successful at hiring diverse employees, with the percent of external hires that are female and ethnically diverse both increasing year over year in 2016, and showing a strong multi-year trend. The use of new hiring methods such as artificial intelligence, blind resume/CV screening, and unconscious bias training can further uplift the rate of hiring diverse populations.

### External Hiring



However, while diverse hiring improves, management and leadership diversity is not making enough progress. The percentage of management headcount and executive headcount that are ethnically diverse or female, while increasing steadily or remaining stable over the past few years, are below other parts of the organization. Furthermore, female voluntary separation rate is higher than overall voluntary separation rate.

Rates of diverse employees in management and leadership positions remain below their representation in the workforce. While there is improvement at the executive level, there is stagnation in the management ranks, raising concerns about the sustainability of improvement moving forward.

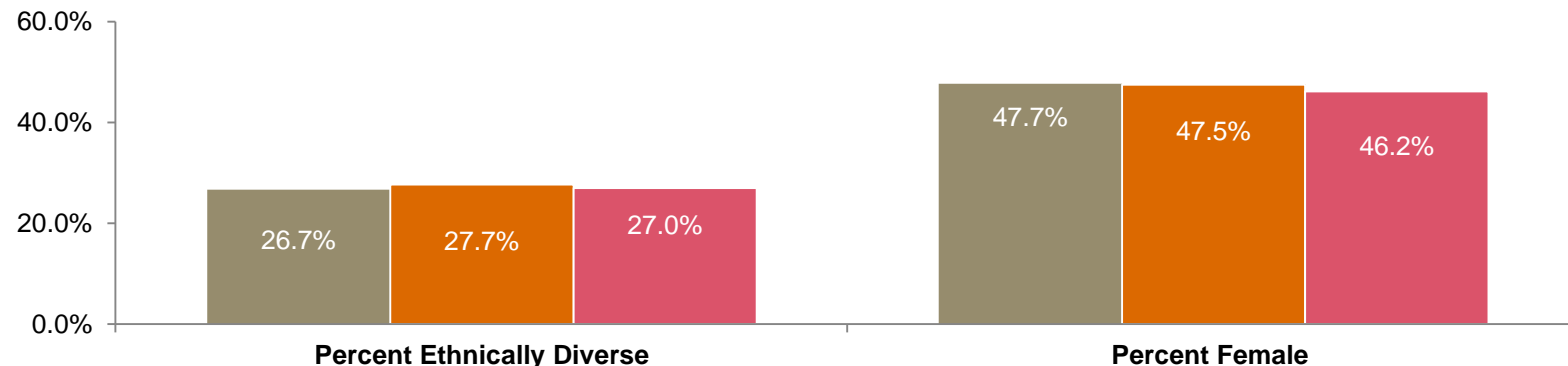
<sup>1</sup>American Indian, Alaska Native, Asian, Black or African American, Native Hawaiian or other Pacific Islander, Hispanic or Latino background, or two or more races

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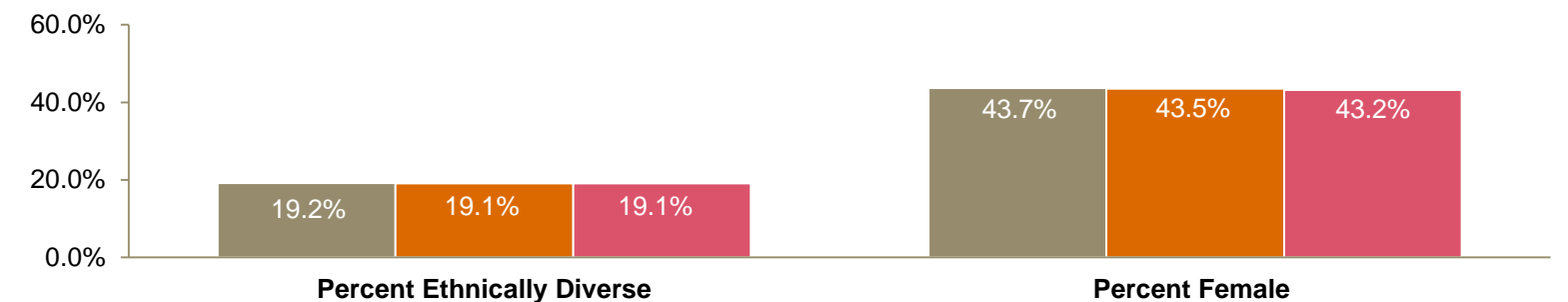
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## Inclusion, diversity and the employee mix

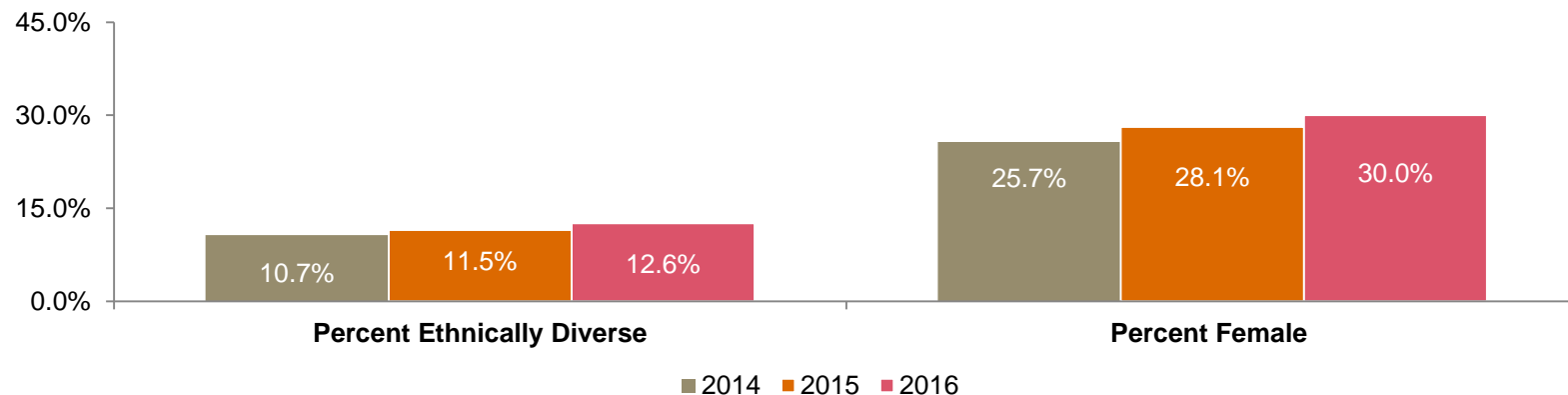
### Headcount



### Management Headcount (Managers, Supervisors, VPs and above)



### Executive Headcount (VPs and above)



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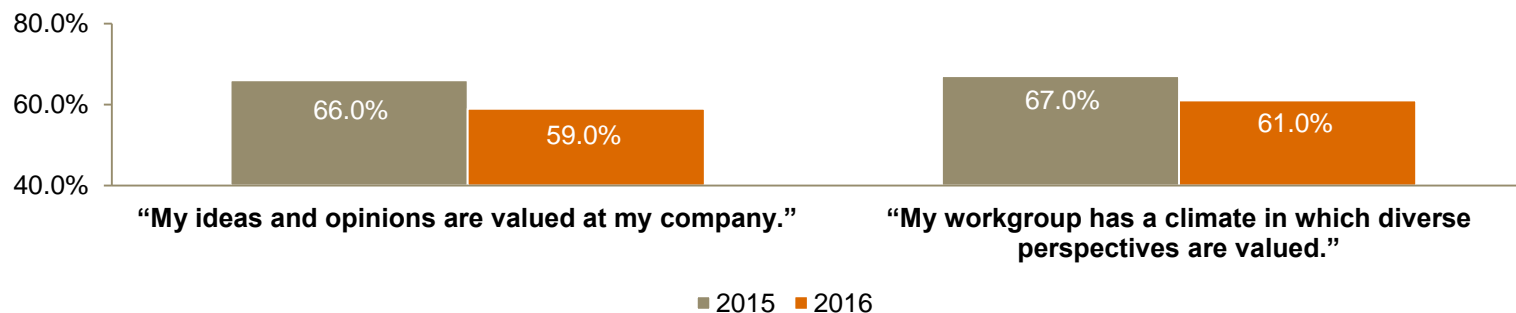
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## ***Inclusion, diversity and the employee mix***

Beyond diversity, 'inclusion' results also show a disappointing trend. PwC's Employee Engagement study showed that employees decreasingly felt their ideas and opinions were valued and that their workgroup valued diverse perspectives.

**PwC's Employee Engagement Study<sup>1</sup>**



Steps made to change inclusion results in areas that are easy to measure (e.g., diverse employment by level) will be put to test in places where it is much harder to measure progress – such as measuring on a global basis, according to key technical positions, and in ways of thinking or perspective. Since diversity goals are still a work in progress, we must assume that organizations and their HR departments still have a way to go to achieve inclusion.

<sup>1</sup>These results represent the percent of respondents who selected 'Agree' or 'Strongly Agree' for each item

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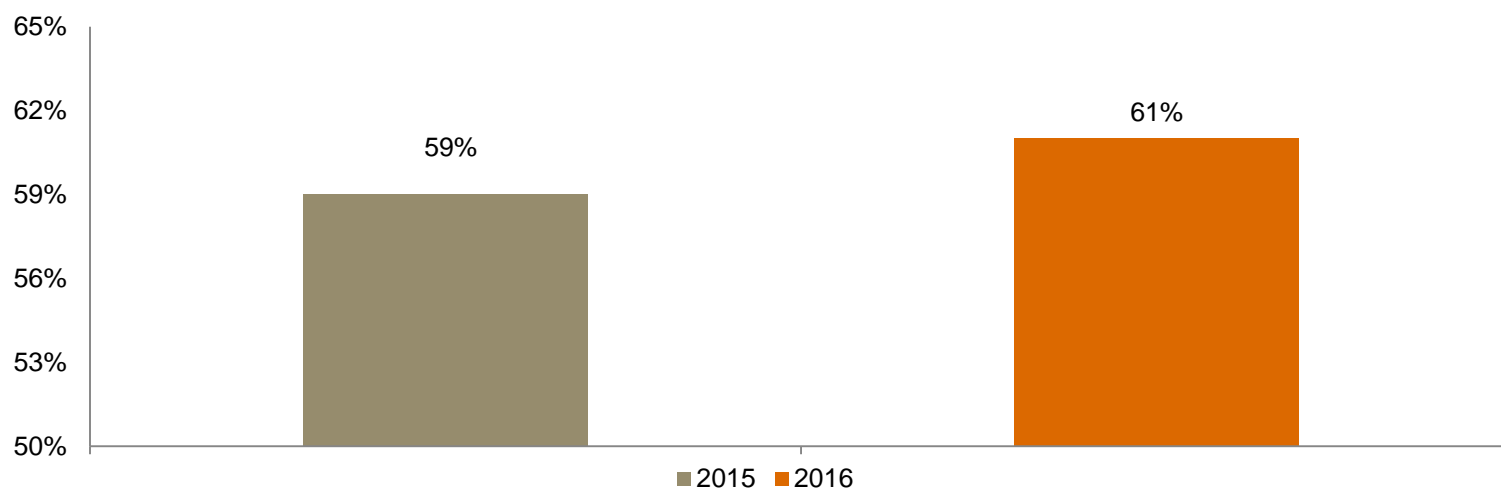
## Flexibility and the move toward a "Gig Economy"

Job flexibility continues to be a mandate for delivering the best talent to an organization. Getting 'the right resources at the right time, and at the right price' requires more options than just full-time employment. However, Saratoga's 2017 results demonstrate that HR departments are not making significant progress in delivering the flexibility to their workforces that they will ultimately need to be successful in the future.

Data points to the importance of delivering flexibility, and the direct relationship it has with employee impact. Employees who work from home at least once a week are 48% more likely to give their job the highest rating on the "happiness scale", as PwC's 2016 Consumer Intelligence Series Work-Life 3.0 study found. According to the study, only 33% of workers under the age of 35 view their relationship with their employer as a "committed partnership." Conversely, 62% of employers say they are in a "committed partnership" with their employees. The study also found that one in three employees expects to be at a different job in the next six months.

PwC's 2017 Workforce of the Future study found that 60% of the general population based in China, Germany, India, the UK, and the US think that 'few people will have stable, long-term employment in the future'. But PwC Saratoga's latest results show that most organizations today aren't succeeding in meeting employees' interest in flexibility and are just starting to deliver material change to the way work is performed. There is a long way to go for HR to deliver the "Gig Economy" to the next generation worker. According to PwC's Employee Engagement study trends from 2015 to 2016, employees are only slightly more satisfied with the flexibility provided by their company.

**"My company provides sufficient flexibility to help me balance the demands of my work life and personal life" - from PwC's Employee Engagement Study<sup>1</sup>**



<sup>1</sup>These results represent the percent of respondents who selected 'Agree' or 'Strongly Agree' for each item

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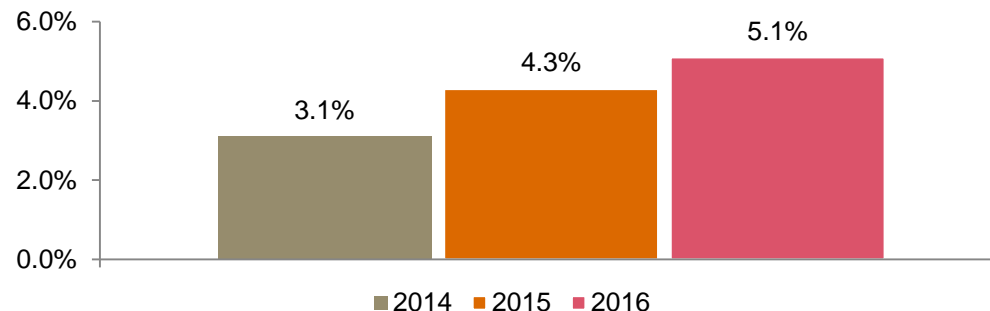
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## Flexibility and the move toward a "Gig Economy"

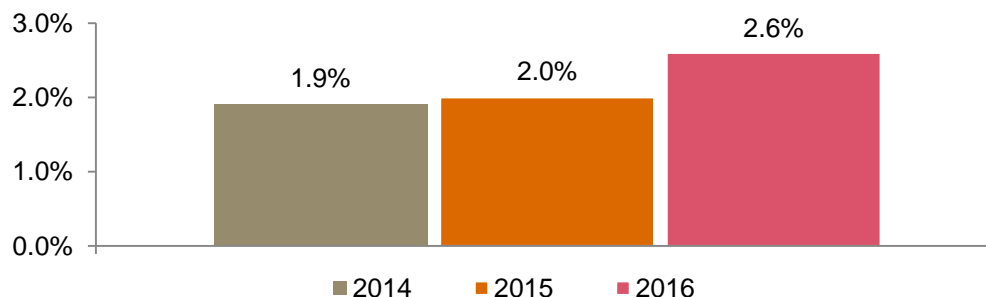
In addition to employee opinions, metric results show that minimal progress is being made on creating a more flexible workforce. The Percent of Remote Employees (i.e., those that have worked remotely out of a home office for more than half of their time) still remains a very small portion of the overall population.

**Percent of Remote Employees**



Contingent Labor Cost as a Percent of Total Labor Costs results for the 2016 calendar year show even slower growth than remote employees.

**Contingent Labor Cost as a Percent of Total Labor Costs**



The combined results suggest that many organizations and their HR departments are not yet completely ready to participate in the "Gig Economy". As organizations look to employ more contingent labor, HR departments will have to adapt their programs and policies, especially as more organizations promote flexible work arrangements.

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***Applying PwC's HR assessment model to key HR sub-functions***

In order for HR to continue improving impact to the business and employees, we explored two key emerging forces: diversity and inclusion, and the "Gig Economy". In light of these trends, the ability for HR to generate business and employee impact is increasingly difficult. HR will need to manage this changing landscape not only from an overall function level, but also within its individual sub-functions in order to continue to optimize value.

In the sections that follow, we apply our HR assessment model to three specific sub-functions that play important roles in HR's ability to generate business and employee impact: Recruiting and Staffing, Rewards, and Deals.



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## Recruiting



### At a glance:

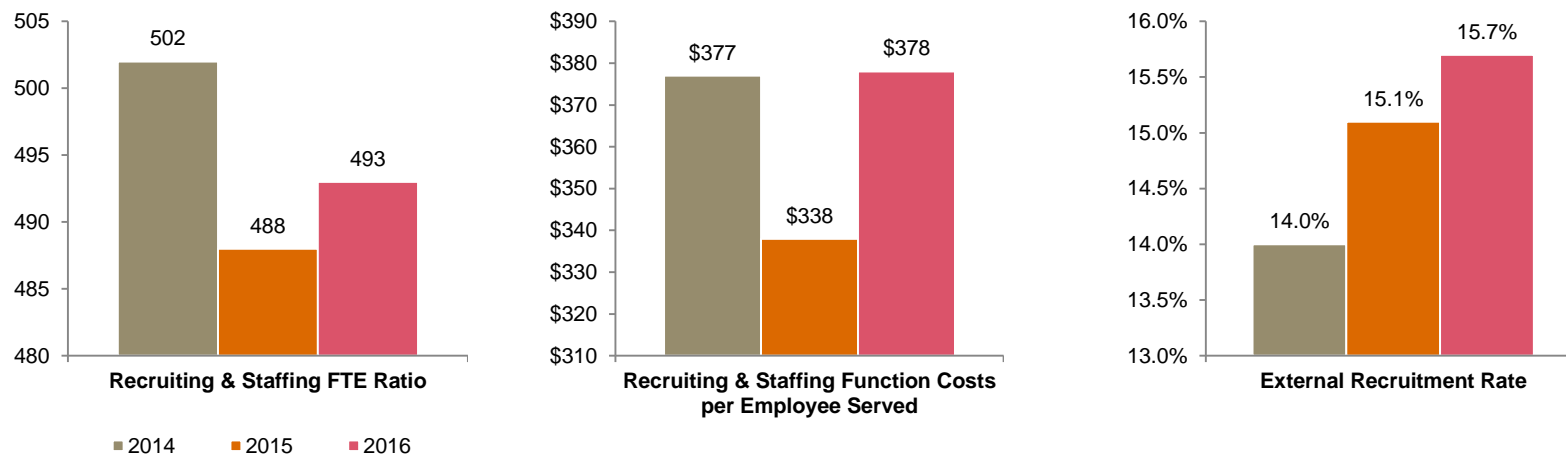
- **Operations efficiency:** The Recruiting sub-function has maintained its relative number of employees and only slightly increased in overall spend – despite increases in the number of hires and the time it takes to hire.
- **Business impact:** The competitive landscape for top talent – and cost constraints in some industries that create lengthy budget approval processes – has resulted in a continued increase in time to hire. A more detailed analysis of the steps in the hiring process reveals opportunities for improvement by reducing the process to post and approve requisitions. Emerging technologies such as artificial intelligence and robotics offer new ways that can help Recruiting advance toward this goal.
- **Employee impact:** While first year turnover has remained stable year over year, it is hard for recruiting and HR to claim victory here. Many would say that a first year failure rate of more than one in five indicates an opportunity for improvement.



### Operations Efficiency in Recruiting

With increased investments in Applicant Tracking Systems and restructuring, the skills necessary for recruiting are shifting from administrative to strategic, and will continue to transform further as Software as a Service platforms incorporate more advanced functionality like artificial intelligence to qualify candidates. The Recruiting & Staffing FTE Ratio (i.e., the number of full-time equivalent employees supported by each Recruiting and Staffing FTE) has remained almost unchanged while the sub-function has been able to increase the percentage of employees hired externally each year.

#### Recruiting & Staffing



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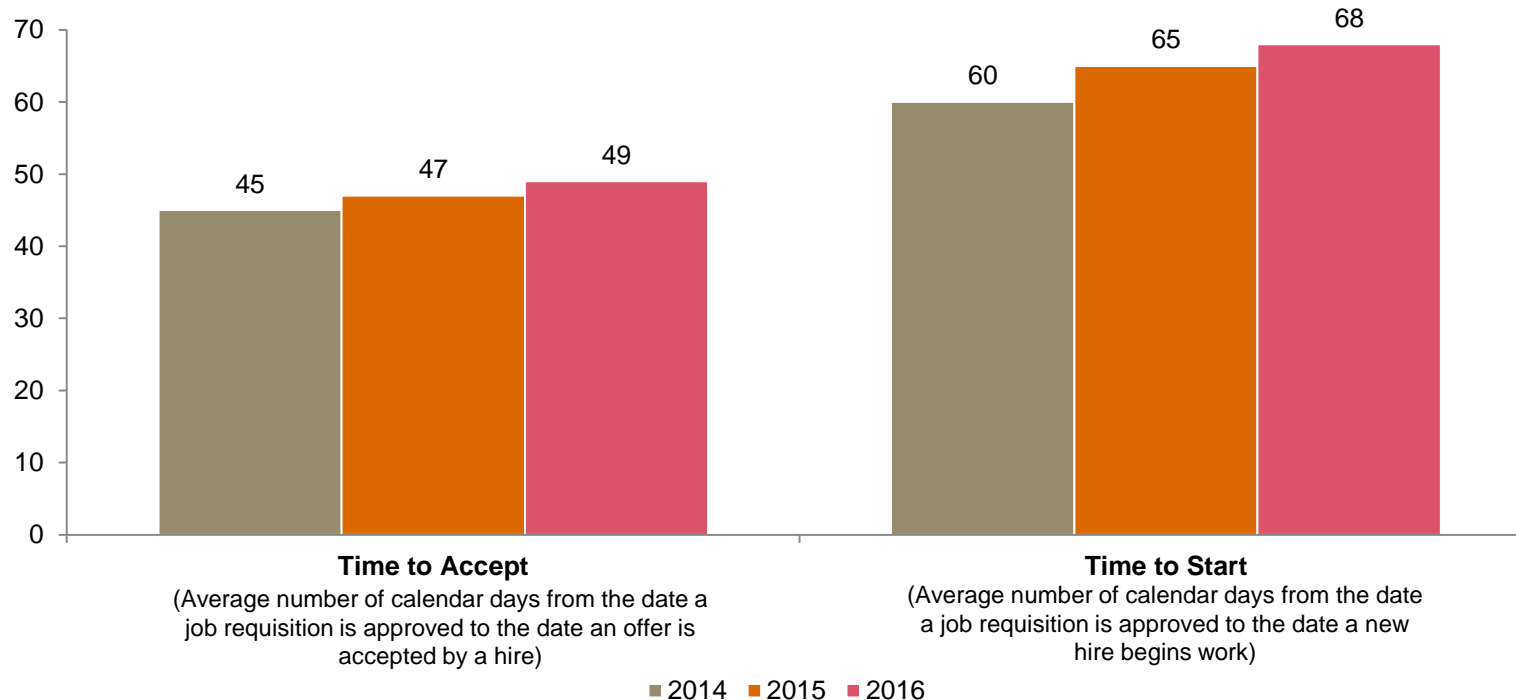
## Recruiting



### Business Impact of Recruiting

PwC Saratoga results illustrate that Time to Accept and Time to Start have both shown increases from 2014 to 2016. While the Recruiting and Staffing sub-function is becoming equipped with more automated technology and third party support, this is not yet translating into greater business impact. Perhaps, the increased difficulty to recruit the right talent mix with more specific backgrounds and skillsets is resulting in the increased recruitment time. Moreover, another potential factor contributing to extended cycle times is the tightening of budgets in several industries, potentially creating elongated periods of negotiation.

#### Talent Acquisition Process Times



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## Recruiting

### Talent Acquisition Process Times



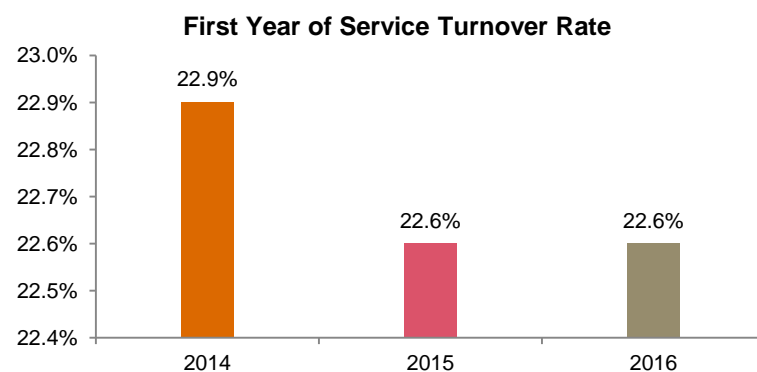
To allow for a more in-depth analysis of the recruiting process, PwC Saratoga introduced an additional set of recruitment process time metrics in 2017. The additional metrics include Time to Approve (average number of calendar days from the time a job requisition is created to the time the requisition is fully approved and ready for sourcing) and Time to Post (average number of calendar days from the time a job requisition is approved to the date the job requisition is posted). These additional benchmarks highlight that out of the 54 days it takes for a hire to accept the job, 11 of those days are spent on approving and posting the requisition. Additional analysis of recruiting steps will allow organizations to better understand where they can impact the time it takes to hire employees and bring them into the fold. Addressing this increase in the recruiting cycle time will help reduce annual recruiting costs.

Other new talent acquisition metrics PwC Saratoga introduced this year can provide additional insights on the talent acquisition process: Offers Accepted per Application Received; Offers Accepted per Interview Conducted; Offers Accepted per Qualified Applicant; Offers Extended per Interview Conducted; Qualified Applicants per Application Received; and Interviews Conducted per Application Received.



### Employee Impact of Recruiting

First year turnover rate has remained unchanged, which is influenced in part by the Recruiting sub-function but other factors play a large role as well, such as organizational culture, assimilation, and relationship with one's immediate manager. Although this rate has stabilized, over one in five leaving within their first year of employment still highlights improvement areas for the Recruiting sub-function, such as conveying appropriate expectations of the job with the new hire as well as the line manager's responsibility for training and assimilation.



Due to technology investments within the recruiting function, the cost impact is diminished despite the steady increase in external hiring over the past few years. Nevertheless, the increase in the amount of time to hire new employees needs to be addressed, as this has business implications. As employees look for more flexibility, and organizations search for an increasingly diverse talent pool, the pressures on the sub-function will continue to increase.

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## Rewards



### At a glance:

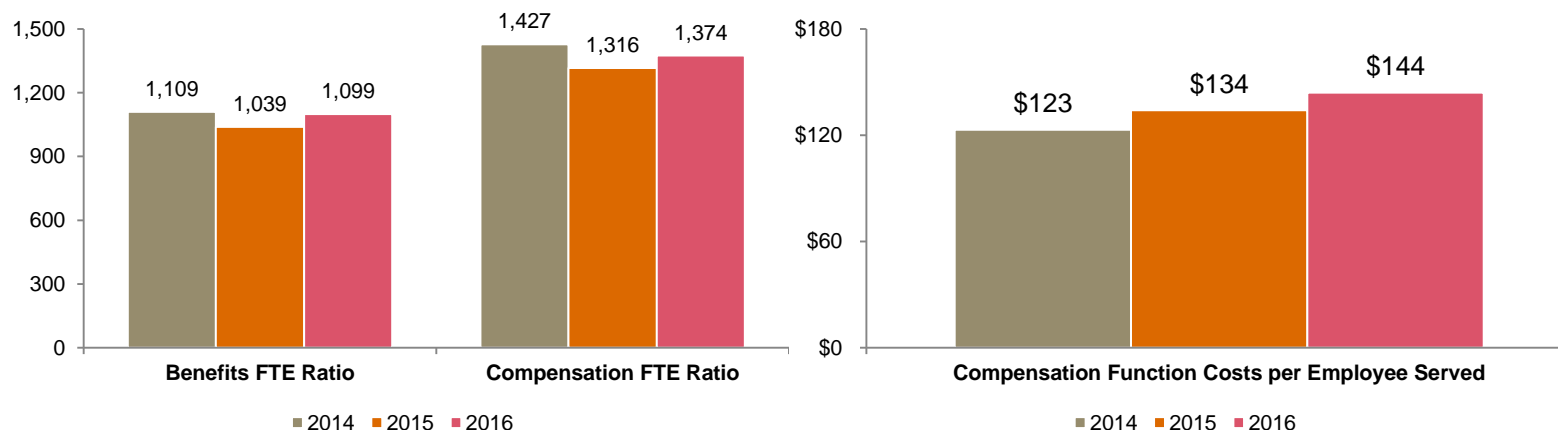
- **Operations efficiency:** With a leaner staff to deliver compensation and benefits services, the Rewards sub-function is managing its resources effectively. Results also show that investment is likely being shifted to strategic capabilities rather than administration.
- **Business impact:** The Rewards sub-function delivered business impact reasonably well. Labor Cost per FTE has remained approximately the same, in part due to efforts to maintain stable healthcare costs and a decrease in both overtime pay and variable compensation.
- **Employee impact:** While not stellar, employees are slightly more satisfied with their pay flexibility, pay fairness, and benefits compared to the prior year. Yet, there remains greater opportunity to foster a positive experience by addressing an employee's individual preference for how to be rewarded.



### Operations Efficiency in Rewards

Benefits and Compensation teams within the Rewards sub-function have both lowered their staff levels, as evidenced by the increase in Benefits and Compensation FTE Ratios (i.e., the number of full-time equivalent (FTE) employees supported by each FTE in Benefits and Compensation respectively). Enhancements to the operational efficiency of Reward functions are also being made through offshoring, technology investments, re-engineering expense management processes, augmenting modelling and analytics capabilities, and strengthening data governance. Although the Compensation team may be leaner, organizations are investing more to deliver compensation services than they did last year suggesting a shift to the strategic value of the Compensation function.

### Rewards



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## Rewards



### **Business Impact of Rewards**

Labor Cost per FTE has stayed fairly flat, especially since inflation has not been factored into the numbers below. The Rewards sub-function has managed to keep the cost of labor from increasing partially due to its management of healthcare costs and overtime pay.

#### **Financial Control**

Year	2016	2015	Percent Change
<b>Labor Cost per FTE</b>	\$102,889	\$101,418	1.5%
<b>Healthcare Costs per Active Employee</b>	\$9,713	\$9,661	0.5%
<b>Overtime Pay Percent</b>	1.7%	2.0%	(15.0%)



### **Employee Impact of Rewards**

According to PwC's Employee Engagement study, 57% of employees feel their company pays them fairly for the work they do, up from 55% in the prior year. 64% of participants in the study indicated they were satisfied with their benefits, up slightly from 62% in the prior year.

Additionally, organizations will need to review their pay equity practices determine if there is an imbalance based on gender – an area of growing attention and importance in the current landscape. Subsequent changes and adequate, transparent communication surrounding this topic can help drive higher levels of satisfaction with pay fairness.

While a slight improvement over previous results, to continue improvement, companies will need to evaluate the compensation and benefits packages and ensure that they are in line with employees' preferences. For example, employees may prefer greater and more varied opportunities for flexibility rather than a pay raise. And given an increasingly diverse workforce, employees may prefer different benefits packages depending on lifestyle and background.

The Rewards sub-function has done a good job of addressing the issues facing it today, and it will need to move to helping to address the future needs in the workforce. The need to understand employees' desired approaches for compensation and benefits is becoming greater as more employees value flexibility and the "Gig Economy" grows.

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## Deals

Today's economic conditions have led to an increased number of mergers and acquisitions across many industries and across companies of various sizes and statures. Based on the 2017 PwC Global CEO Survey, 55% of US CEOs said their companies are planning a new merger or acquisition in the next year. US CEOs also indicated that they wanted to become stronger in deals – and several CEOs chose HR as an area to strengthen.

Since many HR departments do not have a standing capability to address deals, we will not comment on it to the same depth and detail as we have with Recruiting and Rewards. HR does not typically include a sub-function devoted to deals, yet it is tasked with the delicate responsibility of ensuring that newly acquired talent can seamlessly integrate with the existing talent, and that two organizations' workforces and their cultures can merge. The most sophisticated organizations have HR at the table when developing their deals, rather than relying on it to simply to execute after the fact. HR can play a significant role in due diligence, business case, and operating model design.

It is becoming increasingly important for HR to define a "deals" capability and have individuals dedicated to this area. Identifying which talent to retain or release while maintaining a company culture that motivates all employees is a strategic capability for HR. Typically, deals require nearly all HR sub-functions to respond in a coordinated, synchronized fashion over the arc of months and years to achieve the value leaders have promised.

Tracking the First Year of Service Turnover Rate for Acquired Employees helps measure the success of the organization in onboarding and retaining the new talent. The median result from 2016 and 2015 are shown below.

### First Year of Service Turnover Rate for Acquired Employees

2016	2015	Change
6.0%	3.5%	+71.4%

Perhaps more enlightening than the results themselves, is the fact that only 20 companies of our near 500 participants could provide this data. It suggests to us that the HR approach to deals remains ad hoc and reactive. This suggestion is reinforced by the results in PwC's 2017 Merger & Acquisition Integration Survey report, where only 31% of respondents felt employee morale was sufficiently achieved, and only 33% believed employees understood the company direction.

It is clear that HR departments have an opportunity to drive the value that they deliver pre- and post-deal. Although traditionally there is no formal "deals" sub-function within HR in a structured fashion, HR's ability to handle the phases before, during, and after a deal is crucial to its ability to deliver business impact.

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## Conclusion – Measuring HR's effectiveness at the sub-function level

Results show that HR costs have stabilized, employee productivity has improved, and employee engagement has rebounded. Nonetheless, the traditional lenses through which HR has typically been assessed are changing. In order to drive value, HR will need to be forward-thinking in its approach and address emerging issues in the rapidly changing talent environment. To drive better business impact and employee impact will require a focus on new challenges, not just the old ones – such as the “Gig Economy” as well as diversity and inclusion. The greatest concern remains employee impact, and how these broader talent changes will influence HR service delivery.

In order to better understand what levers create the positive HR impact, organizations need to focus on the performance of their sub-functions – some of the most impactful being Recruiting & Staffing, Rewards, and “Deals”. Each of these sub-functions appears to be situated at a different stage regarding its abilities both to address its current challenges and to prepare for coming forces.

Our PwC Saratoga results indicate:

- The Recruiting sub-function is experiencing increased hiring cycle times as well as a rise in the number of hires. The amount of investment in the sub-function to address these two trends (although higher than the prior year) is less than we expect, which we attribute to improved automation and restructuring.
- The Rewards sub-function is shifting resources from administrative to strategic activities, and is delivering positive operational efficiency and business impact. And although employee satisfaction in areas of flexibility, pay fairness, and benefits has slightly improved, there remains an opportunity for the sub-function to tailor rewards further in order to drive greater satisfaction.
- The Deals sub-function has not been established within many organizations, and as a result we believe that HR is under-delivering in its ability to help organizations through the acquisition and assimilation process. This is supported

by the limited number of PwC Saratoga clients that submit data about their acquired employees, and other PwC studies.

Given the rapidly changing environment, HR needs to make sure that its service delivery is oriented toward not only cost control but also to the business and employee impact that it delivers. As changes continue to occur in the workforce and competitive environment, the services HR delivers and the way it delivers them will need to adapt.



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**About PwC People Analytics**

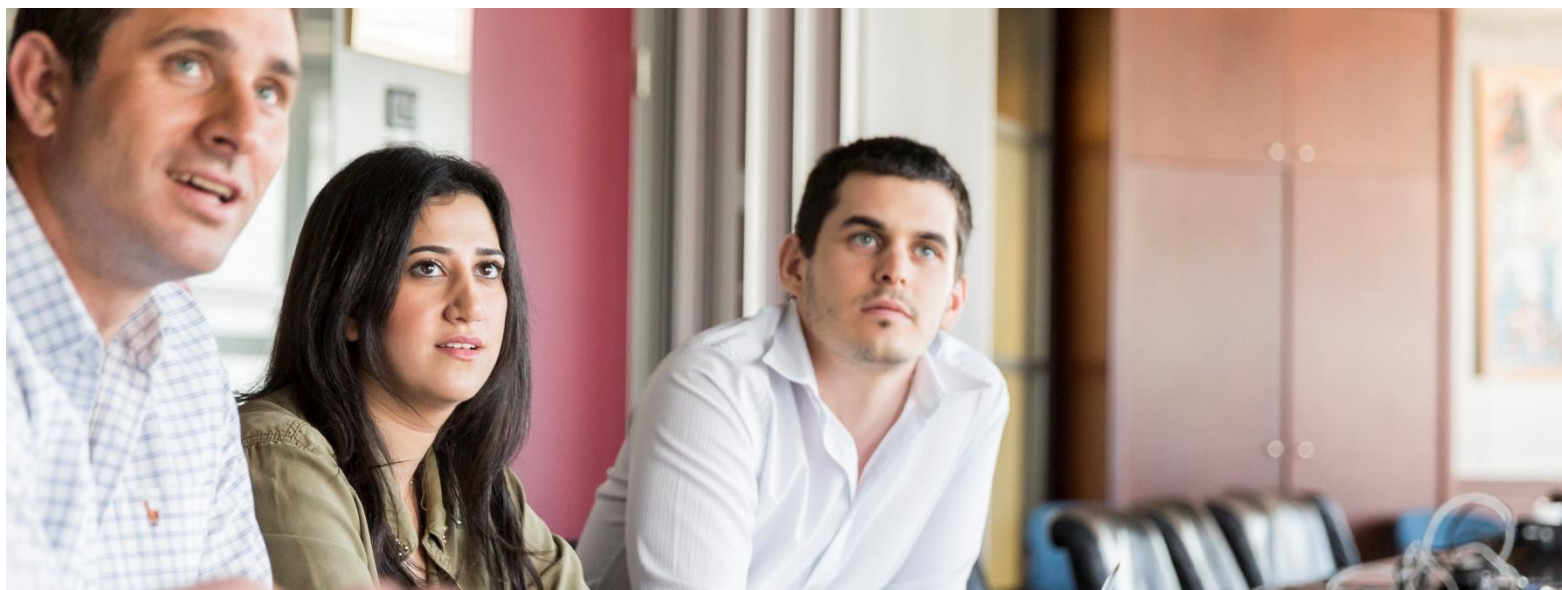
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