

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

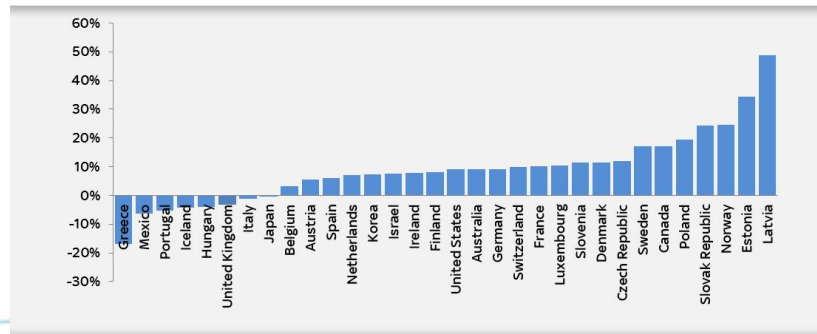
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Dr Duncan Brown,
Head of HR Consultancy
November 2017

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

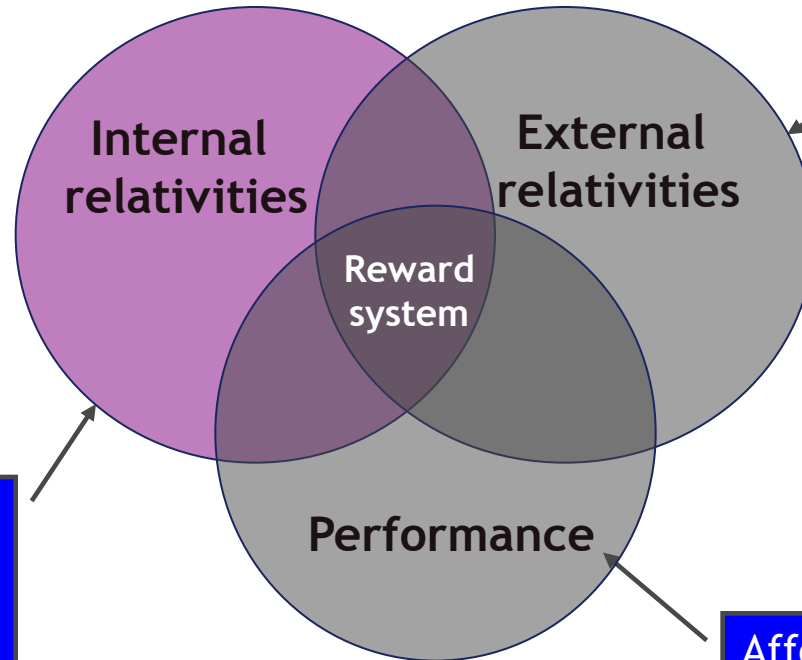


Have we forgotten what some terms mean and some basic tenets of HR?

- 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)



Fairness: Taking account of:

- Job content
- Equal pay issues
- Grading structures

Flexibility: Competing for the talent that the business needs in the recruitment market, measured through external benchmarking

Affordability: Taking account of:

- Achievement of annual objectives
- Longer-term contribution and potential

What's the UK Context?

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

Home > News > UK & World

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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BMW workers to stage first UK strikes over pensions

© 5 April 2017 | Business

Pay settlements past year

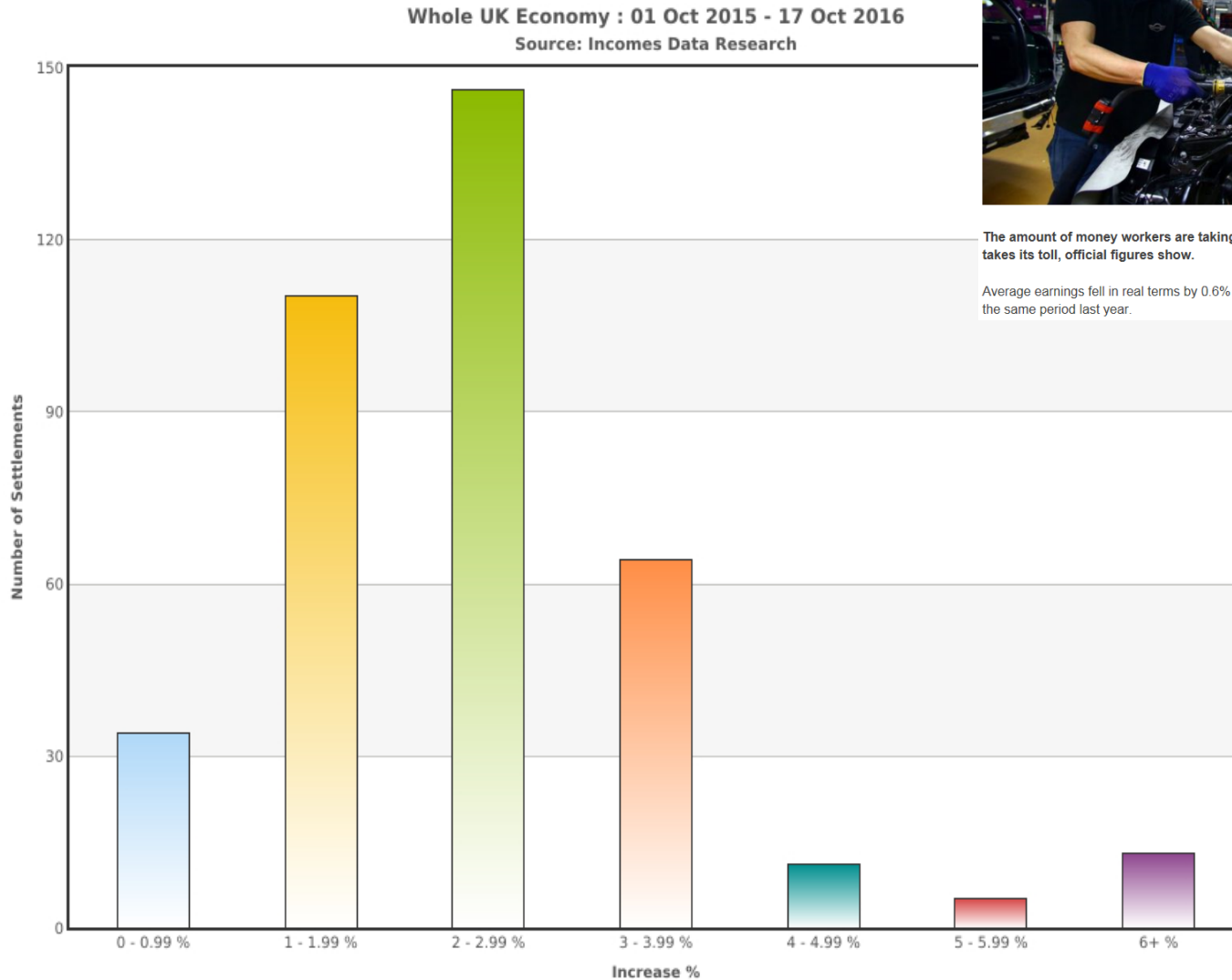
Wages hit by higher inflation

31 minutes ago | Business

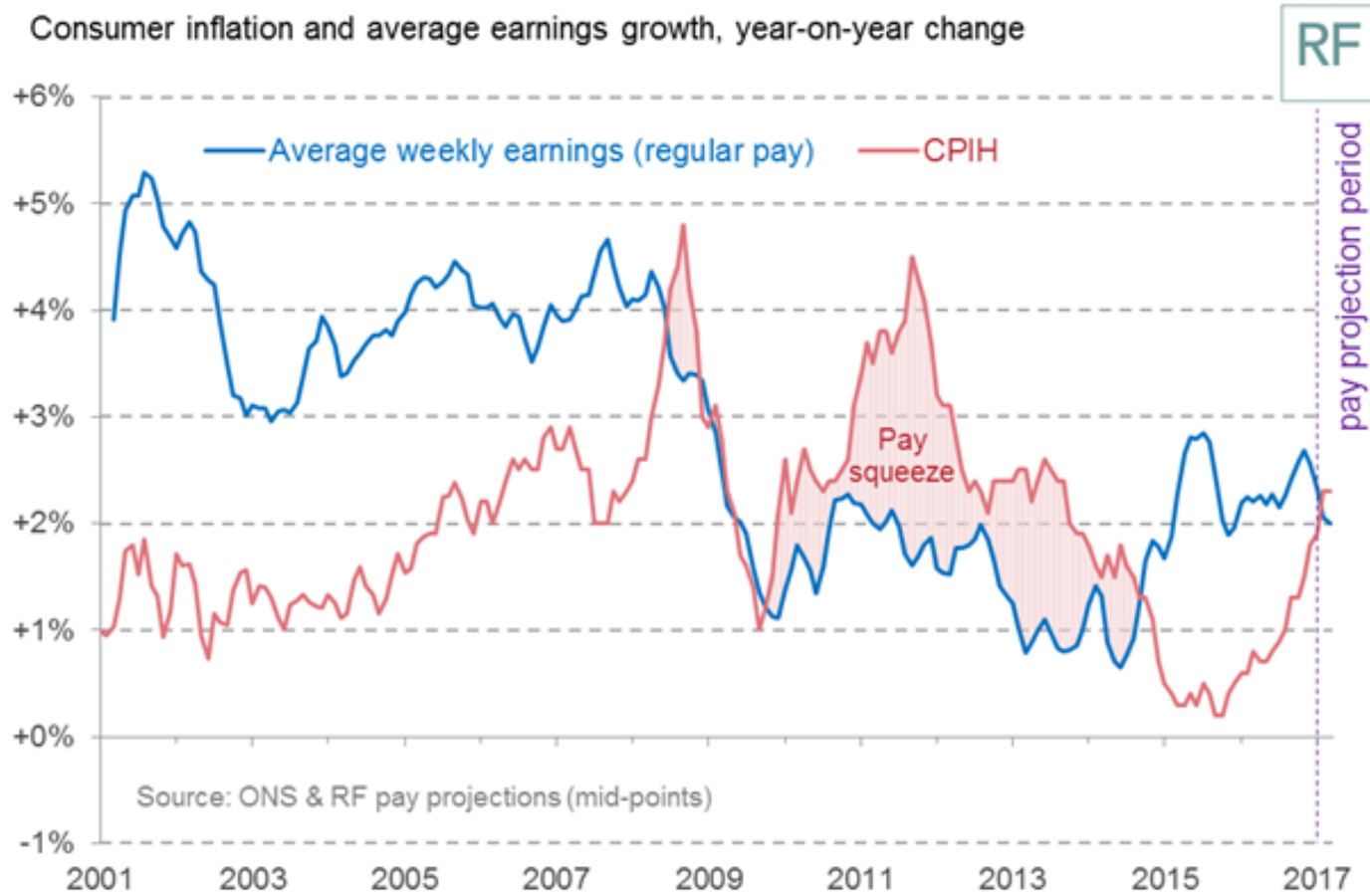


The amount of money workers are taking home continues to fall as inflation takes its toll, official figures show.

Average earnings fell in real terms by 0.6% in three months to April, compared with the same period last year.

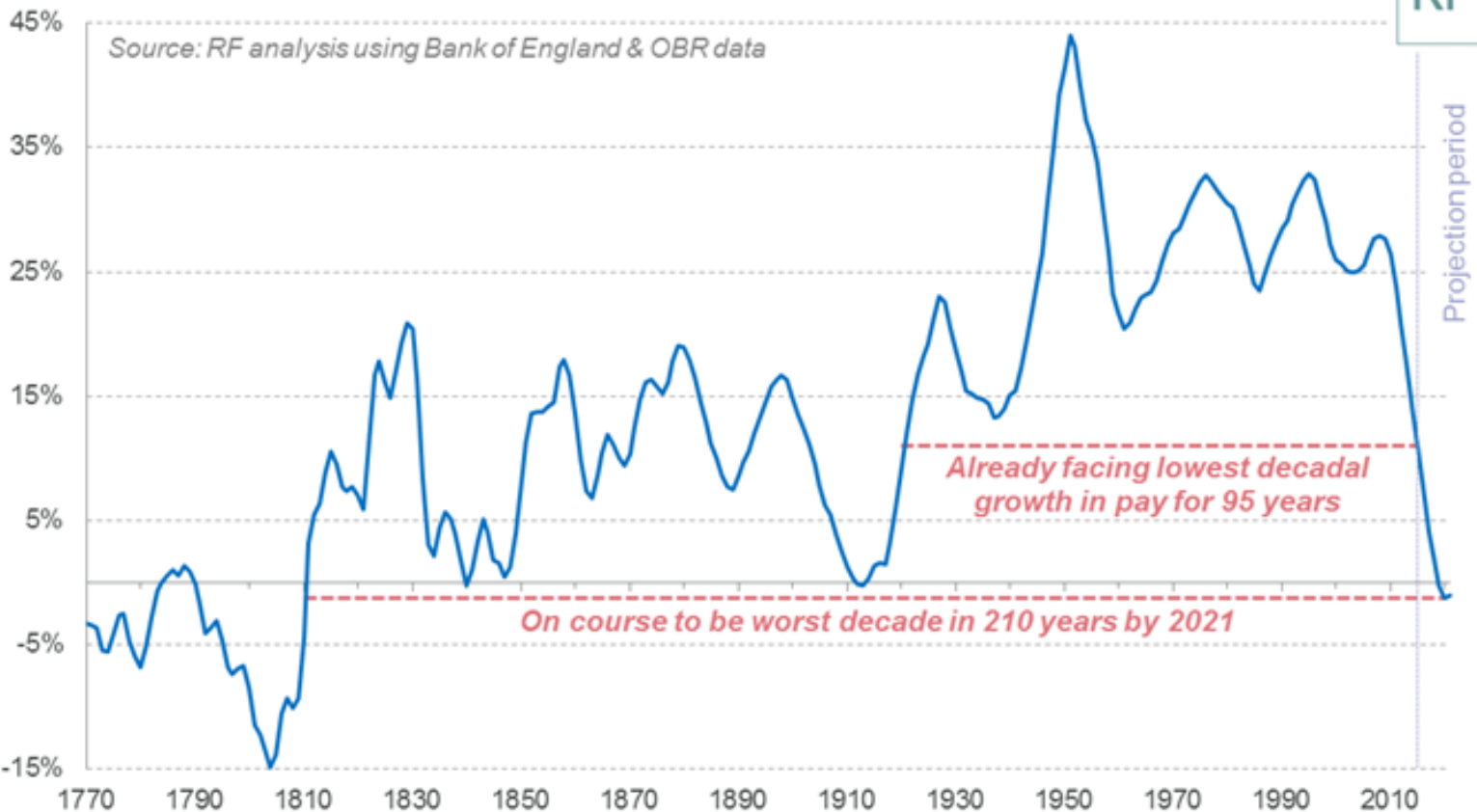


Back in real pay cut land

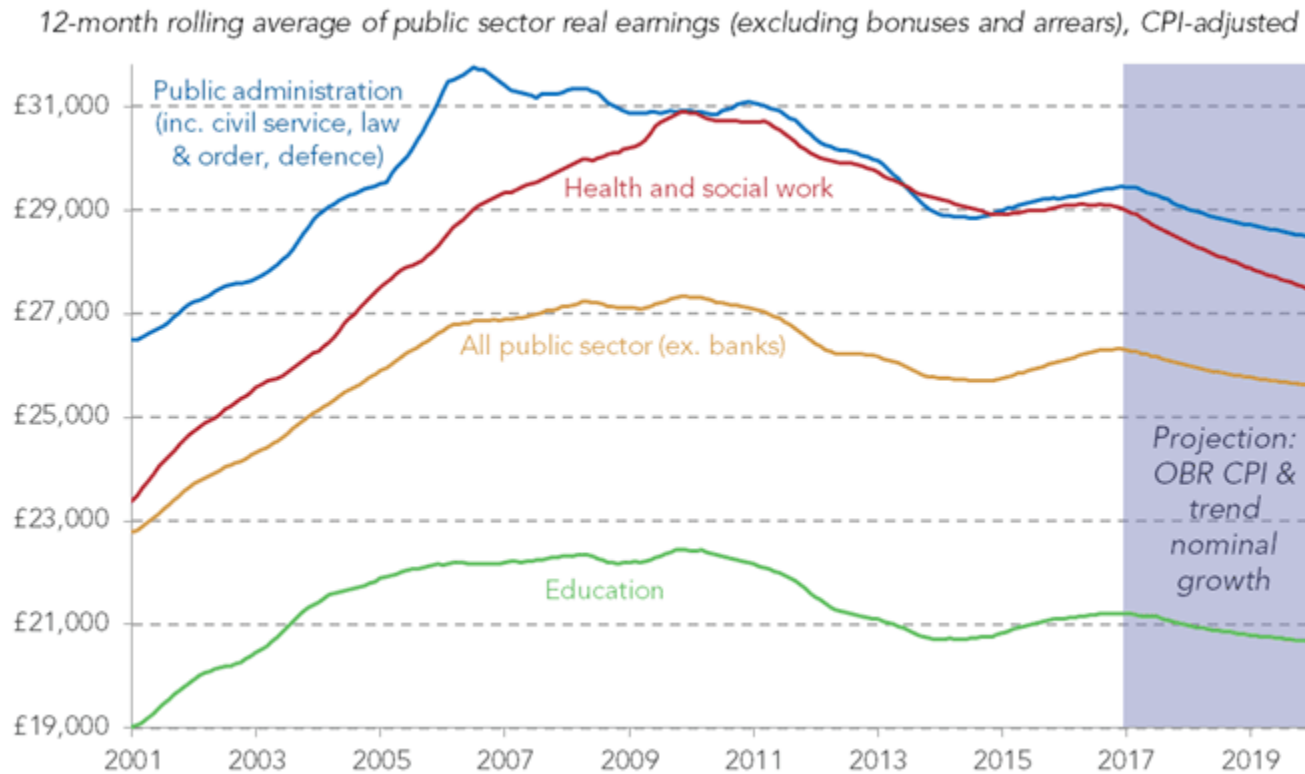


The worst decade for pay for over 200 years

Change in average pay between last 10 years and 10 years before (inflation-adjusted)



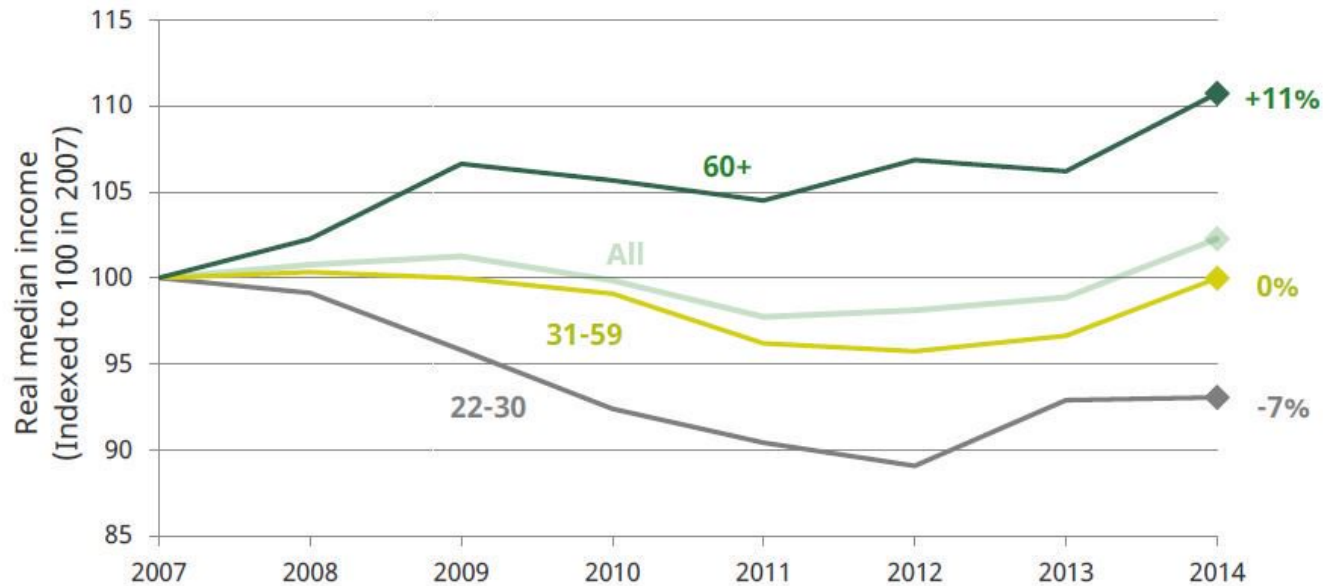
Public sector hit particularly hard



...and young people

What has been happening to living standards?

Real median income (2007-08=100)



Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

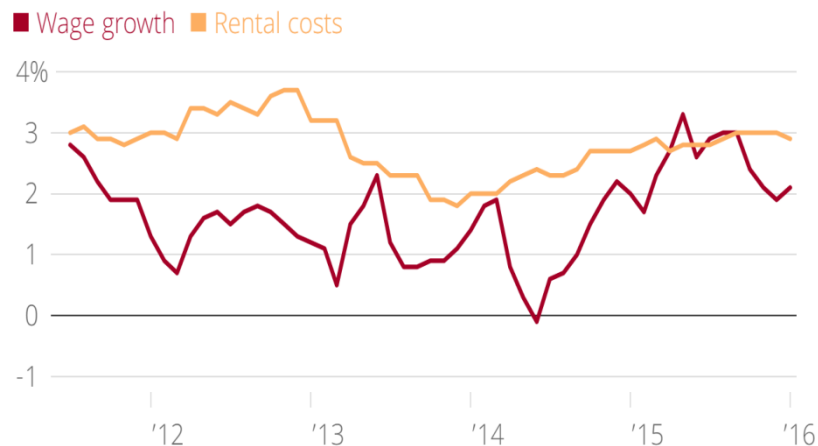
Living costs rising above wage and price inflation



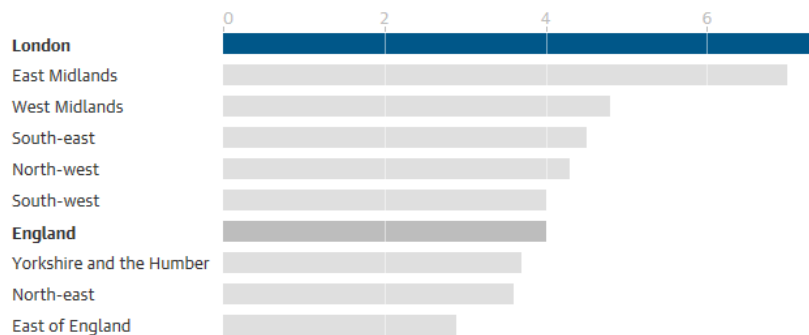
© Nationwide

Source: Nationwide, ONS

Annual change in wages and rents



The cost of childcare in London rose 7.4 times faster than wages from 2008-2016



Guardian graphic | Source: Labour Force Survey, Family and Childcare Trust. NOTE: Cost of childcare for a one-year-old child rose 59% in London and 49% in England while wages increased 8% and 12% respectively

What's the UK Context? Cont'd

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

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

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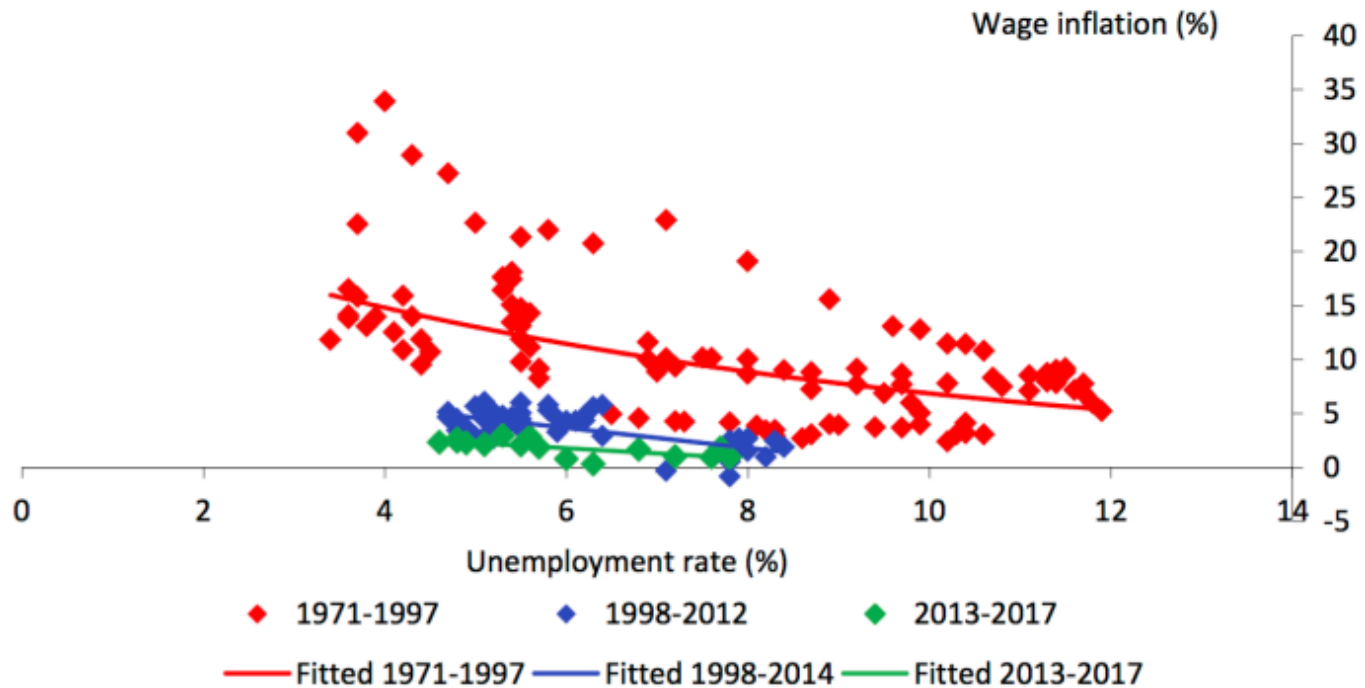
Business Your Money Market Data Markets Companies Economy

BMW workers to stage first UK strikes over pensions

5 April 2017 | Business

Traditional relationship of earnings growth and unemployment broken down (source: FlipchartRick)

Chart 3: UK Phillips curve

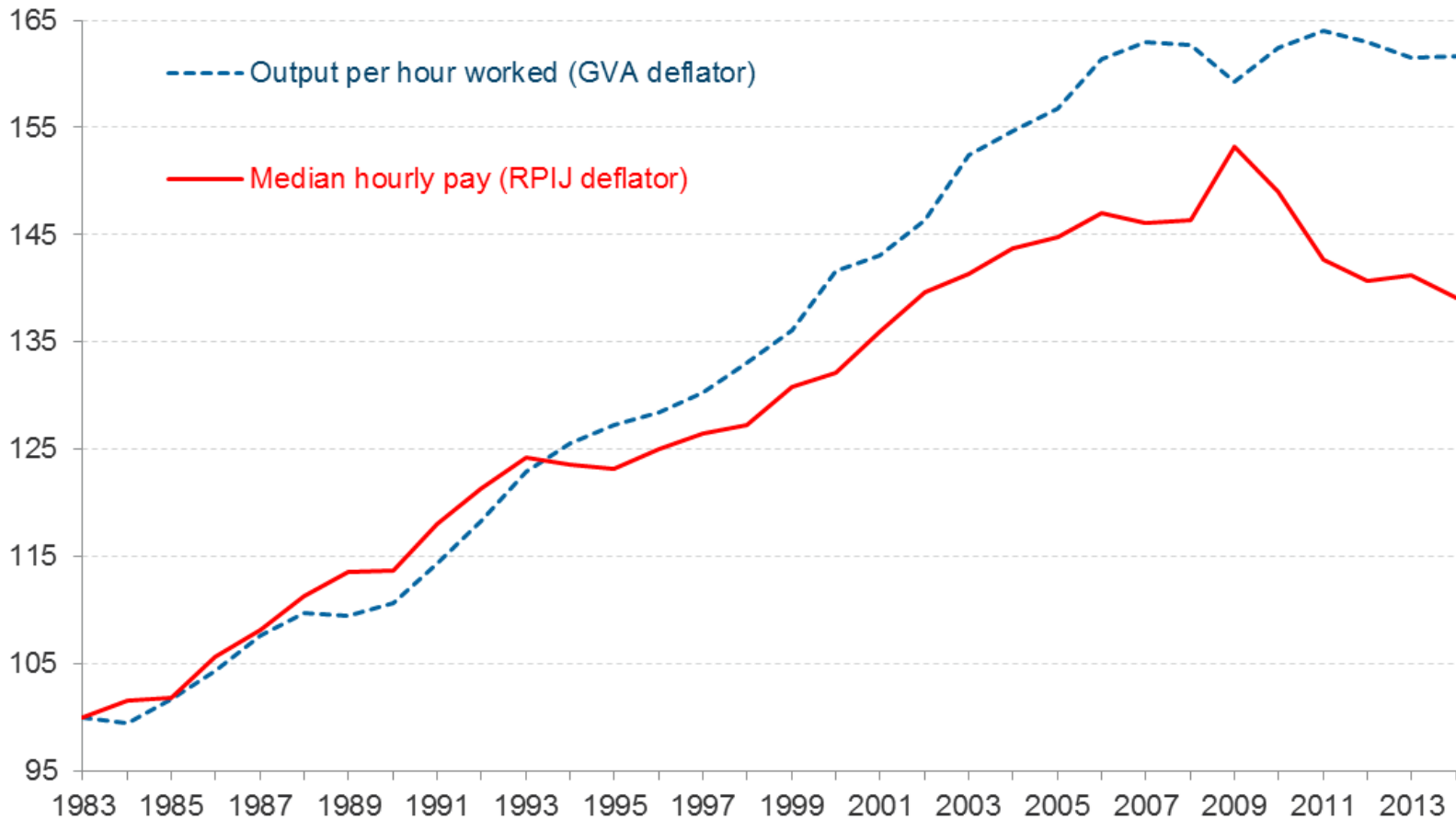


Sources: ONS and Bank of England calculations.

Notes: Wage inflation refers to annual whole economy total pay growth.

...as has the link between productivity and earnings growth

Indices of real-terms productivity and pay: 1983 = 100



UK unique: economic growth but pay decline



Growing inequality

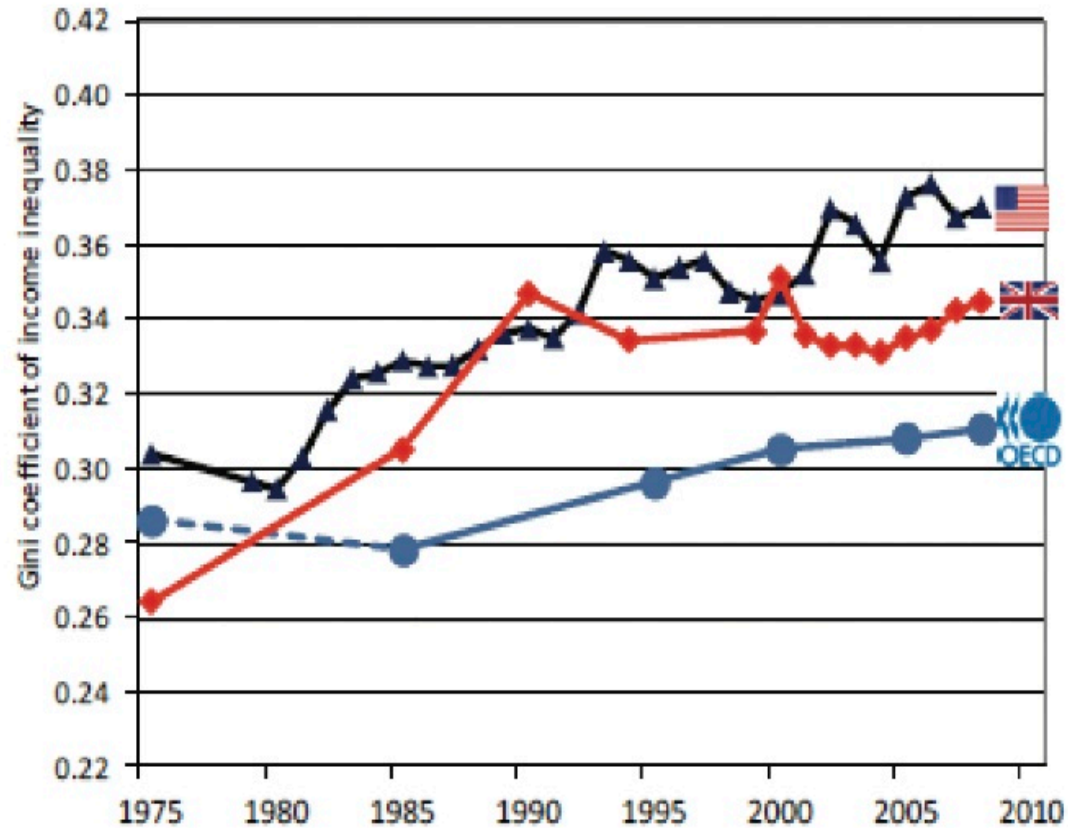
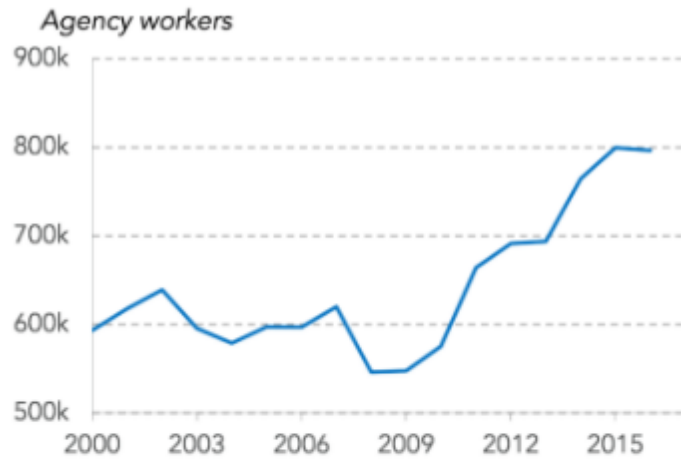


Figure 1. Trends in inequality of disposable income
Source: OECD 2011. 'Divided We Stand: Why Inequality Keeps Rising'

Employers have cut investments in skills and training



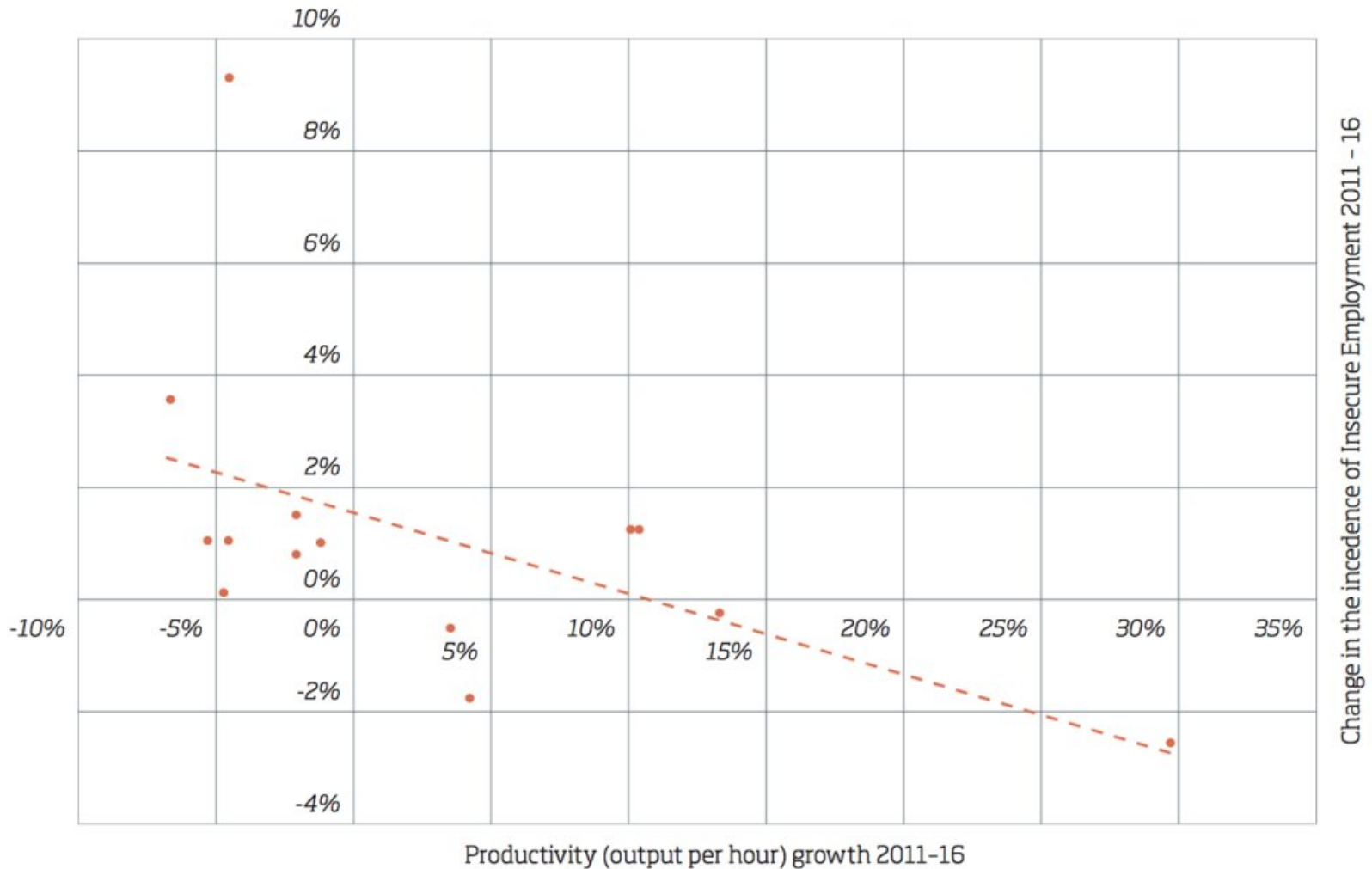
Too flexible employment?



Is this at the heart of the UK's low productivity?

(Source TUC)

Figure 4: Productivity Growth and Change in the Incidence of Insecure Employment 2011-16



Engagement? (Source Aon Hewitt UK, n = 475,000)

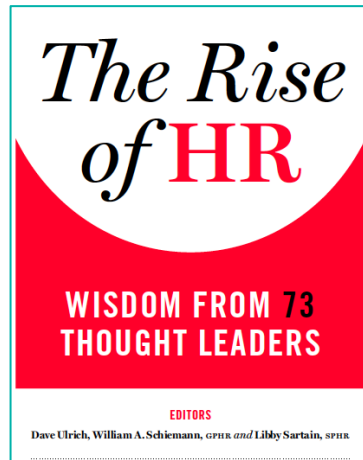
Engagement Question	Agree/Strongly agree
▪ We work hard here to meet customer expectations	77%
▪ I respect my co-workers	73%
▪ I get a sense of accomplishment from my work	65%
▪ I have a good understanding of my department's goals	60%
▪ My manager provides the support I need	60%
▪ My future career opportunities here look good	35%
▪ There is an effective process to identify my development needs	32%
▪ I receive valuable career guidance	27%
▪ If the organisation does well I share in our financial success	43%
▪ This is one of the best places to work	38%
▪ I am paid fairly compared to outside	40%
▪ I am fairly paid for my contribution	39%
▪ I receive appropriate recognition	38%
▪ My performance has a significant impact on my pay	36%
▪ Reward and recognition are fair and transparent	28%
Highly engaged	12%
Partly engaged	35%

So what are we focused on? The current vertical agenda

- The top reward priority has been to better motivate and **reward high performers**, along with delivering a better return on the total reward investment
- What measures in our exec bonus plan?
- What new voluntary benefits to introduce?
- How do we comply with GPR, etc....?

	Priority / Rank
Rewarding & Motivating high performers	1
Ensuring pay/incentives are tied to performance	2
Retention of key staff	3
Getting the most from Total Reward	4
Staff engagement/ morale	5

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





Are pay awards too low? More than $\frac{3}{4}$ employers report skill shortages (Source: Mercer)

UK BORN WORKFORCE 1993 TO 2030






Impact of a 10% increase in the minimum wage: research drove the UK thinking

Restaurant Sector

- Average earnings  2.0%*
- Prices  0.7%*
- Employment  0.1%
- Turnover rate  2.1%*

Teens

- Average earnings  2.2%*
- Employment  0.6%
- Turnover rate  2.0%*

Sources: Aaronson (2001); Dube, Lester Reich (2010, 2014)

High skilled, higher paid work pays off

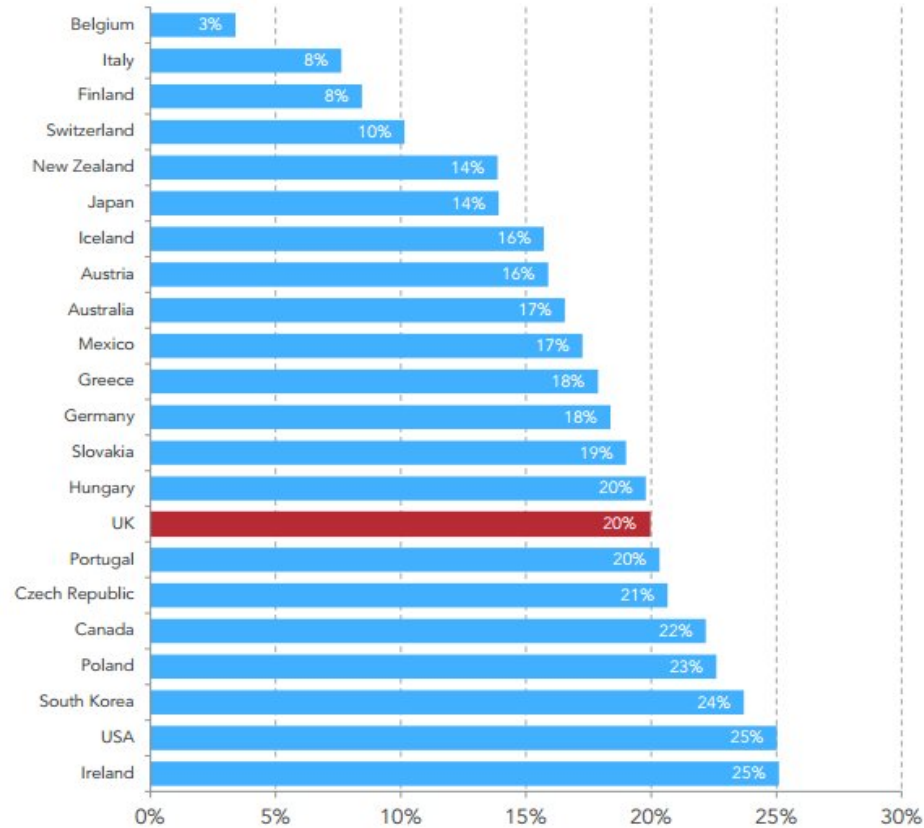
“A big chunk of our productivity gap with countries like Germany is rooted in the failure to equip people with adequate skills” John Van Reenan, LSE, 2015

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

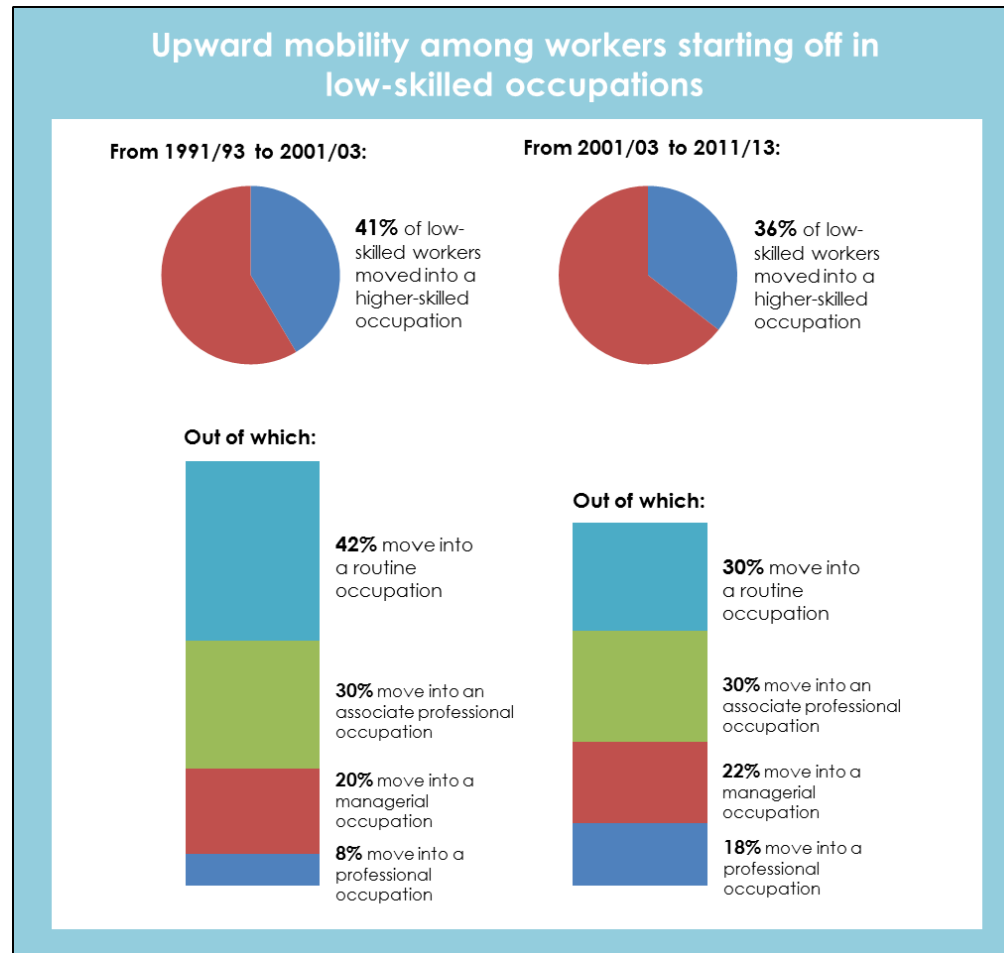
Selected OECD countries: proportion of full-time employees earning below 2/3 full-time median weekly pay



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

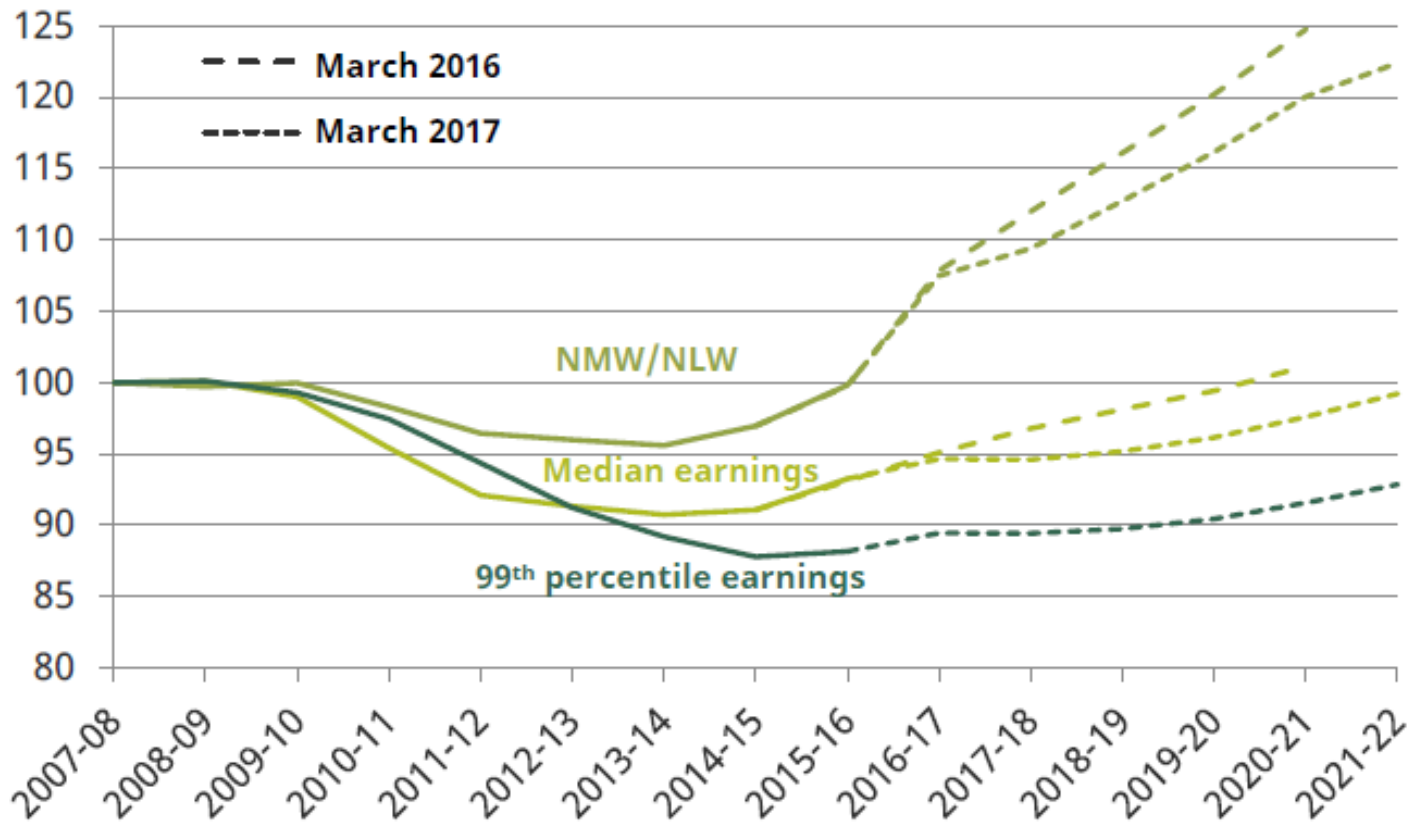
Sources: RF analysis of OECD, Wage levels, 2016

Declining social mobility out of low paid jobs



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)

A reversal of delayering & broadbanding? New grade structure in one retailer

“The potential for upward mobility in many UK employers has been diminished ..cost pressures have created two-tier workforces”
John Philpott, 2015

Management	Specialist
Supervisor	
	Technical Adviser 2
Senior Adviser	Technical Adviser 1
Adviser II (3 steps/rates)	
Adviser 1	

“This year, Waitrose introduced a new product specialist role in Fruit, Vegetables & Flowers, with an accredited Level 3 qualification from City & Guilds. 500 Partners completed the learning for the new specialist role”.

Trends in talent management

The Elements of Effective 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

hnical

[FDM GROUP LIMITED](#)

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

Administrative and support service activities, Information and communication

rvice

on

[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

vice

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

Share



Rebecca Smith

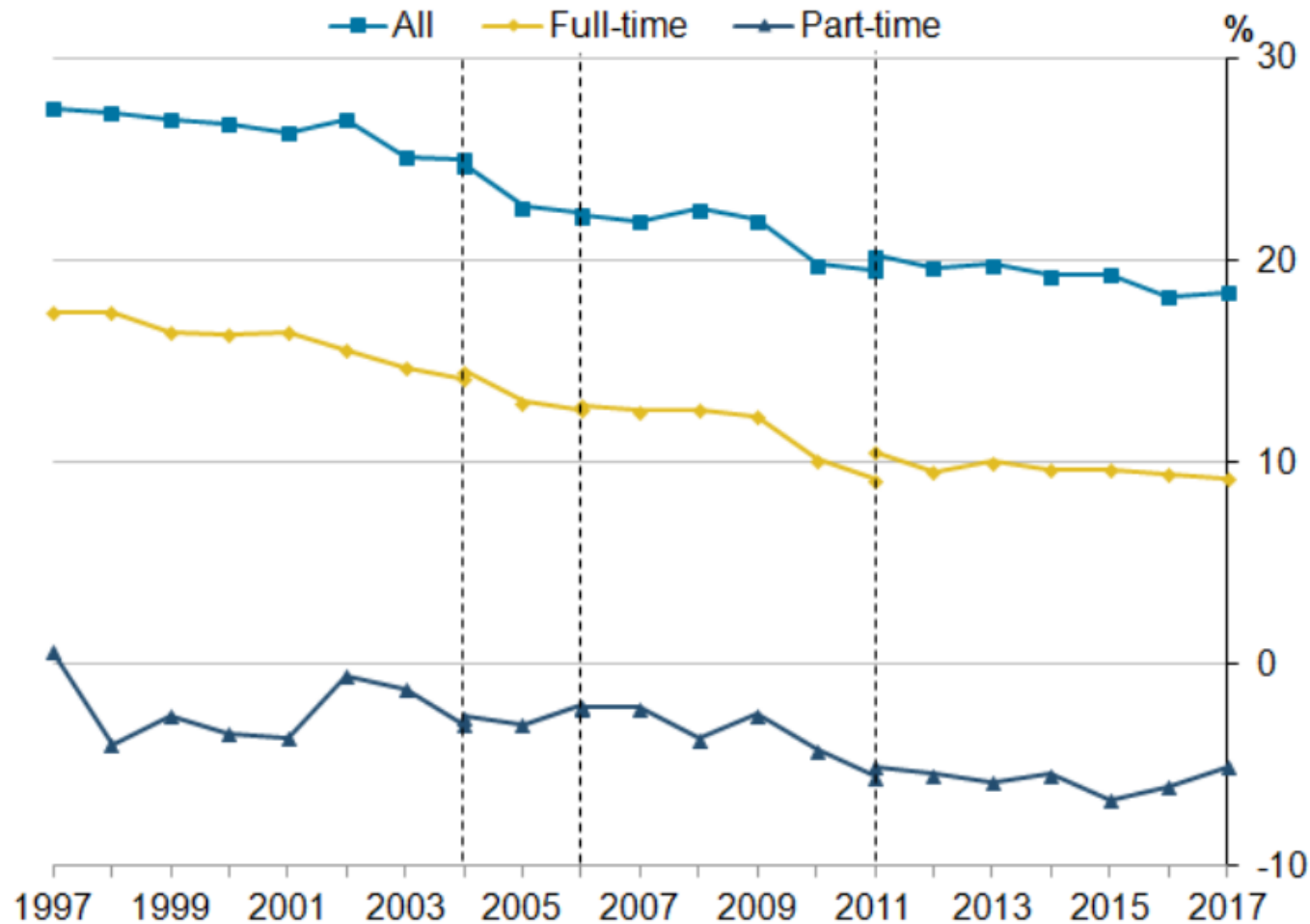
I mainly cover transport and infrastructure, along with workplace diversity. You [...] [Show more](#)

<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



The solution to the gender pay gap?

Women in Leadership

Salesforce and equal pay: the tech giant is putting its money where its mouth is

When head of HR, Cindy Robbins, first told Salesforce's CEO, Marc Benioff, that women were paid less, he didn't believe her. Now he's spending \$3million fixing the problem

f t e ...
O ^
Patricia Fletcher
Monday 23 November 2015 12.23 GMT



For Cindy Robbins, attracting more women to Salesforce is about culture as well as pay. Photograph: Salesforce

INTEL

Intel Says it Paid its Male and Female Employees Equally in 2015

Valentina Zarya
Feb 03, 2016



2015 was a good year to be a woman at Intel—at least when it comes to getting paid fairly.

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Brighton binmen resume industrial action

21 January 2015 | Sussex Share



News > Education > Education News

Essex University gives female staff one-off pay rises in order to close gender pay gap

The university has been commended by union members for what is believed to be the first direct action of its kind to address gender pay disparity

Rachael Pells | @rachaelpells | Friday 3 June 2016 10:50 BST | 4 comments

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%



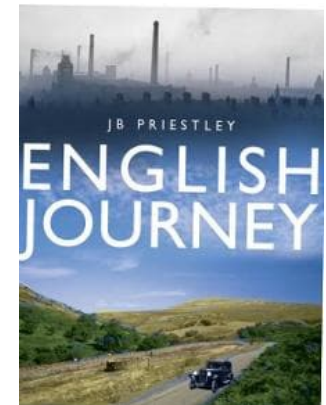
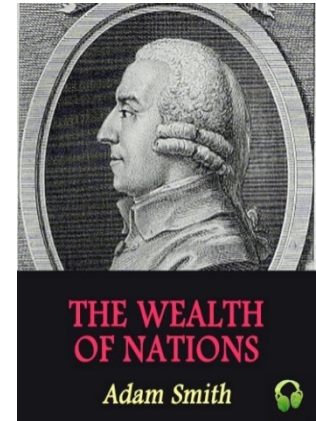
Key Issue 3: Total rewards to EFW

- “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

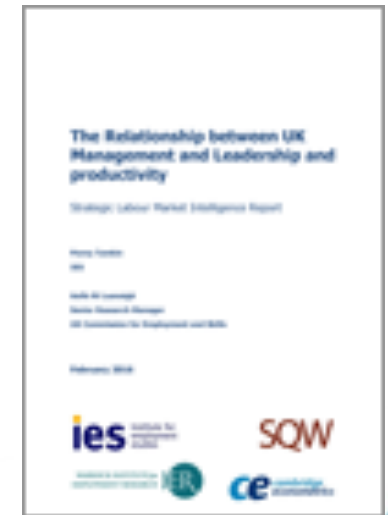
- “Magnificent recreation grounds, a large concert hall with continuation schools, medical attention, works councils, pensions... Owing to this system of paternal employment, the factory workers have better conditions, more security and infinitely better chances of leading a decent and happy life...here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

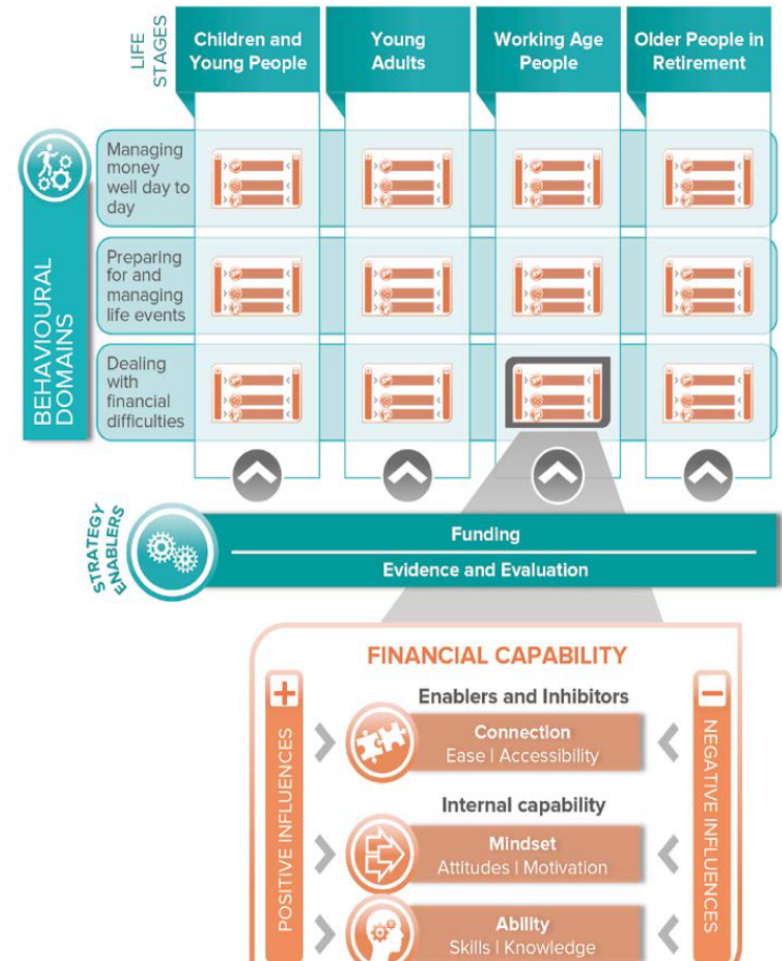
- 1 in 4 on verge of retirement can't afford it (Prudential, 2016)
- 12 million people are not saving enough for retirement, with two thirds of people not knowing how much they need to save for retirement (MAS, 2015)
- Some areas, e.g. annual allowance effects in public sector DB plans, fiendishly complicated
- 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>

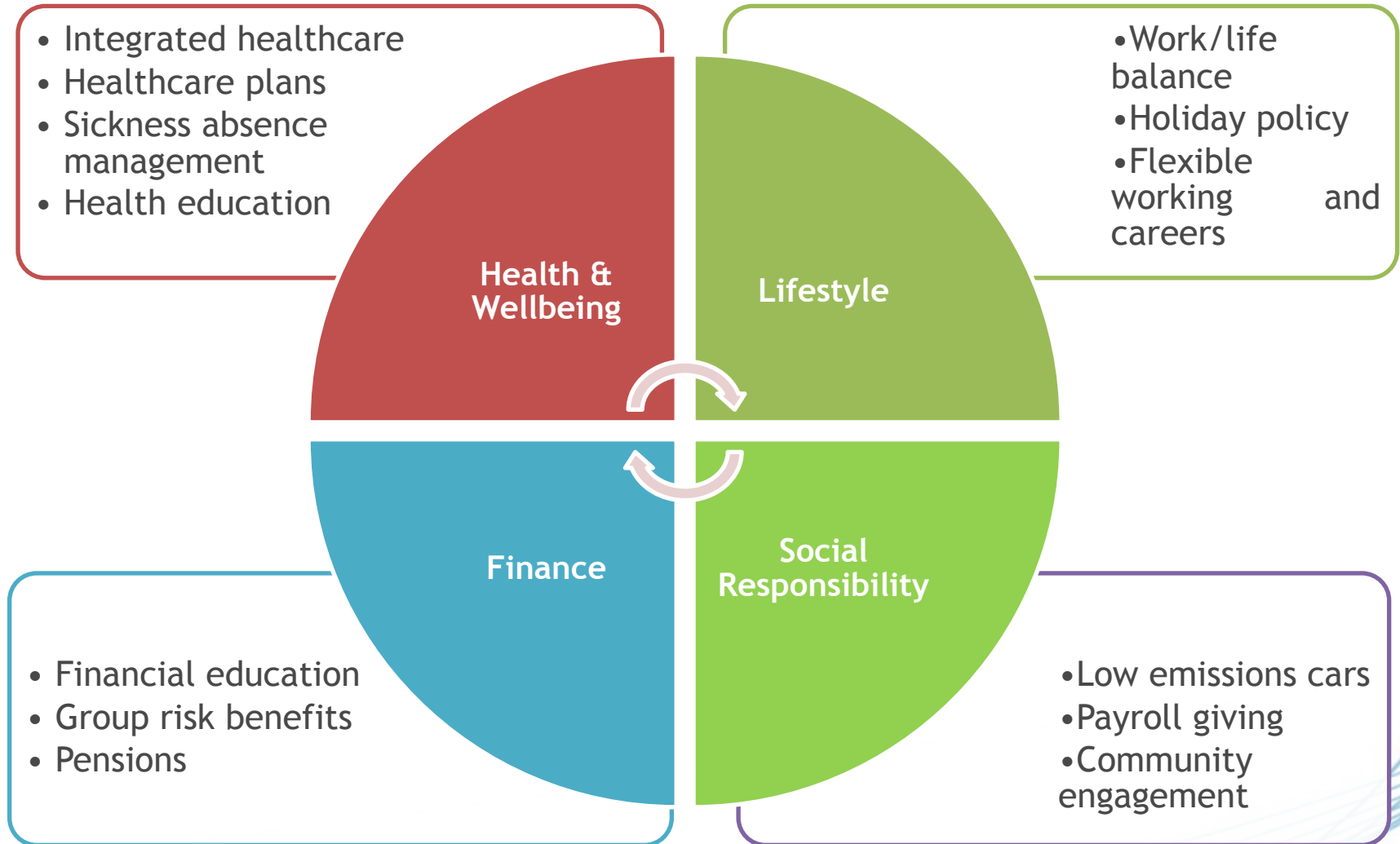
Employee Financial Wellbeing?

- Feeling comfortable, in-control of your financial situation, making the most of your financial resources
- ‘Objective’ elements (pay, benefits, expenditure) but also ‘subjective’ elements - enjoyment, appreciation, anxiety etc
- Financial capability and behaviour depends on knowledge/skills, attitudes/motivation and accessibility/ease of access
- It recognises irrespective of the package we provide, an employee’s wider financial situation is relevant to their behaviour, health and performance at work.
- It is **not**:
 - just our financial rewards package
 - just an issue for low-paid people
 - just financial education and information
 - Offering financial advice (which is regulated)

Figure 1: The Financial Capability Strategy Framework



Arup Approach



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

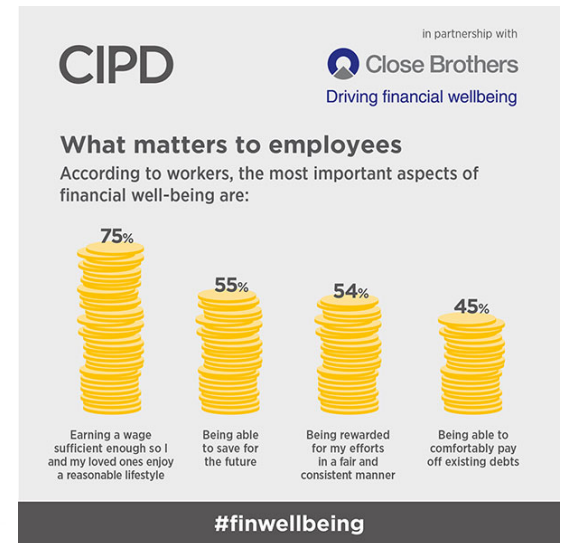
- Satisfaction with pay & recognition
- Treated fairly
- Feeling involved & developed
- Commitment

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

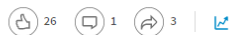


Last Week: A big bad hangover for women's politics and pay

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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.

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