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Effect of the Economic Crisis on HR Programs

Update: December 2008

About the Survey

In early December 2008, Watson Wyatt conducted a survey of 117 U.S.-based companies to understand what adjustments they are making to their HR programs (e.g., staffing, pay, benefits) in response to the recent events in the economy and financial markets. This was a follow up to a similar survey conducted in October 2008.

Executive Summary

As the recession continues to take hold, more companies now recognize the potential impact and indicate their HR programs will be affected. Employers are taking a multitude of steps to manage and reduce human capital costs and report carrying out more cost-cutting measures than they were just two months ago. A number of actions have significantly increased since October, notably reducing merit increases, layoffs, hiring freezes, salary freezes and adding or increasing restrictions to travel policies.

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Key Findings

- 61 percent of companies are revising their merit budgets for 2009 due to the economy. This has more than doubled since October (28 percent).
- Of those companies that have revised their merit budgets, 87 percent did so in November or December.
- The percentage of companies who have already made layoffs has doubled since October (19 percent vs. 39 percent in December). Another 23 percent expect to make layoffs in the next 12 months.
- The most common changes already made include adding or increasing restrictions to company travel policy, hiring freezes, layoffs and downgrading or canceling the company holiday party.
- Funding for short-term incentives has remained relatively stable from October to December.
- One out of 10 employers have reduced or plan to reduce matching contributions to their 401(k) plans, compared to just 6 percent in October.

As the scope of the economic downturn broadens and deepens, more companies expect their HR programs will be affected.

Figure 1 | Given the recent events in the U.S. economy and financial markets, to what extent will your HR programs (staff, pay, benefits) be affected **in 2008**?

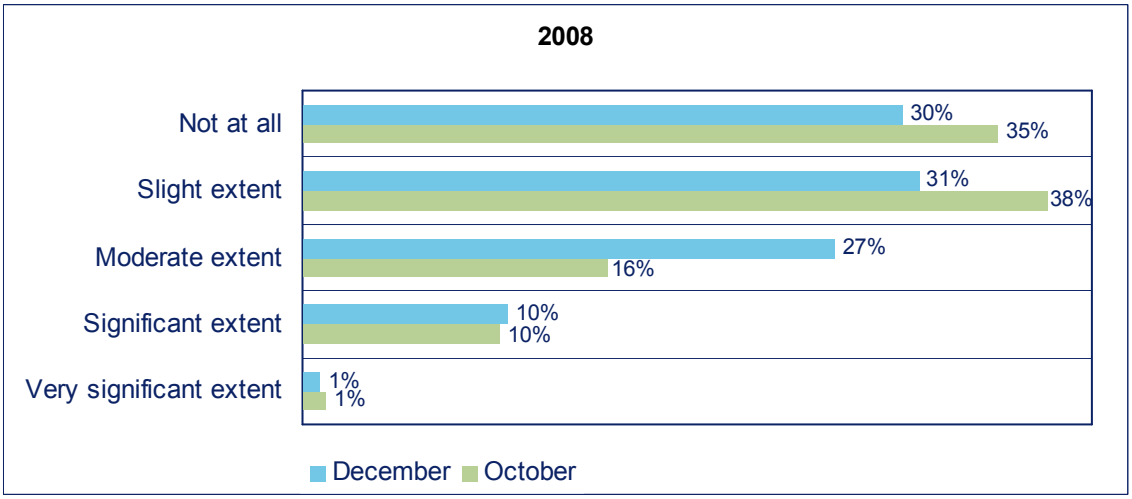
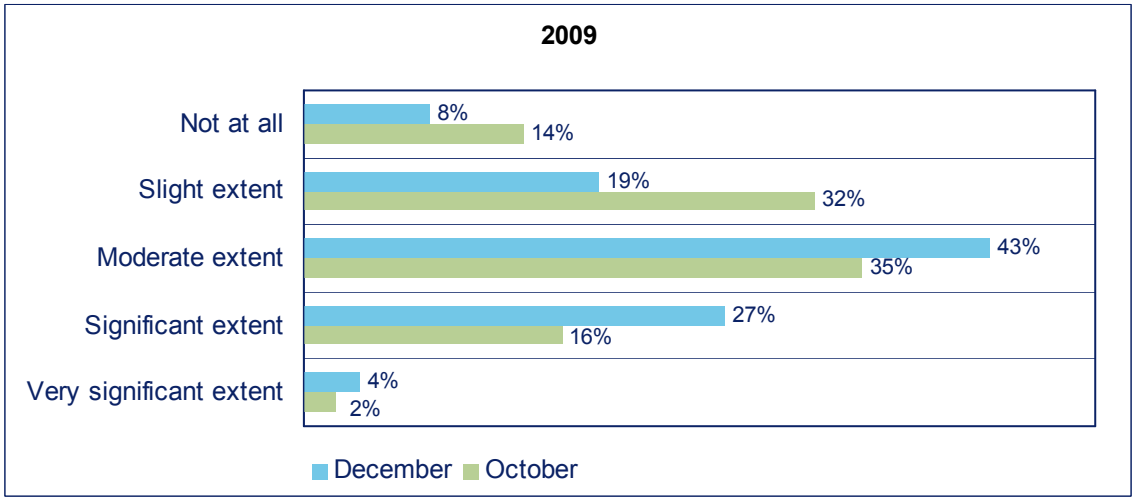
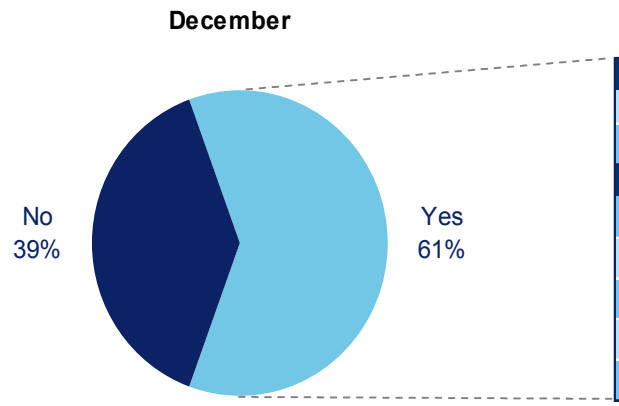


Figure 2 | Given the recent events in the U.S. economy and financial markets, to what extent will your HR programs (staff, pay, benefits) be affected **in 2009**?

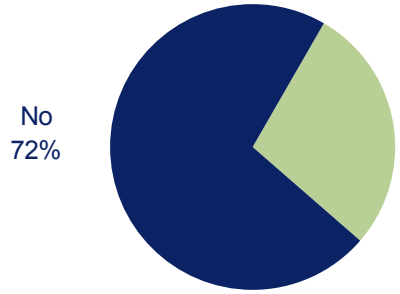


The percentage of companies who have revised their merit budget more than doubled from October to December.

Figure 3 | Have you revised your merit budget for 2009 given the recent events in the economy and financial markets?



Of the companies that said yes	
Original 2009 budget	3.8%
Revised 2009 budget	2.5%
Budget was last revised in	
December	51%
November	36%
October	4%
September	0%
Prior to September	9%



Expected funding for short-term incentives remains relatively stable compared to October findings.

Figure 4 | If your organization offers a short-term incentive plan, at what level do you expect to fund it for the current fiscal year?

Short-term incentive funding (as a percentage of target)	December	October
Last fiscal year	97.0%	95.0%
Current fiscal year	75.1%	81.5%

Since October, the percentage of companies making changes to their HR programs has greatly increased, particularly with layoffs, hiring freezes, salary freezes, organization-wide restructuring and travel restrictions.

Figure 5 | Given the recent events in the economy and financial markets, what changes do you expect to make?

	Already made change (December)	Already made change (October)	Expect to make change in next 12 months (December)	Expect to make change in next 12 months (October)	No change expected (December)	No change expected (October)
Add/increase restrictions to company travel policy	48%	34%	16%	21%	36%	45%
Hiring freeze	47%	30%	18%	25%	35%	45%
Layoffs/reduction in force	39%	19%	23%	26%	38%	55%
Downgrade or cancel company holiday party	35%	19%	8%	18%	57%	64%
Increase communication to employees about their benefits	32%	35%	35%	35%	33%	31%
Eliminate or reduce the hiring of seasonal workers	28%	17%	16%	18%	56%	65%
Organization-wide restructuring	23%	14%	21%	23%	57%	64%
Eliminate or reduce training	23%	10%	18%	18%	59%	72%
Raise employee contribution to health care premiums	20%	21%	17%	25%	63%	54%
Increase communication to employees about their pay	16%	18%	43%	37%	41%	45%
HR function restructuring	14%	15%	21%	19%	66%	66%
Salary freeze	13%	4%	19%	12%	67%	84%
Mandatory holiday shutdown	13%	6%	5%	2%	83%	92%
Reduce or eliminate other employee programs	12%	8%	12%	11%	75%	81%
Salary reductions	5%	2%	6%	4%	89%	94%
Early retirement window	3%	4%	6%	5%	92%	91%
Reduce employer 401(k)/403(b) match	3%	2%	7%	4%	90%	94%
Reduced workweek	2%	4%	6%	4%	93%	92%

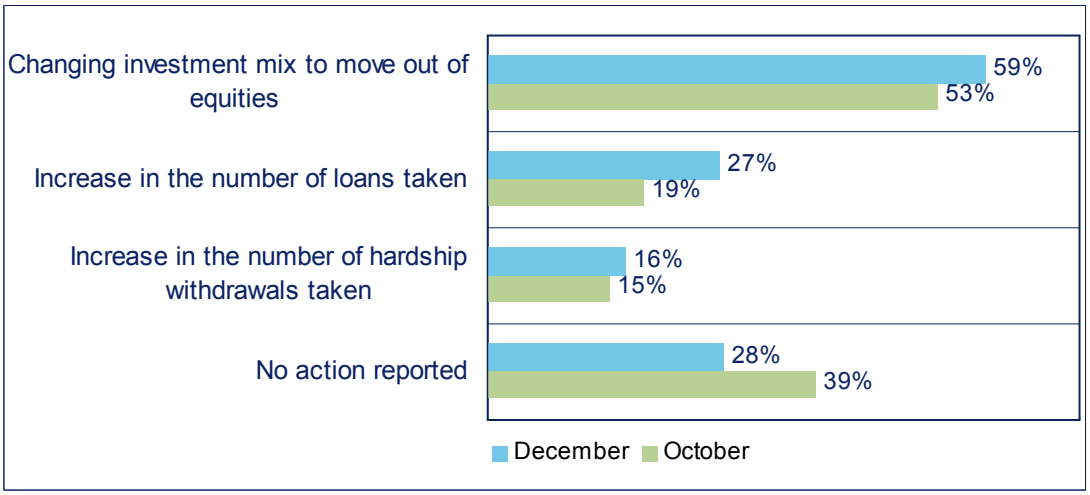
Companies expect to lay off 5 percent of their employee population in the next 12 months.

Figure 6 | If you indicated you have made or are planning to make layoffs, what percentage of your employee population is affected?

	Median
Have already laid off	5%
Expect to lay off in the next 12 months	5%

The number of loans taken from 401(k) plans has increased from October to December.

Figure 7 | In the past few weeks, what changes have you noticed in participant activity in 401(k) or 403(b) plans?



Conclusion

Companies expect 2009 to be a tough year and are taking a number of actions to help manage through the downturn. However, employers can take steps to help mitigate the effect of these decisions on employee morale. These include:

1. Take a Balanced Approach to Cost Cutting. Consider decisions in the context of both the company's financial situation and the likely impact on employee morale; select measures that yield the greatest cost savings while doing the least potential damage to your employment brand.

2. Communicate. Communicate with your employee population extensively and frequently; keep employees apprised of your business situation and financial results. Place any changes in HR programs in the context of the company's specific financial situation.

3. Differentiate Bonuses and Pay Increases. Even though merit increase budgets and funding for annual incentives are down, managers should still differentiate rewards based on ongoing performance and contributions. It is important to recognize and reward your top performers and critical workforce segments to increase ROI on bonuses and salary increases.

4. Heighten Use of Recognition. When programs are being reduced or cut, increased use of recognition can support managers' efforts to let employees know their contributions are valued and to boost employee morale.

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