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Human capital news from PricewaterhouseCoopers' Saratoga

Issue 7: Spring 2010

Saratoga is the human capital measurement and benchmarking arm of PricewaterhouseCoopers. We work with organisations to help quantify the business impact of their people.

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## Are you in touch with the human capital dimension?

Understanding what makes people tick is always interesting, Thomas Scheiwiller and Richard Phelps argue that it has become an essential tool to inform business decision-making and reporting.

'Our organisation revolves around people'. Pick up just about any item of corporate communications and you will find this or similar statements. Yet clear performance indicators that clearly link to a company's strategy and key risks is often missing from those same communications.

For many companies the human capital dimension is still covered off by an annual thank you to employees for their contribution and a note of employee numbers and remuneration costs, with employee turnover and absences occasionally making an appearance. And yet, human capital costs often amount to more than 40% of a company's total costs.

Growing numbers of companies are recognising that the main driver of their value is people – customers, employees and other stakeholders – and that financial performance is merely the product of the value these people generate. However, it is still relatively rare for companies to even attempt to align sparse employment information with the goals, strategies, and business results of the company.

### Reporting environment

The new reporting environment that has emerged in the last few years has created an expectation, and in many countries, requirements for greater transparency around this kind of non-financial information. This has created a stronger need than ever for comprehensive and well-argued human capital data to be available to external stakeholders (including investors, employees, suppliers and customers), as well as management teams and company boards.

To sustain success and compete in the market place, it is becoming strategically important for companies not only to understand the motivation, behaviours and engagement levels of their employees and customers, but also to be able to manage these and take appropriate action in response. Companies that want to stay ahead are not only finding ways of capturing data around relevant indicators, but also measuring how important these indicators are for the organisation and for the individual.

### Tapping in to motivations

Empirical research, for example by the ISG institute in Switzerland, shows that people's behaviour is guided to a large extent by complex factors such as values and ideals, motivations and attitudes that are tied up with motivational psychology. New methods of measuring and assessing individual preferences need to show where preferences lie and analyse the extent to which the organisation takes into account these preferences within its business planning.

Clearly, those organisations that systematically enter into dialogue with their stakeholders and find out what drives their decisions will be ahead of the game. Companies whose customers are very cost-driven, for example, might not need to spend too much energy and resource on highly innovative solutions when cost cutting will be a more successful motivator. Conversely, the loyalty of customers who are very focused on quality is not likely to be much improved by price reductions. Similarly, employee motivations will vary – some may want to earn as much money as possible while others are more motivated by the work content itself or by the feeling of being part of a team.

### Powerful insight and communication

With the appropriate methodology, different types of employee and customer preferences can be viewed in relation to each other and correlations made between these and the organisation's key performance indicators (both financial and non-financial). This can be a very practical tool for management teams that opens up new perspectives and enables them to comprehensively analyse their company's value drivers and use this insight to inform their strategic decisions. Much of the information gathered will also be of interest beyond the management team – such as to the board and investors – and can therefore be used to really differentiate and add value to external reporting of all kinds.

We expect this kind of internal and external reporting on key stakeholder issues to be a long-term business trend that will create a competitive advantage for those who do it well.

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## Are you in touch with the human capital dimension? cont'd

### Important role for HR

Human resource executives clearly have an important role in providing relevant human capital information for their boards, investors and other stakeholders to demonstrate the value people bring to the business and its ongoing sustainability.

By measuring on a regular basis the human capital changes occurring through a selected number of relevant quantitative and qualitative metrics, organisations are able to track the pace of their improvements, identify emerging issues and benchmark their position against the competition.

HR executives need to demonstrate a clear link between business objectives and human capital strategy and to reassure shareholders that investment in people is geared to a practical and realistic assessment of business risk and value creation.

It is critical that human capital measurement is accepted by the organisation as an essential activity that requires resource and management. We have found that clear definitions and governance help ensure that human capital measurement is built into the fabric of normal business reporting.

Richard Phelps is the global human resource management leader at PwC and Thomas Scheiwiller is the managing partner of governance and risk at PwC in Switzerland.

### The human capital checklist

How HR executives can start to highlight where major action may need to be taken to meet the expectations of company boards and shareholders.

1. What are the priority business challenges facing your company in the next two years?
2. What human capital actions are needed to make the most of the opportunities required to guarantee business success?
3. How will you make these actions happen?
4. What are your KPIs and how are these related to the business challenges?
5. What data is needed by executives to measure human capital performance?
6. Are you fully informed and/or involved in your company's regulatory reporting?
7. What human capital information will be most useful to your shareholders and in what format?
8. What information gaps exist and how do you intend to fill them?
9. Are the information systems advanced and flexible enough to respond to all recognised demands?
10. Are you satisfied the information you produce is robust and can withstand scrutiny?
11. Are you conversant with key human capital trends that may be raised by shareholders?
12. Is there a direct link between what the HR function does and what the business wants it to do?

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## Organisations failing to think about sustainability risk losing talent and competitive advantage, not in the future, but now

There are many well known reasons to invest in sustainability, from meeting customer expectations, to ensuring your organisation has future access to essential manufacturing resources, such as clean water and raw materials. But what about sustainability from an employee perspective?

People are increasingly concerned about sustainability. In fact, a recent survey by PwC revealed that 86% of young employees would consider leaving an employer whose corporate responsibility behaviour no longer meets their expectations. This might appear to be the view of an idealistic group, but it certainly highlights a trend.

It's clear that employees are increasingly expecting more from employers when it comes to sustainability. Organisations that recognise the trend have an opportunity to integrate their sustainability programmes with their employees for mutual benefit. So what part do your people play in sustainability and how can sustainability be used as a tool to lift engagement?

In the past, the popular ways to work towards sustainability has included introducing policies, adjusting supply chains and funding new sustainability linked plant and equipment – often at great cost. But without an impetus on changing the behaviour of employees towards sustainability, this can look like little more

than green wash – to both customers and employees. At the same time, these initiatives are not likely to lift engagement because there is little personal involvement by employees in the company's decisions and activities.

Real change is achieved when there is encouragement from leadership and when it becomes second nature for employees to consider the long term impact of their decisions – from supply chain buying decisions that positively impact on a foreign community to taking personal responsibility for reducing workstation energy usage.

There are many advantages to this change:

- Scale of change often results in significant costs savings.
- There are tax advantages to be had for both the employee and the organisation across a range of initiatives.
- Employees feel that they and their company are operating sustainably.

This final point has the greatest chance of transforming a company. Employees that believe in their company and have the opportunity to be personally involved in uplifting programmes are more likely to be engaged in their work. And we know the advantages of engaged employees: loyalty, retention of skills, reduced recruitment costs, an improved employer brand, innovation and productivity – which all drive greater profitability.

### The PwC approach

PwC's approach to people and sustainability is multifaceted. We not only consult on the supply chain and other resource decisions typically expected of a sustainability consultancy, but we also consider the employee side. We advise on the role an organisation's leadership has in encouraging sustainable behaviours and the HR tools at the disposal of the organisation, such as communication, altered work practices, employee volunteering programmes and reward systems.

Engaging all employees to make positive change isn't easy. Our experience involves understanding the needs of various members of the employee group – from young graduates, who will only work with an organisation whose sustainability ideals meet their own, through to the cynics who see sustainability initiatives as green wash – more for image than substance.

We often encounter companies that have unconsciously implemented positive sustainability change. Our consultants can help to assess what has already been implemented to see how employees could help improve initiatives as well as highlighting to the employee community the organisation's overall investment in sustainability.

Only then do we assess what more a company can do to meet sustainability objectives, engage staff and often, save money.

To find out more, please [click here](#).

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## UK CEO's confidence remains shaky, however there is ground for optimism with a recruitment boost planned for 2010

With 63% of UK CEOs believing recovery in the economy will occur in 2010, there are signs for cautious optimism according to the PricewaterhouseCoopers 13th annual Global CEO survey launched at the World Economic Forum in Davos.

This rising confidence appears to have been translated into a boost in employment with 42% of UK business leaders planning to increase their headcount in the next 12 months. This response, combined with recent ONS unemployment figures showing a slight improvement, suggests the UK job market outlook is more positive than it has been for sometime.

UK business leaders are proving more upbeat than their European counterparts when it comes to recruitment. In the Netherlands, only 34% of CEOs expect to increase headcount, followed by France (30%), Italy (29%), Germany (27%) and Spain (9%) but while the UK is leading the European pack, further afield Brazil (61%), India (59%) and China (53%) are showing an even quicker return to bolstering their workforces.

Despite the positive outlook for employment, three quarters of UK CEOs expect consumers will spend less and save more and, as a consequence, 63% plan to make some change to their business and a further 13% plan to make a significant change as they manage the impact of shifting consumer behaviour.

Since last year, a more positive outlook has emerged for the mergers and acquisitions market with 14% of business leaders compared with 7% in 2009 now saying it is a route to growing their business, although this is somewhat behind pre-recession levels.

Business growth looks set to remain home grown as only 14% of UK CEOs in 2010 see new geographic markets as an opportunity to grow their business, compared with 22% in 2009 and 28% in 2008.

Ian Powell, UK Chairman and Senior Partner, commented:

“It is encouraging to see that UK CEOs are beginning, if somewhat cautiously, to prepare for an upturn. Growth expectations have been severely impacted by the challenges of the financial and economic crisis and the fears of a protracted recession are beginning to recede.

“However, there remain significant variances in UK business leaders’ short-term and long-term outlooks, perhaps as a result of concerns about how UK public debt levels are reduced. Across the world outlook is even more divided geographically with emerging economies showing much stronger signs of confidence than CEOs in the developed territories.

“The upturn in employment prospects will be widely welcomed but this news must be tempered given that the bounce back may be a response to employment cuts made in the UK over the last 12 months.”

“The fact CEOs are less likely to seek out new geographic markets is a significant concern, given the risk it places on UK competitiveness. Seeking out business growth opportunities from overseas is vital to future recovery,” Ian Powell warns.

‘Despite the positive outlook for employment, three quarters of UK CEOs expect consumers will spend less and save more ...’

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### Key report findings:

- A quarter of UK CEOs are very confident about revenue growth in the next 12 months – an increase of 10% on the previous year. This compares with 91% of CEOs who are more confident about prospects over the next three years.
- This year 46% of UK CEOs are very confident compared to 29% in 2009. 91% are very/somewhat confident compared to 88% in 2009.
- 63% of UK business leaders believe recovery in the economy will occur in 2010.
- While 50% of UK CEOs believe recovery in their industry will occur in 2010, 26% do not expect to see their sector recover until 2011
- Better penetration of existing markets is seen as the main opportunity for business growth in the next 12 months.
- The top three threats in the UK are exchange rate volatility, over-regulation and macroeconomic imbalances.
- 59% of UK CEOs think that compliance and reporting to meet capital market requirements will become more difficult. Access to capital from alternative investors and through equity markets are less of a worry.
- 74% of UK CEOs in the UK are planning to implement a cost reduction initiative in the coming 12 months.
- 42% of UK CEOs are planning to increase headcount, 30% of UK CEOs will keep headcount the same, 28% of UK CEOs will reduce headcount.

To download a copy of our new CEO survey please [click here](#).



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## Building the leadership of the future

[Does your organisation understand where its future leadership is coming from and are there processes in place to build and sustain future leadership capabilities?](#)

Our experience shows leading companies are focused on identifying and building the leadership capabilities for the future and using succession planning processes to create a pipeline of future leaders. Those organisations who do not have a robust succession planning process run the risk of not having a sustainable pipeline of leaders to take the organisation into the future, potentially hindering their ability to execute on the business objectives.

A common starting point has been for organisations to identify their key leadership positions and shortlist relevant successors who may be ready now or at some point in the future for progression. Accordingly, metrics such as 'key positions covered' (%) and 'succession pipeline depth' (X:1) help quantify the level to which each key position has at least one identified successor and the related volume of coverage.

Research by PwC Saratoga into talent and succession practices, however, across large FTSE 100 and multinational companies, raises questions over the quality of the succession pipeline and effectiveness of the process. Based on survey data, organisations at

the upper quartile report greater than two successors identified for each key position. However, when vacancies arose only an average of 40% were filled by successors. These findings indicate when it came to the crunch in greater than 50% of cases key positions were filled by an internal candidate not on a succession list or through external sources.

Maintaining the right balance between internal versus external hires into senior leadership roles is also an area being increasingly questioned. Evidence shows, on average, a ratio of 3:1 between internal versus external hires. However, the appropriate ratio will depend on the organisational context and direction and the level of desire to bring new leadership styles and innovation into the company.

When viewed alongside demographic trends (e.g. the growing proportion of retirements pending for senior leaders) and the increasingly fluctuating market environments there is no doubt that companies who have their finger on the pulse in this area are creating a competitive edge for moving their organisations into the future.



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## Transformed your HR model, now what?

### What challenges are your organisations facing?

In February 2010, PricewaterhouseCoopers hosted an event focussed on HR transformation. At the event we reviewed the challenges that organisations face when transforming the HR function, why the initial attempts at change may not have delivered the desired results and how leading HR functions are raising their game to improve efficiently.

Our main speaker, the vice president Global HR Services at AstraZeneca shared her reflections on their HR journey and how they leveraged the power of their HR people, effective processes and technology, to take operational efficiency to the next level.

There was also a panel of experts, which included the Global HR head for Rolls Royce, the HR director of PwC and PwC partner and HR transformation specialist, Matilda Venter. The panel discussed the issues around transformation and the various aspects required to successfully implementing the transformation of HR.

The seminar highlighted that there were various differences between different companies, depending on the business needs. However underlying all transformations is a focus on driving business performance.

The panel agreed that the purpose of HR is to deliver value to the business through its people. The process has to start from the business strategy to ensure that the value is delivered to customers and shareholders.

The role of HR business partners was also at the heart of the discussion. The big challenge around the role is how you can make an individual with an HR focused skill set into a strategic adviser. The role of business partners is key when implementing a transformation project. They have to be responsive to changes and be in a position to have a dialogue with the rest of the business informing the changes that are taking place.

The panel discussed the need for a process to identify appropriate business partners through assessment. They all agreed that people should not be placed into roles that they cannot fulfil. In some cases, 50% of the population will not be able to meet the requirements of the role.

Another main part of any HR transformation project is outsourcing. It was acknowledged that outsourcing has its risks and each organisation needs to understand the full rationale behind any outsourcing decision.

Some of the benefits that organisations have identified when implementing a transformation project were primarily cost saving and business sustainability. Wrapping up the session, Richard Phelps, as moderator, reiterated the need for HR to focus on the business as much as the process in order to achieve success.



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In March 2010, PwC held an event in Mumbai to mark the launch of the Saratoga service further into Asia Pacific

Following increasing demand for human capital measures and benchmarking data in India, the Middle East and Asia Pacific, PwC has broadened its services in the East.

This recent expansion has significantly increased PwC Saratoga's global footprint with Saratoga specialists now in over 40 countries across the globe.

Our expansion reflects the increased importance international organisations have placed on the ability to access local data in all major markets. As traditional Eastern and Western business models merge, it's becoming more common for organisations to embed performance metrics into their organisation's DNA.

The launch event for PwC's Saratoga service in India, attended by over 100 client organisations, demonstrates our commitment to developing our database and capabilities in this region and will enable local companies, alongside multinationals with operations in

India, the Middle East and the Asia Pacific more broadly, to access PwC measurement and benchmarking expertise and data.

The inaugural *Indian Human Capital Effectiveness survey* will be launched in April 2010. If you would like further information on how to participate and the benefits of taking part, please contact us on +44 (0) 207 213 1313 or [enquiries@saratoga.pwc.com](mailto:enquiries@saratoga.pwc.com)



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## Forthcoming events

### HRS international conference

19 - 21 May 2010, Noordwijk aan Zee, The Netherlands

#### Coming out of the crisis: Rethinking and reshaping HR for the 'new normal'

The global economic downturn has forced companies to make important and difficult choices about how to manage and motivate their people. Dramatic headcount reduction across the world and widespread cost cutting have dominated the boardroom agenda over the last 12 months.

HR has played a vital role in helping business leaders get through these challenging times. But as companies begin to emerge from the crisis, key questions are being asked:

- Is our reward model broken?
- Have we got the right talent deployed in the right places to stay ahead of the competition?

- Do our people have the right skills and flexibility to operate in the emerging environment?
- What are the long term effects of our people cost cutting actions?
- How can our HR operation deliver what the business needs in the decade ahead?

Our fourth annual European based conference will address these challenges and examine how HR must evolve from supporting short-term business survival to developing a new sustainable, agile people management strategy. We will focus on what the emerging environment or 'new normal' means for reward, pensions, talent management and international mobility.

The conference will feature a diverse range of keynote speakers and will be supported by a comprehensive workshop programme.

To register your interest in attending, please send an email to:

[HRS.conference.info@uk.pwc.com](mailto:HRS.conference.info@uk.pwc.com)

### HR Shared Services network

20-21 April, PwC London Embankment Place

This is the first of three meetings in 2010 aimed at HR professionals who are playing a role in HR shared service implementation or delivery. The network is a membership based group which currently consists of representatives from a range of HR shared service operations across the UK.

For further network and April event information, please contact Alexander Moir on +44 (0) 207 212 3942 or [alexander.j.moir@uk.pwc.com](mailto:alexander.j.moir@uk.pwc.com).

### Have your say

Tell us about your current human capital challenges or innovative solutions you have implemented, and we'll answer a selection of reader questions in future editions – email us at [enquiries@saratoga.pwc.com](mailto:enquiries@saratoga.pwc.com)

### Find out more

Saratoga US website and newsletter: [click here](#)

Monks website – the reward benchmarking business of PricewaterhouseCoopers: [click here](#)

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