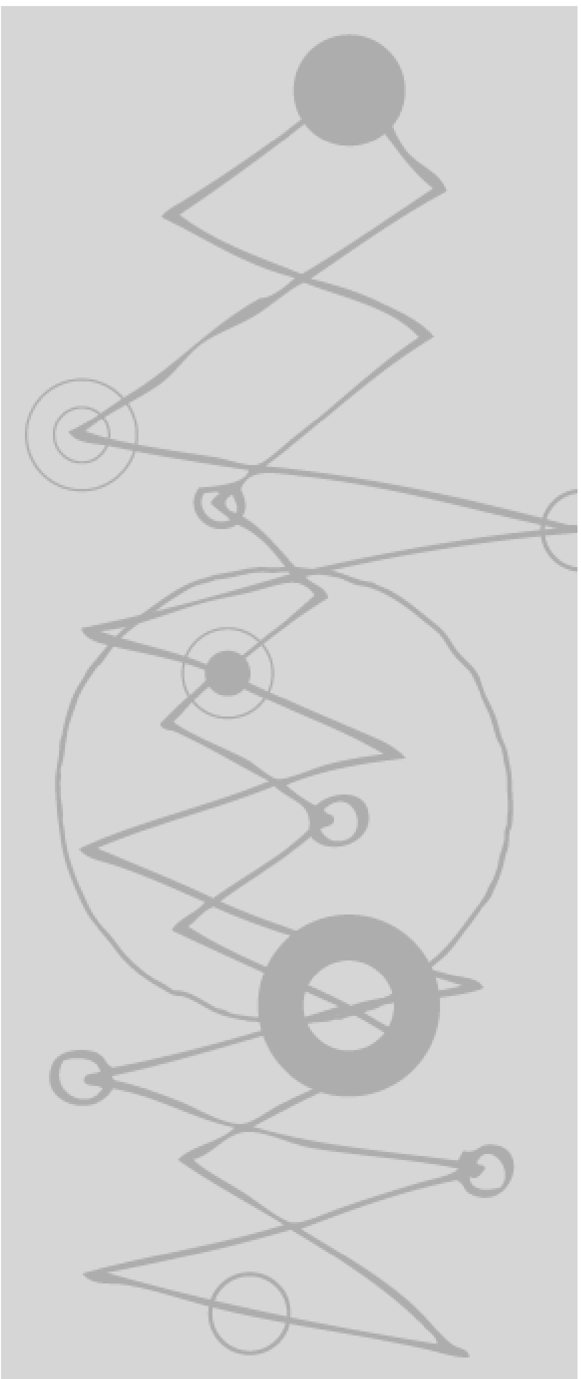
TOWERS WATSON

From Recession to Recovery

How Far, How Fast, How Well Prepared?



Despite signs of a renewed focus on growth, companies worldwide remain cautious on workforce investments.

Executive Summary

The recent economic turmoil has had significant impact on organizations' benefit, talent and rewards decisions — the impact of which will likely continue. In addition, the crisis has had some unanticipated effects on operations — from productivity to competitive focus.

- Emerging from the sharpest economic downturn in almost a century, companies worldwide are focusing more on customer service (in the U.S., Canada and Latin America) and quality (Europe) to help fuel future growth.
- Despite this growth focus, staffing plans remain cautious, with more than a third of companies globally planning further workforce reductions and relatively modest hiring. An exception is companies in Asia-Pacific, where almost half of the respondents expect to increase hiring.
- Companies report an increase in employee productivity in the recession, and about half expect further gains in the coming year as they keep staffing lean.
- Many companies plan small increases in spending on rewards for current employees to retain talent, while maintaining a focus on managing costs and risk. As a result, pay budgets will trend upward this year, while still falling short of pre-crisis levels. Pay freezes will be much rarer, after a year in which companies reporting a 0% merit increase ranged from 26% (in Latin America) to 42% (in the U.S.).

- Especially in the U.S., it appears that some employees weathered the economic downturn and market turmoil by contributing less to their retirement savings plans and taking hardship withdrawals. Older workers also responded by remaining in the workforce beyond their expected retirement age.
- The economic meltdown has had a mixed impact on employee perceptions of their employers, and in 2009 more companies reporting higher levels of employee engagement than declining engagement. This confirms the important role that company leaders, programs and culture can play in nurturing and sustaining engagement — even in tough times.

Strategy and Staffing

With signs of a strengthening economy in many markets, there is a subtle shift in how companies worldwide plan to position themselves for growth after more than a year of downsizing. While quality and efficiency remain critical areas of marketplace focus, more companies in our global sample plan to compete in customer service than in any other dimension in the coming year *(Figure 1).* This marks a departure from the pre-crisis period, when customer service ranked behind quality and company image. The enhanced focus on customers and reduced focus on image suggest that many companies have begun looking outward again, sensing new opportunities in reviving markets. At the same time, it's clear that a tight control on costs remains a priority, with efficiency of operations moving up in importance as companies look ahead one year. Not surprisingly, companies are also reporting a growing attention to risk *(Figure 2).*

Despite this cautious optimism about the business environment, the companies surveyed are clearly hesitant about embarking on significant hiring, at least in the near term. More than a third of respondents plan further workforce cuts this year, although the vast majority of those will be targeted reductions as opposed to broad layoffs *(Figure 3).* What's more, while almost all of the companies surveyed anticipate some hiring in 2010 (unlike last year, when hiring freezes were widespread), more than a third (38%) of those planning to hire expect their level of hiring to be relatively low compared to previous years *(Figure 4).*

Flat or reduced head count was reported at most of the participating companies, although there are significant regional differences in median head count trends that likely reflect differences in the impact the recession has had in different parts of the world *(Figure 5).* Declines from pre-crisis levels are sharpest in the United States, while staffing levels actually increased modestly among our respondent companies in Asia-Pacific and Latin America. Median head count is expected to rise over the coming year everywhere but Canada and Europe.

Figure 1. Shifts in competitive differentiation strategies signal attention to growth

	All respondents	
Rank	**Pre-financial crisis**	**One year from now**
1	High standards of quality	Customer service
2	Company image/ reputation	High standards of quality
3	Customer service	Efficiency of operations
4	Efficiency of operations	Company image/ reputation
5	Innovative products and services	Innovative products and services

	Asia-Pacific	
Rank	**Pre-financial crisis**	**One year from now**
1	High standards of quality	Company image/ reputation
2	Company image/ reputation	Customer service
3	Customer service	Efficiency of operations
4	Efficiency of operations	High standards of quality
5	Innovative products and services	Innovative products and services

	Canada	
Rank	**Pre-financial crisis**	**One year from now**
1	Company image/ reputation	Customer service
2	Customer service	Efficiency of operations
3	High standards of quality	High standards of quality
4	Efficiency of operations	Company image/ reputation
5	Innovative products and services	Innovative products and services

	Europe	
Rank	**Pre-financial crisis**	**One year from now**
1	High standards of quality	High standards of quality
2	Company image/ reputation	Customer service
3	Customer service	Innovative products and services
4	Innovative products and services	Efficiency of operations
5	Efficiency of operations	Company image/ reputation

	Latin America	
Rank	**Pre-financial crisis**	**One year from now**
1	Customer service	Customer service
2	Efficiency of operations	High standards of quality
3	High standards of quality	Efficiency of operations
4	Company image/ reputation	Innovative products and services
5	Innovative products and services	Company image/ reputation

	United States	
Rank	**Pre-financial crisis**	**One year from now**
1	High standards of quality	Customer service
2	Company image/ reputation	High standards of quality
3	Customer service	Company image/ reputation
4	Innovative products and services	Efficiency of operations
5	Efficiency of operations	Innovative products and services

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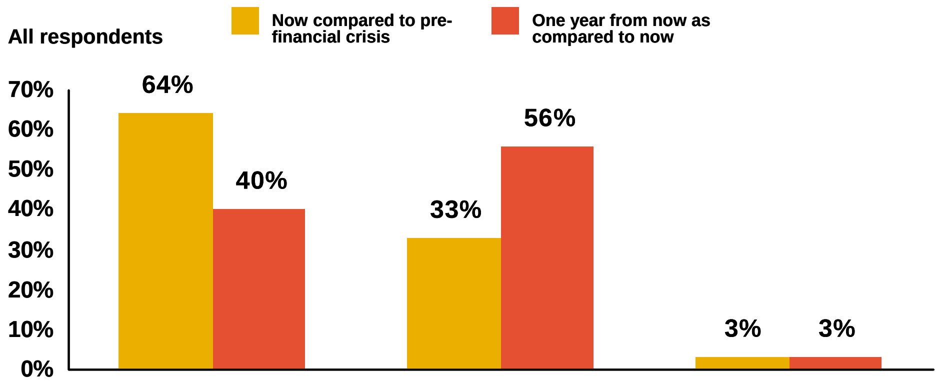
Figure 2. Respondents are devoting greater attention to risk since the financial crisis



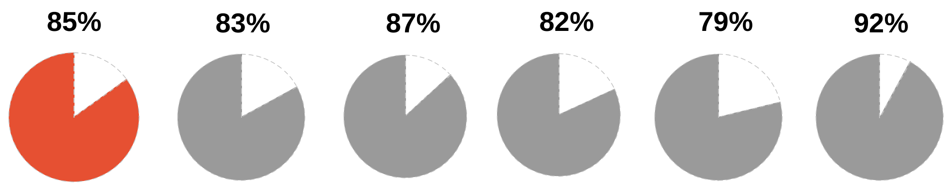
	Greater		About the same		Less	
Asia-Pacific	56%	50%	42%	48%	2%	2%
Canada	66%	33%	32%	64%	3%	3%
Europe	68%	43%	31%	55%	1%	2%
Latin America	64%	41%	29%	51%	7%	8%
United States	62%	37%	33%	60%	4%	3%

Figure 3. Broad workforce reductions are declining, but targeted cuts remain on tap at many organizations

	Broad workforce reduction		Targeted workforce reduction		No workforce reduction		Don't know	
	Since the financial crisis began	This year	Since the financial crisis began	This year	Since the financial crisis began	This year	Since the financial crisis began	This year
All respondents	15%	3%	51%	34%	33%	54%	1%	8%
Asia-Pacific	7%	2%	38%	14%	54%	77%	2%	7%
Canada	18%	4%	44%	39%	38%	51%	0%	6%
Europe	12%	5%	55%	44%	31%	46%	2%	5%
Latin America	19%	4%	47%	24%	32%	65%	1%	7%
United States	17%	1%	58%	36%	25%	49%	0%	14%

Figure 4. Most companies plan to hire in 2010

Percentage planning to hire for new positions:



Company's hiring plans this year compared to past years are:	All respondents	Asia-Pacific	Canada	Europe	Latin America	United States
Significantly increased/ accelerated	3%	7%	2%	2%	5%	1%
Increased/ accelerated	20%	40%	18%	14%	27%	16%
Typical, on par with past years	39%	36%	48%	39%	40%	33%
Reduced/slowed	29%	13%	27%	32%	13%	42%
Significantly reduced/slowed	9%	4%	5%	13%	15%	8%

Figure 5. Head count changes vary considerably around the world

	September 2008	Now	One year from now
All respondents	3578	3600	3800
Asia-Pacific	1950	2010	2313
Canada	2900	2800	2800
Europe	2800	2800	2800
Latin America	1870	1929	1975
United States	8876	7675	8625

All numbers are medians.

Retention and Engagement

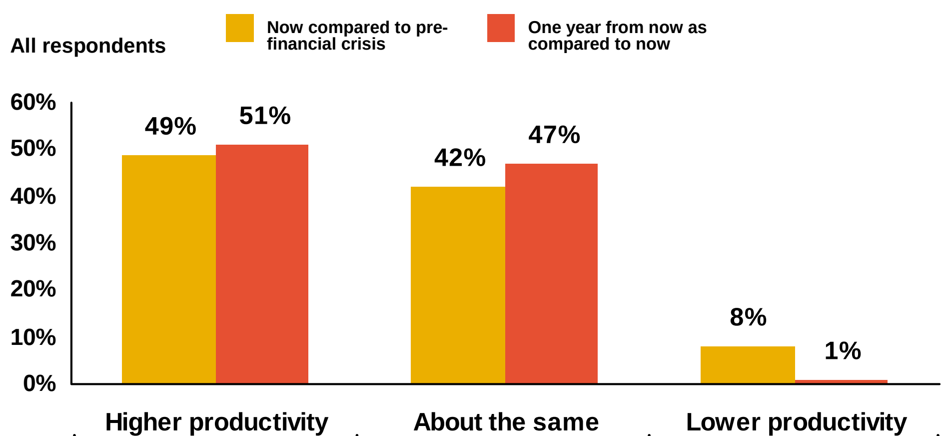
One key outcome of the recent staffing reductions has been an increase in reported levels of productivity, as many companies have been able to maintain output with fewer workers *(Figure 6).* Almost half of the global sample report higher productivity levels today than pre-crisis, and slightly more than half expect further gains in the coming year. These improvements, together with ongoing cost management pressures, probably account for much of the caution about hiring in the near term — as well as underscore why unemployment levels may not align with an improving economy for some time.

Not surprisingly, companies in most parts of the world report that retaining workers was less difficult last year, most likely because other employment opportunities were scarce in many markets *(Figure 7).* (More companies in Asia-Pacific and Latin America reported added difficulty retaining workers, probably because those regions' relatively stronger economies provided greater job opportunities for key employees.)

More than half of our global sample — and almost three-quarters of those in Asia-Pacific — expect increased difficulty retaining good people in 2010 as the economy strengthens. Given the strong correlation we've seen between employee engagement and retention in our previous workforce research, retention issues are likely to be even more challenging for organizations where engagement levels have slumped during the recession.

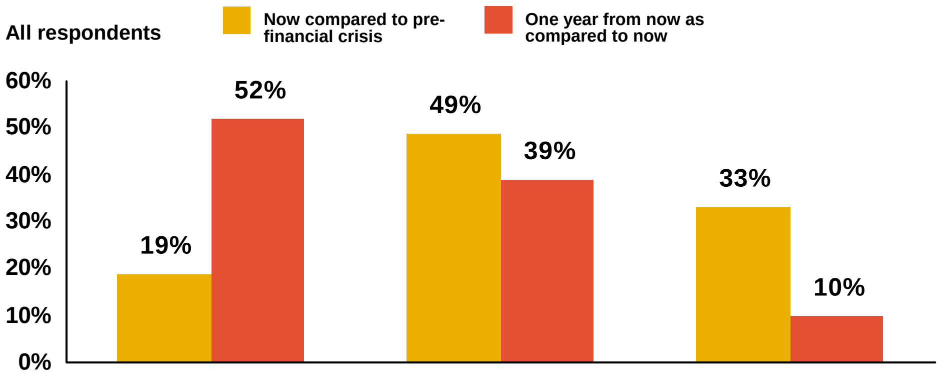
Interestingly, the recession's impact on employee engagement has been mixed, with almost a third of the companies reporting higher levels of engagement than before the crisis and a quarter reporting lower engagement today *(Figure 8).* Given the workforce reductions, pay freezes and other actions taken by many companies last year, engagement might have been expected to suffer. Our findings suggest that organizations can positively influence and sustain engagement even in difficult times, if they pay attention to the right kinds of practices and implementation.

Figure 6. Companies report productivity increases during the crisis and expect this to continue



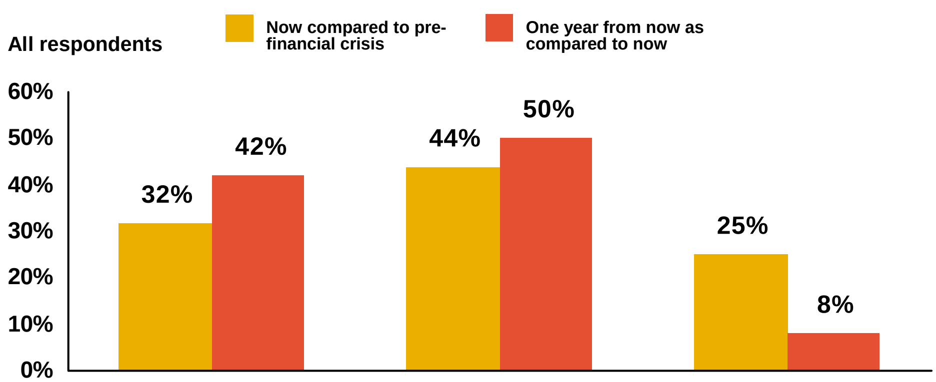
	Higher productivity		About the same		Lower productivity	
Asia-Pacific	51%	56%	44%	44%	5%	0%
Canada	38%	40%	48%	57%	15%	3%
Europe	54%	57%	41%	43%	5%	2%
Latin America	46%	57%	43%	42%	11%	1%
United States	55%	48%	38%	51%	7%	1%

Figure 7. Companies expect retaining key talent to get more difficult, especially in Asia-Pacific



	More difficult		About the same		Less difficult	
Asia-Pacific	27%	73%	57%	25%	17%	2%
Canada	18%	41%	55%	45%	27%	13%
Europe	14%	48%	47%	40%	40%	12%
Latin America	30%	51%	47%	39%	22%	9%
United States	15%	51%	44%	39%	41%	9%

Figure 8. Employee engagement levels prove resilient for respondents



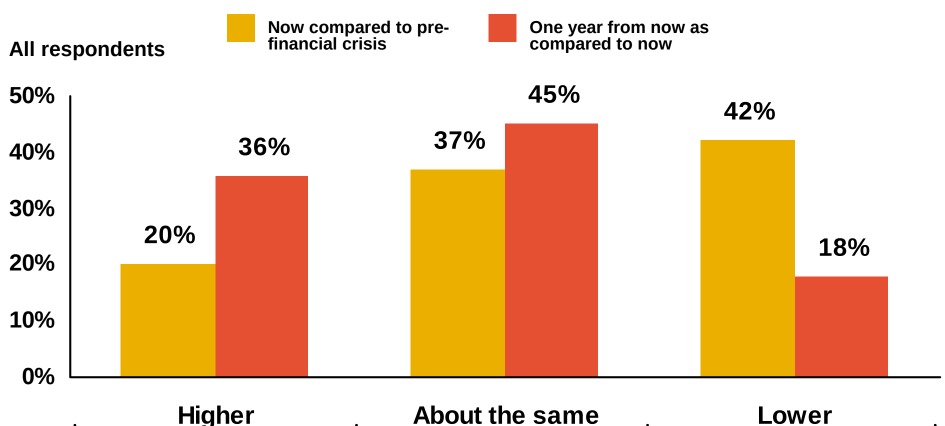
	Higher		About the same		Lower	
Asia-Pacific	27%	54%	52%	38%	22%	9%
Canada	27%	36%	51%	56%	22%	8%
Europe	33%	41%	45%	49%	23%	10%
Latin America	46%	45%	31%	49%	24%	7%
United States	28%	39%	42%	56%	30%	5%

Workforce Programs

More respondents expect their total labor costs to rise than fall in 2010 *(Figure 9).* This marks a reversal from last year, when close to half of these companies reduced their overall workforce spending. Reward programs — among the hardest hit last year — show little sign of significant improvement in the near term. The companies participating in our survey allocated less to merit increase budgets — just 2% at the median for the sample overall, or 3% if you exclude the third of respondents globally that froze pay — while bonuses were also depressed (*Figures 10* and *11*). And employees in many companies (especially in the U.S.) had to pay more for their health care under company-sponsored programs last year *(Figure 12).* Even though most companies expect the employee's share of health care costs to stay the same, employees will have to pay more as the total cost of health care increases in the year ahead.

The survey responses show that companies' sharp focus on controlling benefit costs *(Figure 13)* and managing financial risk and volatility *(Figure 14)* will not abate, although most respondents remain committed to ensuring an adequate benefit safety net for employees. In fact, while roughly 46% of the global sample anticipates an increased focus on benefit cost and risk management, only 35% expect to put more emphasis on benefit security issues *(Figure 15).*

Figure 9. Total labor costs anticipated to hold constant or increase in the next year



	Higher		About the same		Lower	
Asia-Pacific	29%	70%	44%	26%	28%	4%
Canada	26%	40%	33%	45%	41%	15%
Europe	18%	27%	39%	49%	44%	24%
Latin America	21%	29%	45%	54%	33%	17%
United States	15%	34%	31%	45%	55%	20%

Figure 10. Merit increase budgets show a small uptick for 2010

	2008			2009			2010 (forecast)		
	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase	Including 0% increases	Excluding 0% increases	% giving 0% increase
All respondents	3.5%	3.5%	6%	2.0%	3.0%	32%	2.9%	3.0%	12%
Asia-Pacific	5.0%	5.0%	2%	3.0%	3.0%	28%	4.4%	4.5%	2%
Canada	3.0%	3.3%	7%	2.0%	2.5%	29%	2.5%	2.5%	14%
Europe	3.0%	3.0%	4%	2.0%	2.2%	29%	2.0%	2.0%	16%
Latin America	4.1%	4.5%	11%	3.3%	4.5%	26%	4.0%	4.0%	10%
United States	3.4%	3.5%	6%	1.7%	2.5%	42%	2.8%	3.0%	11%

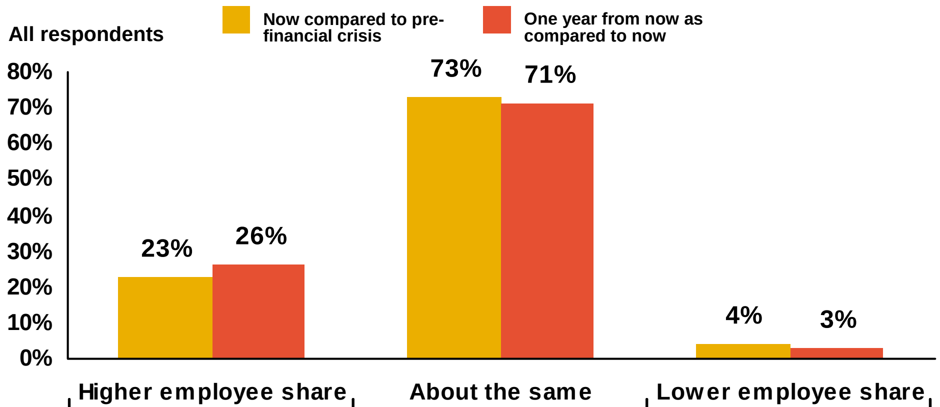
All numbers are medians.

Figure 11. Bonus plan funding levels as a percentage of target are expected to rebound

	2008	2009	2010 (forecast)
All respondents	80%	65%	95%
Asia-Pacific	80%	45%	70%
Canada	90%	94%	100%
Europe	65%	38%	50%
Latin America	100%	90%	100%
United States	80%	60%	100%

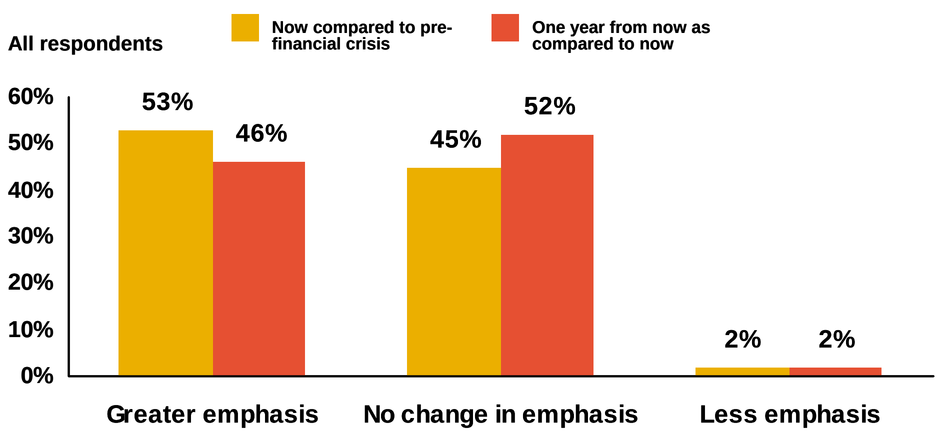
All numbers are medians.

Figure 12. Most companies expect employees' share of health care coverage costs to remain the same



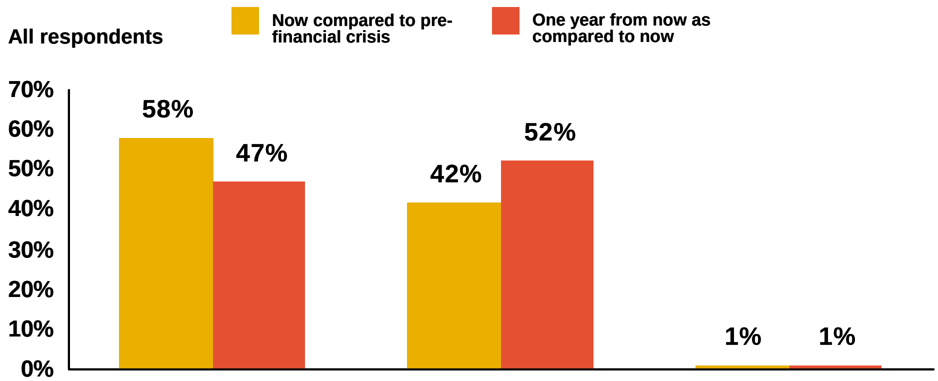
	Higher employee share		About the same		Lower employee share	
Asia-Pacific	30%	40%	67%	53%	4%	7%
Canada	20%	22%	73%	75%	7%	3%
Europe	15%	11%	85%	87%	0%	2%
Latin America	25%	25%	70%	70%	6%	5%
United States	32%	38%	64%	60%	5%	3%

Figure 13. Controlling/reducing employee benefit costs will continue to receive greater emphasis than before the financial crisis



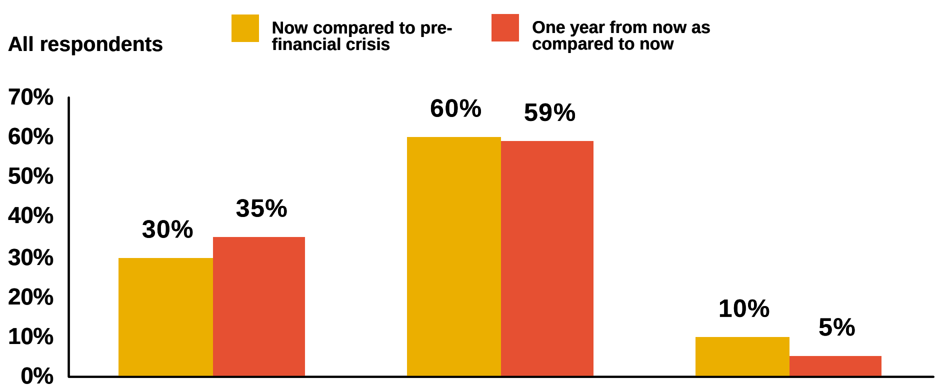
	Greater emphasis		No change in emphasis		Less emphasis	
Asia-Pacific	42%	46%	56%	55%	2%	0%
Canada	51%	38%	48%	60%	1%	1%
Europe	58%	45%	41%	53%	1%	2%
Latin America	50%	45%	47%	50%	3%	5%
United States	57%	53%	42%	46%	2%	2%

Figure 14. Companies have put greater emphasis on managing risk/volatility of employee benefit costs



	Greater emphasis		No change in emphasis		Less emphasis	
Asia-Pacific	40%	51%	58%	47%	2%	2%
Canada	58%	44%	40%	55%	1%	1%
Europe	54%	45%	46%	56%	0%	0%
Latin America	61%	45%	38%	51%	1%	2%
United States	68%	49%	32%	50%	0%	2%

Figure 15. Ensuring that benefits provide security and support for employees continues to remain important (but is less of a focus than cost and risk management, as shown above)



	Greater emphasis		No change in emphasis		Less emphasis	
Asia-Pacific	38%	55%	53%	40%	9%	6%
Canada	23%	30%	65%	61%	12%	9%
Europe	31%	34%	59%	62%	10%	5%
Latin America	40%	44%	50%	54%	10%	1%
United States	21%	28%	69%	67%	10%	5%

Employee Experience

Employees for their part have responded to the economic turmoil and their employers' cost-management efforts in predictable ways, according to our respondents:

- With downward pressure on wages following steep declines in equity markets in much of the world, many employees scaled back on their contributions to company-sponsored defined contribution (DC)/retirement savings plans last year, although employers in most parts of the world maintained their level of commitment (*Figures 16* and *17*). Reductions in retirement plan contributions were most common in the U.S., where almost a third of companies report employees cutting back on contributions, and almost a quarter of the participating companies reduced their contributions. Not surprisingly, the survey respondents expect employees to increase their plan contributions (on average) in the coming year to help make up lost ground.
- Similarly, about a quarter of those surveyed report that their employees for the most part reduced their equity exposure in company savings plans (again, most commonly in the U.S., where almost half of the respondents report such moves). Many companies — more than a third in the U.S. — expect their employees to boost their equity allocations this year *(Figure 18).*
- More than one quarter of the respondents globally and more than half in the U.S. report higher levels of hardship withdrawals from company-sponsored savings/retirement plans last year *(Figure 19).* The level of hardship withdrawals is expected to slow in the year ahead.
- Respondents also report a slowdown in people retiring. More than a quarter of the global sample and half in the U.S. indicated that more employees in their companies were working past their expected retirement age during the recession, a trend they expect to continue to some extent in the year ahead *(Figure 20).* From an employer's perspective, this can be a mixed blessing — ensuring a reliable pool of experience and talent, but also creating internal pressures on career progression and development. In fact, about one in five of the companies surveyed reported added concern about the workforce impact of an increase in delayed retirements *(Figure 21).*

Figure 16. Reductions in company contributions to retirement savings plans relatively rare

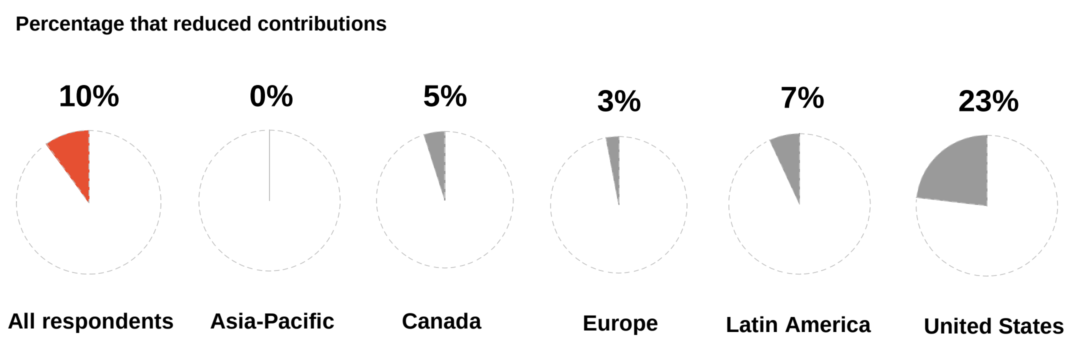
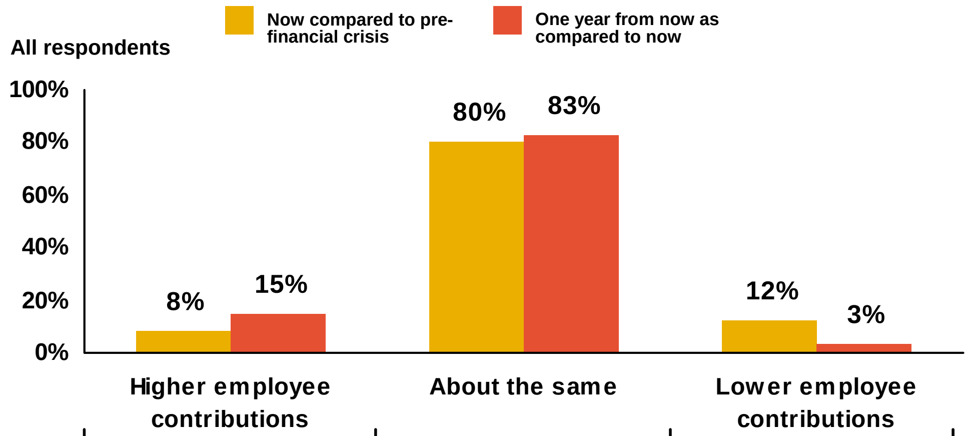
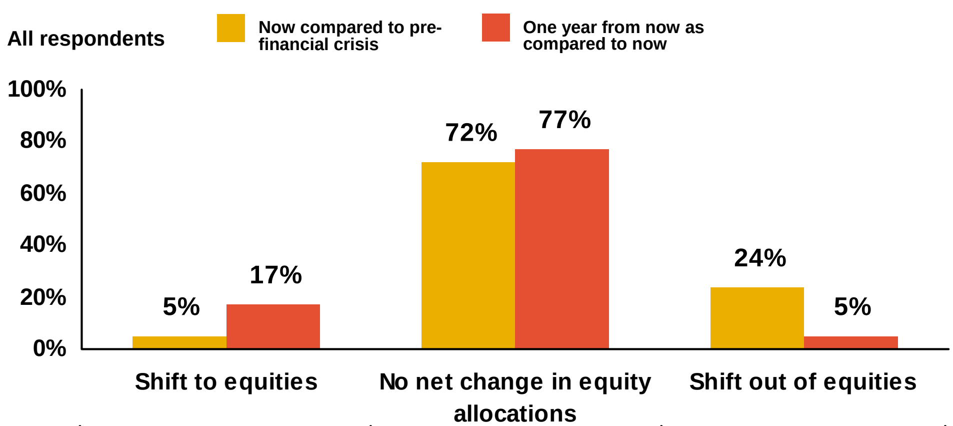


Figure 17. Globally, employee contributions to DC/retirement savings plans remain relatively stable



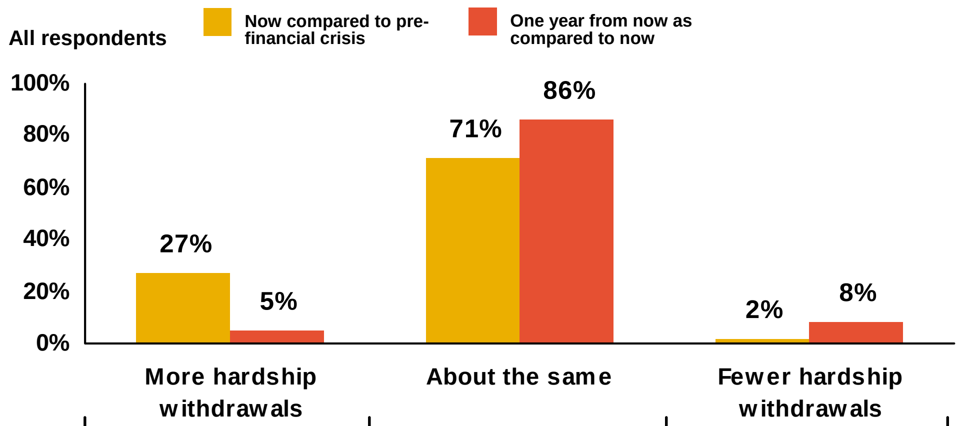
	Higher employee contributions		About the same		Lower employee contributions	
Asia-Pacific	8%	5%	89%	92%	3%	3%
Canada	9%	10%	82%	90%	10%	0%
Europe	8%	9%	92%	88%	1%	3%
Latin America	9%	21%	81%	74%	9%	4%
United States	7%	23%	63%	74%	30%	3%

Figure 18. Shifts in employee asset allocations in DC/retirement savings plans vary by region



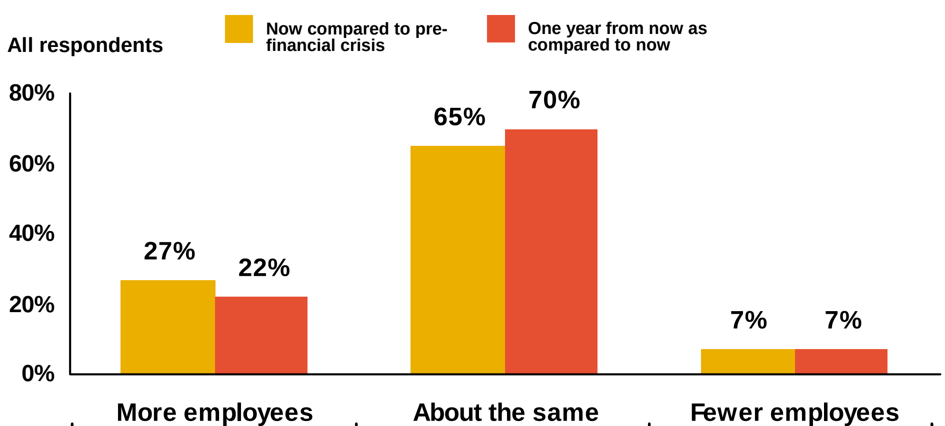
	Shift to equities		No net change in equity allocations		Shift out of equities	
Asia-Pacific	3%	14%	86%	83%	11%	3%
Canada	4%	12%	74%	81%	23%	7%
Europe	5%	4%	85%	88%	9%	8%
Latin America	2%	9%	93%	88%	5%	2%
United States	7%	37%	45%	61%	48%	3%

Figure 19. Employee hardship withdrawals from DC/retirement savings plans are not expected to rise one year from now



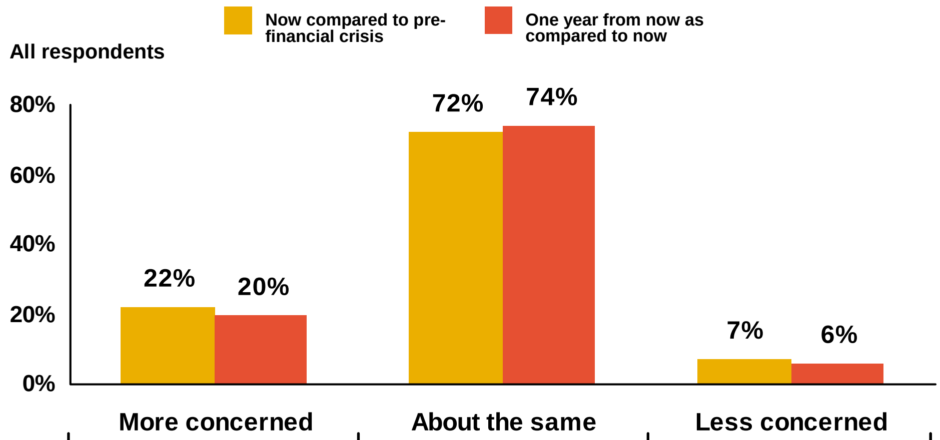
	More hardship withdrawals		About the same		Fewer hardship withdrawals	
Asia-Pacific	16%	6%	79%	89%	5%	6%
Canada	9%	0%	89%	94%	3%	6%
Europe	7%	2%	91%	98%	2%	0%
Latin America	13%	3%	85%	92%	3%	5%
United States	51%	9%	50%	75%	0%	16%

Figure 20. A growing number of workers are postponing retirement



	More employees		About the same		Fewer employees	
Asia-Pacific	24%	20%	69%	71%	8%	9%
Canada	33%	22%	64%	74%	3%	4%
Europe	15%	24%	74%	65%	11%	12%
Latin America	10%	8%	82%	83%	9%	9%
United States	52%	31%	45%	65%	4%	5%

Figure 21. The workforce impact of delayed retirements is a concern for some employers



	More concerned		About the same		Less concerned	
Asia-Pacific	24%	24%	69%	67%	7%	9%
Canada	18%	19%	75%	74%	6%	7%
Europe	23%	24%	75%	73%	3%	3%
Latin America	14%	14%	76%	79%	10%	7%
United States	27%	18%	66%	76%	7%	6%

Looking Ahead

How a strengthening global economy will affect these trends remains to be seen, of course. But, already, many companies recognize the need to make thoughtful investments to retain and engage their existing talent despite the continuing uncertainty about the business climate and the resulting caution about taking on added workforce costs. Notably, for example, relatively few of our survey respondents are reporting pay freezes this year, while merit increases and bonus pools are climbing back toward pre-crisis levels.

However, our recent consulting experience suggests that many organizations may never return to pre-crisis norms with respect to their workforce programs and strategies. In increasingly volatile and competitive world markets, effective cost and risk management will remain a sharp focus for the foreseeable future. Leading companies are likely to staff cautiously, reward carefully and invest most aggressively in leadership, talent management, career development and other aspects of organizational culture that have been shown to help nurture employee engagement and drive enhanced customer focus and performance.

About the Survey

In January 2010, Towers Watson surveyed 459 HR executives around the world about the state of their workforce and their companies' strategic priorities at the beginning of the economic meltdown and today, as well as their expectations for the coming year. Survey respondents represented a broad cross section of industries. Their responses provide new insights into how organizations globally have adapted to and been changed by recent economic turmoil — and about how their continuing evolution is likely to play out.

Regional breakdown

Asia-Pacific	**12%**
Canada	**17%**
Europe	**29%**
Latin America	**16%**
United States	**26%**

Company Revenues

	Total global revenue in 2009 (in US$)
Under $250M	**13%**
$250M to $499M	**9%**
$500M to $999M	**10%**
$1B to $4.9B	**27%**
$5B to $9.9B	**10%**
$10B or more	**16%**
Don't know/prefer not to say	**14%**

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.

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