

Human Resource Services

Saratoga:
2008 - 2009 European
Human Capital
Effectiveness Report

Saratoga

Saratoga is the human capital measurement and benchmarking arm of PricewaterhouseCoopers (PwC). Using a proven methodology developed over some 25 years across the world, Saratoga's consulting services produce an executive appraisal of the strengths and limitations of an organisation's human capital (workforce), enabling a focus upon those issues that will have a major impact on improving performance and increasing competitive advantage.

We offer a range of quantitative and qualitative tools which help organisations to identify the strategic impact of their people and business functions, and to benchmark themselves against peers in the marketplace. Our evidence based consulting services help to identify areas of risk or potential for efficiency gains, and to evidence best practice and innovation.

Only 20% of CEOs say they have comprehensive benchmark information on the performance of industry peers.

84% of CEOs say that this information is critical or important to their long-term strategies.

PricewaterhouseCoopers
12th Annual Global CEO Survey

PricewaterhouseCoopers Saratoga established the *European Human Capital Effectiveness Report* in 1994. It provides a portfolio of clearly defined quantitative workforce performance metrics together with comprehensive European benchmark data.

The report offers objective data to help organisations evaluate workforce performance and optimise their return on investment in human capital.

The report is broken up into sections, each addressing key workforce and HR function themes:

- **human capital impact**
financial impact, productivity and ROI of the workforce;
- **human capital engagement**
absence and turnover, recruitment, learning and development, compensation and benefits;
- **human resource function**
size and cost of the function, use of outsourcing, HR roles and remuneration; and
- **workforce structure**
diversity, percentages of management and professionals as a proportion of the workforce.

The human capital impact metrics contains the latest available financial data for over 16,500 organisations. The human capital engagement, HR function and workforce structure data was provided by 700 client organisations as part of annual data submissions from 2007 to autumn 2008.

Industry sector	%
Banking	9.6
Other finance	4.0
Insurance	4.2
Comms/media	8.6
Technology	16.2
Pharma	4.0
Chemicals	2.9
Eng/mfg	23.5
Utilities	5.2
Retail & leisure	9.4
Services	9.4
Public sector	2.9

Revenue size (£m)	%
0-50	24.0
51-100	11.1
101-200	9.2
201-500	13.8
501-1,000	6.5
1,001-2,000	9.7
2,001-5,000	13.1
5,001+	12.6

Revenue growth	%
Negative	14.4
Low (<5%)	16.6
Med (5-20%)	48.3
High (>20%)	20.7

FTE sizeband	UK %	CEE %	Western Europe %
1-500	13.6	32.4	7.3
501-1,000	10.6	16.2	2.4
1,001-2,000	7.6	22.0	24.4
2,001-5,000	19.2	16.6	24.4
5,001-10,000	14.1	5.1	9.8
10,001-25,000	19.2	5.7	17.1
25,001-50,000	9.1	1.4	4.9
50,001+	6.6	0.7	9.8
Total	100.0	100.0	100.0

Fig 1: European Report demographics – where report data is sourced.

Key trends

Following is a presentation of a number of key themes found in the 2009 report:

Human capital impact

Small to medium size enterprise (SME) revenues are the first to show negative trends as the downturn begins to be reflected in the data reported.

Revenue per FTE performance in European organisations has continued a long-term increasing trend to a median of £121,225. This represents a 7.7% increase from last year, with strong growth in retail and leisure, and strong growth across insurance, communications and media. Small organisations with up to 500 employees achieve levels of revenue per FTE that equals and often exceeds that of larger organisations, but they also appear to be the first demographic to show declining revenue performance.

Profitability shows a marked decrease across European organisations.

The proportion of profitable organisations in Europe has fallen from around 90% in last year's report to 80% this year. Banking and financial services (excluding insurance) show a falling profit per FTE result. The increase in profitability in 2008 compared to 2007 within Western European organisations has been less than half of that visible within the Central and Eastern European organisations.

Increase in focus on productivity and managing costs across European organisations.

The human capital return on investment metric (a reflection of how well organisations are managing increases in revenues in conjunction with investment in people and control over non-employee costs) continues to show an increase at the median. This is consistent with the longer-term trend we have tracked indicating that organisations are steadily realising greater returns on their workforce investment.

Human capital engagement

Organisations' investment in their people shows a decreasing trend.

The Western European external recruitment rate has continued its downward trend, from 11.9% in 2004/2005, 10.8% in 2005/2006, to 9.6% in 2006/2007. Furthermore, the European median level of formal training hours per FTE has decreased by 12% from last year.

PwC's CEO survey results indicate that 75% of CEOs believe they face a limited supply of candidates with the right skills (for their business) – this is likely to be further exacerbated by headcount reductions and reductions in training and recruitment expenditure shown in our report.

The PwC US report shows decreasing offer acceptance rates across industries, with increases in first year turnover. This data, coupled with stable HR spending, indicates that the 'war for talent' continues to challenge many organisations but is not necessarily reflected by their investment in HR.

Last year's trend analysis showed initial evidence that organisations were also beginning to better manage their remuneration levels under commercial cost pressures (reflected by our remuneration as percentage of total costs metric results). The latest results continue to reflect this trend, with a fall in this metric at the European median, in part the beginning of a period of headcount restructuring.

Key trends

Human capital engagement

Public sector profile results continue to 'buck' private sector trend.

The public sector reports the highest level of offer acceptance rates in this year's report, which may reflect the appeal of perceived increase in job security and stability as the market becomes more unstable. This is further reflected by a consistently low range of results for dismissals.

However, absenteeism remains higher than in the private sector, with absence rates on an average being more than 2% higher across public sector organisations compared to all European organisations. Some parts of the public sector also report a high level of investment in training as a percentage of compensation.

Effective performance management remains a challenge.

The proportion of compensation paid as performance-related pay has fallen for the first time in a number of years. Employee terminations continue to increase for the third successive year with an overall increase in both involuntary terminations as well as resignations. Western Europe shows an increase in involuntary terminations as the downturn begins to impact organisations.

However, the true indicator of exits driven by performance issues (dismissal rate) continues to remain low. Around 25% of organisations report that they remove less than one employee per 1,000 through performance management.

Human resource function

HR function stabilises following transformation efforts.

The ratio of organisation FTEs per HR department FTE shows little change from the previous year, indicating a flat trend which is perhaps reflected by organisations that have undertaken initial programmes to transform the function and now look to embed the new operating models. Across Europe, the HR costs as a proportion of total costs continues to decrease. This flat trend is also visible in the US data.

Using the report

Through the application of robust, relevant measurement information linked to business strategy, organisations can develop and augment the degree of insight provided to their key stakeholders. Employee productivity, people related costs and functional efficiency can all be analysed, benchmarked against the external market and reported with accuracy and confidence using Saratoga metrics.

Accessing the report

The *European Human Capital Effectiveness Report* represents a valuable source of summary human capital and HR reference information and research. The report includes:

- introductions to each chapter;
- commentary on the latest market trends and metric relationships;
- introduction to key metrics and how to use and interpret them;
- reference definitions facilitating self service benchmarking, which may form part of local management information reporting, balanced scorecards and ad-hoc business/HR requests for data;
- presentation of benchmark data for over 50 metrics;
- analysis by key performance drivers; industry sector, workforce size, country/region, revenue size, revenue growth; and
- linkages between metrics allowing balanced 'portfolio' understanding of your organisation's profile and comparative performance.

Access is provided via online subscription, normally over a 12 month period, and includes a conference call with our specialists to introduce the content and advise on usage. All report content is downloadable in PDF format.

A helpdesk facility via telephone and e-mail provides access to our specialists throughout the subscription period.

The PwC *US Human Capital Effectiveness Report* is also available to clients via separate subscription.

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