

# The impact of the economic recession on HR

**Talent 2 and Ipsos MORI recently joined forces to survey senior HR professionals about how the global recession is affecting their organisations and their people management strategies and practices.**

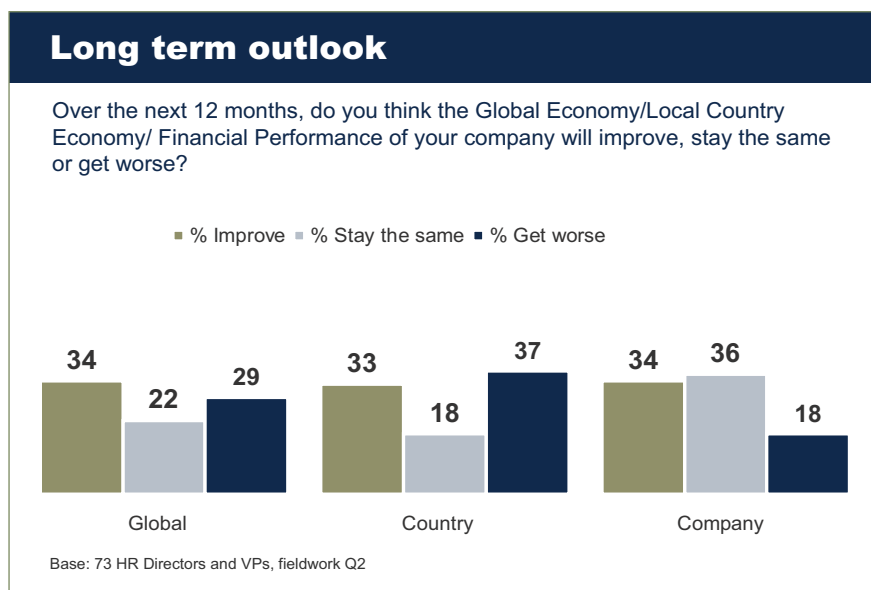
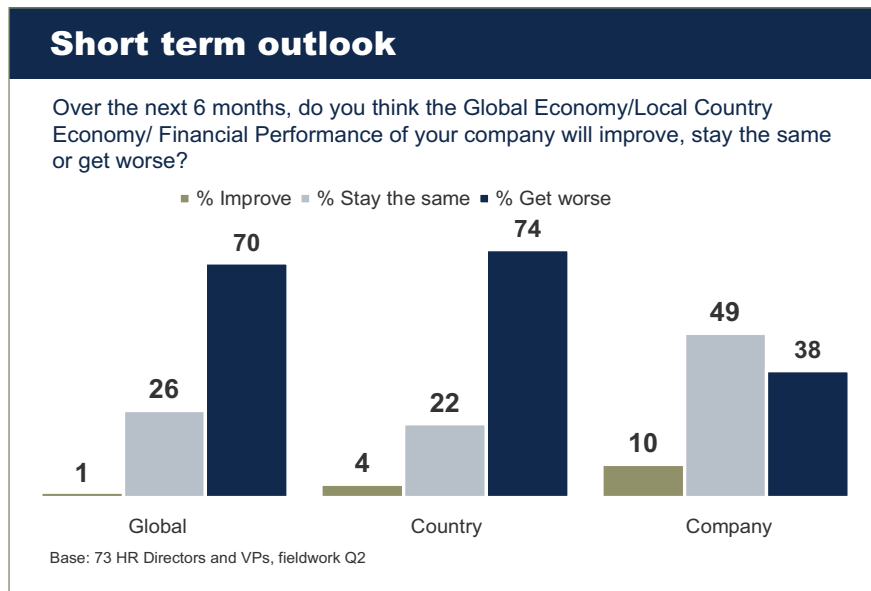
**We invited 200 senior HR Directors and VPs to participate in the survey, and 73 completed it.**

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## ECONOMIC OUTLOOK

In terms of the global economy, the HR view of short term prospects is comparatively bleak, with 70% saying that they expect it to get worse over the next six months. However, their views about the longer term are more positive with 56% expecting the global economy to stabilise, or improve, within the next 12 months.

Turning to the countries in which our respondents are based, a similar pattern is evident with around three-quarters expecting the economy to get worse over the next 6 months and half predicting a stable, or improved, outlook over the next 12 months.



This relative optimism over the longer term is shared by the general public in the UK. The Ipsos MORI Political Monitor recently showed increasing numbers of people believing the British economy will improve over the next year.

Generally, senior HR professionals who envisage an improvement in the short term, both globally and in their country, are also positive about the long term outlook, and they are more positive when it comes to financial prospects for their own organisation. Despite **over a third** of respondents feeling that this would get worse in the short term, the majority (**70%**) predict a stable, or positive, long term outlook. Even in the short term many respondents feel that their own organisation's financial prospects will outperform the national outlook of the country in which they are based. Of those who feel that the national economy will get worse in the short term, nearly half (**46%**) feel the performance of their organisation will stay the same and a small proportion even feel it will improve. Over the long term, this pattern continues although it is not as pronounced. Examples of challenging areas for the organisations over the next 12 months are:

*"Ensuring we are in the right structural shape to capitalise on the up-swing when it comes"*

*"Sizing the business to weather the recession whilst not damaging long term capability; keeping staff engaged; convincing people that performance management is good business practice and not just a way of assessing for redundancy"*

*"Finding and keeping talented individuals"*

Subsequent feedback indicates that while some talented individuals are staying with their company in the short term, they are likely to place themselves in the job market once the economy recovers.

## IMPACT ON HR

Unsurprisingly, the survey reveals that HR is greatly affected by the current economic situation. **Three in five** respondents feel the current capital markets directly impact on their organisation, with **three-quarters** also feeling they have a direct impact on HR. Similarly, the vast majority of organisations (**95%**) are either freezing, or decreasing, their annual HR budget, in areas such as training and development, external training, the use of external consultants, recruitment and HR systems. Evidence suggests this is likely to be the case regardless of what the predicted financial performance is for their organisation.

Against this backdrop of economic uncertainty and budget cuts, and despite having a slightly biased sample, it is reassuring that the HR function is seen as having a crucial role to play in improving organisational performance, with **88%** believing that senior management in other functions feel that HR has some, or a big, influence on performance. There is no direct link between this and the annual HR budget available.

The economic situation has led to **82%** of respondents making changes to their HR strategies. Of these, three in five (**58%**) expect such changes to be long term rather than short term. Where respondents feel that their organisation's financial performance will get worse over the next six months, there is a bias towards short-term HR measures being implemented. However there is no clear pattern when comparing HR strategy to financial performance over the next 12 months.

Three in five respondents feel there has been a shift in the balance between operational/tactical and strategic HR work, with the majority (60%) citing a shift towards operational/tactical work, especially those with a short term focused HR strategy. There is a corresponding bias towards a strategic outlook among those making long term changes to their HR strategy. Examples of specific changes being made to HR strategy are as follows:

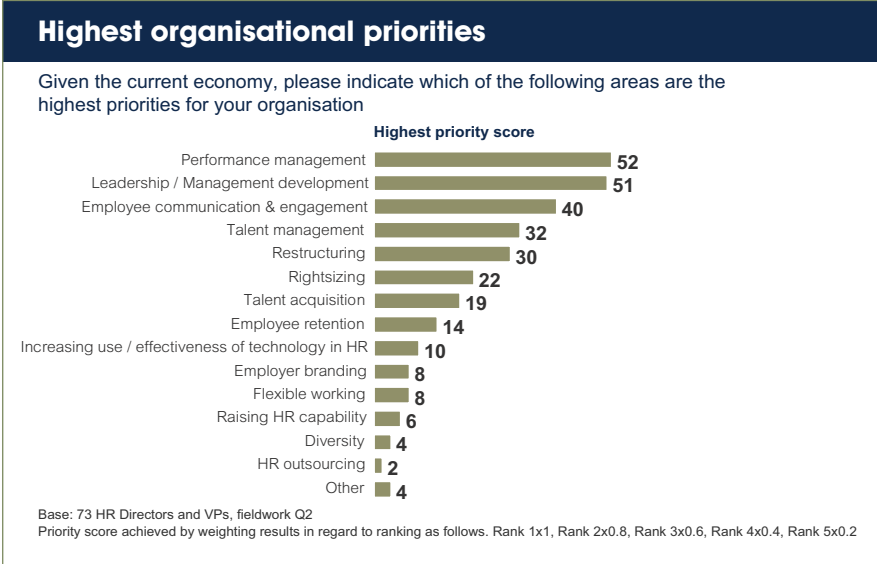
*“Training for all line managers to improve our management skills in order to develop our talent during these challenging times”*

*“Taking the opportunity to restructure the organisation to be more effective in delivering the business strategy, and to utilise all resources including people more efficiently ready for the up-turn”*

### HR PRIORITIES

With HR strategies clearly changing during these turbulent economic conditions, organisations were asked to identify, from a list of 15 activities, those which they feel are their biggest current priorities. The top three priorities selected are:

- Performance management;
- Leadership and management development; and
- Employee communication and engagement.



Where respondents expect changes to HR strategy to be short term, restructuring is another key issue, whereas talent management is seen as being important for organisations with a longer term HR strategy. Performance management and leadership/management development are seen as important for both short and long term strategies.

Further feedback indicates that many organisations appear to be carrying out efficiency reviews on their work practices. As a result, performance management and leadership development are understandable priorities since strong, visible leadership will be critical as companies feel the strain caused by the recession. Moreover, it is argued that, since recession forces organisations to examine performance in sharper detail, under-performance will increasingly be dealt with in a more direct and proactive manner. Respondents were also asked to identify those areas that are their lowest priorities.

The bottom 3 priorities listed are:

- HR outsourcing;
- Flexible working; and
- Diversity.

## **EMPLOYEE ENGAGEMENT**

With employee engagement a clear priority, it is not surprising to find that the majority of organisations surveyed (80%) currently measure it. A clear pattern emerges here: it is in the organisations where senior management feel that HR is influential that employee engagement is most likely to be measured.

Finally, it is encouraging to find that the economic situation is not adversely affecting all aspects of employment, with almost a quarter of organisations (23%) believing it is having a positive effect on employee engagement. Around half (52%) feel engagement levels have remained stable, while only one in five think they have decreased.

*“The big challenge will be making sure employee engagement remains high so that our front office and back office operations remain motivated and perform in the context of the current challenges”*

## **CONCLUSION**

The research highlights the difficulties facing HR in the current environment. Most corporate HR departments are freezing or decreasing their annual budgets and there is an enhanced need for HR leaders to focus on the urgent business critical initiatives. However the survey also reveals the key role HR has to play in driving organisational performance. Now more than ever before, HR needs to show itself to be about more than making redundancies by helping the organisation to reduce costs and improve efficiency and performance. Organisations that intelligently manage talent and communicate with employees honestly, accurately and at the right time will ride the current turbulence and be successful in the future.

**TECHNICAL NOTE:**

200 HR Directors and Vice Presidents were invited to participate in the online survey in Quarter 2, 2009. 73 completed the survey. Data are not weighted.

## CONTACT

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