

Key trends in human capital 2012

A global perspective

A look at the key workforce trends from around the world using data from PwC's Saratoga benchmarking database.

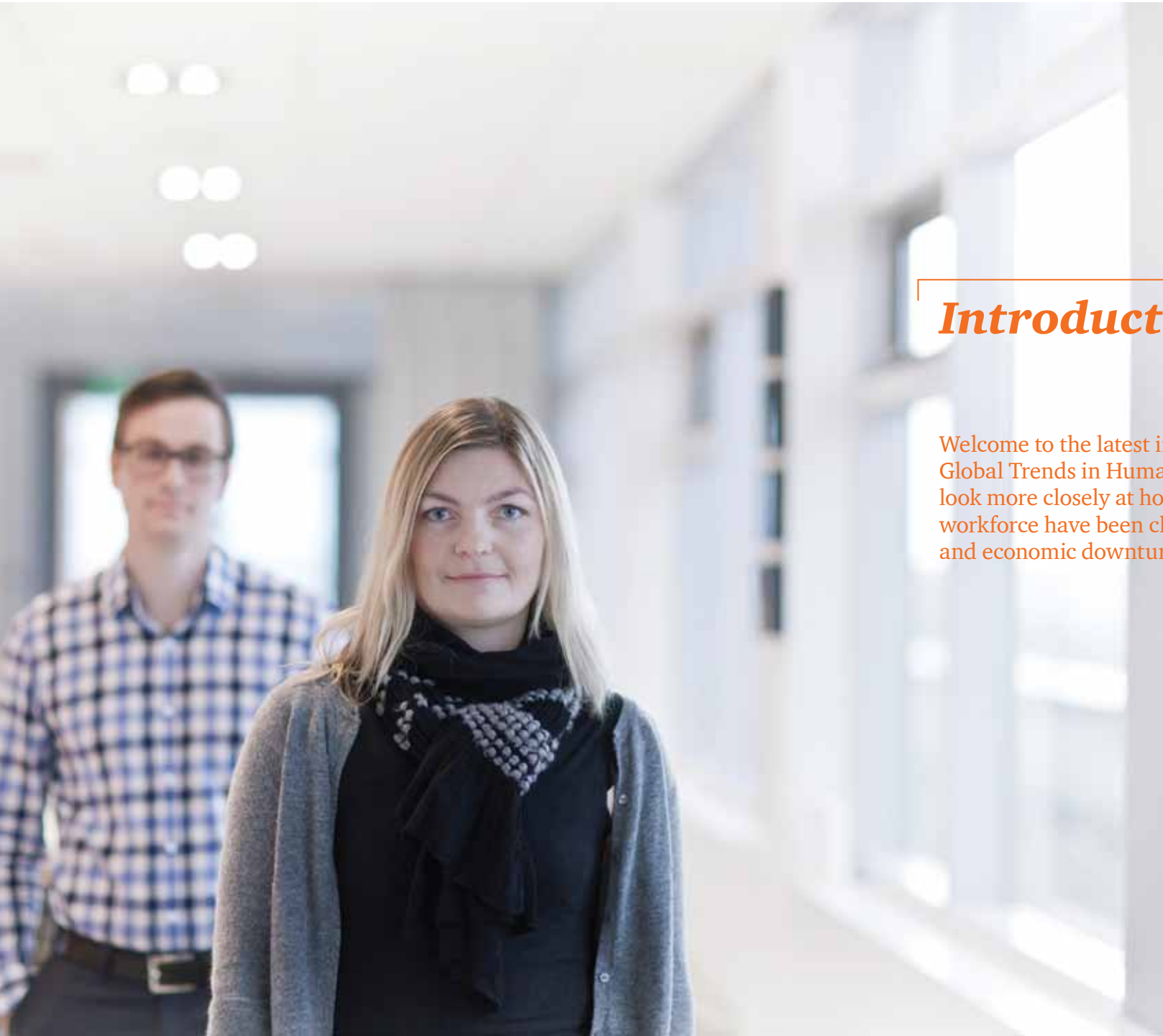


About PwC Saratoga

PwC Saratoga is the recognised leader in the measurement and benchmarking of human capital in organisations, HR and finance function performance and transformation. Our specialists help clients to develop predictive analytics capability by identifying connections between HR, people, functional and organisational performance, using a range of quantitative and qualitative tools. This is supported by a global repository of metrics and qualitative best practice information from more than 2,400 organisations.

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Introduction

Welcome to the latest in PwC's detailed studies of Global Trends in Human Capital. In this fifth edition we look more closely at how organisations and the global workforce have been changed by the financial crisis and economic downturn.

‘Knowledge and insight – in the form of human capital data – is power.’

Our 2010 Global Trends paper was written at a time of considerable upheaval, with many organisations cutting back sharply on costs and headcount as the recession took hold. Two years on, business leaders are more confident about the prospects for growth, in spite of continued economic turmoil. While competition is intense, many organisations are emerging leaner and more focused. The mantra is to maximise return on investment (ROI) in every area of the business, especially human capital.

It’s all about talent management

In this quest for growth, talent management remains a primary focus area for business leaders. According to our 15th Annual Global CEO Survey, 78% of CEOs plan to make changes to talent strategy in response to the global business environment. There is a clear need for professional skills and effective leadership to operate in challenging markets, while emerging markets require the talent to deliver continued growth. But only 30% of CEOs said they were confident that they would have the talent they needed to grow their organisation in the near future, and 31% said that talent constraints had already hampered innovation at their organisation.

In such an environment, knowledge and insight – in the form of human capital data – is power. Human capital measurement and analytics has progressed far in recent years, evolving from the collection and redistribution of basic workforce data through HR systems to a more thoughtful and targeted approach that mirrors more general business data analytics. This means joining up data from sources within and outside HR, analysing trends and an increasing focus on predictive analytics.

Talent strategy

78%

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30%

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Global trends in human capital



The global financial crisis has reinforced the contrast between economies and employment markets around the world. Western Europe – and, for the first time, parts of Central and Eastern Europe – have felt the impact of the global financial crisis and have seen revenue per employee fall. Asia, by contrast, has continued to grow. When existing demographic trends are added to the mix, it's clear that multinational organisations are facing sharply contrasting human capital challenges from region to region.

Four key trends have emerged:

1.

Productivity gaps widen

Productivity dropped sharply in developed economies in 2011, making the regional differences in productivity much more pronounced. Latin America and Asia-Pacific are now showing far higher levels of productivity than Europe, giving them a strong competitive edge.

2.

A rocky road for rookies

One of the major consequences of the crisis is that organisations in the West have chosen experience over youth, cutting back on the recruitment of younger workers and banking on the experience of older workers to see them through. While this strategy has worked in the short term, it's storing up talent chain supply problems for the future.

3.

Survivors disengaged

The most significant – and worrying – legacy of the turmoil of the past few years has been the impact on employee engagement. Employees in the West who survived the cost-cutting cull have been left disillusioned and disengaged. The younger generation has been hit particularly hard as they see their opportunities dwindle and their career path blocked by older workers who can't afford to retire. But poor employee engagement isn't just a Western problem; it's equally severe in Asia, in spite of the high levels of demand for younger talent, where job-hopping has become the norm.

4.

Best practice in human capital analytics has arrived

The best organisations are leading the way in using analytics and the capabilities of the HR function to make sure that they get the most from the investment in their people.

There's been a huge investment in human capital analytics in recent years and it's paying dividends for organisations that were ahead of the game. The advancements in data collection and analysis are an enormous opportunity for those who are prepared to take advantage of them.



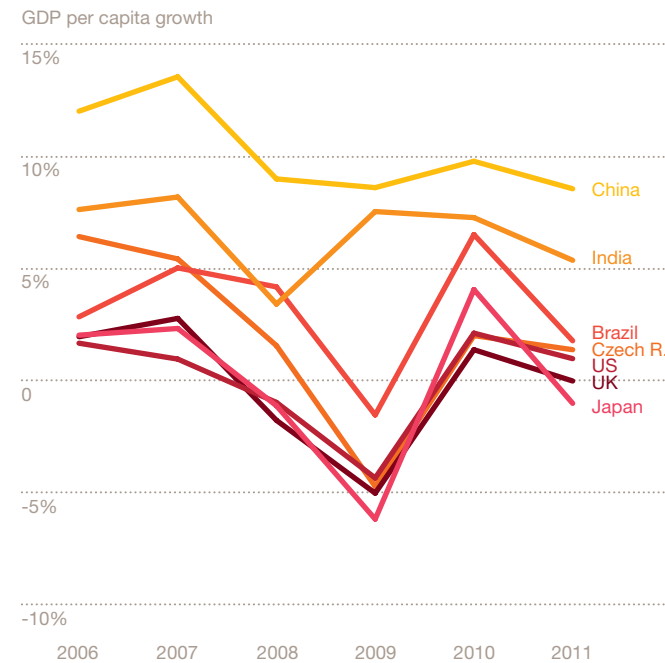
A multi-speed global economy

It's clear that the fallout from the global financial crisis has been far-reaching, both in terms of financial results and in the long-term impact on the way companies operate. There remains a clear divide between organisations in developed economies, which were inevitably hit hard during the crisis, and the fast-growing emerging economies, where talent supply remains a critical issue.

The impact of the economic conditions is by no means limited to Western Europe and the US. There is evidence to suggest that the impact is now being felt within Central and Eastern Europe, with GDP per capita growth for some economies in Eastern Europe, such as the Czech Republic, falling to levels similar to the UK and US. Combined with rising wage costs in recent years, parts of the CEE region are moving beyond the period of demonstrably higher human capital ROI to levels resembling other European nations.

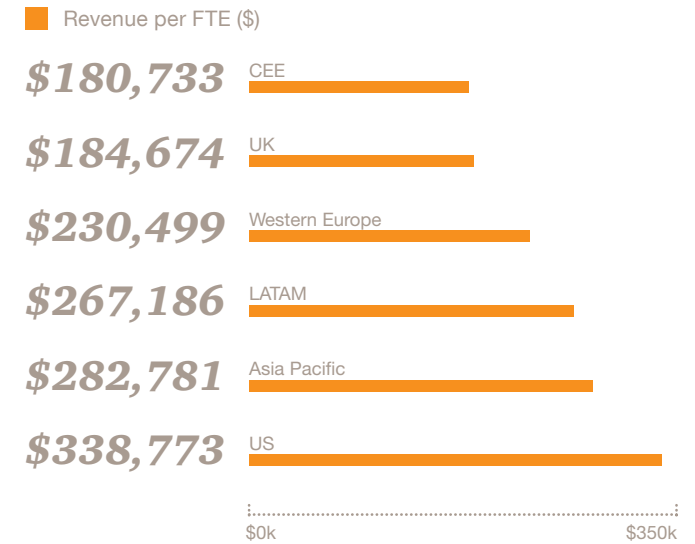
The major economies in Asia, by contrast, have shown year-on-year increases in economic output during the crisis, driven by rapid industrialisation and an expanding workforce in the manufacturing and service industries. With low wage costs and/or continuing growth in most parts of Asia, many nations demonstrate far higher human capital ROI than the West.

Annual growth in GDP per capita



Source: World Bank

Revenue per FTE by region



Adapt and survive

We've seen significant changes to employment markets in the West in the wake of the financial crisis, as countries adapt in order to maintain growth by investing in the better-performing sectors. In the US, the professional services sector has seen an increase in revenue per full-time employee (FTE) of 21.5%, as businesses look for expert help in managing the difficult economic conditions. In other industries though, employees are seeing fewer opportunities – the US technology sector saw a 28.3% reduction in revenue per FTE as organisations looked to reduce back-office expenditure.

This is echoed in Western Europe, which also saw a fall in revenue generated in the technology sector. Engineering and manufacturing, and the chemicals industry have also suffered. The pharmaceuticals sector, though, has enjoyed a small increase in revenue in Europe, along with the insurance industry and retail and leisure sector, and should see continued investment and innovation generating job growth for Western economies.

Revenue per FTE



In the US, the professional services sector has seen an increase in revenue per full-time employee (FTE) of 21.5%, as businesses look for expert help in managing the difficult economic conditions



Banking: Time for change?

The banking sector in Europe has faced well-publicised problems in recent years, with profit levels suffering as a result. Five years ago, the sector was the most successful in Europe in terms of the level of shareholder return. But not any more. Revenue per FTE has fallen sharply. Pay remains high despite recent bonus pool reductions and banks continue to pay a higher average remuneration than any other sector. The result is a dramatic reduction in the value added by employees; Human Capital ROI (HC ROI) has fallen by 20% over the past five years.

Performance-related pay in the sector currently stands at similar levels to 2006/07, when banks were reporting far higher levels of profit – showing that compensation reductions potentially still have some way to go.

The next few years will be critical to the banking sector and success will depend to a large extent on the effectiveness of the pay reforms that are underway. There are many challenges ahead.

Banking

	2006/07	2007/08	2008/09	2009/10	2010/11
Human capital ROI	2.00	2.06	2.05	1.69	1.62
Average remuneration (\$)	79,362	76,944	92,391	92,671	87,673
Performance-related pay (%)	8.7	17.1	16.5	15.8	14.4



“Recognising that the world is somewhat split down the middle between slow growth and rapid growth, you’d better be able to operate in both at the same time. You have to manage that difficult slow growth and then completely switch gears and go to high growth. You have to find ways of moving your resources – and for us it’s talent – from where it’s not being utilised to where it can be utilised.”

Brian Duperreault, President and Chief Executive Officer of Marsh & McLennan Companies Inc.
Taken from the PwC 15th Annual CEO Survey

Productivity gaps widen



The West can't compete on productivity

While developing economies are not immune to the downturn, they have managed to retain strong productivity levels, particularly when compared against Western Europe and the US. Productivity levels in Western Europe had remained relatively stable as organisations cut back on employee numbers during the downturn, but in 2011, productivity dropped sharply. This places regions such as Asia, Latin America and CEE in a continued position of strength in terms of competitiveness.

Employee costs rise, for less return

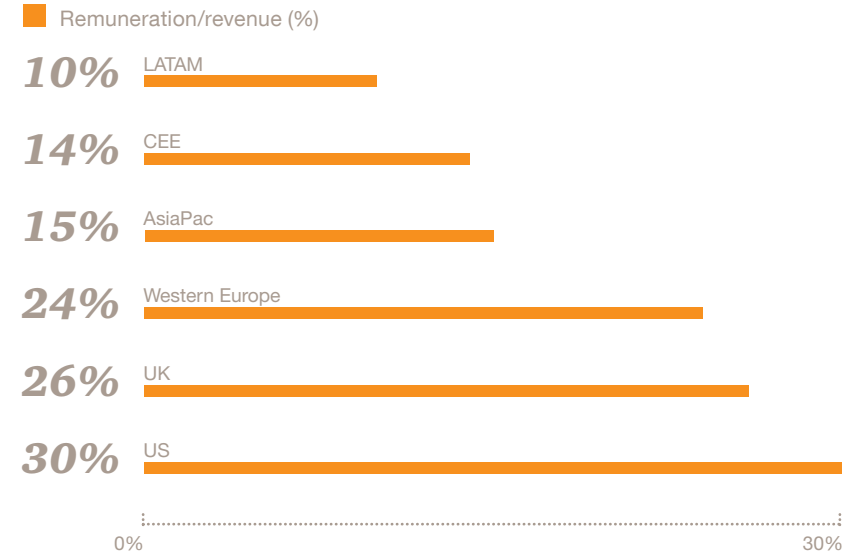
Further analysis shows that the fall in productivity in Europe is driven by an increase in average employee costs per head. This is largely because organisations have cut back on their recruitment of new, raw talent and so have lower numbers of younger and lower grade employees, which has in turn increased average remuneration levels. At the same time revenue has fallen, meaning that organisations are seeing a lower return on their remuneration investment.

Lower return on remuneration investment

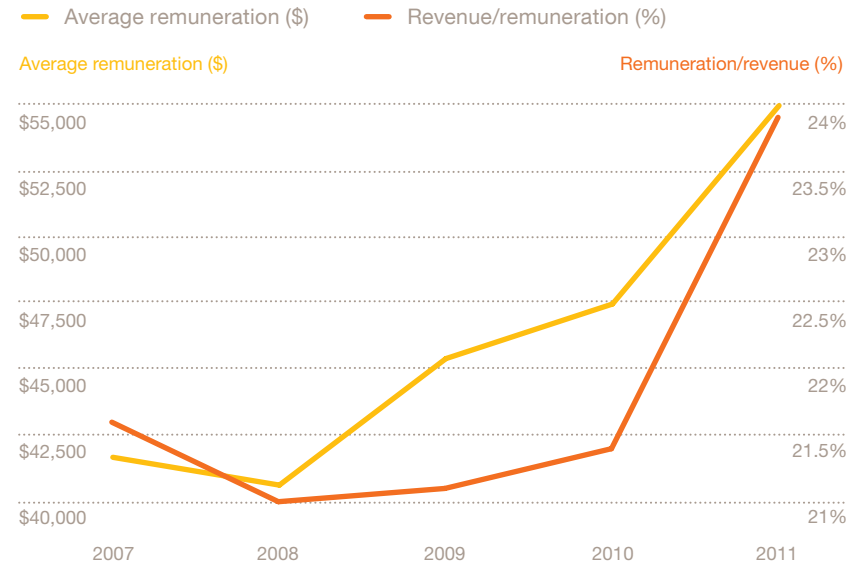


Organisations have cut back on their recruitment of new, raw talent. This has increased average remuneration levels. At the same time revenue has fallen

Remuneration/revenue by region



Average remuneration rises in Europe

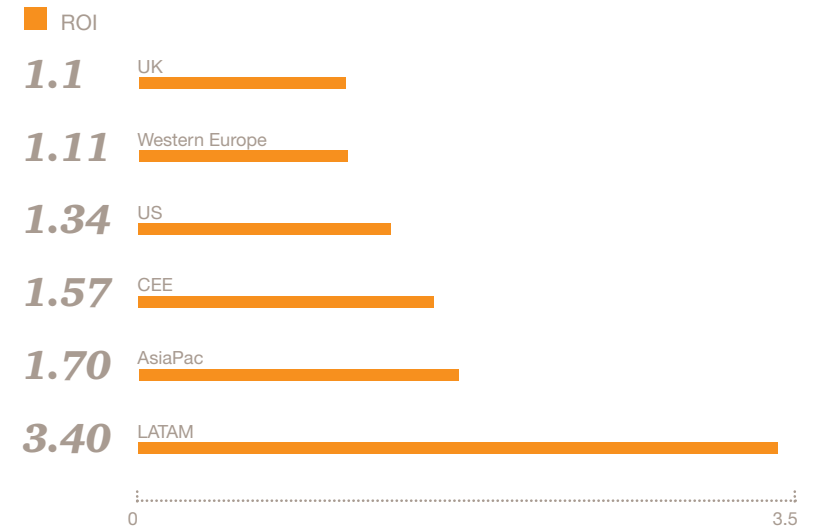


Saratoga data shows that average remuneration has once again increased in Europe to \$54,942 (an increase of over 15%). The level of average remuneration in the US continues to be significantly higher than in Europe, a consequence of the greater GDP per capita generated. A higher level of benefits in the US, which have continued to increase due to healthcare-related costs, and the longer number of hours that US employees work, also contribute to the higher average remuneration.

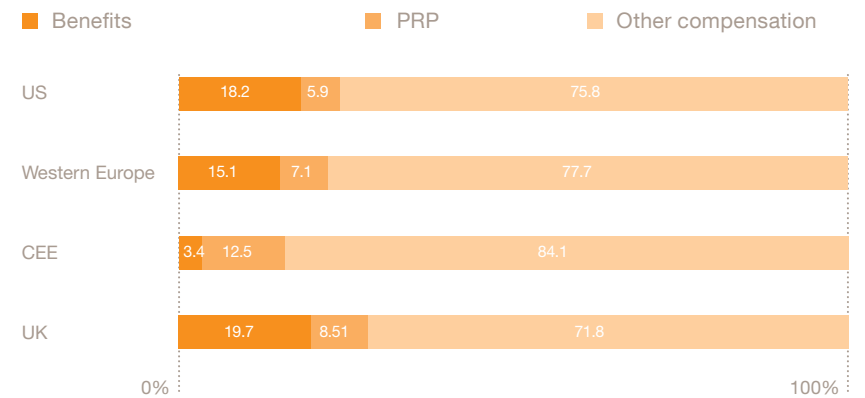
We track the return that organisations are getting for their investment in their people through Human Capital Return on Investment (HC ROI), which is at its lowest level in recent years in Western Europe and the US, while in CEE the HC ROI fell significantly after a period of year-on-year increases.

HC ROI is particularly competitive in the emerging markets of Asia-Pacific, in some cases almost twice the level seen in Western economies. But in the more developed economies in Asia-Pacific, HC ROI is only slightly higher than in Western Europe and the US – the result of higher employee costs. It will be difficult for many countries to sustain competitive HC ROI levels if salaries continue to rise at their current rate.

Human Capital ROI



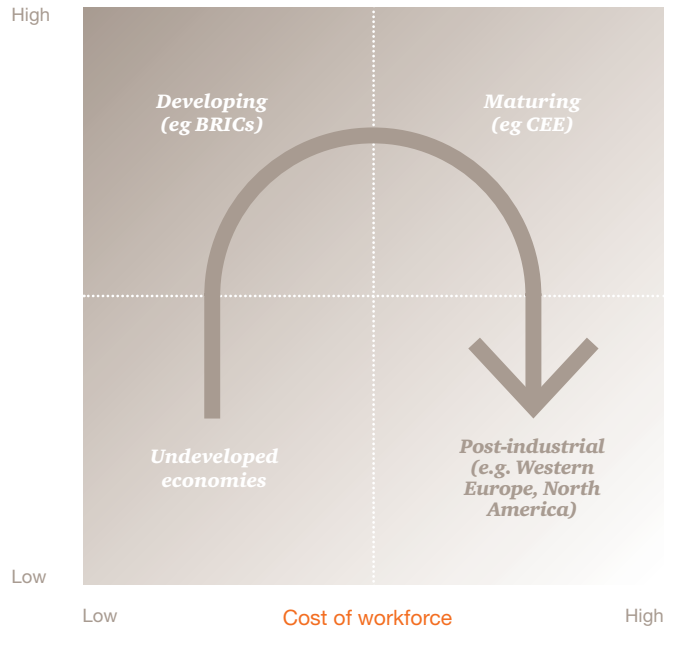
Remuneration in Europe and the US



Economic maturity impacts HC ROI

■ High HC ROI

Rate of economic/profit growth



Measuring workforce return on investment

While it is dangerous to focus on one measure to demonstrate workforce ROI, our HC ROI metric combines in a single number the major components of P&L performance with the size and cost of the workforce. It captures the interplay between revenue generation, cost control and human capital management policy, something that revenue per employee and profit per employee can't do. In fact, it's possible for an organisation to report increases in revenue and profit per employee, but falling HC ROI, if these gains are being made with more expensive people. HC ROI only grows if profits increase in combination with a managed investment in people; in other words, the concept of 'doing more with the same' or 'doing the same with less'.

While fundamentally a formula combining profit with workforce costs, HC ROI is most usefully expressed as:

$$\frac{\text{Revenue} - \text{non-people costs}}{\text{FTEs} \times \text{average remuneration}}$$

This format provides insight to the varying influence of the key variables, and opportunities for change. Used as a modelling tool in this way, HC ROI can help show the impact of HR programmes, from reward strategy and performance orientation, to organisation design, workforce planning, resourcing strategy and employee engagement.

A rocky road for rookies



“But what is interesting and what is changing is that among Western companies, the ability to hire, develop and retain talent in the developing economies has become a major point of competitive differentiation.”

Marijn Dekkers, Chairman, Bayer AG
Taken from the PwC 15th Annual CEO Survey

Younger workers suffer in the West

Younger workers have been the biggest casualty of the cutbacks and there has been a noticeable trend for organisations in Western Europe and the US to reduce the number of middle and lower grade employees. European metrics show that the number of executives with more than three years in the role has increased to 72.6%, while the number of employees with less than two years' service (known as the Rookie Ratio) has fallen sharply to 21.9%. Overall, this represents a shift towards a higher proportion of senior employees; the organisational pyramid is becoming narrower at the bottom and wider at the top.

The crisis has clearly limited the opportunities for younger employees in Western economies. There appears to be a strong demand for experienced employees to guide organisations out of economic difficulty, and investment in early talent has suffered as a result. In PwC's 15th Global CEO survey,¹ 55% of business leaders within Western economies rate the recruitment and retention of 'high-potential middle management' as a key challenge, as opposed to just 32% for 'young workers'. While cutting back on the recruitment of young talent may save on bottom-line costs in the short term, it will inevitably affect the availability of talent to fill key positions over time. Organisations need to be cautious during this period of careful cost management that they aren't cutting off the talent pipeline at its source.

Recruitment and retention a key challenge



55% of business leaders within Western economies rate the recruitment and retention of 'high-potential middle management' as a key challenge

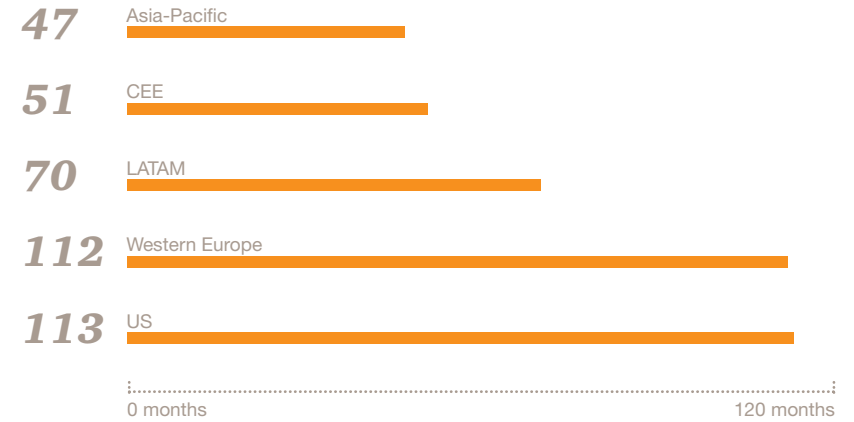
¹ PwC 15th Annual Global CEO survey of over 1,200 business leaders – 2012

Older workers dig in

A lack of new job opportunities for younger workers is slowing the rate of generational change in the workforce in some regions. In the US for instance, the expected growth in numbers of Generation Y employees hasn't occurred, with the workforce representation of Generation X surpassing the 50% mark in 2008, and increasing to 53% in 2010. As more Baby Boomers retire, Generation X has now become the largest workforce presence.

Evidence of a high proportion of Generation X employees can be seen in the average tenure findings in the US, which have gradually increased in recent years. There's an expectation that average length of tenure will be driven down by new Generation Y employees, who want and expect a varied career and who aren't particularly loyal to their employers; PwC's Millennials survey² showed that only one in five young employees expect to stay with their current employer in the long term. However, the analysis shows that Generation Y does not yet represent a great enough proportion of employees in the US to impact overall workforce trends.

Average tenure (months)



² PwC 'Millennials at work: Reshaping the workplace' – December 2011

The hiring race continues in Asia

The continuing talent supply problems in Asia, coupled with aggressive growth strategies and high levels of employee churn have resulted in recruitment rates that are approximately twice as high as in Europe and the US (at 22%). The average tenure for employees in Asian organisations is just under four years.

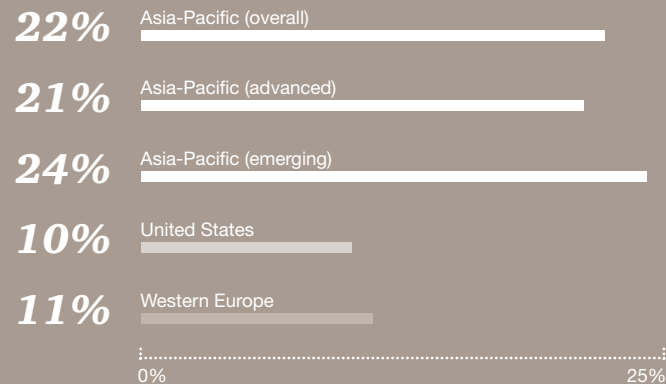
Despite the prevailing economic uncertainty, we expect hiring demand will continue to rise in Asia. Even as labour costs rise in some fast-growing economies, business leaders have set out ambitious plans to expand workforces: 55% of Asia-Pacific CEOs expect to increase their company's headcount over the next 12 months. As a result of this rapid growth, acquiring talent in the external market is becoming more challenging and expensive; 43% of CEOs tell us that it has become more difficult to hire talent in their industry. The problem is particularly acute in China and Hong Kong, and South-East Asia where the proportion rises to nearly 60%. This suggests that there is an urgent need to strengthen recruitment and workforce planning processes.

“As emerging markets accelerate – or maybe the rest of the world decelerates – there is a significant sense of urgency. There is the sense that it may already be too late to place your bets. A second factor to consider is that it is much more difficult to get into those markets because of their attitude change. They feel that post-2008 they have less to learn from the West.”

Lázaro Campos CEO, SWIFT, Belgium
Taken from the PwC 15th Annual CEO Survey



External recruitment rate



Source: PwC Saratoga analysis

Survivors disengaged



Engagement is a problem

Employee engagement is the mantra for HR, as it is critical to performance. Low levels of employee engagement tend to result in a higher turnover of employees, less discretionary effort and lower productivity.

The data highlights the employee retention issues that are endemic in Asia. The median resignation rate for Asia is 15.2%, approximately twice as high as in Europe and the US. This is symptomatic of a job market where frequent changes of role are the norm for many employees; a recent survey of 2,200 managers in China showed that two-thirds had received a competing job offer in the previous 18 months.³ The turnover for new hires is even greater, with 19.2% resigning in the first year of service.⁴ The evidence suggests that this trend is likely to continue and is becoming an established element of employee culture in Asia.

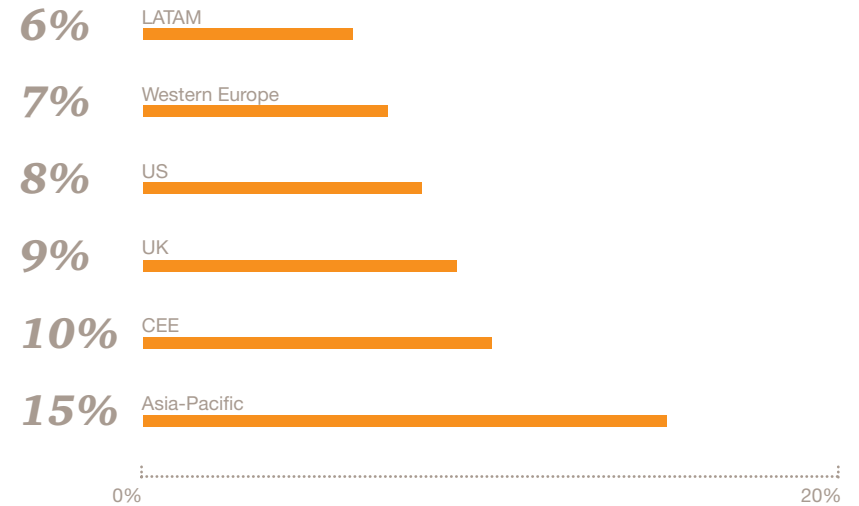
In contrast to Asia, the data from CEE shows a sharp reduction in resignation rates. At first glance this appears to be a positive indicator; however, local PwC experience suggests that resignation rates have fallen simply because employees are finding it more difficult to find a new job. This has already been seen in Latin America, where high unemployment rates and competition for jobs have driven down resignations to just 6.3%.

First-year resignations

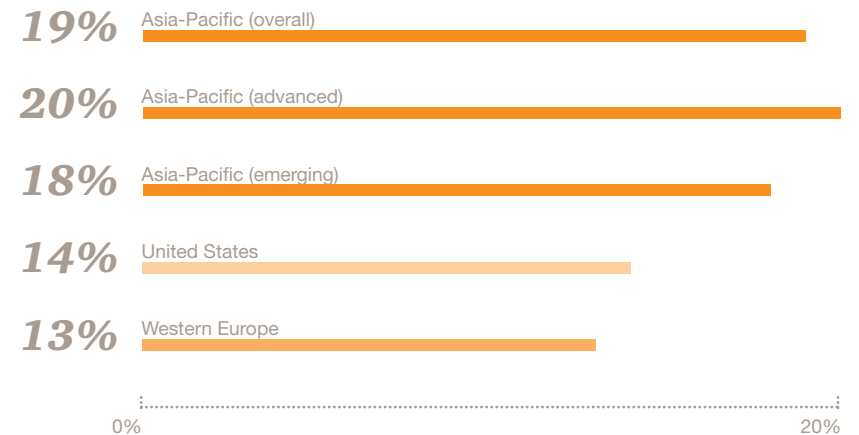
19.2%

19.2% of new hires in China resign in the first year of service

Resignation rate by region



Resignation rate <1 year (%)



³ MRI China Group Talent Environment Index, 2010

⁴ 'Breaking out of the talent spiral: Key human capital trends in Asia-Pacific', PwC 2012

The engagement problem in Western Europe is equally pressing. Unemployment is high and as a result many employees are choosing to stay in their current role for the sake of security. While this means that retention in the short term is good, the danger is that the continuing lack of job opportunities has limited the long-term career choices for employees – and there is evidence of employee unrest as a result.

Getting reward right

Employee and executive reward continue to be high on the agenda. Recent years have seen an increased focus on remuneration governance, with pressure from stakeholders to ensure reward policies are wholly aligned with achieving business objectives. Analytics have a critical role to play here in ensuring that organisations are paying employees at the right level through a reward structure that drives sustainable performance.

In Asia, many organisations are feeling the dual impact of strong competition for talent, but a low level of engagement among employees. Variable pay features heavily in Asia, accounting for almost a fifth of total compensation, compared with 13% in the US and 11% in Western Europe, driven by higher financial returns.

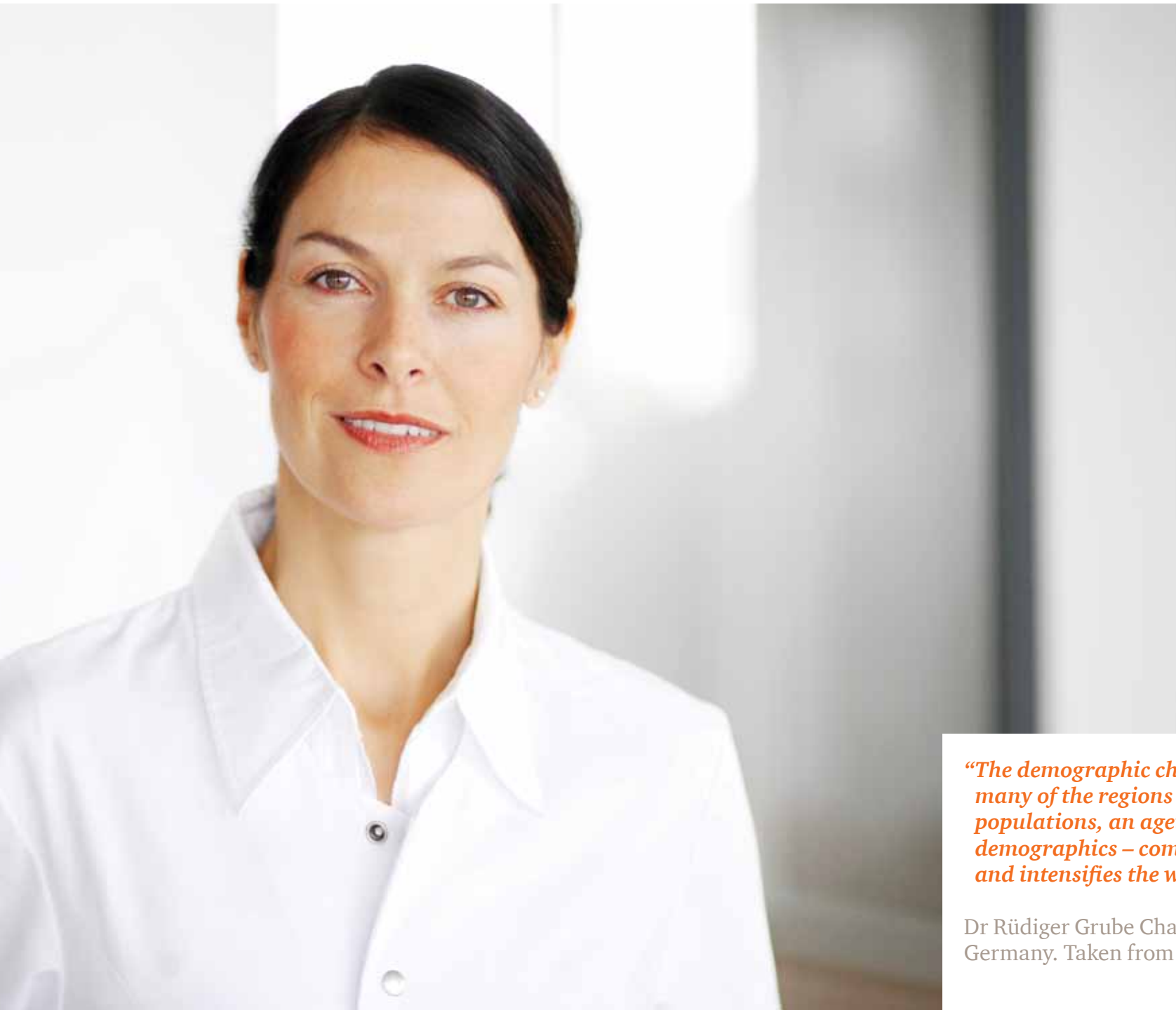
A primary focus of an organisation's pay strategy should be to incentivise employees to deliver sustainable performance. The well-publicised failure of the executive pay model in the West to deliver this outcome has resulted in increasing pressure for reform from stakeholders. Research into incentives by PwC⁵ has shown that a total shareholder return approach to reward produces arbitrary outcomes, while studies into human reaction to risk suggest that modern long-term incentives (LTIs) are not having the desired impact on executive performance, and so are designed to fail.

HR should closely analyse the LTIs that are so often used today to ensure they really do add value. Pay models need to be relevant to the business outcome, with ambiguity in pay structure one of the key causes of misalignment. Organisations that take an innovative approach are achieving the best outcomes here, and are able to strengthen their pay models through links between pay and sustainable long-term performance.

“Performance-related pay has now become ubiquitous and forms a major part of the pay package for companies globally. However, we have found that companies are struggling to align rewards with corporate strategy and individual performance management, and so frequently do not get the results they desire from their incentives spend.”

Tom Gosling, partner and head of reward consulting,
PwC UK

⁵ 'Making executive pay work: The psychology of incentives' PwC UK, 2012



“The demographic changes that we see occurring in many of the regions where we operate – shrinking populations, an ageing workforce and diversifying demographics – compounds the challenges we face and intensifies the war for talent.”

Dr Rüdiger Grube Chairman and CEO, Deutsche Bahn AG, Germany. Taken from the PwC 15th Annual CEO Survey





HR rising to the analytics challenge

Human capital is a vital asset for organisations worldwide. Business leaders are looking for growth and human capital makes this possible, but is too often treated as purely an operational cost rather than an investment. While there is no doubt that the economic environment in countries worst affected by the crisis calls for prudence, it is also important that organisations adopt a mindset focused on driving value from their workforce, not just reducing its cost. HR has a vital role to play in this.

HR transformed

In response to this increasing demand for strategic workforce management, there have been extensive changes to the way HR is delivered in many organisations. These include a rapid development in the skills and capability of HR professionals, improvements in HR technology, and a move towards centralised HR delivery models that are structured by specialism.

In the best organisations, the result has been an innovative change in the way HR services are delivered – so much so, that we've seen a rapid improvement in best practice in many areas, including strategic reward modelling, talent management and workforce planning.

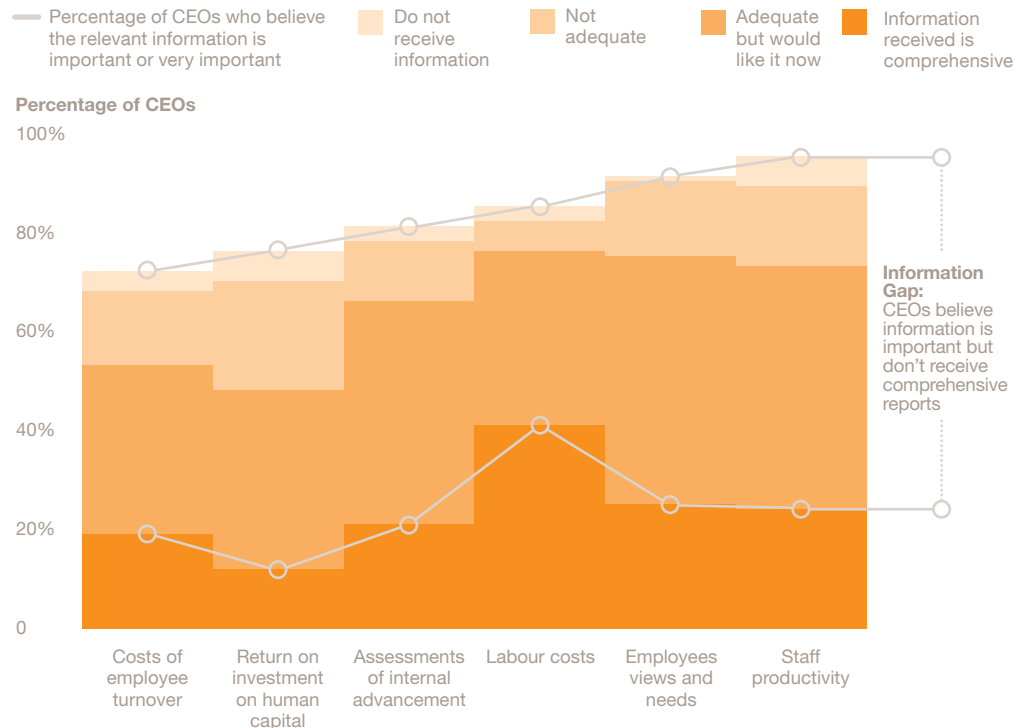
The bar has also been raised in terms of best practice HR measurement and analytics. Improvements in capability and technology have allowed the best organisations to advance measurement practices. Many effective HR management information methods are available and this is a great opportunity for HR functions to show that they can add real value.

HR Transformation: Key Changes to the HR function and management information

	1st Generation	2nd Generation
HR function	<ul style="list-style-type: none"> Review HR delivery model Development of Centres of Excellence Re-engineering HR processes to improve effectiveness 	<ul style="list-style-type: none"> Focused HR strategy execution Global standards for HR delivery Continued HR process excellence Senior executive sponsors for HR interventions
HR management information	<ul style="list-style-type: none"> Implement workforce measures/ balanced scorecards Use benchmarks to track HR effectiveness 	<ul style="list-style-type: none"> ROI analysis of HR function activities Workforce analytics and forecasting Strategic workforce planning Alignment of HRMI across process areas

A minority of CEOs get comprehensive reports on their workforce

Q: When making decisions, how important is it to have information on each of the following talent-related areas? For those areas that are important to you, how adequate is the information you currently receive?



Source: PwC's 15th Annual Global CEO survey, 2012

Unfulfilled potential

In a recent client poll we found that around 75% of organisations have an established approach to people measurement incorporating mainstream techniques such as KPIs, dashboards and benchmarking. However, no more than 5% of organisations have, or are developing, a full analytics capability. This comes at a time when talent issues are back at the top of CEO agendas and they are seeking more insight and impact from HR on workforce analysis.

The current state of human capital analytics



20%: Ad hoc/no formal approach



75%: established measurement programme



<5%: full workforce analytics capability



Predictive analysis

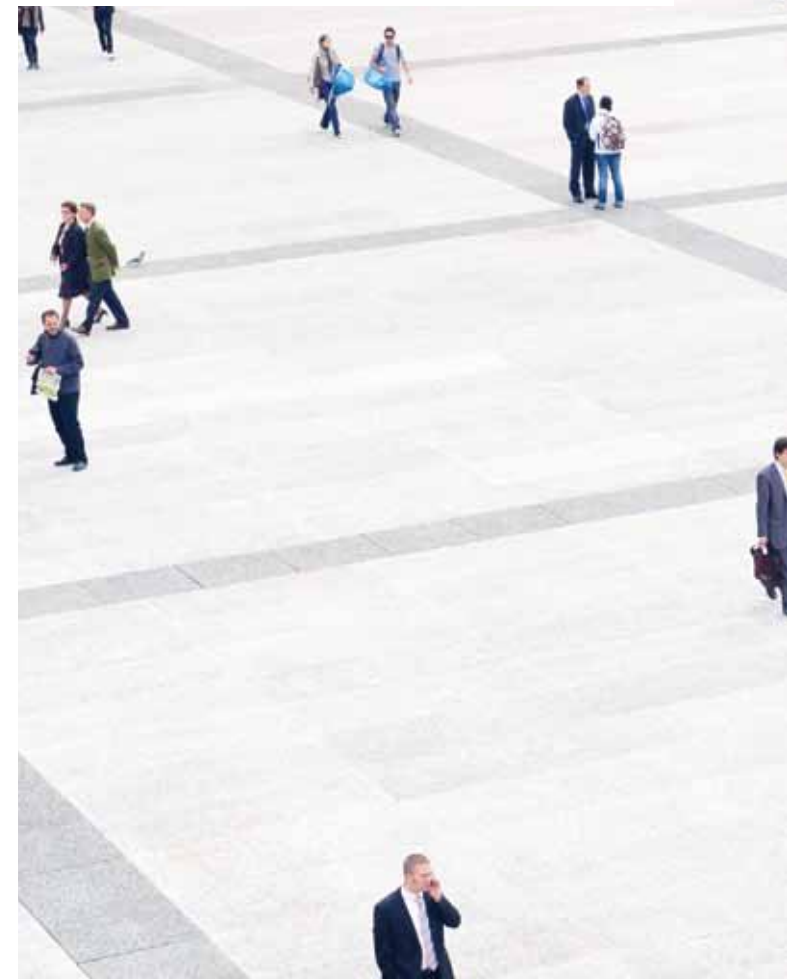
HR is increasingly turning to analytics as a key tool to provide evidence and insight to support decision-making, but even so, still lags behind the use of analytics in other business disciplines such as sales and marketing. If HR is to prove its worth as a strategic function, it needs to go one step further and explore patterns and correlations in the data, to provide the evidence and analysis business leaders need to improve people performance.

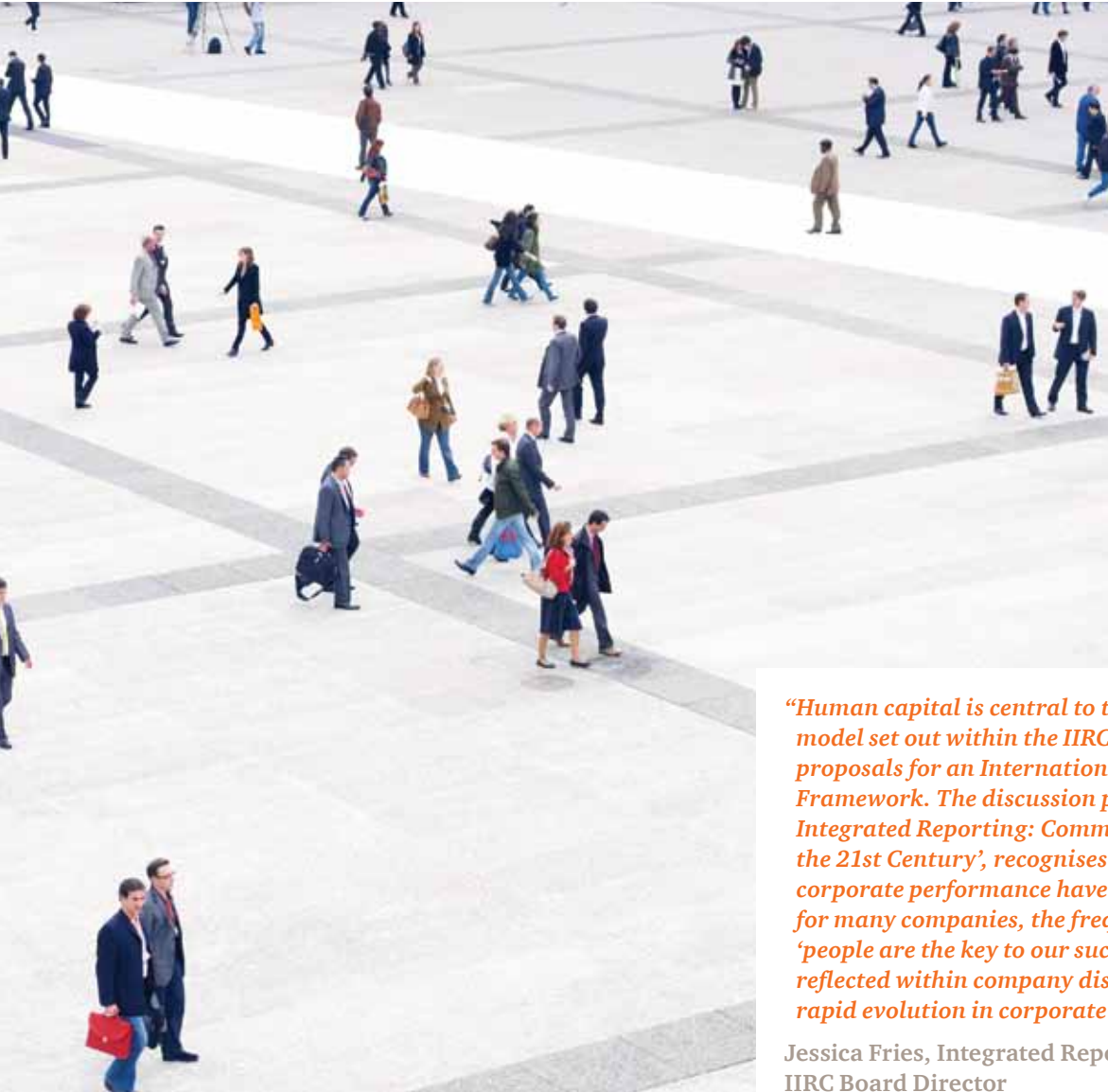
Although predictive analytics in HR is still in its infancy, an increasing number of multinationals, particularly in the financial services, professional services and technology sectors are beginning to build predictive solutions. Organisations that are focused on talent to drive growth are especially keen on developing solutions that predict employee exit risks, or new hire quality. The ultimate aim should be to introduce predictive analysis that drives workforce planning and produces results that are genuinely helpful.

Driving employee engagement is often a key focus of HR strategy. Ultimately, overall productivity levels and financial results can be used as indicators of past engagement levels. However, there is more strategic value in using human capital analytics such as absence and recruitment rates, grievances, resignation rates and productivity indicators to provide insight into the impact of current engagement on future business results. An increasing number are, however, reflecting the need for analytical skills in their hiring decisions for the HR function.

Predictive solutions in workforce management

Hiring	Turnover	Performance	Engagement	Workforce planning
Predict new hire quality	Predict flight risks	Predict performance	Predict impact of engagement drivers	Predict employee demand
Predict success of hiring source	Predict retirement	Predict absenteeism	Predict impact on business performance	Predict supply by role





Human capital reporting in the spotlight

While financial information will always be at the heart of an organisation's reporting, stakeholders now expect information to cover more intangible aspects such as the risks and opportunities that could influence future prospects. Human capital – often the most valuable intangible asset in an organisation as well as the largest controllable cost – is a key piece of this jigsaw.

Human capital disclosures in corporate reports have improved steadily over the past decade, prompted by the greatly increased scrutiny on organisations from shareholders, regulators, governments and other external stakeholders. It's become more common for organisations to provide human capital measures within their main annual report, often supported by strategic analysis of the organisation's workforce management.

This trend is reflected globally, as corporate reporting initiatives such as the EC-sponsored project *Valuing Non-Financial Performance*⁶ and the International Integrated Reporting framework being developed by the International Integrated Reporting Committee⁷ (IIRC), recognise the need for better alignment of human capital and broader business reporting.

Despite the improvements in human capital reporting, it's clear that there is still a lot to be done. PwC's annual award for 'people reporting' in the UK's largest companies,⁸ for instance, showed that only 33% of companies set out a clear link between their people strategy and business strategy, and only 4% referred to the ROI delivered by their workforce. While organisations are better at describing what human capital is, they still struggle to provide disclosures describing why it's essential to achieving business priorities. A detailed description of the actual value of human capital within an organisation is very rare.

“Human capital is central to the corporate reporting model set out within the IIRC’s recently released proposals for an International Integrated Reporting Framework. The discussion paper, ‘Towards Integrated Reporting: Communicating Value in the 21st Century’, recognises that the drivers of corporate performance have changed and that, for many companies, the frequently cited mantra ‘people are the key to our success’ needs to be better reflected within company disclosure. We are seeing a rapid evolution in corporate reporting in response.”

Jessica Fries, Integrated Reporting, PwC UK and IIRC Board Director

⁶ www.investorvalue.org

⁷ www.theiirc.org

⁸ Building Public Trust Awards UK

Addressing talent supply

Four out of five companies surveyed in PwC's Asia-Pacific study do not have dedicated HR resources responsible for talent management strategy

The ongoing talent supply problems faced by organisations in Asia have inevitably occupied a significant amount of HR's time, often at the expense of longer term workforce planning and talent management. Strong growth and rapidly changing economies have meant that workforce strategies in the region tend to be reactive to changes in overall business strategy, rather than proactively driving business outcomes, and HR functions are invariably operational and non-strategic.

The need to effectively plan and implement changes in workforce structure is a key challenge for many organisations as they seek to take advantage of growing Asian markets. For many, this will mean radically reinventing their approach to talent, and a targeted investment in strategic HR processes.

Addressing talent supply



Four out of five companies surveyed in PwC's Asia-Pacific study do not have dedicated HR resources responsible for talent management strategy





“Short-term foresight and slow reaction to people issues are barriers to driving financial performance in the growing Asian markets. We’ve seen a tendency for organisations to use a traditional approach to workforce planning when a more strategic approach is required. This entails annual forecasts of supply and demand; however in this very dynamic region, we need much better transparency and control on a monthly basis.”

Adam Salzer, Director in Consulting, PwC Hong Kong



Priorities for business

Businesses remain ambitious despite the economic environment and CEOs continue to plan for growth. Intelligent workforce planning will be a vital element of any strategy and the organisations that stand out against the competition will be those that are able to harness the newly developed potential of human capital analytics.

There are important messages to remember:

Learn from the best. The talent supply chain should be managed with the same rigour as every other vital resource. The development of predictive analysis in human capital measurement is a strong opportunity for organisations at a time when everyone is working to coax the most out of their people. Best practice is already emerging, and there's much to learn from those that are ahead of the curve.

Focus on productivity. Make sure all your talent management interventions have the right impact on productivity and contribute to creating value. Keep a close eye on the key measures and how your peers are performing. CEOs need help and HR needs to take a lead.

Concentrate on engagement. Employee engagement is clearly a problem, both for the West where low levels of engagement are the legacy of the financial crisis, and in Asia, where job-hopping has become standard practice. Engaged employees are productive employees.

Think carefully about reward. Too many organisations are placing emphasis over performance-based and variable pay, when the evidence is mounting that incentives don't necessarily work. Different sections of the workforce are motivated by different things and non-financial rewards are increasingly valued by employees.

Look out for rookies. The Millennial generation has been hardest hit by the downturn, but time will make them the dominant force in future workforces. Organisations in Asia are already struggling with their propensity to switch jobs frequently – finding ways to persuade young people to stay should be a priority.

Invest in analytics. Organisations have been late to recognise the value of good quality HR management information affecting their ability to be a strategic contributor. HR strategy should reflect a commitment to acquiring the systems and skills to build credible analytics capabilities.

But select your metrics wisely. Technological advances and the growing interest in human capital analytics means that the volume of information has increased exponentially, but not always to great effect. The key to success is intelligent and targeted use of the data available.

In conclusion



Organisations cannot realise their growth potential without the people to make it happen. Businesses that develop a well-informed and proactive approach to strategic workforce planning have an opportunity to gain a crucial competitive edge. Getting talent management right means you can worry less about your talent problems and more about your business opportunities.

Whatever the size or shape of your business, we believe there are four fundamentals to talent management:

1.

Align your business plan and talent strategy – make sure every aspect of your talent strategy directly contributes to your overall business plan and to creating value. Change anything that doesn't.

2.

Face the future – look at where your business is heading, not just where you've been. Keep questioning whether your talent management pipeline will give you what you need when you need it.

3.

Pay attention to pivotal roles – get the right talent into the roles that have a disproportionate ability to create (or destroy) business value.

4.

Focus on the financials – make measurement, benchmarking and predictive analytics part of your plan. Look to your people ROI.

Behind the numbers

PwC Saratoga has developed and applied meaningful metrics to help organisations to maximise their ROI for over 30 years.

Today, we integrate employee attitudinal research and metrics to drive execution action and support clients who are looking to develop and deploy dashboards, employee surveys, predictive solutions, conduct workforce planning initiatives and benchmark the workforce and HR function.

For this study, we integrated findings from our Saratoga teams in the US, Western Europe, AsiaPac, LATAM and CEE, in order to look closely at comparisons between key workforce effectiveness measures, drawing on our global database of over 2,400 organisations.

As part of our approach, we analyse data submitted by client organisations for over 60 metrics. The following selected metrics have been used within this report.

Metrics formulae		
Human capital impact		
Human capital return on investment (HC ROI)	X : 1	$(\text{Profit before tax} + \text{Compensation} + \text{Benefits}) \div (\text{Compensation} + \text{Benefits})$
Revenue per FTE	\$	$\text{Revenue} \div \text{Total FTEs}$
Remuneration/Revenue	%	$(\text{Compensation} + \text{Benefits}) \div \text{Revenue}$
Compensation and benefits		
Variable pay	%	$(\text{Performance related pay} + \text{Attendance-related pay}) \div \text{Compensation}$
Performance-related pay	%	$\text{Performance-related pay} \div \text{Compensation}$
Average remuneration	\$	$(\text{Compensation} + \text{Benefits}) \div \text{Total FTEs}$
Human capital engagement		
Resignation rate	%	$\text{Resignations} \div \text{Headcount}$
Resignation rate < 1 year	%	$\text{Resignations less than 1 year} \div \text{Headcount less than 1 year}$
High performer turnover rate	%	$\text{High performer turnover} \div \text{High performer headcount}$
External recruitment rate	%	$\text{External recruits} \div \text{Headcount}$
Organisation and workforce structure		
Rookie ratio	%	$\text{Headcount less than 2 years of service} \div \text{Headcount}$
Executive stability ratio	%	$\text{Executive Directors less than 3 years service} \div \text{Executive directors}$
FTEs per HR Department FTE	X : 1	$\text{FTEs} \div \text{HR Department FTEs}$

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Acknowledgements

Our thanks go to the contributors from our Saratoga teams across the world, who contributed to writing this report. Particular thanks go to Jonathan Moses (UK), Michael Wood (Australia), Jon Burton (US), Abu Amin (Singapore), Parul Dattani (Research) and Seema Shah (Research).

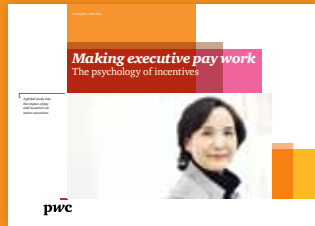
Related PwC publications



Delivering results through talent: The HR challenge in a volatile world, 2012

PwC's 15th Annual Global CEO Survey found that issues around talent are once again top of mind. CEOs are recognising that their current strategies for managing talent no longer fit – 78% of CEOs say they will make a change.

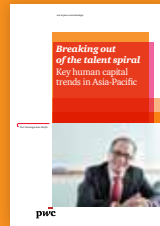
This report takes a closer look at business leaders' talent problems – and at the actions leading businesses are taking.



Making executive pay work: The psychology of incentives, 2012

The debate about executive pay has mostly focused on whether shareholders are getting what they want and if current levels of executive pay are acceptable. If pay were genuinely motivating executives towards higher performance, there would surely be less controversy about the subject. But is it?

Our study in conjunction with the London School of Economics and Political Science, reveals a number of common behavioural traits, which show clearly that executives aren't necessarily motivated the way many employers assume.



Breaking out of the talent spiral 2012

As the Asia-Pacific talent market continues to evolve, companies face challenges in terms of attracting talent, retaining and rewarding employees. These challenges have resulted in many organisations being trapped in a talent spiral of ever-increasing cost, which ultimately impacts bottom lines and shareholder value.

In this report our Asia-Pacific Saratoga team report on key trends in human capital across the region.



Millennials at work: Reshaping the workplace, 2011

This report looks into the mind of new graduates from all over the world, who are entering the workforce for the first time, and how their attitude and expectations have shifted in response to the economic downturn in many parts of the world.

It also looks at the strategies employers could consider to continue attracting and retaining these key talents.



Engaging your pivotal talent, 2011

Companies often focus on retaining star performers or leadership talent, overlooking pivotal roles – jobs that have an outsized ability to create (or destroy) the value customers expect.

In this report we explore how organisations are identifying and engaging their pivotal people and make some suggestions to help proactive organisations stay ahead.



US Human Capital Effectiveness Report, 2012

As the US economy slowly recovers, key challenges are emerging for HR. Hiring is trending upward, but productivity is declining. The employment uptick has brought higher voluntary turnover rates, but not for new hires. Organisations that understand and adapt to this seemingly contradictory environment will gain the most from their investment in the workforce.

This report looks at data from more than 300 US organisations and offers observations to help business leaders understand the dynamics of the US labour market today.

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