ERC Economy & HR Survey

February 2010

Conducted by ERC
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Overview

In December of 2009 and January of 2010, ERC conducted a follow-up survey to its *Economy & HR Survey* last year in order to investigate how the current economy continues to be impacting human resource practices in Northeast Ohio. The survey sought to explore whether local organizations are changing their 2010 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 101 local organizations, confirmed that most employers were impacted by the economy in 2009, but are anticipating fewer changes in 2010. This report provides comparison data from last year's survey in addition to industry breakouts for this year's results.

Key findings in the survey:

- Most organizations are not planning any major changes to HR programs in 2010.
- Many organizations report anticipating either the same or higher salary/wage adjustments in 2010.
- Many organizations did not adjust their rewards practices in 2009; however some made smaller incentive/bonus payments.
- The majority of organizations intend to maintain their staffing levels in 2010 and not reduce their workforces. Several plan to increase staffing.
- Many organizations continue to offer a variety of benefits when reducing their workforces, including severance pay and continuation of benefits.

General Business Performance

General business performance has remained fairly similar from last year, as most respondents report that the economic conditions have resulted in performance worse than or close to targets and budgeted levels. This year, forty-nine percent of respondents claim that their overall business performance is worse than targets and budgeted levels compared to 51% last year; and 46% of respondents say that their organization's business performance is close to targets and budgeted levels, compared to 43% last year. Like last year, only 5% of organizations say that performance is better than targets and budgeted levels. On average, business performance was below budgeted levels by 19%, according to respondents. Non-profits reported performance close to targets and budgeted levels; manufacturing reported worse performance.

Figure 1 | Please specify how the current economic conditions are affecting your overall business performance this year.

	This Year	Last Year
Performance is close to targets and budgeted levels	46%	43%
Performance is worse than targets and budgeted levels	49%	51%
Performance is better than targets and budgeted levels	5%	5%

Figure 1a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Performance is close to targets and budgeted levels	42%	46%	57%
Performance is worse than targets and budgeted levels	56%	46%	36%
Performance is better than targets and budgeted levels	2%	8%	7%

Changes to HR Programs

Like last year, most employers are not intending to make any changes to their HR programs in 2010. Few organizations are looking to remove/reduce or add/enhance their current HR programs; however, those programs in which organizations are planning to add/enhance most commonly include training and development programs and rewards/recognition programs. It appears that manufacturers are most inclined to enhance training and development programs, while non-profits are most inclined to enhance rewards/recognition programs.

Figure 2 | Is your organization planning to make any changes to its HR programs in 2010?

	No change		Considering Change		Removing/ Reducing		Adding/ Enhancing		Not Offered	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Executive perks	53%	50%	7%	16%	8%	9%	2%	1%	30%	24%
Health care benefits	57%	57%	23%	28%	13%	8%	8%	7%	0%	0%
Long term incentives	43%	48%	2%	13%	6%	3%	2%	1%	45%	36%
Retirement plans/benefits	62%	74%	7%	10%	15%	8%	2%	3%	4%	6%
Rewards/recognition programs	56%	55%	9%	19%	13%	10%	11%	6%	11%	10%
Paid time off	80%	78%	8%	9%	2%	3%	6%	5%	4%	5%
Pay for performance/incentive programs	51%	47%	9%	19%	13%	10%	6%	9%	20%	15%
Training/development programs	52%	42%	12%	16%	14%	18%	21%	20%	1%	4%
Top performer retention programs	37%	35%	3%	9%	2%	1%	7%	10%	51%	46%
Travel reimbursement	88%	78%	3%	10%	8%	11%	0%	0%	1%	1%
Work hours	78%	66%	5%	19%	9%	13%	3%	2%	1%	1%

Figure 2a | Industry

	No change			Considering Change			Removing/ Reducing			Adding/ Enhancing		
	Man	Non	NP	Man	Non	NP	Man	Non	NP	Man	Non	NP
Executive perks	49%	67%	54%	10%	4%	0%	10%	8%	0%	4%	0%	0%
Health care benefits	50%	54%	79%	26%	25%	14%	16%	13%	7%	8%	8%	0%
Long term incentives	42%	52%	29%	2%	4%	0%	8%	0%	7%	0%	0%	7%
Retirement plans/benefits	57%	67%	57%	6%	4%	14%	20%	8%	14%	2%	0%	7%
Rewards/recognition programs	54%	57%	62%	6%	22%	0%	20%	9%	0%	6%	4%	31%
Paid time off	84%	78%	79%	6%	9%	7%	0%	4%	7%	2%	9%	7%
Pay for performance/incentive programs	46%	67%	36%	6%	17%	7%	13%	13%	21%	8%	0%	0%
Training/development programs	44%	54%	71%	16%	4%	14%	14%	21%	7%	24%	21%	7%
Top performer retention programs	34%	52%	21%	2%	4%	7%	2%	4%	0%	4%	9%	7%
Travel reimbursement	92%	79%	86%	2%	8%	0%	4%	13%	14%	0%	0%	0%
Work hours	66%	96%	86%	8%	0%	7%	12%	4%	7%	6%	0%	0%

Codes: Man = Manufacturing, Non = Non-Manufacturing, NP = Non-Profit

It appears that some organizations plan to reinstate retirement plans/benefits as 10% said that their organization plans to reinstate to prior benefit in 2010 as they reduced it in 2009. Also, among organizations intending to change or modify their current HR programs, the following appear to be the most consistent trends:

- Modifying health benefits by increasing co-insurance and deductibles; increasing employee contributions to premium; adding wellness/preventative benefits; and considering health savings plans
- Reinstating the company match for defined contribution plan (401K)
- Adding and enhancing training and development programs this year or prioritizing training and development differently
- Reducing rewards programs, particularly length of service awards
- Decreasing incentive/pay for performance programs by reducing or eliminating bonuses or raises
- Reducing executive perks (executive physical, bonus payouts, entertainment)
- Continuing to work reduced work schedules, and reinstating full work hours when possible
- Increasing time off for employees or moving to paid time off
- Limiting travel for business necessity

Compensation

Compared to last year, fewer organizations have adjusted their projected salary/wage budget in the last three months, suggesting that organization's projections are somewhat more reliable and consistent this year. The average projected salary/wage increase among employers continues to remain at 2.7% among those organizations planning to provide increases in 2010 and at 1.8% when including organizations that do not intend to provide increases.

Figure 3 | Has your organization adjusted its projected 2010 salary/wage budget in the last 3 months?

	This Year	Last Year
No adjustments made	67%	53%
Increased projected salary/wage budget	12%	7%
Decreased projected salary/wage budget	21%	41%
Average projected salary/wage increase	2.7%	3.1%
Organizations offering no increase	19%	20%

Figure 3a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
No adjustments made	78%	50%	64%
Increased projected salary/wage budget	8%	14%	14%
Decreased projected salary/wage budget	14%	36%	21%
Average projected salary/wage increase	2.8%	2.6%	2.6%
Organizations offering no increase	20%	16%	21%

Among organizations that have decreased their projected salary/wage budgets, many also reduced projected increases for top performers as well, in fact, slightly more than last year. Manufacturers were most likely to reduce projected increases for top performers, while non-profits were least likely to do so, although the majority of non-profits (57%) still reduced increases.

Figure 4 | If you have decreased your projected salary/wage budget, did you reduce projected increases for top performers as well?

	This Year	Last Year
Yes	73%	66%
No	27%	34%

Figure 4a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	79%	69%	57%
No	21%	31%	43%

Generally, organizations are split in terms of whether they are anticipating higher or lower salary/wage adjustments in 2010 compared to 2009. Forty-two percent anticipate the same adjustments this year as last year. Twenty-eight percent are expecting higher adjustments. But overall, no significant trend is evident at this time. Nearly half of manufacturers and non-manufacturers anticipate the same salary/wage adjustments as 2009 in 2010, while the majority of non-profits (64%) expect lower salary/wage adjustments.

Figure 5 | Is your organization anticipating higher or lower salary/wage adjustments in 2010 compared to 2009?

	Percent
Higher	28%
Lower	30%
Same	42%

Figure 5a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Higher	30%	26%	29%
Lower	22%	26%	64%
Same	48%	48%	7%

Rewards

Most organizations did not adjust their annual incentive/bonus payments in 2009 compared to last year, suggesting that little change was made to incentive/bonus payments this year. This trend was noticeably more common among manufacturers and non-profits. The majority of non-manufacturers (52%) provided smaller incentive/bonus payments than anticipated. Also, among those organizations that decreased incentive/bonus payments, more organizations decreased incentive/bonus payments for top performers.

Figure 6 | Did your organization adjust its annual incentive/bonus payments in 2009?

	This Year	Last Year
No changes made	59%	78%
Larger incentive/bonus payments than anticipated	3%	2%
Smaller incentive/bonus payments than anticipated	38%	19%

Figure 6a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
No changes made	58%	48%	90%
Larger incentive/bonus payments than anticipated	4%	0%	0%
Smaller incentive/bonus payments than anticipated	38%	52%	10%

Figure 7 | If you have decreased incentive/bonus payments, did you decrease them for top performers as well?

	This Year	Last Year
Yes	90%	78%
No	10%	22%

Figure 7a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	92%	87%	100%
No	8%	13%	0%

Some organizations also changed the way in which bonus/incentive payments were calculated or distributed this year. Most notably, organizations made changes to the available funding allotted for bonuses and lowered starting and maximum payout levels.

Staffing

Compared to 2008 when organizations typically made changes to overall staffing levels in one of three ways: reducing, freezing, or maintaining existing staffing levels, in 2009 the more common practice shifted to reducing staffing levels. The percentage of organizations that maintained or froze staffing levels was somewhat lower than last year. Of significance, 29% of non-profits reported increasing staffing levels this year.

Figure 8 | Did your organization make any of the following changes to overall staffing levels in 2009?

	This Year	Last Year
Maintained staffing levels	20%	33%
Freezed existing staffing levels (not hire for new or open positions)	10%	21%
Reduced staffing levels (layoffs)	61%	38%
Increased staffing levels	9%	8%

Figure 8a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Maintained staffing levels	14%	33%	14%
Freezed existing staffing levels (not hire for new or open positions)	14%	4%	7%
Reduced staffing levels (layoffs)	69%	50%	50%
Increased staffing levels	2%	13%	29%

In 2010, however, few employers (9%) have plans to reduce staffing levels and even fewer (7%) expect to freeze staffing levels. In fact, 63% of respondents say they plan to maintain staffing levels and 21% say they intend to increase staffing levels. This marks a sharp shift in staffing expectations among employers from last year. Manufacturers and non-manufacturers report planning to increase staffing levels this year than non-profits.

Figure 9 | Does your organization plan to make any of the following changes to overall staffing levels in 2010?

	Percent
Maintain staffing levels	63%
Freeze existing staffing levels (not hire for new or open positions)	7%
Reduce staffing levels (layoffs)	9%
Increase staffing levels	21%

Figure 9a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Maintain staffing levels	56%	67%	79%
Freeze existing staffing levels (not hire for new or open positions)	8%	4%	7%
Reduce staffing levels (layoffs)	10%	8%	7%
Increase staffing levels	25%	21%	7%

Among organizations planning to or that have already reduced staffing levels, some intend to take a number of steps prior to reducing staffing levels (the most common practices being freezing pay, decreasing or eliminating overtime, and using voluntary layoffs), and most had taken many steps in 2009 (the most common practices being letting go of temporary or contract workers, using voluntary layoffs, encouraging or mandating the use of paid employee lave or vacation time, reducing employee hours, furloughing employees, and freezing hiring). It should be noted, however, that 90% or more of organizations that reduced its staffing levels in 2009 used all of the steps below prior to reducing staffing levels.

Figure 10 | If your organization is planning to or already has reduced its staffing levels, has it, or does it plan to, take any of the following steps prior to reducing staffing levels?

	Plans to in 2010	Has in 2009
Freeze hiring	27%	98%
Freeze pay	37%	90%
Lower pay	13%	94%
Let go of temporary or contract workers	13%	100%
Voluntary layoffs	29%	100%
Encourage or mandate use of paid employee leave or vacation time	27%	100%
Across the board salary/wage reductions	25%	90%
Reduce employee hours	17%	100%
Furlough employees	19%	100%
Decrease or eliminate overtime	36%	96%

Figure 10a | Industry

	Manufacturing		Non-Manufacturing		Non-Profit	
	Plans to in 2010	Has in 2009	Plans to in 2010	Has in 2009	Plans to in 2010	Has in 2009
Freeze hiring	27%	97%	22%	100%	50%	100%
Freeze pay	33%	100%	46%	82%	43%	57%
Lower pay	17%	92%	0%	100%	0%	100%
Let go of temporary or contract workers	14%	100%	14%	100%	0%	100%
Voluntary layoffs	31%	100%	0%	100%	0%	0%
Encourage or mandate use of paid employee leave or vacation time	31%	100%	25%	100%	0%	100%
Across the board salary/wage reductions	25%	88%	50%	100%	0%	100%
Reduce employee hours	12%	100%	20%	100%	50%	100%
Furlough employees	17%	100%	0%	100%	33%	100%
Decrease or eliminate overtime	32%	94%	50%	100%	33%	100%

The driving factors surrounding decisions to reduce staffing levels are nearly identical to those cited by respondents last year. Declining profits or financials and business forecasts have been the most dominant drivers, and fairly consistent across industry. Other reasons cited by respondents include eliminations of products or services, lack of funding or grants (among non-profits), and decreases in sales.

Figure 11 | What has driven decisions to reduce staffing levels?

	This Year	Last Year
Declining profits or financials	53%	50%
Business forecasts	23%	31%
National economy	17%	15%
Restructuring	7%	4%

Figure 11a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Declining profits or financials	44%	63%	78%
Business forecasts	27%	25%	0%
National economy	20%	6%	22%
Restructuring	9%	6%	0%

Pay Practices

Some organizations chose to lower employees' pay during 2009 as a cost-cutting measure and as a step prior to layoffs. The majority of organizations (55%) plan to reinstate prior wages or salaries for all employees whose pay was lowered last year, however, 38% of employers do not plan to reinstate any prior wages or salaries for employees whose pay was lowered. Reinstating compensation appears to be an "all or nothing" practice for organizations, as few respondents say they plan to reinstate salaries or wages for only some employees. The majority of manufacturers (67%) and non-profits (50%) plan to reinstate prior wages/salaries, however, the majority of non-manufacturers (57%) do not plan to reinstate any prior wages/salaries for employees whose pay was lowered.

Figure 12 | If your organization has lowered pay, does it plan to reinstate employees' prior wage/salary in 2010?

	Percent
Yes, we plan to reinstate prior wages/salaries for all employees whose pay was lowered	55%
No, we do not plan to reinstate any prior wages/salaries for employees whose pay was lowered	38%
Yes, we plan to reinstate prior wages/salaries but only for some employees	7%

Figure 12a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes, we plan to reinstate prior wages/salaries for all employees whose pay was lowered	67%	29%	50%
No, we do not plan to reinstate any prior wages/salaries for employees whose pay was lowered	33%	57%	25%
Yes, we plan to reinstate prior wages/salaries but only for some employees	0%	14%	25%

Reduction in Workforce Practices

Severance pay practices remained virtually unchanged from last year. Minimal changes were noted in terms of the percentage of organizations offering severance pay, basis for severance calculations, and formulas for determining severance. Severance pay is more commonly offered in non-manufacturing and non-profit organizations.

Figure 13 | Do you offer employees severance pay?

	This Year	Last Year
Yes	66%	63%
No	34%	37%

Figure 13a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	59%	78%	71%
No	41%	22%	29%

Figure 14 | What is the basis for severance calculation?

	This Year	Last Year
Years of service	80%	79%
Position	20%	19%
Title	0%	1%
Pay	0%	1%

Figure 14a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Years of service	71%	93%	88%
Position	29%	7%	13%
Title	0%	0%	0%
Pay	0%	0%	0%

Figure 15 | What is the formula for determining severance?

	This Year	Last Year
1 week of pay per year of service	84%	75%
2 weeks of pay per year of service	16%	22%
1 month of pay per year of service	0%	3%

Figure 15a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
1 week of pay per year of service	88%	71%	83%
2 weeks of pay per year of service	13%	29%	17%
1 month of pay per year of service	0%	0%	0%

Outplacement assistance appears to be slightly more common this year compared to last year, as 34% of employers offer such assistance to employees compared to 27% of organizations last year. Also, providing outplacement assistance across the board is becoming somewhat more common compared to last year, provided by 48% of employers and more common among non-manufacturing and non-profit organizations. Only 27% of manufacturers report applying outplacement assistance across the board.

Figure 16 | Do you offer employees outplacement assistance?

	This Year	Last Year
Yes	34%	27%
No	66%	73%

Figure 16a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	29%	38%	43%
No	71%	62%	57%

Figure 17 | How do you apply outplacement assistance?

	This Year	Last Year
Across the board	48%	40%
Only to specific job titles	52%	60%

Figure 17a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Across the board	27%	75%	67%
Only to specific job titles	73%	25%	33%

The duration of outplacement assistance has somewhat changed since last year. More employers appear to be providing a longer duration of outplacement assistance than previously, as 27% are providing over 9 months of assistance now compared to 8% of employers last year.

Figure 18 | What is the duration of outplacement assistance?

	This Year	Last Year
0-3 months	62%	66%
4-6 months	12%	24%
7-9 months	0%	3%
9-12 months	23%	5%

Figure 18a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
0-3 months	50%	83%	67%
4-6 months	21%	0%	0%
7-9 months	0%	0%	0%
9-12 months	29%	17%	17%

Organizations offering continuation of benefits currently has decreased somewhat from last year. Forty-eight percent offer continuation of benefits now, compared to 59% of organizations that offered it last year.

Figure 19 | Do you offer continuation of benefits?

	This Year	Last Year
Yes	48%	59%
No	52%	41%

Figure 19a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	46%	46%	62%
No	54%	55%	39%

The percentage of organizations that pay out unused paid time off has remained fairly unchanged from last year as well. Ninety-one percent of organizations report paying out unused paid time off this year, up slightly from 88% last year.

Figure 20 | Do you pay out any unused paid time off?

	This Year	Last Year
Yes	91%	88%
No	9%	12%

Figure 20a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Yes	88%	91%	100%
No	12%	9%	0%

Offerings employers use to encourage early retirement have changed somewhat from last year. Severance packages are provided by 93% of respondents compared to last year when 71% of employers reported offering severance packages. Offering continuation of health benefits is less common, as is outplacement assistance. Retirement plan enhancements are used with the same frequency as last year.

Figure 21 | Do you offer any of the following to encourage early retirement?

	This Year	Last Year
Severance package	93%	71%
Continuation of health benefits	47%	71%
Retirement plan enhancements	20%	19%
Outplacement assistance	13%	29%

Figure 21a | Industry

	Manufacturing	Non-Manufacturing	Non-Profit
Severance package	91%	100%	0%
Continuation of health benefits	46%	50%	0%
Retirement plan enhancements	18%	25%	0%
Outplacement assistance	9%	25%	0%

Respondent Demographics

101 organizations in Northeast Ohio participated in this survey. Below is a breakdown of respondents' demographics.

Figure 22 | Respondent demographics by industry and organizational size

	Percent
Industry	
Manufacturing	57%
Non-Manufacturing	27%
Non-Profit	16%
Organizational size	
1-50	19%
51-200	52%
201-500	16%
501+	13%

About ERC

ERC is Northeast Ohio's largest organization dedicated to HR and workplace programs, practices, training and consulting. ERC membership provides employers access to an incredible amount of information, expertise, and cost savings that supports the attraction, retention, and development of great employees. We also host the nationally recognized NorthCoast 99 program and sponsor the ERC Health insurance program. For more information about ERC, please visit www.ercnet.org.

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