

September 2009

HR barometer*

PwC Summary of results

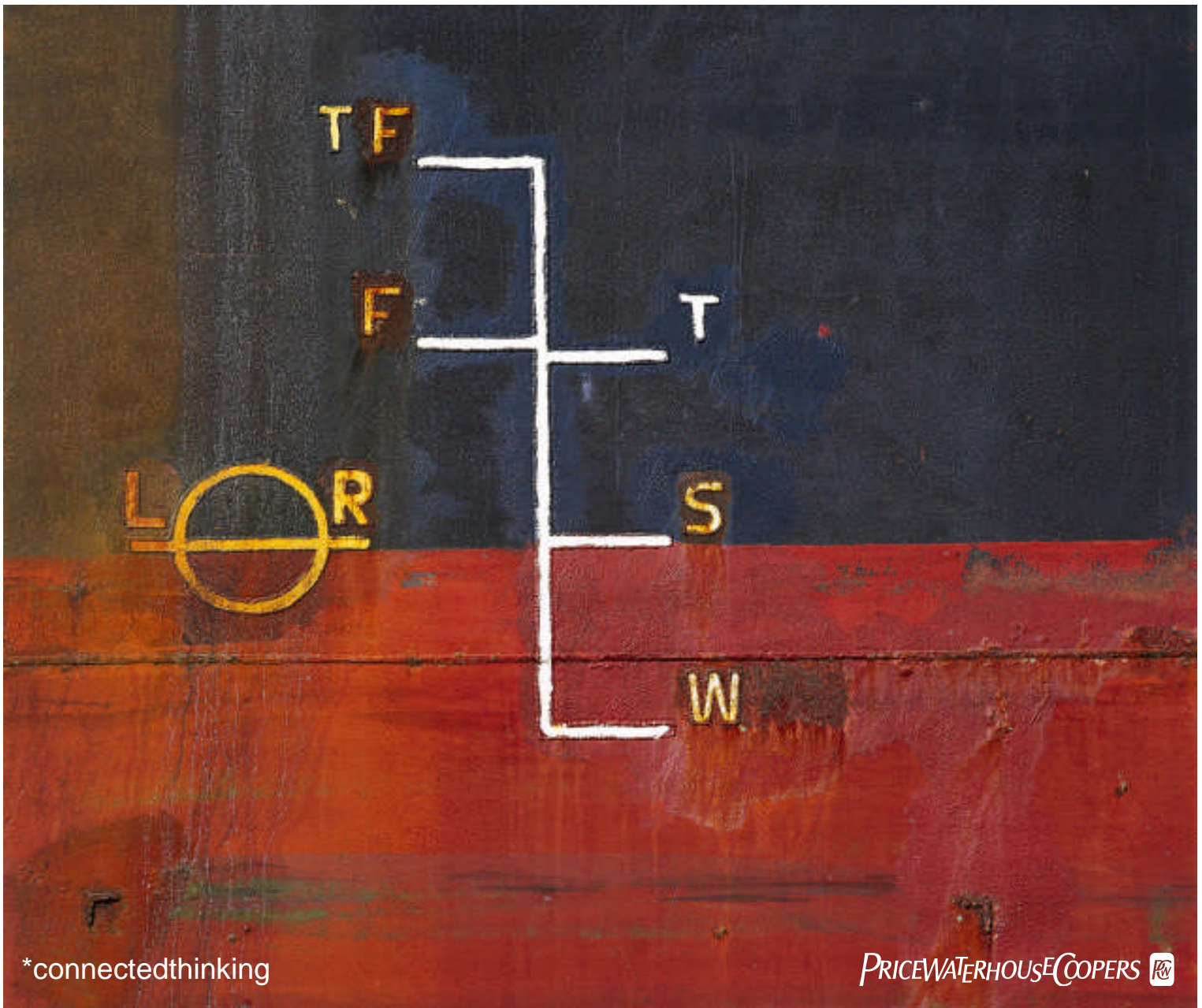


Table of contents

01 Executive Summary	3
02 Selected survey results	5
I Measures in the HR area for mitigating the negative influence of global financial crisis on the company.....	5
II Optimisation of HR costs.....	6
1. General overview	6
2. Measures in compensation area	7
2.1. Modification in remuneration structure	7
2.2. Modification in employees` base salaries.....	8
2.3. Modification in short-term incentives	9
3. Modifications in provision of benefits.....	11
4. Corporate events costs.....	12
5. Travel costs.....	12
6. Learning and development costs.....	12
7. Recruitment costs	13
8. Other measures listed by the companies	13
III Headcount optimisation.....	14
1. Headcount reduction.....	15
2. Formal means of dismissal that companies plan to use	16
3. Support offered by the companies to employees terminating employment.....	16
IV Expectations / forecasts in respect of changes and trends in the Serbian labour market in 2009..	17
03 Definition of terms	18
04 Disclosure practice for numerical data	18

01 Executive Summary

During the current period of global financial crisis, companies are taking measures to protect their financial position. In this respect, many companies are considering optimising their expenses in all parts of their business, including the HR area.

In the following sections we present selected results of our survey. Detailed report is available to participants only.

In order to provide some insights on the current trends in this area, PricewaterhouseCoopers has launched a survey series among domestic and foreign companies with operations in Serbia. This is the second survey conducted this year and was conducted during a four week period ending mid August. The first survey took into account data from February and March 2009. Fifty companies took part in this second round.

Being in a position to gather information from HR managers and directors from many companies during the survey process, both at the beginning of the year and in August, we have a unique opportunity to present an analysis of how attitudes towards financial crisis have developed. At the beginning of the year many companies had still not defined or broadly implemented any specific HR measures to address the economic situation: they were generally waiting to consider a response from Group HQ, or had implemented some “test” measures.

However, as opposed to this “wait and see” attitude from early in 2009, the August survey update was conducted in a significantly different atmosphere. Companies have recognized and acknowledged the change in global financial conditions as something which is not a short lived phenomenon but is potentially a longer term issues and there is a requirement to define and implement measures to minimize its impact on business.

Generally, our survey shows that measures that were implemented at the beginning of the year remain active. Indeed some of the measures have become stricter during the past months. For example, at the beginning of the year companies were still more optimistic with respect to planned changes in remuneration – there were plans to increase total bonus budgets and less companies were making decision to reduce the salaries.

However, despite an acknowledgment of the crises and its indefinite character, the tools that companies are using to react and the types of measures implemented are very similar in February/March and August.

The costs reduction strategies within the HR sphere are still primarily focused on services and support provided to employees – e.g. reductions in travel, learning and development and corporate events costs, rather on salaries. For salaries, the reaction tends to be a freeze as opposed to broad reductions (one quarter of respondents).

The widespread measure for headcount optimization is a recruitment freeze. Together with the second most frequent option – headcount reduction, these have a powerful effect on the labour market. Employees are less mobile, which brings the retention issue down at the list of HR priorities.

Companies usually reduce the number of employees as a result of process optimization, and use the agreement of both parties as formal means for employment termination.

To date, companies have tended to implement shorter-term, rather than longer-term measures. Only a few companies show an intention to undertake a broader business redesign, and accordingly redesign of HR processes as a response to the change in financial environment. For example, a common practice is the change in terms of quantity (freezing base salaries, decreasing bonuses), rather than change of the system itself (link between the performance and compensation system, changing the ratio between the base salary and the bonuses, etc). Employee benefits are the area where almost no modification has so far been introduced. However, if the downturn in the financial environment is more long term, simply implementing salary freezes and hiring freezes may be ultimately counter productive.

Another widely accepted attitude among the companies is that they limit and strictly monitor the use of a company’s resources that are usually perceived as employee benefits – using company car and mobile phone.

Through our analysis, we believe that the HR Barometer survey data highlights a number of conclusions and allows us to make a number of broader comments. It also highlights a number of interesting questions that future editions of the survey may shed some light on. In particular, we note that:

1. As a consequence of recruitment freeze, headcount reductions and salary freeze or reduction, the Serbian labour market is becoming less volatile than was before. Taking into consideration long term business needs, now may represent an opportunity to make an investment in attracting key new talent.
2. Anti-crises measures, particularly in the area of remuneration, refer to the changes in the quantity, rather than the basis and the structure. However, these measures are generally time limited and are unlikely to be able to be sustained in the long term. The trend among the global leaders is that the shorter term measures are aligned with the process of a wider business redesign. In that respect, here are some useful questions you can ask yourself with respect to remuneration:
 - Is this the time to review remuneration structures and to consider increasing the variable element?
 - How can we maximise the link between the performance and business goals? Should we review existing KPIs (key performance indicators)?
 - Is this the time to consider long-term incentive plans (LTIP) and the balance between the bonus and LTIP?
3. Companies tend to focus cost reduction on the areas that could be considered as a luxury provided to employees. Learning and development activities also tend to be perceived as a luxury, rather than necessity. Although interventions in the area of L&D costs have clear short-term effect, the issue of balancing short and long term benefits remains. During the uncertain economic period the companies need to find the way to manage costs, while retaining their best employees and keeping them motivated and productive. Learning and development play an important role both in terms of preparation for employees for taking on new/changed and more complex tasks, as well as a non-financial motivator. Led by the management, employees are the ones who should be capable to implement the anti-crisis plan for the company.

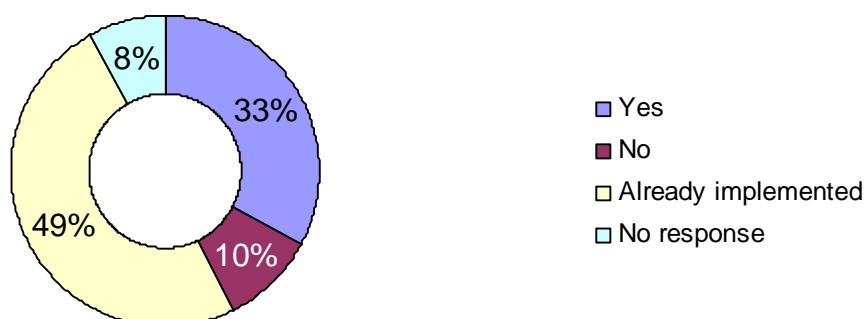
02 Selected survey results

I Measures in the HR area for mitigating the negative influence of global financial crisis on the company

Most of the companies that have participated in the survey, are either planning to, or have already implemented measures in the HR area due to global financial crisis.

However, five companies do not plan to make any HR changes as a response to crisis.

Does your company plan to conduct any measures in HR area due to current global financial instability



II Optimisation of HR costs

1. General overview

Regarding HR costs companies plan to implement the following measures.

	Total remuneration costs		Corporate events costs		Travel costs		Learning& Development costs		Recruitment costs	
	Number of companies	%*	Number of companies	%*	Number of companies	%*	Number of companies	%*	Number of companies	%*
Cost decrease	17	37%	21	51%	27	56%	24	55%	13	31%
Cost freeze	17	37%	7	17%	6	13%	6	14%	9	21%
Do not plan to take any action	12	26%	13	32%	15	31%	14	32%	20	48%
Total	46	100	41	100	48	100	44	100	42	100

* The denominator is the number of companies that provided data in relation to this question.

Very similar to what we saw in our first survey, conducted at the beginning of the year, companies tend to focus cost reduction on services and support provided to employees – travel, learning and development, and corporate events costs, rather on remuneration.

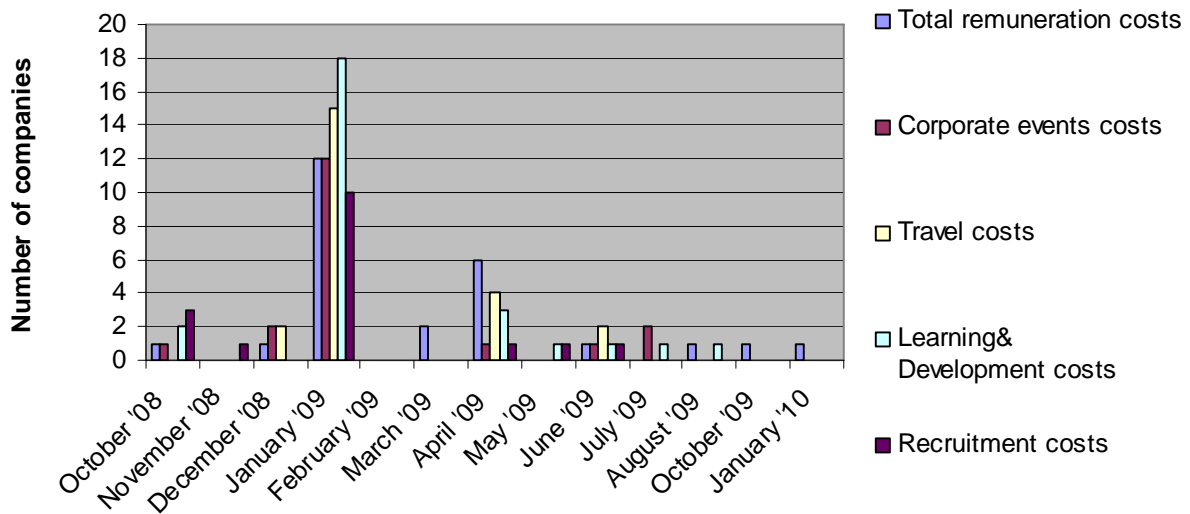
From the table below we also see that, in cases of recruitment costs reduction, the average amount of decrease is higher than in other areas.

Average amount of cost decrease

	Total remuneration costs	Corporate events costs	Travel costs	Learning& Development costs	Recruitment costs
25. percentile	6%	20%	15%	20%	50%
Median	15%	50%	23%	38%	70%
75. percentile	20%	67%	50%	52%	100%
Average	14%	45%	30%	40%	68%
Number of companies	15	17	16	20	10

For explanation of statistical terms, please refer to section 03 Definition of terms, p.18.

Month from which the measures are implemented



2. Measures in compensation area

2.1. Modification in remuneration structure

As was the case in February this year, modification in remuneration structure is not a common measure among survey participants.

In the area of compensation, changes are implemented mainly in terms of quantity – salaries and bonuses freezes and decreases, rather than in terms of structure itself.

Modifications in remuneration structure

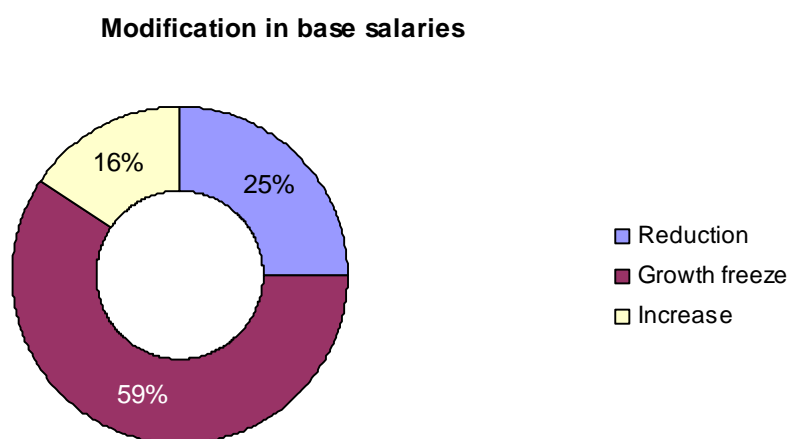


Number of respondents – 46

2.2. Modification in employees` base salaries

Out of the companies which adjust base salaries, majority (59%) applies growth freeze, while one quarter decided to reduce the salaries.

In comparison to our first survey, we see that in February companies were more optimistic with respect to the planned changes. More companies planned salary increases, while less planned salary reduction, than is the case in July and August.



Number of respondents - 32

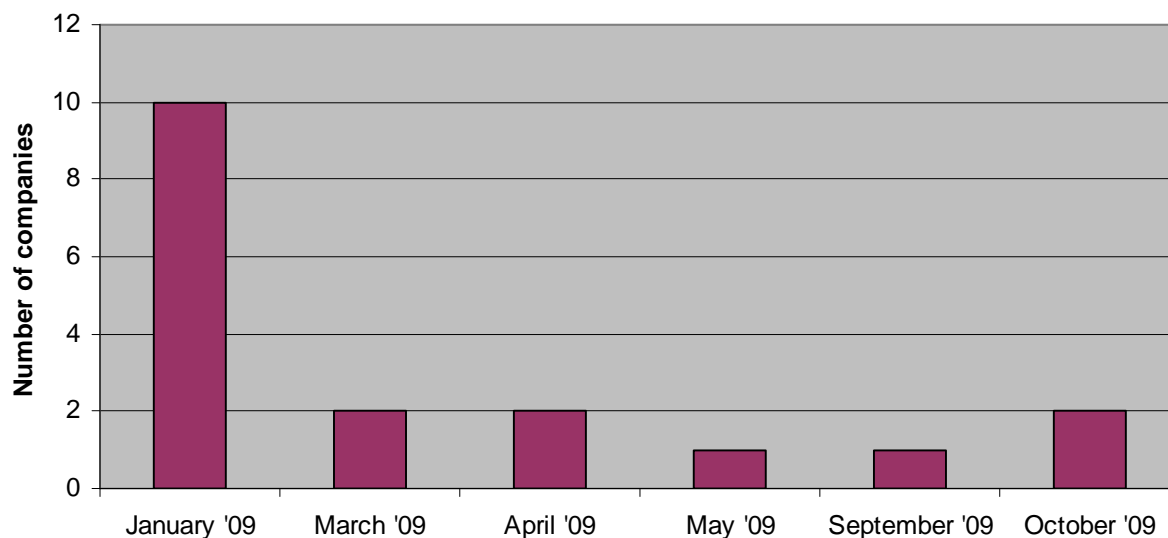
Average amount of decrease in base salary

Median	20%
Average	15%
Number of companies	3

Average amount of increase in base salary

Median	6%
Average	6%
Number of companies	3

Month from which the measures are implemented



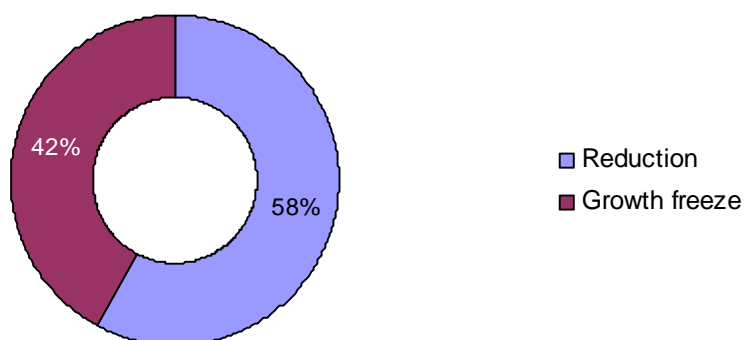
2.3. Modification in short-term incentives

2.3.1. Modification in total budget for short-term incentives

Twenty-six companies report modifications in total budget for short-term incentives. None of the companies reports the increase of this budget.

Again, in comparison with results from the year start, we see that companies were more optimistic, and they also planned the increase of this budget.

Modification in total budget for short-term incentives



Number of respondents – 26

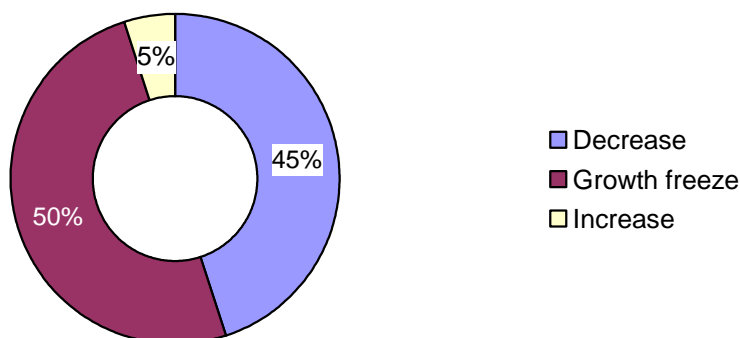
Average amount of short-term incentives reduction

25. percentile	15%
Median	50%
75. percentile	70%
Average	46%
Number of companies	6

2.3.2. Modifications in target payment levels

Majority of the companies which implement the changes in this respect (95%) either freeze or decrease target payment levels.

Modifications in target payment levels

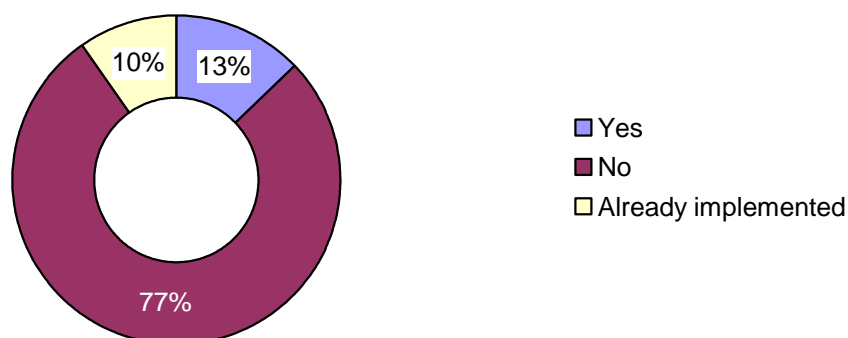


Number of respondents – 20

The average decrease in target payment levels is 30%.

2.3.3 Modification of scales for bonus calculation

Majority of participants that responded to this question does not make modification of scales for bonus calculation.

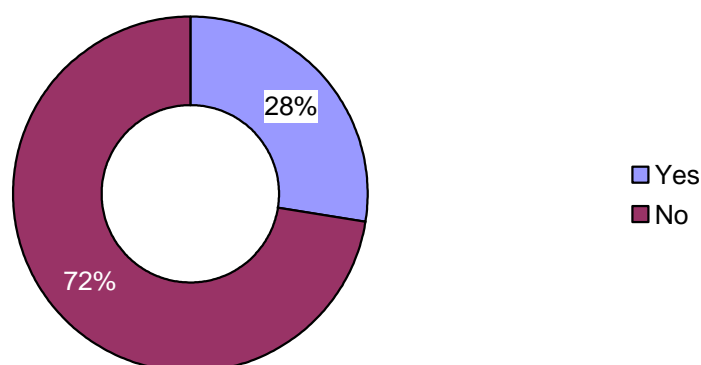


Number of respondents – 31

2.3.4. Modification of key performance indicators (KPI)

Majority of participants that responded to this question do not modify KPIs. The similar trend was captured in our first survey.

Modification of key performance indicators



Number of respondents – 29

3. Modifications in provision of benefits

Employees` benefits are the area where almost no modification, except in fitness membership and company loans, has so far been introduced.

	Private pension plan		Life/disability insurance		Sick/maternity leave coverage above statutory norms		Company loans on preferential terms		Fitness club membership	
	Number of companies	%*	Number of companies	%*		%*	Number of companies	%*	Number of companies	%*
Plan to	2	7%	0	0%	1	3%	4	14%	4	13%
Do not plan to	24	86%	33	100%	31	97%	24	83%	24	80%
Already implemented	2	7%	0	0%	0	0%	1	3%	2	7%
Total	28	100	33	100	32	100	29	100	30	100

* The denominator is the number of companies that provided data in relation to this question.

None of the participating companies plan modification of the stock option plan, while three companies have either changed or plan to change their performance share plan.

4. Corporate events costs

With respect to corporate events costs, participating companies manage costs by:

- Organising only the most important events – top management meetings, line management business planning meetings and events, etc.
- Organising only the events of special importance for employees, e.g. New Year`s party for employees` children
- Reducing costs for internal events by reducing their number, organising it in own premises or less expensive places, shortening their duration, etc.

Some of the participants focus cost saving on events for employees, while retaining those for the clients, but there are companies which do quite the opposite.

5. Travel costs

In order to reduce the costs participating companies implement various groups of measures:

- Strict control in approving business trips, maintaining only trips critical for the business, rationalisation of trips (e.g. only clients` visits, critical internal meetings, several employees by one car, etc) – 20 companies
- Organising conference calls and web conferences and seminars, instead of travelling – 5 companies
- Change of travel policy (e.g. business class changed for economy, hotel category reduced, possibility to change dates cancelled, travelling by bus/train instead of airplane, private car use reimbursement reduced, etc) – 4 companies
- Installation of gas supply (instead of gasoline) in company cars - 1 company

Less than 10% of the participating companies told they have different measures for different employee categories. Here are some examples the differentiation of measures:

- Reduction of number of trips for professional staff and management
- Kilometre limitation and carfare budget reduction for sales force
- Top management is usually excluded from travel costs optimisation measures
- Higher reduction in travel costs for lower ranked employees and sales employees

6. Learning and development costs

Most companies that have provided descriptions of measures reduce L&D costs. Few of them have completely cancelled external trainings and conferences.

To reduce L&D costs, companies list the following measures:

- Reduction of training abroad and training which require travelling – 6 companies
- Reduced use of external providers, developing and using internal resources for training delivery – 5 companies
- Conducting only trainings that are mandatory and of critical importance – 5 companies

Participants also mention:

- Conducting trainings for key employees only
- Shifting focus towards e-learning solutions
- Employees who are approved to travel to external training sign a clause for the minimum time of employment in the company.

Depending on the business they operate in, majority of L&D interventions is provided either to management and professional staff, and sales. Consequently, these are the beneficiaries of the programmes for which the costs are reduced.

7. Recruitment costs

Most companies plan to freeze or reduce hiring process (please see section III Headcount optimization). Additionally, they list the following measures for managing recruitment costs:

- Recruitment and selection are conducted only internally – 7 companies
- Agencies will be hired only for top management and specialist positions – 4 companies
- Reduction of advertising costs – 3 companies
- Costs for student events and fairs cancelled – one company.

8. Other measures listed by the companies

- Introduction of limit and/or new procedure for use of company mobile phones – 14 companies
 - Introduction of limit
 - Decrease of limit
 - Mandatory salary deduction in case of exceeding the limit
- Reduction of costs for using company cars – 12 companies
 - Reduction in number of employees entitled to use company cars
 - Purchase of company vehicles frozen
 - Introduction of limit on fuel consumption and strict control of fuel consumption
 - Introduction of limit on personal use of company vehicles (up to 3000 km per year).
- Reduced costs for taxi services
 - More strict control over use of taxis
 - Renegotiated prices with taxi companies
 - Introduction of department limits for use of taxi services
- Introduction of limit and control of land lines
- Reduced limits on business cards for representation costs
- More strict control of costs without changes in procedure
- Increased level of control over the employees' presence in the office, i.e. GPS tracking of the field employees.

III Headcount optimisation

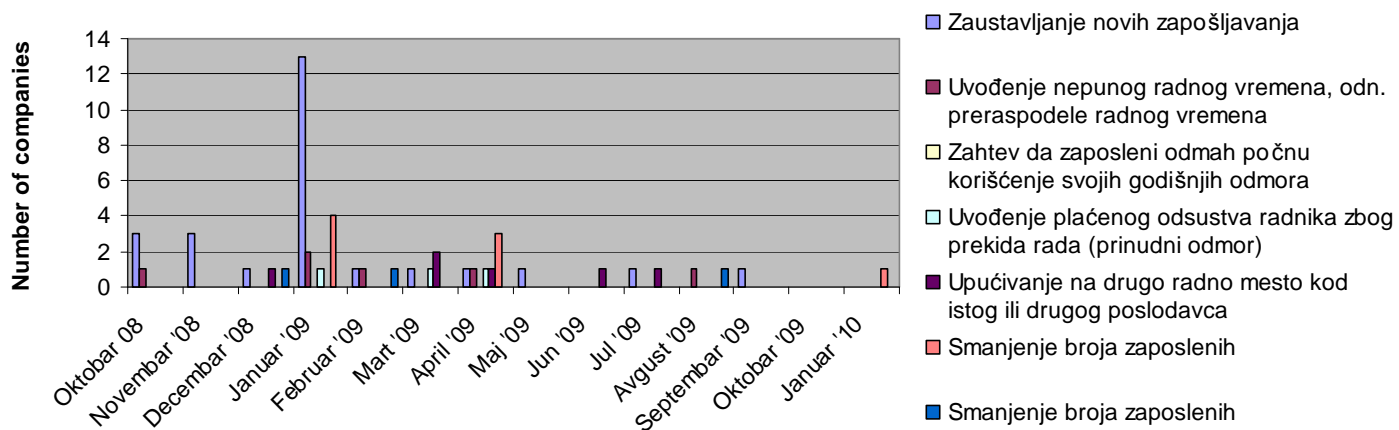
With respect to headcount optimisation companies implement or plan to implement the following measures.

	Recruitment freeze		Introduction of part-time work and/or rescheduling of working hours		Request employees to use their annual vacation immediately		Introduction of paid leave due to the discontinuation of work		Assignment of employees to another place of work at the same employer or to another employer		Headcount reduction	
	No. of companies	%*	No. of companies	%*	No. of companies	%*	No. of companies	%*	No. of companies	%*	No. of companies	%*
Plan to	18	37%	4	9%	1	2%	3	7%	5	11%	10	22%
Do not plan to	17	35%	40	85%	44	96%	43	93%	34	77%	29	64%
Already implemented	14	29%	3	6%	1	2%	0	0%	5	11%	6	13%
Total	49	100	47	100	46	100	46	100	44	100	45	100

* The denominator is the number of companies that provided data in relation to this question.

We see that the widespread measure for headcount optimization is a recruitment freeze. The second most frequent option is headcount reduction. Our results from February show the same direction.

Month from which the measures are implemented



1. Headcount reduction

Majority of participants reduce headcount as a result of optimization of business processes and/or changes in organizational structure through which some positions and units are being terminated.

Three companies provide stimulation packages for earlier retirement (one to three years).

The average amount of headcount reduction

25. percentile	4.5%
Median	6.75%
75. percentile	10%
Average	7.2%
Number of companies	12

Common criteria for determining the list of employees for dismissal is their performance.

Among other criteria, not prescribed by the General Collective Agreement, are the following.

	Number of companies	%*
Dismissal of the particular % of employees in each department	5	31%
Time spent with the company (e.g., dismissal of the most recently employed staff)	2	13%
Amount of salary (e.g., dismissal of the staff with high/low salary)	1	6%
Total number of companies	16	

* The denominator is the number of companies that implemented headcount reduction or plan to do it. The companies could choose more than one response.

Some companies rely on employees` voluntary decision to leave.

There are also instances where company introduces more strict discipline and more strictly monitor employees` adherence to it. Employees who breach the discipline or do not fulfil their obligations are the candidates for release.

2. Formal means of dismissal that companies plan to use

Majority of participating companies uses termination of employment at the agreement of parties as a formal means for dismissal.

Half of them also use reduction by determining redundant employees, as well as employee incompetence.

Formal means of dismissal	Number of companies	%*
Termination of employment at the agreement of parties	14	88%
Headcount reduction by determining the certain number of employees who are redundant	8	50%
Employee incompetence (e.g., employee does not perform i.e. does not have needed knowledge and skills)	8	50%
Other	3	19%
Total number of companies	16	

* The denominator is the number of companies that implemented headcount reduction or plan to do it. The companies could choose more than one response.

As other formal means of dismissal, companies mention not extending the contract for the employees who are employed for definite period of time.

3. Support offered by the companies to employees terminating employment

	Number of companies	%*
Provision of letters of reference	13	81%
Forming a reserve for future employment from the previously dismissed staff, in case of market situation improvement	10	63%
Payments exceeding statutory limits, at the termination of employment at the agreement of both parties	7	44%
Assistance with outplacement to other companies (e.g. transfer to companies of the same group, partner companies, etc.)	7	44%
Provision of consultants` outplacement programmes	3	19%
Other	1	6%
Total number of companies	16	

* The denominator is the number of companies that implemented headcount reduction or plan to do it. The companies could choose more than one response.

One company states HR staff would provide a personal help by recommending employees to recruitment agencies or other companies. This kind of support would not be provided to those whose contracts were terminated because of incompetence or breach of the discipline.

IV Expectations / forecasts in respect of changes and trends in the Serbian labour market in 2009.

Majority of companies that answered to this question anticipate further deepening of the world economic crisis, which will result in downsizing in the companies (some companies even expect massive downsizing) and growth of the unemployment rates.

Accordingly, companies anticipate surplus of the work labour at the market which will eventually result in salaries and incentives freezes or reductions. Another consequence of this situation will be greater use of staff leasing option.

Some companies expect further delay in the application of general collective agreement and some further burdening of the companies' budgets when it starts, which will increase number of dismissals in the companies, and therefore worsen the situation at the labour market.

On the other hand, many respondents see the opportunity, considering the circumstances, to hire quality staff of different profiles and vocations, backgrounds and skills, and use the downturn to add value to their work force

However, there are also few companies that expect labour market to be stabilized.

03 Definition of terms

Average – the sum of all values in the sample divided by the number of values.

Median (50th percentile) – if all values in the sample are placed in order from the lowest to the highest, the median is the value occupying the middle position.

25th /75th percentile – if all values in the sample are placed in order from the lowest to the highest, 25th percentile is the value below which lie 25% of the values in the sample; the 75th percentile is the value below which lie 75% of the values in the sample.

04 Disclosure practice for numerical data

In line with PricewaterhouseCoopers international practice, we have not provided an analysis of numerical data for which less than 3 companies responded in order to maintain confidentiality of participant information.

- Averages and medians are given with a minimum of 3 companies
- 25th and 75th percentile with a minimum of 5 companies.

www.pwc.rs

PricewaterhouseCoopers (www.pwc.com) provides industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 155,000 people in 153 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

© 2009 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

This document is classified as [DC 2].