

## Survey Highlights

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# Cost Reduction & Engagement Survey

## 2009

### About the Survey

In early April, Hewitt Associates surveyed HR executives at 518 U.S.-based companies (representing over \$4 trillion in annual revenue) to understand their cost reduction efforts. In addition to identifying those efforts, the research explored the decision-making process, as well as the perceived impact of those cost reduction decisions on employee trust and morale.

### Executive Summary

Most companies believe that the nation's economic upturn will begin by the end of this year or the first quarter of next year and that their own organization's financial improvement will coincide with that upturn. In the meantime, although significant cost reduction efforts have been undertaken, many are still contemplating additional cuts. Many companies feel that the manner in which they have undertaken cuts may be too short-term focused. They are also seeing declines in employee trust, and worry that they will not have the talent they need when the economy recovers.

While the economic environment certainly represents an opportunity for companies to reduce their workforce costs, these reductions need to be evaluated and implemented carefully. By taking some important steps to plan and communicate to employees now, Hewitt believes many companies can significantly enhance their economic position and ability to retain talent when the anticipated economic recovery occurs.

### Key Findings

#### ■ Current Efforts

##### — Cost Reduction:

- The most prevalent cost reduction actions undertaken include: hiring freezes/reductions (75%), travel restrictions (72%), layoffs (63%), salary/wage freezes (58%) and organizational restructuring (50%).
- Some of the additional reductions that companies are considering are in the following areas: increasing employee health care cost-sharing (32%), organizational restructuring (28%), layoffs (25%), outsourcing (24%), and reducing/eliminating employer 401(k) matches (22%).

- Investment/Retention:
  - The top investment actions currently being undertaken or considered are selective hiring of talent, leadership development, and manager capability training.
    - Among those that are already being undertaken, the top actions are: selective hiring of talent (58%), leadership development (47%), manager capability training (35%), and performance management technology (29%).
    - Among those that are being considered, the top actions are: definition of career paths (27%), manager capability training (23%), leadership development (21%), performance management technology (21%), and workforce planning technology (21%).
  - Companies are taking a number of steps to retain critical employees: identifying them and implementing retention plans (45%), performing recognition practices (37%), manager interventions (35%), and selective bonuses or other compensation (27%).
- Communication:
  - 28% of companies either do not have a communication strategy or would like to update it.
  - Due to the state of the economy, the following additional communications being planned are: corporate direction (65%), corporate financial results (58%), value of benefits (48%), and medical plans (35%).
- **Planning and Decision-making:**
  - 41% of companies do not have economic contingency plans in place.
  - 26% of companies do not feel confident that they've made the most appropriate cost reduction decisions in the short, medium, and/or long term.
  - Companies that have contingency plans compare favorably to those that do not. They:
    - feel they are much more likely to retain talented employees
    - are much more confident in their short and medium-term cost reduction decisions
    - are much more likely to feel that they have a solid communication strategy
    - are much more likely to feel they are effective at measuring the impact their efforts have on employee morale
- **Employee Impact:**
  - 47% think that employee trust has declined as a result of the way their company has managed its cost reductions.
  - 42% indicate that their company is either “not at all effective” or only “slightly effective” at measuring the impact of its cost reduction efforts on employee morale.
  - 37% feel that their organization’s handling of the economic downturn will make talented employees “much more” or “somewhat more” likely to leave.
- **Opportunities:**
  - Most companies cite insufficient/inconsistent communication and the perception that cost reduction decisions were made unfairly or incompetently as the factors most responsible for eroding employee trust.
  - Companies indicate a desire to focus more time and effort on communication, workforce planning, and engagement.
  - Companies that undertake these efforts are more confident that they are preserving engagement levels and retaining talent.

## Current Efforts

Although companies expect the economy to rebound soon, they are still considering additional cost reductions—while also making selective investments. Companies indicate that they want to manage employee morale<sup>1</sup>, but their selections of more invasive efforts<sup>2</sup> (e.g. layoffs, restructuring) don't seem to support those intentions—or they are unavoidable. Companies are having difficulty striking a balance.

In addition, while the current economic situation represents a unique opportunity for companies to reevaluate their workforce costs, a surprisingly large number of them indicate that they have not undertaken additional planning.

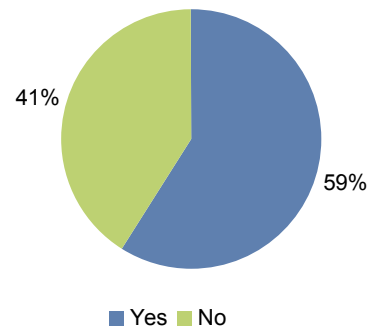
## Companies believe the economic upturn will take place during Q4 2009 or Q1 2010.

**Question:** When do you expect an economic upturn to begin?

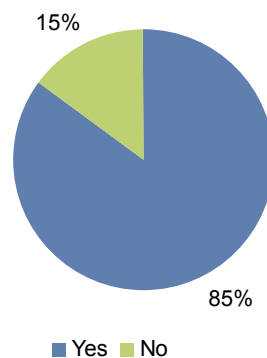
	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Later
In the US?	1%	15%	29%	25%	18%	11%
In your industry?	3%	10%	25%	27%	18%	17%
In your company?	4%	13%	26%	24%	18%	15%

## Most companies have phased contingency plans in place to address additional potential economic shocks—but many do not.

**Question:** If the economy continues to worsen, does your company have specific HR contingency plans in place?



**Question:** Is your contingency planning based on “phases” of actions dependent on the severity of economic impact?



<sup>1</sup> See bar chart, page 7. 53% rank “impact on employee engagement and morale” as one of the top three criteria their organization is using to decide which cost reductions to implement.

<sup>2</sup> See table, page 4.

**Although many cost reductions have already been undertaken, many additional efforts are being considered.**

**Question:** Due to the state of the economy, what types of cost reduction efforts have been undertaken or are being considered by year end? (Reminder: data as of April 3, 2009)

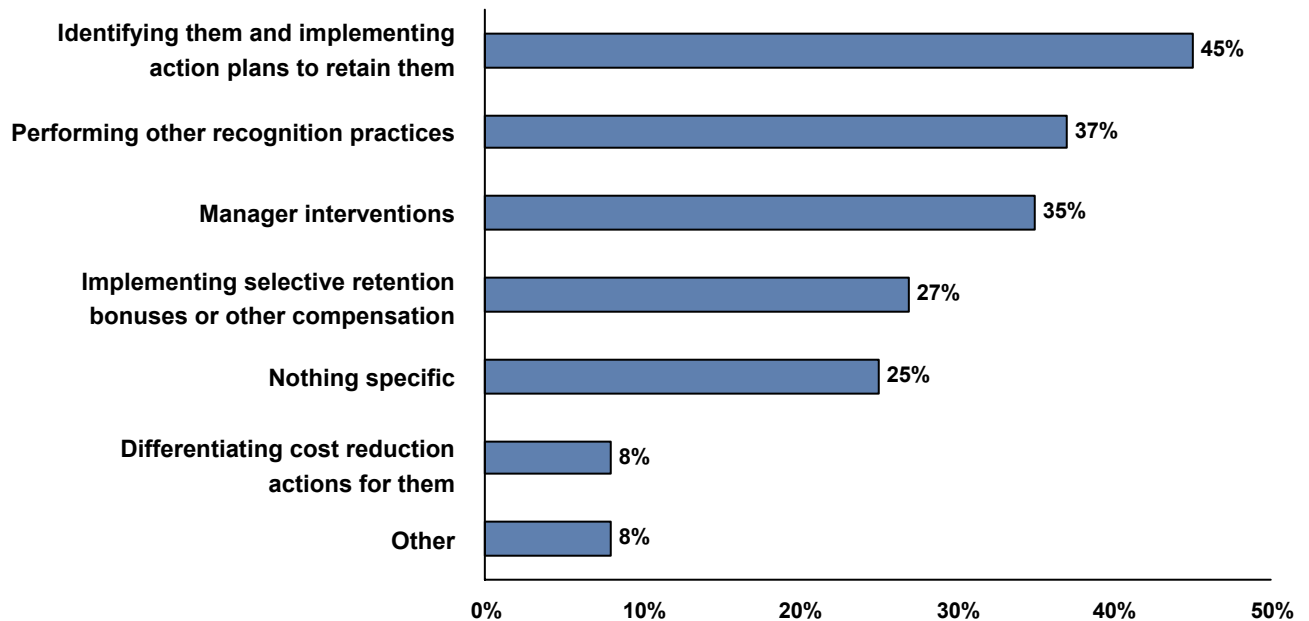
	Undertaken	Being Considered
<b>Hiring/Restructuring</b>		
Hiring freeze or hiring reductions	75%	17%
Layoffs (permanent reductions)	63%	25%
Organizational restructuring	50%	28%
Process or technology improvements	39%	21%
Reducing promotions	30%	11%
Voluntary separations	26%	17%
Outsourcing of some functions	19%	24%
Early retirement	11%	16%
Implementation of job sharing and/or temp assignments	7%	10%
<b>Pay</b>		
Salary or wage freezes	58%	20%
Reducing or eliminating year-end bonuses	28%	23%
Salary or wage reductions	16%	21%
<b>Hours</b>		
Shorter workweek/involuntary furlough	20%	24%
Voluntary leave of absence and/or time off	11%	21%
<b>Benefits</b>		
Reducing/eliminating 401(k) employer match	20%	22%
Increasing employee health care cost-sharing (e.g., premiums)	13%	32%
Freezing or closing pension plans	12%	13%
Changes in paid time off policy	9%	16%
Reducing/eliminating subsidy for other employee benefits (e.g., vision, dental, tuition reimbursement)	9%	23%
Reducing employer subsidy for retiree medical	8%	11%
Reducing medical benefits	6%	19%
<b>Other Programs</b>		
Increasing travel restrictions	72%	13%
Decreasing employee training and/or development	40%	14%
Increasing alternative work arrangements (e.g., telecommuting)	14%	15%
Other	5%	2%
<b>None</b>	6%	19%

**And in addition to cost reduction, a number of companies are also taking steps to invest in employees and retain key talent.**

**Question:** What types of investment actions have been undertaken or are being considered within the next six months?

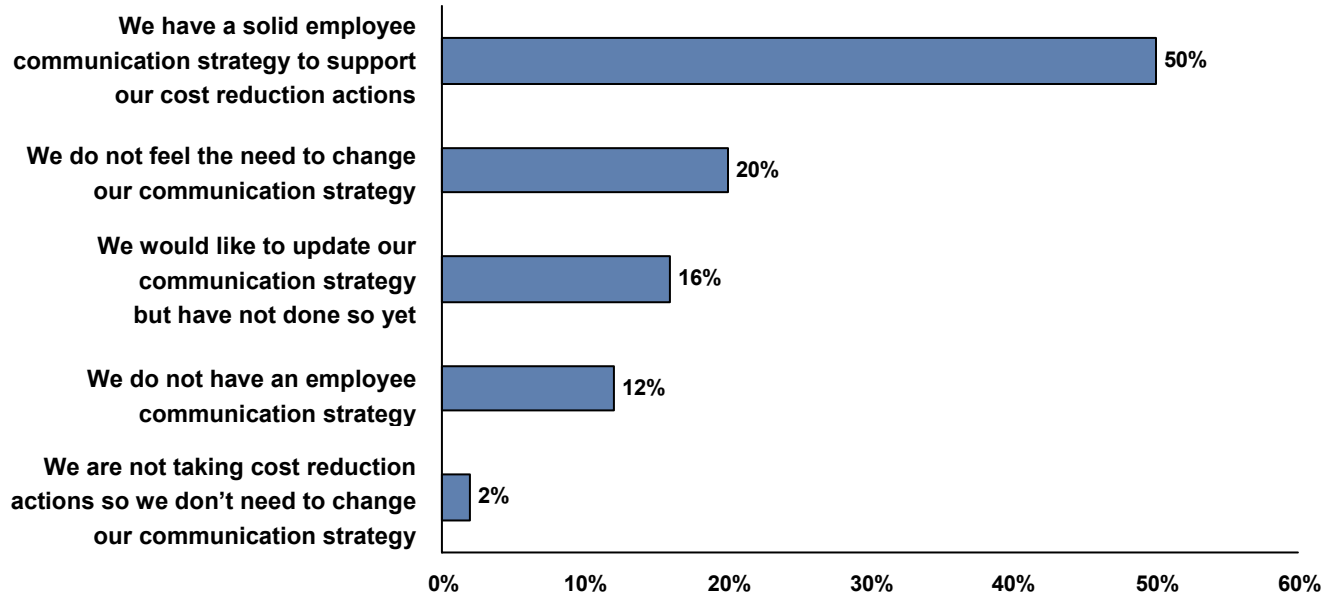
	Undertaken	Being Considered
Selective hiring of talent	58%	15%
Leadership development	47%	21%
Manager capability development or training	35%	23%
Performance management technology	29%	21%
Clearer definition of career opportunities/paths	18%	27%
Capability/skill building or training (beyond typically required)	18%	19%
Cross-cultural competency/diversity training	17%	14%
None of the above	15%	24%
Workforce planning technology	13%	21%
Other	1%	2%

**Question:** What are you doing to retain critical employees?



**28% of companies either “do not have an employee communication strategy” in place or “would like to update it.”**

**Question:** How has your employee communication strategy changed to accommodate your cost reduction actions?



**In the meantime, they are stepping up efforts to communicate with employees in specific areas.**

**Question:** Due to the state of the economy, what additional types of employee communication efforts are being considered by year end?

	Percent	Have Contingency Plan <sup>3</sup>	No Contingency Plan
Corporate direction/future plans	65%	72%	55%
Corporate financial results	58%	61%	53%
Value of benefits	48%	52%	42%
Medical plans and/or health care savings	35%	38%	31%
Value of pay	31%	32%	30%
Education on budgeting/managing costs	29%	33%	24%
Retirement plans	20%	20%	21%
None of the above	16%	12%	22%

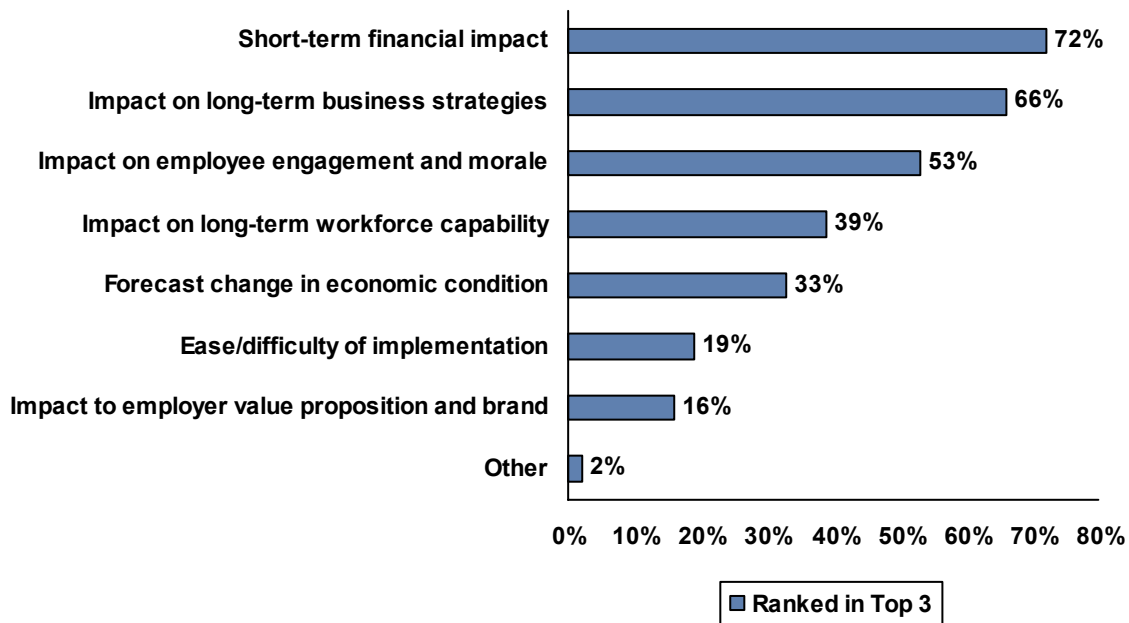
<sup>3</sup> In various places throughout the results, Hewitt compared the responses of companies that indicate that they “have contingency plans” to those that indicated they do not. The most comprehensive comparison of these companies takes place on page 10.

## Planning and Decision-making

As companies make cost reduction decisions, they are challenged by difficult trade-offs, and uncertain of the long-term implications of those decisions. One message is clear—those that undertake planning feel they are much better positioned for the future than those that do not.

**As companies execute cost reductions, they indicate that they are trying to strike a balance between short-term financial impact and longer-term criteria.**

**Question:** In order of importance, please rank the top three criteria your organization is using to decide which cost reduction methods to implement.



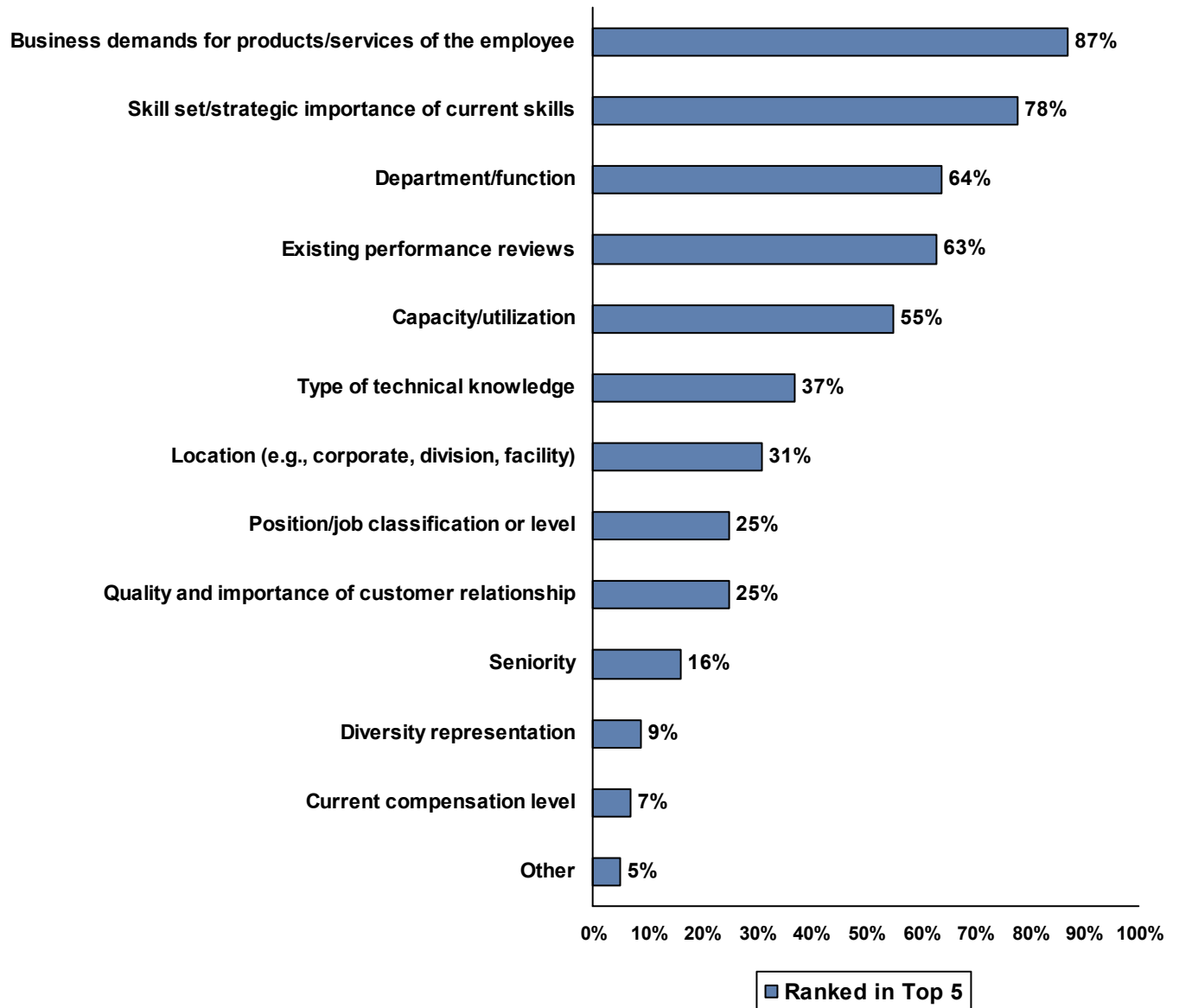
**Confidence in the quality of cost reduction decisions declines dramatically as time horizons lengthen.**

**Question:** On a scale of 1 (least confident) to 5 (most confident), how confident are you that your firm is making the most appropriate cost reduction decisions?

	Least Confident (1 & 2)	Most Confident (4 & 5)
For the short term—current quarter/fiscal year	6%	75%
For the medium term—12 to 24 months out	9%	58%
For the long term—2 years from now and beyond	23%	42%

**The 76% of companies undertaking and/or considering layoffs<sup>4</sup> are also trying to balance business need with employee skill set and performance.**

**Question:** In order of importance, please rank the top five criteria your organization is using to determine the employee or employee groups selected for involuntary separation during this downturn.<sup>5</sup>

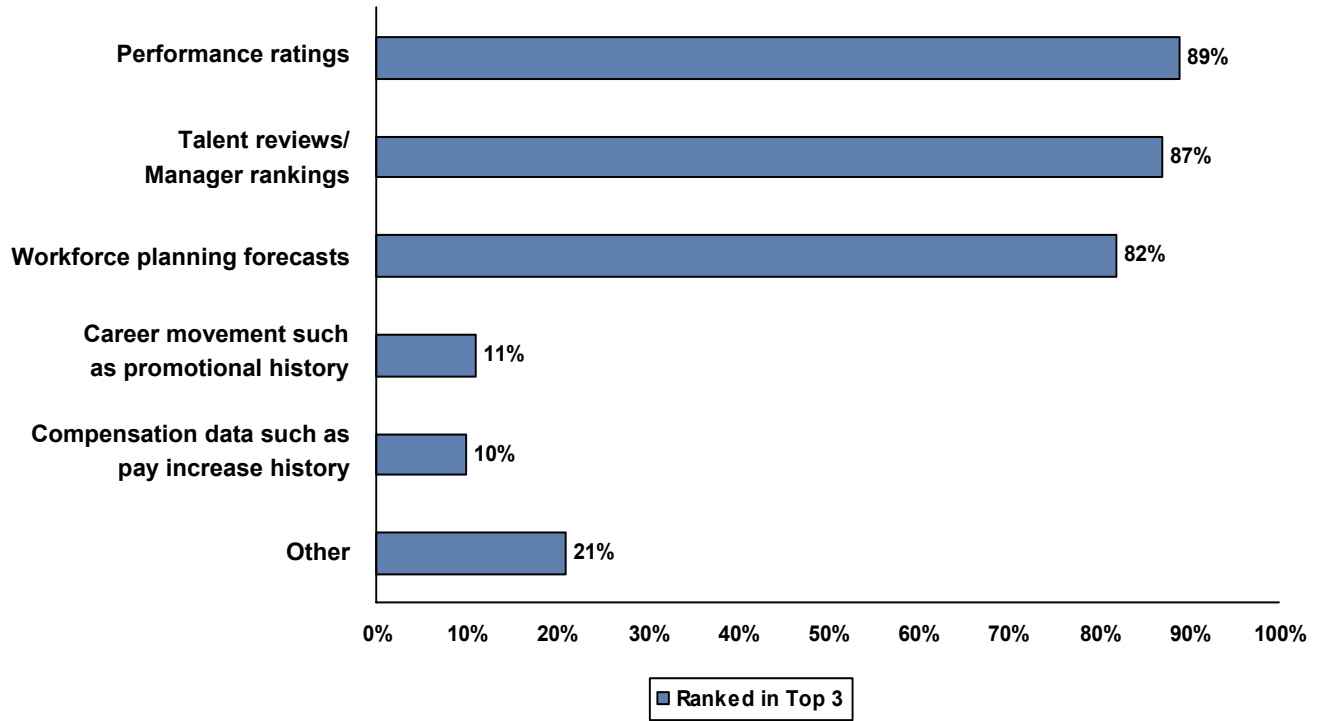


<sup>4</sup> As referenced on the table on page 4.

<sup>5</sup> The responses to this question are from the 390 respondents that have either “undertaken” and/or “are considering” layoffs.



**Question:** In order of importance, please rank the top three tools your organization is using to determine the employee or employee groups selected for involuntary separation during this downturn.<sup>6</sup>



<sup>6</sup> The responses to this question are from the 390 respondents (of the 518 total) that have either “undertaken” or “are considering” layoffs.

**Companies that have developed contingency plans feel they are much better positioned for the economic upturn than those that have not.**

**Much or Somewhat More Likely to:**

Impact of organization's actions on talented employees	Contingency Plan		No Contingency Plan		Difference	
	Leave	Stay	Leave	Stay	Leave	Stay
	35%	44%	40%	36%	5%	8%

**Hewitt Comment: Companies that have contingency plans (“planners”) feel that their talented employees are both less likely to leave and more likely to stay than those companies that have not developed contingency plans (“non-planners”).**

Confidence firm is making the most appropriate decisions: <sup>7</sup>	Contingency Plan		No Contingency Plan		Difference	
	1 or 2	4 or 5	1 or 2	4 or 5	1 or 2	4 or 5
For the short term—current quarter/fiscal year	4%	81%	9%	67%	5%	14%
For the medium term—12 to 24 months out	7%	61%	13%	53%	6%	8%
For the long term—2 years from now and beyond	23%	42%	23%	42%	0%	0%

<sup>7</sup>Scale: Least Confident (1) to Most Confident (5)

**Hewitt Comment: “Planners” are considerably more comfortable than “non-planners” in the decisions they make in both the short and medium term, although confidence for both groups declines long term.**

Communication philosophy <sup>8</sup>	Contingency Plan		No Contingency Plan		Difference	
	1 or 2	4 or 5	1 or 2	4 or 5	1 or 2	4 or 5
	13%	62%	21%	52%	8%	10%

<sup>8</sup>Scale: Communicate Only What Is Happening (1) to

Communicate How Change will Position Us for the Future (5)

**Hewitt Comment: “Planners” are less likely to simply communicate “what is happening” and more likely to proactively communicate than “non-planners.”**

Changes in communication strategy	Contingency Plan		No Contingency Plan		Difference	
	Do Not Have Strategy	Have Solid Strategy	Do Not Have Strategy	Have Solid Strategy	Do Not Have Strategy	Have Solid Strategy
	7%	59%	19%	36%	12%	23%

**Hewitt Comment: “Planners” are much more likely to have a solid strategy in place than “non-planners,” and they are less likely to lack a strategy entirely.**

How effectively organization measures impact of cost reduction efforts on morale	Contingency Plan		No Contingency Plan		Difference	
	Not at All/Slightly Effective	Very/Extremely Effective	Not at All/Slightly Effective	Very/Extremely Effective	Not at All/Slightly Effective	Very/Extremely Effective
	38%	22%	48%	19%	10%	3%

**Hewitt Comment: “Planners” are more likely to measure employee morale effectively as well.**

## Impact of Cost Reduction

Companies see the impact of cost reductions in many important ways. While productivity and financial measures often improve, employee engagement and trust clearly decline. Companies want to strike a balance between these positive and negative outcomes, but many either lack the tools to measure them, or fail to properly communicate with employees as the reductions are executed.

### Companies see both risks and opportunities in their cost reduction efforts.

**Question:** What are the primary risks related to the method with which your firm is implementing these cost reductions?

#### Top 5 Risks Mentioned:

- Employee engagement/morale
- Responsiveness—ability to ramp up fast enough when the economy turns around
- Turnover/retention
- Negative impact on current work outcomes (productivity/customer satisfaction)
- Loss of key talent

**Question:** Beyond reduction in cost, what (if any) other positive results do you expect from your company's recent efforts?

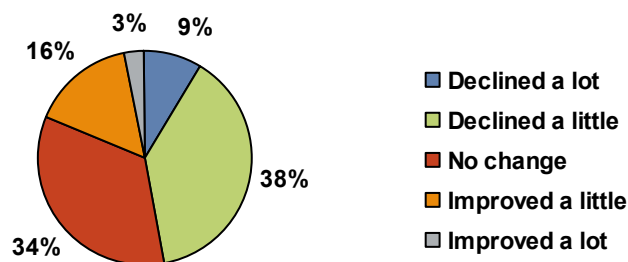
#### Top 5 Rewards Mentioned:

- A leaner, more efficient organization (cost-cutting, productivity enhancements, process improvements)
- A right-sized workforce (elimination of poor performers and non-value added roles)
- A better engaged workforce (employees happy to have a job in general, elimination of entitlement mentality, employees banding together with company/solidarity and teamwork)
- More focus on strategic priorities/core business
- Corporate survival/remain competitive/emerge as a stronger organization after downturn

### But they are concerned about how they execute those efforts:

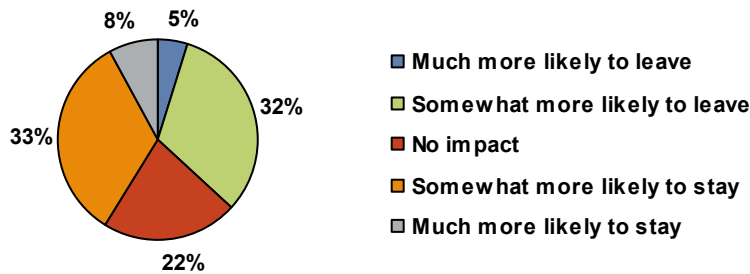
- **47% of companies report a clear decline in employee trust as a result of the way they have managed their cost reductions.**

**Question:** How do you think that employee trust within your organization has been affected as a result of the way your company has managed its cost reductions?



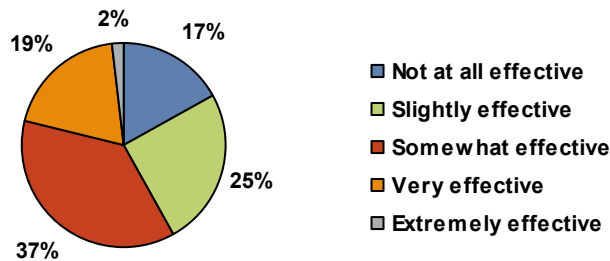
■ 37% of companies feel that their talented employees will be more likely to leave based upon their organization's handling of the downturn.

**Question:** Once the job market recovers, what impact do you think your organization's handling of the economic downturn will have on talented employees?



■ 42% of companies indicate that they are not effective at measuring the impact of their cost reduction efforts on employee morale.

**Question:** How effectively do you feel your organization measures the impact that cost reduction efforts have on employee morale?



**And many do not communicate proactively.**

**Question:** What communication approach most accurately describes your company's philosophy?

	We communicate only what is happening				We communicate how change will position us in the future
	1	2	3	4	5
Have contingency plan	4%	9%	24%	30%	32%
No contingency plan	10%	11%	28%	30%	22%

## Opportunities

HR executives know where the focus should be—on planning, communicating better, measuring engagement impact, and retaining talent. Companies that communicate proactively are much more likely to measure engagement, and companies that are engaging in these actions are clearly better positioned for the anticipated economic recovery.

### Companies see good communication and decision-making as most responsible for the preservation of employee trust, and they want to spend more time in these areas.

**Question:** Which factors (if any) are most responsible for the change in employee trust you selected?

#### Top response categories for “Trust Declined a Lot” and “Trust Declined a Little”

- Layoffs (fear of losing job, seeing coworkers lose their job)
- Communication (insufficient, inconsistent, too late, not undertaken)
- Perceived breach of employment contract (reduction in pay and benefits too great)
- Perception that cost reduction decisions were made unfairly or incompetently

#### Top response categories for “Trust Improved a Lot” and “Trust Improved a Little”

- Transparent and frequent communications (no surprises)
- No or minimal cuts to jobs or no plans for layoffs
- No or minimal cuts to pay and benefits
- Financial stability of business
- Consistent treatment of all employees (fairness and equality, leaders sacrificing)

**Question:** If you had the luxury of time or additional resources, what do you think your organization should be doing differently?

#### Top responses categories for what they should be doing differently:

- Better and/or more frequent communication with employees
- Better, more holistic and long-term workforce planning (including better use of data and skills/needs assessments)
- Training (for leaders and managers on how to communicate cost-reduction decisions and manage change; also general training and development to upgrade skills of workforce including leaders)
- Engagement survey (as well as focus groups, town hall meetings, and employee input/suggestions)
- More cost-cutting and process improvement

### Companies that take the time to communicate proactively are also much more likely to measure engagement levels.

Perform employee surveys to measure engagement?	We communicate only what is happening				We communicate how change will position us in the future
	1	2	3	4	
Yes	32%	64%	63%	71%	77%
No	68%	36%	37%	29%	23%

## **Conclusion**

As companies anticipate an economic rebound, many of them continue to examine cost reduction efforts that will position them for a better financial future. Companies are also hiring selectively and continuing to develop their talent in important ways. One key to success in both these endeavors is effective planning.

Although the need for planning may seem obvious, the need to react quickly to the economic environment has often prevented companies from devoting the appropriate level of attention to this task. Our survey results suggest that a lack of proper planning and execution lead to declines in employee trust and retention.

Now that the end to the downturn may be in sight, companies need to take the opportunity to evaluate all of their workforce approaches, and the HR function has an opportunity to provide clear strategic value. The companies that perform proper planning, make good decisions, and communicate thoughtfully with their employees will truly be able to achieve sustainable long term advantages.

**For more information on this study, and an opportunity to receive comparative industry benchmarks, please contact [humancapitalconsulting@hewitt.com](mailto:humancapitalconsulting@hewitt.com).**

## **About Hewitt Associates**

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