

Key IT Workforce Decisions CIOs Must Make to Support Business Recovery in 2010-2011

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As the economy continues to rebound slowly and market conditions improve, CIOs and HR leaders must refocus their IT workforce strategies to support business recovery in 2010 and beyond by identifying, acquiring and retaining capabilities required to meet future and uncertain business needs.

Overview

Although the timing and speed of business recovery will vary for each enterprise, 2010-2011 will be the transition period during which CIOs need to **develop a new vision** for IT to support the changing business strategy, and enable its steady recovery. To achieve that goal, CIOs must put **standardizing and improving IT workforce capability** as a top priority. This research note shares key market trends for 2010-2011 from the U.S.-based Gartner 2010 IT Market Compensation Study. CIOs and HR leaders can use this data, in conjunction with their business plan, to identify, develop, and adjust strategy and practices to improve IT workforce capability over the next 12 months.

Key Findings

- The downturn during the past two years has forced many IT organizations to focus more on cutting costs than investing in improving the capability of the IT workforce.
- IT organizations remain cautious about increasing their staffing levels. The small increase in IT head count during the past 12 months was in short-term, temporary contractor positions more than in permanent staff positions.
- **Employees' fear of market uncertainties continues to linger well after the initial round of layoffs, which has contributed directly to low turnover rates in recent months. The median IT voluntary turnover rate (with retirements) reached a new record low of 3.0% for the period between 1 March 2009 and 28 February 2010 — a 2.4% drop from the level reported in our 2009 study.**
- IT organizations will continue to focus on containing workforce costs in 2010-2011. Some organizations plan to keep salaries frozen; some only set a small budget for salary increases; and some report even further cutbacks on IT workforce training. **The median salary increase budget for IT jobs is 2.5% in 2010, and the projection for 2011 is around 3.0%. The median IT workforce training budget for FY10 dropped by nearly 50% from the level reported for FY09.**
- Despite a soft job market and high unemployment rate, **IT organizations still experience difficulty in finding qualified candidates with hot skills such as Oracle, SAP, service-oriented architecture (SOA), project management, Microsoft .NET, virtualization and SharePoint.**

Recommendations

- Keep a close watch on changing market conditions. Establish a formal workforce planning process to effectively anticipate short- and long-term business demands for IT resources.
- **Create a staffing plan that leverages all available internal and external resources (employees, contractors or ESPs), focusing on the ability to deliver timely, cost-effective and high-quality IT services to the business.**
- **Define an IT compensation strategy that aligns rewards with the IT strategy and objectives.**
- **Resume pay increases for high-potential and high-performing employees as soon as the budget permits. Benchmark salary levels against the market to ensure competitive pay levels for critical IT roles, and to minimize the risk of turnover of key staff.**
- Create formal guidelines and frameworks for career development and training. Develop a business case for investing in training that clearly defines objectives, risks of taking no action, costs and expected return on investment (ROI).

1.0 Slow Road to Recovery: CIOs Must Optimize the Resources They Have

The Gartner 2010 CIO Agenda indicates that, after facing economic, business and operational challenges in 2009, CIOs have since turned their attention to two major initiatives for 2010 and beyond: re-establishing the business relevance of IT and strengthening the productivity of IT. More than half of the 1,500 CIOs who were surveyed see that the role of IT will change when economic conditions improve. CIOs also recognize that the future of IT cannot be a return to the past.

While business demands likely will increase in 2010-2011, IT budgets will not recover from their steep decline in 2009. This means that CIOs must decide what services they must continue to deliver, and at the same time optimize the resources they've got. This can be challenging for many IT organizations because, since the downturn, they have been focusing on cutting costs rather than investing in the IT workforce and raising its capability levels for higher performance.

With the slow economic recovery and uncertainties in the market, especially the fear of a double-dip recession, containing workforce costs will continue to be a focus for many enterprises. Some organizations plan to keep salaries frozen; some will only set a small budget for salary increases; and some report even further cutbacks on IT workforce training. Even though these temporary changes in practices may seem minor compared to mass layoffs, the effect on employee morale and retention can be significant and long term.

Adding to the challenge is that there will be demand for top talent in the post-recession job market. In the U.S.-based Gartner 2010 IT Market Compensation Study,¹ we surveyed 358 IT organizations and found that acquiring talent with the right level of skills remains an issue, even in today's slow job market.

The employee turnover rate won't stay at the current low level (3%) very long. Your skilled IT staff will move on to other opportunities if they feel neglected and undervalued. IT organizations that do not have effective talent management practices actually could see costs go up if they are unable to retain their highly skilled staff when market conditions eventually do improve.

Looking ahead for the remainder of 2010 and into 2011, CIOs must prepare their organizations to support the business recovery and return to growth. To do so, they need to partner with HR leaders in making key workforce decisions that will ensure that the right number and quality of resources are in place for optimized IT performance.

Staff with an appropriate mix of internal and external resources:

- Define the capabilities and skills needed to support business recovery and raise IT performance.
- Determine the level of internal resources available to execute the strategy, where the gaps are, and how to address them (e.g., when to resume hiring).
- Decide on whether to include contractors, different types of ESPs in the sourcing mix (e.g., "cloud" sourcing), when and where to deploy them, in what amount and for how long.

Reward employees for their value and contribution:

- Identify critical roles and individuals; set competitive pay packages to retain them.
- Define superior performance, and determine ways to differentiate rewards for high performers (e.g., variable pay).
- Determine the frequency and the rate for salary increases to maintain competitive market pay levels.

Developing employees for sustainable capabilities:

- Identify critical areas where training and development are needed most to close the skills gaps.
- Determine the amount of resources (money and time) that need to be invested in employee training and development.
- Choose from in-house and external resources to reduce costs, and improve return on training investment.

This research shares key market trends for 2010-2011 identified in the U.S.-based Gartner 2010 IT Market Compensation Study (see Note 1), along with a set of recommendations for guiding CIOs and HR leaders to identify, develop and adjust strategy and practices to address workforce-related challenges they will face over the next 12 months.

2.0 Hiring Is Yet to Resume; Finding Skilled Talent Remains a Challenge

Whether the plan at this time is to make no change to your IT head count, or to start hiring based on the current business plan, CIOs and HR leaders need to keep a close watch on the state of the IT job market, and adjust the staffing plan accordingly. There are a set of workforce metrics that we track each year to examine the health of the IT employment market. CIOs and HR leaders can compare this data against the trends on the economic and business conditions for the same period, analyze the job market movement pattern, and then build that into the workforce planning model. Table 1 presents a three-year view of the data on these metrics.

This year's data continues to show a slow job market, with organizations being cautious about hiring and increasing staff level, which leads to fewer new hires and more vacancies left unfilled. The small increase we have seen in IT staffing during the past 12 months was in short-term, temporary contractor positions more than in permanent staff positions.

Interestingly, for the same period, voluntary turnover dropped by 2.4% from a year ago, to a new record low of 3.0% for the period between 1 March 2009 and 28 February 2010. This data reflects employee sentiment about switching jobs while opportunities are limited, and that the risk of layoffs is still high during the uncertain economic environment.

Survey Period	Average Number of Full-Time Employees Hired	Average Number of Contractors in Workforce	Average Number of Vacant IT Positions	Median IT Voluntary Turnover
3/1/2009-2/28/2010	25	83	16	3.0%
3/1/2008-2/28/2009	36	70	13	5.4%
3/1/2007-2/29/2008	51	97	25	7.1%

From Gartner IT Market Compensation Study (2008, 2009, 2010) — U.S. data

Source: Gartner (September 2010)

A Further analysis of IT recruitment strategy and practices reveals the following trends and challenges that CIOs and HR leaders need to consider in developing their staffing plan for 2010-2011.

2.1 Rate of Increase in IT Staffing Levels Will Stay Flat

In our 2009 study, we asked survey participants whether they had a plan to increase IT head counts (including full-time employees and contractors as supplementary staff) for the period between 1 March 2009 and 28 February 2010. At that time, only 35.9% of organizations reported there would be an increase. The reported median projected increase rate was 5.0% (excluding zeros). To understand whether last year's projection was realized, we asked a question in this year's survey about the actual rate of increase for the same period. The result came back showing a higher overall median increase rate of 6.3% across all respondents compared to the 5.0% projection last year. An analysis by industry shows that the insurance sector had the highest actual increase of 10.0%, compared to 5.0% projected previously.

Compared to the 44.4% of organizations that anticipated no change in IT head count in 2009, only 28.3% reported no change for the same period in this year's survey. In addition, for organizations that lowered the staffing levels, the actual median rate of reduction was 6.0% versus the 6.9% projected in the 2009 study. These results signal that hiring activities are picking up slowly as business conditions improve. Table 2 presents the survey participants' plans for increasing or decreasing staffing levels for the period from 1 March 2010 to 28 February 2011. Industry-specific data is provided as well (see Note 2 for a breakdown of industry listings).

Table 2. IT Head Count Change Projections

	Projected Increase		Projected Decrease	
	Median	Organization Count	Median	Organization Count
All Organization	5.0%	79	5.0%	28
Financial Services	5.0%	8	*	1
High Tech	2.0%	4	*	0
Insurance	5.0%	10	11.5%	4
Manufacturing	5.0%	14	10.0%	11
Public, Nonprofit	5.0%	24	4.0%	9
Other Services	5.0%	19	5.0%	3

From Gartner 2010 IT Market Compensation Study — U.S. data

Source: Gartner (September 2010)

2.2 Some IT Jobs and Skills Are Still Difficult to Hire

The level of difficulty in filling job vacancies is a good indicator of the strength of the employment market. When market demand exceeds supply, hiring organizations will experience prolonged time to fill their vacancies. The hiring costs likely will rise as well. For this reason, CIOs who look to unfreeze their hiring plan in the near future should gain an understanding of which jobs are in demand and thus will take longer to fill. Based on this information in the hiring plan, they can take into account the necessary lead time, including alternative sourcing options should a position be left unfilled for an extended period.

This year's results show that IT organizations still have difficulty in finding quality candidates for a number of IT jobs. There appears to be some relief in the degree of difficulty experienced during the last 12 months, though. In Table 3, we present the top IT jobs that were reported by 2010 survey participants as "very difficult" to "extremely difficult" to hire, compared to results from the prior two years for the same period to provide a historical perspective of the data. Most of these jobs also are reported to be on the hiring plan for the next 12 months. Interestingly, business analyst is the most frequently reported job on the next year's hiring plan, as reported by survey participants. The demand for this type of business-interfacing role supports the CIO's focus on re-establishing the business relevancy of IT, as reported in the 2010 CIO Agenda.

Table 3. Top Jobs Reported as "Very Difficult" to "Extremely Difficult" to Hire

	Percentage of 2008 Respondents (N = 202)	Percentage of 2009 Respondents (N = 191)	Percentage of 2010 Respondents (N = 243)
Enterprise Architect	31.2%	33.0%	22.6%
Database Administrator	27.2%	23.0%	14.8%
ERP Programmer/Analyst	21.8%	18.3%	12.8%
SAP Programmer/Analyst	*	*	11.5%
Network Engineer	20.3%	13.1%	10.7%
Network Architect	19.8%	13.1%	10.3%
Project Manager	19.3%	15.2%	9.5%
Security Analyst	15.3%	12.6%	9.5%
Security Manager	13.4%	10.5%	8.2%
ERP Configurer	11.9%	11.5%	7.8%
Internet/Web Architect	17.8%	14.7%	7.0%
Web Application Programmer	19.3%	14.7%	7.0%

Note: Multiple responses allowed.

* Job not surveyed in a particular year.

From Gartner IT Market Compensation Study (2008, 2009, 2010) — U.S. data.

Source: Gartner (September 2010)

The level of difficulty in hiring for a specific job is affected by the supply of candidates possessing critical skills required to perform that job directly. This will mean that, even though there may be more people in the market, they don't necessarily have the right levels of skills for jobs in demand. This mismatch in talent supply and demand is reflected in the list of "hot" skills that is reported by our studies consistently over the past few years. Table 4 provides a three-year view of IT skills that were reported as "very difficult" to "extremely difficult" to recruit. Our research also shows that some organizations continue to pay a premium to attract and retain people with hot skills. The amount of skill premium, if paid, is typically between 10% and 15% of base salary.

Table 4. Top Skills Reported as "Very Difficult" to "Extremely Difficult" to Recruit

	Percentage of 2008 Respondents (N = 168)	Percentage of 2009 Respondents (N = 183)	Percentage of 2010 Respondents (N = 233)
Oracle	23.2%	16.9%	13.3%
SAP	20.2%	16.9%	12.9%
SOA	17.9%	14.2%	12.9%
Project Management	*	9.8%	12.4%
Microsoft .NET	19.6%	14.2%	11.6%
Virtualization	*	10.9%	11.6%
SharePoint	*	11.5%	11.2%
Unix	14.9%	10.9%	10.7%
Java	25.6%	13.7%	10.3%
PeopleSoft	13.7%	13.1%	9.9%
Business Analytics	*	9.3%	8.6%
ITIL	9.5%	8.7%	8.6%
SAN	17.3%	11.5%	8.6%
VoIP	11.9%	7.1%	7.7%

Note: Multiple responses allowed.

* Skill not surveyed in a particular year.

From Gartner IT Market Compensation Study (2008, 2009, 2010) — U.S. data.

Source: Gartner (September 2010)

2.3 Contractors Are Used to Meet Short-Term Resource Needs

The next 12 to 18 months will be a transition period for many IT organizations as the business navigates through the recovery phase, and market uncertainties continue to unfold. The staffing plan ultimately needs to be nimble in leveraging all available internal and external resources (employees, contractors or ESPs) effectively to supply the business with timely, cost-effective, and quality IT services.

When examining the responses from 28 organizations that projected a reduction in IT head counts for the next 12 months, **we found that not all organizations will cut contractors or contingent resources first**. When making the decision as to whether to add or reduce contractors in the IT staffing mix, CIOs, IT project managers and resource managers alike should answer questions such as why such resources are needed, where to deploy them, for how long and in what amount.

The survey results also indicate that **IT organizations will rely more on contractors** in addressing business needs for the short term, so that they don't need to commit to full-time resources as business demand stabilizes during this transition period. An important factor for justifying the use of contractors is the cost in comparison to full-time employees or other sourcing options.

Contractors are not necessarily an inexpensive resource, and one that should be used wisely. In our survey, we collect the average hourly rates that companies are paying for a number of common contractor jobs at different skill proficiency levels. Table 5 presents this year's results. It should be noted that, due to the low response level, this data is meant to provide only very high-level guidance on setting rates for contractors.

Table 5. Range of Hourly Rates for Common Contractor Positions				
	Average Hourly Rate by Skill Proficiency Level (\$)			
	Entry	Intermediate	Advanced	Expert
Application Development Analyst	56.8	72.1	92.1	113.2
Business Analyst	49.1	63.8	91.5	110.9
Business Process Consultant	61.0	79.8	103.5	118.0
Customer Support Technician	31.9	36.2	44.9	46.5
Database Administrator	61.6	74.7	81.1	96.2
Network Analyst	52.5	58.1	77.4	87.2
Network Engineer	60.4	78.9	92.6	102.2
Project Leader	*	68.6	84.4	*
Quality Assurance Analyst	51.0	59.8	71.2	83.7
SAP Programmer/ Analyst	*	*	130.4	*

* Insufficient data to report.
From Gartner 2010 IT Market Compensation Study — U.S. data.

Source: Gartner (September 2010)

2.4 With the Support of HR, What Actions Do CIOs Need to Take in 2010-2011?

- Keep a close watch on changing market conditions. Establish a formal workforce planning process to effectively anticipate short- and long-term business demands for IT resources.
- Create a staffing plan that leverages all available internal and external resources (employees, contractors or ESPs), focusing on the ability to deliver timely, cost-effective and high-quality IT services to the business.
- Evaluate the benefits and risks of using contractors. Carefully monitor the spending on contractors. Choose a list of vendors whose rates are favorable for the response time, and the frequency and volume of contracting services required by the organization.

3.0 Reward Dollars Are Limited; IT Organizations Must Use Them Wisely

The percentage of the IT budget designated for compensating IT employees reflects the scope of financial investment in the workforce. This year's survey data shows only a fractional increase (1.6% from the 43.7% reported in 2009) in the median percentage of the IT budget allocated for IT compensation for FY10. Likely this is caused by a combination of the following factors:

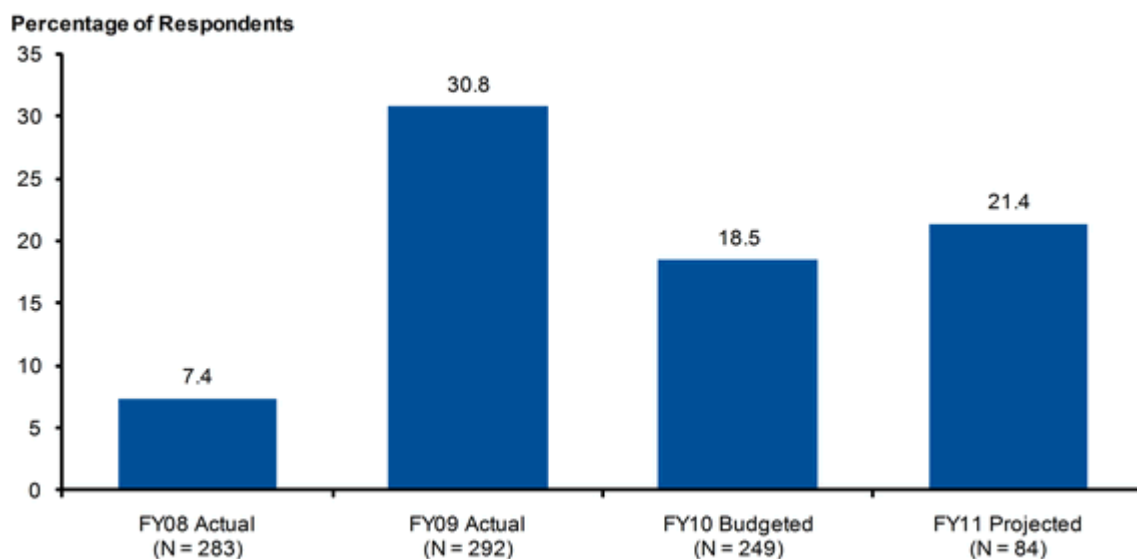
- There are cost inflations in some expense items, especially higher costs associated with healthcare benefits.
- There is only nominal increase in the overall IT budget, which is reflected in the change from the median level of \$41,721,000 for FY09 reported in 2009 to \$43,027,000 for FY10 reported this year. It should be noted that some industry sectors represented in our survey this year show a decrease in their FY10 IT budget level (e.g., financial services and public, nonprofit, compared to their budget levels for FY09).
- Organizations in some industries (e.g., insurance) have plans for hiring more staff in FY10, which would mean a bigger payroll.

3.1 Salary Increase Budgets Start to Unfreeze but at a Level Lower Than Precession

The size of the budget for annual salary increases is a good indicator of the confidence in how the business is recovering. Enterprises likely will hold off, only giving out raises until they are certain that business recovery is solid. In our 2009 study, we reported about one in four organizations (25.2% of 206 respondents) were planning to freeze salaries in FY 09. This year's survey results show an even higher percentage of organizations actually having a pay freeze in FY09 (30.8% of 292 respondents). In contrast, the percentage of organizations projecting no pay increase in FY10 actually dropped from 32.8% (N = 61) last year to 18.5% (N = 249) this year. The data also indicates that, for some

organizations, the pay freezes will stay through FY11. Figure 1 illustrates the percentage of organizations in this year's sample reporting no pay increase budgets for each of the four periods examined. Also, for non-IT jobs, 18.2% of respondents (N = 242) indicated no increased budget for FY10 and 20.5% for FY11 (N = 83).

Figure 1. Percentage of Organizations That Reported Actual or Projected IT Salary Freezes



From Gartner 2010 IT Market Compensation Study — U.S. data

Source: Gartner (September 2010)

In Table 6, we present the aggregated trend data on base salary increase budget (including zeros) for all organizations and by industry.

	FY08 Actual (N = 283)	FY09 Actual (N = 292)	FY10 Budgeted (N = 249)	FY11 Projected (N = 84)
All Organizations	3.5%	2.5%	2.5%	3.0%
Financial Services	3.5%	3.0%	2.5%	2.0%
High Tech	3.3%	2.3%	1.0%	*
Insurance	3.5%	2.5%	2.5%	2.8%
Manufacturing	3.5%	3.0%	2.8%	3.0%
Public, Nonprofit	3.0%	2.7%	2.0%	2.0%
Other Services	3.0%	0.6%	2.5%	3.0%

* Insufficient data to report.
From Gartner 2010 IT Market Compensation Study — U.S. data.

Source: Gartner (September 2010)

3.2 More Organizations Adopt Pay-for-Performance Practices

With a tight budget for salary increases, it will be important to ensure that pay for key contributors and top performers reflects an individual's value to the organization. Our research shows that, over the past two years, more IT organizations are using merit pay and other pay-for-performance programs to substantiate rewards for their top performers. Specifically, this year's survey found that:

- Percentage-wise, the top 10% of performers were given between 2.0% and 4.3% more in pay increases than the bottom 10% of performers.
- On average, top performers receive 4.1 times the salary increase of low performers (zeros are excluded in this case). In some cases, the actual multiple can be as high as 6.7 times for top performers.

The use of variable pay programs has gained momentum in recent years also, particularly in rewarding high performers in today's environment when salary increases are suspended or cut. Among the various forms of variable pay programs, most widely implemented are short-term incentive/bonus programs linked to corporate performance and individual achievements. Frequently, spot awards are used by IT organizations as well, to provide timely recognition of incremental improvement in employee performance.

3.3 With the Support of HR, What Actions Do CIOs Need to Take in 2010-2011?

- Define an IT compensation strategy that aligns rewards with the IT strategy and objectives.
- Resume pay increases for high-potential and high-performing employees as soon as the budget permits. Benchmark against the market to ensure competitive pay levels for key IT roles and minimize the risk of turnover of key staff.
- Identify and recognize key contributors and teams. Reinforce and reward for performance improvement at individual, team and organization levels.

4.0 More Formalized Career Development Programs Are Needed to Justify Training Budgets

A consistent theme found through our research is that the vast majority of IT organizations do not make the investment of time or money to formalize their career development programs. On the other hand, our survey data year over year shows that a lack of career development opportunities is a top reason for turnover. Clearly, this presents a significant opportunity for CIOs and HR leaders to step up and build a competitive edge for their organizations in today's market. In our study, we discuss the importance of having formal career development programs that focus on developing and improving competencies, setting a proper funding level, and selecting the programs and delivery mechanisms that best match the needs of the organization, as well as the interests of the workforce.

4.1 IT Organizations Continue to Scrutinize Their Spending on Workforce Training

It's clear that, in the current environment, even organizations with a healthy financial outlook will watch their spending carefully, and ensure that all investments have the proper ROI. The direct costs of training, plus the time spent by employees in training, can add up to a very high resource and financial commitment. Most enterprises view training as a cost center, rather than a profit center. As a result, the budget for training often becomes an easy target during budget reduction exercises.

To understand what changes IT organizations may have made to their funding for IT workforce training, we asked survey participants what dollar amount they budgeted for training in FY10. Out of a total of 221 respondents, 43.9% reported having a set budget for IT workforce training this year, a 17.6% drop from the 61.5% responded in last year's survey. We also asked survey participants to compare their 2009 and 2010 IT workforce training budgets and indicate if there was an increase, decrease or no change. Out of 140 respondents, 52.2% reported no change, 22.1% reported an increase in the budget for FY10, and 25.7% indicated a cutback in their training budget.

We then calculated the size of each respondent's training budget as a percentage of the total FY10 IT budget. In Table 7, we present the data for all organizations and data by industry. Compared to last year's results, we see significant reductions in the amount of IT budget allocated for workforce training this year. The median is at 0.5% of FY10 IT total budget versus 1.0% of FY09 IT budget last year. These changes could be caused by one or both of the following factors:

- There is a moderate increase in total IT budgets reported by survey participants for this survey period. The median FY10 IT budget is \$43,027,000, compared to a median value of \$41,271,000 reported for FY09.
- Companies are implementing further cutbacks to their workforce training.

Further analyses on actual spending levels in FY09 reveal that IT organizations, on average, spent 76.9% of their budgeted dollars per employee over the last 12 months. The average training dollar budgeted per employee was at \$1,110 for FY09, and the actual amount spent was \$854. We expect that training budget levels may remain low in the coming months as IT organizations continue to fine-tune their IT strategy in response to the development of the business's return-to-growth strategy.

Table 7. Percentage of FY10 IT Budget Allocated for IT Workforce Training				
	25th Percentile	Median (50th Percentile)	75th Percentile	Organization Count
All Organizations	0.2%	0.5%	0.9%	88

Financial Services	0.2%	0.4%	0.8%	10
High Tech	*	*	*	1
Insurance	0.1%	0.4%	0.7%	14
Manufacturing	0.2%	0.5%	1.3%	19
Public, Nonprofit	0.4%	0.6%	1.1%	35
Other Services	0.2%	0.2%	0.7%	9
* Insufficient data to report. From Gartner 2010 IT Market Compensation Study — U.S. data.				

Source: Gartner (September 2010)

4.2 With the Support of HR, What Actions Do CIOs Need to Take in 2010-2011?

- Create formal guidelines and frameworks for career development and training. Develop a business case for investing in training that clearly defines objectives, risks of taking no action (e.g., inability to fill key roles requiring skills that are high in demand), costs, and expected ROI.
- Evaluate and select alternatives that can save money, while maintaining the quality of training and development offered to employees.
- Increase the use of in-house resources and self-study models for delivering training. Facilitate more on-the-job training, coaching and mentoring activities.