

The Impact of the U.S. and Global Economic Decline on Businesses



Data Highlights

- ◆ Six out of 10 HR professionals forecast that their organizations are likely to lay off employees in the next 12 months.
- ◆ More than seven out of 10 companies reported severance pay as the top assistance offered by their organization to laid-off employees.
- ◆ Sixty-four percent of organizations felt the decreased demand for products/services had influenced the financial stability of their organization.

What Impact Is the Economy Having on Organizations?

The U.S. and global economies are facing immensely challenging times, and this has left many organizations scrambling to stay afloat. Specifically, the largest impact of the downturn has been the sharp decline in the demand for goods and services. Sixty-four percent of businesses believe that the decreased demand for products/services contributed to the financial instability of their organization. Both publicly and privately owned companies experienced this significantly more than nonprofit organizations and government agencies. In today's business world, the interconnectedness of the global economy means that economic struggles in one part of the world inevitably reverberate to other countries. Nearly four out of 10 companies indicated that the volatility in the world financial markets directly affected them. And for 34%

of organizations, the economic turmoil only further added to the woes of the health care crisis that has been affecting U.S. businesses for years. These data are depicted in Table 1.

37% of companies cut travel related to employee professional development within the last six months.

*SHRM Poll
March 20, 2009*

Table 1 Factors Negatively Affecting the Financial Stability of Organizations

Decreased demand for products/services	64%
Volatility in world financial markets	38%
Health care costs	34%
Fluctuations in the value of the U.S. dollar	28%
Organizational restructuring	24%
Loss of government contracts or other contracts	20%
Increased domestic competition	18%
Global competition	12%
Reduced ability to secure credit for business	13%
Corporate mergers/acquisitions	11%
Difficulty attracting investors	8%
Pension liabilities	7%
Reduction in federal/state funding	7%
Fuel cost	3%
Housing market	3%
Other	5%

n = 633

Note: Respondents who answered "Not applicable" were excluded from this analysis. Respondents were asked to select their top three factors. Percentages do not total 100% as multiple response options were allowed.

Source: Survey Brief: The Impact of the U.S. and Global Economic Decline on Businesses (SHRM, 2009)

Nearly **four out of 10** companies indicated that the volatility in the world financial markets directly affected them.

Organizational Staffing Strategies

As organizations face the current financial challenges, many have had to re-examine their goals and resources. As a result, many businesses have had to cut costs related to staffing. According to SHRM research conducted in October 2008, 72% of organizations had been relying on attrition to cut staffing-related costs in the past 12 months. In comparison, in March 2009, 63% had relied on attrition as a way to reduce staffing budgets in the prior six months. This 9% drop is likely due to worsening global economic conditions in the six months between October 2008 and March 2009, forcing companies to implement more drastic cost-saving measures. In October 2008, implementing a hiring freeze was a frequently used cost-cutting measure, with 48% of organizations employing this tactic, while another 21% of organizations cut staffing costs by not renewing contracts with existing contract/temporary/contingent workers. In March 2009, both of these strategies were used slightly more frequently, with 52% of organizations implementing hiring freezes and 27% of organizations not renewing contracts with existing contract/temporary/contingent workers.

Implementing a salary freeze and retraining current employees for new positions were two strategies that increased significantly from October 2008 to March 2009, likely reflecting businesses' needs to retain employees at a lower cost. In March 2009, 49% of HR professionals reported freezing employee salaries, a 46% increase from October 2008. This dramatic increase is likely to have been affected by annual performance evaluations, which usually take place during this period and result in salary increases at the start of the year. These results suggest that when companies had the opportunity to implement salary freezes, nearly one-half chose to do so. Similarly, the prevalence of retraining employees for new positions within the organization increased from 10% to 34% in the six-month period between October 2008 and March 2009. These data are depicted in Table 2.

Table 2 Table 2: Steps Organizations Have Taken to Cut Staffing-Related Costs

	October 2008 (n = 633)	March 2009 (n = 462)
Encouraged employees to use vacation time	18%	–
Reduced/eliminated overtime pay	3%	–
Allowed attrition	72%	63%
Implemented hiring freeze	48%	52%
Implemented salary freeze	3%	49%
Retrained employees for new positions in organization	10%	34%
Have not renewed contracts with existing contract/temporary/contingent workers	21%	27%
Reduced employee work hours	17%	20%
Reduced employee benefits offerings	10%	17%
Made salary reductions	5%	15%
Offered early retirement to employees	6%	10%
Hired more contract/temporary/contingent workers	12%	8%
Offered job sharing	5%	7%
Implemented organizationwide workweek reductions	9%	6%
Shut down business for short periods at a time	7%	5%
Other	4%	–

Note: Percentages do not total 100% as multiple response options were allowed. In October 2008, respondents indicated changes occurring in the past 12 months; in March 2009, they indicated changes occurring in the past six months.

Source: Survey Brief: The Impact of the U.S. and Global Economic Decline on Businesses (SHRM, 2009)

In March 2009, **49%** of HR professionals reported freezing employee salaries, a 46% increase from October 2008.

32% of companies predict that it is very likely that employee bonuses will be cut over the next six months.

*SHRM Poll
March 20, 2009*

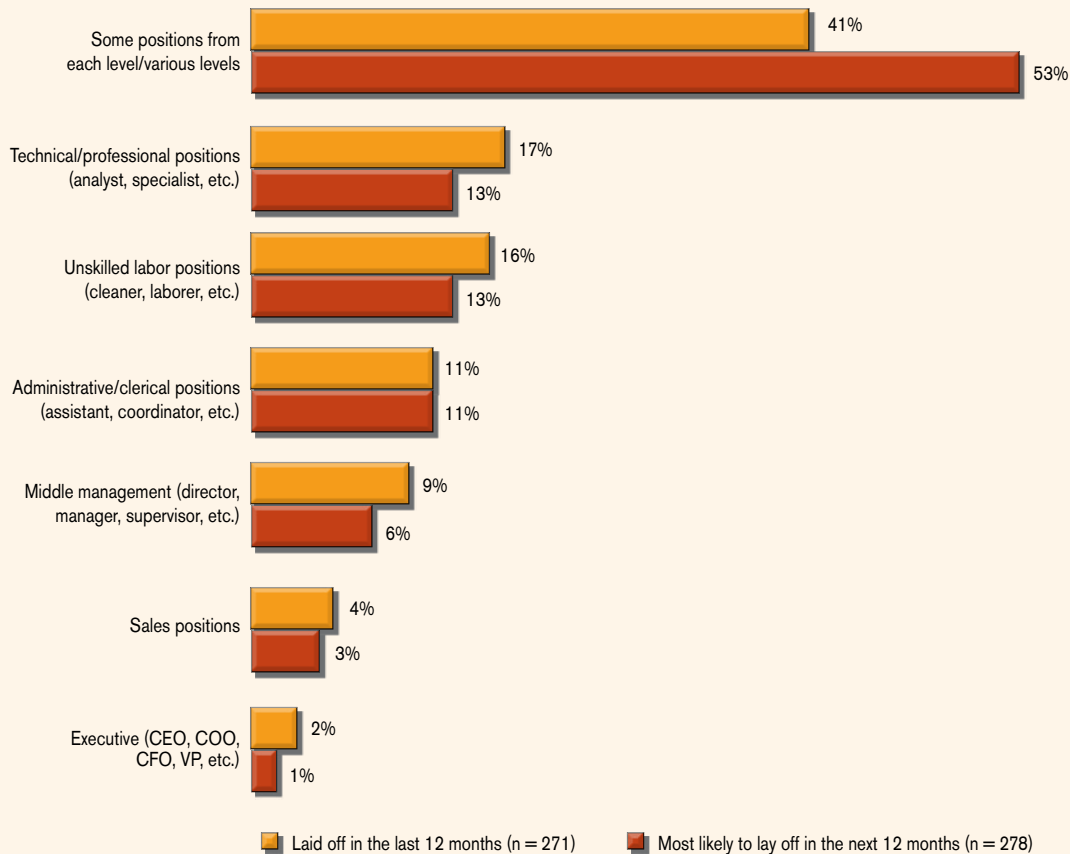
cuts occurring significantly more in large companies than in small ones. Layoffs were not limited to a select employee group level, but rather affected employees at all levels within organizations, according to 41% of respondents (see Figure 1). Nearly one-half (49%) of the layoff terminations were effective immediately.

In October 2008, 60% of HR professionals' forecasted that their organizations were likely (responded "very likely" or "somewhat likely") to lay off employees over the next 12 months. This number decreased to 24% in March 2009, when HR professionals were asked to predict layoffs in the upcoming six months. This suggests that companies may have conducted the bulk of their layoffs already, although nearly a quarter of organizations still expect layoffs to continue. Among the companies that anticipated job cuts in the next six months, the majority (53%) expected to lay off staff from various job levels. These data are depicted in Figure 1.

The Inside Story on Layoffs

Although organizations took steps to reduce staff-related costs, in October 2008, 48% of HR professionals reported that their organizations laid off employees in the past 12 months, with job

Figure 1 Job Levels at Which Layoffs Occurred/Will Be Most Likely to Occur



Note: Only respondents whose organizations had laid off or were likely (very or somewhat) to lay off employees were included in the analysis.
Source: Survey Brief: The Impact of the U.S. and Global Economic Decline on Businesses (SHRM, 2009)

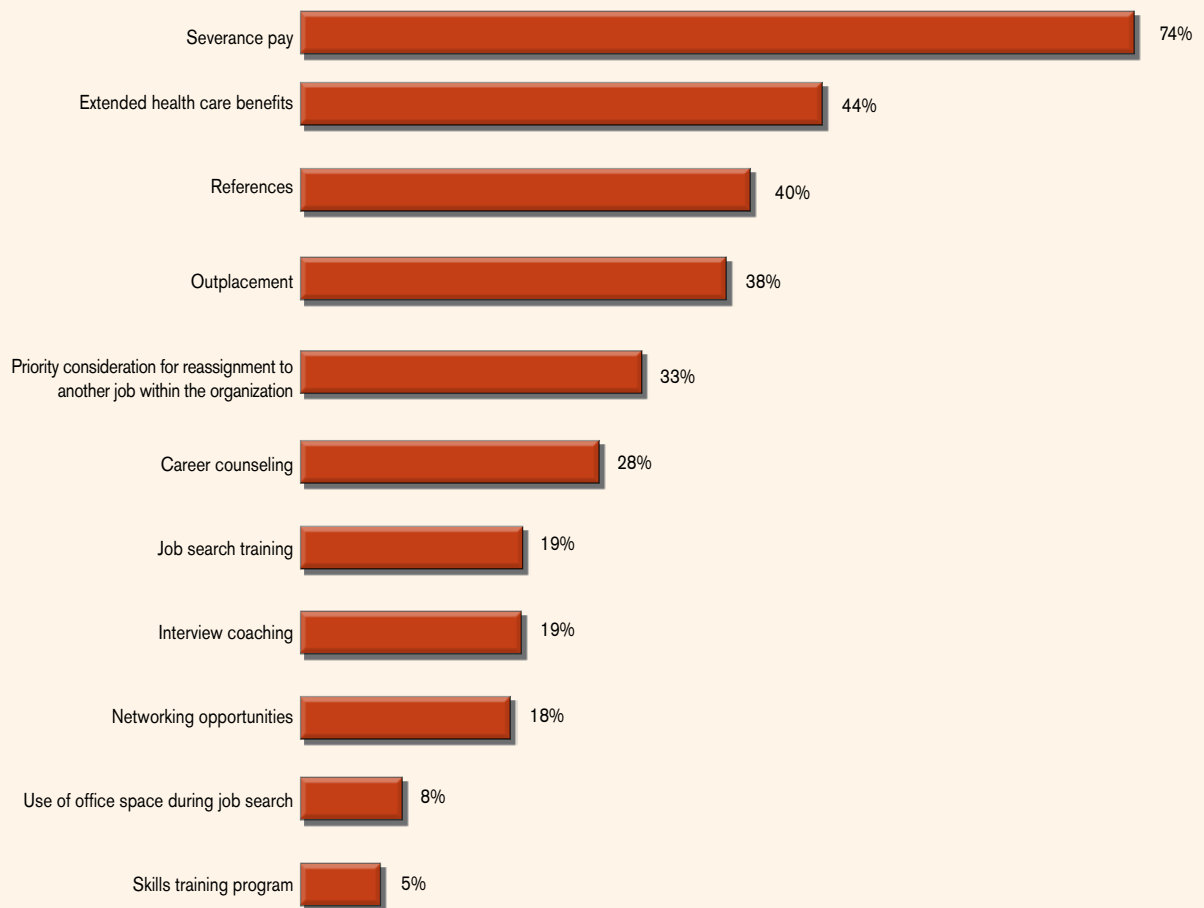


What Are Organizations Doing to Assist Laid-Off Employees?

Despite having to make job cuts, many organizations are making an effort to help their laid-off employees. Severance pay was the most frequently offered form of assistance for laid-off workers, as reported by more than seven out of 10 respondents from organizations that offered assistance. Extended health care benefits and job references rounded off the top three. These data are depicted in Figure 2.

Severance pay was the most frequently offered form of assistance offered to laid-off workers.

Figure 2 Assistance Organizations Offered to Laid Off Employees



n = 433

Note: Respondents who answered "No assistance" were excluded from this analysis. Percentages do not total 100% as multiple response options were allowed.
 Source: Survey Brief: The Impact of the U.S. and Global Economic Decline on Businesses (SHRM, 2009)

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Methodology

In October 2008 and March 2009, the Society for Human Resource Management (SHRM) conducted an online poll of human resource professionals about layoffs in light of the challenges to the U.S. economy and the effect of the financial downturn on organizations. The insight of HR professionals and their involvement in the decision-making process and implementation of staffing strategies, layoffs, etc., provides an important perspective on how companies are reacting to the global recession. This survey brief examines the overall results from the polls. Full results from these polls can be found at www.shrm.org/surveys.

An e-mail that included a link to an online poll was sent to 3,000 SHRM members located in the United States. For the October 2008 poll, 2,748 e-mails were received and 633 members responded, yielding a response rate of 23%. In March 2009, 2,718 e-mails were received and 467 members responded, yielding a response rate of 17%. The polls were accessible for one week each. E-mail reminders were sent to nonrespondents in an effort to increase response rates.



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The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management. Representing more than 250,000 members in over 140 countries, the Society serves the needs of HR professionals and advances the interests of the HR profession. Founded in 1948, SHRM has more than 575 affiliated chapters within the United States and subsidiary offices in China and India. Visit SHRM Online at www.shrm.org.

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