

E-reward annual conference

Reward(?) Strategies 2017-style: The Three 'F's' and going Horizontal

*"The burning injustice that if you're a woman, you still earn less than a man."
The Prime Minister*

Tesco is raising store staff pay by 10.5% over two years

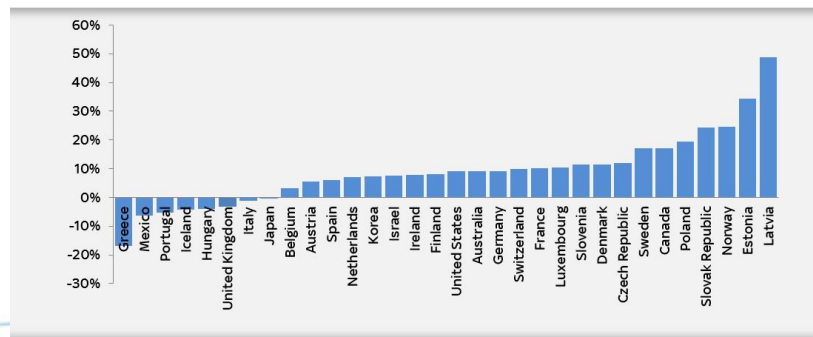
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Dr Duncan Brown,
Head of HR Consultancy
November 2017

LOST DECADES: CHANGE IN REAL WAGES 2005-2015

SOURCE: OECD



Gender pay gap means women 'working for free from now until 2017'

Gender pay gap means women will in effect work for nothing from 10 November until the new year, says Fawcett Society



A quick plug for IES

- Leading independent charitable centre of research and consultancy in employment policy and HR practice
- Not for profit, established in 1969
- c50 multidisciplinary staff

The IES HR Network:

- Organisational membership
- Collaborative research
- Conferences and seminars
- Networking

Recent projects

- Researching solutions to pay gaps for EHRC
- Reviewing staff turnover for major utility, the Armed Forces
- Carrying out equal pay audits for a major retailer, government regulator, northern university etc
- Reviewing effectiveness of market supplements for the Pay Review Bodies
- Reviewing gig economy workers experiences for BEIS
- Reviewing reward strategy for major children's charity
- Reviewing pay review methodology for Docs and Dentists' Pay Review Body



Have we forgotten what some terms mean and some basic tenets of HR?

- Reward
 - *'give something to (someone) in recognition of their services, efforts, or achievements.*
 - *show one's appreciation of (an action or quality)*
 - *receive what one deserves'.*

- Total reward

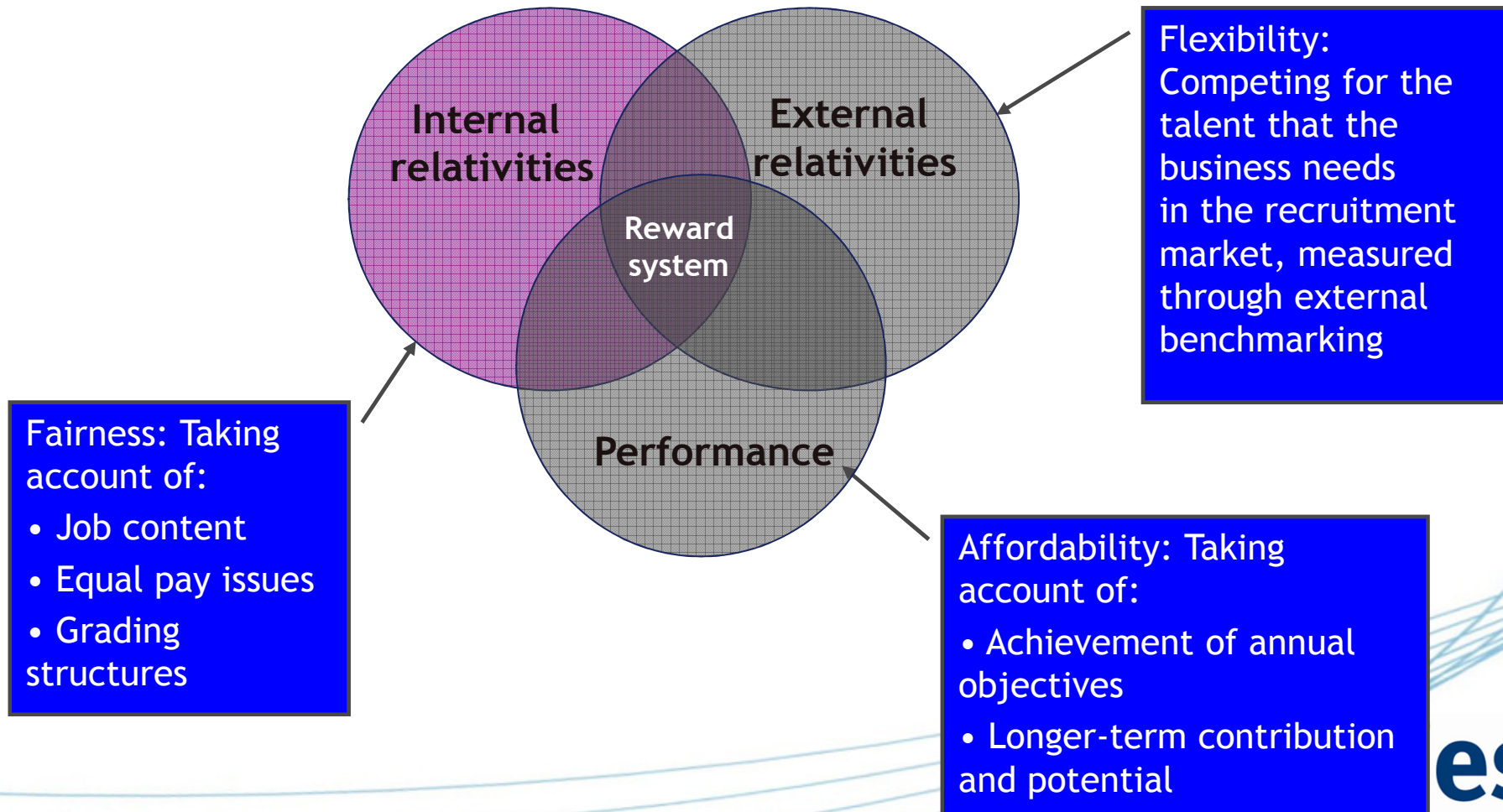
- Pay increase

- Skills-based pay

- Benefits

Pay management: three key drivers

(Source: Armstrong and Brown, 2006)



What's the UK Context?

Harvard
Business
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GENERATIONAL ISSUES

Motivating Millennials Takes More than Flexible Work Policies

by Tracy Benson
FEBRUARY 11, 2016

Wednesday 7 June 2017 12:01am

From an office sauna to paid puppy leave: Here are the UK's best employee perks for 2017

- Record numbers in employment - unemployment 4.4%
- Evidence of emerging skill shortages with record numbers employed, Brexit worries, etc
- Public sector has been focus of Austerity since 2008: pay freezes then '1%'pa
- Intense cost pressures, cuts in training and benefits, more flexible employment models spread, zero hours, contracting out etc
- Majority of UK employees now negative real earnings growth
- Generation 'Y' and 'Z' looking for a different 'deal' eg more choice, yet young people worst hit by cutbacks

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UK jobs 'go unfilled' as skills shortage bites, study warns

6th June 2017, 10:47

Employers are struggling to fill jobs as demand for staff rises and EU workers leave the UK in their droves with Brexit looming, according to a new study.



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- Philips curve flat but growing inequality
- Engagement levels flat at best in employee surveys
- Benefits costs increasing above inflation
- Market solutions increasingly questioned
- Legislative changes - National Living Wage, gender pay reporting, 'new rights' proposals, etc. Recent reviews of senior pay
- Gender pay gap continues - new reporting legislation
- Spread of flexible and voluntary benefits and now EFW

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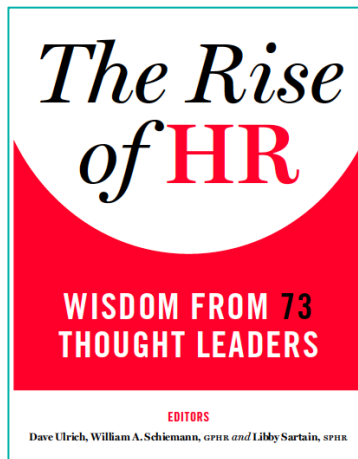
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Sparrow's Horizontal Agenda



WHAT DO HR DEPARTMENTS NEED TO KNOW IN THE FUTURE?

Paul Sparrow

I argue in this thought piece that HR needs to be repositioned as a consequence of two developments:

1. The growing importance of external interdependence and partnership across organizations— what I call “network HR.”
2. Internal organizational design pressures resulting from complex business models.

Given these developments, a picture of a new HR is emerging—and HR will need to make choices to deliver three performance outcomes:

1. **Proximal performance outcomes** – An employee's or team's immediate task performance and contextual performance (well-being)
2. **Intermediate performance outcomes essential to the delivery of business strategy** – Customer orientation or delivery of a brand's value proposition, innovative behavior, or an understanding of the factors that shape the efficiency and effectiveness associated with an organization's broader business model and performance context

HR as willing and innovative advisors, or unwitting or powerless actors?

Hard questions about how best to skill our functions and how best to align and deploy our capabilities?

- Moved from societal questions about nature of work , impact of white heat technology, labour/management relations, national productivity etc.
- To an intervening period of HR looking inwards to business/competitive advantage/free market/globalisation/flexibility/business partner focus
- Now moving back to many social questions once again - low productivity, fairness and exploited workers/zero hours, anti-globalisation and big business, legislative intervention
- **A new Organizational Effectiveness context** for HR extends beyond the organization
- Many opportunities for how HR should play for this new **Horizontal Space** - **performance outcomes**
- Also moving into a world that is going to need radical and collaborative interventions - **disruptive technologies**
- **Creating Paradoxes & Policy Debates**
- HR potentially key role in addressing the big questions being raised -
- **but does it want to play?**

Sparrow's Horizontal Agenda

HR is at a crossroads: It will either go to more traditional (administrative) work or to more people-centric but cross-disciplinary work. Organizations are beginning to de-functionalize themselves, and HR has a great opportunity to take on intellectual leadership in this process. But to do so, it needs to establish a new HR syllabus. It is not just HR's knowledge base that is being reengineered. If HR is to become cross-functional, other functions must also change.

Employment and reward questions facing the UK at the moment: The key horizontal questions

- Why is our productivity lower than our major international competitors?
- What part does our free market approach and the flexible labour market with significant numbers of low paid/low skilled workers play in this?
- Are our internal pay ratios and relativities right?
- Should we be market informed rather than market-driven
- Has 'Austerity' failed in public and private sectors?
- Does the Government need to intervene more?
- Is the private sector reward model really the best for the public sector?
- How do we involve and engage employees to high performance?
- How do we join up our reward and talent management strategies?
- How do we address the debt and savings crisis

Key questions 1: Are pay awards too low? Why should the UK's employers increase pay?

- Link to employee engagement, human capital and productivity
- Close the gender pay gap, boost talent pool and productivity
- Reduce inequality and sharing in success
- UK's National Living Wage to boost low pay, increasing at 5% pa to c60% average earnings

High skilled, higher paid work pays off

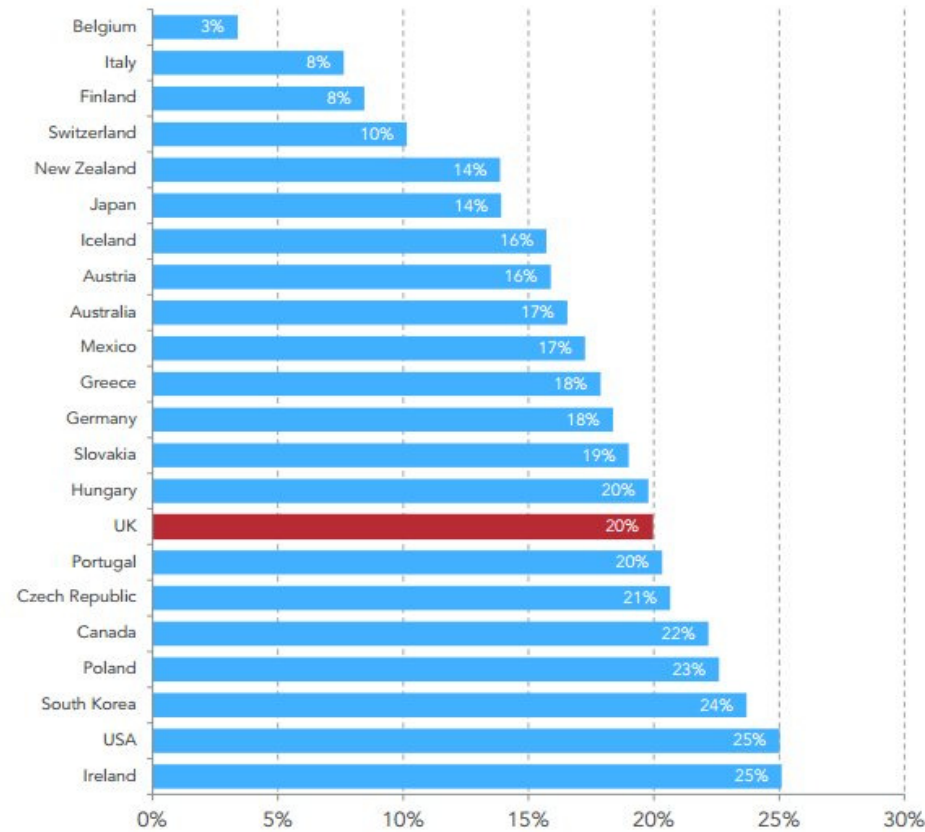
“A big chunk of our productivity gap with countries like Germany is rooted in the failure to equip people with adequate skills” John Van Reenan, LSE, 2015

Employee Involvement	Skills Acquisition	Motivational Practices
<ul style="list-style-type: none">• Task discretion• Task variety• Problem solving teams• Descriptions• Project teams• Team briefings• Suggestion scheme• Staff survey	<ul style="list-style-type: none">• Induction• Work shadowing• Off-the-job training• On-the-job training• Training plan• Training budget• Annual performance review• Evaluation of training	<ul style="list-style-type: none">• Organisational Performance-related pay• Individual performance-related pay• Formal employee consultation procedures• Formal discipline and dismissal procedures• Flexible benefits• Flexible working• Equal opportunity policy

UK: lots of low skill, low pay jobs

Figure 6: Low pay across the OECD: 2014 - 2015

Selected OECD countries: proportion of full-time employees earning below 2/3 full-time median weekly pay

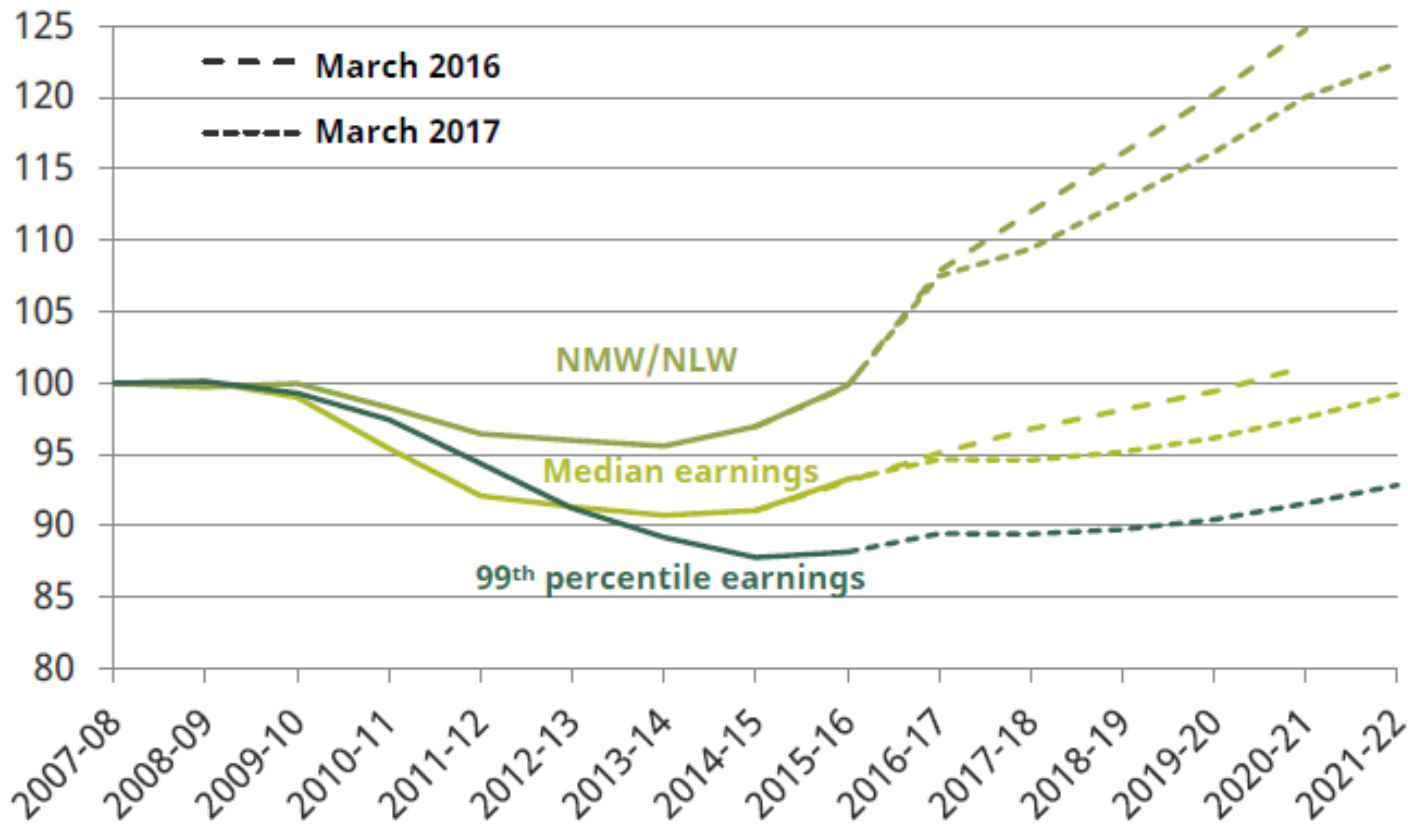


Notes: The incidence of low pay refers to the share of full-time employees earning less than two-thirds of median earnings. This is different to our measure because we refer to all employees and our data is from ASHE whereas the OECD data is drawn from their Employment and Labour Market Statistics Database

Sources: RF analysis of OECD, Wage levels, 2016

The Government is progressively increasing the minimum wage/NLW

Path of real earnings since 2007-08



Sources: OBR Economic and Fiscal Outlook (various years) and IFS calculations using Annual Survey of Hours and Earnings



Do higher pay levels pay off?



- Below market rates, answer is broadly yes
 - Lower efficiency and financial performance (Brown, Sturman et al, 2003)
 - Higher staff turnover and absence (Pfeffer, 1998) (Pret, JLP)
 - Flatter structures/more room for progression associated with higher company performance (Thompson (2000))
- Paying above market rates, evidence much more limited
 - Explains just 0.2% of added value (Watson Wyatt, 2002)
 - Attractive total rewards/brand halves recruitment premia (Conference Board, 2001)

Trends in talent management



- Recent IES study published by LFHE.
<http://www.employment-studies.co.uk/resource/talent-learning-across-sectors-executive-summary>
- The challenge of specific skills AND rapid response to changing needs + skill shortages + globalisation
- Broadening definitions and joining up pipelines for:
 - Senior leadership roles
 - Small numbers of world class experts
 - Critical, hard to recruit operational roles
- Back to careers:
 - Sustained pro-active development of core professional groups
 - Increasing management capability, especially at first line level
 - ‘Turning the dial’ on diversity at senior levels
 - Broader attention to demographic mix and social background of workforce eg engagement with education
 - Open access

Talent Management in Standard Life Aberdeen

People Strategy *defines*, Talent Management *delivers*

4 key areas:

1. Deliver the talent experience daily.
2. Accelerate and develop high potentials
3. Have appointable successors
4. View talent through one lens - internal and external talent



Key Issues 2: Closing the gender pay gap: UK reporting requirement

Monday 24 July 2017 12:01am

Gender pay gap data

Find employers

[Download data](#)

Search by:

Employer name



Filter by:

Sectors

- Agriculture Forestry and Fishing
- Mining and Quarrying
- Manufacturing
- Electricity gas steam and air conditioning supply
- Water supply sewerage waste management and remediation activities
- Construction
- Wholesale and retail trade
- Transportation and storage

Showing 1 – 7 of 7 employers

Employer

Sector

[CONTRACTOR UMBRELLA LIMITED](#)

12, St Peter's Court, St Peter's Street, Colchester, CO1 1WD

Professional scientific and technical activities

[FDM GROUP LIMITED](#)

3rd, Floor, Cottons Centre, Cottons Lane, London, SE1 2QG

Administrative and support service activities, Information and communication

[HALL CLEANING SERVICES LIMITED](#)

Knowsley Business Park, Caddick Road, Prescot, L34 9HP

Other service activities

[LOUVER-LITE LIMITED](#)

Ashton Road, Hyde, Cheshire, SK14 4BG

Manufacturing

[ONE YMCA](#)

Accommodation and food service

Firms drag their heels over mandatory publication of gender pay gap data

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Rebecca Smith

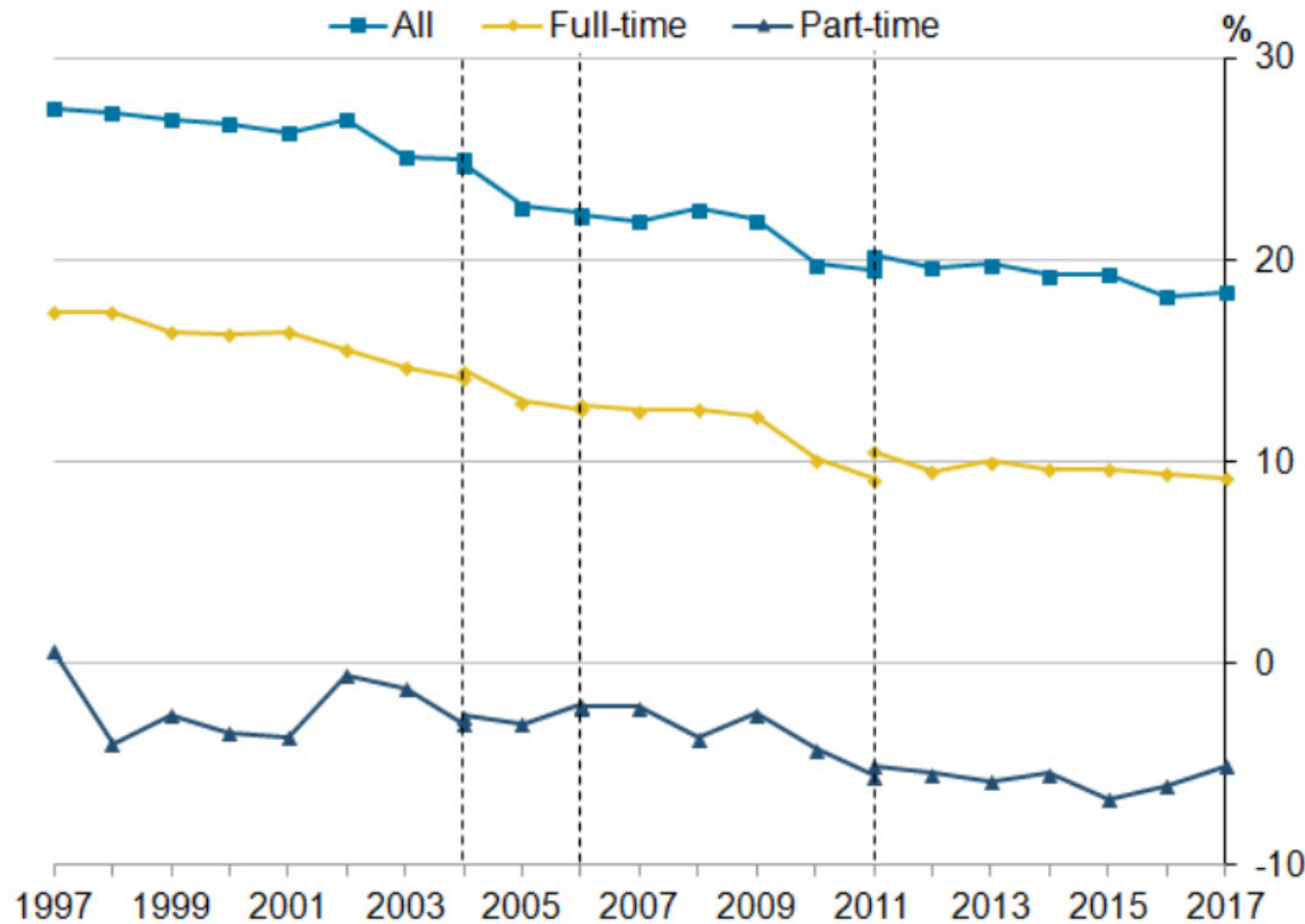
I mainly cover transport and infrastructure, along with workplace diversity. You [...] [Show more](#)

<https://gender-pay-gap.service.gov.uk/Viewing/search-results>

How did we get here? Slow decline and pleateauing in the UK's gender pay gap

(Source: ASHE: 26.10.17)

Figure 6: Gender pay gap for median gross hourly earnings (excluding overtime), UK, April 1997 to 2017



Researched factors which impact on the gender pay gap

- Flexible working:
 - New EU directive on WLB and support for parents and carers; and 44 MPs proposal to increase paternity leave (April 2017)
 - Germany Elterngeld allowance came in 2007, % fathers taking leave rose from 3% to 20%
 - My Family Care Survey: 2% take up by men - culture and pay barriers.
 - Association at the moment with lower earnings
- Recruitment:
 - Blind interviewing impact
 - Smaller gaps in female-led firms (Hensvik 2014)
 - Controlling pay setting reduces gaps (Menino, 2013)
- Education:
 - Girls taking 2 STEM subject 'A' levels had wages 33% higher (London Economics, 2015); employer training associated with 6% higher wages (Olsen, 2010)
- Source: IES report Tackling Pay Gaps, available at:
 - <https://www.equalityhumanrights.com/en/publication-download/research-report-110-tackling-gender-disability-and-ethnicity-pay-gaps-progress>



Extended reporting? Ethnicity and disability

‘Figures show that while the gender pay gap is 18.1%, there is also an ethnic minority imbalance of 5.7% and a disability pay gap of 13.6%. ... Men with depression or anxiety have a pay gap of about 30%, while women with mental health problems earn 10% less’

EHRC report. 15 August 2017

Our BAME pay gap

We review pay and bonus by gender, ethnicity, sexual orientation and different working patterns (full time to part time).

For the first time this year we are publishing our mean BAME pay and bonus gaps, calculated using the same methodology as for gender based on the data we have available (a very small number of staff have opted not to disclose ethnicity). Our analysis shows that the pay gap is entirely driven by the fact that

PwC BAME pay gap 2017

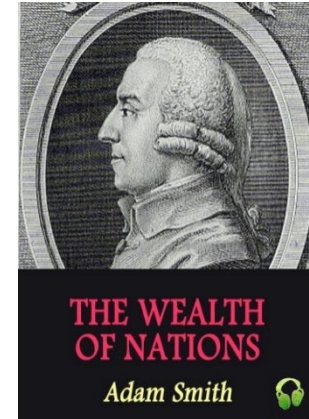
12.8%



Key Issue 3: Total rewards to EFW

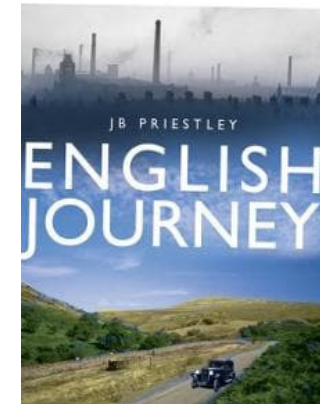
- “Workers seek to maximize their total utility of employment...their total net advantage will depend upon the agreeableness or dis-agreeableness of work, the difficulty and expense of learning, the responsibility, the possibilities of success or failure...compensating wage differentials”

Adam Smith, The Wealth of Nations, 1776



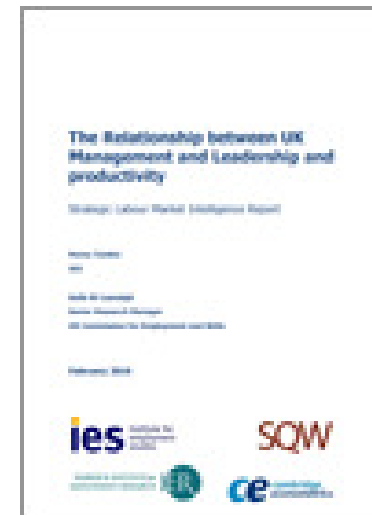
- “Magnificent recreation grounds, a large concert hall with continuation schools, medical attention, works councils, pensions... Owing to this system of paternal employment, the factory workers have better conditions, more security and infinitely better chances of leading a decent and happy life...here is definite and enormous gain”.

J B Priestley, after a visit to Cadbury’s at Bourneville, from An English Journey, 1929



Our total rewards research

- Confused terminology, difficult to isolate and research
- Complex and controversial relationships with performance and HR/reward practices
- Separate ‘camps’ with surprisingly little interaction
 - different people/functions
 - different philosophies and distinct contents
- Big change in the environment: totally rewarding for most?



Linkages on the downside - financial wellbeing, or lack of it

- 1 in 4 on verge of retirement can't afford it (Prudential, 2016)
- 12 million people are not saving enough for retirement, with two thirds of people not knowing how much they need to save for retirement (MAS, 2015)
- Some areas, e.g. annual allowance effects in public sector DB plans, fiendishly complicated
- Average pensioner income now above average of those in work (IFS, 2015)
- 80% employees expect employer support in making decisions about benefits (Hymans Robertson)
- Only 39% of people retiring last year sought financial advice, only 21% sought help from Pension Wise, of which the majority only use the website (PLSA)

Source: MAS/CIPD research <https://www.cipd.co.uk/knowledge/culture/well-being/employee-financial-well-being>

The reward, engagement, performance linkages

Culture/People Management

- Supportive supervisors
- Regular open feedback
- Team-working
- Involvement in decision-making
- Career development
- Work life balance

Rewards

- Performance pay
- Variable pay
- Based on service/quality
- Single status
- Team rewards
- Recognition

- Brown and West's study of 22 service employers found strong links between the quality of management and financial and non-financial rewards, levels of employee engagement and customer/public service and financial performance

Staff Attitudes/ Engagement

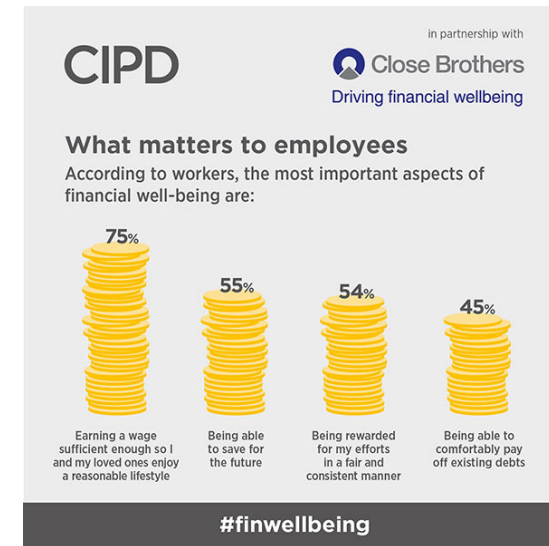
- Satisfaction with pay & recognition
- Treated fairly
- Feeling involved & developed
- Commitment

Performance



Implications

- Rather than copying a set of sector/market HR and reward practice :
 - research the drivers and determinants of your own employees' engagement levels and
 - explore how total reward can and could influence them.
 - give employees choice where possible
 - use recognition schemes
 - get rid of small inequities
 - train managers to communicate about reward
- A process to pursue:
 - Examine your current strategy and culture:
 - Build an engagement model(s)
 - Assess/amend reward programmes - direction and delivery, not just design
 - Measure, monitor and evolve/adapt
- In Sum:
 - Know your organisation direction and values
 - Know your people
 - Be evidence-based but totally rewarding
 - Recognise the importance of pay and link to productivity
 - Get out of the organisation more, play on the wider social agenda




Thanks



Last Week: A big bad hangover for womens' politics and pay

Published on November 13, 2016

 **Duncan Brown**
PhD, FCIIPD - Head of Consulting at Institute for Employ...

 26  1  3 

Martin Rowson's brilliant cartoon in *the Guardian* yesterday pictured a very drunk and disreputable 2016 driver smashed into a bloody lamppost, making the lame excuse that

Duncan leads the HR Consultancy and Research work at IES, a leading independent research-based charity which supports improvement in HR and employment practice.

He has more than 25 years' experience in HR consulting & research with Aon Hewitt, PwC and Towers Perrin. He spent 5 years as Assistant Director General at CIPD.

His clients have included major companies such as National Grid and Lloyds Banking Group, public sector bodies such as the Cabinet Office and National Health Service and not-for-profits such as Cancer Research and the United Nations.

Duncan is a leading commentator on HR, and publishes widely. His last book was on reward effectiveness.

He has participated on Government taskforces concerned with fair pay, engagement, pensions and human capital reporting. He advises a number of remuneration committees *Human Resources* magazine placed him in its listing of the top 5 most influential thinkers in UK HR.

Duncan has an MA from Cambridge University, an MBA from the London Business School and is a Fellow of the CIPD. He is a Visiting Fellow at Kingston University where he obtained his PhD in reward strategy earlier this year.

Read his blogs at:

<http://www.employment-studies.co.uk/news-press/ies-reflects>

<http://www.cipd.co.uk/pm/members/duncanbrown9000272/default.aspx>

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