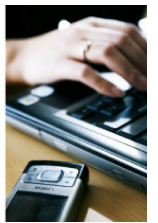


SURVEY HR PRIORITIES



TACKLING THE ECONOMIC CRISIS - HAS HR LEARNED FROM THE PAST?

RESULTS OF THE HUDSON RESEARCH FROM THE FIRST HALF OF 2009

Current situation on the market, which started in the end of last year, had an impact on most companies and caused a rise in unemployment rate to 8.6%. The end of the third quarter is a period when many companies begin to plan their budgets for the next year, and our researches indicated a number of very important issues that companies might consider in the context of planning their budgets in the area of HR.

In March and April 2009, Hudson conducted a survey of over 500 HR and business leaders in more than 30 countries worldwide to explore how HR priorities and challenges have changed during the global economic downturn. That study indicates that during this current economic crisis, the focus is not only on cost cutting through right-sizing, but also on talent engagement, talent development, and the retention of talent key to the organisation success.

Global survey has shown us the perspective of the organization, but in order to obtain a full picture of the situation, we decided to confront it with the perspective of employees. Hudson has examined more than 900 people in 5 countries of Central-Eastern Europe, in order to learn their perspective towards recent market changes. The study partially confirms results of HR survey, gives an interesting comment, and points out a slight discrepancy between the declarations of employers and their actual activities.

Key findings of the researches:

- 'Right-sizing' – or getting the balance of the number of employees to volume of work – is the top HR focus for organisations globally. However, hiring and talent development programmes are also in strong focus in all markets.
- Between 2008 and 2009, there has been a clear shift in HR priorities from attraction of new employees to engagement and development of existing workers as well as organisations.
- Labor market has transformed from "employee market" to the "employer's market." Regarding the freezing budgets of recruitment and employment reductions, there is greater availability of candidates in the market and their negotiating position in dialogue with companies is becoming weaker.



1st HR PRIORITY: DOWNSIZE, BUT KEEP TALENT ENGAGED

Global HR survey shows that 36% of the total sample of organizations declared that they will reduce employment next year. Organizations in all regions reduce employment in order to diminish costs.

As a result of changes in the market an average 79% of companies globally froze personal decisions in 2009, compared with 22% in 2008. Similarly, depending on the region, from 60% to 81% of organizations reported that their current HR strategy takes into account the reduction of employees. On the beginning, the immediate reactions of many companies on market conditions were to dispense with service contractors as a way to reduce costs.

Gradually, operational activities, such as the sudden ending of contracts and freezing recruitment, were replaced by a more comprehensive cost-cutting strategy, leading consequently to a reduction in permanent employment.

Our perspective:

- Companies should be careful not to think in a linear way about reducing headcount, they rather need to take a closer look at which people should stay. The results of our research show high importance placed on employees (2nd priority, mentioned by 23% of businesses across Europe) which could mean that many organisations understand that purely linear decisions are not the optimal solution.
- The next phase of the crisis may surprise those companies which put less emphasis on development of organization (3rd priority, mentioned by 18% of organisations across Europe) and people development (4th priority, 17% of business in Europe). Organisations become aware that they have lost critical skills or re-deployed people into new responsibilities, to which they are not prepared yet.
- Consequently, companies should attempt to focus their attention, rather sooner than later, on top performers, high potentials, and 'irreplaceable' employees.
- Some organisations are maintaining headcount but the challenge is to find sufficient work for employees. We are seeing a number of companies investing in competency development programmes to optimise their resources.

From the perspective of employees:

- In July 2009, more than half of surveyed regionally workers (57%) expected to change employer during the quarter from which 41 % expected dismissal.



2nd HR PRIORITY: INTERNAL TALENT IDENTIFICATION AND STRATEGIC HIRING

The survey indicates that 61% of European companies in 2009 emphasize the importance of internal evaluation of employees, development and strategic recruitment. Interestingly, certain percentage of respondents in all regions (18% in Europe, 15% in Asia, 9% U.S., 17% in Australia) is still planning to increase employment. This means that organizations take the need to reduce costs into account, focus on more accurate assessment methods, allowing earlier identification of productive and unproductive workers. Consequently, it allows to plan new hires properly, so as not to allow to the overgrowth of employment – which already caused many layoffs. The percentage of companies planning new hires can be explained on the one hand by continuous, though not so rapid, development of certain sectors. We can also suppose that some companies more effectively planned their employment strategies and have no sudden need to reduce staff - and benefit from greater availability of candidates on the market.

Our perspective:

- In times of slowdown on the market, we can observe organizations “hunting” for highly qualified and experienced employees of competitive companies, who are more difficult to recruit in better market conditions. Companies must face the question of how to retain and engage those employees.
- Organizations can reduce employment, still retaining organizational performance. A certain level of rotation can be beneficial for companies - finding the right level, of course, remains a challenge. Strategy may have an opposite effect, if it is incorrectly conducted.

From perspective of employee

- Employees declare unequivocally (70%), that it is now more difficult to find a job than last year. This means that the market has undergone transformation from the “employee market” to the “employer market”. Such situation is beneficial for organizations which may hire employees at a lower cost, but requires from the organizations to balance the offer with other motivating factors.
- Applicants and employees maintain their wage expectations for at least the current level of salary. 55% of workers expect a salary increase with a change of work. This is due to financial liabilities (loans, etc.), which require to search for a job providing better life standard, it is also a natural mechanism to “insure against risks” associated with job change. 38% of respondents expect their salary will not change and remain at the same level as in case of the previous employer.



3rd HR PRIORITY: EMPLOYEE ENGAGEMENT AND TALENT DEVELOPMENT IN STRONG FOCUS

After employment reduction, managers are facing more difficult work environment. Their teams became smaller and get new additional functions and tasks, while constantly struggling with negative emotions followed by layoffs. In result, organisations have been more resourceful in carrying out their HR initiatives. Those include strong focus on measures accompanying cost cutting initiatives, such as outplacement (up to 81% of organisations in continental Europe, and 50-71% in other regions of the world depending on legal frameworks). Other areas of focus include talent development programmes (66% of organisations across Europe).

Our perspective

- Very important issue to consider is the attitude towards exiting employees. This in turn affects the engagement and mindset of those who remain in organization. If a company reduces the staff in a heartless manner, then those who remained will feel even more anxious and will remember the treatment of their colleagues when economic conditions will improve.
- While job security is more important than it was before the downturn, the question is how long will these people, who are motivated by this factor stay, once the economy picks up?
- There is a belief among managers, that employees will simply be satisfied to keep their jobs during tough times. However, job security is only one aspect of the psychological contract and employers must fully examine all facts to understand how to engage the best their talents.

From perspective of employee

- Among 57% of regional respondents expecting changes in professional career over the next quarter, 44% of the total sample declared willingness to change jobs for self-motivation reasons: 18% due to a lack of investment in development and 26% because of the absence of a clear corporate strategy. This means that despite the declarations, organizations still might not manage to hold employees whose priority is professional development. Even if companies are trying to implement new survival strategies, they can be not properly announced.
- Development offer is an important factor in motivating employees (25% in CEE region). Fortunately for employers, after a comparative analysis, those workers who declare their desire to change jobs because of their motivation are not so dissatisfied to accept lower-paid jobs than current. However, in regional view, a certain percentage of employees (26%), would be inclined to take on a less paid work if it would involve other elements from the offer of the employer.



SUMMARY

Economic forecasts indicate that side-effects of the economical downturn will be perceived for long time. In the meantime, making the right decisions about employees will be crucial for the survival of many organizations.

The current situation takes place immediately after the period when the labor market was the “Candidates” market - the companies experienced a shortage of workers. Companies and recruiters were competing among themselves for the best candidates. Today, such events are far less frequent and refer to very narrow groups, but the problem of "shortage of workers" may have a new dimension: in the content of redundancies the companies can struggle with the problem of too large outflows of de-motivated workers.

We can observe the effect of learning in respect to the past crisis: organizations realize that engagement of employees is a key challenge to hold their key people while simultaneously exercising their cost reduction policy

Some organisations are taking into account that in order to secure the continuity of the organisation they should invest time and energy in the retention of the most critical talent groups and this can be achieved by using certain methods without overloading budget.

Many organisations look at retaining talent as their first challenge, then consider moving on trying to some motivating methods. In our opinion, this process should be reversed. If organisations invest in motivation package, then performance will increase and retention will be fulfilled as a natural consequence.

KEY RECOMMENDATIONS

We believe that the following issues are very important for companies

1) Consider long-term needs

It is easy to be distracted by short term pressures. Companies must continue to consider longer-term talent strategies. Is your company prepared for the end of the recession and the resulting talent needs? When considering long-term returns, it is important to retain key employees and make place for new.

2) Segment talent

“One size fits all” no longer applies to HR. HR should learn to mould talent management offerings to meet the needs of different employees. The requirements of someone with high potential are not necessarily the same as those of an irreplaceable professional. At the same time, key factor become a reliable, objective method of job evaluation, allowing for segmentation of resources and the opportunity to identify strengths and weaknesses of particular groups of workers.

3) A clear and reliable communication

It is crucial for employees to know, rather sooner than later, if they should refer their professional future with the company and how the organisation will support them in this transition. They should be honest and authentic in communications and encourage people to raise questions and contribute ideas. It is especially important that employees feel it is safe for them to raise issues and suggest innovations. It is also important to performed proper planning of communication in the operational dimension. Another important issue is showing a real investment in development – it does not have to be purely a financial investment, it can be a purely internal program i.e. of mentoring,. Employees often are not aware of their own company’s policy and the existing programs, and this is reducing their motivation and consequently – productivity.



4) Key staff identification and their development planning

Ideally, employees with the biggest potential will take care of the high impact roles and high value specialists will fulfill the most complex jobs. A key question is: does it happen in your company and do companies know where the most critical roles lie in their organizations?

5) Consider job redesign

Employee reductions often leave remaining employees demotivated. But cost-cutting can be an opportunity to assess and redesign jobs, so that they are more interesting and engaging for employees as well as leading to higher productivity and competitive advantage of the organisation.

6) Consider non-traditional cost-cutting methods

Reducing the workforce is not the only way to cut costs. A number of organisations had their employees voting on whether to take one day of unpaid leave per month or face redundancies. Usually, the employees decide to take unpaid leave or take advantage of longer unpaid sabbaticals. This solution can cut costs, address the right-sizing challenge, engage and retain good employees and contribute to work/life balance. Moreover, taking into account the research results, companies can limit the development budgets, while it does not necessarily mean abandoning development activities. Job rotation, horizontal promotion, mentoring, are highly respected development tools and their proper use can both develop and motivate employees.

7) Support restructuring

Organisations realise that redundancies can have a tremendous impact on their people's engagement, depending on how they are handled. We recommend that organisations plan transition initiatives in line with their corporate values, reduce risks associated with changes and protect their brand by employing proper solutions to limit the negative impact of introduced changes.

Prepared by:

Rafał Osiński

Marketing Manager CEE

Hudson

ul. Wspólna 47/49

Poland, Warsaw, 00-684

t: +48 22 33 76 121

f: +48 22 621 20 19

m: +48 606 790 806

rafal.osinski@hudson.com

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