

# Optimism Reigns . . . Despite Economic Uncertainty in Technology Sector

Prepared by PERSONNEL SYSTEMS

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Signs of the times! An economic downturn has been in effect since the summer and the more recent events this fall have led to an even more uncertain economic situation. In light of this uncertainty, technology companies are facing tough choices regarding their workforce, and if signs of an economic recovery are not soon evident, more difficult choices are surely to follow. A survey conducted by Personnel Systems in October 2001 indicates that technology companies have had to make adjustments in how they operate in the new environment. Although action has been taken on many fronts, the undertone of the survey seems to be one of cautious hope of an economic turnaround. Based upon this hope is the very real desire by companies to maintain a highly skilled workforce so as to take advantage of the turnaround.

Over ninety technology companies from across Canada responded to the survey. Thirty-seven percent (37%) reported sales revenue of less than (\$5) million, eleven percent (11%) \$5 - \$14 million, twenty-six percent (26%) \$5 - \$50 million, thirteen (13%) \$51 - \$100 million and thirteen percent (13%) greater than \$100 million. Fifty-eight percent (58%) of respondents were publicly traded while forty-two percent (42%) were privately held. No significant differences in results could be attributed to company size, geographic location, corporate ownership type or revenue size.

## *What are companies doing about the downturn?*

- ✓ **Salary Increases:** Companies are reducing the magnitude, or delaying salary increases compared to last year, but giving greater focus to performance bonus payouts; sixty percent (60%) of companies indicated that salary increases have been and will continue to be impacted, however companies are still anticipating salary increases next year in the six to seven (6% - 7%) percent range for professional technical staff. Highly skilled or key staff will receive even higher amounts. The compensation mix seems to have taken a stronger direction towards performance bonuses and improved benefits; fifty-four percent (54%) of companies said that performance bonus payouts have not been nor will be affected by the economic downturn.
- ✓ **Stock Option Programs:** Tinkering with stock option programs doesn't seem to be an option, for now; eighty percent (80%) indicate that their stock option

program has not changed, but there was an indication that some companies are reviewing their programs.

- ✓ **Hiring Freezes and Staff Reductions:** Sixty-four (64%) of respondents indicate that they are implementing a hiring freeze. Reducing staff is also a reality, however the results show that only about half (50%) of the respondents say that the economic downturn resulted in or will result in staff reductions. In fact, survey results show that sixty-six percent (66%) of companies are still hiring for selected job categories. The approaches in how companies hire are different, for instance, campus recruiting, job fairs, and open house events seem to be a thing of the past (for now). Important to note is that not all jobs and sectors are experiencing the same impact.
- ✓ **Training:** Fifty-five percent (55%) of respondents indicate that training expenditures and programs have been adversely affected by the downturn. Although there are fewer training dollars available, companies are attempting to use alternate approaches to achieve the same level of training to offset the spending decline.

Clearly, the survey results show that technology companies have had to make adjustments in how they manage their human resources as they maneuver through the economic slump. Results show that some areas have been, or are anticipated to be, more adversely affected than others. Here is a summary of the results shared by companies in the survey.

### *What does the compensation package look like . . .*

**“We have postponed any salary increases until we can recuperate from the recent downturn”**

Salary increase budgets have been undoubtedly impacted by the economic downturn. Sixty percent (60%) of respondents report that salary increase budgets are and will be vulnerable – they will be reduced in magnitude or delayed in implementation; of those, thirty-three percent (33%) indicate that they have already taken action to reduce salary budgets for all staff while forty-five percent (45%) said that they plan to take action in the next six months.

Reductions in salary increase budgets are almost equally affected for both publicly traded and privately held companies; forty-seven percent (47%) of publicly traded and fifty-three percent (53%) of privately held companies report an adverse impact.

However, survey results indicate that not all technology sectors are anticipating significant reductions in salary increases. For example, more biotechnology and software development companies indicate that salary increases are not impacted by the economic downturn.

What makes these sectors different? In many cases, companies are very concerned about retaining their highly skilled staff. Software companies face the reality that shortages of skilled staff remain in their sector. Demand for such skills will continue to keep salary levels high, although the magnitude of increases is slowing somewhat compared to last year. As well, many companies in the bio-tech sector may be in the early product development stage, in which case they may be affected differently by the economic downturn.

Of those who responded that salary increases would be affected by the downturn, sixty-five percent (65%) replied that the reductions would be less than five percent (5%). CompINSIGHT®<sup>1</sup> survey results, which tracks salary data for technology companies, indicates that companies still anticipate salary increases for 2002 of between six and seven percent (6% - 7%) for professional technical and management staff, and three to five percent (3% - 5%) for support staff. In addition, companies are showing additional consideration for 'key employees'. As one participant commented, *"the highest (salary) change a person can get is 5%, but key employees could see increases as high as 10%"*. These increases are no where near the double digit increases that high-technology workers were receiving during the boom years, however, companies appear to be sensitive to the compensation of skilled and key individuals in spite of the downturn.

Also, where salary increases are falling short, performance bonuses seem to be picking up the slack. Fifty-four percent (54%) of participants respond that the economic downturn has not had an impact on bonus or reward programs. And, of those who respond that bonuses are affected, forty-five percent (45%) indicate that the decrease will be less than five percent (5%). Because performance bonuses are based on achievement of results and are less costly overall than salary increases, companies may be using this as an opportunity to reward and retain key performers and highly skilled talent.

**"There will be no salary increases this year. We anticipate making performance bonuses".**

Interestingly, only twenty percent (20%) of surveyed companies indicate that their employee stock option programs are in any jeopardy due to the downturn and indicate plans to review them in the next 6 months. Again, of these twenty percent, more publicly traded companies, fifty-six percent (56%), indicate an anticipated review of their program, than do privately held companies (44%). A likely explanation is that publicly traded companies are directly affected by market fluctuations, in which case they would need to evaluate their program more closely. Further, only ten percent (10%) of

biotechnology, and seven percent (7%) of software development companies indicate their stock option program is affected by the downturn.

Here are some of the possible changes companies are considering in their program reviews:

- ❖ “grants at the new lower price” (re-pricing)
- ❖ “freeze the number of options at the current level”
- ❖ “increasing the number of times that stocks are granted”

Benefits programs have not been affected by the downturn, according to seventy-seven percent (77%) of the respondents. In fact, there are companies that are implementing more benefits to offset the reductions in salary increases. Introducing a group RRSP and EAP were provided as examples. However, twelve percent (12%) of participants do plan to review the benefits program in the next six months. In addition, companies indicate, that in an effort to decrease plan costs, some have undertaken to renew their plans with a different insurance carrier.

### ***Staffing and Recruiting . . . have strategies changed ?***

The hiring craze has indeed faded out of the spotlight as companies re-evaluate their human resources requirements in the new economic environment, but that may not be the case for all technology sectors. Sixty-four percent (64%) of the surveyed companies agree that the economic downturn resulted, or will result in a hiring freeze, and the survey results show that the majority, seventy-eight percent (78%) of companies have already taken action to freeze hiring across the organization. However, it is important to note that twenty-seven percent (27%) of respondents indicate that the hiring freeze is mostly directed at non-critical business areas.

**Sixty-six percent (66%)  
still hiring . . .**

Interestingly, forty-nine percent (49%) indicate that the economic downturn has caused lay-offs, but sixty-six percent (66%) respond that they are currently hiring despite the downturn. The sectors that are doing more hiring than reducing or freezing staff are biotechnology, e-commerce and software development.

The chart below is a sample of survey results by technology sector and the percentage of respondents who replied to the following questions:

Technology Sector	Has the economic downturn resulted or will it result in a staff reduction (lay-offs)?		Has the economic downturn resulted, or will it result in a hiring freeze?		Despite the economic downturn, is your company currently hiring?	
	Yes	No	Yes	No	Yes	No
Bio-tech	30%	70%	50%	50%	70%	30%
E-Commerce	50%	50%	50%	50%	100%	0%
S/W Development	39%	61%	57%	43%	61%	39%
Telecomm	86%	14%	86%	14%	43%	57%
Manufacturing	56%	44%	55%	45%	56%	44%
IT Consulting	67%	33%	83%	17%	50%	50%

The forty-nine percent (49%) of surveyed companies that confirm that they have had to reduce staff due to the downturn, indicate that they reduced their staff to a greater degree in non-critical business areas as follows:

<u>Type of staff</u>	<u>% of respondents</u>
Contractors/temporary	58
Administrative	58
Support i.e. H.R., Finance etc.	58
Technical	34
Professional technical	47
Managerial	49
Executive	24

The results also show that the decrease in staff is five percent (5%) or less for all areas. At the same time, the results also indicate that thirty-three percent (33%) of respondents say that they had cut their contractor/temporary staff by more than ten percent (10%), and twenty-two percent (22%) indicate they have done so for support staff such as Human Resources, Finance, etc.

Although hiring is not as prominent as it has been in past years, some technology sectors such as biotechnology, software development, e-commerce are engaged in finding new people for their organizations. Demand for technical and professional technical staff still exists; for example, thirty-eight percent (38%) of those companies

**“... hiring technical or professional technical staff if we have a long-term requirement.”**

still hiring, indicate they have already hired and/or are planning to hire technical staff and fifty-four percent (54%) indicate the same for professional technical staff. The overall anticipated increase in hiring, however, seems to be hovering around five percent (5%).

Although recruiting is still going on, the approach to recruiting seems to have changed. Half (50%) of the respondents say that recruiting strategies have changed since the economic downturn; for example, fifty percent (50%) have suspended campus recruiting, fifty-six percent (56%) have stopped participating in job fairs, and forty-six percent (46%) do not have open house events. Many companies also indicate that they have de-emphasized the use of headhunters and agencies in their recruiting efforts.

The economic downturn has, also altered how companies are attracting new hires. For example, significant signing bonuses, the norm in technology sectors in the past few years, are now in question. Twenty-six percent (26%) of companies say that they have suspended signing bonuses, and twenty-two percent (22%) will no longer offer relocation costs.

### ***Training . . . how are technology companies coping?***

In an effort to reduce costs, the majority of participants (55%) indicate that their training budget has been reduced in response to the economic downturn. Companies, however, are divided on how training is affected; for example, forty-three percent (43%) reply that they have taken action to freeze training for non-critical business areas, while forty-three percent (43%) say they have reduced the training budget overall.

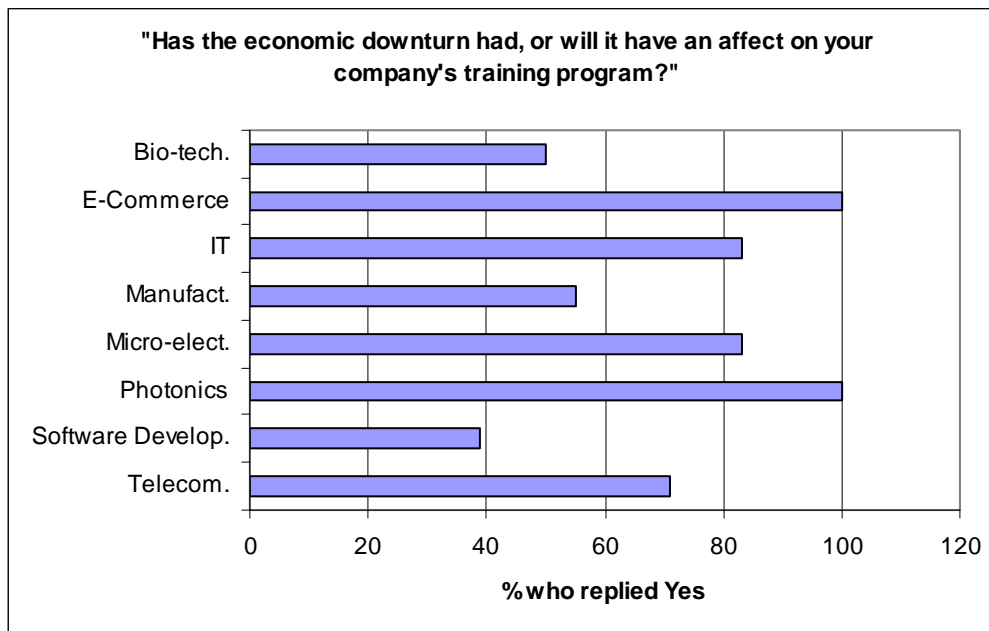
**Technology companies making concerted effort to continue training.**

Training and development is critical long-term to employers and employees alike in the technology sector. Companies in the survey seem to be making concerted efforts to continue with training programs. It does not seem that training has altogether been halted, rather, it would seem that companies are trying to find other cost effective ways to train their staff. For example, instead of using outside training resources, companies are using in-house trainers and programs. Also, the survey results show that training with associated travel costs is affected; sixty-three percent (63%) of respondents say that they have already taken action to reduce this type of training. And, companies indicate that stricter approval processes have been imposed on training; for example, one respondent said that “training must be approved by the senior departmental executive”.

For those where the training budget has been or will be reduced due to the economic downturn, twenty-seven percent (27%) say that the reduction will be greater than twenty-

five percent (25%). More privately held companies, fifty-three percent (53%), than publicly traded companies (47%) indicate that training was affected by the downturn.

Again, it must be noted that not all technology sectors are reducing their training budgets. The graph below indicates that fewer companies in software development have reduced training (39%) compared to the other technology sectors.



### ***What about other cost cutting measures ...?***



Undoubtedly the effort to cut costs while still maintaining as much of their skilled workforce as possible seems to be the focus today for most of the surveyed companies. Although traditional cost-cutting measures have been applied, some companies are trying new and creative means to reduce costs. Here are some of the examples provided by participants:

- ❖ **voluntary vacation with company enhancement – i.e. employees takes 5 days vacation, company adds 2 more”**
- ❖ **“freeze on travel unless it results in a sale”**
- ❖ **“ask staff to take one week unpaid vacation”**
- ❖ **“freeze on entertainment expenses and travel”**
- ❖ **“reduced participation in trade shows”**

## ***Conclusion***

While companies in the technology sectors clearly indicate that they have had to make tough choices in response to the economic downturn, there nonetheless appears to be a glimmer of optimism. Yes, there have been cuts in jobs, reductions in salary increases, shrinkage in training budgets, but at the same time there are technology sectors that are still hiring, going ahead with salary increases, paying performance bonuses, enhancing the benefits program and finding other ways of delivering training. Obviously strong measures have been taken by companies to cut operating costs, but the cuts seem to have been focused and carefully planned so as not to affect the long-term viability of the company.

Only a clearer picture of the economic situation will determine if companies are able to continue this 'poised for the upturn' approach or if more significant action is required.

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1. Source: compINSIGHT® High-Tech Compensation Survey, compINSIGHT® IT Compensation Survey, compINSIGHT® Bio-Tech Compensation Survey. [www.compinsight.com](http://www.compinsight.com)