

A Technology Turnaround?

Perhaps closer than we think!

Prepared by PERSONNEL SYSTEMS and compINSIGHT®

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Introduction

Personnel Systems conducted a survey of technology companies across Canada during late September to mid-November to obtain a pulse on how companies are conducting business during the current economic conditions and their strategic plans going into 2004. The survey specifically focused on planned staffing/hiring activities, salary budget increases and stock options plans.

The survey results from the approximately one hundred and fifty companies from across Canada clearly show, that although technology companies continue to remain somewhat cautious with both salary budgets and hiring plans, there is some good news. While most companies have experienced a significant reduction in the size of their workforce since 2002, there are definite encouraging signs that lay-offs and hiring freezes are finally at an end and a significant number of companies are planning to hire within the next six months. As well, companies are definitely planning to increase salaries in 2004 and to higher levels than they did in 2003. The key, however, is strategic targeted changes in only those areas that will contribute to the goals of the organization - across the board adjustments are not in the cards.

Survey Highlights

Hiring Plans:

It comes as no surprise that sixty-two percent (62%) of companies indicate they have fewer employees now than in January 2002. However, it appears that the corner may now have been turned in that only thirty-six percent (36%) still have a hiring freeze in place and only eighteen percent (18%) anticipate the possibility of any further staff reductions in the next 6 months. The good news is that the majority of companies indicate plans to begin hiring in early 2004!

Seventy-One percent (71%) of companies indicate plans to hire in first half of 2004!

Of those hiring, the following is the breakdown as to the types of jobs they are looking to recruit (percentage of companies planning to hire in each category):

- 71% professional technical
- 52% technical staff
- 32% management positions
- 30% support/administrative staff
- 29% contractors or temporary staff
- 14% executive.

Although, companies are planning to hire in the next 6 months, they are being prudent. Most indicate hiring levels somewhere below two percent (2%). As indicated in Table 1 however, the focus for many organizations will be on the recruitment of technical and professional staff rather than administrative and support staff, management and executive staff:

Table 1: Percentage of companies planning to hire in the next 6 months

Employee Category	Anticipated new hires as a percentage of current staff levels			
	0-2%	3-5%	6-10%	>10%
Admin. and Support Staff	32%	6%	3%	2%
Technical Staff	29%	23%	5%	2%
Professional Technical Staff	39%	26%	9%	2%
Management	35%	4%	-	-
Executive	21%	-	-	1%

The increased hiring of technical staff in comparison to administrative/support staff is not unexpected. Companies in the technology sector rely on their technical staff to stay competitive. On the other hand they will attempt to keep administrative and support to a minimum in order to minimize bottom line costs.

It has been widely assumed that skill shortages in the technology sector have disappeared over the past couple of years as companies have reduced their staff. In fact the shortages have not disappeared they have only been masked by a somewhat lesser demand in the last couple of years. **The skill shortages are likely to well reappear as soon as companies begin to hire again.** The survey results substantiate this. Twenty-four percent (24%) of companies have expressed difficulty in hiring staff with special skills, seventeen percent (17%) professional technical staff, and thirteen percent (13%) executive and management staff. But only eight percent (8%) are experiencing the same difficulty in hiring technical staff and only two percent (2%) of surveyed companies are having trouble filling administrative/support positions.

Biotechnology/Pharma companies are having the most difficulty in finding special skilled staff (38%), professional technical staff (28%) and executive level staff (25%). This difficulty reflects the reality, particularly for Bio-tech companies, that recruitment must take place on an international scale. As companies reach the point of commercializing their products, the skill sets sought are in small supply within the Canadian market.

Biotechnology & Pharma indicate more people employed now than in January 2001 but express difficulty finding required skills

Geographic differences also exist for companies expressing difficulty in finding the skills sets they desire. Forty-seven percent (47%) of companies in the Toronto (GTA) area are having a difficult time in hiring special skilled staff, forty-three percent (43%) in Montreal, thirty-three percent (33%) in British Columbia and twenty-one percent (21%) in Ottawa.

It is also interesting to note that not all sectors and not all geographic areas were impacted the same in the past couple of years. As such, it is reasonable to assume that not all will recover at the same pace either. For example:

- Sixty-eight percent (68%) of Montreal companies and sixty percent (60%) of South-Western Ontario companies described their headcount to be higher now than in January 2001.
- Most notably, the Biotechnology/Pharma sector is the only sector whose headcount is higher than in January 2002 – twenty-eight percent (28%) of Biotechnology/Pharma companies have more employees today than they did in January 2002.
- One hundred (100%) survey respondents in the IT Consulting sector, eighty-three percent (83%) of Aerospace and Defence companies, seventy-eight percent (78%) of Telecom companies and seventy-five percent (75%) of Microelectronics/Photonics companies have lower headcounts than in January 2002.
- A significant number of companies, forty-eight percent (48%), indicate their headcount changed by less than 10% since January 2002, 28% by 11 – 20%, 14% by 21-30% and only 13% by more than 30%.

It should be mentioned that of those companies indicating they currently have a hiring freeze or those who still anticipate the possibility of lay-offs, most did not yet know with any certainty when this situation would change or how significant the lay-offs would be. The common indication is that they would wait and re-assess the economic conditions in January and February before making any decisions.

Salary Budget Increases

Contrary to predictions entering 2003 of restricted or non-existent budgets for salary increases in the technology sector, seventy-two percent (72%) of surveyed companies did increase salaries in 2003.

On average, the majority of companies increased salaries by three to four percent (3 – 4%) for all employee groups. However, as is evident in Table 2, the size of increase did vary depending on the employee category.

Table 2: Percentage of companies giving 2003 salary increases by Employee Category

Employee Category	Percentage of 2003 Salary Increase			
	0-2%	3-4%	5-6%	>6%
Admin. and Support Staff	22%	57%	14%	7%
Technical Staff	11%	64%	17%	8%
Professional Technical Staff	9%	60%	19%	12%
Staff with Special Skills	16%	52%	20%	12%
Management	13%	59%	20%	8%
Executive	18%	51%	19%	12%

Professional technical and staff with special skills have experienced higher increases than management, administrative and support staff. Similar to the trend already identified in the hiring plans of companies, these findings are not surprising. Technology companies are aware of the importance to the success of the business in retaining skilled technical staff and instinctively know that as the market continues to recover companies will be once again fiercely competing for a small pool of highly technical skills. Staff retention therefore, is just as important when the economy constricts as it is attracting new hires in growth periods.

Biotechnology/Pharma were identified as one of the sectors that has continued to hire throughout the past year and that were experiencing difficulties in recruiting skilled staff in the special skilled and professional technical staff areas. This has translated into Biotechnology, along with the Software sector, to be the only ones providing increases greater than four percent (4%) in 2003.

Biotechnology/Pharma and Software - only sectors to give salary increases greater than 4% in 2003.

Again, results vary by geographic area and industry sector. For example:

- Only fifty-four percent (54%) of companies in the Ottawa-Hull region adjusted salaries upwards in 2003. Ottawa-Hull continues to cope with the huge number of lay-offs

experienced over the last two years from significant corporate downsizing and closures such as JDS, Nortel, etc. and the fact that the presence of some large companies had pushed local market rates higher than appropriate for current market and economic conditions.

- Seventy-eight percent (78%) of companies in British Columbia, seventy-nine percent (79%) in Montreal, eighty-four percent (84%) in Toronto, and 90% in South-Western Ontario increased salaries in 2003.
- Only fifty-six percent (56%) of companies in Microelectronics/Photonics, sixty-six percent (66%) of Manufacturing companies and twenty-two percent (22%) of Telecom companies increased salaries in 2003
- Eighty-five percent (85%) of Biotechnology and seventy-five percent (75%) of Software companies increased salaries in 2003.

What is expected in 2004?

There seems to be more optimism for 2004 towards salary increases, even from those sectors that have been less likely to give increases in 2003. For example, companies in Ottawa-Hull are also more likely to be planning increases in 2004; 64% are planning to increase salaries in 2004, up from the 56% of companies that indicated they gave increases in 2003. The change in approach is consistent with the indication that most organizations will begin to hire in the first six months of the New Year. Companies want to ensure that they can retain skilled staff already in place as other organizations begin to hire and they want to be competitive in attracting the skills they themselves need to recruit.

Overall, companies anticipate granting salary increases in 2004; eighty percent (80%) indicate they plan to increase salaries for all employee categories. Table 3 shows that the majority of surveyed companies plan to continue to increase salaries by another three to four percent (3% - 4%) as they did in 2003, for all employee categories. The trend of higher increases for both professional and special skilled technical staff continues in 2004. As shown in Table 2 twelve percent (12%) of companies say they plan to increase salaries by five to six percent (5% - 6%) for these skilled employees – again a larger increase than any other group. Other recent studies conducted by Personnel Systems and compINSIGHT® indicate that an even more detailed analysis will show that more senior and experienced levels within these categories may receive even higher increases than the five to six percent (5% - 6%) versus entry levels within the same category.

Table 3: Percentage of companies giving 2004 salary increases by Employee Category

Employee Category	Percentage of 2004 Salary Increases				Don't Know
	0-2%	3-4%	5-6%	>6%	
Admin. and Support Staff	19%	50%	6%	1%	23%
Technical Staff	16%	53%	7%	2%	23%
Professional Technical Staff	14%	53%	8%	2%	23%
Staff with Special Skills	12%	49%	12%	3%	24%
Management	15%	52%	7%	1%	24%
Executive	17%	43%	10%	2%	27%

“continue to monitor so that our salaries are competitive.”

However, it is important to note that while most companies are planning increases for 2004 and continuing to target those employee categories that are most important to the achievement of company goals, they are also being cautious about the amount of increases. Table 3 clearly indicates that fewer companies have budgeted increases in the five to six percent (5% - 6%) than actually gave that level of increase in 2003. The number of companies who do not know by how much they will raise salaries further evidences this cautious nature. Many organizations indicate that they will continue to monitor the market, make adjustments as necessary to remain competitive and stay within their corporate ability to pay.

A significant change in how compensation and salary levels will be managed was evident from the survey results. A much greater focus was expressed on more effective management of their total compensation plan and the relationship between employee performance and compensation, better relationship between compensation and the responsibility of the job, resulting in better internal equity as well as competitiveness with the outside market.

“ planning our performance evaluation process so we can better identify our outstanding employees.”

The overheated market of a few years ago resulted in many companies merely responding to the market and not having the time or ability to ‘manage’ their compensation systems effectively. The survey found that companies have directed attention to a total compensation strategy that includes more formalized measurements of performance and salary structures. It is clear that many companies have learned from past experience and when asked what other Human Resource or financial changes they are planning in the next calendar year, a number of companies responded by saying they are evaluating bonus/incentive schemes, reviewing or designing a formal performance management system, implementing a job

evaluation system and developing formal salary ranges in an effort to ensure that they can better identify and reward “outstanding employees” and ensure internal equity.

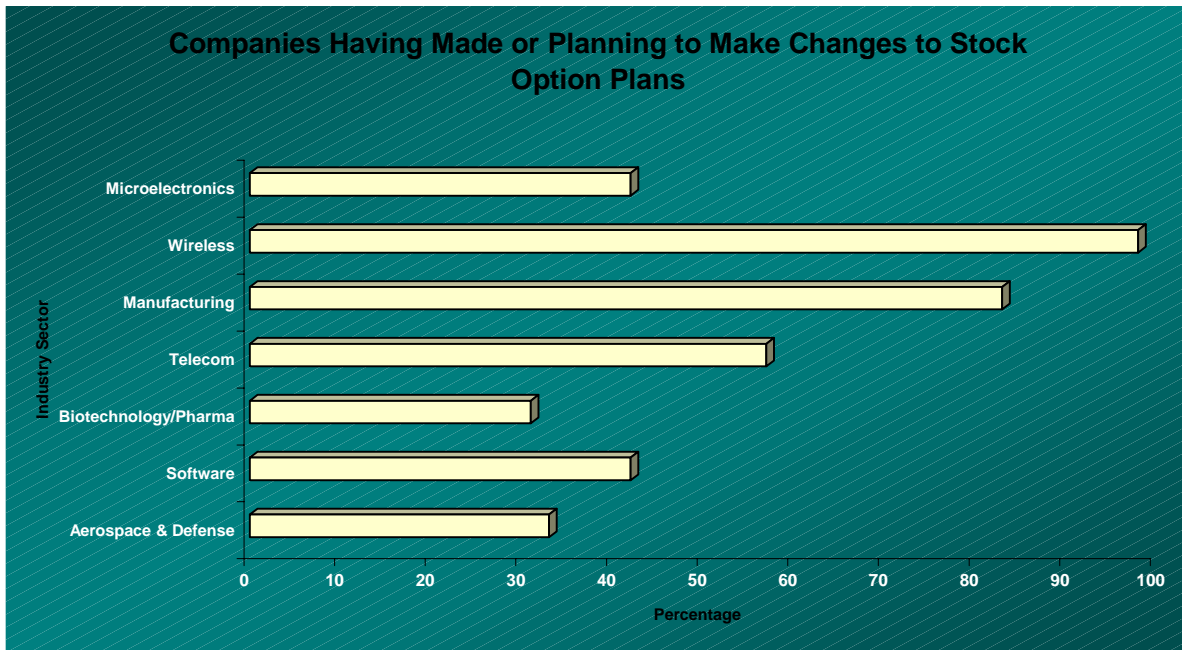
Stock Options – has their importance diminished?

During the technology boom stock options became a central part of total compensation. Both companies and employees saw stock options as highly desirable forms of compensation. Often options were given instead of cash. The approach lessened the need for short-term cash by companies, and employees were willing to accept the lower cash payment with the anticipation of a much higher payout through their options. Unfortunately, most technology stocks have taken a beating over the past couple of years and employees have realized that the risk they accepted will not pay off.

Despite the market downturn, the survey found that seventy percent (70%) of companies continue to have a stock plan. The results of the survey show that while companies continue to use stock option plans, they may not be as important a component in the overall compensation mix as was previously the case. That is, only eleven percent (11%) indicated that the role of the stock option plan is very important with regard to the company’s total compensation strategy. The majority, fifty-three percent (53%) of companies, indicated that it is important, but only as one part of total compensation, and in fact, twenty-five percent (25%) of companies would describe their plan as neither important nor unimportant. Noteworthy is the fact that eleven percent (11%) went on to say that they are rethinking the overall importance of their plan.

When analyzing the data by technology sector the results show that software companies are more likely to be rethinking the importance of the stock option strategy than any other sector; 25% of Software companies with a stock option plan indicated that they are rethinking its overall importance compared to only 1% of Biotechnology/Pharma companies, and 8% of Microelectronic/Photonics companies.

Table 4: Stock Option Plan changes by Technology Sector



Although the majority of companies continue to use stock option plans, fifty-six percent (56%) of companies indicated they have made changes to their stock options plan in 2003 or intend to do so in the next year. These changes focus on attempting to retain the competitiveness of the overall compensation package in the eyes of current and future employees. Companies that have made changes to the plans indicate the following types of changes:

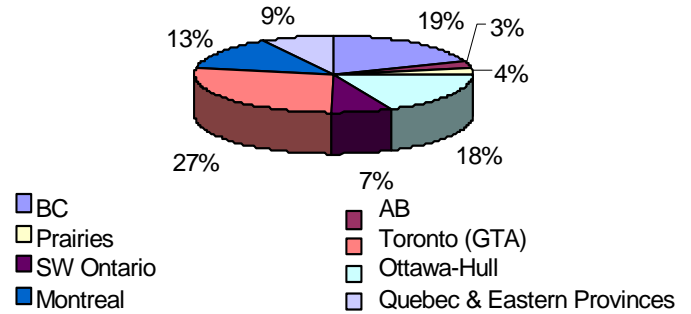
- Issued new ones (25%)
- Re-priced (16%)
- Changed the vesting requirements (16%).

There is also some sense that companies that did not change their stock option plan design made additional adjustments to their cash compensation – raised it higher to offset the negative results of their stock option plans. To some degree this may account for the larger than anticipated salary increases in 2003.

Demographics:

Approximately one hundred and fifty technology companies from across Canada responded to the survey. Forty-two percent (42%) are publicly traded while fifty-eight percent (58%) are privately held. Thirty-five percent (35%) report sales revenue of less than (\$5) million, twenty-two percent (22 %) \$5 - \$14 million, eighteen percent (18%) \$5 - \$50 million, nine percent (9 %) \$51 - \$100 million and sixteen percent (16 %) greater than \$100 million.

As the chart shows, respondents were located across the country. Moreover, there was good response from companies in different technology sectors notably, Software (31%), Biotechnology/Pharma/Life Sciences (28%), Microelectronics/Photonics (11%), Manufacturing (8%), Telecom (6%), and Aerospace & Defence (4%). No significant differences in results could be attributed to company size, or corporate ownership type.



Conclusion

There clearly are signs of a recovery in the technology sector. But, caution continues to prevail. Hiring is starting to occur, but strategically – concentrating on professional and special skilled staff. Lay-offs and staff hiring freezes have slowed. And, although salary increases are not in the double digits, they nonetheless occurred in 2003 and are planned for 2004. Companies also seem to be more reflective about their performance systems and compensation strategy and how it can better motivate, reward and ultimately retain top performers and special skilled staff.

While spending continues to be modest it appears that companies are planning to reintroduce programs, which they had cut in previous years such as, RRSP employer’s contribution, benefits, and training.

In summary, there are signs the technology sector is making a much-anticipated turnaround. Although companies are being financially prudent, salaries are moving upwards again and there is renewed interest in hiring.

About Personnel Systems and compINSIGHT®

PERSONNEL SYSTEMS is a consulting firm specializing in management of Human Resources. Our mission is to help organizations to develop and maximize return on their intellectual capital. compINSIGHT® is a division of PERSONNEL SYSTEMS focused on providing the most current and reliable databases of market intelligence on compensation and strategic human resource issues. See www.compinsight.com or www.perssyst.com for more information.