What the CEO Needs From Human Resources

*How to help executives make well-informed decisions about the workforce.*
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Top Business Challenges for Today’s CEO

The current economic environment has forced CEOs to focus almost all of their attention on revenues and profitability. They must be very aware of what competitors are doing—and competitors can be anywhere in the world. Additionally, executives are watching the government for indications of changing regulations and tax issues.

What the CEO Wants to Change About Workforce Management

In many ways, the recent economic troubles served to shine a spotlight on workforce management issues for many executives. Whether it was navigating layoffs, reducing labor costs, cross-training employees, or simply keeping the workforce morale up, many leaders found that their organizations were not as nimble or flexible as they would like.

Top Threats to Business Growth Cited by Chief Executive Officers (CEOs)

- 65% Protracted global recession
- 60% Over-regulation
- 59% Lack of stability in capital markets
- 54% Low-cost competition
- 54% Energy costs
- 51% Availability of key skills
- 49% Protectionist tendencies of government
- 40% Inflation

What the C-Suite Worries About

1. Federal Government agenda/policies
2. Consumer demand
3. Price pressure from competitors

Percentage of CEOs planning “large” or “significant” changes to areas of people management:

- 41% Better managing of people through change
- 41% Morale and employee engagement
- 40% Training and development
- 25% Flexible working environments
- 22% Collaboration with a network of outside specialists
- 18% Compensation levels
- 14% Pension and healthcare benefits
To Deliver Strategic Value, Keep an Eye on the Bottom Line.

Labor costs (compensation and benefits) account for nearly one-third of operating costs⁴, so how HR manages the workforce has a direct impact on achieving profitability objectives. One of the best ways to set your HR strategy is to align workforce management goals with corporate objectives. That means keeping an eye on how your programs and decisions will impact the bottom line. Aligning labor costs with the quality of the workforce can dramatically improve financial performance. A 2009 study found leaders in talent management enjoyed superior financial results, including 54% higher net profit margins and 18% better EBITDA.⁵

Has HR Joined the Executive Team?

To add strategic value, HR leaders should step outside the human resources arena and truly understand the business. What does your company do? How much does it cost to deliver products? How does the competition do it? Who are your customers? Develop a workforce that supports the company’s goals and customers. Help the executive team stay ahead of HR issues by finding answers before they ask questions. Are HR departments fulfilling this mission today? According to HR professionals, the answer is still no.

KEY METRIC: Labor Cost Revenue Percent

This metric describes labor costs in terms of the amount expended for each dollar of revenue the business generates. It is basically the return on investment for your labor force. Divide total annual labor costs by revenue and express it as a percentage:

\[
\text{Labor Cost Revenue Percent} = \frac{(\text{Compensation + benefits cost})}{\text{Annual Revenue}} \times 100
\]

On average, organizations spend about 22 cents in labor for every dollar of revenue.⁷ But the average for your specific industry is a better measurement of competitiveness. People-intensive industries such as professional services have a higher labor cost revenue percent.

6 Human Resource Planning Society (HRPS) and Institute for Corporate Policy (i4cp), HR’s Role in
7 Saratoga PwC, “Metric of the month: Labor cost revenue percent,” The Saratoga Review, October 2009
Strategic executives avoid the nitty-gritty details of day-to-day human resources issues, preferring to take a broader perspective. Executive priorities include recruiting and staffing, turnover and succession, compensation, and benefits. These are the most expensive functions of HR and the organizational challenges having the greatest impact on company objectives. Finding and hiring the right employees is essential to business success. The right hire can bring a team together and deliver brilliant new ideas. The wrong hire can be a disaster, resulting in lower team morale and missed objectives.

A CEO needs his or her company to be seen as an employer of choice by potential candidates.

**WHAT THE CEO NEEDS: Staffing Reports**

The CEO needs to know the big picture of what is going on with recruiting. How many openings do we have? Is that creating any backlogs in production? What will it cost to fill the positions? A staffing report provides a nice overview without getting into the individual details of each hiring decision or new vacancy. When preparing staffing reports, be sure to include:

- Positions filled
- Turnover rates
- Cost per hire
- Difficult-to-fill positions with strategies for overcoming the obstacles

**KEY METRIC: Cost per Hire**

Departmental managers are clamoring for additional head count. The CEO and CFO must decide whether to authorize new hires, so they need to know how much it will cost to recruit qualified employees. Calculate Cost per Hire by dividing recruiting and hiring costs by new hires.

\[
\text{Cost per Hire} = \frac{\text{Annual recruiting and hiring costs}}{\text{Total number of new hires}}
\]

When preparing staffing reports, be sure to include:

- Recruiting department salaries and overhead, outside recruiting agency payments, advertising costs, hiring bonuses, referral bonuses, relocation costs and bonuses, and any immigration costs.
Turnover and Succession Planning

Most executives would like to minimize turnover. There are times when economic conditions necessitate losing employees to layoffs. Some companies make a policy of routinely turning over the lowest performing employees within the organization, in an attempt to create excellence. But as a general rule of thumb, turnover is very costly to an organization. Layoffs or resignations can disrupt team momentum, slow production, and lower morale. You risk losing some or all of the departing employees’ job knowledge. On average, it also costs between one-and-a-half to three times an employee’s annual salary to recruit, hire and train his or her replacement.

Executives need help from HR to plan for changes in the workforce. This includes modeling scenarios for changes in the organizational structure such as layoffs or promotions, identifying worst performers, creating career development and retention plans for top performers, and planning succession for mission-critical positions in the event of an unexpected departure.

WHAT THE CEO NEEDS: Plans for Top Performers

Not all employees are created equally. Some workers perform average work, as expected. Some hardly contribute at all and need to be replaced. And a few employees are the driving force behind your company’s success. These top performers, usually about 20% of your workforce, are responsible for 80% of the work performed. They are your big idea people. They work hard and they work efficiently. Your CEO does not want to lose the high achievers, so HR needs to have a plan for retaining them. This involves making sure that top performers are given plenty of new challenges in their work, opportunities to move up in the company, and recognition and compensation that reflect their value to the organization.

KEY METRIC: Monthly Turnover

Your staffing report to the C-Suite should include the percentage of turnover your company is experiencing each month. It’s an easy way for the CEO to spot worrisome trends, such as a spike in employee resignations. Calculate it by dividing the number of employees who left the company this month by the average number of employees working this month:

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\text{Monthly Turnover} = \frac{\text{Employees separated}}{\text{Average number of employees}} \times 100
\]

If you find calculating an average number of employees too difficult or time-consuming, you can use the number of employees employed on the fifteenth day of the month, as long as you’re consistent about it. On an annual basis, this should average out without significant variance.
Compensation

Compensation is a critical part of any workforce strategy. You don’t want to discourage high-performing employees with low pay, or worse, lose them to your competitors. On the other hand, it’s harder to reach corporate profitability objectives if you are paying your workers too much. The CEO needs help from HR to determine how to compensate employees at a rate that is equal to their value to the organization.

WHAT THE CEO NEEDS: Competitors’ Compensation Plans

Salaries can be one of the biggest headaches for a CEO. Every manager worries about turnover of their top performers and wants to pay them more. Your CEO wants to establish the company as an employer of choice, so you can recruit great talent and retain the best employees. But you need to achieve that status at the lowest possible cost. So it’s essential to gather information about how much your competitors pay for key positions, and how they incentivize performance with bonuses, stock options, or other perks.

Provide the C-Suite with comparative analyses for your industry, as well as your geographic location. How do your salaries compare with key competitors’ plans? For your business location, are you paying attractive wages compared to the cost of living? Are there creative programs that could enhance the “total compensation package” without adding much cost?

KEY METRIC: Compa-Ratio

Compa-ratio is often used as a benchmark to determine how close an employee’s salary falls to the midpoint of the salary range established by your company. It is calculated by dividing an employee’s salary (or group’s average salary) by the median of the salary range.

\[
\text{Compa-Ratio} = \frac{\text{Employee’s salary}}{\text{Midpoint of the salary range}}
\]

A compa-ratio of 1.00 means the employee’s salary is exactly at the midpoint; higher indicates above the midpoint. Employees with compa-ratios lower than 1.00 are at high risk for job dissatisfaction and turnover. Employees with high compa-ratios may be overpaid.

Compensation rates vary based on many factors, including:

- Specialized skill sets and/or professional certifications
- Amount of employee experience
- Your industry
- Your business location
- What your competitors pay for similar skills
Benefits

After compensation, benefits are the next most costly aspect of having a workforce. The cost of benefits, and especially healthcare, has been rising much more rapidly than the cost of wages for many years. Healthcare costs are rising much more quickly than inflation, too. With all of the current uncertainty surrounding healthcare reform and the Patient Protection and Affordable Care Act, benefits-related issues are receiving more attention from the C-Suite.

WHAT THE CEO NEEDS: Future Benefits Cost Projections

To plan for business growth and maintain profitability, the CEO needs to be able to project both revenues and costs as accurately as possible for one year, three years, or even five years into the future. In HR, the greatest uncertainty surrounds the future cost of benefits. Provide your CEO and CFO with projections for the cost of benefits next year as soon as open enrollment is completed. For further-out timeframes, provide the best projections you can, possibly with a range that models best-case/worst-case scenarios.

The new healthcare reform law has made projections even murkier, as it is difficult to tell how high insurance companies will raise premiums while they can in the next few years. Executives of smaller businesses who are not mandated to offer health insurance will need help weighing the pros and cons of dropping health insurance benefits. This includes the perceived value of health coverage by employees and the impact that dropping it would have on employee retention.

KEY METRIC: Average Benefits Cost per Employee

To help executives get an idea of the big picture on benefits costs, show them the average employee’s share of total benefits costs. Divide total benefits costs by total employees. Include healthcare costs, retirement plans, savings plans, life and AD&D insurance plans, tuition reimbursement, and automobile expenses.

\[
\text{Benefits Cost per Employee} = \frac{\text{Total benefits cost}}{\text{Number of employees}}
\]

If your benefits cost is high, provide the CEO with an analysis, drilling down into what is driving the costs. Is it rising healthcare premiums? Or additional retirees using benefits? How do the benefits in question affect employee retention or engagement? What are potential strategies to contain or reduce these costs?

About Sage HRMS

An industry-leading, customizable HRMS solution, Sage HRMS helps companies optimize their HR business processes as well as maximize their Return On Employee Investment (ROEI™). Developed by HR professionals for HR professionals, Sage HRMS delivers a tightly integrated set of comprehensive features and functionality that increases efficiency and improves productivity at every level in the organization.

With Sage HRMS, you can successfully meet and respond to the HR management challenges you face every day in the areas of payroll, benefits, employee self-service, attendance, recruiting, training, workforce analytics, and more. By automating and streamlining your day-to-day HR business processes using Sage HRMS, you and your staff are freed up to spend more time and energy on the business asset that is most vital to your company—your employees.

A global $2.2 billion software company with over 30 years of experience and 6.3 million customers, Sage has provided HRMS solutions longer than any other company in North America. By choosing Sage, you not only get productivity-boosting HR and payroll software solutions, you get the support of an award-winning customer service team and access to many other business tools and resources that make your work life easier.

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