

## HR Professionals Shift Priorities in a Changing Economy

By Judith Brown, IPMA Director of Research

The current recession is shifting priorities and redefining the list of hot “issues” and concerns in HR today, reports a special analysis conducted for the International Foundation of Employee Benefit Plans by human resource consulting firm William M. Mercer, Incorporated. The strong forces that are now reshaping the U.S. economy, are also being felt by HR professionals responsible for planning, designing and implementing total reward strategies- including pay, benefits and careers, within their organizations.

The study reveals a fundamental shift in the supply and demand for labor over the past several years, which has led to the change of HR priorities and concerns. In 1999 and 2000, nearly all U.S. employers were pressured to find and retain employees, not just good employees, but any employees. Employers plied candidates with compensation, benefits and perks such as sign-on bonuses, on-site fitness facilities concierge services, even pets at work in order to attract and retain the workforce they needed.

Well the tide has shifted and organizations today are now more concerned with severance packages than sign-on bonuses. Downsizing is now a common business practice and the market is flooded with job seekers. Organizations are reevaluating whether they have the right kind of people and the right number of people and how they can emerge from this new turbulence successfully.

Employers are under tremendous cost pressures today. With scarce resources, the right balance between performance, talent and cost factors has become even more critical. Employers have to strive to invest in a total reward program package that has the greatest impact.

The International Foundation/Mercer Survey revealed the top ten concerns voiced by HR professionals in 1999 were the same for 2001, except the order of priority was slightly different. In 1999, retention of professional employees was ranked as the main HR concern, followed by recruiting and retaining skilled technical employees. For 2001, the top concerns remained the same, but the escalation/control of health benefit costs rose to number two and the recruiting and retaining of skilled technical employees fell to number four.

### Top Ten Issues of Concern

Top Ten HR Issues of Concern	2001 Ranking	1999 Ranking	Change
Retention of professional employees	1	1	=
Escalation/control of health benefit costs	2	4	+
Employee Morale	3	3	=
Recruiting and retaining skilled technical	4	2	-

Employees			
Competitiveness of total compensation Package	5	6	+
Availability of qualified workers	6	5	-
Strengthening the relationship between performance and pay	7	7	=
Competitiveness of benefits package>	8	8	=
Accuracy of market pricing data	9	10	+
Productivity of workforce	10	9	-

Source: Employee Benefits Journal, Volume 27, Number 1 March, 2002)

It is interesting to note that IPMA members indicated similar pressing issues currently facing their HR Departments, as reported to IPMA's HR Center in 2001- Ranked in order of importance:

Recruitment – Processes to recruit the most qualified applicants

Shortage of good applicants.

Budget cuts/coping with slower economy

Possibly downsizing departments

Layoffs- reduction in benefits and retaining best performers

Work overload, too few people

Finding and keeping affordable, quality healthcare

Maintaining competitive pay scales

Hiring quality/qualified individuals and revision of the current performance evaluation system.

Time-off/Leave issues, especially sick leave usage, absenteeism, and record keeping with FMLA and salary issues

Pay issues to include a salary study

Health insurance costs-Possible implementation of full-blown cafeteria plan

Retention and compensation

Salary Restructuring

Rewards and motivational tools

Dealing with diversity

Employee discipline

Rewards & recognition

Strategic planning

Staffing

Workplace violence

Technology

Workforce Planning

Aging staff

Being competitive with private sector in compensation and benefits

Alternative recruitment strategies

Better evaluation system (for pay for performance purposes)

Employee benefits and the training of managers

## **Benefits**

Significant changes in specific issues in the International Foundation/Mercer survey between 1999 and 2001, tell the story of dramatic changes in the economy during this period. Escalation/control of health benefit costs was ranked as a “very important” issue. This jumped from 49% in 1999 to 54% in 2001. This was to be expected, considering that health care costs rising three times faster than the overall inflation. (See IPMA HR Center Publication, Health Care Cost Management, which captures this trend and how organizations can effectively manage and contain costs. E-mail: [publications@ipma-hr.org](mailto:publications@ipma-hr.org))

## **Compensation**

With regard to the area of compensation, market pricing and accuracy of market pricing data was rated as “very important” (a rise from 32% to 35% in 2001). Timeliness of market pricing and approaches used to determine relative job value also were ranked highly by employers as very important issues. In the tight labor market prior to 2001, employers were concerned about putting more on the table to attract workers... now the issue is recruiting talented workers, without putting too much on the table. The increased rankings in these areas show that employers today cannot afford overpaying for talent, with the weaker economy.

Smaller pay increase budget is another issue. This category’s importance ranking, rose from 10% in 1999 to 13% in 2001. Mercer's 2001/2002 survey also indicates that many employers are backing off the 2002 pay increase projections they made in the second quarter 2001. As of October, 2001 about one-fifth had reduced their 2002 pay increase budgets. Others are planning to freeze pay at 2001 levels.

Even though certain industries such as the airlines, hospital and financial industries have been hardest hit by the economic downturn, it appears that all employers are struggling with one common dilemma.... how to allocate merit increases. If an organization decides to grant average pay increases of 3.0% in 2002, that does not mean all employees will receive a 3.0% increase. High performers under a pay for performance system could receive a higher increase of 7.0%, low performers receive no increase and average performers receive a 2.0% increase. The funding of pay increase budgets therefore reflects organizational performance, while the actual payouts will reflect individual performance.

## **General HR Issues**

The aging workforce is an emerging issue in HR now. This is revealed in the International Foundation/Mercer Survey, as well as one of the pressing issues indicated by IPMA members in a feedback survey to IPMA’s HR Center. The problem is more acute for certain industries like manufacturing and the government, because employees in these areas tend to be older on average. This is a concern as the average age of the workforce is climbing, and brings up issues related to older and retiring workers, as well as concerns about how to

replenish the workforce and maintain productivity when these older workers retire, causing a brain drain.

According to a recent report by the U.S. General Accounting Office (GAO), the number of workers age 55 and older in the labor force is expected to grow from 18.4 million in 2000 to an estimated 31.9 million by 2015. If this estimation proves correct, older workers will make up almost 20% of the U.S. labor force by 2015. This, however, may cause problems for employers in the future, as members of the "baby boom" generation (those born between 1946 and 1964) begin to retire over the next two decades. The GAO report states that, it is likely this will eventually lead to a shortage of skilled labor and the loss of key experienced workers, with adverse effects on productivity and the economy.

The key to avoiding these consequences, says the GAO report, is to take action now, before the situation becomes dire. It recommends that employers begin to seriously consider implementing strategies to retain older workers and keep them in the workforce longer. Such strategies include offering flexible schedules (e.g., phased retirement and "bridge jobs") and financial benefits, reducing workloads through part-time schedules, and implementing job-sharing programs.

### **The Future**

If current conditions prevail (oversupply of labor and scarce reward resources) the main concern for HR will be how to spend these resources to get the most out of the investment. Employers will have to be more adept at measuring and understanding the impact of investment in programs that they implement. Return on Investment (ROI) measurement is therefore going to be a hot HR issue to return on the HR radar screen in the near future.

### **Resources**

Gross, Steven & Haberman Susan: 2002. Total Compensation in a Recession: HR Priorities Shift According to New Survey Analysis, Employee Benefits Journal, Volume 27, Number 1 March, 2002)

Government Accounting Office's Report: Older Workers: [Demographic Trends Pose Challenges For Employers And Workers](#). Click on the link for GAO Reports, then on the link "Find GAO Reports." Under the heading, "Search the GAO Archive at GPO", click on "Search" for the full text. In the box for searching by report number, enter GAO-02-85.

Source: International Personnel Management Association (IPMA) website  
<http://www.ipma-hr.org/>  
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