

From recession to recovery?
The state of HR in this challenging
economic environment

THE STATE OF
HUMAN RESOURCES



SURVEY 2010

Organisations involved

SpeechlyBircham

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The HRM Learning Board is unique in the way it connects organisations to the latest academic research and thinking on contemporary workforce issues. Through its workshop and seminar programme, bespoke learning and advisory activities, and through a variety of other forums and media, the Learning Board is an innovative thought leader on contemporary people management practice. It also enhances the experience of King's postgraduate student talent pool by developing work placements, internships and projects with our partners on key workforce development interventions and strategies.

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Profiles



Richard Martin, Employment Partner at City law firm Speechly Bircham

Richard advises employers and senior employees on all aspects of the employment relationship and has 14 years' experience in the field. He has particular experience and expertise in handling high value claims for breach of contract, unfair dismissal (including whistle-blowing) and discrimination as well as advising on the drafting of relevant contractual documentation and remuneration schemes. He advises regularly on the enforcement of restrictive covenants and confidentiality obligations including the particular issues arising on team moves as well as the employment related aspects of business transfers. Richard works closely with the HR teams in the employer clients for which he acts and understands the strategic role of HR in those organisations. Richard lectures regularly on employment law issues (including at King's College London).



Stuart Woollard, Managing Director of King's College London HRM Learning Board

Stuart established the HRM Learning Board with King's in 2007, connecting organisations to the latest academic research and thinking on contemporary workforce issues. Prior to this, he gained 10 years' senior level business and consulting experience with Arthur Andersen, and created a management consultancy in 2000 advising a number of major corporations on strategic human resource initiatives. He also worked for several years as a global HR director and then as a managing director in the financial services industry. Stuart's areas of expertise include business strategy, people strategy and performance, change management, policy design and implementation. He has also published research on the role of HR in international mergers and acquisitions (CIPD). Stuart has made regular contributions on HR issues through various media and to a variety of industry and special interest groups.



Dr Michael Clinton, King's College London

Michael is a Lecturer in Work Psychology & Human Resource Management at King's College London, teaching at both undergraduate and postgraduate levels. Michael has been researching the employment relationship from a number of angles for over eight years. This has included work on the perceptions of HRM within the workplace, psychological contracts and employment contracts and performance management systems, and has involved working with organisations across a broad range of sectors, including large projects with the Department of Health and the Ministry of Defence. In 2008, he completed his PhD examining the issue of uncertainty within organisations and its impact on employees. Michael publishes his research in academic journals and regularly speaks at international conferences.

The authors of the survey report are Dr Michael Clinton and Stuart Woollard of the Department of Management, King's College London.

Foreword

Senior HR professionals have faced another year of turmoil as the credit crunch became a full blown recession. In this year's survey, they tell us about the impact on their workforces, their experiences one year into the recession, and whether they see signs of economic recovery in the year ahead.

I am once again delighted that Speechly Bircham has teamed up with the internationally renowned academic team at King's College London, through the King's HRM Learning Board, to undertake this survey. Now in its second year, the survey offers a truly unique insight into the issues senior HR professionals face in these difficult economic times, what the HR function is doing to address those issues and how the function itself is being affected by the changes going on around it.

There are many interesting themes to emerge from the responses this year. From a high level view it is striking how different industry sectors have been impacted differently over this period. We asked respondents to focus on the period from November 2008 to October 2009. It is clear that for some sectors, notably financial services, they had already felt the worst impact of the recession before this period and so they were experiencing some degree of recovery. For others they were still suffering the worst effects of the downturn while for the public sector and perhaps the third sector, the worst may be still to come.

We should also remember when looking at the data that we are not getting the story from those worst affected by the recession – those businesses that have closed were simply no longer around to respond to the survey. The messages that emerge therefore may be a little more positive than the overall economic situation might suggest.

Employee engagement remains the number one challenge for HR professionals, with recognition given to the damage done to engagement by the recession and the consequent need to focus on it as a priority as the economy recovers. For the first time we have hard data on the steps being taken by employers to address engagement. We also have some indication of whether these initiatives may be working.

There seems to have been an increasingly enlightened approach to achieving cost saving in the recession. While compulsory redundancies have featured heavily, employers have demonstrated a greater appetite for looking at alternative ideas including a dramatic increase in the use of flexible working arrangements. It may be that one legacy of the recession will be an increased use of flexible working and, more importantly, a real shift in managers' attitudes to it. Having been forced to examine it by the need to reduce costs, employers may well see that with a positive approach it can be made to work and so be prepared to embrace it more readily going forward.

There appears to be a degree of cautious optimism about the recovery. Senior HR professionals are fairly satisfied with their resources and that their activity has a positive outcome for the business. It is not all good news though. Workplace stress and workplace conflict have continued to increase and are expected to carry on doing so in the year ahead with key issues focusing on relations with line management and bullying/harassment.

Interestingly, pay and conditions are also predicted to be a major source of future grievances. Respondents also report an expectation that time and effort will need to be devoted to revising remuneration and reward arrangements. With pay frozen for many during the recession and with only limited pay increases being forecast in the survey responses, the message appears to be that employees, having shared the pain over the last couple of years, expect to be rewarded financially going forward but are going to be disappointed, resulting in increased grievances.

There also appear to be problems stored up for the future in other areas. Staff turnover, for example, has reduced considerably over the last 12 months but is expected to pick up as the economy recovers and new job opportunities begin to emerge. Employees, who have been unhappy but not able to do much about it during the lean years, are going to be looking to move on. This will create increased turnover. Skills shortages continue to be reported in key areas while expenditure on training and development is not necessarily being increased to meet that need.

For the HR function itself, the experience over the last 12 months appears to have been one of being required to do more and more with less and less resource (a familiar theme one might say). Unfortunately the overall underlying message that emerges for the future is that the next year is going to bring even more challenges for HR. Engagement, talent management and succession planning may be HR's top three priorities for the coming year but the biggest proportion of their time may instead need to be spent dealing with the consequences of a lack of engagement – grievances and a big increase in staff turnover.

No one ever said it was going to be easy...



Richard Martin
Employment Partner, Speechly Bircham

Executive summary

Over 350 HR professionals responded in November 2009, to a survey exploring the state of human resources.

- The survey confirms the significant effect of the recession with 83% of respondents reporting a negative impact on their business.
- This year's survey highlights sector specific differences with some sectors more badly affected than others (such as real estate and construction) and some showing some signs of moving towards recovery (eg financial services).
- The impact on staffing levels has been worse this year with 54% (42% in 2008) of organisations reducing the size of their workforce over the previous 12 months. 34% (44% in 2008) had a larger workforce than last year.
- There has been a shift away from the use of compulsory redundancy to make workforce reductions, with a significant increase in the use of flexible and part time working, and the utilisation of other methods to downsize.
- There are signs of cautious optimism from the survey in terms of workforce growth. 44% of respondents say that they expect some increase in workforce size in the forthcoming 12 months, with 34% expecting some decrease.
- Even in deep recession, there appears to be an underlying skills shortage for many employers. 22% of organisations reported experiencing a shortage of key staff in an area of their organisation.
- As with last year, the recession has affected HR practices, with further reductions in pay rises, in the size of bonus pools and in training and development budgets.
- Recession continues to create workforce problems for organisations. This year we have seen 38% report an increase in levels of stress among employees compared with 30% last year. 36% report an increase in employment relations problems compared with 30% in 2008.
- 29% of respondents identified that grievances had increased this year and 23% anticipate future increases in grievances. The main grounds for reported grievances are bullying and harassment and relations with senior or line managers. Grievances around pay, work practices, stress and career development are anticipated to increase in number in 2010.
- Survey data indicates that both staff turnover and absence decreased in 2009. One third of respondents expect staff turnover to increase in 2010, while fewer than 1 in 4 expect a decrease. Equal numbers expect absence to increase and decrease in 2010.
- The top three major HR challenges reported for 2010 are maintaining employee engagement (cited by 68%), succession planning (53%), and managing growth and expansion (45%).
- More respondents (47%) are expecting to see increased levels of employee engagement during 2010 but nearly one third expect stress-related and employment relations problems to increase, in addition to an increase in staff turnover.
- HR functions are using employee engagement as a key concept around which they are focusing attempts to improve the management of people within their organisation. 55% of respondents were measuring employee engagement and 88% were actively trying to improve it.
- 91% of respondents who were looking to drive engagement were attempting to do so through more effective leadership and management of staff. 79% were attempting to develop better staff relations with line managers. All HR activities used to try and drive engagement were associated with increases in levels of engagement. The strongest association was with better job design. Higher levels of employee engagement were also associated with higher levels of organisational performance.
- Senior HR professionals are broadly satisfied with the quality of their staff and HR practices, with the level of influence of, and support for, the function. There is less satisfaction with levels of employee performance and engagement.
- HR professionals are also less satisfied with the implementation of HR practices by line management. The implication is that HR needs to focus more on the role of line managers to make their work more effective in raising levels of employee engagement and performance.
- Many HR professionals reported that their roles and responsibilities are broadening. 93% reported no cessation of HR related activities in 2009 while 28% reported the commencement of a new HR activity.

Introduction

Economic conditions continue to create extremely tough and challenging environments for organisations in which to manage their workforces. From a long and deep recession, much uncertainty remains about the shape and speed of recovery. The impact of restructured business operations on employees has already been significant. This is set to continue for many. For others, new challenges will also arise as the effects of recession overlap with renewed focus on growth. This report outlines the key workforce issues arising from recession and anticipated recovery. It also reviews the effects on policies, practices and the operation of human resource departments.

This report is based on the results of a survey undertaken as a collaboration between City law firm Speechly Bircham and King's College London in November 2009. Approximately 5,000 questionnaires were sent out in two ways - post and email. 356 responses were received and these have been analysed by King's College London.

The survey allows us to distil valuable insights from senior HR professionals about what is happening to their organisation's workforce and to their HR function. We can see the challenges they are facing and how they see these changing in the next year – all in the context of the recession and anticipated recovery. We have also been able to compare the survey results with what was reported in the 2009 State of HR Survey and have identified some interesting comparisons and potential emergent trends.

We asked people to report on the previous 12 months (November 2008 to October 2009) and tell us what was likely to happen in the forthcoming year (November 2009 to October 2010). The survey captured views and expectations in November 2009.

“ *The survey allows us to distil valuable insights from senior HR professionals about what is happening to their organisation's workforce and to their HR function.* ”

“This report provides challenging reading for the HR profession. The survey shows that most organisations are still mired in recession. And the HR problems are increasing with greater stress levels and more employment relations problems. The report provides clues about how to cope with recession but the HR route out of it is not yet clearly marked. Many senior HR professionals are pinning their hopes on employee engagement as a means of emerging from the recession. There is a strong risk that they will be disappointed if the labour market improves.”

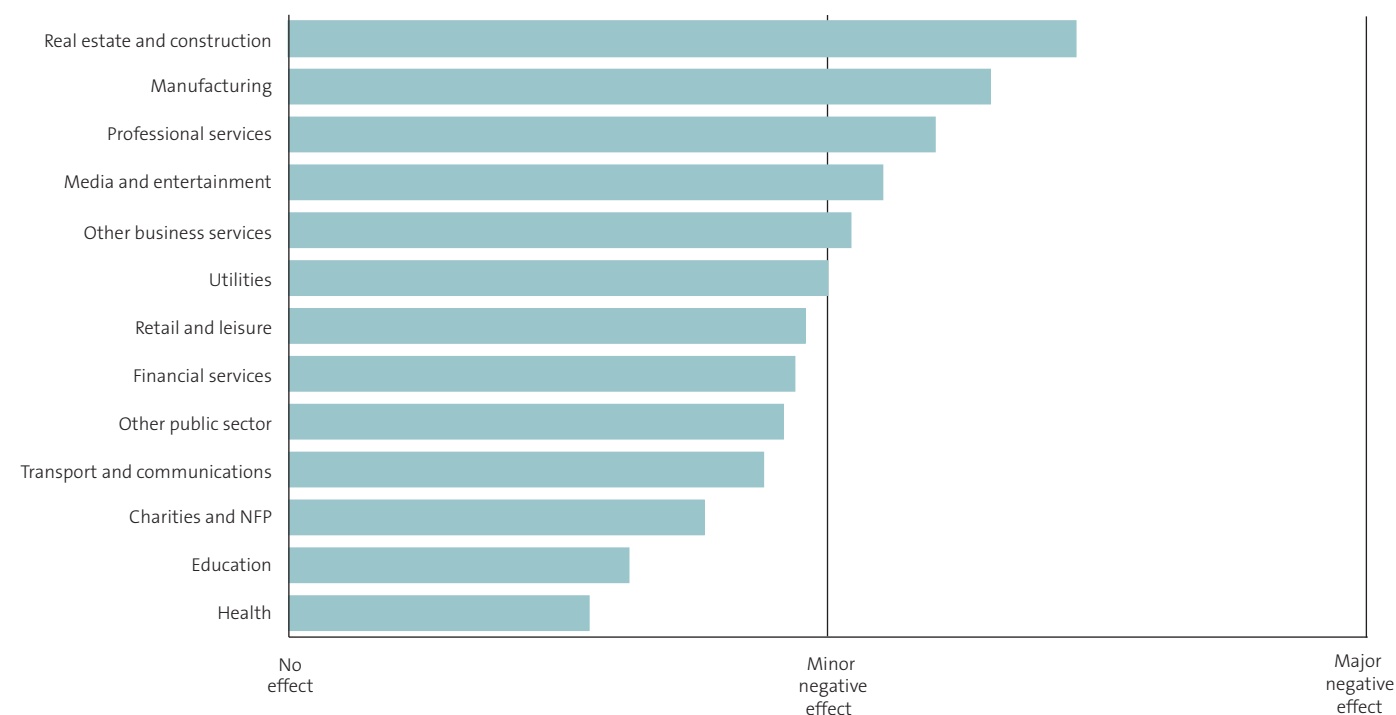
Professor David Guest, King's College London

The recessionary impact on employers and industry sectors

Who is most affected by recession?

In our previous survey, we confirmed the widespread and broadly consistent impact of the recession and found over 80% of respondents experiencing a negative impact on their business. Overall, results have been similar this year with 29% of our sample reporting that the recession has had a major negative effect on their organisation and 54% saying it had a minor negative effect. The biggest effect has been on the real estate and construction, manufacturing, professional services, media and entertainment sectors and in what we have called “other business services”. The table below shows the degree to which different sectors have been affected.

How has the recession affected your organisation in the last 12 months?



We have continued to see some employers thriving; for 10% of respondents, the last 12 months of recession have been an opportunity to grow and these employers report either a minor positive (7%) or major positive (3%) effect. The financial services sector appeared to be hit harder in our previous survey and indications are that recovery is under way – for example, we have seen investment banks reporting a return to significant profit-making often after near collapse. In other areas, supermarkets and some other retailers have also grown. Our survey also highlights that the public and the not for profit sector, including health and education, have fared better - although the future impact for these sectors remains far from certain. Indeed, overall 45% of organisations indicate that there remains moderate uncertainty in the business environments in which they operate, while over 20% indicate that the uncertainty is either great or very great.

“ *The public and the not for profit sector, including health and education, have fared better - although the future impact for these sectors remains far from certain.* ”

Employment levels, workforce reductions and talent shortages

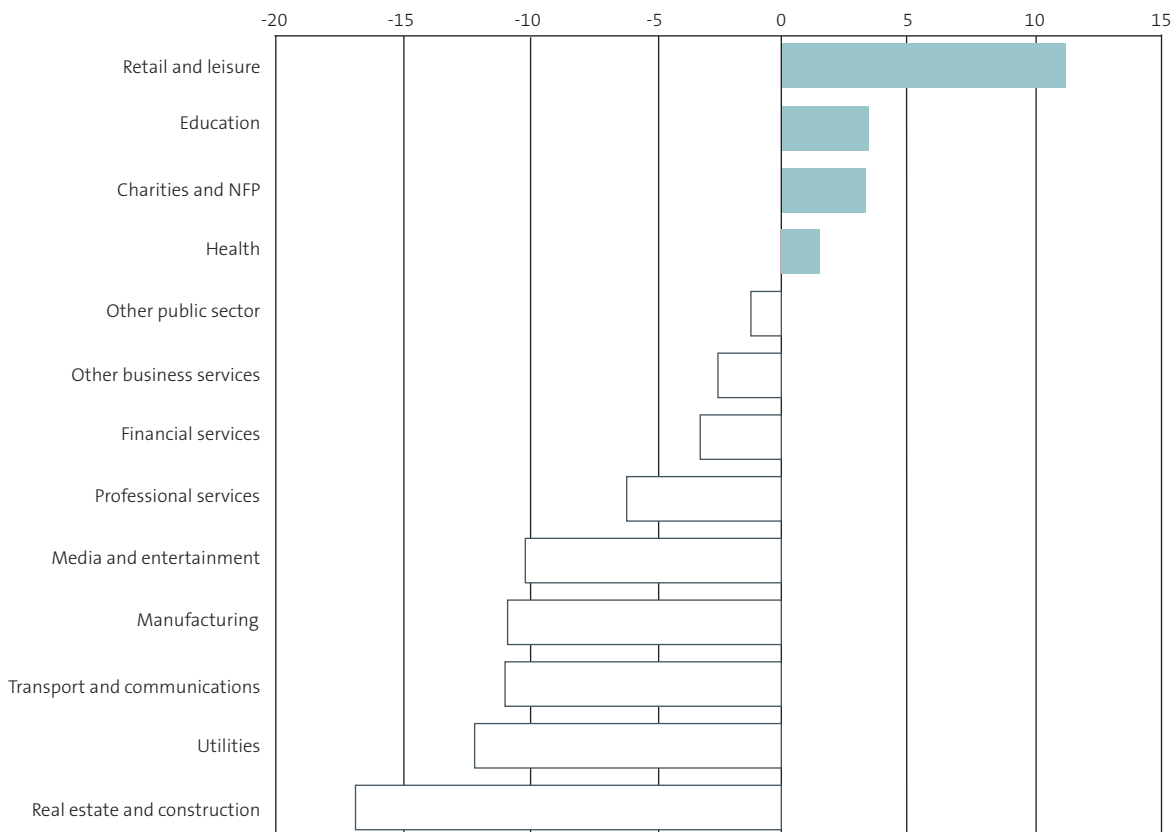
The extent of workforce reductions

Overall, organisations who took part were likely to have reduced the size of their workforce over the previous 12 months. 54% (compared with 42% in 2008) had a smaller workforce size (FTEs and PTEs) than at the same time in the previous year. 34% (44% 2008) had a larger workforce than last year and 12% indicated no change. The average reduction in workforce size was 2.5%. For those employers that reduced headcount, 82% confirmed that this had been caused wholly or partly by the recession.

“ 54% had a smaller workforce than at the same time in the previous year. ”

There is substantial variation, however, in workforce changes across different sectors, which is highlighted in the table below. Real estate and construction have faced the biggest reductions, with utilities, transport and communications, manufacturing and media and entertainment all seeing over 10% reductions in their workforces. Retail and leisure have witnessed the largest increases across the period, perhaps reflecting the success of some parts of the retail sector (eg supermarkets) and more cautious optimism about consumer spending, particularly over the Christmas and New Year periods. This is slightly at odds with the sector overall reporting the recession as having a minor negative effect. The growth in education and not for profit organisations may reflect the tail end of the increases in public spending over the last decade. Anecdotal reports suggest these sectors have seen an influx of workers from the private sector looking for a career change.

% change in workforce size across sector



The nature of downsizing

From our last survey, we highlighted that employers were seeking to maintain the integrity of their workforces and retain key talent where possible. This year's results continue to bear this out. First, respondents have reported a significant increase in the use of flexible work arrangements – 38% say that there has been an increase in their use and 37% say that they expect this to increase in the next 12 months. We assume that much of this was to avoid the need for redundancies although flexible working is not always cost driven and may simply represent changes to when and where people work. Secondly, for those where downsizing was deemed necessary, employers have also adopted a variety of strategies, with less than half using compulsory redundancy as an option as shown in the table below.

We compared these different approaches to the responses to our questions about employee engagement. We found that employee engagement was more likely to have decreased in organisations that had made compulsory redundancies compared to those that had not.

How workforce reductions were achieved	%
Compulsory redundancy/severance	46
Early retirement	10
Natural wastage	44
Outsourcing	6
Recruitment ban	30
Voluntary redundancy	26

This year sees 46% of respondents identifying compulsory redundancy as a method of workforce reduction compared to 80% in 2008. This is a significant reduction and is likely to be due to a better understanding of the time and costs involved, the likelihood of needing staff soon after recession ends, and that a variety of alternatives could be used that may achieve similar cost saving results. There may also be an element of employers having shed perceived under-performing employees earlier in the recession and so looking at ways of reducing costs without losing the better performing staff that remain.

A return to headcount growth?

There are signs of cautious optimism from this year's survey. In terms of future headcount expectations, 44% of respondents say that they expect at least some increase in workforce size in the coming 12 months, compared to 34% expecting at least some decrease. There are also signs that employers will be returning to graduate recruitment again with 19% expecting at least some increase in 2010, compared with only 7% reporting increases for this year. However, much uncertainty still exists regarding workforce requirements, with 85% of respondents indicating uncertainty still exists about the size of workforce required over the coming two years and 72% indicating uncertainty about the skills that will be required over the same period.

Skills shortages in the midst of recession

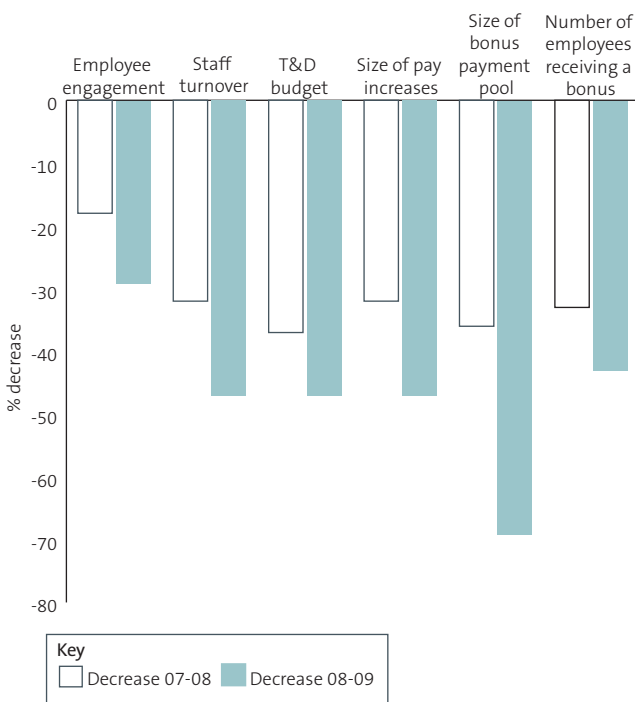
Despite the recession, 22% (28% in 2008) of organisations reported experiencing a shortage of key staff in an area of their organisation. The examples given are predominantly professional, managerial or technical areas. In most cases it is the difficulty of finding staff with very specific qualifications and skills that continues to present employers with a problem. Consequently, even in the context of the recession, there appears to be an underlying skills shortage in many employers. As there is no indication that those experiencing staff shortages are more likely to be increasing their investment in training and development to address their skills shortages, this represents a highly challenging business issue in terms of how these employers will find the necessary talent to fill such roles.

“ Respondents have reported a significant increase in the use of flexible work arrangements – 38% say that there has been an increase in their use and 37% say that they expect this to increase in the next 12 months. ”

Effects on workforce and HR practices

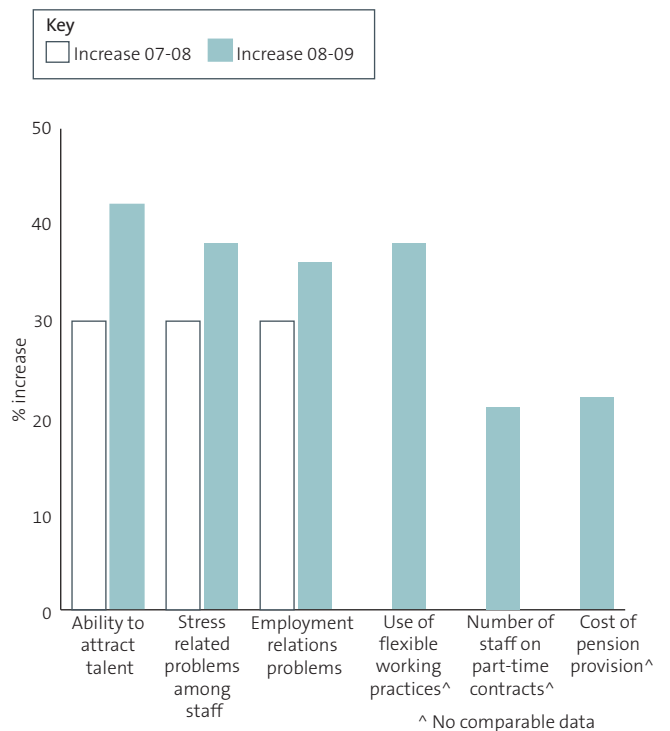
As with last year, our survey gathered insights into a range of workforce outcomes that have arisen from the current economic environment as well as specific HR practices carried out by organisations. The first table below illustrates those workforce effects and HR practices where there have been significant decreases during the year. The second table illustrates those workforce effects and HR practices where there have been significant increases during the year. Prior year comparisons are also shown (where available) to highlight the year on year change.

Comparison of decreases in workforce outcomes across surveys



“ *Workforces have remained far more static in the face of a prolonged recession.* ”

Comparison of increases in workforce outcomes across surveys



Recruitment and resourcing

With 47% of respondents reporting a decrease in staff turnover and little increase in recruitment activity (with fewer job opportunities arising), it appears that workforces have remained far more static in the face of a prolonged recession. This is not surprising. For 2010, the situation is anticipated to change and this is highlighted in the HR challenges section below.

An interesting dynamic across 2009 has been the increase in the use of flexible (38%) and part-time working (21%) as employers have sought to reduce payroll cost and FTE headcount through alternative methods than redundancy. In this respect, the recession may have acted as a catalyst for a sustained shift in the growth of flexible and part time work that other research and commentators have identified. In any case, it is evident that HR teams have focused on resourcing their organisations in less

traditional ways and will be developing real expertise and experience in how to integrate flexible work arrangements as a core component of their workforce. In this respect, organisational attitudes and in-house capability to both embrace and make flexible working succeed, may be changing during the recessionary period and have a much longer term effect.

Workforce problems

The effects of recession have continued to create workforce problems for organisations. The recessionary risk to jobs and income security and the actions of management in dealing with highly challenging and uncertain business environments appears to have driven increased levels of stress. This year we have seen 38% of senior HR professionals report an increase in levels of stress among employees on top of a 30% increase last year.

Further analysis also shows that higher levels of stress correlate with higher levels of sickness absence in our survey. While this would be expected in a non-recessionary period, in an environment where staff may be more reluctant to take time off (as it could expose them to greater risk of redundancy), it represents an interesting finding.

More generally, 36% report an increase in employment relations problems compared with 30% in 2008. For HR professionals, this recession has evidently brought significant additional work in dealing with employee discontent as our section on grievances below further examines.

Employee engagement

Our previous survey highlighted employee engagement as the HR function's key workforce priority for 2009. Nothing has altered since then. In fact, employee engagement has grown in importance, as we examine in more detail later. In this year's survey, 28% report an increase in engagement among staff in the past year compared with 29% who report a decrease. These results suggest there remains a challenge for employers in maintaining the engagement of staff. It may also be the case that those who report increases in engagement could be seeing employees demonstrate a form of commitment (or engagement) on the basis that there is little choice for them to do otherwise. If so, organisations are quite right to be concerned about the nature and extent of employee engagement for 2010.

Pay, benefits and budgets

The general trend from last year continues and shows a further overall reduction in pay increases for 2009, as well as a reduction in both bonus pool sizes (the amount to be distributed) and the number of people between whom it is shared. The size of budgets for training and development has also been detrimentally affected. The survey also highlights the underlying problem of pension deficits and the cost of providing for retired workers creating immediate and significant business issues for all organisations, with over 1 in 5 respondents reporting that the cost of pension provision has increased (at a time when costs are generally being pared back).

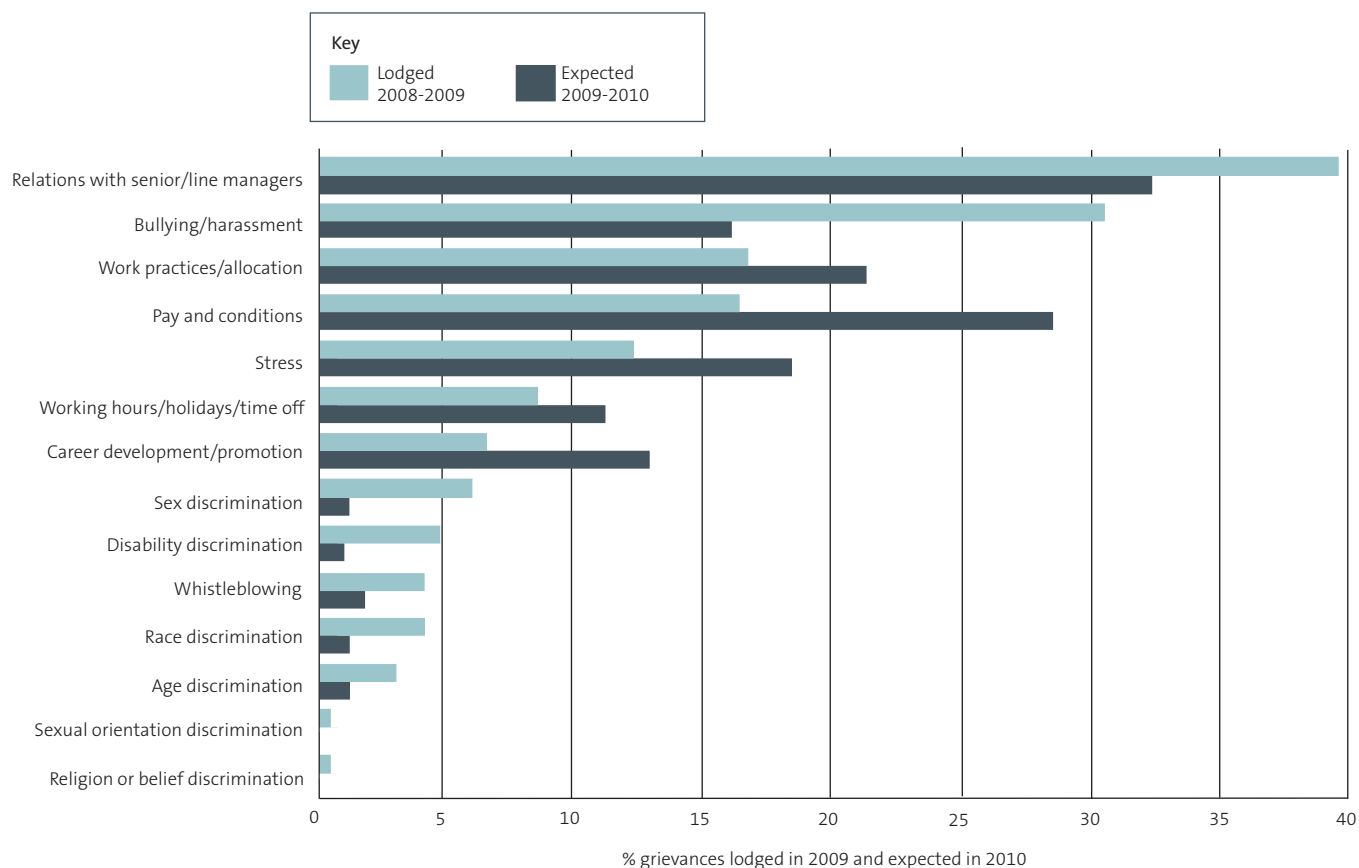
The recession and staff discontent

It was clear from our previous survey that many employers were experiencing deterioration in the relationship between management and staff. Some of the indicators of this include higher incidences of stress and employee relations problems. These have again featured as key outcomes of this year's survey. We highlighted last year the potential problem of tougher management in a recessionary environment and the creation of more dissatisfied staff and this appears to manifest itself in this year's survey.

As an indicator of anticipated staff discontent, we have again examined the nature and extent of reported employee grievances. 29% of respondents identified that grievances had increased this year and 23% anticipate future increases in grievances. The main grounds for grievance are shown overleaf, together with expected causes of grievance during the next 12 months. By far the biggest causes of grievances have been bullying and harassment and relations with senior or line managers. Pay and conditions, stress, and work practices and allocation are also significant.

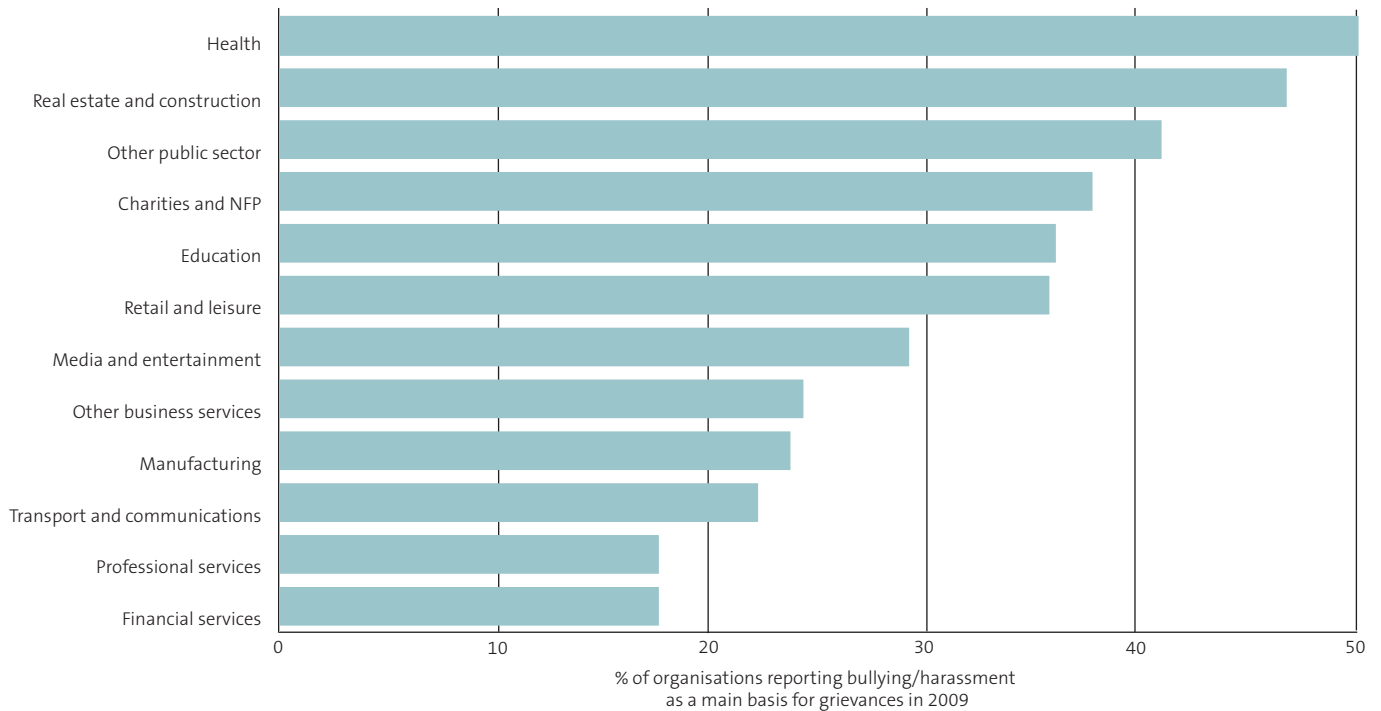
In terms of future expectations for 2010, the same causes of grievance all feature again. The mix is different, however, with pay becoming more important and career development also becoming significant. From this, we can see that there is real anticipation of a latent discontent within workforces relating to management decisions taken in the last year around pay, workload, promotion and staff development. It seems that HR professionals are anticipating that their organisations will be unable to meet staff expectations that may be rising in these areas as employers move beyond the recession.

Percentage of respondents reporting these as major bases for grievances lodged in 2009 and expected in 2010

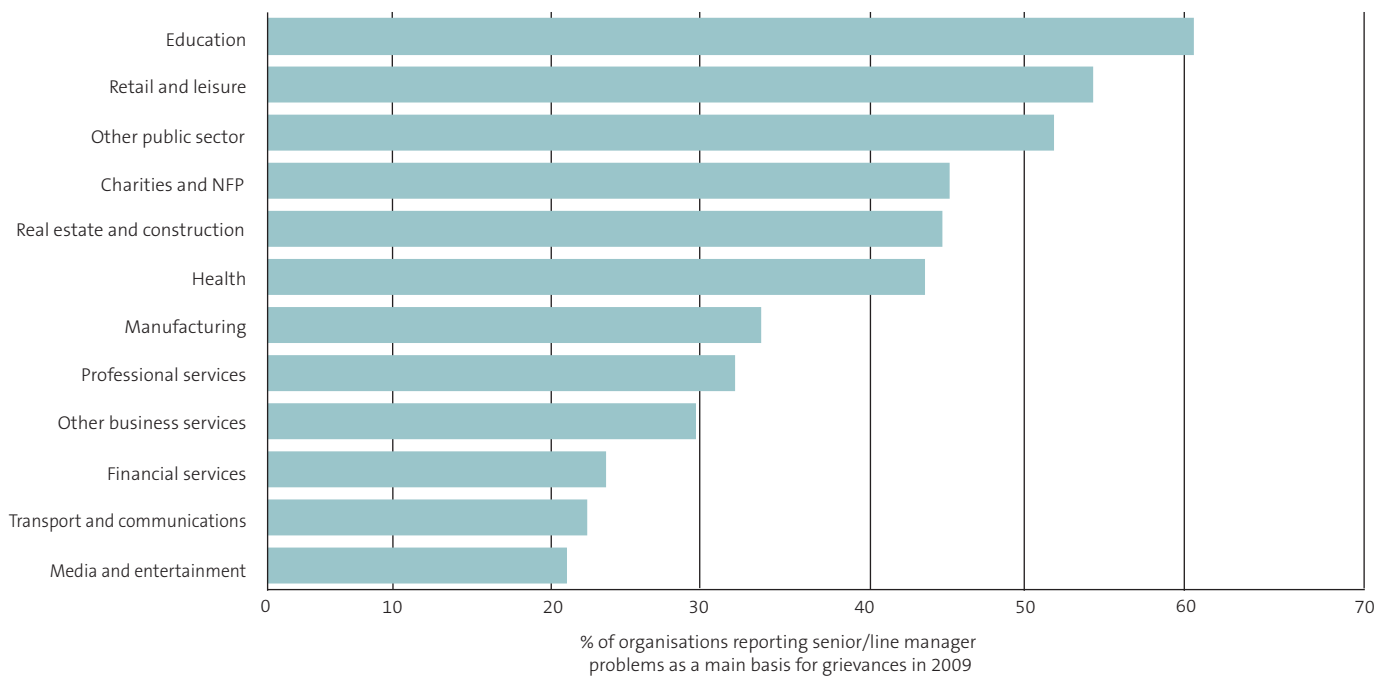


We also looked at the prevalence of grievances relating to senior/line managers and to bullying/harassment across sectors and noted some interesting comparisons as shown opposite. Health, charities and not for profit and other public sector organisations feature towards the top of both graphs, with real estate and construction and retail and leisure. It is not obvious why this has occurred. It could be that these sectors are comprised of organisations with working environments that give rise to such outcomes. Alternatively it may be a reflection of raised staff awareness about grievances, a supportive culture for staff who make complaints, or perhaps better procedures for dealing with incidents. It could also be that employees in different sectors have different interpretations of what constitutes a grievance.

Bullying/harassment grievances across sectors



Senior/line manager grievances across sectors



The management of redundancy

We again examined in detail one specific area of HR activity relevant in recession - management of redundancy. 72% of organisations reported having made redundancies (either compulsory and/or voluntary) in the previous 12 months. While the proportion of the workforce made redundant was less than 0.5% for around half of these organisations (51%), 19% of organisations made between 1-2% of their workforce redundant and for over 7% of organisations the redundancies stretched to over 2% of the workforce.

64% of those who made staff redundant in the past year engaged in some form of collective consultation, compared with 42% last year. Nearly one half of these reported that this was something that management volunteered to carry out, regardless of whether legal rules or union/workforce agreements required it. Interestingly, further analysis showed that those who did use collective consultation also experienced lower staff turnover but higher absence. There was no obvious correlation with engagement levels.

As with last year, the criteria for selecting people for redundancy varied widely. 36% of those making staff redundant in the past year reported using absence records; 42% used disciplinary records; 22% used length of service (despite the potential age discrimination implications); 46% used a general performance assessment; while 54% used performance assessment undertaken specifically for this purpose.

In determining redundancy terms, the typical approach was to provide either the statutory minimum or an enhancement in line with previous redundancy exercises. A small proportion opted for less or more generous terms than those provided in the past.

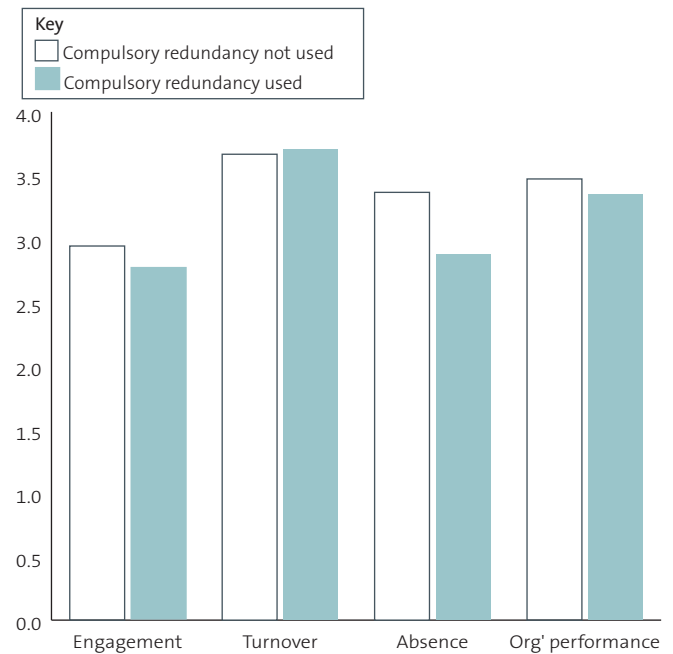
The redundancy programmes were generally judged to be successful. This year, respondents were asked to identify how their business was impacted by redundancy across a number of key business performance indicators. These are summarised below.

In your opinion, how has the redundancy programme affected your organisation in the following areas?	Very positively	Positively	No effect	Negatively	Very negatively
	%	%	%	%	%
Productivity	1	38	43	18	0
Business operations	2	38	41	19	0
Customer service	1	16	72	11	0
Reputation	0	12	72	16	1
Profitability	5	59	29	7	0
Brand value	0	9	83	7	1
Revenue generation	1	32	56	10	0

This set of responses concerning redundancy management reveals relative satisfaction with the way in which organisations have designed and implemented redundancies, in terms of overall business impact. Reviewing these outcomes in conjunction with the clear message that organisations have attempted to avoid compulsory redundancy where possible, provides the impression that there has been significant learning and experience applied to these initiatives, avoiding many mistakes made by employers in prior periods of downsizing. Surprising numbers of respondents even felt that their redundancy exercises had enhanced their reputation, customer service and/or brand value.

However, we conducted some additional analysis on the impact of redundancies on the organisation that provides a slightly different perspective. The table opposite indicates that the use of compulsory redundancy alone (compared with the above table which includes other methods) is linked to lower absence, but also to lower employee engagement, higher turnover and lower organisational performance. While only looking at compulsory redundancy, this picture may be more reliable than the previous table, as HR professionals were asked above, in effect, to rate their own programme in overall business performance terms. The analysis opposite correlates different data from various parts of the survey.

Impact of compulsory redundancy on HR and workforce outcomes



“ **Surprising numbers of respondents even felt that their redundancy exercises had enhanced their reputation, customer service and/or brand value.** ”

Major HR and workforce challenges for 2010

Our survey sought to identify the problems and challenges that are likely to absorb the time and energy of HR staff during 2010. The first table below asked respondents to highlight anticipated increases and decreases in workforce effects or HR practices in the next 12 months.

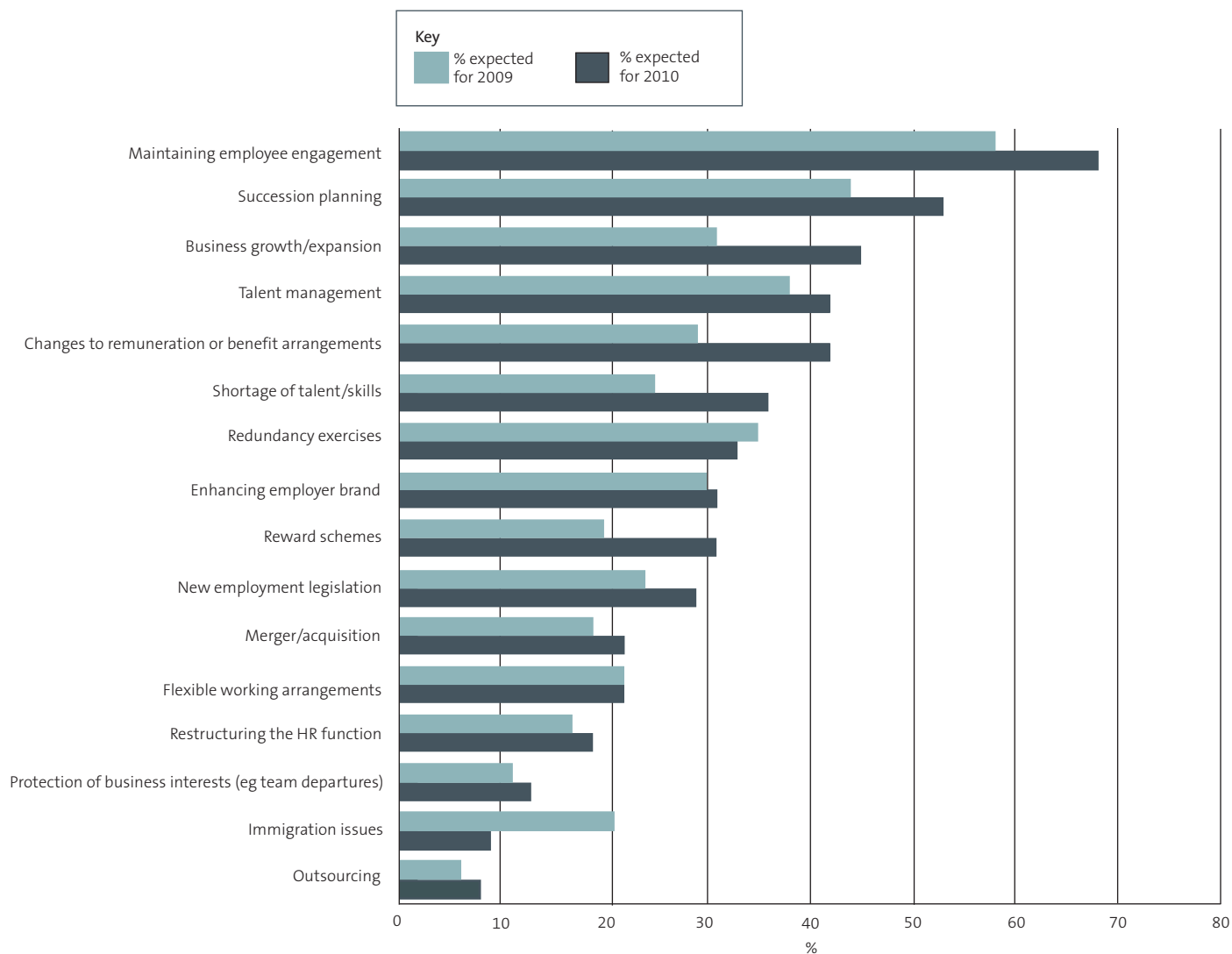
What do you expect to happen over the next 12 months (November 2009 to October 2010) regarding the following?	Significant increase	Some increase	No change	Some decrease	Significant decrease
	%	%	%	%	%
Size of your workforce	4	40	23	31	3
Recruitment of graduates	1	18	70	8	3
Ability to attract talent	2	38	49	10	1
Number of temporary staff	0	25	53	18	3
Training and development budget	1	28	47	23	1
Absence/sickness levels	1	19	61	19	1
Stress related problems among staff	1	31	58	10	0
Employment relations problems	2	32	57	8	1
Employee engagement	4	43	38	14	1
Staff turnover	2	30	45	23	0
Size of pay increases	0	28	36	30	6
Size of bonus payment pool	0	21	52	22	4
Number of employees receiving a bonus	1	21	56	18	4
Investment in HR technology	3	21	65	8	3
Number of staff on part-time contracts	1	19	74	5	1
Use of flexible working practices	3	34	61	1	1
Cost of pension provision	4	19	71	5	1

From these responses, many of the anticipated issues to be faced by HR teams in 2010 will be similar to 2009. We can however see some possible changes in trends. There is an expectation that more organisations (44%) will be hiring more staff than reducing headcount (34%) and that there will be an increase in graduate recruitment for 1 in 5. Together with a clear and significant increase in the perceived ability to attract talent (40%), we may see real movement towards a more fluid jobs market in 2010, bringing with it another set of HR challenges for this year.

We can also see an expectation that employers will begin to provide increased training and development of staff with 29% anticipating increased budgets compared to 11% that reported an increase in 2009.

Potentially paradoxically, more respondents (47%) are expecting to see increased levels of employee engagement during 2010 as well as nearly one third expecting stress-related and employment relations problems to increase, in addition to an increase in staff turnover. Perhaps this is a reflection that organisations will be able to operate in a more normalised environment, re-focusing on efforts to re-engage staff while understanding that latent dissatisfaction and problems that may have built up during the recessionary period will continue to manifest themselves. Together with a static workforce during the recession, this dynamic is likely to see more people leave their employer in 2010 if the labour market improves.

We also asked about major issues that HR departments expect to have to address in 2010. This table identifies these and compares responses to what HR professionals thought would be major challenges for 2009 from last year's survey.



As with last year, one issue stands out strongly from the others, namely maintaining employee engagement. This is cited by 68% of the respondents compared to 58% last year. This is likely to reflect anxieties about the impact of recession but also that the concept has continued to gain more widespread publicity and has been increasingly adopted not just by HR functions but by CEOs and senior management teams.

The second greatest challenge is again succession planning, cited by 53%. This together with the challenge of talent management (cited by 42%) shows how much focus HR anticipates having on managing the careers and roles of high performers and high potentials, to ensure key people are in the right roles to maximise organisational performance.

The third most frequently mentioned issue is managing business growth and expansion, which is identified by 45% of respondents. This again signals a cautious optimism coming from anticipation that recovery should occur during 2010, but also confidence from those who feel that the recession is having a positive effect on their business.

Reward and remuneration also look to be returning as key priorities for HR, with 31% citing reward schemes and 42% changes to remuneration and benefits as a major issue – both significant increases from 2009 expectations. This is likely to reflect the pay retrenchment that has occurred during the recession and the need to refocus away from pure cost minimisation towards post recessionary equitable reward structures. It may also reflect new regulatory and legal environments (eg 2010 Equality legislation) as well as pressure from other stakeholders to ensure reward is geared more towards performance and longer term success factors.

Engagement, engagement, engagement

Engagement is a continuation of the search for HR's "holy grail". It taps into employers' attempts to create a highly motivated and committed workforce; one that works hard for the benefit of the whole organisation. In the context of the current economic climate, it particularly matters as a means of retaining the commitment of key employees as organisations move through recession towards recovery. It also matters as more engaged employees are likely to help employers "do more, with less" during and after downsizing.

HR professionals identified employee engagement as their number one priority in both of our surveys. We have also seen the concept embraced by many CEOs and, following the MacLeod Review¹, the UK government has rolled out its plan specifically to help employers understand and use the idea to drive performance.

In this context, we specifically sought to uncover further insights into the adoption and application of the concept. First, we asked whether employers were attempting to measure levels of engagement and if they were actively seeking to enhance it within their own organisation. We found that 55% of respondents were measuring engagement and that 88% were trying to improve it. It seems that while fewer employers actually measure engagement (perhaps because they are of a size where running a survey is inappropriate), HR functions have clearly identified engagement as a key concept around which they can focus attempts to improve the way people are managed within their organisation.

How are employers driving engagement?

As engagement is now such a key concept, we also asked respondents to identify ways in which they were attempting to improve engagement levels. The results are shown in the table below.

Methods used to enhance employee engagement	%
More effective leadership and management of staff	91
Developing better staff relations with line managers	79
Improved learning and development opportunities	77
Greater employee participation in decision making	66
Enhanced career development opportunities	57
Greater fairness in organisational procedures	49
More equitable reward systems	43
Better job design (eg more autonomy/flexibility)	42

It is reassuring that most of the methods used to enhance engagement tap into areas that have historically been validated by academic research as ones which drive at least some aspects of engagement and are typically found in models of HR management 'best practice' (eg Guest 1987). It is also interesting that most HR effort to drive engagement is focused on both leadership and line management - in the way managers and leaders manage and relate to staff. While seemingly obvious, it is clear that this is absolutely critical in any attempt to maintain engagement in a deep recessionary environment where uncertainty and change is all pervasive.

Does HR make a difference?

Using the data gathered from the survey, we examined whether any link could be found between attempts to enhance engagement and its impact. The table overleaf shows the various HR activities identified by employers to try to drive engagement and the comparison between those who undertook such an activity ("Yes") and those that did not ("No").

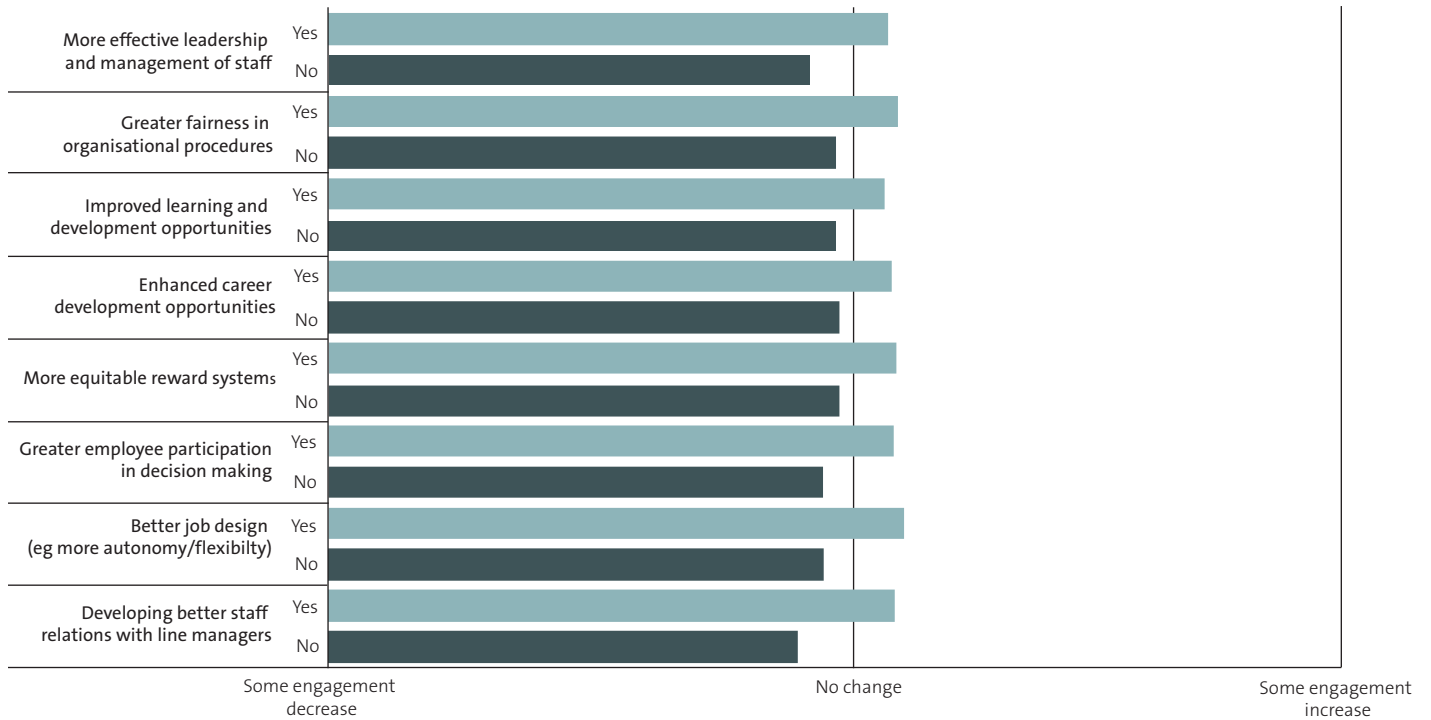
The table opposite shows that those who did undertake each activity did have a commensurately higher level of engagement. This, of course, does not prove any causal link but suggests that these activities do appear to be associated with raising engagement levels. As a result, there are some potentially valuable lessons here as to where HR should focus its engagement related initiatives.

From this analysis, we can see that one of the potentially most important effects on engagement is better job design. This is interesting as it is probably the least focused upon by HR professionals. We can, for example contrast the perceived importance of job design to that of effective leadership, in terms of employee engagement. It is clear that leadership has developed huge attention in recent years yet there is evidence to show that effective job design makes a big difference to staff – as this survey appears to indicate.

“ Most HR effort to drive engagement is focused on both leadership and line management - in the way managers and leaders manage and relate to staff. ”

¹ Engaging for success: enhancing performance through employee engagement: A report to Government by David MacLeod & Nita Clark (2009)

Link between HR activities and engagement improvements



“ We can see that one of the potentially most important effects on engagement is better job design. This is interesting as it is probably the least focused upon by HR professionals. ”

The HR function – satisfaction levels and role requirements

To what extent are HR functions satisfied?

We asked senior HR professionals how satisfied they are with various aspects of HR activity. These are presented in the table below.

With respect to your organisation, to what extent are you satisfied or dissatisfied with the following:	Very dissatisfied	Fairly dissatisfied	Neither	Fairly satisfied	Very satisfied
	%	%	%	%	%
HR resources (budget)	3	21	29	40	7
HR resources (number of staff)	4	20	22	43	10
HR resources (quality of staff)	2	12	19	39	28
Influence of the HR function	2	14	13	50	20
Quality of HR practices in place	1	12	15	53	19
Implementation of HR practices by management	3	28	19	43	6
Delivery by the HR staff	1	4	14	57	24
Respect for HR	2	11	15	55	18
Priority given to HR/people issues	3	17	14	50	16
Management support for HR	3	13	13	51	20
The structure of the HR function	4	16	18	48	14
Use of HR services by staff	1	7	22	58	12
Engagement of staff	2	19	21	50	8
Employee performance	1	14	26	53	7

As with last year's survey, we can categorise the results into three clusters.

The first cluster concerns the influence of, and support for, the HR function. The responses to this set of items continue to be consistently positive. Over two-thirds are satisfied with the level of influence of the HR department, with the support they receive and with the way in which they are utilised by staff.

The second cluster is concerned with the quality of HR staff, HR practices and their delivery. Again the results are consistently positive, as with last year's survey.

The third cluster relates to the resourcing and structure of the HR function and here levels of satisfaction are lower: 47% are satisfied with the HR budget, while 24% are dissatisfied. 53% are satisfied with the number of HR staff, but 24% are dissatisfied. Finally, 62% are satisfied with the structure of the HR function while 20% are dissatisfied.

Overall, these results indicate that senior HR professionals are broadly satisfied with the quality of their staff and HR practices, with the level of influence of, and support for the function and with a range of indicators of HR performance. In essence, they believe that HR is doing a good job with the resources and support they have.

However, there is slightly less satisfaction with levels of employee performance and engagement. There is also less satisfaction with implementation of HR practices by line management. 49% are satisfied with line management while 31% are not. In this sense, there appears to be some disconnect between HR, the role it carries out, and any impact on the organisation. The implication here is that HR needs to focus more on the role of line managers to make their work more effective in raising levels of employee engagement and performance.

Is the HR role changing?

This year's survey again looked at HR functional structures. The current structures continue to reflect elements of Ulrich's model². For example, 38% employ HR business partners, 30% have HR centres of expertise eg recruitment or L&D, and 15% have a shared services centre. These results are similar to our previous survey.

While there appears to be consistency over both surveys as to how HR is structured, HR function restructuring has been and is expected to be widespread. Just over one-third have restructured in the previous 12 months and 38% expect a restructure in the next 12-36 months. 66% of respondents indicated that there was some uncertainty about the level of funding for the HR function across the next two years. Like last year, however there is no evidence that HR is being affected in recession any worse than other functional areas.

Despite the impact of recession and pressures to downsize and reduce costs and headcounts, many HR professionals reported that their roles and responsibilities are broadening. Anticipating that recession would pressurise HR to carry out less work, we asked respondents whether their HR function had ceased to carry out any HR practices or procedures as part of its activities (including outsourcing) in the last 12 months. 93% reported that there had been no cessation of in-house HR activities. On the contrary, 28% advised that HR had actually commenced a new practice or procedure, or had in-sourced it during the year. The nature of activities identified fell across the whole HR spectrum.

For HR functions, while most have to carry out the same role with less staff, a large proportion are also widening or deepening the scope of HR activity.

“ 93% reported that there had been no cessation of in-house HR activities. On the contrary, 28% advised that HR had actually commenced a new practice or procedure, or had in-sourced it during the year. ”

² Ulrich, D. & Brockbank, W. (2005). The HR Value Proposition. Boston, MA: Harvard Business School Press

Performance indicators

Data was collected on some standard HR performance metrics; namely employee voluntary turnover and absence levels across the previous 12 months. Comparative data was also available from last year's survey. The average organisation was found to have between 6-10% voluntary turnover in 2009; however, there was a large variation in this figure across the participating organisations. At higher levels, it was found that fewer than 9% of organisations had voluntary turnover levels in excess of 20% in 2009. This group was larger in the previous year's survey, the figure being 18% in 2008. This supports data from elsewhere in the survey indicating that voluntary turnover has reduced in organisations.

A similar story emerges when absence figures are examined. In 2009 the norm was that around 3% of working days were lost through sickness or absence. Fewer than 15% of organisations recorded sickness and absence levels above 6% across this period. Higher levels were noted in last year's survey, with over 22% of respondents indicating that their organisation had seen over 6% of working days lost. There is an indication, therefore, that absence, as well as voluntary turnover, has reduced in the past 12 months.

Voluntary turnover was found to be highest in the retail and leisure, charity and not for profit and health sectors and lowest in the manufacturing and professional services sectors. Absence was found to be highest in health, other public sectors and the charity and not for profit sector and lowest in the financial services, media and entertainment and real estate and construction sectors.

We also collected perceptions of organisational performance. In this year's survey 53% of respondents indicated that their organisation was performing financially better than other organisations in their sector. This compares to over 59% of respondents from last year's survey, suggesting perhaps a more realistic appraisal of the relative fortunes of these organisations over the past 12 months. Some simple correlations were run to examine the associates of reported organisational performance. These indicated that higher organisational performance was associated with lower levels of environmental uncertainty and higher increases in reported employee engagement. There were also links found between high organisational performance and growth in the size of pay increases and bonuses.

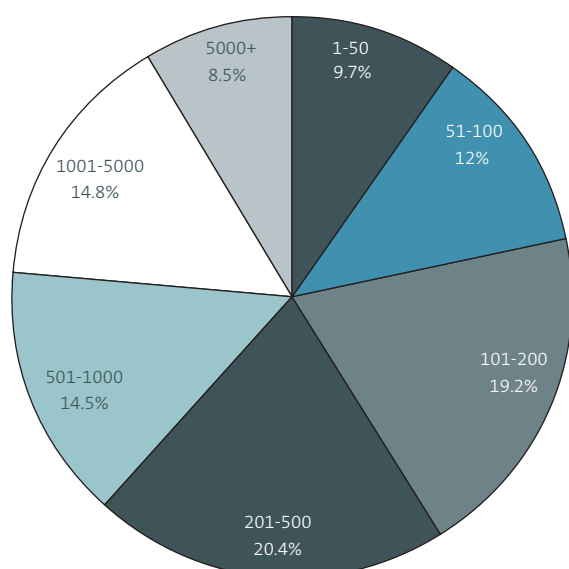
“ Higher organisational performance was associated with lower levels of environmental uncertainty and higher increases in reported employee engagement. There were also links found between high organisational performance and growth in the size of pay increases and bonuses. ”

The survey process and the sample

A questionnaire was distributed to approximately 5,000 senior HR professionals in November 2009. 356 responses were received by early December in time for analysis. 99% of the respondents were either a senior HR (90.2%) or other senior executive (8.8%) within the organisation. A broad cross-section of sectors and organisational sizes were represented in the sample (see below). Over 84% of the organisations were headquartered in the UK and 59% of them recognised a union or other form of employee representation.

Business Sectors	Frequency	%
Charities and NFP	53	15.4
Education	25	7.3
Financial services	34	9.9
Health	22	6.4
Manufacturing	38	11.0
Media and entertainment	24	7.0
Other business services	37	10.8
Professional services	34	9.9
Other public sector	22	6.4
Real estate and construction	15	4.4
Retail and leisure	28	8.1
Transport and communications	9	2.6
Utilities	3	0.9

Workforce size in respondent organisations



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