

Economy & HR

OVERVIEW

In December of 2008, ERC conducted a survey on how the current economy is impacting human resource practices in Northeast Ohio. The survey sought to explore whether local organizations are changing their 2009 compensation adjustment, incentive, and bonus projections, whether staffing levels will remain steady, and which HR programs will be most affected by the challenges faced in our local and national economies. The study, surveying 168 local organizations, confirmed that most employers are holding steady and not making any significant changes in terms of compensation, rewards, programs, and staffing in 2009. Key findings in the survey were as follows:

- Forty-three percent of all responding organizations reported that their business performance was close to targets and budgeted levels.
- Few organizations report making changes to HR programs. Interestingly, 20% of organizations are planning to increase their training and development programs.
- The average predicted salary / wage increase for 2009 is 3.1%, slightly below that projected a few months ago. Most organizations (53%) have made no adjustments to their 2009 projections.
- Even greater, are the organizations (78%) that have made no adjustments to their incentive / bonus projections for 2009. Few organizations have decreased their projections.
- The majority of organizations are either reducing staffing levels or maintaining them. Only 8% of responding organizations are increasing staffing levels.

BUSINESS PERFORMANCE

Fifty-one percent of respondents claim that their overall business performance is worse than targets and budgeted levels. Forty-three percent of organizations say that their organization's business performance is close to targeted and budgeted levels. Only five percent of organizations say that performance is better than targets and budgeted levels.

Exhibit 1: How Economic Conditions Are Affecting Overall Business Performance

How Economic Conditions Are Affecting Overall Business Performance - All Organizations	
	Percent
Performance is close to targets and budgeted levels	43%
Performance is worse than targets and budgeted levels	51%
Performance is better than targets and budgeted levels	5%

How Economic Conditions Are Affecting Overall Business Performance - Manufacturing Organizations	
	Percent
Performance is close to targets and budgeted levels	37%
Performance is worse than targets and budgeted levels	58%
Performance is better than targets and budgeted levels	5%

How Economic Conditions Are Affecting Overall Business Performance - Non-Manufacturing Organizations	
	Percent
Performance is close to targets and budgeted levels	53%
Performance is worse than targets and budgeted levels	43%
Performance is better than targets and budgeted levels	3%

CHANGES TO HR PROGRAMS

The majority of organizations are either making no changes to HR programs or considering changes to their programs. Very few organizations are removing or reducing programs. Nearly an even split of organizations are either considering removing/reducing training and development programs or adding and enhancing them.

Exhibit 2: Changes to HR Programs in 2009

Changes to HR Programs in 2009 - All Organizations					
	No Change	Considering Change	Removing/ Reducing	Adding/ Enhancing	Do not offer
Executive perks	50%	16%	9%	1%	24%
Health care benefits	57%	28%	8%	7%	0%
Long-term incentives	48%	13%	3%	1%	36%
Retirement plans / benefits	74%	10%	8%	3%	6%
Rewards / recognition programs	55%	19%	10%	6%	10%
Paid time off	78%	9%	3%	5%	5%
Pay for performance / incentive programs	47%	19%	10%	9%	15%
Training and development programs	42%	16%	18%	20%	4%
Top performer retention programs	35%	9%	1%	10%	46%
Travel reimbursement	78%	10%	11%	0%	1%
Work hours	66%	19%	13%	2%	1%

Changes to HR Programs in 2009 - Manufacturing Organizations					
	No Change	Considering Change	Removing/ Reducing	Adding/ Enhancing	Do not offer
Executive perks	52%	19%	6%	1%	22%
Health care benefits	60%	25%	8%	6%	0%
Long-term incentives	44%	15%	2%	1%	38%
Retirement plans / benefits	71%	10%	7%	2%	10%
Rewards / recognition programs	53%	20%	10%	5%	12%
Paid time off	73%	10%	2%	6%	9%
Pay for performance / incentive programs	46%	19%	7%	7%	20%
Training and development programs	36%	19%	23%	18%	4%
Top performer retention programs	32%	11%	1%	10%	46%
Travel reimbursement	77%	12%	10%	0%	1%
Work hours	57%	25%	14%	2%	1%

Changes to HR Programs in 2009 - Non-Manufacturing Organizations					
	No Change	Considering Change	Removing/ Reducing	Adding/ Enhancing	Do not offer
Executive perks	39%	12%	12%	2%	24%
Health care benefits	42%	27%	4%	8%	0%
Long-term incentives	47%	9%	3%	2%	31%
Retirement plans / benefits	67%	11%	9%	3%	2%
Rewards / recognition programs	44%	18%	12%	8%	8%
Paid time off	82%	7%	5%	3%	0%
Pay for performance / incentive programs	47%	17%	13%	10%	6%
Training and development programs	52%	17%	13%	24%	2%
Top performer retention programs	38%	6%	0%	12%	51%
Travel reimbursement	72%	8%	11%	0%	2%
Work hours	68%	12%	8%	2%	0%

COMPENSATION

About half of organizations are making no adjustments to their 2009 salary and wage budgets. Slightly less than half of organizations are planning to decrease their projected salary/wage budget. Overall, the average projected salary/wage increase in 2009 is anticipated to be slightly lower than the projections a few months ago. Organizations report that they plan to provide an average salary/wage increase of 3.1% in 2009. Twenty percent of organizations plan to offer no increase (0%), however, this practice was more common among manufacturing organizations than non-manufacturing organizations.

Exhibit 3: Adjustments to Projected 2009 Salary & Wage Budgets

Adjustments to Projected 2009 Salary & Wage Budgets - All Organizations	
	Percent
No adjustments made	53%
Increased projected salary/wage budget	7%
Decreased projected salary/wage budget	41%
Average projected wage/salary increase in 2009	3.1%
Organizations offering no increase	20%

Adjustments to Projected 2009 Salary & Wage Budgets - Manufacturing Organizations	
	Percent
No adjustments made	55%
Increased projected salary/wage budget	4%
Decreased projected salary/wage budget	41%
Average projected wage/salary increase in 2009	3.1%
Organizations offering no increase	23%

Adjustments to Projected 2009 Salary & Wage Budgets - Non-Manufacturing Organizations	
	Percent
No adjustments made	52%
Increased projected salary/wage budget	12%
Decreased projected salary/wage budget	36%
Average projected wage/salary increase in 2009	3.1%
Organizations offering no increase	16%

The majority of responding organizations reported planning to decrease adjustments for their top performers as well, suggesting that adjustments will be made across the board. Nearly one-third of organizations said they are not planning to decrease adjustments for top performers.

Exhibit 4: Adjustments for Top Performers

Decreased Adjustments for Top Performers	
	Percent
All Organizations	66%
Manufacturing Organizations	67%
Non-Manufacturing Organizations	62%

Did Not Decrease Adjustments for Top Performers	
	Percent
All Organizations	34%
Manufacturing Organizations	33%
Non-Manufacturing Organizations	38%

REWARDS

Sixty percent of organizations are not planning to make adjustments to year-end incentive/bonus payments for 2008. Fewer than 40% of organizations are making smaller incentive/bonus payments than anticipated. Of those organizations that plan to make smaller payments than anticipated, the average percentage decrease for incentive/bonus payments was 43%.

Exhibit 5: Adjustments to Incentive/Bonus Payments for 2008

Adjustments to Incentive/Bonus Payments - All Organizations	
	Percent
No adjustments made	60%
Larger incentive/bonus payments than anticipated	5%
Smaller incentive/bonus payments than anticipated	34%
Average percent decrease	43%

Adjustments to Incentive/Bonus Payments - Manufacturing Organizations	
	Percent
No adjustments made	56%
Larger incentive/bonus payments than anticipated	4%
Smaller incentive/bonus payments than anticipated	40%
Average percent decrease	43%

Adjustments to Incentive/Bonus Payments - Non-Manufacturing Organizations	
	Percent
No adjustments made	66%
Larger incentive/bonus payments than anticipated	8%
Smaller incentive/bonus payments than anticipated	26%
Average percent decrease	40%

Exhibit 6: Adjustments to Projected Incentive/Bonus Payments for 2009

Adjustments to Incentive/Bonus Payments - All Organizations	
	Percent
No adjustments made	78%
Larger incentive/bonus payments than anticipated	2%
Smaller incentive/bonus payments than anticipated	19%
Average percent decrease	42%

Adjustments to Incentive/Bonus Payments - Manufacturing Organizations	
	Percent
No adjustments made	79%
Larger incentive/bonus payments than anticipated	0%
Smaller incentive/bonus payments than anticipated	21%
Average percent decrease	43%

Adjustments to Incentive/Bonus Payments - Non-Manufacturing Organizations	
	Percent
No adjustments made	76%
Larger incentive/bonus payments than anticipated	6%
Smaller incentive/bonus payments than anticipated	18%
Average percent decrease	51%

Exhibit 7: Adjustments for Top Performers

Decreased Adjustments for Top Performers	
	Percent
All Organizations	78%
Manufacturing Organizations	86%
Non-Manufacturing Organizations	68%

Did Not Decrease Adjustments for Top Performers	
	Percent
All Organizations	22%
Manufacturing Organizations	14%
Non-Manufacturing Organizations	32%

STAFFING

Organizations are typically making changes to overall staffing levels in one of three ways: reducing staffing levels (38% of respondents), freezing existing staffing levels (21% of respondents), or maintaining staffing levels (33% of respondents). Very few organizations are increasing staffing levels.

Exhibit 8: Changes to Staffing Levels

Changes to Staffing Levels - All Organizations	
	Percent
Maintain staffing levels	33%
Freeze existing staffing levels (not hire for new or open positions)	21%
Reduce staffing levels (layoffs)	38%
Increase staffing levels	8%

Changes to Staffing Levels - Manufacturing Organizations	
	Percent
Maintain staffing levels	31%
Freeze existing staffing levels (not hire for new or open positions)	19%
Reduce staffing levels (layoffs)	47%
Increase staffing levels	2%

Changes to Staffing Levels - Non-Manufacturing Organizations	
	Percent
Maintain staffing levels	37%
Freeze existing staffing levels (not hire for new or open positions)	24%
Reduce staffing levels (layoffs)	22%
Increase staffing levels	17%

Among those organizations that have reduced staffing levels or are planning to reduce them through layoffs, most have frozen hiring, let go of temporary or contract workers, and/or reduced employee hours. Less common practices were freezing pay, offering voluntary layoffs, and encouraging or mandating paid time off use. Few organizations made across the board salary/wage reductions prior to layoffs.

Exhibit 9: Steps Taken Prior to Reduction in Force / Layoffs

Steps Taken Prior to Reduction in Force / Layoffs - All Organizations	
	Percent
Freeze hiring	74%
Freeze pay	35%
Let go of temporary or contract workers	67%
Voluntary layoffs	26%
Encourage or mandate use of paid employee leave or vacation time	26%
Across the board salary/wage reductions	11%
Reduce employee hours	44%

Steps Taken Prior to Reduction in Force / Layoffs - Manufacturing Organizations	
	Percent
Freeze hiring	77%
Freeze pay	38%
Let go of temporary or contract workers	72%
Voluntary layoffs	26%
Encourage or mandate use of paid employee leave or vacation time	31%
Across the board salary/wage reductions	5%
Reduce employee hours	49%

Steps Taken Prior to Reduction in Force / Layoffs - Non-Manufacturing Organizations	
	Percent
Freeze hiring	62%
Freeze pay	31%
Let go of temporary or contract workers	62%
Voluntary layoffs	31%
Encourage or mandate use of paid employee leave or vacation time	8%
Across the board salary/wage reductions	31%
Reduce employee hours	38%

The primary factor driving these organizations' decisions to reduce staffing levels is declining profits or financials. Though, almost half of organizations claim to either have made decisions or are making decisions to reduce staffing levels based on business forecasts, the national economy, and restructuring.

Exhibit 10: Factors Driving Decisions to Reduce Staffing Levels

Factors Driving Decisions to Reduce Staffing Levels - All Organizations	
	Percent
Declining profits or financials	50%
Business forecasts	31%
National economy	15%
Restructuring	4%

Factors Driving Decisions to Reduce Staffing Levels - Manufacturing Organizations	
	Percent
Declining profits or financials	53%
Business forecasts	34%
National economy	11%
Restructuring	3%

Factors Driving Decisions to Reduce Staffing Levels - Non-Manufacturing Organizations	
	Percent
Declining profits or financials	46%
Business forecasts	15%
National economy	23%
Restructuring	15%

REDUCTION IN WORKFORCE PRACTICES

Over 60% of organizations offer severance pay. The average number of years required to obtain severance is one year. In addition, the vast majority of organizations pay out one week of pay for every year of service. Many organizations, however, also use position (non-exempt, exempt; management, non-management) as a factor in determining severance pay.

Exhibit 11: Organizations Offering Severance Pay

Organizations Offering Severance Pay	
	Percent
All Organizations	63%
Manufacturing Organizations	61%
Non-Manufacturing Organizations	64%

Exhibit 12: Basis for Severance Pay Calculation

Basis for Severance Pay Calculation	
	Percent
Years of service	79%
Position	19%
Title	1%
Pay	1%

Exhibit 13: Formula for Determining Severance

Formula for Determining Severance	
	Percent
1 week of pay per year of service	75%
2 weeks of pay per year of service	22%
1 month of pay per year of service	3%

Only 27% of organizations offer outplacement assistance. Of those organizations that offer outplacement assistance, the majority (60%) only offer it to specific job titles and for a limited amount of time, typically up to three months.

Exhibit 14: Organizations Offering Outplacement Assistance

Organizations Offering Outplacement Assistance	
	Percent
All Organizations	27%
Manufacturing Organizations	27%
Non-Manufacturing Organizations	26%

Exhibit 15: Application & Duration of Outplacement Assistance

Application & Duration of Outplacement Assistance	
	Percent
Application	
Across the board	40%
Only to specific job titles	60%
Duration	
0-3 months	66%
4-6 months	24%
7-9 months	3%
9-12 months	5%
Over 12 months	3%

The majority of organizations offer continuation of benefits usually for a predetermined length of time, through the severance or COBRA period. Nearly 90% of organizations also pay out employees' unused time off.

Exhibit 16: Organizations Offering Continuation of Benefits

Organizations Offering Continuation of Benefits	
	Percent
All Organizations	59%
Manufacturing Organizations	60%
Non-Manufacturing Organizations	59%

Exhibit 17: Organizations Paying Out Unused Time Off

Organizations Paying Out Unused Time Off	
	Percent
All Organizations	88%
Manufacturing Organizations	89%
Non-Manufacturing Organizations	86%

When reducing their workforces, there are several organizations that offer early retirement incentives. These incentives commonly include a severance package and continuation of health benefits. Fewer organizations offer outplacement assistance and retirement plan enhancements.

Exhibit 18: Organizations Offering Early Retirement Incentives

Organizations Offering Early Retirement Incentives	
	Percent
Severance package	71%
Continuation of health benefits	71%
Retirement plan enhancements	19%
Outplacement assistance	29%

CONCLUSION

In conclusion, the majority of organizations are generally not making vast changes to their HR practices. The survey did identify some changes which are occurring, however. These include maintaining or decreasing staffing levels, enhancing training and development programs, and making slight adjustments to salary/wage adjustment projections if business performance warrants. Organizations do not appear to be making any changes to their incentive/bonus payments in 2009.

For more information on any of these issues, please contact ERC at 440/684-9700.

<u>Participation</u>	
168 organizations	
<u>Industry</u>	
Manufacturing	49%
Non-Manufacturing	36%
Not Specified	15%

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