



INTERNATIONAL
BAROMETER
OF HR RESPONSE
TO ECONOMIC
DOWNTURN



Assessment
Circle
Europe

Report Autumn 2009



INTRODUCTION

This survey has been undertaken in the context of a sharp and deep recession in many parts of the world. Although at the time of preparing this report, there are indications that some countries have returned to positive GDP growth, it is unlikely that this signifies a return to boom. Whilst some predict a W-shaped recession, meaning another dip might occur soon, it seems more likely that most economies will be flat for some time, with little or no growth.



Combine this with rapid long-term growth in Asia, the rise of new economies such as China and Brazil, the effects of climate change, globalisation and rapid technological change and it is clear that many businesses are facing significant structural change.

In compiling this survey, we have worked on the premise that this combination of recessionary and structural change will be transformational, affecting virtually every organization in every sector of the economy. We have aimed, therefore, to identify how HR practitioners have responded to the economic crisis and to identify and, indeed, also predict emerging leadership and HR models.

The survey was run between June and September and attracted 559 responses. The largest number of responses is from Belgium, France, Netherlands, Portugal, Slovenia and UK. However, there is also a good response from Germany and Italy and responses overall cover 17 countries.

This report sets out the findings from the survey; analysing, drawing conclusions and also proposing recommendations for appropriate responses to them.

ACKNOWLEDGEMENTS

This is an ACE project, with thanks to the following contributors:

Salans LLP (UK) – Higher Talent (UK) – AM Reward Consultants (UK) – P&S Consulting (Portugal) – Grupo Pessoas e Soluções (Portugal) – Human HR Magazine (Portugal) – Vrije Universiteit Brussel (Belgium) – HR Magazine (Belgium) – Radboud Universiteit Nijmegen (Holland) – De Gids voor Personeelsmanagement (Holland) – Talent+ (Thailand) – Management Solutions International (United Arab Emirates) – Trescon (Slovenia) and EOS (Italy).



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Main contributors to this survey and report also include:- Helio Moreira, (OptimHom Portugal), Marion Neefe and Miel Knapen (Interselect, Holland), Christine Van Velthoven (CPM, Belgium), Marie Mazerat, Emmanuelle Girardot, Judicael Jung (Groupe Bernard Julhiet, France) and Chiara Maroino, Carolyn Ponder and Mike Crimes (The Scala Group, UK).

EXECUTIVE SUMMARY

This survey covered 559 companies internationally, but mainly from across Europe with responses from a wide range of industries and across a span of organization size, though with a bias towards larger businesses. The majority of respondents report they work in international organizations and an overwhelming majority has suffered in the recession. Nonetheless, people's morale has held up better than one might have feared and, despite a substantial minority thinking otherwise, many organizations still find it hard to recruit for key positions.

Businesses appear more aware of issues such as communication, employee engagement and employee development but only a small majority has confidence in the direction of their organization. This question highlights significant national differences with the UK showing more confidence despite evidence that its economy is lagging other nations.

There are clear signs that the position of HR in the organization is improving and becoming more strategic and identifying increasingly with business priorities. Despite this, HR respondents lack confidence in the effectiveness of the strategies they have developed for the crisis.

The overwhelming response to recession has been to reduce costs and focus on the core business, though over 60% of respondents have maintained or increased HR budgets, which is

probably a contrast with previous recessions. HR practitioners seem to be taking a thoughtful approach to the appropriate responses; with improved leadership, communication, skill sets, employee engagement, dealing with underperformers and developing managers' coaching skills as the leading targets. The evidence is that these, especially the first, also enjoy significant senior management support.

We conclude that these emerging priorities represent a gradual movement towards a Talent Management approach to HR though with many organizations still outside this emerging consensus. We believe that tools such as assessment and development centre methodologies, employee opinion surveys, 360-degree feedback and online profiling and self development instruments will have an important role to play in serving such a consensus. Main initiatives are likely to include coaching and mentoring programmes and succession planning that cascades through the organization.

SURVEY DESIGN AND METHODOLOGY

The questionnaire was designed by Janice Caplan of The Scala Group and Helio Moreira of Optimhom.

The majority of the responses were collected through the online English-language version of the questionnaire. A significant number of responses were also collected through telephone interview. Portuguese, German, Italian and Slovene language versions of the questionnaire were also made available.

Respondents were asked to provide contact details but confidentiality and anonymity have been pledged and we will not publish the names of any people, or organizations that have participated.

The vast majority of respondents were senior HR managers and HR directors.

SURVEY AIMS

The purpose of the survey was to identify how HR practitioners have responded to the economic crisis and identify emerging leadership and HR models. The outcomes we sought were to provide benchmarking data and help HR practitioners set the post-recession agenda.

The first group of questions looked at the overall impact of the economic downturn and its affect on business, staff turnover, morale, absence, team spirit and business plans. It also asked when

people believe the upturn of the economy is likely to begin.

The second group of questions focused on how organizations have responded to the economic downturn. The final questions asked for respondents' views on what strategies they believed their organizations needed to pursue, and which initiatives their senior management were supporting.

SURVEY STATISTICS

Over 57% of respondents have indicated that they trade internationally. Of the remaining 43% who see themselves trading in purely national markets, many are nonetheless owned by businesses based in other countries. Clearly, we live in a global business community.

19% of all responses are from organizations employing more than 5,000 people. In addition, many of the smaller organizations are actually owned by larger ones. The percentage of respondents employing more than 5,000 is significantly higher than the average in France (48%) and the UK (34%).

The responses are fairly evenly spread over all industry sectors, with above average responses from 'manufacturing, engineering, automotive', 'technology, telecommunications, business services' and 'financial and professional services'.

KEY FINDINGS

The following are the key findings to emerge from this survey. In the main, we are reporting findings from right across all respondents and have only specified country differences where these are particularly striking, or significant. It must be kept in mind, however, that there are many differences between countries and these will be identified in our next report.

We have taken a conservative approach in analysing the data and have, in most cases, only considered responses of “strongly agree and agree”, or conversely “strongly disagree and disagree”, when drawing conclusions. All responses are reported throughout this report and readers may chose to draw their own conclusions from the “partially agree” responses.

- **Business activity, staff turnover, morale, absence and team spirit**

The majority of businesses (80%) report a downturn in business activity.

Most people expect the upturn to occur during 2010, though a substantial minority believe there will not be an upturn until after 2010.

Changes in staff turnover levels vary considerably from country to country. The UK is noticeable with the majority of respondents reporting people remaining in post who would otherwise have changed job. France and The Netherlands also have significant numbers but the majority of respondents from other countries indicate staff turnover levels have not changed.

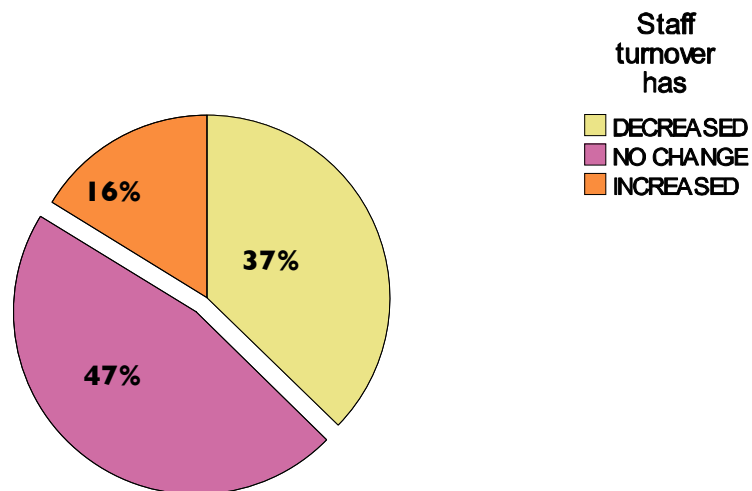


Fig. 1

Staff turnover has	Country								Total
	UK	FR	PT	BE	NL	IT	Germany	Slovenia	
DECREASED	52%	42%	26%	28%	43%	40%	33%	25%	37%
NO CHANGE	35%	40%	59%	57%	46%	44%	54%	56%	47%
INCREASED	13%	18%	15%	15%	11%	16%	13%	19%	16%
									100%

The majority of respondents believe “it is still hard to recruit people for some posts” with only 25% disagreeing.

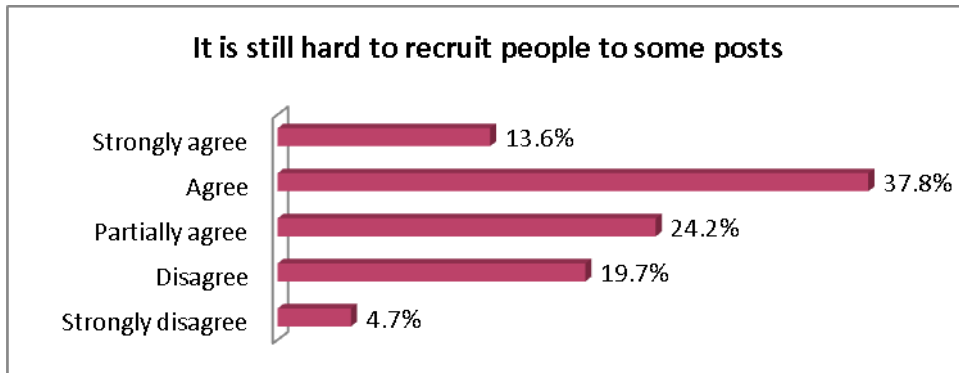


Fig. 2

As can be seen in figure (Fig. 3) below, most respondents agree or strongly agree that their business is more aware of the importance of employee engagement. A lower number agree or strongly agree that they have increased communication (Fig. 4). This is surprising as communication is a major contributor to employee engagement and it also does not incur costs. However, a substantial 32% partially agree that communication has been increased. Perhaps this indicates that organizations have not focussed enough on communication?

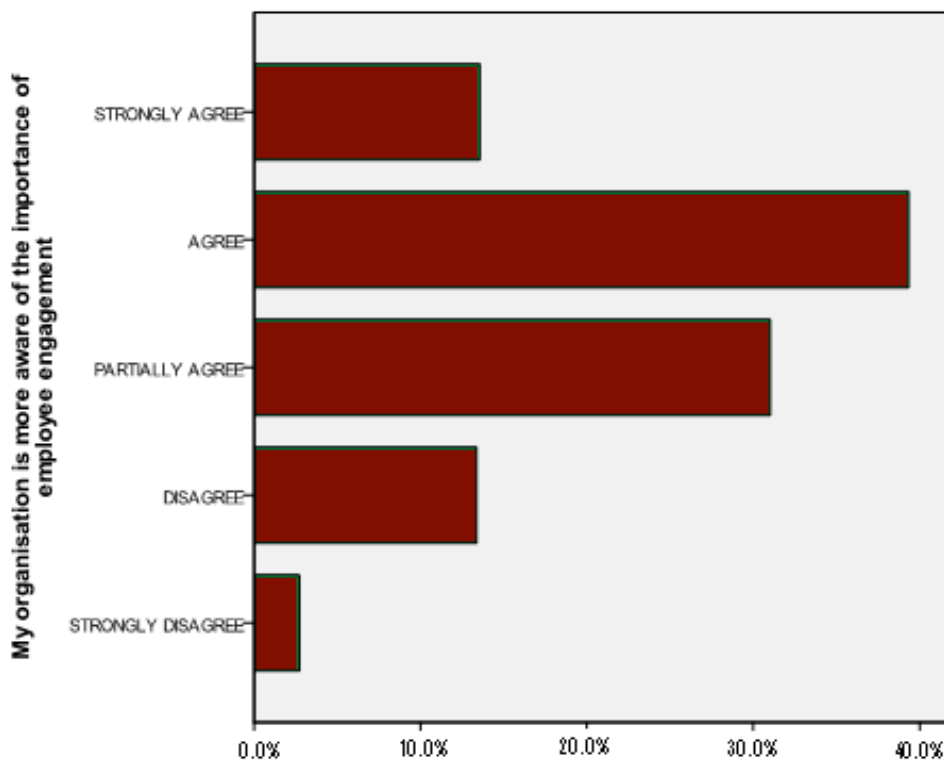


Fig. 3

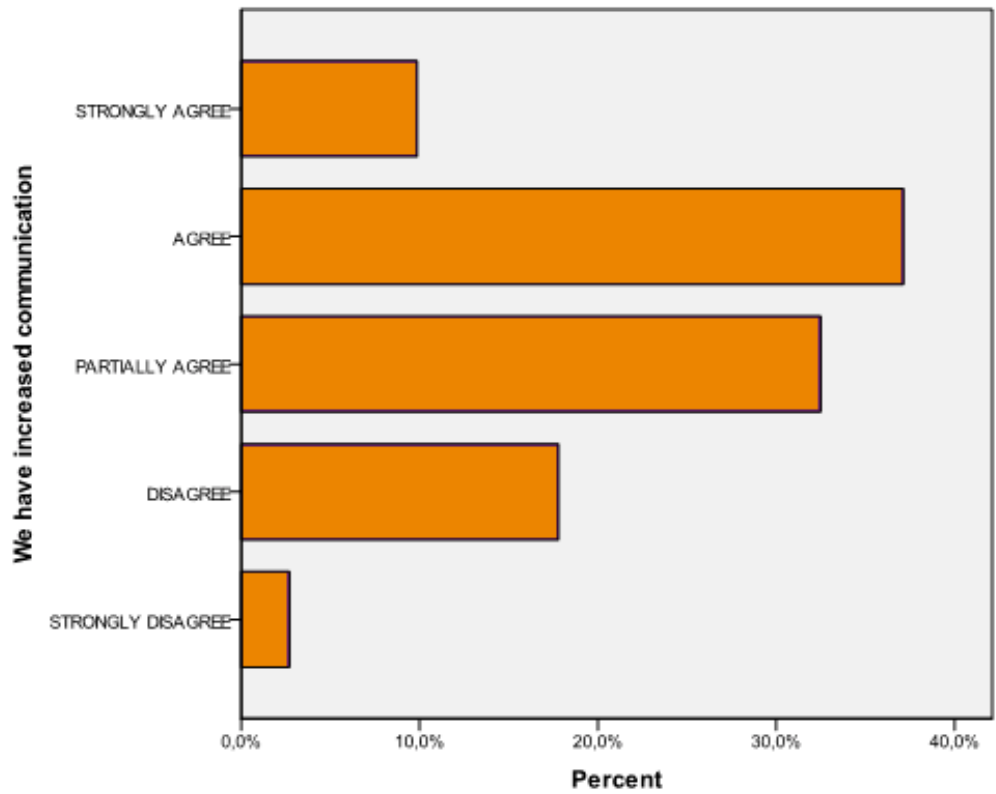


Fig.4

Overall, 44% of respondents report that morale has decreased. However, 48% are saying morale has not changed and 8% report morale has improved. Team spirit has held up well in most countries and absence does not seem to be an issue anywhere with around 73% reporting no change in absence levels. Considering the gravity of what has happened in the economy, morale and team spirit would seem to have held up reasonably well.

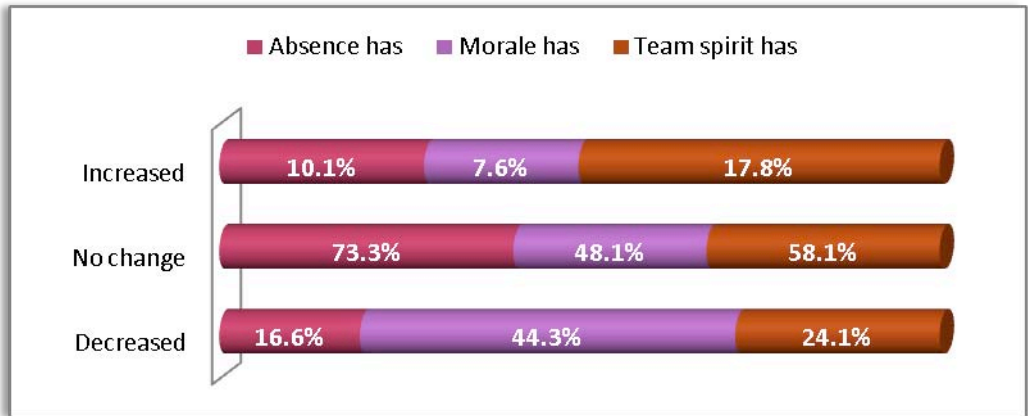


Fig. 5

There are exceptions, however. In France 73% of respondents report that morale has decreased, and the UK reports a 56% drop in morale. Team spirit has held up slightly better in all cases. The larger companies show a slightly bigger tendency to lower morale and a significantly bigger tendency for staff to stay put. It is interesting to note that respondents from France report a correspondingly lower incidence of increased communication and efforts at employee engagement.

- Confidence in the direction of the business**

Overall 54% of respondents believe their organization has developed new and effective business strategies to deal with the recession. Responses here are consistent across most countries and most industry sectors. Some noticeable exceptions are: 66% of financial and professional service firms have responded positively here, compared to an overall positive response of 61% for the UK. Belgian respondents are much less positive than the average, however, as only 50% believe their organization has developed a new and effective strategic response to the recession.

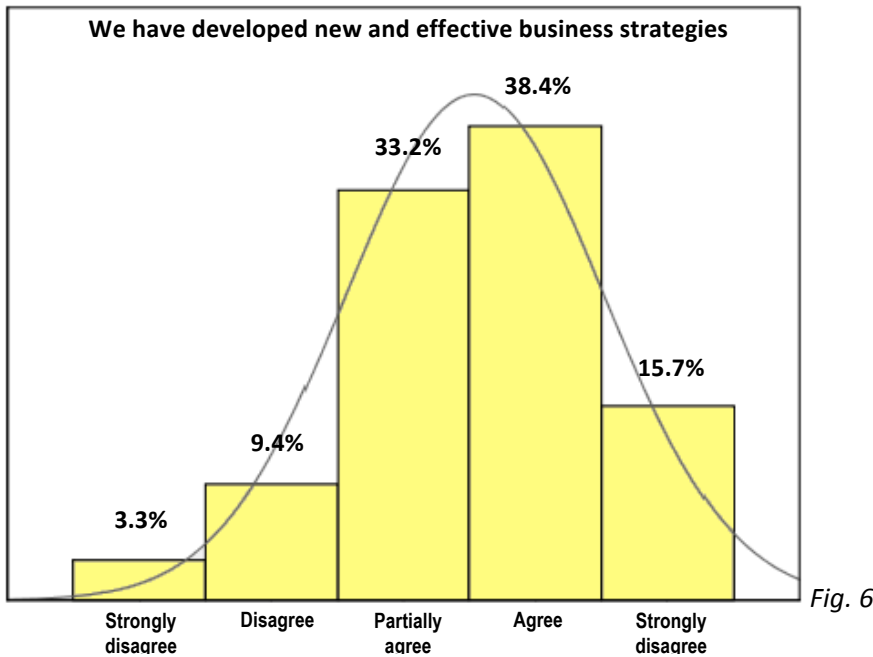


Fig. 6

- Role of HR**

A number of questions were aimed at identifying the role and standing of HR in the organization and also at ascertaining the level of confidence HR people have in their own functions and how effectively they perform. Overall, the picture is reasonably positive, especially in the UK and especially in larger organizations employing over 1,000.

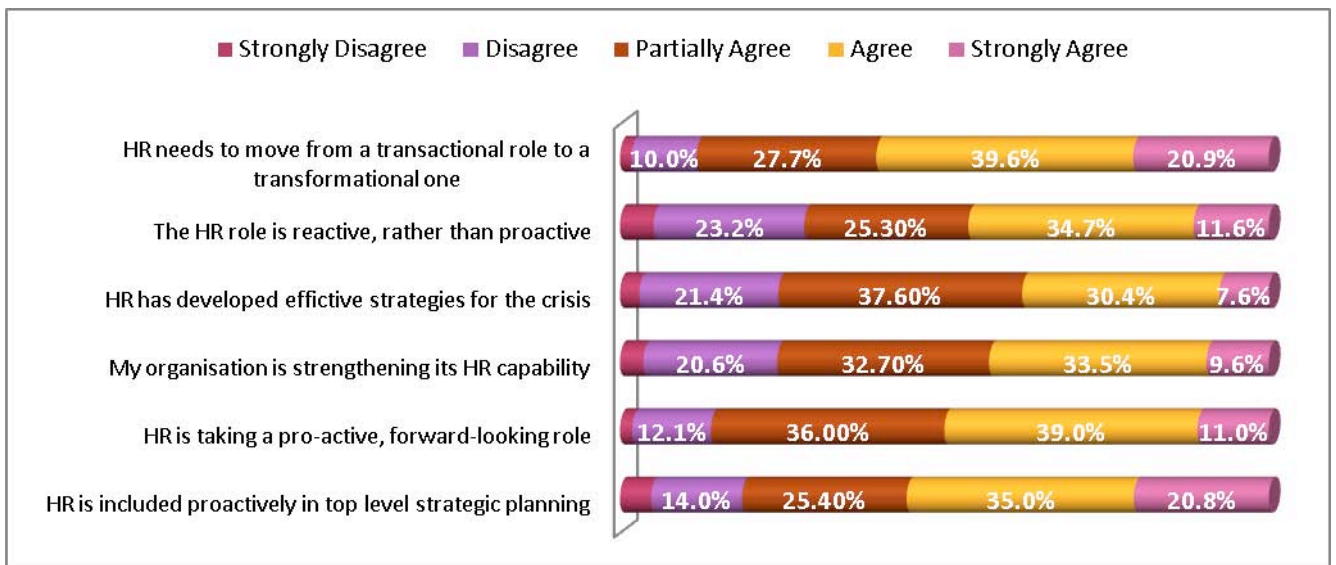


Fig. 8

56% of organizations include HR proactively in top level strategic planning (UK 62%). If the smaller organizations employing up to 1,000 people are taken out of this overall picture, the overall percentage rises to over 60%.

75% of respondents are strengthening HR capability to some extent.

Certainly, this seems to be a better picture than the one portrayed in 2005 in an article in “The HR Value Proposition” by Ulrich and Brocklebank ‘Why we hate HR’¹ who said “After close to 20 years of hopeful rhetoric about becoming “strategic partners” with a seat at the table where the business decisions that matter are made, most HR professionals aren’t nearly there. Earlier, in 2004, Lawler, Boudreau, Mohrman in ‘Achieving Strategic Excellence’² had similarly commented that 77% of HR time is spent on administration and only 39% of Fortune 1000 companies studied felt that their HR function was a full partner in developing their company’s business strategy.

However, confidence levels amongst respondents are not particularly high with only 38% believing HR has developed effective strategies for the crisis and only 50% believing that HR is taking a proactive and forward looking role during this recession. It is worth noting, however, that only 24% and 14% respectively disagree with these statements.

In terms of the way forward, 61% support the notion that HR needs to take on a more transformational role.

The conclusions that we draw from these responses are that during this recession HR departments have proved their worth to the business by closely aligning cost reduction strategies to business needs. To achieve this, HR has worked at a strategic level and has formulated a strategic response, albeit one that is reactive rather than proactive. As the economy starts to recover, it seems HR is better placed than ever to continue its strategic role and to drive organizational change and transformation.



¹ The HR value proposition, David Ulrich, Wayne Brockbank, Harvard Business School Press, 2005

² Achieving Strategic Excellence, An Assessment of Human Resource Organizations by Edward E. Lawler III, John W. Boudreau, and Susan Albers Mohrman, published Stanford University Press, 2004

- Cost reductions and budgets**

80% of organizations are reducing their cost base; 40% report a cut in the HR budget and 40% report that HR initiatives are financially driven.

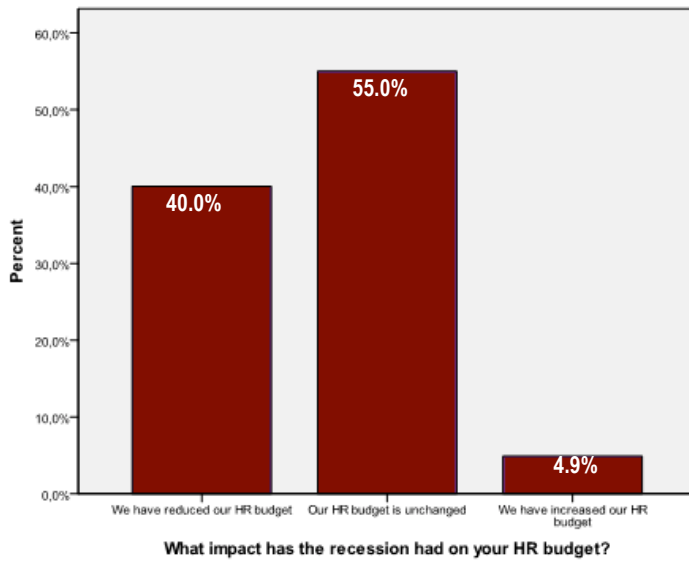


Fig. 9

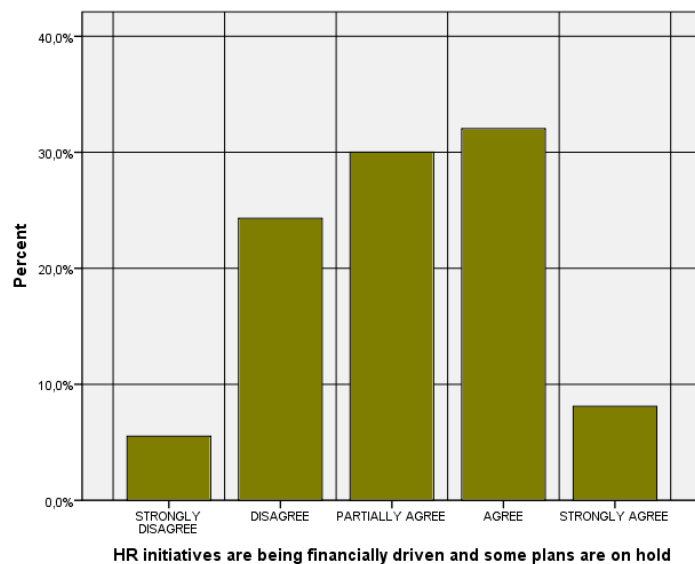


Fig. 10

A clear picture of how HR has responded to the recession emerges from this survey; 80% of respondents are reducing their cost base – 59% are restructuring and reorganising, which is probably part of the same process – 64% are focusing on core activities, again part of the same process of cutting risk and costs, and 56% are looking for new markets and products. The ways companies are pursuing these objectives are far more diverse. Many, but not a majority, are cutting recruitment (48%) and many are also focusing on measuring performance (43%). It is interesting that few consider reducing pay and benefits of those employees who remain.

Many HR departments have cut back on activity and on spend (though even here a small majority report having unchanged budgets (55%); exactly what they have reduced expenditure on varies enormously and it seems that each organization has formulated its own response, based on a clear identification of priorities. This contrasts with previous recessions where organizations operated blanket reductions in headcount, external recruitment and training and development.

It seems, therefore, that HR departments have been extremely judicious about where and how they achieve cost savings. As mentioned earlier, these findings correlate with our other findings about the role of HR to enable us to conclude that HR have been involved at a strategic level in formulating a business-related HR response to the way the economic downturn has affected their business.

We look forward to seeing HR develop these skills and capitalise on their standing in the post-recessionary period.



Fig. 11

- **What actions have organizations taken in response to the economic downturn?**

Employee engagement emerges as the main area on which businesses have focused attention during the recession, though substantial numbers report that their organizations recognise the importance of communication and developing people. Responses here are encouraging and show organizations recognise the importance of continuing to actively manage and develop people.

- **Which of these do organizations need to do more of to get through the recession and prepare for the upturn? Which of these has the support of senior management?**

We had two aims in this section of the questionnaire. One aim was to identify what HR people think needs to be done. The other was to understand the extent to which senior management share their perceptions and are likely to support initiatives.

The question about senior management support asked HR respondents to specify which initiatives their senior management supported. Here again, we have taken a conservative approach to the data and we have based our conclusions on the number of specific mentions the respondents made to a particular topic.

Many people reported that their senior management backed all the initiatives that they had indicated. Some did not respond to this question. We have not treated these responses either as a vote for or against a particular topic.

There are sufficient specific mentions, however, to enable us to identify the topics that seem to be receiving the most attention and, therefore, are the most likely to be pursued.



Fig. 12

The topics most frequently mentioned as being both important to HR and supported by senior management are: Communication, train and upskill; strengthen leadership ability; deal with underperformers; develop line managers' coaching skills; increase levels of employee engagement.

There are some country variations that are interesting. In the UK, for instance, strengthening leadership ability emerges as the highest priority for both HR and senior management with 80% of respondents ranking it as important and nearly 40% specifically mentioning it as a senior management priority. In Portugal, (73%) they similarly view this as a priority. Belgium and the Netherlands have not ranked this so highly, with only 40% in Belgium seeing this as a priority, and even fewer at 34% ranking this in the Netherlands. What are the implications of this? Do people in the UK have a significantly lower opinion of their leadership than elsewhere? Or perhaps it is more likely to be a cultural difference in that the British show less respect for authority, and are more likely to challenge their leaders. This is the more probable conclusion. Does this mean the reverse is true for the Belgians and Dutch? In these countries is there more innate respect for authority? Or is it that quality of leadership is better? As a lower percentage of Belgian and Dutch respondents have indicated satisfaction with the "strategic direction of the business" it seems more likely that there is an innate respect for authority, certainly compared to the UK. These are interesting questions that perhaps we can debate in the second part of this report, due to be published later, when we look more closely at country differences.

- Leadership**

It is possible to look at the questionnaire responses and draw some conclusions on how people may go about 'strengthening leadership ability'. Firstly, there doesn't seem to be much interest in leadership development programmes with only 17% recognising this as a focus of attention.

Though equally, there is evidence that most organizations have such programmes in place and will be continuing with these.

A higher percentage (43%) believes it is important to understand performance and potential. Comparing this with the 43% who have said that they have already taken action to improve processes for understanding performance and potential, perhaps this is where organizations will focus their attention and develop new approaches?

'Developing line managers' coaching skills also emerges as a high priority, in fact one of the highest.

Anecdotal evidence suggests that assessment and development centre approaches are likely to be used, but only where these are clearly value-added and cost effective. Many have, anecdotally, identified succession planning as an important activity.

A first step in strengthening leadership ability is, of course, to make it clear to those in a leadership role what their accountabilities are and what is expected from them. It is possible to conclude from this survey that leaders will be required to "deal with underperformance", "increase communication" and "levels of employee engagement" and understand and develop "performance and potential" in others. It is also possible to see that this presents HR with the opportunity to develop its strategic partnership role by working with leaders in the organization to clarify these expectations and accountabilities. It also gives HR the opportunity to develop focused and cost effective programmes that leaders will be able to identify as helping them achieve success.

It is interesting to compare this finding with the forecast from The Economist Intelligence Unit early in 2009 that "as recession deepens: 'a more elitist shift will occur: companies will worry about the performance of those at the top of the pyramid.'" ³

- **Talent management**

We specifically did not use the term 'talent management' in our questionnaire, as there is no clear agreement over what the term covers. Some people see it as about identifying high potential employees and future leaders whilst others place a broader definition on it and see it as aligning organizational and individual capability.

We have included in this questionnaire the key topics that 'talent management' encompasses, whatever your definition. Leadership, in all cases, is at the heart of talent management and, as mentioned above, this is clearly a priority. Other talent management indicators include "train and upskill" and "improving processes of assessing performance and potential." These have both emerged as clear priorities. "Improving the talent / leadership pipeline" and "recruiting new talent" have not emerged as especially critical, neither has "increasing the number of internal career moves." The use of leadership development programmes also seems unlikely to increase. Many find that "it is still hard to recruit to some posts."

Some conclusions we can draw from these responses are that key talent management initiatives are likely to be focused around leadership, improving processes of assessing performance and potential, and developing line managers' coaching skills.

³ (The Economist, 'The World in 2009', available at: www.economistdirect.com/engine/shop/product/WIN09/The+World+in+2009)

Some initiatives for HR to consider that are:

- Working in partnership with senior and middle managers to clarify management accountabilities, objectives and performance measures and ensure these are cascaded through the organization.
- Using assessment and development centre methodologies to help individuals and their line managers identify strengths and formulate development plans.
- Facilitating succession planning including in this regular senior management level reviews of key people. These reviews and the conversations they generate should be cascaded throughout the organization.
- Internal mentoring and team coaching can be especially valuable, as well as cost effective for strengthening leadership ability and encouraging change management. Coaching by line managers is one of the most effective ways of training people and helping them take on new skills.

Our recommendation, based on all the survey findings, is that continuing difficulties to recruit, combined with the need to strengthen leadership ability and to have people in the right place and with the right skills to take advantage of improved economic conditions make it imperative to have a clear talent management strategy. In particular, we recommend a strategic approach to talent management that seeks to align organizational and individual capability. In today's lean organizations everyone matters. An exclusive, elitist approach to talent causes resentment. It also misses the point. Organizations are not only constrained by bottlenecks at board level – they can also suffer from a lack of crucial skills elsewhere.

A talent management strategy linked to business goals is also an opportunity for HR to develop its proactive and strategic role in the organization.

We will expand on these suggestions, and include many others, in our forthcoming “Reflections” publication.

- **Employee engagement**

53% have revealed that their organizations recognise the importance of employee engagement (with only 16% actively disagreeing) and 52% have identified increasing levels of employee engagement as a priority (see fig. 3). It is likely that “increasing communication” and “developing line managers’ coaching skills will be the key ways in which organizations seek to engage their people.

At the start of the recession, there was much speculation as to whether the use of employee engagement surveys would stop as organizations seek ways to cut costs. This is not a question we have sought to answer through this survey, however, it is clear that organizations recognise the benefit of employee engagement. This makes it likely organizations will continue surveying their employees. Moreover, as organizations seek closer alignment between HR and business needs and seek to focus HR spend and activity where it is needed most, engagement surveys will be increasingly valuable as a measurement tool.

- **Corporate social responsibility and diversity**

It is striking to note that these have not been identified as a priority, except in a very few cases.

- **Overall conclusions**

The purpose of this International HR Barometer has been to report on the effects of the recession on businesses internationally and, particularly, to identify HR and leadership priorities.

It is clear that the majority of organizations have been affected by the recession, either directly or indirectly.

During this time, a majority have increased communication and are also more aware of the importance of employee engagement. Morale, team spirit and absence levels have held up reasonably well.

It seems that during this recession HR has been involved at a strategic level and has formulated business-related responses that have balanced short-term needs to cut expenditure with business critical issues. The majority believe an upturn is likely to begin during 2010.

Judging from what HR departments deem to be important and where they indicate support from senior management, it would seem that the priorities going forward will be: strengthening leadership ability, employee engagement, training and upskilling, improving processes for identifying performance and potential and dealing with underperformance. It seems likely that, in planning their strategies, HR professionals will direct effort and investment to what the business needs most and what will critically drive longer-term business success. It seems that HR is better placed than ever to be able to drive cultural and organizational change at a strategic level.

Whilst this reflects the picture conveyed by most respondents, there are still many HR departments that have revealed a quite different situation in this survey. For many, HR continues to be excluded from senior level discussions and senior management do not recognise the importance of people issues.

Nonetheless, we believe we have sufficient data to predict that the picture we have identified will continue. This is particularly the case if we correlate our survey with some others that have been conducted over the past year. A study by Hewitt Associates⁴ in February 2009, predicted leadership development, talent retention and employee engagement as the key priorities for HR professionals. It also found that HR leaders gave a high ranking to the quality and level of cooperation they had established with their own CEO and revealed “that the economic downturn is accelerating organizational change within HR departments”. This survey covered 53 organizations in 13 different European countries. A survey of 484 senior executives carried out by the Economist Intelligence Unit for StepStone in November December 2008⁵ found that “companies are caught between implementing proactive and reactive strategies for the current economic slowdown.” They too found evidence that labour shortages would continue. A survey entitled ‘State of Global Talent Management’ conducted by Softscape in 2009⁶, found that nearly 80% of HR professionals now believe that HR has become a strategic contributor to the business.

⁴ Hewitt Associates Study for European HR Association <http://www.hewittassociates.com/Intl/EU/en-BE/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=6333> Hewitt Associates

⁵ A report from the Economist Intelligence Unit “The Cold War for Talent” for Stepstone www.stepstone.com.

⁶ 2009 State of Global Talent Management Executive Report, Softscape www.managesmarter.com/.../smm_20090123_whitepaper_talentmanagement.pdf

As regards the increase in communication we identified, this too was found in a survey conducted by the CIPD “War on Talent in Uncertain Times”, which revealed that “for the most part, (the cutbacks) have led to more honest and frequent communications between managers and employees, with individuals having a greater understanding of where the business is, for better or worse, and how their performance can make a difference to overall business success”.⁷

In conclusion, we believe that this recession is forcing companies to prioritise expenditure to focus on the best returns. We also believe that this recession has helped reinforce the message that businesses can engender high performance through employee engagement and strong and effective leadership.

Over the next weeks and months, the ACE Network and our other partners who have helped us in this survey will be issuing “Reflections” on the topics raised in this report and how they can be taken forward.

We will focus especially on ways of strengthening leadership ability, dealing with under performance, developing the role of HR and talent management. Amongst the areas we will explore will be how to get the most out of assessment and development methodologies: how line managers can use online profiling and self-development tools to coach their staff and hold better conversations with them: and we will also provide details of our 360-degree feedback programme for senior management and how we link this to the organization’s employee survey to give members of the top team individually, and collectively, a deep understanding of how their actions and behaviours directly impact on employee engagement.

We hope this International HR Barometer will help you benchmark your practices and plan the way forward.



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⁷ Chartered Institute of Personnel and Development: Talent Management in Uncertain Times research@cipd.co.uk