

**Deloitte.**



**Making winning workforce decisions**

The Human Capital  
Balance Sheet from  
Deloitte aligns the  
C-suite to optimize  
workforce investments.

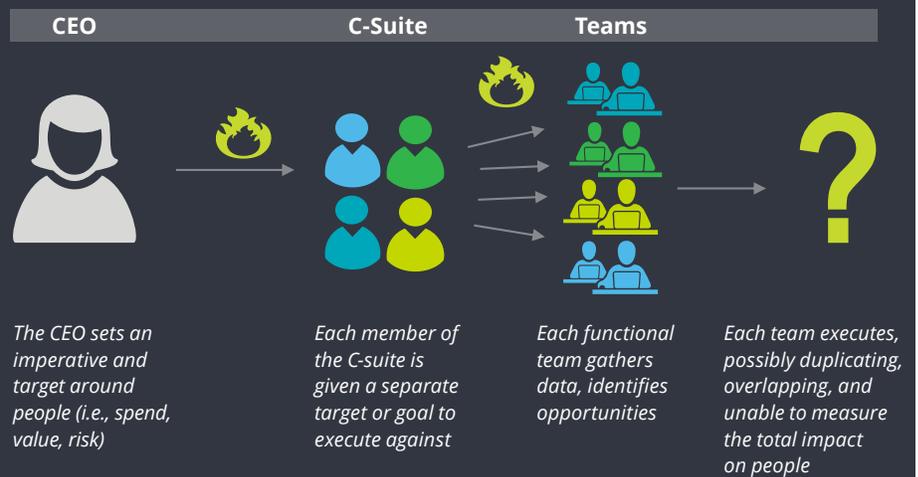
While the workforce is commonly a company's biggest investment, organizations typically do not have visibility into all of the information necessary to make educated and optimized decisions. Leaders typically do not have a complete, accurate, and current view of the "all-in" labor cost for the total workforce (i.e., direct labor spend, HR operational spend, and allocated spend). In addition, they normally do not have meaningful insight into what their employees value in terms of compensation and benefits and other workforce investments. Nor do they understand the value those programs drive throughout the organization. Without this insight, they are sometimes forced into making partially informed decisions from the limited vantage point of their own functional silos. Today's world is hyper-connected and should be more collaborative than ever. As emphasized in the 2018 *Deloitte Global Human Capital Trends: The rise of the social enterprise*, 85 percent of survey respondents rated C-suite collaboration as important or very important. Yet, 73 percent said that their C-suite leaders rarely, if ever, work together on projects or strategic initiatives. This reality is far removed from the desired concept of the "symphonic C-suite," in which an organization's top executives play together as a team while also leading their own functional teams, all in harmony.

In today's disconnected environment, it is nearly impossible for the C-suite to know if they are making winning workforce decisions and driving their investment dollars to the programs and parts of the workforce that will deliver the greatest return on investment and create the required value for the organization. Without these insights and cross-functional collaboration in making workforce decisions, the discussion on this topic more frequently centers upon costs and not value. In other words, senior leaders are often more inclined to ask, "How do we reduce human capital costs?" than to inquire, "How do we ensure that we get appropriate value from the money we invest in our people?"

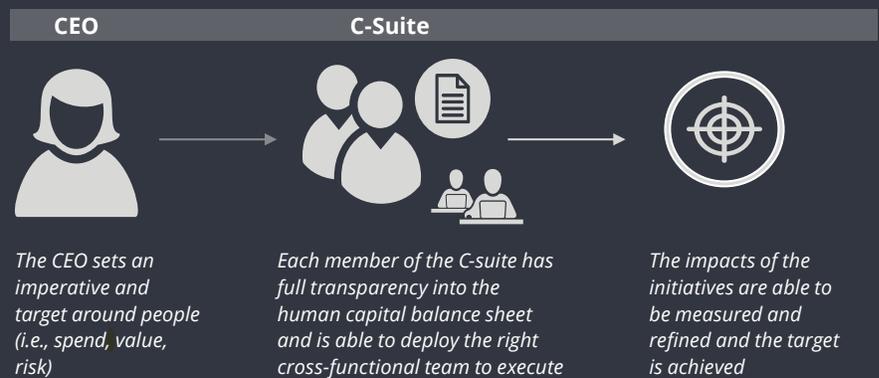
Executives can no longer afford to make human capital decisions in isolation and on the basis of cost alone. In fact, the C-suite and the rest of the organization needs to view these decisions as strategic investment choices that drive value throughout the organization. With the introduction of the Human Capital Balance Sheet from Deloitte, they now have the information and analytical tools to do just that.

## Orchestrating the symphonic C-suite

Our world demands an unprecedented level of cross-functional vision, connectivity, and collaboration from C-suite leaders. Every member of the C-suite makes investments in the workforce, which are critical in determining an organization's performance, brand, and reputation. But today, executives often make decisions on their own. They look at multiple data sources in isolation, which leads to overlapping and duplicating efforts. When many decisions are made at once, it can be impossible to measure the effectiveness of a particular investment choice.



The Human Capital Balance Sheet orchestrates the symphonic C-suite, where executives work from a single and complete set of data, make key workforce investment decisions together, and monitor and measure the impacts of those decisions.



Through this harmonization, companies can begin to differentiate themselves with the way work gets done through effective investments in their people.

**What it is**

Every C-suite leader makes investments in the workforce that are critical to determining an organization’s performance, brand, and reputation. The key to making winning workforce decisions is to bring these leaders together around a unified picture of all-in labor costs and workforce performance drivers. The Human Capital Balance Sheet has been designed to accomplish this feat. It can best be described as a single, transparent view of the workforce from the lens of cost, spend, and risk. It analyzes these factors to understand how investment drives organizational performance. This helps executives to align on people priorities and to make well-informed decisions about where to increase or maintain investment, or where to eliminate or cut back, in order to optimize the organization’s human capital investments.

The Human Capital Balance Sheet helps enable senior executives and the organization as a whole to:

- Work from a single and complete set of data, make key workforce investment decisions together, and monitor and measure the impacts of those decisions
- Visualize human capital spend and understand the return on investments
- Eliminate wasteful spend and increase investment capacity for new programs
- Enhance the value of current programs and plan for the future

**The way it works**

Unlike point solutions that serve individual functions and leaders, the Human Capital Balance Sheet is an elegant, all-in-one solution for visualizing comprehensive labor costs and the ROI of current and future investments. Importantly, it does not require an organization to re-create a financial statement or to construct a second balance sheet. Instead, the technology accelerators embedded in the solution do most of the work.

Using these accelerators, the Deloitte team brings together people from across disciplines to understand how work gets done, capture all-in labor costs, find solutions that clearly link spend to value, present ways to optimize the cost/value relationship, and teach your organization how to build and sustain the desired business results. Here’s a synopsis of how it works:

**Step 1: Data is collected.**

An automated platform is used to collect and analyze enterprise data relating to direct labor spend, HR operations spend, and indirect allocated spend. This data is obtained from the general ledger, the human resources information system, the payroll system, and other key inputs. Additional data is collected through a gap analysis survey, utilizing Deloitte’s proprietary rewards optimization engine.

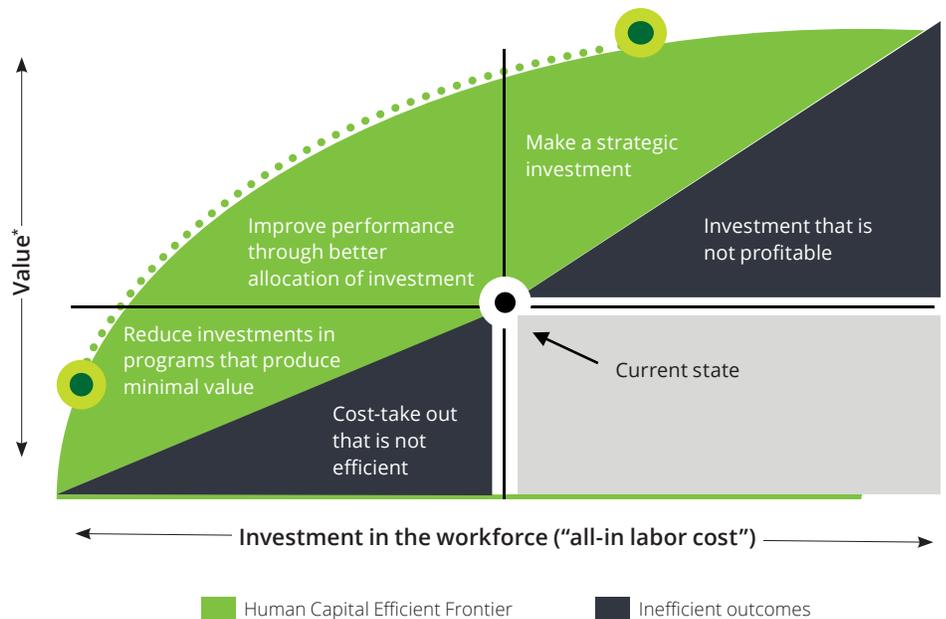
**Step 2: The balance sheet is created.**

All-in labor costs are calculated and presented in conjunction with the results of the gap analysis and insights into employee preferences. These results are visually represented through a convenient dashboard.

**Step 3: An insights lab is conducted.**

A strategic road map is developed based on the Human Capital Efficient Frontier™. Here, executives are convened to discuss insights and opportunities to optimize the Human Capital Balance Sheet, with the ultimate goal of making winning workforce decisions as a team along an “efficient frontier” of strategic trade-offs (see figure 1).

**Figure 1: Human Capital Efficient Frontier™**



\*The measurement of value will differ by the type of investment.

### The potential impact

The Human Capital Balance Sheet analyzes workforce cost, spend, and risk to understand how investments in people drive organizational performance. It provides a holistic view of an organization's all-in labor costs that is otherwise hard to obtain. As different types of work arrangements (i.e., the gig economy, contractors, freelancers, etc.) have become more prevalent, the ability to track the rewards cost as well as the totality of workforce investments has become exponentially more difficult. In other words, the future of work is changing in a way that can obscure the financial results of human capital investments, hiding them in buckets that even the most prudent CFOs, CHROs, and other leaders are unable to track.

Given the large amount of capital being spent in the workforce, the inability to understand the totality of the organization's people investment and measure its effectiveness is a huge risk.

The Human Capital Balance Sheet can largely reduce that risk. It helps to centralize labor-cost management so leadership can coordinate initiatives, allowing for increased financial discipline. Companies can then direct their focus to how their investments are performing and manage them proactively.

## The Human Capital Balance Sheet in action: Spotlight on total rewards

Integrating and optimizing total rewards programs is increasingly important as companies work to differentiate themselves to attract and retain talent. A vital component of the Human Capital Balance Sheet is the Gap Analysis, which is powered by Deloitte's proprietary Rewards Optimization Tool. This tool works to provide actionable insights into the relationship between the value employees place on a particular rewards program feature and the program's overall effectiveness. It offers a differentiated approach to evaluating and designing rewards programs because it employs a conjoint survey that asks employees to indicate which program features are most important or most valuable to them and which are least important or least valuable to them.

With this framework, organizations can:

- Better understand employee preferences using actionable data
- Make fact-based decisions regarding employee benefits, engagement, and loyalty
- Structure and customize their compensation, benefits, and rewards programs to satisfy employee preferences while managing costs
- Invest in the right rewards programs not only to motivate their current workforce, but also to help plan for the needs of the future workforce

Based on Deloitte's experience, the Rewards Optimization Tool's powerful data analysis can yield reward packages that the vast majority of employees (frequently 70–80 percent) prefer over their current packages. For example:

*To begin its rewards optimization project, an employer distributed an unmet needs survey to its entire workforce. This survey uncovered that a significant portion of the workforce was very concerned about their personal debt. Based on this insight, the employer incorporated financial well-being features into the rewards offering scenarios presented in the conjoint survey conducted by the Deloitte Rewards Optimization Tool.*

*The results of the conjoint survey were then used to realign the current level of spending on benefits, allocating dollars toward financial well-being as needed, to maximize employee preferences. This led to increased employee satisfaction with their benefits packages and greater return on investment—without increasing the company's overall benefits spend.*



### The power of optimization

Above anything, the workforce must be viewed as an “asset” not only on the Human Capital Balance Sheet but also on the organization’s overall financial balance sheet. This asset can only be optimized if it is managed as an investment rather than a cost center. That said, optimizing the balance sheet starts by understanding the full scope of how work gets done and identifying the true all-in cost. You know your balance sheet is optimized when:

- Wasteful spend is eliminated
- Programs that drive minimal value are reduced or eliminated (i.e., you’re able to be smarter about where you spend your money)
- Inherent risks are understood and factored into decision making and expected outcomes
- Decisions are informed by the business strategy and market conditions (i.e., you’re able to direct future investments toward preserving, protecting, and enhancing your assets)
- Investments in labor are value-driven and clearly linked to an appropriate rate of return.

## Consider the Human Capital Balance Sheet when you:

- Want transparency into all-in labor costs
- Are embarking on a specific project (e.g., workers’ compensation rewards) and you want to know what else you should do in tandem to increase the project’s value
- Are contemplating major changes in your overall labor model
- Want to understand rewards and the value the workforce places on the components of their total experience
- Have a technology change in progress that affects workforce composition
- Need to fund a workforce investment (i.e., to attract and retain top talent)
- Have more workforce synergies to capture from your latest acquisition
- Need to optimize spend to get greater returns while accounting for risk



## Contact us

The workforce guessing game is untenable in today’s environment. The Human Capital Balance Sheet from Deloitte sheds light on all-in labor costs and the cost/value relationship of human capital programs. It helps take the guesswork out of navigating the new realities of work and of optimizing investments in an organization’s most important asset: the workforce.

To learn more about how the Human Capital Balance Sheet can assist your team in making winning workforce decisions, please contact:

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