UK lags behind US on employee return on investment

NEW YORK, US / LONDON, UK: organisations have proved far more agile than those in the UK and the rest of Europe at maximising profit from their investment in people, according to PwC research published today, 26 July 2010.

Trends in Human Capital includes data drawn from more than 10 000 companies in 40 countries to report the pre-tax profit produced for every pound, euro or dollar paid out in remuneration: the human capital return on investment (HC ROI).

The report shows that during the uninterrupted growth years of 2002 to 2006, HC ROI rose by a relatively modest 4.6% in the UK and 8.3% in Western Europe. Over the same period HC ROI leapt by 19.8% in the US.

In 2007, when the first signs of slowdown emerged in some economies and with markets suffering in 2008, the index fell in the UK by 2.8% and 1.7% for Western Europe, but held steady in the States.

US firms make use of less restrictive rules

Richard Phelps, human resource services partner at PricewaterhouseCoopers LLP, comments: "US firms have proved better at flexing employment costs to market conditions. Less prescriptive rules have allowed them to adjust staff numbers and salaries where necessary. The impressive return on investment levels is starting to feed through to the dollar.

"In the UK and Western Europe the more regulated environment prevents such agility. Firms here will need to find other ways to improve staff returns to compete globally with their more aggressive competitors."

The report suggests numerous possible avenues for increasing HC ROI. These include investigating the utilisation of overtime; reviewing absenteeism; adjusting the balance of full-time, part-time staff and contract workers; assessing benefits structures, and facilities and overheads costs.

Phelps added: "While many companies invariably made job cuts to survive the recession, some employers introduced cost saving initiatives with similar results but with less pain. Either way, the downturn has highlighted the need for companies to have a clear idea of the contribution their people make to the bottom line. A fact-based approach can help ensure decisive and transparent decision making.

"However, companies need to ensure employees remain engaged during any subsequent changes as their support is equally vital to return on workforce investment."

Keep them happy, motivated

Keeping employees motivated and nurturing talent is an overriding theme of the report. It shows that organisations on average have at least one potential successor for each key position. However, when vacancies arise, only one in three are filled by the succession candidates. The report argues that companies need to strengthen talent management programmes. Suggestions include identifying exemplar employees who set standards for other workers.

Retaining valued employees will become ever more challenging as emerging economies start to compete for talent. The report highlights that these economies are stepping up investment in R&D and often foster a more innovatory culture.

"Companies should recognise the maturity of emerging markets as the new trend setters in this field. But all regions face the challenge of an increasingly mobile workforce and organisations large and small need to plan for their ever more globalised future.

"It will be interesting to see if organisations globally respond to a period of growth by employing more people. In my experience increasing headcount does not directly correlate with profitability and it's perhaps better to bear the grind for a little longer." Richard Phelps concluded.

Other findings

- PwC's research includes a breakdown of HC ROI by industry for 2008/9. No doubt reflecting the economic turbulence during that period, insurance trumped banking as the highest performing sector. Chemicals came next, followed by utilities and pharmaceuticals. With consumer confidence weak, retail & leisure ranked 8th, with technology scoring the lowest HC ROI during this timeframe.

Trends in Human Capital uses data from PwC Saratoga, believed to be the most extensive HR measurement and benchmarking database available. A range of quantitative and qualitative tools are used to identify the impact of people on efficiency, to identify risk and to evidence best practice across an organisation. Statistics gained from more than 10 000 companies in 40 countries have been analysed against major macro-economic indicators from organisations such as UNESCO.