Recruitment has clearly fallen to the bottom of many companies’ priority lists as the recession maintains its stranglehold on the U.S. economy. With the labor market flooded by job seekers of all talent levels, employers that are, in fact, hiring right now have a distinct advantage and can take their time filling vacancies while selecting from a deep pool of candidates. Beyond trimming their payrolls to cover costs, many companies are reducing or freezing salaries and reducing or eliminating certain benefits for existing workers and new hires, knowing full well that most people would be grateful enough to have a job at a time when unemployment has reached levels not seen in two decades.

While the cost-cutting moves may save money in the short term, there are risks involved with the slash-and-burn approach. Some HR experts say the lean times should not provide an easy excuse to pay people less than they are worth, and that it is more difficult, from an operations and staffing standpoint, to bounce back quickly from extensive cutbacks when the economy recharges and demand for products and services returns.

Compensation levels and benefits offerings start to diminish as layoffs continue
Right now, though, the numbers show that many employers have the scalpels out. Each month from November 2008 to March 2009, the rate of increase for new-hire compensation in the manufacturing and service sectors fell from the previous year, according to SHRM’s Leading Indicators of National Employment (LINE) report. Those private-sector industries employ 90% of the nation’s labor force.

When wage and benefits cuts are not enough, companies have not been shy about paring payrolls altogether. Hiring expectations in manufacturing and services hit four-year lows in several consecutive months in late 2008 and early 2009, according to the LINE report. Elsewhere, in an October 2008 SHRM poll, 72% of companies said they had conducted layoffs in the past 12 months as a means of reducing staffing costs during the economic downturn. Another 48% of companies implemented hiring freezes during that period.

Recruiters and other HR representatives that wish to avoid taking sudden, drastic measures should employ at least two tactics—be flexible when finding ways to cut costs and take a long-term, futuristic approach for recruiting needs, says Raylana Anderson, Midwest regional director of HR for engineering consultant AECOM, and a member of SHRM’s Total Rewards/Compensation and Benefits Special Expertise Panel.

In mid-2008, AECOM’s management decided to upgrade its benefits programs, regardless of what the future held for the economy, Anderson tells. The company improved its disability benefits, expanded its life/ADD insurance coverage and did not reduce its contributions to employees’ 401(k) plans. AECOM made the decisions based partially on past experiences from economic downturns.

“We’ve all been through situations like this before, where the economy was bad and we laid people off, and then we needed people quickly when things got better,” Anderson says. “We don’t know yet if [the benefits upgrades are] paying dividends. Our retention hasn’t suddenly skyrocketed, but we haven’t been hearing the grumblings and ‘what if I lose this’ worries from employees.

“It comes down to taking a long-term perspective on the business, rather than the
short term. We could have made cuts, but in 12 to 18 months, we would be so far behind the curve, and then we would be scrambling even harder to make up for the losses.”

Not every employer is as lucky as AECOM, however. Demand is still strong for its consulting services, Anderson said, and AECOM is having trouble finding enough engineers to fill its ranks. Many companies that are hiring are still keeping operating expenses tight, according to other research. In a February 2009 SHRM online poll, 52% of respondents said their company was freezing or planning to freeze salaries in 2009. Another 22% said they had not yet frozen salaries, but that could change as the year progresses.

Base salary increases for U.S. employees of all categories in 2009 are projected at 3%, down from 3.6% in 2008, according to a December 2008 study by The Hay Group, a global HR services company. The Hay Group’s data were taken from more than 2,500 respondents in 91 countries and show that there are cost-cutting measures being taken by employers around the globe—in Europe, 2009 salary increases will average 4% (down from 5% in 2008), Canadian employers will raise salaries by 3% (down from 3.5% in 2008), and in Asia, salaries will rise 5% in 2009 (down from 6% in 2008).

This trend poses a problem for recruiters who are searching for top-flight talent even during an economic downturn, according to Tom McMullen, U.S. rewards practice leader for The Hay Group. “This could be an area of risk for attracting top performers,” McMullen says. “The market is never slow for top performers, even in tough times. Typically, top performers should get an increase of twice the [median salary increase].”

Too many cuts, even during tough times, will hurt recruitment and retention

Salary structure is not the only level of compensation or benefits that has taken a hit during the recession. A combined 30% of respondents said their company was freezing or planning to freeze its match or contributions to employees’ 401(k) plans in 2009 (23% have already done so, 7% plan to do so), according to a February 2009 SHRM online poll. In an October 2008 SHRM poll, 16% of HR professionals said they anticipated that their organization would make budget cuts for tuition reimbursement within the next 12 months, and another 15% anticipated cuts for fitness and stress management initiatives.

If there is any good news, it’s that some employers are becoming more aware of the benefits of targeting A-level workers during an economic downturn. In a March 2009 SHRM poll, 24% of companies said they have implemented a recruiting strategy that seeks out top-level talent that has become available during the recession. Another 39% of companies have expanded a similar strategy already in place. And those employers are more likely to win points among their workers in the long run, says Leslie Sorg Ramsay, principal and head of the HR practice group at Arlington, Va.-based recruiting company The McCormick Group.

A blanket policy on shaving salaries and benefits might help save money in the short term, Ramsay says, but it may create permanent, harmful issues with recruiting and retention. “If a company is cutting new salaries by $5,000 or $10,000 for a few jobs, that’s not as big a deal,” she says. “But if this is happening across the board, it’s a problem. Most candidates today are very sincere, and they’re making lateral moves or taking salary cuts because they need the job.

“And if an employer offers a new worker a much lower salary, it’s only a matter of time until that employee will leave the company when [he or she] has an opportunity for market-rate pay. If the cuts go too far, the employer risks losing that person. It’s a business decision, but ultimately, it hangs over the head of the employer.”

Monique Morrissey, an economist with the Washington, D.C.-based Economic Policy Institute, agrees. She says that retirement benefits have been a frequent cost-cutting target during the recession, with many employers reducing or eliminating their matching contributions to 401(k) plans. These types of losses are not immediately tangible for most employees—compared with reductions in health care coverage, for example—but retirement cutbacks will seriously hamper efforts to retain staff.

“If a company has no choice, I understand the temptation to cut retirement benefits. 401(k)s have been heavily devalued,” Morrissey says. “At a time when there are layoffs, it’s easy to get away with it. But if a company values employee retention, to have no semblance of an employer contribution to a retirement plan sends a message that this may be a throwaway job.”

Keeping an open mind and an open door when battling economic difficulties

While there may not be any easy solutions for recruiters and HR professionals during these tough economic times, opportunities exist to focus on retention and to examine recruiting policies during the lull in staffing activity.

Paul Villella, CEO of Reston, Va.-based staffing company HireStrategy, says he’s spending much less time at the negotiation table these days for his clients. He says that companies that are hiring are finding many willing
It’s not necessarily people who get the big incentive pay, either. There are more good people on the street than ever before. If you have the opportunity, recruiting them should be part of your plan. With financial rewards constrained, think about total rewards, such as training and development opportunities, and promotion and recognition programs.”

For Anderson at AECOM, financial rewards did come into play when revamping the benefits program. But it all began by working with employees to reach the best solution, at a time when few jobs are safe in the U.S. economy.

“The retention aspect of this is huge as far as being able to build and sustain the engagement of our employees by making long-term decisions,” she says. “The end result is, our company is footing more costs for benefits, and we have also kept things in the low single-percentage digits for employee contributions to health plans.

“Many of these decisions came up based on employee surveys that we have taken during the past few years. It would have been tempting to use the economy as an excuse, but we decided it’s harder to fill things back up and regroup when the economy improves.”

Did you know? 92% of employees said compensation held some level of importance for them for job satisfaction—53% said it was “very important” and 39% said “important.”

2008 Job Satisfaction: A Survey Report by SHRM (June 2008)

HR professionals should also use this time to engage their employees, and recruiters should renew relationships with longtime clients. The March 2009 SHRM poll revealed that 29% of companies have recently initiated a retention strategy that provides incentives to keep high performers on board at their businesses; another 47% have expanded a similar strategy already in place.

Above all, creativity and concern for workers should be at the top of employers’ agendas when tackling compensation and benefits during a recession, says Vincent Milich, senior consultant in the reward practice at The Hay Group.

“It’s not just money,” Milich says. “You can give people opportunities to work on interesting projects, for example.

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SHRM Labor Market Outlook Survey Methodology
A sample of HR professionals was randomly selected from SHRM’s membership database, which included approximately 250,000 individual members at the time the survey was conducted. Only members who had not participated in a SHRM survey or poll in the last six months were included in the sampling frame. Members who were students, located internationally or had no e-mail address on file were excluded from the sampling frame. In February 2009, an e-mail that included a hyperlink to the SHRM Labor Market Outlook Survey was sent to 3,000 randomly selected SHRM members. Of these, 2,303 e-mails were successfully delivered to respondents, and 495 HR professionals responded, yielding a response rate of 20%. The survey was accessible for a period of two weeks, and three e-mail reminders were sent to nonrespondents in an effort to increase response rates.

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