BIZCOMMUNITY

Employee productivity levels sink to new lows, says PwC research

LONDON, UK: PwC's *Key Trends in Human Capital 2012* report reveals that productivity levels saw a sharp drop in 2011 following a period of relative stability between 2006 and 2010. The report suggests this drop is driven by an increase in employee costs, which have jumped 16% from 2009 to around US$55 000 in 2011.

The report, which is based on data from over 2400 organisations in over 50 countries, suggests that this increase in employee costs is largely down to companies cutting back on their recruitment of lower grade employees during the downturn. This has left companies with a higher proportion of experienced workers who command greater pay, compared to younger, less experienced workers, whose pay bills will be lower. This comes at a time when companies are seeing little, or no, revenue growth.

This means Western European companies are getting a much lower return from their investment in their workforce. The report reveals that human capital return on investment (HC ROI), an analysis of the pre-tax profit produced for every pound, euro or dollar paid out in remuneration, has fallen to 1.11 in Western Europe. This means that employers are now only getting the equivalent of US$1.11 back for every US$1 they invest in someone.

Experience beats youth

Richard Phelps, human resource services partner at PwC, said: "Our analysis reveals that the percentage of employees with less than two years' service has fallen sharply to 22%. Many organisations across Europe have chosen experience over youth to see them through the recession, but cutting the recruitment of younger workers means they are paying out much more for their workforce for less return.

"The difficult job market means many experienced workers are staying longer in jobs, leaving companies struggling with top heavy structures, little staff turnover and rising wage bills."

PwC suggests that many companies need to go back to basics and improve their performance management processes to ensure that people of all levels are delivering value. For many companies, this will mean implementing more vigorous

performance management which really differentiates between higher and weaker performers and rewards them accordingly.
This is where better use and interpretation of people data can make a huge difference to employee productivity; companies need to really understand what their employees want, what matters to them and what motivates them.

Phelps adds: "The current low growth environment means companies must get the most value from their investment in people. This means flexing their HR policies for different parts of the workforce. Companies could find new ways of motivating people who are staying longer in their roles and offering greater options to people nearing retirement. Companies need to ensure they get the best out of their younger workers by setting out clear development paths and offering flexible compensation packages."

The report highlights that UK and European companies still lag behind their US and Asian counterparts when it comes to maximising profit from their investment in people. It also shows that despite the US seeing a drop in its return on investment, for every dollar paid out in remuneration, US employers typically get 20% more pre-tax profit in return compared to UK companies.

Notes:

1. The report uses data from PwC Saratoga, which is a recognised leader in measurement and benchmarking of human capital in organisations, HR and finance function performance and transformation. 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. The study draws on data from over 2400 organisations in over 50 countries.