



Trends

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Talent Management Useful in Tough Economy

Despite bad economic news and global concerns about recession, a new Mercer survey reveals most organizations are not leaning toward extremes of cost cutting, but are focused on the long term.

U.S. employers cut jobs by 63,000 in February 2008 — the most in five years — and the economic news became a study in gloom if not doom. The U.S. Labor Department's recent report noted widespread job losses in construction, manufacturing and retailing, losses that far outweighed any gains in healthcare, education and other strong sectors. This underscores the impact of the housing and credit crunches and rocketing oil prices on the overall economy. Further, the looming threat of recession in the U.S. has touched markets worldwide and points at the broad economic vulnerability that is a byproduct of globalization.

Yet, downturns, recessions, and periods of economic stagnation must be viewed in context. Economies endure cycles, and innovative companies rise to the challenge by creating positive change and fresh opportunities. More than anything, the onset of financial hardship tests human capital strategies and forces organizations to take a hard look at their people, as well as how they view human resources — as an expense to be cut or an asset to be more wisely managed.

Mercer's recent Compensation and Staffing Implications of a Changing Economic Climate survey asked how staffing levels, compensation budgets, incentive opportunities and other people strategy-related activities may shift in anticipation of near- and medium-term economic changes. With more than 400 survey responses from American and Canadian employers — and global responses, currently being tallied, from some 2,000 employers — the dominant message is: While organizations are considering a conservative, planned approach to managing aggregate staff costs, few are reducing planned compensation budgets or initiating pay freezes. It appears programs related to talent acquisition and retention are receiving more careful emphasis and attention.

Staffing and Compensation Stability

The survey asked whether respondents considered or instituted changes to staffing levels as a result of the changing economic environment. One in three U.S. organizations are considering or instituting staff freezes or downsizing, while only 17 percent of Canadian companies are considering the same actions. So far, the perceived focus of economic downturn is U.S.-centric.

Further, only 16 percent of U.S. respondents and 9 percent in Canada are taking or considering compensation budget actions, while only 7 percent of the organizations in either country are taking or considering salary-freeze actions. Approximately 10 percent are considering or implementing incentive-opportunity or eligibility-coverage changes.

As for who considered or instituted 2008 compensation budget changes in anticipation of a changing economic environment, a significant 85 percent of U.S. employers indicated they have made no budget changes in anticipation of a slower economy; in Canada, the proportion was 91 percent. This leaves a relatively small percentage of U.S. and Canadian organizations that are considering or have already reduced their compensation budgets since the last quarter of 2007.

Avoiding Extremes

Despite growing economic uncertainty, companies have to consider whether extreme responses such as salary and hiring freezes or downsizings are the right things to do to ensure long-term business results. Organizations tend to be better off if they take a holistic, total-rewards approach and embrace more surgical, strategic options, such as allocating incentives to focus more on high-performance and high-potential employees rather than on those who have yet to deliver on their promises.

Since measures such as pay freezes affect both high and low performers, it's important to discriminate in the allocation of rewards. For example, even companies that must enact some sort of wage freeze need not freeze all pay. Freezing the first 3.5 or 4 percent of salaries can protect the highest performers from being negatively impacted and can help ensure retention of those employees a company cannot afford to lose, especially once the economy rebounds.

Taking a total rewards point of view, which encompasses base pay, benefits, career development and work environment, companies are better off looking toward the future — with appropriate focus on succession and career planning — rather than leaping at short-term fixes. This is a way to shelter high-value employees by providing them with a strong sense of future opportunity within the organization once the economic pendulum swings. It also helps employers recognize more precisely what employees value — more flextime, for example, as opposed to cash.

Strategy Initiatives

The Mercer snapshot survey also indicates employers are considering or are instituting broad 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 talent programs.

For example, more than 40 percent of the U.S. and Canadian organizations 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 U.S.). Other initiatives to optimize HR efficiency recalibrate performance targets/policies and enhance incentive programs, also were cited by a significant share of survey respondents.

Overall, the Mercer survey suggests employers have learned lessons from previous downturns and are less prone at this stage to quickly institute extreme measures. Instead, they appear to be focused on managing aggregate staff costs rather than scaling back existing compensation plans.

And while only a small number of employers may be expanding incentive eligibility or opportunity within existing plans, most are trying to ensure they have appropriate performance targets, measures and policies in place, or they are looking at new or enhanced variable pay programs. Perhaps the most encouraging news of this survey is the majority of employers are not exhibiting a knee-jerk response to today's economic uncertainty, but are instead looking more strategically at tomorrow and focusing on the talent acquisition and retention strategies that can sustain their businesses well into the future.

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