

# *Measuring human capital Driving business results*

India Human Capital Effectiveness Survey – 2010

27 March 2011

**pwc**

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# Background & Context

## *PwC Saratoga*

The *measurement, benchmarking and strategic application* of human capital and business function information and advice.

Bringing objectivity and business alignment to human capital activities.



## *About Saratoga*

Using a proven methodology developed over some 25 years across the world, Saratoga benchmarking and measurement services produce an executive appraisal of the strengths and limitations of an organization's human capital resource, enabling organizations to focus upon those issues that will have a

major impact on improving performance and increasing competitive advantage. By combining metrics with the PwC client experience of best practice, Saratoga benchmarks and measures are used to provide a valuable insight into the key drivers of HR functional effectiveness and human capital performance.

## Origins of PwC Saratoga

- 1979: Saratoga Institute founded in the US by Dr. Jac Fitz-enz
- 1995: Launch of the European affiliate, Saratoga (Europe)
- 2003: Spring – PwC in the US acquired Saratoga Institute
- 2003: November – PwC LLP acquired the European affiliate
- 2010: Saratoga India launched (practitioners now operate in approx. 44 countries)

*The PwC global vision: 'Evidence-based decisions'*

## Global benchmark coverage

1. We hold one of the world's largest, most robust databases of people and HR performance metrics in existence with information from over 1,500 international organisations. We also hold Human Capital Impact metrics data for over 16,000 organisations.
2. The database is split across the core regions as follows:
  - *Western Europe - 46%*
  - *Asia Pacific, Africa & CEE - 27%*
  - *Americas - 27%*

*Data is collected on a global, country and business unit level.*

3. The data covers the following key sectors: Banking, Insurance, Communications/Media, Technology, Pharmaceuticals, Chemicals, Engineering/ Manufacturing, Utilities, Retail & Leisure, Services & Public Sector.

## *Our proposition - How does Saratoga help?*

*Saratoga is PwC's human capital measurement and benchmarking business – the most extensive database of HR metrics available.*

*Our aim is to assist organisations in evaluating their human capital and its contribution to bottom-line profitability.*

*We offer a range of quantitative and qualitative tools which help organisations to identify the strategic impact of their people, as well as to benchmark themselves against peers in the marketplace in order to identify areas of risk or efficiency, and to evidence best practice and innovation.*

*This enables HR leaders to gain a clearer understanding of the effectiveness of their function, and of the HR programmes that they implement.*

*This also enables HR to demonstrate the impact that they are having on the business' success, and to ensure and evidence the alignment of HR activities to business strategy.*



Issue/Event	Cost reduction	Business growth & expansion	New CFO/FD/HRD	HR transformation	Planning or implementing an HR shared service	Improving HC/HR management information	Deals: pre-M&A due diligence and post-deal integration
Stakeholder	CFO/FD	Board/C-Suite	CFO/FD	HRD	FD/HRD/Ops	HRD	Board/C-Suite/HRD
Proposition	<ul style="list-style-type: none"> <li>Quantify and benchmark both people cost drivers and HR functional cost alignment</li> <li>Identify opportunities and make evidence-based decisions regarding strategic cost reductions and workforce alignment</li> </ul>	<ul style="list-style-type: none"> <li>Identify current state of workforce performance, productivity and impact on the bottom-line</li> <li>Benchmark performance against your competition</li> <li>Access ROI methodologies for investments in new initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Develop a fresh baseline of your organisation or function</li> <li>Quantify and benchmark HR functional performance (including shared services) and human capital costs</li> </ul>	<ul style="list-style-type: none"> <li>Provides a measurement of the current state HR function and benchmarks against peers</li> <li>Align HR processes to internationally used Saratoga definitions and methodology</li> <li>Identify opportunities for improved process efficiency and service delivery</li> <li>Understand the contribution of HR business partners</li> </ul>	<ul style="list-style-type: none"> <li>Understand the cost of HRSS operations</li> <li>Align HR processes to Saratoga definitions and methodology</li> <li>Benchmark HRSS against peers to understand best practice in performance and service delivery</li> <li>Understand performance of outsource providers / SLA relative to benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>Largest people metrics database (HC Impact, Engagement, HR, HRSS, Talent Management)</li> <li>Measurement framework design linked to business/HR strategic goals</li> <li>Deep expertise in data governance and definitions</li> <li>Masterclass and workshop support to improve HR specialist skills</li> </ul>	<ul style="list-style-type: none"> <li>Pre-deal: Input to due diligence to identify target cost saving, financial targets, workforce rightsizing etc.</li> <li>Post-deal integration: Using HC and HR measurement impact to make evidence-based decisions with regards to workforces integration size and cost, target HR operating model, HR process design, reward system, employee relations and communications</li> </ul>

## *Saratoga offers measurement & benchmarking in three areas*

### *Human capital: Measuring the Impact of your workforce*

#### *Current performance*

Includes measures in the following categories:

- Human capital ROI
- Financial productivity
- Remuneration
- Turnover
- Organisational structure
- HR function performance

#### *Future*

Includes measures in the following categories:

- Bringing in the right people
- Developing your people
- Losing your people
- Involving / motivating your people

### *Support Function effectiveness: Measuring the impact of Support Functions*

#### *Measuring the efficiency and effectiveness of Support Functions*

Includes measures in the following categories

- Delivery model
- Activity analysis
- Functional capability
- Including:
  - Voice of the customer surveys
  - Structured interview

### *Advanced measurement*

#### *Additional areas of measurement and consultancy*

- Talent management
- Shared Services
- Leadership
- Innovation
- Sustainability
- Diversity

# Human Capital Effectiveness Survey - 2010

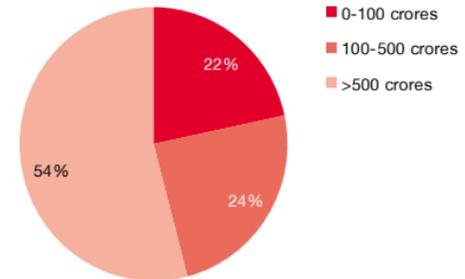
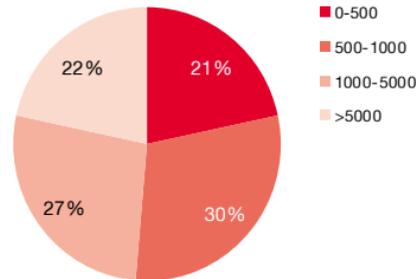
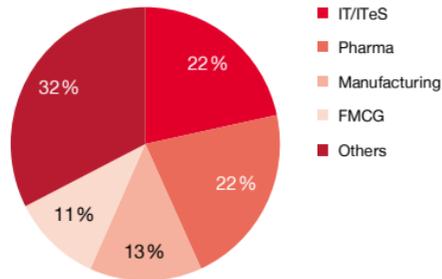
## India Human Capital Effectiveness Survey 2010

PwC Saratoga India team conducted human capital effectiveness survey 2010 for Indian companies. The intent of the survey was to help Indian companies to develop an understanding of their

human capital contributions to business performance.

37 companies participated in the survey from across sectors.

Saratoga human capital effectiveness report provides detailed human capital performance metrics and benchmarks to allow companies to compare themselves with peers by industry, revenue size and employee size.



## Structure of the HCE report

The 2010 Indian human capital effectiveness report comprises of the following sections, each dealing with a separate area of measurement:

01 Human Capital Impact			
Sub section	Description	Key Metrics	Usage & application
Financial impact	The effect of human capital activities on financial results	Revenue per FTE, Cost per FTE & Profit per FTE.	<ul style="list-style-type: none"> <li>Define productivity standards</li> <li>Determine resource requirement/resource allocation</li> <li>Determine effectiveness of various human capital intervention</li> <li>Identify future focus area (in terms of cost/revenue per employee) to drive HCROI</li> </ul>
Productivity & ROI	The contribution of human capital investment to financial performance	Remuneration/Revenue, Average remuneration, HCROI.	
02 Human Capital Engagement			
Sub section	Description	Key Metrics	Usage & application
Resourcing	Replacing and growing knowledge & skill capabilities	External recruitment rate, External replacement rate, Offer acceptance rate.	Organizations can use the insights drawn from this section of the report to identify specific areas of human capital engagement, (impacting productivity and financial results), for requisite improvement. Further, organizations can design focused interventions around these areas. (like low L&D Investments, low performance related pay, high replacement rate, high attrition etc).
Compensation & benefits	The level & structure of remuneration payments.	Average benefits, PRP, Attendance related pay.	
Learning & development	Provision of learning & development opportunities.	FTE per L&D function FTE, L&D hours per FTE, L&D Investments.	
Turnover	Knowledge & skills departing from the organization.	Termination rate, Resignation rate, Resignation profile by tenure.	

03 HR function			
Sub section	Description	Key Metrics	Usage & application
HR function	The cost & structure of HR & HR process delivery.	FTE per HR dept. FTE, HR Dept. cost per FTE, Process cost per FTE.	Organizations can use the insights drawn from this section to evaluate the effectiveness of HR function (by correlating metrics in this section with human capital engagement metrics) and can restructure the resource allocation, time and budget across various HR processes.
04 Organization & workforce structure			
Sub section	Description	Key Metrics	Usage & application
Workforce structure	Measure of workforce & organization structure including diversity.	Span of control, Management & Professional %, Workforce diversity.	Organizations can use this section to benchmark the level of employee empowerment, nature of workforce and its impact on (in terms of workforce segments, employee tenure and gender diversity etc) various human capital engagement metrics.

# Key Findings

## **Financial Impact:**

- Revenue per FTE
- Cost per FTE
- Profit per FTE

## **Productivity & ROI:**

- Remuneration / Revenues
- Remuneration / Total Costs
- Human Capital Return on Investment (HCROI)

- Eng/Mfg sector generates the most revenues and profits per employee, followed by FMCG and Pharma sector. All participant organisations within IT/ITeS and Pharma sectors have similar profit margins per employee.
- Organizations with higher revenue base incur higher cost per employee (1.3x) but also earn higher profit per employee (1.4x) compared to organizations with lower revenue base.
- Though organizations across different workforce size have similar productivity levels (with remuneration levels constituting 12 to 14% of revenue), those with larger revenue base enjoy 2.2 times higher productivity, compared to smaller organizations.

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### Note:

1. Small organizations mean organizations with workforce/revenue size from 0 to 1000 FTE and ₹ 0 to 500 crore
2. Large organizations mean organizations with workforce/revenue size >1000 FTE and ₹ >500 crore

## Resourcing

- External Recruitment Rate
- External Addition Rate
- External Replacement Rate
- Cost per Hire
- Time to Accept
- Offer Acceptance Rate
- Graduate Recruitment Rate
- Graduate Retention Rate

- Larger organizations hire 25% more talent from external markets.
- On average, Indian organizations spend approx. ₹ 25,500 per hire. However, FMCG and other unclassified sectors spend more than double the amount towards their recruitments. This could be because of the high cost of their recruitment teams.
- Looking at the cost per hire and external recruitment rate together for organizations with workforce size

of FTE 1000-5000 & revenue size of > ₹ 500 crore, organizations with the maximum external recruitment rate have the least cost per hire, as they spread the fixed costs of hiring over a larger number of hires.

- IT/ITeS sector recruits the most number of graduates with 15% graduate recruitment rate, however when it comes to retaining entry level talent, Eng/Mfg sector leads the Indian industry.

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### ***Learning & Development:***

- FTEs per L&D Function FTE
- L&D Investment per FTE
- L&D Investment / Compensation
- L&D Hours per FTE
- L&D Coverage

### ***Compensation & Benefits***

- Average Remuneration
- Average Benefits
- Benefits/Compensation
- Performance Related Pay

- Smaller organisations have more L&D resources for every employee (approx. 50% more) and invest more in L&D investment per FTE(2.6x to 2.9x) than larger organisations.
- Pharma spends the highest amount /employee for L&D (₹ 10,000) and delivers the highest number of L&D hours per employee.
- Average salary / employee is the highest in the FMCG sector, followed by Pharma.
- Of the participating companies, those in the Eng/Mfg sector have the highest proportion of performance related pay relative to total compensation. This correlates strongly with the high profits / FTE generated by companies in this sector.
- Smaller organisations focus more on compensation than on benefits.

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### **Turnover:**

- Termination Rate
- Involuntary Termination Rate
- Dismissal Rate
- Resignation Rate
- Resignation Profile by Tenure
  - <1 year of service
  - $1 \leq 3$  years of service
  - $3 \leq 5$  years of service
  - $5 \leq 10$  years of service
  - 10+ years of service

- IT/ITeS sector has the highest termination and resignation rates.
- Among employees resigning, nearly 75% have less than 3 years experience. There is hardly any difference between small & large organizations.
- With more than 33% of the employees resigning within 1 year of their service, Pharma sector has the highest attrition among employees with less than a year's tenure.
- The resignation rate in smaller organizations is higher than larger organization by factor of 1.4 to 1.8 times.
- The average tenure in the FMCG sector (78 months) is significantly higher than in all the other sectors (approx. 32 months).

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## HR Function

- FTEs per HR Department FTE
- HR Department Costs per FTE
- HR Department Costs/ Total Costs

- In Pharma, the size of the HR team relative to the total work force is smaller than in other sectors.
- FMCG companies are at the other end of the spectrum, employing larger HR teams relative to their workforce. Consequently, HR function costs / per employee also tends to be high in that sector relative to other sectors.
- IT/ITES companies employs fewer HR resources, and have lower HR function costs / employee than other sectors.
- Larger organizations (both in terms of revenue and workforce size) service on average 40% more employees and incur 75% to 50% less HR department costs per FTE, when compared with smaller organizations.
- HR Departments costs as a percentage of total cost are significantly higher in the IT/ITeS (1.4%) sectors and organisations with less than ₹. 100 crore revenue (2.3%).

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### ***Workforce Structure:***

- Span of Control
- Management & Professional %
- Workforce Diversity: Women
- Rookie Ratio

- FMCG sector uses the most number of managers for every employee (1 manager for every 3.8 employees) than other sectors.
- Small organizations have 1.6 to 3.6 times more managers per employee as compared to large organizations.
- Smaller organizations (in revenue and workforce size) tend to employ a larger proportion of professional and managerial staff than larger ones.
- IT/ITeS sector employs significantly higher proportion of women in its workforce than other sectors

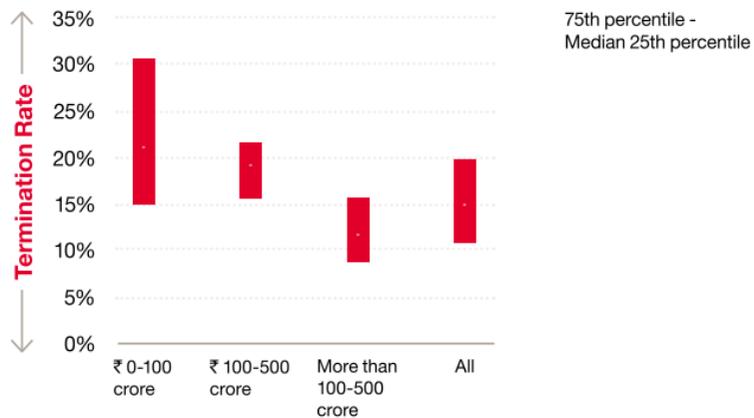
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## Sample Standard Analysis

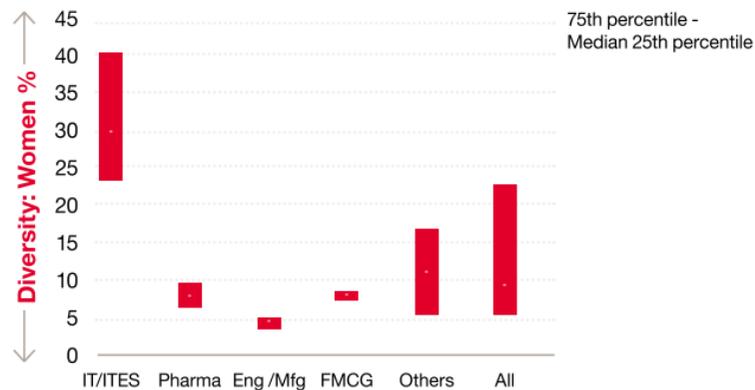
### Termination Rate: Comparative factor - Revenue Size



Revenue size	25th percentile	Median	75th percentile
0-100 crore	14%	21%	30%
100-500 crore	15%	19%	21%
More than 500 crore	8%	11%	15%
All	10%	15%	19%

All figures are in %.

### Gender Diversity: Comparative factor - Industry Sector



Industry sector	25th percentile	Median	75th percentile
IT/ITES	23%	30%	40%
Pharma	6%	8%	9%
Eng/Mfg	3%	5%	5%
FMCG	7%	8%	8%
Others	5%	11%	16%
All	5%	9%	22%

All figures are in %.

# Way forward

## Saratoga Report

All 2010 India Human Capital Effectiveness Survey participants will get a free copy of the report.

Non participants can purchase the report.

## India Human Capital Effectiveness Survey -2011

India Human Capital Effectiveness Survey 2011 will open for participation from May 2011 with a participation fee of ₹ 50,000.

All participants will get a free copy of India Human Capital Effectiveness Survey Report-2011.

They will also get company specific quantitative scorecard with benchmarks across 4 comparator groups (i.e. All India, Industry, FTE size and revenue size).

## Saratoga Report



## Company Specific Human Capital Effectiveness Scorecard

The image shows a complex scorecard table with multiple columns and rows. The columns represent different metrics and categories, and the rows represent different data points. The table is organized into sections, with a header row and several data rows below. The PwC logo is visible in the bottom left corner of the table image.

## Company Scorecard Analysis and Interpretation Report (Single comparator Group - Industry)





## About PwC

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice. See [pwc.com](http://pwc.com) for more information.

In India, PwC ([www.pwc.com/India](http://www.pwc.com/India)) offers a comprehensive portfolio of Advisory and Tax & Regulatory services; each, in turn, presents a basket of finely defined deliverables. Network firms of PwC in India also provide services in Assurance as per the relevant rules and regulations in India.

Complementing our depth of industry expertise and breadth of skills is our sound knowledge of the local business environment in India. We are committed to working with our clients in India and beyond to deliver the solutions that help them take on the challenges of the ever-changing business environment.

PwC has offices in Ahmedabad, Bangalore, Bhubaneswar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

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