

Employment: The Shift in Demand for HR Services Under Crisis Conditions

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These days every Russian industry is feeling the impact of the economic crisis.

The first quarter of 2015 is coming to an end. In the pages of tabloids, readers may chance the miscellaneous survival story along with a lackluster development forecast. In this article, we examine how this situation affecting the labor market.

Since the end of 2014, the labor market has been playing a watching and waiting game, even in traditionally strong industries (i.e. pharma, retail, etc). In spite of the business community's gloomy expectations for the first quarter of 2015, results appear to be not so bad. However, it is possible many companies are waiting till the end of the first quarter to decide whether to suspend or decline projects.

If the current circumstances are compared to events in 2008, there has not been the same massive short-term reduction in staff. Today employers are taking a very cautious approach to layoffs, sometimes cutting C&B (compensation and benefits) and bonuses in order to retain personnel.

In general, the market response to the crisis is also somewhat in contrast to traditional expectations. Demand is growing significantly for some services, while for others it is noticeably decreasing. In such an environment, it is not possible for prices for HR services to remain static.

For example, there has been a significant reduction in the number of recruitment drives, together with the «freezing» or annulment of existing recruitment projects. Up until 2008, prices for HR recruitment services were calculated according to the annual gross income base of hired personnel (salary, bonuses, etc), which amounted to around 23 to 25 percent. After 2008, this service rate decreased to between 18 and 20 percent (depending on the region)

and was calculated on an annual salary basis only. In the current market conditions, HR service providers are offering flexible rates in order to keep prices and business competitive. Therefore, it is difficult to discern average prices in the market for HR services.

Outplacement services (efforts by firms to help former employees transition to new jobs) can be viewed as an economic crisis indicator, because demand dynamics for these services are directly tethered to the reduction of staff. In the 4th quarter of 2014, demand for outplacement services grew significantly. By contrast, in 2008 many clients were unaware of this particular HR service. Now, however, outplacement services are well known. Moreover, earlier requests for such services applied to just 1 or 2 employees per firm. Now, it's being requested for a wide range of employee positions (from junior specialists to top managers). According to our statistics of services rendered, the share of successfully transferred personnel has increased significantly.

Demand by clients for the outsourcing of HR activities (HR administration and record keeping, Payroll, etc.) is also experiencing an upward trend. In this way, despite the difficult conditions clients can maintain an uninterrupted and professional standard of HR. This is perhaps less expensive than employing in-house HR specialists (especially for smaller firms). The growth in demand for outsourcing may also be connected with recently tightened labor legislation, which has made penalties for violations of HR administration more severe. In general, HR activities are becoming an integral aspect of the outsourcing market, which consists not only of accounting services, but also complex HR processes (such as recruitment) and the outsourcing of administrative functions mentioned above.

Outstaffing traditionally receives high levels of demand as a cost saving tool during times of crisis. It enables greater control of expenditures on personnel, a way to sustain workload volumes, a reduction of necessary office space. Unsurprisingly, clients are requesting for the calculation of outstaffing commissions as a flat sum, and not as a percent rate based upon salaries as before. This percent rate itself has sunk by at least 20 to 25 percentage points in comparison with 2008. This abrupt decrease was spurred on by competition from shadow companies operating in the same market, which has also adversely impacted the quality of the services. But in spite of this, the longstanding and merited reputation of the consulting business is keeping its ground. Although clients search for the lowest prices for services, they still strive for the highest quality—therefore, the importance for professionalism is in fact growing.

In sum, even crisis conditions present the new opportunities, which must be acted upon in order to keep and increase the flow of business.

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