After the Recession

- Though there are signs of recovery in the global economy, areas of weakness continue, especially in the labor market.
- HR professionals will be among the first to see signs of life return to the job market and any accompanying increase in turnover.
- With many disengaged employees staying put rather than risking an uncertain job market, HR professionals in 2010 will be focusing on how to reengage employees and retain the most valuable talent.

A number of economic indicators suggest that the global economy is tentatively working its way back to recovery. However, many economists are predicting that recovery will be slow and one of the last areas to regain its strength will be employment. With their central role in hiring, HR professionals have a front-row seat to any changes in the job market, and they have been a valuable source of information on employment trends throughout the recession. Recent surveys of HR professionals show that optimism about the job market over the coming months is rising, though many remain wary. As organizations prepare for what will hopefully be a healthier labor market in 2010, HR professionals are taking stock and considering the impact of the recession on the engagement and satisfaction of employees. These assessments could influence turnover, recruiting difficulty and employee performance in the months ahead.

The Labor Market: Still Weak but Showing Signs of Life

As 2009 drew to a close, a number of employment indicators suggested that although the labor market continued to limp along at a weak pace, there were at least a few signs of life. When the Organization for Economic Cooperation and Development (OECD), the international economic research body made up of the world’s wealthiest nations, released its composite unemployment rate for the OECD area in October 2009, it was up to 8.8%, a 0.1 percentage point higher than the previous month’s and 2.3 percentage points higher than a year earlier. In the United States, the unemployment rate for November 2009 was a dismal 10.0%, 3.2 percentage points higher than the rate from a year earlier. However, this number was a 0.2 percentage points lower than the previous month’s. Similarly, in Japan, the rate was 5.1%, 1.3 percentage points higher than in October 2008, but 0.2 percentage points lower than the previous month’s.
HR professionals reporting improved hiring expectations

Surveys of HR professionals showed that hiring expectations and optimism about the job market increased slightly by the beginning of 2010. According to the Society for Human Resource Management’s (SHRM) Leading Indicators of National Employment (LINE) survey, hiring expectations in manufacturing and services for January 2010 surpassed the levels of January 2009, the third consecutive month employment expectations increased on an annual basis. At the same time, HR professionals also reported that job openings in both sectors continued to increase in exempt and nonexempt employment. The SHRM Labor Market Outlook for the first quarter of 2010 indicates that HR professionals are showing a growing optimism about the job market over the coming months, with 43% either somewhat or very optimistic about job growth in the United States in the first quarter of the new year (see Figure 1).3

Recruiting top talent is growing more difficult

Top talent will be the first to be snapped up as employers begin to hire once again, and any increases in hiring expectations will eventually affect the competition for the most in-demand talent. This may already be happening in some industries. The LINE recruiting difficulty index, which measures the difficulty organizations are having when recruiting top candidates for the positions of highest strategic importance in their organizations, remains low in both the manufacturing sector and the service sector. However, the year-over-year comparison between December 2008 and December 2009 reveals that this index is slowly rising in both sectors.4 Though new-hire compensation growth remains low, these indications do hint that at least in some industries, hiring may begin to rebound in the coming months.

Turnover During the Recession

SHRM data from its human capital database also indicates that the recession influenced hiring, turnover and profits. The data show that hiring plummeted by 30% from 33 to 23 as a median number of positions filled, while revenue per FTE declined from $200,000 in 2006 to $126,984 in 2008 and net income declined by more than half—from $1,648,000 to $800,000—during the same period. The data also revealed a decline in turnover, most likely because the scale of the downturn hit all areas of the job market, leaving few job openings for which to apply, even for educated and skilled job seekers. As such, employee turnover dropped from 16% in 2007 to a low of 8% in 2009 (see Table 1).5

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If the job market begins to recover, organizations are likely to see their turnover rates begin to climb. This is causing some organizations to consider what they can do to avoid losing their most valued employees. According to compensation and hiring research conducted in October 2009 by Towers Perrin, although organizations are reporting only modest increases in hiring plans for 2010, 70% of companies are “very or somewhat concerned that high-performing employees may leave as a result of actions the company has taken in response to the financial crisis.” This is up from 62% of companies that expressed these concerns earlier in the downturn. To avoid the loss of top talent, many companies are planning to offer salary increases (49%), cash retention awards (32%), stock retention awards (26%) and higher bonus payouts (25%) to valued employees in 2010.6

Organizations may put off hiring and try to make up for revenue lost in the downturn by boosting productivity before adding new workers.

Reengaging Employees in 2010

Concern about the impact that the long recession has had on employee morale and engagement will influence HR decisions throughout 2010. In the early part of the year, employers may be
relying strongly on their current workforce. Many organizations are likely to put off hiring as they try to make up for revenue lost in the downturn by boosting productivity of their existing workforce to its maximum level before adding new workers. Even if organizations do add workers, many will start with temporary and contract workers and continue to rely on their core workforce for the continuity and tacit knowledge needed to achieve higher rates of productivity. This means employers will be relying on their long-term employees the most, at a time when many may be reaching burnout or looking for opportunities elsewhere.

Not only has the recession been a long one, with employees dealing with significantly heavier workloads for extended periods as their organizations have attempted to make do with leaner operations, but many organizations have implemented additional measures such as salary freezes, furloughs, reduced retirement and health benefits, and reductions in working hours. Many organizations have also conducted layoffs at least once or, in some cases, several times over the course of the

Figure 2 | To what extent do you anticipate that your organization will face challenges with various factors as the economy improves?

<table>
<thead>
<tr>
<th>Factor</th>
<th>To a large degree</th>
<th>To some degree</th>
<th>To a slight degree</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinstating previously reduced or eliminated benefits</td>
<td>23%</td>
<td>20%</td>
<td>30%</td>
<td>28%</td>
</tr>
<tr>
<td>Funding business operations</td>
<td>22%</td>
<td>40%</td>
<td>26%</td>
<td>11%</td>
</tr>
<tr>
<td>Attracting high-quality job candidates</td>
<td>18%</td>
<td>41%</td>
<td>21%</td>
<td>20%</td>
</tr>
<tr>
<td>Rebuilding trust among employees and the company leaders</td>
<td>17%</td>
<td>22%</td>
<td>37%</td>
<td>24%</td>
</tr>
<tr>
<td>Offering competitive total rewards packages</td>
<td>16%</td>
<td>39%</td>
<td>31%</td>
<td>14%</td>
</tr>
<tr>
<td>Sustaining recovery/regrowth</td>
<td>16%</td>
<td>37%</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>Keeping reduced or eliminated benefits at the same level as a way to keep costs down</td>
<td>16%</td>
<td>27%</td>
<td>30%</td>
<td>27%</td>
</tr>
<tr>
<td>Easing employee concerns about job security</td>
<td>15%</td>
<td>44%</td>
<td>26%</td>
<td>15%</td>
</tr>
<tr>
<td>Providing professional development and advancement opportunities for employees</td>
<td>15%</td>
<td>31%</td>
<td>35%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: SHRM Poll, January 2010

Figure 3 | Most likely actions organizations will take as the economy recovers

<table>
<thead>
<tr>
<th>Action</th>
<th>Very likely to make or keep changes in this area after the economy recovers</th>
<th>Somewhat likely to make or keep changes in this area after the economy recovers</th>
<th>Somewhat unlikely to make or keep changes in this area after the economy recovers</th>
<th>Not at all likely to make or keep changes in this area after the economy recovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engage in transparent communication (i.e., open, forthright) with employees regarding the status of the organization</td>
<td>35%</td>
<td>39%</td>
<td>14%</td>
<td>12%</td>
</tr>
<tr>
<td>Make cuts to HR-related technology (e.g., applicant tracking and payroll, etc.)</td>
<td>20%</td>
<td>30%</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>Retrain employees for new positions in organization</td>
<td>18%</td>
<td>50%</td>
<td>22%</td>
<td>11%</td>
</tr>
<tr>
<td>Step up recruitment initiatives and activities (e.g., advertising, targeted recruitment efforts, etc.)</td>
<td>14%</td>
<td>42%</td>
<td>25%</td>
<td>18%</td>
</tr>
<tr>
<td>Halt plans for business growth/expansion</td>
<td>14%</td>
<td>24%</td>
<td>27%</td>
<td>35%</td>
</tr>
<tr>
<td>Engage in volunteer and philanthropic activities</td>
<td>10%</td>
<td>27%</td>
<td>29%</td>
<td>34%</td>
</tr>
<tr>
<td>Outsource certain business functions</td>
<td>8%</td>
<td>38%</td>
<td>25%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Source: SHRM Poll, January 2010
About the Sponsor

Colonial Life is a market leader in providing employee benefits solutions in one neat package: excellence in communication, enrollment, service and personal insurance products that make benefits count for employers and their employees.

For employees whose insurance plans may not meet all their individual needs, Colonial Life can help restore peace of mind through personal insurance products that complete their coverage. Founded in 1939 and headquartered in Columbia, S.C., Colonial Life offers a broad line of benefits including disability, accident, life, cancer, critical illness, hospital confinement and limited benefit medical coverage.


Endnotes

2. SHRM LINE: www.shrm.org/line
4. SHRM LINE: www.shrm.org/line
5. SHRM Human Capital Benchmarking Database, historical data: www.shrm.org/Research/benchmarks/Pages/default.aspx

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recession, and research indicates that these organizations may be the most vulnerable to losing valued employees when the job market picks up.7

HR professionals rate a number of factors as potential challenges, with varying degrees of concern, once the economy recovers (see Figure 2). The challenges range from reinstating benefits, the costs of which have continued to rise, to employee morale and staffing and recruiting issues. HR professionals report that their organizations will respond to these challenges by continuing to communicate openly with employees, keeping technology costs down and retraining employees for new positions in the organization (see Figure 3).

Only time will tell how quickly a recovery will take place or how strong the job market will be in 2010. Some factors that are currently of little concern to HR professionals may become very important depending on new developments in the economy. But HR professionals should be developing scenarios around many of these challenges over the coming months so that when the economy takes another turn—hopefully this time for the better—they will be ready.