

Compensation and Staffing Implications of a Changing Economic Climate – Snapshot Survey



This survey addressed organisation plans and actions regarding staffing levels, compensation budgets, incentive opportunities as well as other people strategy related activities.

Background

Downturns, recessions and periods of economic stagnation are the norm, of course – economies endure these inevitable cycles, and innovative companies rise to the challenge by creating positive change and fresh opportunities. But the onset of financial hardship puts human capital strategies to their ultimate test: Are people an investment to be managed or an expense to be reduced?

Reports of declining US economic conditions and companies in various industry sectors re-thinking their financial plans for 2008 dominate the news. As a result, companies in Canada (and around the world, in fact) are keeping a careful eye on US economic indicators.

In Mercer's recent survey, we set out to learn if the changing economic climate was having – or might have – implications for companies' talent management programs. To give our clients an up-to-the-moment perspective on how organisations perceive these imminent challenges and how HR plans may shift in anticipation of near- and medium-term economic changes, our survey addressed organisation plans and actions regarding staffing levels, compensation budgets, incentive opportunities as well as other people strategy related activities.

Summary of findings

We received over 400 survey responses from American and Canadian employers. The overwhelming message is that, while some organisations are considering a conservative, planned approach to manage aggregate staff costs, few organisations are reducing planned compensation budgets or initiating pay freezes. It is interesting to note that HR programs related to talent acquisition and retention seem to be receiving more emphasis and attention.

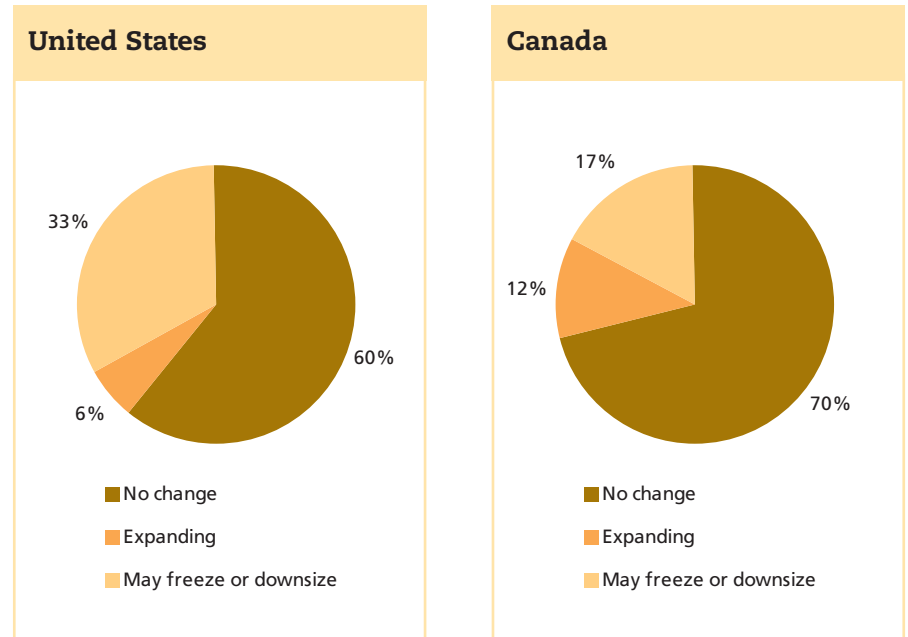
Survey findings

We asked whether, as a result of the changing economic environment, respondents had considered or instituted changes to staffing levels. The majority of US and Canada companies plan no change. But one in three US organisations are considering or instituting staff freezes or downsizing; 17 percent of Canadian companies are considering the same actions.



One in three US organisations are considering or instituting staff freezes or reductions.

Are you considering or instituting staffing level changes?

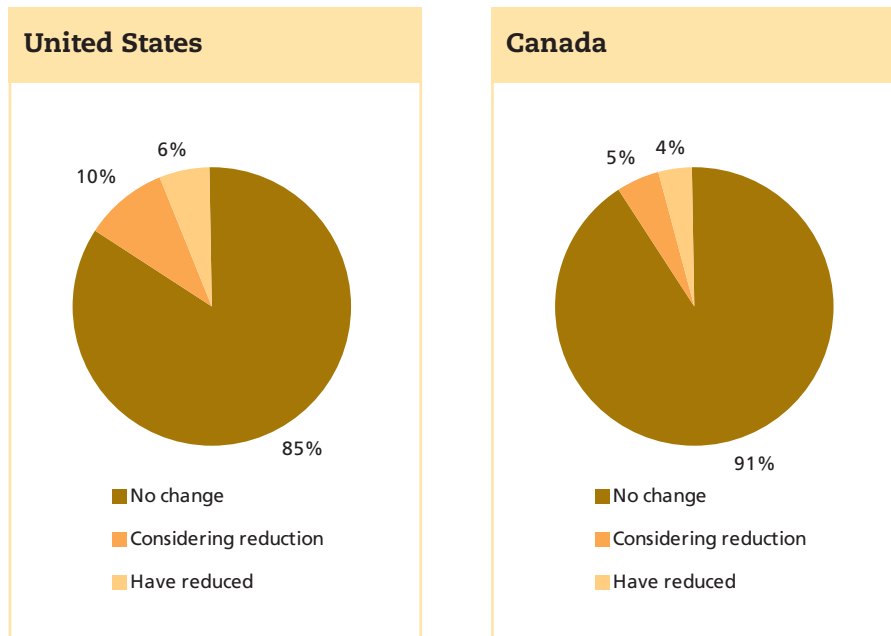


Fewer companies are considering compensation budget reduction actions; 16 percent in the US and nine percent in Canada are taking or considering compensation budget actions. Only seven percent of the organisations in either country are taking or considering salary freeze actions; approximately 10 percent are considering or implementing incentive opportunity or eligibility coverage changes.

We also asked organisations whether they had considered or instituted 2008 compensation budget changes since 4th quarter 2007 in anticipation of the changing economic environment.

Among US employers, 85 percent indicated that they have made no budget changes in anticipation of a slower economy; in Canada, the proportion was 91 percent. Sixteen percent of US organisations and nine percent of Canadian organisations indicate that they are considering or have already reduced their compensation budgets since the last quarter of 2007. The results are depicted graphically on the next page.

Did you consider or institute budget changes since the 4th quarter?



Among US employers, 85% indicated that they have made no budget changes in anticipation of a slower economy; in Canada, the proportion was 91%.



Other HR initiatives

Employers are considering or instituting other HR strategy initiatives as a result of the uncertain economic climate. Responses suggest companies are taking action – or preparing to take action – to protect and strengthen their programs and talent. For example, over 40 percent of the United States and Canadian organisations indicate they are considering or implementing initiatives such as creating new talent sourcing programs, building pipelines of high-value candidates, retaining high performers and maintaining historic levels of employee engagement. In Canada, increasing training and development programs also was highlighted (slightly less so in the US). Other initiatives, such as optimizing HR efficiency, recalibrating performance targets/policies and enhancing incentive programs, were also cited by a significant share of the survey respondents.

Responses suggest companies are taking action – or preparing to take action – to protect and strengthen their programs and talent.

In Canada, increasing training and development programs also was highlighted (slightly less so in the United States).

Other HR initiatives

	US		Canada	
	Considering	Instituted	Considering	Instituted
Develop initiatives to retain high performers	35%	22%	41%	21%
Optimize HR functional efficiency	27%	20%	24%	25%
Create new talent sourcing programs	28%	16%	32%	17%
Develop initiatives to build the pipeline of high-value candidates	27%	17%	33%	18%
Take steps to maintain historic levels of employee engagement	23%	19%	29%	27%
Improve sales force effectiveness	21%	21%	14%	30%
Recalibrate pay-for-performance targets, measures, and policies	26%	15%	24%	10%
Develop new, or enhance existing, variable pay programs	28%	10%	26%	10%
Increase training and development programs	20%	14%	22%	24%
Restructure the organization	17%	17%	17%	20%
Provide guidance to leaders on managing large-scale change	17%	14%	20%	12%
Outsource functions not financially sustainable in an economic downturn	16%	5%	16%	5%
Create new site selection programs	14%	5%	9%	6%
Decrease training and development programs	8%	9%	4%	4%
Advise employees to re-evaluate asset allocation and borrowing from DC plans	5%	7%	2%	3%
Re-allocate investments tied to DB plans	5%	2%	6%	2%

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Conclusion

Our survey results indicate that:

- For the most part, employers are focused on managing aggregate staff costs via head count management and not looking to scale back existing compensation plans.
- Only a small number of employers are expanding incentive eligibility or opportunity of existing plans, but a larger share are trying to ensure that they have appropriate performance targets, measures, and policies or looking at new or enhanced variable pay programs.
- Finally, many employers are focusing on talent acquisition and retention programs in this time of economic uncertainty.