

Effect of the Economic Crisis on Rewards and Talent Management

Canadian Edition

About the Survey

In mid-November 2008, Watson Wyatt surveyed a broad cross-section of 138 Canadian-based companies to understand what adjustments they are making to their HR programs (e.g., staffing, pay, benefits) in response to recent events in the economy and financial markets.

Executive Summary

As employers sort out the impact of the economic crisis, many will take a measured approach when it comes to staffing, pay and benefit decisions. While results from Watson Wyatt's recent survey find that fewer than 15 percent expect recent economic events to have a significant or very significant impact on their HR programs, the majority (84 percent) are planning to make changes to their HR programs in the next 12 months. Most notably, responding organizations plan to increase their communication efforts to employees regarding their pay and benefits.

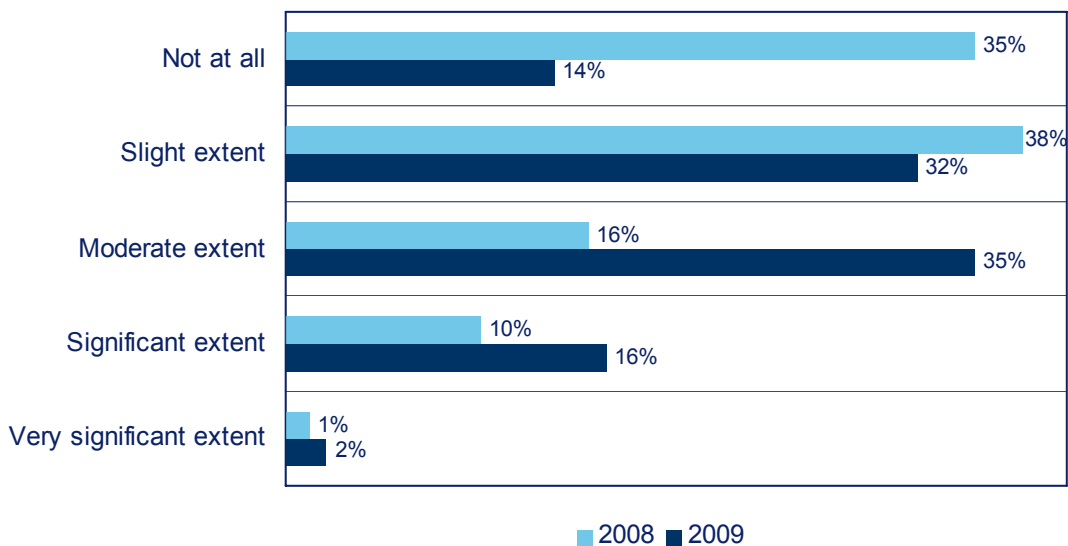
Key Findings

- Eighty-four percent of companies expect recent events in financial markets to affect their HR programs in the next 12 months.
- Actions organizations have already taken and plan to take in the next 12 months include hiring freezes (41 percent), restricting travel policies (42 percent) and reduction in workforce (44 percent).
- More than half of the organizations surveyed have already increased or are planning to increase communication around pay and benefits during the next 12 months. As Watson Wyatt's "2008-2009 Global Strategic Rewards Survey" has shown, high-performing organizations report an edge in the effectiveness of their total rewards communications, making them more likely to reap the benefits of increased line of sight among employees. In light of the current economic environment, this will be increasingly important for all organizations.
- A significant number of companies are revisiting merit and other increase budgets for 2009. The net effect of these actions point to an anticipated reduction in 2009 for merit budgets from 3.5 percent to 2.9 percent. Out of the 42 percent reporting changes, it is anticipated that merit budgets for 2009 will decrease by an average of 39 percent (from 3.3 percent to 2 percent).

Anticipated Changes to HR Programs

The majority of responding organizations (84 percent) expect to see their HR programs affected by the economy in the coming year. Compared with the rate of change that occurred in 2008, this represents a significantly higher level of anticipated change.

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



Out of the total number of organizations that have already taken action or plan to take action in 2009 in light of the economy, 44 percent instituted or are considering layoffs, 42 percent made changes to or will revise their travel policies and 41 percent introduced or are implementing hiring freezes. Many of these changes have already occurred or are being implemented.

The top three anticipated changes during 2009 are related to increased communications, revisions to existing total rewards strategies and workforce reduction.

More than 50 percent of responding organizations have increased or will be increasing communications to their employees regarding pay and benefits in 2009.

Figure 2 | Given the recent events in the economy and financial markets, what changes do you expect to make?

	Already made change	Expect to make change in next 12 months	No change expected
Increase communication to employees about their benefits	20%	34%	46%
Increase communication to employees about their pay	12%	38%	50%
Layoffs/reduction in workforce	24%	20%	56%
Add/increase restrictions to company travel policy	26%	16%	58%
Hiring freeze	28%	13%	58%
Organization wide restructuring	17%	14%	69%
Review and/or revise your total rewards strategy for non-executives	8%	22%	70%
Eliminate or reduce the hiring of seasonal workers	17%	12%	71%
Review and/or revise your total rewards strategy for executives	10%	18%	72%
Downgrade or cancel company holiday party	18%	4%	78%
HR function restructuring	14%	7%	79%
Eliminate or reduce training programs	9%	12%	79%
Reduce or eliminate other employee programs (tuition reimbursement, subsidized dining facilities, etc.)	3%	12%	85%
Salary freeze	3%	10%	88%
Mandatory holiday shutdown	6%	4%	89%
Reduced workweek	3%	4%	92%
Early retirement window	0%	7%	93%
Freeze/close pension plan	3%	1%	96%

Anticipated Changes to 2009 Salary Budgets

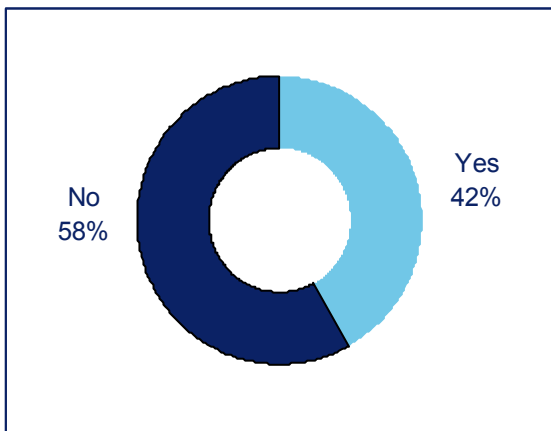
Forty-two percent of companies are revisiting merit and other increase budgets for 2009. The net effect of these actions point to a reduction in overall 2009 projection for merit budgets from 3.5 percent to 2.9 percent. Out of the 42 percent reporting changes, projected merit budgets for 2009 will decrease by an average of 39 percent (from 3.3 percent to 2 percent).

Companies in the financial, manufacturing and professional services sectors are more than twice as likely to revise their 2009 budget for merit and other increases than other industry sectors.

Sixty percent of respondents in each of the financial, manufacturing and professional services sectors plan to revise their merit and other salary increases for 2009, while only 30 percent of respondents in other industry sectors plan to revise their 2009 merit and other increases.

Other industries cover a diverse range including retail, wholesale and pharmaceuticals.

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



For All Respondents	
Original 2009 merit budget	3.5%
Revised 2009 merit budget	2.9%
Percent change	17%

Demographics

Of the 138 employers who completed the survey:

- Forty-four percent have more than 1,000 employees, with median of slightly more than 700 employees.
- Forty-two percent are for-profit, publicly traded companies; 40 percent are for-profit, private companies; 11 percent are not-for-profit organizations; 7 percent are government organizations.
- Participants are spread among industries. The industries with the most participants are financial services, professional and business services, and manufacturing.

Conclusion

The full fallout from the economic crisis has yet to be seen. Most companies believe their HR programs will likely be affected but appear to be holding off from making dramatic changes in the short term. Regardless of the choices they will make in the coming months, companies will need to control costs, maintain employee morale and prepare for future staffing challenges.

At Watson Wyatt we are committed to helping our clients weather the storm of this economic crisis. Look for further communications from us on this topic as events unfold.

About Watson Wyatt Worldwide

Watson Wyatt is the trusted business partner to the world's leading organizations on people and financial issues.

Our client relationships, many spanning decades, define who we are. They are shaped by a deep understanding of our clients' needs, a collaborative working style and a firm-wide commitment to service excellence.

Our consultants bring fresh thinking to client issues, along with the experience and research to know what really works. They deliver practical, evidence-based solutions that are tailored to your organization's culture and goals.

With 7,600 associates in 32 countries, our global services include:

- Managing the cost and effectiveness of employee benefit programs
- Developing attraction, retention and reward strategies that help create competitive advantage
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Providing strategic and financial advice to insurance and financial services companies
- Delivering related technology, outsourcing and data services

For more information on research and analysis related to the financial crisis, call your Watson Wyatt consultant or visit watsonwyatt.com.