

# Survey – Latin America

## April 2009

# Effects of the Economy on HR Programs

Survey conducted with 441 respondents

## About the Survey

In view of the current economic crisis, Watson Wyatt conducted the second edition of the survey on how companies are adjusting their HR programs (recruiting and hiring, compensation, benefits, salary increases, etc.). The first edition had 245 respondents, and this edition has the participation of 441 HR executives from different industries, working in various Latin American countries.

## Introduction

Due to the global economic turbulence, companies are seeking answers to the issues and pressures they are confronting. Some of their inquiries have already been answered, but for many executives, questions remain. What are the impacts of the economic crisis on human resources? What actions have employers taken — and what steps do they expect to take? Will salaries be affected?

Your company has no doubt asked your views on these issues and how other firms are coping with the new developments constantly being reported by the media. This report shows that many companies have already taken specific measures, such as reducing the budget for salary increases, freezing new hires and reducing training and development activities.

We hope the second edition of this survey helps you respond to questions you encounter during this difficult phase of the global economy and that executives' expectations regarding the outcome are useful.



## Profile of the participating companies

This survey includes companies of different sizes, industries and capital origins. Fifty-two percent consider themselves to be global companies, while the others are split into national and international organizations.

Figure 1 | Industry sectors

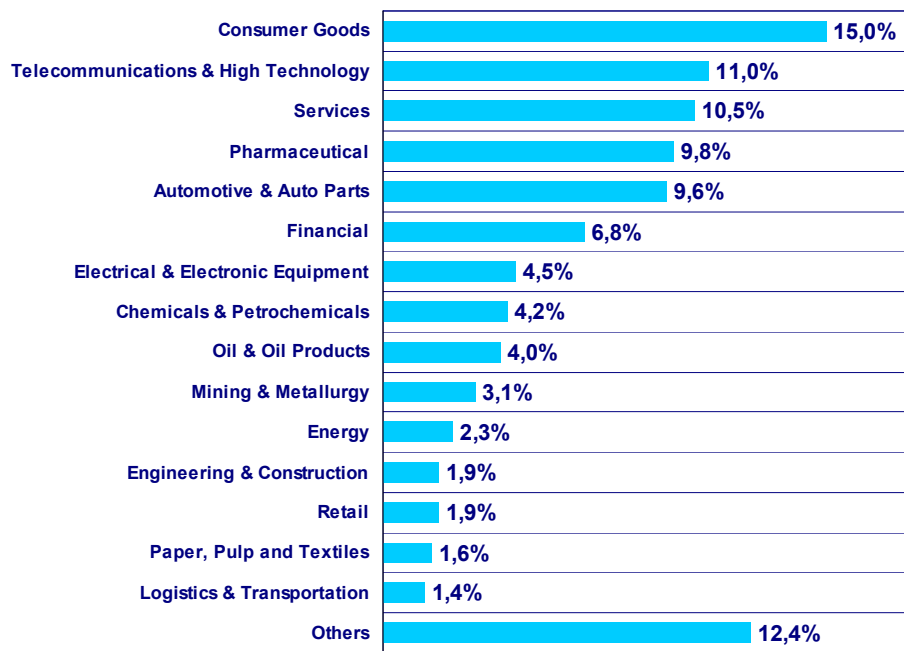
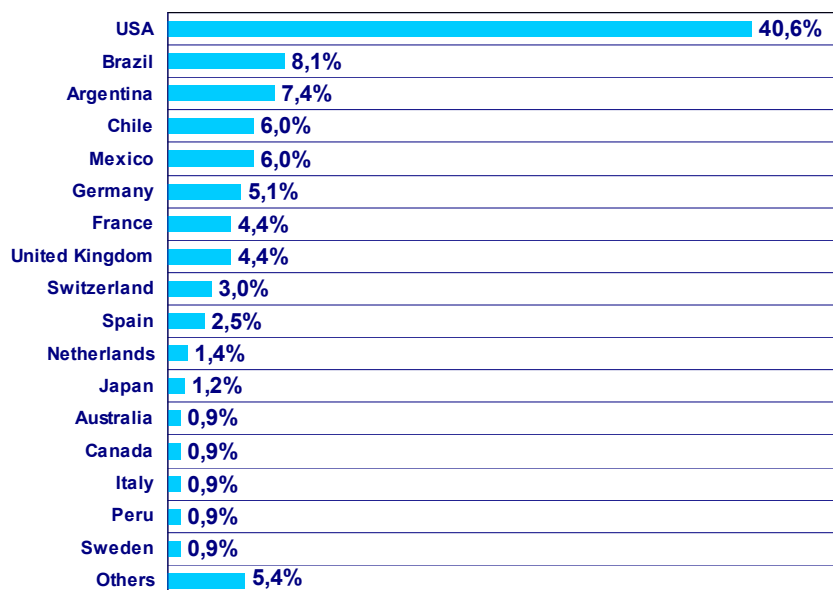


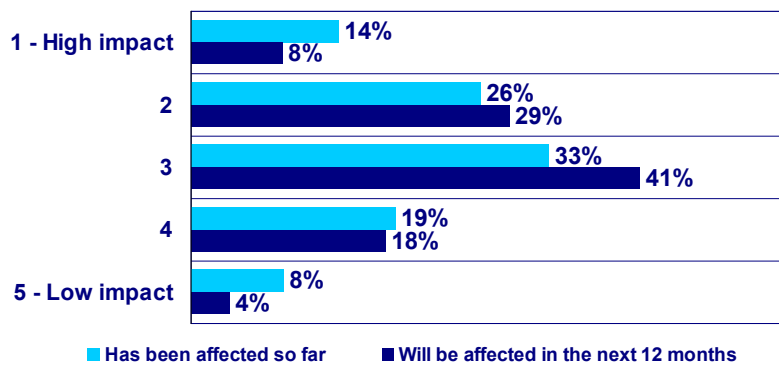
Figure 2 | Capital origin



## Impact of current economic downturn

Approximately 40 percent of participants surveyed believe the company was highly affected by the crisis, and 37 percent believe they still will suffer impacts, while 27 percent believe the impact is low so far, and 22 percent think the firm will not experience major impacts in the next 12 months.

**Figure 3 | As a result of the current economic environment, your company believes:**

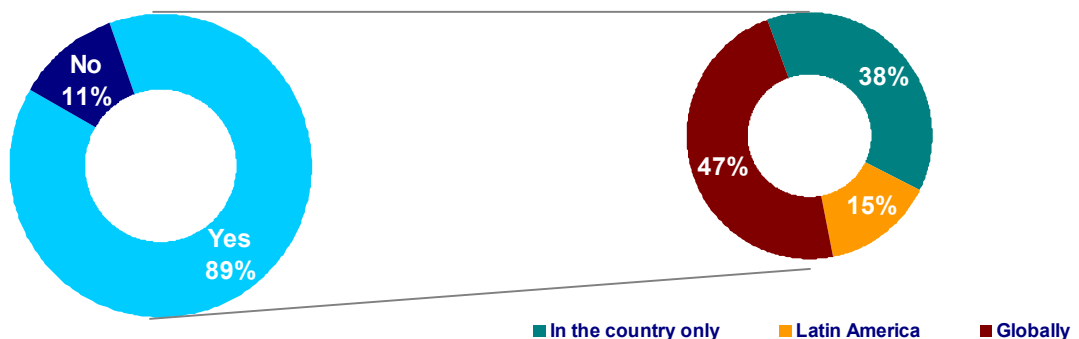


## Actions taken

Eighty nine percent of the respondents said some actions in response to the current economic downturn are already in place: 47 percent have made a decision implemented globally, 38 percent have adopted local (country) measures, and 15 percent have taken region wide (Latin America) measures.

In the previous edition, 75 percent responded that the actions had already been implemented.

**Figure 4 | Has your company taken action to cope with the current crisis? If so, how was the decision made?**

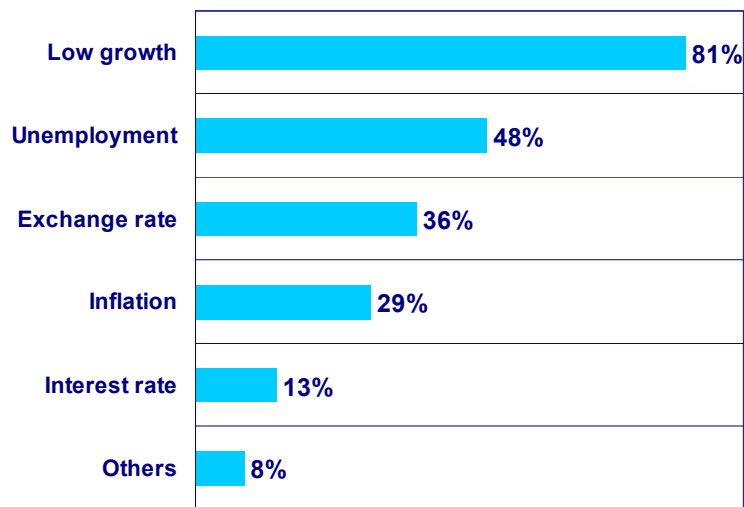


The measures have been implemented primarily to respond to pressure for cost reduction, production volume reduction and to take preventive steps in response to the current environment.

## Issues of greatest concern

Eighty-one percent of participants surveyed reported that the low growth of the economy is the aspect of the crisis that most concerns them. The high unemployment rate and the exchange rate were mentioned by 48 percent and 36 percent of respondents, respectively.

Figure 5 | What crisis-related issues are of greatest concern?

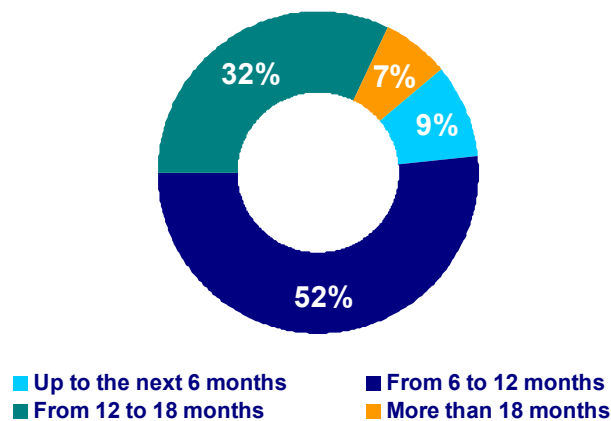


Among other issues that most concern companies are reduced consumption and sales, as well as difficulties in obtaining credit and financing.

## Crisis effects

Fifty-two percent of respondents believe the effects of the crisis will extend for six to 12 months, 32 percent believe the effects will last 12 to 18 months, and 7 percent think the effects will continue for more than 18 months. Only 9 percent are optimistic that the effects will be felt for less than six months.

**Figure 6 | How long do you expect the effects of the crisis will extend in your company?**



## Effects on HR

Among the main issues that have affected the HR area so far are: reduction or suspension of training and development, reduction or suspension of salary increases and merit programs, layoffs and hiring freezes.

Besides the issues above, participants expect that for the next 12 months HR will still experience difficulties in retaining talent and hiring key people, as well as confront challenges regarding the organizational climate and employee motivation.

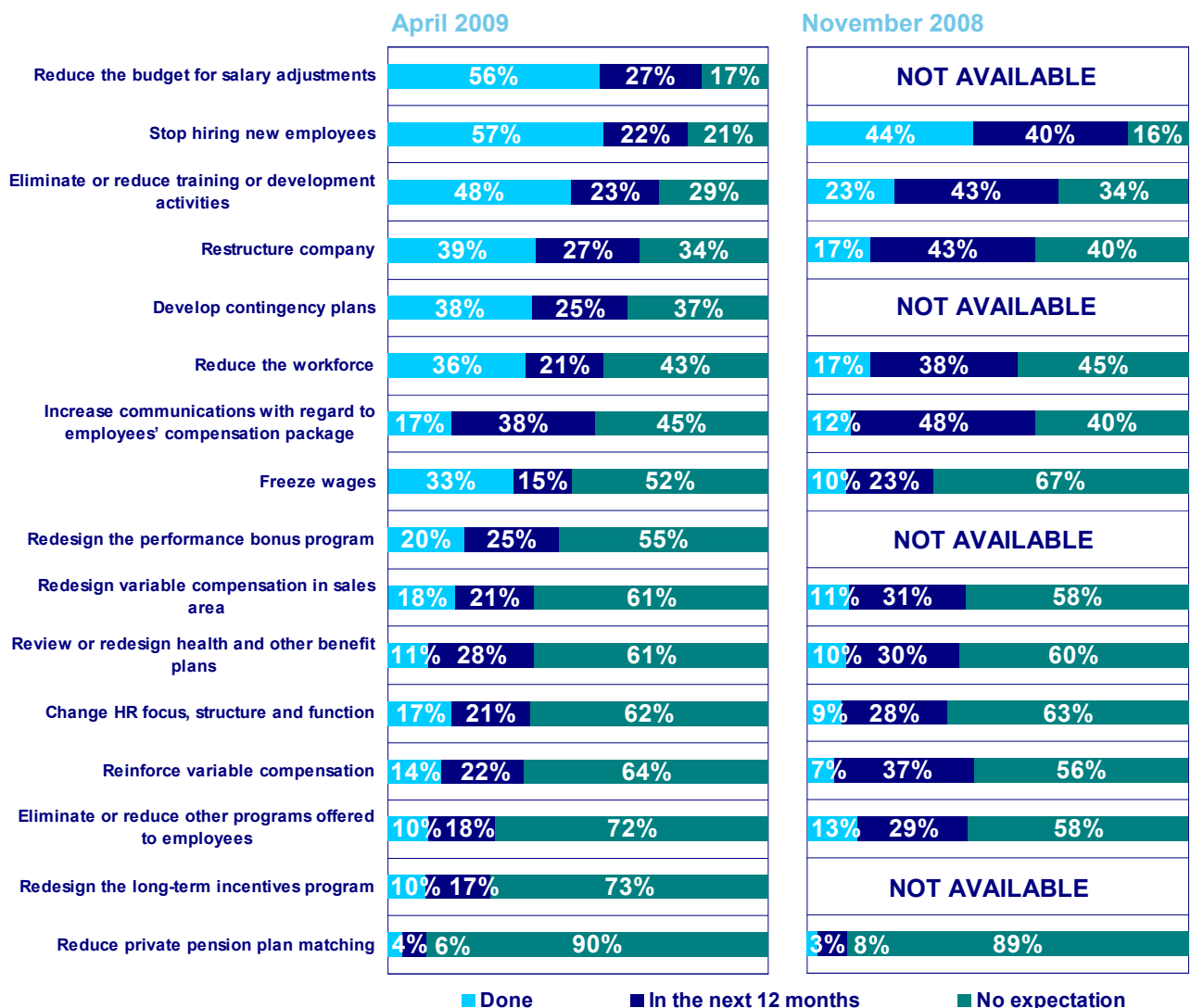
## Communication actions

Sixty-six percent of participants answered that internal communications related to the crisis have been generated, especially for executives and administrative levels of the organization. Most messages sent to employees clarify the current market situation, the main impacts of the crisis on the firm and the actions the company is taking to respond to the crisis, such as cost-reduction measures.

## Changes due to the economic environment

When participants were asked what changes they expected within their organization, the main action mentioned was reducing the budget for salary adjustments - 56 percent have taken this action, and 27 percent will do so over the next 12 months. This was followed by stopping the hiring of new employees - 57 percent of respondents have taken this step, and 22 percent will do so in the next 12 months. Many actions mentioned in last year's survey have already been taken, and most of the changes were made.

**Figure 7 | In view of recent events affecting the economy and financial markets, what changes does your company believe may occur within the organization?**



The main contingency action mentioned was the review of costs and budgets. Among the most cited programs for reduction were medical assistance plan and life insurance; education and language course allowances; recreational, sports, cultural and social events; training and development; travel expenses; and year-end social events.

## HR budget

With regard to the HR budget up to now, 48 percent of the respondents said the budget was cut by 15.9 percent on average and only 7 percent increased the budget by 14.9 percent on average. For the next 12 months, 29 percent will cut the budget by an average 13.5 percent, and only 2 percent plan a budget increase, considering 11.7 percent on average.

In the previous edition of the survey, only 35 percent said the company planned to reduce the HR budget for the following 12 months.

**Figure 8 | Does your firm plan to increase, decrease or maintain its HR budget for 2009?**

	Up to now		In the next 12 months	
	% respondents	Average	% respondents	Average
Increase	7%	14,9%	2%	11,7%
Maintain	45%	-	69%	-
Decrease	48%	15,9%	29%	13,5%

## People retention

Asked about people retention, 35 percent said they have taken some kind of action so far, and 41 percent plan to take some measure in the next 12 months. Only 41 percent said they expected to take any specific action in the previous edition of this survey.

The main activities reported were career development plans, special salary adjustments and retention programs for key positions and high-potential employees, increased communication and review of the compensation package and salary structures.

## Labor supply

Fifty percent of the respondents believe the labor supply has increased, 31 percent believe the supply has not increased, and 19 percent say the supply has not increased but will increase over the next 12 months.

In the previous edition of the survey, 58 percent of the respondents did not think the labor supply would increase.

## Salary increases

Eighty-six percent of the respondents believe the crisis will affect salary increases — this number has grown compared to the previous edition (73 percent). Thirty-three percent of the respondents said the increase will be below inflation, 57 percent said it will match inflation, and only 10 percent feel increases will exceed inflation. Compared with the budget for increases before the crisis, the current budget represents a 39 percent average reduction, considering collective agreements, merit and other forms of salary increases.

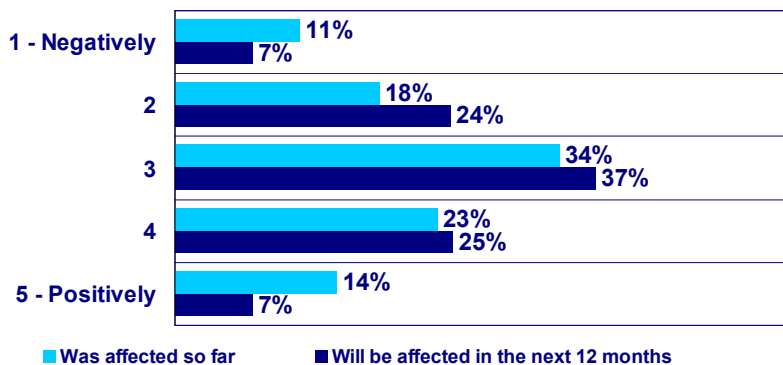
Figure 9 | 2009 budget for collective increases or negotiation with trade unions



## Organizational climate

Despite the level of uncertainty in the current market environment, approximately 34 percent of the respondents believe the organizational climate has not been affected, and 37 percent expect it will not be affected in the next 12 months.

Figure 10 | In the current scenario, how your company consider that the organizational climate was affected?

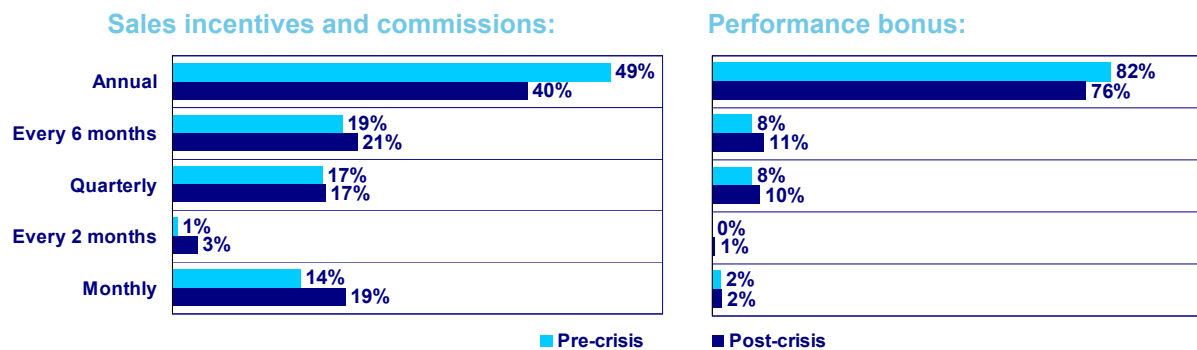


In the previous edition, only 13 percent of the respondents considered that the organizational climate would be positively affected. Now more than a third believes the company will be affected positively.

## Variable compensation

The intervals for setting and/or revising sales incentive goals have become more frequent, due to the market's instability. However, the performance bonus, in most cases, is unchanged.

**Figure 11 | What is the frequency for setting / revising targets?**



**Figure 12 | Does your company consider that the payments of bonus and / or profit sharing in 2009 referring to 2008 results are suffering impact by the crisis and will be reduced?**

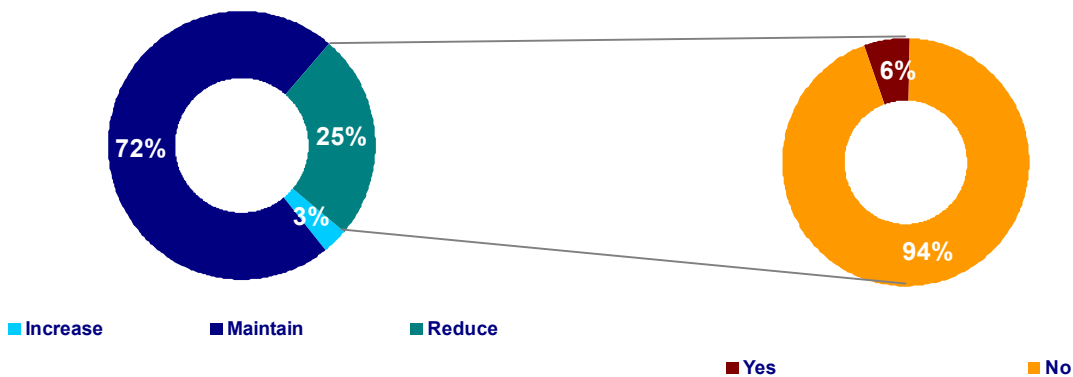
	Payment will not occur	Reduction above 30%	Reduction up to 30%	On same level	Higher
Executives	12%	14%	24%	48%	2%
Administratives and Professionals	15%	12%	21%	50%	2%
Operacionals	19%	9%	19%	51%	2%
General	15%	12%	22%	50%	1%

Approximately 34 percent answered that bonus and/or profit sharing payments were reduced, and 15 percent of the respondents said payments will not occur this year.

## Long-term incentives

Seventy-two percent of the respondents believe stock awards will continue at the same level, while 25 percent foresee a reduction. Among those expecting a decrease, 94 percent do not expect the reduction to be offset with salary increases or short-term incentives adjustments.

**Figure 13 | Does your company expect stock awards to increase, maintain or decrease in 2009? Will any reduction be offset with salary increases or short-term incentives adjustments?**



Among the most realized changes so far is the replacement of stock options to restricted stock, held by 14 percent of participants. The next 12 months could see changes to the performance measures and revised targets, according to 17 percent of participants. The main reasons given for the changes in stock plans were alignment of the incentive plan to the company's business strategy and reduction in share value on the stock exchange due to the current market situation.

## Conclusion

This second edition of the survey shows that many actions have been taken in response to the world economic crisis and that companies are still seeking measures to prevent possible negative impacts in the short term.

The cost reductions throughout the company and in the budget for the human resources area were the main motivators for actions such as freezing new hires and postponing or reducing budgets for salary increases and merit programs. As expected, market uncertainties, including slower economic growth and the high number of layoffs, are directly affecting the organizational climate.

Approximately 84 percent of participants believe the crisis effects will extend for about six to 18 months. The main issues affecting HR are the reduction or suspension of training and development activities and review of salary increase budgets. Moreover, difficulties in talent retention were frequently mentioned, with around 76 percent of respondents noting they have taken or expect to take some action in relation to people retention, especially for key positions and with high-potential employees.

In the current uncertain market, two-thirds of respondents reported they have communicated with their employees, in order to explain the state of the market, the main impacts of the crisis on the company and actions the company is taking to address the economic crisis.

In an era of budget reductions, the majority of the respondents believe the crisis will affect salary increases; approximately one-third believe the increases will be below inflation, and 57 percent think the increases should follow inflation.

Variable compensation will also be affected, and around half of the participants indicated that performance bonus payments and/or profit sharing will be reduced or no payment will be made this year. Regarding stock incentives, such as stock options and restricted stocks, only a quarter mentioned a decrease in this area, occasioned by the fall in the share value on the stock market.

Furthermore, the survey identified a group of companies who believe that most of the necessary and difficult actions have already been taken to respond to the financial crisis and that the worst has already passed. Their survey responses represent an optimism about the future.

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## About Watson Wyatt Worldwide

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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 7,700 associates in 33 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
- Providing strategic and financial advice to insurance and financial services companies
- Advising pension plan sponsors and other institutions on optimal investment strategies
- Delivering related technology, outsourcing and data services

**To learn more** about the survey or to find articles related to the economic crisis, contact us or visit [watsonwyatt.com](http://watsonwyatt.com).

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