

Riding the recession?
The state of HR in the current
economic downturn

THE STATE OF
HUMAN RESOURCES



SURVEY 2009

Profiles



David Guest, Professor of Organisational Psychology and Human Resource Management at King's College London

David Guest is one of the leading academic experts on human resource management and related aspects of work and organisational psychology. He has written and researched extensively in the areas of human resource management, employment relations and the psychological contract, motivation and commitment, and careers. His current research is concerned with the relationship between human resource management and performance in the private and public sectors; the psychological contract and employee well-being; and partnership at work. He currently has specific projects exploring human capital and the psychological contract in the armed services, workforce management and patient safety in the health sector, and the nature and effectiveness of the HR function. He has worked closely with many companies including Shell, IBM, HSBC, Hong Kong MTRC, as well as with the UK NHS and a number of government departments.



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

After gaining 10 years' senior level business and consulting experience with a global professional services firm, Stuart created a management consultancy in 2000 and has advised a number of major corporations on strategic human resource initiatives. He also worked for several years in a global HR Director role in the financial services industry (at E*TRADE Financial) and was the Managing Director of UK operations. Stuart's areas of expertise include business strategy, organisational design, 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 and has made regular contributions on HR issues to a variety of industry and special interest groups.

The authors of the survey report include Professor David Guest, Michael Clinton and Stuart Woollard of the Department of Management, King's College London.

Foreword

As the current economic crisis continues to bite, we have surveyed senior HR managers across the country to find out what is really happening to workers at the coal face of their businesses.

I am delighted that Speechly Bircham has been able to team up with the internationally renowned academic team at King's College London through the King's HRM Learning Board to undertake this survey. The results offer a fascinating insight into the issues that HR teams and line management are facing and what they are doing to overcome them. It also sheds light on what is happening within HR functions themselves as the organisations around them change.

While there are many interesting findings and themes that have arisen, it is no surprise that workforce reductions are a serious and widespread issue. Interestingly however, 28% of organisations surveyed are still experiencing staff shortages in parts of their organisation. Many of those that hire graduates also appear to be continuing to do so, unlike in previous recessionary periods and in contrast to some of the more recent press coverage.

Nevertheless, with so much uncertainty and organisational change, a key theme to emerge from the survey relates to employee engagement. Those businesses which seem to be surviving better are those with higher levels of employee engagement. The implication is that those not doing so well are also those with lower levels of employee engagement. It is of course those very organisations in most difficulty that need to get employees as engaged as they can, to get everyone working hard to turn the organisation around. It's clear from the survey that HR functions need to help their organisations develop ways to promote and maintain employee engagement.

A number of other significant trends also emerge.

Employee relations problems are rising, with issues such as stress, bullying and harassment having risen, perhaps resulting from management having to become more assertive and having to make tough decisions in an increasingly difficult and uncertain market environment.

The expectation is that the increase in employee relations problems will continue, with pay and conditions becoming increasingly a cause for grievances. With the abolition of the statutory dispute resolution procedures in April 2009, employers will have to continue to devote energy and attention to their internal dispute resolution processes.

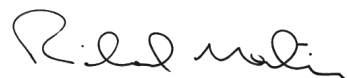
As an alternative to compulsory redundancies, some employers have preferred to look at other ways to achieve cost cutting. Clearly where this involves reduced hours and/or pay, for example, this needs to be conducted with great care to avoid legal claims and subsequent damage to levels of employee engagement amongst retained staff.

There would appear to be some lessons to be learned around redundancy selection to make sure that when redundancies are necessary, the right people are selected. For example, employers report that concerns for the future include succession planning and talent management. These ought to be issues which could be addressed, at least in part, through identifying the right selection criteria so as to avoid these being issues in the future.

Perhaps a surprising revelation is the amount of collective consultation going on. Often employers seem to live in fear of this, but the results indicate that it is being used by employers and that employees and managers alike are participating positively in the process.

For the HR function itself, the survey shows that while it is not escaping the impact of restructuring through the economic climate, it does not appear to be being treated differently to other functional areas. HR restructuring continues apace with most organisations having embraced or expecting to embrace some kind of restructure in the near future. Perhaps surprisingly in such a volatile environment, a significant population of HR functions are satisfied with how they are able to influence their organisations and the support they receive. This would appear to be a good news story for HR professionals.

For senior HR managers, the report reinforces the message that is coming out of the HR press more generally, that employee engagement is more important than ever and is set to be the big issue for 2009 and beyond. Senior HR managers and their advisers will need to understand what this means for their organisations and their people and make sure that it informs everything they do.



Richard Martin
Employment Partner, Speechly Bircham

Executive summary

329 senior HR managers, predominantly from the private sector, responded in November 2008, to a survey exploring the state of human resources in the context of the current economic downturn.

- The survey confirms the widespread impact of the downturn. 81 per cent said it is having a negative impact on their business.
- Up to October 2008, the impact on staffing levels had been mixed. 44 per cent reported an increase and 42 per cent a decrease in staffing levels in the previous 12 months.
- A range of methods have been used by those reducing their workforce. 80 per cent have used compulsory redundancy, 67 per cent used natural wastage, 46 per cent used a recruitment ban and 38 per cent used voluntary redundancy.
- There are more cut-backs to come. In the next year, 34 per cent expect further reductions in staff, while similar percentages either do not plan reductions or are not sure.
- In the previous year, the economic downturn was the major reason for workforce reductions. In the coming year, 92 per cent cite efficiency and productivity gains compared with 74 per cent citing the downturn.
- The economic downturn has affected HR practices with large numbers reporting reductions in general recruitment, in pay rises, in the size of the bonus pool and in the training and development budget.
- Employment relations problems and stress among staff are on the increase, but on the positive side there have been modest gains in levels of employee engagement and the ability of employers to attract talent.
- The top HR challenges for the next year are maintaining employee engagement (cited by 58%), succession planning (44%), talent management (38%), managing redundancies (35%), and perhaps surprisingly, managing growth and expansion (31%).
- Management appears to be getting tougher in the economic downturn. 29 per cent report an increase in grievances in the previous year and 23 per cent expect an increase in the next year. Very few expect any decline.
- The main grievance issues are relations with senior and line management and bullying and harassment. In the coming year, an increase is expected in grievances associated with pay and conditions.
- The downturn has not hit HR departments disproportionately. Restructuring of HR departments continues apace. 38 per cent had restructured in the previous year and 31 per cent expect to do so in the next year. There is no sign of significant growth in outsourcing of HR activities.
- There is a generally high level of satisfaction among senior HR managers with the quality of HR staff, with their influence and with their performance.
- On the basis of this survey, one of the major challenges identified by senior HR managers in the coming year is maintaining employee engagement in the midst of recession.

Introduction

We live in challenging times. Most organisations are having to come to terms with the most severe economic downturn many of their executives will have ever experienced. It affects all aspects of business operations and in particular the lives of employees. This report outlines how organisations are managing their employees and how the crisis has been affecting the policies, practices and operation of human resource departments.

This report is based on the results of a survey undertaken as a collaboration between the employment team at City law firm Speechly Bircham and King's College London in November 2008. Approximately 5,000 questionnaires were sent out in a mixture of two methods: post and email. 329 responses were received and these have been analysed by the academic team at King's College London, led by Professor David Guest.

The purpose of the survey was to get a snapshot from senior HR managers about what is happening to their organisations, workforce and to their HR function – what challenges are they facing and how they see these changing in the next year – all in the context of the economic downturn. We asked people to report on the previous 12 months (November 2007 to October 2008) and tell us what was likely to happen in the forthcoming year (November 2008 – October 2009). At that time we referred to the economic downturn as a “credit crunch”, but it now appears we are facing a full blown recession.

Our first questions centred around how the respondent's organisation was coping in the economic downturn. The survey captured views and expectations in November 2008. We can take some confidence from the fact that the responses reflect what has been reported elsewhere and recent events serve to validate the accuracy of the data emerging from the survey.

“ *The purpose of the survey was to get a snapshot from senior HR managers about what is happening to their organisations, workforce and to their HR function – what challenges are they facing and how they see these changing in the next year.* ”

The impact of the economic downturn on firm performance

Who is most affected by the economic crisis?

The table below shows the way in which different sectors are affected. The data indicate that the economic downturn is having a harsher impact on firms in the wholesale and retail, manufacturing, finance and construction sectors and a slightly lower impact in what we have called “other business services”, community services, leisure and media and public services.

It is not all doom and gloom. For some the current climate is an opportunity. In retail for example, as reported widely in the media, stores at the ‘bottom end’ of the market are thriving at the expense of others. Overall, 23 per cent of our sample said the downturn was having a major negative effect on their organisation and 58 per cent said it was having a minor negative effect. 12 per cent said it was having no effect while 7 per cent said it was having a positive effect, including a small proportion, just over one per cent, who said it was having a major positive effect. These findings are in line with other recent surveys.

Do firms feel singled out?

Even though many firms report that they are suffering in the economic crisis, most feel that they are not alone. Asked about how their current financial performance compares with others in their sector, 17 per cent said they were doing much better, 42 per cent said better than average and 35 per cent felt they were about average for the sector. This leaves just 6 per cent who thought they were doing worse than average.

It is normal to find some bias in responses to a question of this sort but if we take the responses at face value, they suggest that the negative consequences of the downturn are widely shared and influenced by sector-wide factors, rather than by the consequences of local management action.

As we might expect, there is an association between ratings of comparative performance and the impact of the downturn. Those who claim to be faring better in the economic crisis tend to report above average comparative performance. Those faring worse tend to report relatively poorer performance.

Effect of credit crunch

	Number in sector	Major negative effect %	Minor negative effect %	No effect %	Positive effect %
Sector					
Manufacturing	78	28	56	6	9
Financial services	32	25	53	9	12
Other business services	56	12	61	21	5
Wholesale and retail	39	36	54	2	5
Construction/transport/utilities	47	26	66	6	2
Education/health/community services	29	14	38	38	10
Ownership					
Privately owned	190	25	58	9	7
Publicly quoted	78	24	59	12	5
Charity/not for profit	20	5	55	35	5
Public sector	18	11	44	33	11

The impact of the economic crisis on employment levels and job cuts

Are firms cutting back their workforce?

We asked about changes in the number of employees over the past year. Contrary to our expectations, slightly more in our sample, 44 per cent, reported an increase rather than a decrease (42%) in staff numbers over the previous 12 months. 14 per cent reported no change. The overall change across the whole sample was a decrease in workforce numbers of 0.74 per cent over the previous year. In other words, those who were decreasing were doing so at a greater rate than the rate of increase among those growing. Among those reporting a decrease, the size of the reduction ranged from 0.1 per cent to 91 per cent of the workforce while for those reporting an increase, the proportion ranged between 0.1 per cent and 42 per cent.

Was workforce reduction always due to the economic crisis?

Asked why they had reduced their workforce, the largest proportion, 56 per cent, cited the economic downturn but a surprisingly large proportion, 43 per cent, cited increases in efficiency or productivity gains. A further 17 per cent cited increased competition and loss of major contracts, while 20 per cent cited consolidation as a result of a takeover or merger. In some cases, more than one reason was cited.

The economic downturn was more likely to be cited as a reason for workforce reductions by those in publicly quoted companies (27%) compared, at the other extreme, by none of those working in charities and not-for-profit organisations. It was also more likely to be cited by those in construction, transport and utilities (31%), in manufacturing (29%) and in wholesale and retail (26%), compared with only 3 per cent in education, health and community services. Among those who said the downturn was having a major negative effect on them, 56% cited the downturn as the reason for workforce reductions. Unsurprisingly, among those saying the downturn was having no effect on them, none cited the downturn as being the cause of workforce reductions.

Other factors contribute to workforce reductions. For example, looking at sectors, 17 per cent in wholesale and retail cited the impact of takeovers and mergers; and 27 per cent in manufacturing and 19 per cent in financial services cited increased efficiency or productivity gains. Furthermore, 20 per cent of those working in unionised workplaces also cited increased efficiency or productivity gains. So while the economic downturn has had a direct and sometimes an indirect effect on workforce reductions, the more usual processes of increasing efficiency and productivity also play an important part.

Does workforce reduction invariably mean redundancies?

Many firms have been using a combination of methods to achieve workforce reductions. However compulsory redundancy is usually one of these. Indeed, 80 per cent of those who have reduced their workforce in the past year have used compulsory redundancy. This compares with 38 per cent who have used voluntary redundancy. The other widely used methods are natural wastage, reported by 67 per cent, and a recruitment ban, mentioned by 46 per cent. Much less use was made of early retirement, cited by 13 per cent, and outsourcing, used by 9 per cent.

Is there worse to come?

Looking ahead to the next year, 34 per cent of firms expect further reductions in their workforce while 39 per cent did not. Understandably, a large proportion are unsure. However, among those who expect to make reductions in the next year, efficiency gains and increased productivity are more frequently cited as the reason than the effects of the economic downturn. Indeed, 92 per cent cited efficiency and productivity gains as a major reason compared with 74 per cent who cited the economic downturn. A further 44 per cent cited increased competition, while 17 per cent mentioned a possible takeover or merger. These responses could reflect wishful thinking; but they may also indicate that some firms are using the downturn as an opportunity to improve efficiency. There is also an indication that competition will become tougher and this may be a fall-out from the downturn. Nevertheless, it is clear that a number of factors are at play in determining workforce reductions.

Is this the end of staff shortages?

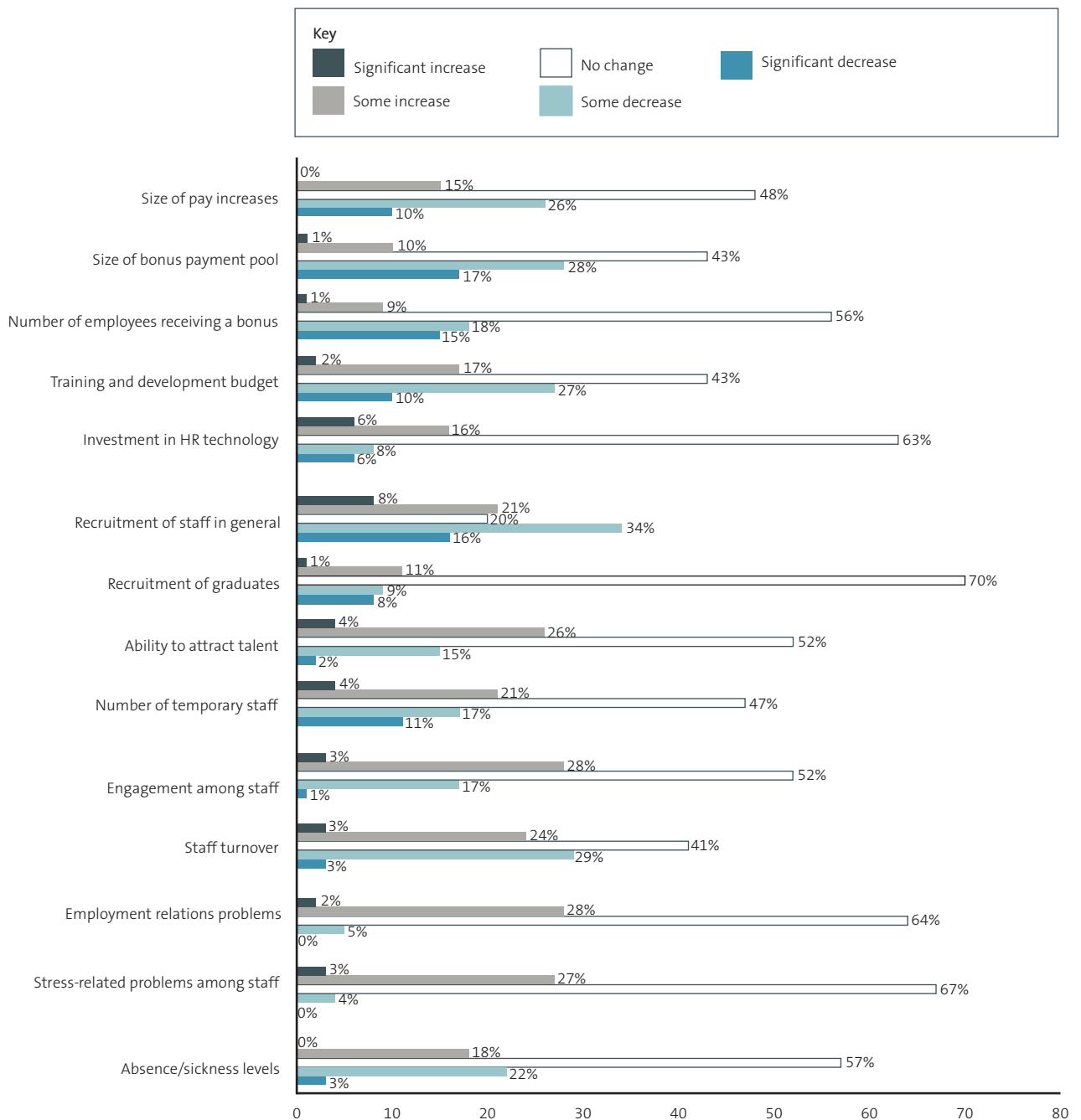
Despite the cut-backs, 28 per cent of organisations report that they are still experiencing staff shortages. The most frequently cited shortage, mentioned by 54 per cent, is usually in a specific skill area, such as some aspect of engineering. This is followed by shortages linked to specific departments or specific locations, mentioned by 18 per cent. A further seven per cent cite shortages in general management while seven per cent cite shortages in all areas. Despite these general complaints of shortages, in most cases it is the difficulty of finding staff with very specific qualifications and skills that continues to present firms with a problem, even in the context of the economic downturn. There is no indication that those experiencing staff shortages are more likely to be increasing their investment in training and development.

Changes in human resource practices in the economic downturn

It is sometimes suggested that investment in recruitment and in training and development are among the first cutbacks in a downturn. To explore whether this is the case, we asked about whether there had been changes in a range of human resource (HR) practices over the past year as the economic downturn began to bite. We should bear in mind that in any normal year, a number of changes might be expected to occur.

We specifically asked whether there had been an increase or a decrease in activity. The responses are shown below. This indicates the balance between an increase and decrease in activity. It therefore omits those who said there had been no change. The responses show a wide variety of reactions. Further (factor) analysis reveals that the responses fall into four clusters.

Change in activity over the past year



Pay and budgets

36 per cent report a reduction in the size of pay increases, compared with 15 per cent who report an increase. 33 per cent report a reduction in the number of staff receiving a bonus compared with 10 per cent who report an increase and 45 per cent report a reduction in the size of the bonus payment pool compared with 11 per cent who report an increase. Finally, 37 per cent report a reduction in the training and development budget compared with 19 per cent who report an increase. In each case, the remainder report no change. The general trend is therefore clear and points to a considerable overall reduction in pay increases, bonuses and in the size of budgets for training and development. As we might expect, the reductions are most severe in those organisations most badly affected by the downturn.

Recruitment

50 per cent report a decrease in general recruitment compared with 29 per cent who report an increase. With respect to recruitment of graduates, 17 per cent report a decrease while 13 per cent report an increase. This picture may be distorted because many firms do not have a specific graduate recruitment programme. These results suggest that firms have learnt from past experience and are more reluctant to reduce graduate recruitment than to reduce recruitment in general. There is still a sizeable proportion of firms that are expanding their recruitment and the downturn has not affected labour turnover quite as much as might be expected. Predictably, organisations most severely affected by the economic downturn are the most likely to report a reduction in recruitment activity.

With larger numbers in the labour market but persisting staff shortages in some firms, it should be easier to attract talented staff. 30 per cent said that this was the case while 17 per cent felt that their ability to attract talented staff had declined, possibly because they had become less attractive as employers, or because the talented staff firms are looking for are less likely to lose their jobs, and are not looking to risk changing jobs in the current climate.

Temporary staff provide some flexibility in times of economic difficulty, both to provide short-term cover rather than taking on permanent staff, but also as a focus for cutbacks to avoid laying off permanent staff. These contrasting possibilities are reflected in the results. 25 per cent of firms report an increase in the use of temporary staff, while 37 per cent report a reduction.

Employee engagement

30 per cent report an increase in engagement among staff in the past year compared with 18 per cent who report a decrease. Engagement might be reflected in retention of staff. In the past year, 27 per cent report an increase in staff turnover while 32 per cent report a decrease. These results suggest there is still a challenge for firms in gaining the engagement of staff. Organisations most affected by the downturn are more likely to report a decrease in employee engagement. Indeed a reduction in engagement is associated with a number of other changes that are likely to have been influenced by the downturn. Thus, organisations reporting lower engagement among staff are also more likely to report smaller, if any, pay rises, a smaller bonus pool with fewer people receiving bonuses, reduced recruitment of staff and poorer overall business performance.

Managing problems at work

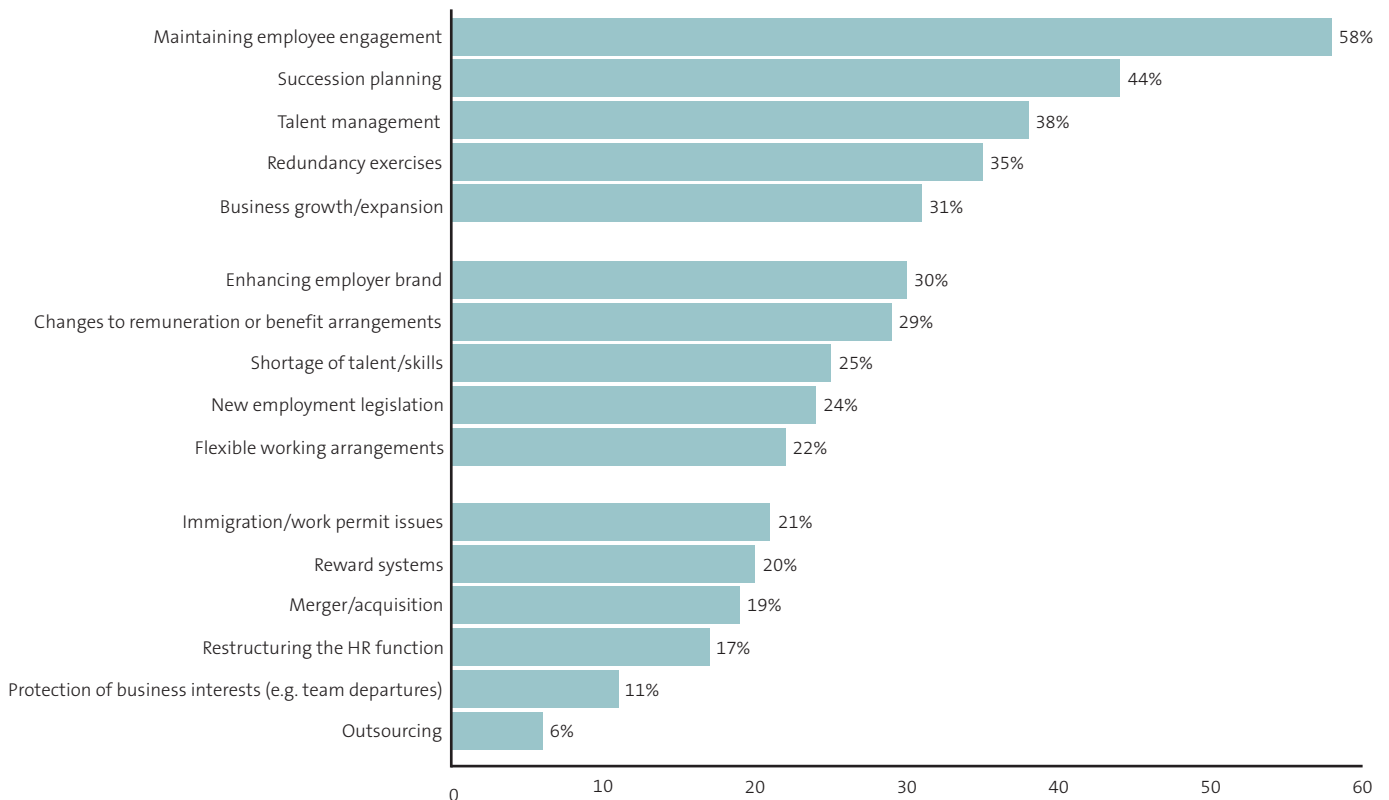
The downturn and associated risk to job and income security can increase levels of stress. 29 per cent of senior HR managers report an increase in levels of stress among employees compared with only 4 per cent who report a decrease. More generally, 30 per cent report an increase in employment relations problems compared with five per cent who report a decrease. While stress might be reflected in higher levels of sickness absence, staff may be more reluctant to take time off since this may expose them to greater risk in times of cutbacks. This is supported by what has been happening. 18 per cent of firms report an increase in levels of sickness absence while 25 per cent report a reduction. Those organisations most affected by the economic downturn are most likely to report an increase in stress among staff and in employment relations problems.

Our analysis confirms that, after allowing for other possible factors such as specific sector or ownership, it is the effects of the economic downturn that are having the main impact on changes in HR activity. It is resulting in a cut-back in pay and training budgets, a reduction in recruitment activity, a reduction in employee engagement, a rise in stress among staff and more employment relations problems. The effects of the economic downturn therefore draw in their wake a range of human resource problems.

The current major HR challenges

Problems and challenges associated with the economic downturn are likely to absorb the time and energy of many HR staff. Taking these into account, but looking more widely, we asked about other major issues that HR departments expect to have to address in the next year. The answers are summarised below.

Major HR challenges for 2009



One issue stands out strongly from the others, namely maintaining employee engagement. This is cited by 58 per cent of the respondents and may well reflect anxieties about some of the side effects of the downturn. It is particularly likely to be seen as an issue by those working in publicly quoted companies and less so by those in charitable and not-for-profit organisations. It is much more of a concern to those who are faring badly in the economic downturn.

The second challenge is succession planning, cited by 44 per cent, which is a particular concern of larger organisations. The third issue is talent management, mentioned as a major issue by 38 per cent and highlighted as a major concern in particular in publicly quoted companies. It is likely to be more strongly identified as an issue in those organisations experiencing a minor negative effect of the economic downturn, possibly because those facing severe effects anticipate other priorities.

The fourth topic, more in line with the challenges posed by the economic downturn, is managing redundancy exercises, cited by 35 per cent. Those mentioning this are particularly likely to be found in construction, transport and utilities and in education, health and community services and much less likely to be found in other business services. It is also identified as more of a problem by those working in larger organisations. As we might expect, the challenges of managing redundancies are more likely to be cited by those organisations experiencing the more negative effects of the economic downturn.

The fifth most frequently mentioned issue, more a general rather than a specifically HR issue, is managing business growth and expansion, which is identified by a surprising 31 per cent of respondents. This is highlighted in particular in other business services and also by those who feel that the economic downturn is having a positive effect; just under 50 per cent of them identified this as an important issue compared with 20 per cent of those for whom the downturn is having a major negative effect.

“ *One issue stands out strongly from the others, namely maintaining employee engagement.* ”

Is the economic downturn leading to tougher management and more dissatisfied employees?

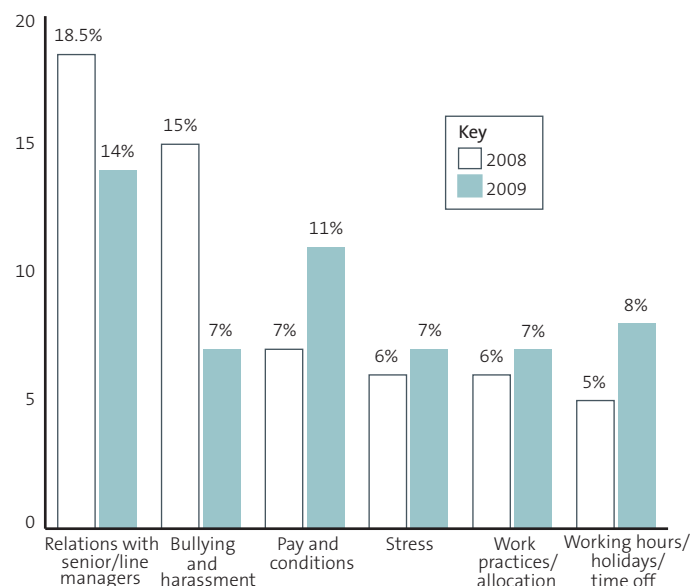
The previous sections have highlighted the challenges of managing and maintaining employee engagement, the risk of increasing levels of stress among staff and a rise in employment relations problems. We explored this further by asking about any change in the level of grievances. 29 per cent reported an increase over the past 12 months compared with 6.5 per cent who reported a decrease. The remainder said there had been no change. Looking ahead to the next 12 months, 23 per cent anticipate an increase in grievances compared with only 4 per cent who anticipate a drop. Taken together, these results suggest that the trend towards increasing numbers of grievances will continue.

We can identify where the rising trend in grievances is most marked. It appears to be stronger in manufacturing and other business services than in other sectors. The increase has been most marked in organisations most severely affected by the economic downturn – 41 per cent report an increase compared with about 26 per cent in those reporting a minor negative effect, a neutral or a positive effect. Looking ahead to the next 12 months, the factor that makes the greatest difference is whether or not there is a union presence. 33 per cent of those with a union presence expect an increase in the number of grievances compared with about 18 per cent of those with other forms of employee representation or no representation. This is somewhat surprising since a union presence is not associated with the rise in grievances in the past 12 months. The impact of the downturn is also important; 31 per cent of those reporting a minor or major effect of the downturn expect an increase in grievances compared with only 11 per cent of those who report no effect or a positive benefit.

A rise in grievances can often go hand in hand with other problems within an organisation. Our analysis shows that those reporting a rise in grievances are also significantly more likely to report a rise in levels of sickness absence and levels of stress-related problems among staff.

We asked about the type of grievances that were on the increase. The results are summarised in the graph to the right. The first column shows the issues most frequently cited for the past 12 months and the second column shows those anticipated in the next 12 months. Only those mentioned by more than 5 per cent are shown.

Grievances: main grounds for complaint in 2008 and anticipated for 2009



The findings indicate that two possibly related issues stood out in the past 12 months. These concern relations with senior and line managers and bullying and harassment. Looking ahead to 2009, relations with managers remains important but bullying and harassment declines while issues of pay and conditions increase in importance. Part of this might be explained by the significant association between a rise in grievances and a reduction in the bonus pool and in the numbers receiving bonuses. These results, coupled with those cited earlier imply a more dissatisfied workforce, possibly because of a more assertive management. This might help to explain why employee engagement was identified as such a major concern and why a union presence might begin to have an impact.

The changing role of the human resource function

It has often been assumed that HR departments are particularly vulnerable at times of staff cut-backs. We therefore explored what has been happening to HR departments.

Contrary to expectations more HR departments have seen an increase in staff numbers than a decrease. 25 per cent report an increase over the past 12 months compared with 20 per cent who report a decrease. Even when there has been a decrease, there is no evidence that the HR department has been more heavily affected than other departments. One reason for this may be that HR is heavily involved in managing changes in workforce numbers and particularly in redundancies. When asked about who was involved in managing the redundancy process, in the great majority of cases it was either the HR department that took the lead or the HR department working in conjunction with other senior managers. This is expected to continue to be the case when dealing with future redundancies.

There has been much discussion about the appropriate structure for the HR department and HR function and there are signs of considerable uncertainty about what constitutes an optimal structure. A recent CIPD¹ report found that many organisations had re-structured the function. This seems to be continuing. 38 per cent of our survey group reported that they had restructured in the last 12 months with a further 27 per cent who had done so in the last three years. Looking ahead, 31 per cent expect to restructure in the next year.

The current structures often reflect elements of Ulrich's model². For example, 41 per cent claim to have business partners, 29 per cent have centres of expertise in areas such as recruitment and training and development and 15 per cent have a shared services centre. On a more specific note, 41 per cent have an online HR information system and 15 per cent have in-house employment law services.

In line with the research based on the authoritative Workplace Employment Relations Survey³, there is no sign of any marked increase in outsourcing. Some areas may be an exception. 25 out of the 329 organisations responding to the survey had started using outsourced organisations to vet staff and provide security clearance, 22 had started outsourcing pensions and 20 had started outsourcing legal services in the past 12 months. Set against this, 20 had started but 19 had stopped outsourcing recruitment and 19 had started but 17 had stopped outsourcing temporary filling of vacancies. These last two developments may reflect the consequences of the economic downturn; but they show that the direction of travel is not all towards more outsourcing. Looking ahead to the next 12 months, very little increase in outsourcing is anticipated. The only exception is payroll which 13 organisations expect to outsource. Although little movement is expected in the next 12 months with respect to outsourcing of recruitment and training and development, organisations are as likely to bring the activity back in house as to outsource it.

“ **Contrary to expectations more HR departments have seen an increase in staff numbers than a decrease.** ”

¹ CIPD (2007). *The Changing HR Function*. London: CIPD

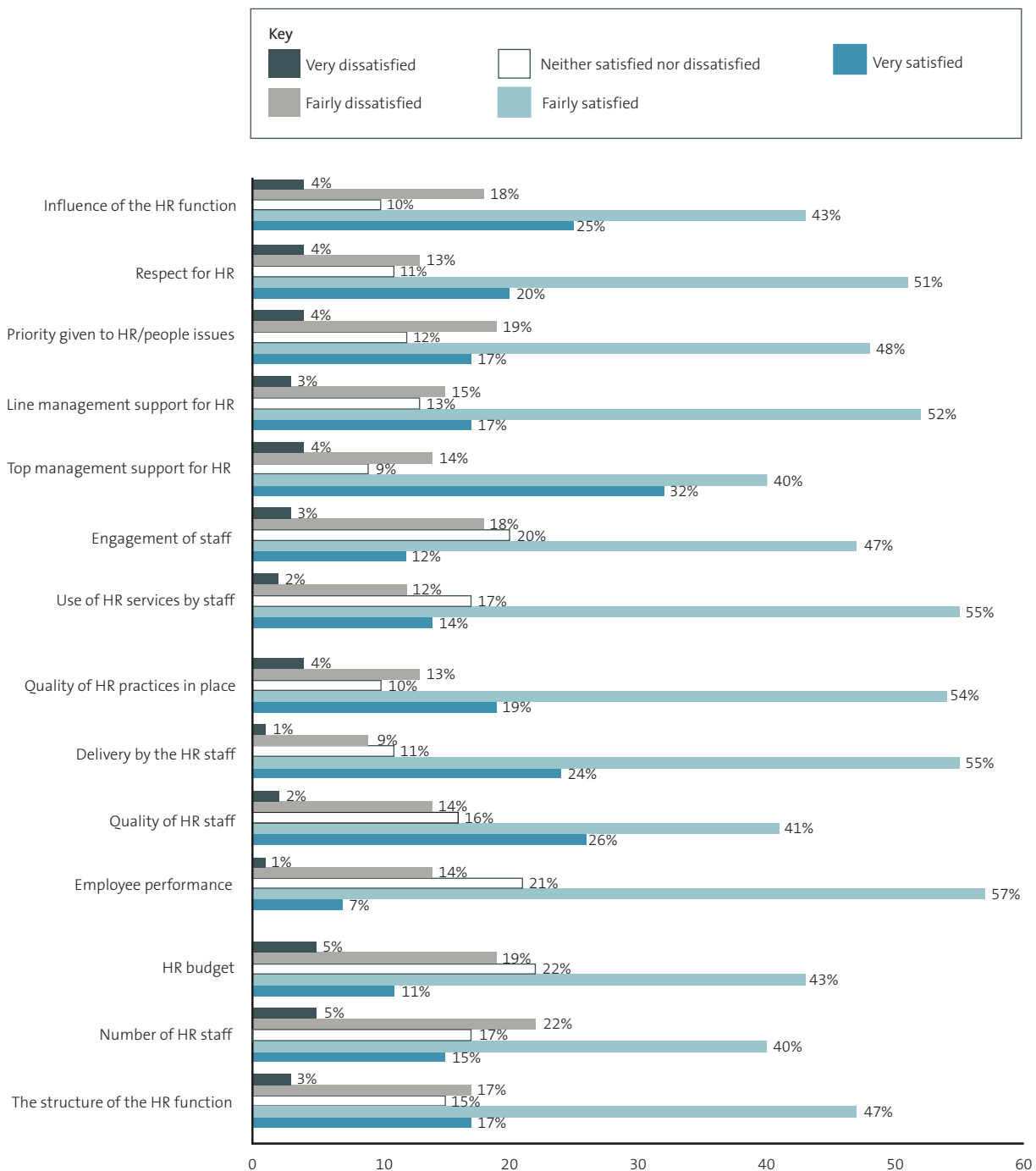
² Ulrich, D. & Brockbank, W. (2005). *The HR Value Proposition*. Boston, MA: Harvard Business School Press

³ Kersley, B., Alpin, C., Forth, J., Bryson, A., Bewley, H., Dix, G. & Oxenbridge, S. (2006). *Inside the Workplace: Findings from the 2004 Workplace Employment Relations Survey*. London: Routledge.

Satisfaction with HR activities

We asked senior HR managers how satisfied they are with various aspects of HR activity. A factor analysis revealed that the results fall into three clusters. These are presented in the graph below which shows the proportion of senior HR managers who are satisfied and dissatisfied.

Levels of satisfaction with aspects of HR processes and performance



The first cluster concerns the influence of, and support for, the HR function. The responses to this set of items are consistently positive. Typically, 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 management. The two marginal exceptions are the slightly lower responses concerned with the priority given to HR issues and the level of engagement of staff. This last item on engagement sits somewhat uneasily with this cluster of items.

The second cluster is concerned with the quality of the HR staff and HR practices and their delivery. Again the results are consistently positive. There are especially strongly positive responses concerning the delivery of HR services by HR staff. Employee performance falls into this cluster and just under two-thirds are satisfied with it.

The third cluster concerns the resourcing and structure of the HR function. There are three items in this group. Here levels of satisfaction are somewhat lower. 54 per cent are satisfied with the HR budget, while 23 per cent are dissatisfied. 55 per cent are satisfied with the number of HR staff, but 27 per cent are dissatisfied. Finally, 65 per cent are satisfied with the structure of the HR function while 20 per cent are dissatisfied.

Overall, these results indicate that senior HR managers 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. There is some dissatisfaction with the allocation of resources to the function but this affects a minority of organisations and even on this more than twice as many report satisfaction as those reporting dissatisfaction. This represents a vote of confidence in their function by those senior HR managers responsible for it.

The management of redundancy

A more specific area of HR activity that is particularly relevant in times of economic downturn is the management of redundancy. As we outlined earlier, this is primarily an HR responsibility. 42 per cent of those who made staff redundant in the past year engaged in some form of collective consultation, usually because this is a statutory requirement but quite often because it was considered to be the right thing to do. Sometimes it was also required by union agreement.

The criteria for selecting people for redundancy varied widely. About a quarter of those making staff redundant in the past year cited each of the following criteria: absence record; disciplinary record; general performance assessment; and performance assessment undertaken specifically for this purpose. Among those planning future redundancies, more

weight is likely to be given to performance criteria used specifically in the context of the redundancy programme. Given that major concerns going forward for HR include succession planning and talent management, it may be that organisations are not using the selection criteria that are most aligned to their business needs.

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

The redundancy exercises over the past 12 months are generally judged by senior HR managers to be relatively successful. 45 per cent claimed the process was well received by the workforce while 25 per cent suggested that it was not. 51 per cent said the workforce participated positively in the exercise while 26 per cent said they did not. 71 per cent said management participated positively in the exercise while 11 per cent said they did not. Finally, 32 per cent claimed that the exercise merely served to prolong the agony for all concerned while 42 per cent disagreed that this was the case. There is no clear indication about where those who take this rather sceptical view are likely to be found. For example, there is no association with the presence of a trade union. While in this set of responses, as with all the others, we should be a little cautious about senior HR managers reporting on their own activities, the indications are that in most cases the process went as well as could be expected.

Taken together, the set of responses concerning HR processes and the specific example of redundancy management reveal widespread satisfaction with the way in which HR departments are operating. Once again, we should, of course, bear in mind that the respondents are senior HR managers, many of whom will have responsibility for these processes. So we should exercise a little caution in accepting all these assessments at face value.

“ 42 per cent of those who made staff redundant in the past year engaged in some form of collective consultation. ”

Performance indicators

We collected data on some conventional HR performance metrics. The average level of labour turnover for reasons other than redundancy was just under 14 per cent. The percentage of days lost through sickness was 4.55 per cent. There are no surprises in these figures. We used regression analysis in an attempt to determine whether any background factors or any aspects of HR practices and processes had an impact on levels of labour turnover and absence. The results show that labour turnover is significantly higher in certain sectors. For example, it reached 19 per cent in the leisure, hotels and restaurant industries and 18 per cent in education, health and community services. In contrast, labour turnover was only 9.9 per cent in manufacturing, 10.1 per cent in construction, transport and communications and 11.5 per cent in financial services. It also tended to be higher in those organisations reporting more employment relations and stress problems among staff. None of the background and other factors predicted absence levels.

“ *There is also an indication that lower labour turnover and higher levels of employee engagement are associated with better performance.* ”

As we have already noted, we also asked about how well organisations rated their performance compared with others in their sector. This showed that 59 per cent considered themselves either better or much better than average. 35 per cent rated themselves about average and 6 per cent rated themselves below average. We also conducted regressions to identify any background or other factors associated with variations in these responses. These reveal that those who rate their performance as better were less likely to have been affected by the economic downturn. They are also more likely to report that they have a well resourced HR department, a higher level of staff engagement and lower labour turnover.

The findings concerning factors associated with assessment of performance point once again to the negative impact of the economic downturn, even after other factors are taken into account. The association with a well-resourced HR department may reflect the possibility that firms that are doing well can afford to provide better resources. However there is also an indication that lower labour turnover and higher levels of employee engagement are associated with better performance. This may be a sign that better management of the workforce, reflected, *inter alia*, in employee engagement, is paying off.

“A key theme to emerge from the survey is that the notion of employee engagement is more important than ever and is set to be the big issue for 2009 and beyond. Redundancies, more assertive management, and cuts in pay and training are all likely to have an impact on levels of employee engagement.”

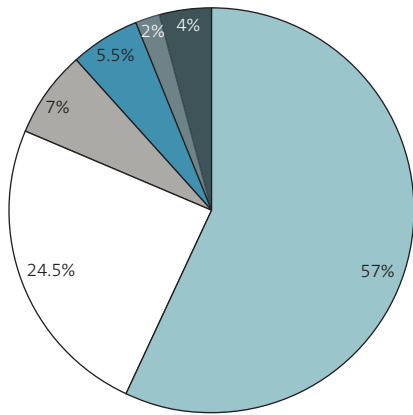
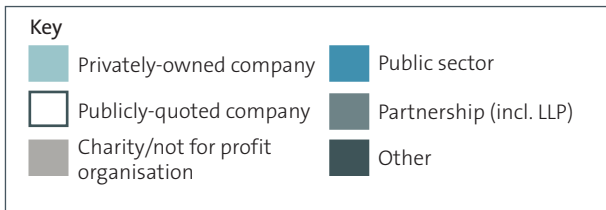
Professor David Guest, King's College London

The survey process and the sample

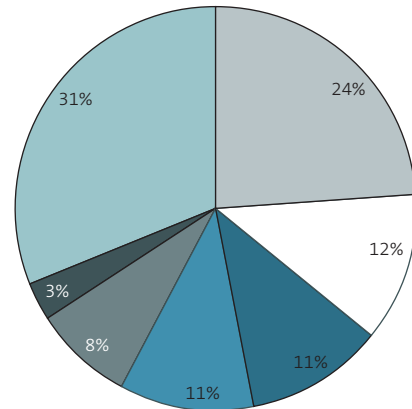
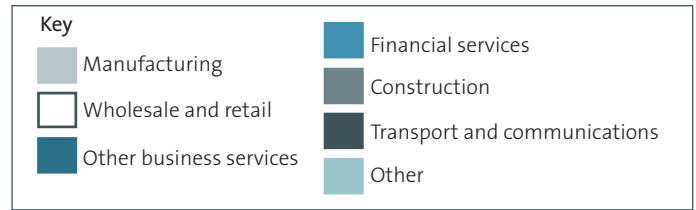
A questionnaire was distributed to approximately 5,000 (predominantly private sector) senior HR managers, drawn from the Personnel Managers Year Book register, in November 2008. 329 responses were received by early December in time for analysis.

A large majority of the respondents hold the title of Human Resource Director or Head of HR. Details of their organisations are given below. 40 per cent had been in their current post for less than two years while 42 per cent had been in post for more than four years.

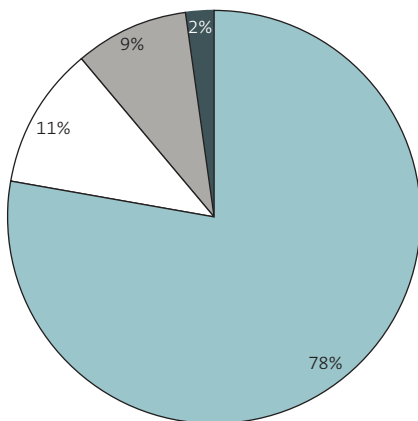
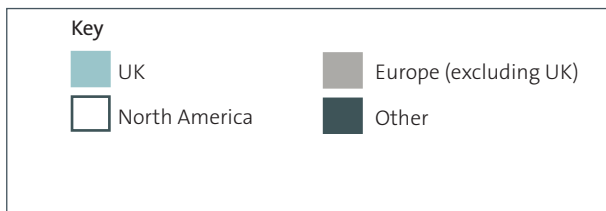
Type of ownership



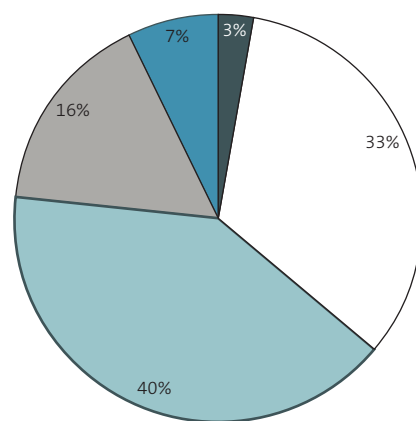
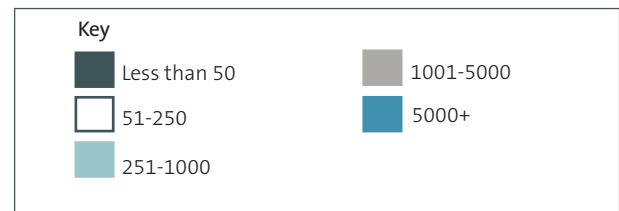
Sector



Company headquarters



Size (no. of employees)



Organisations involved

SpeechlyBircham

Speechly Bircham

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