

Benchmarking compensation: 'Let the market rip'?

Or

From market surveys to workforce plans

IES for EB Live, 2016

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About IES

- Leading independent 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



Recent projects

- Re- designing senior reward and recognition strategy for an English university
- Review and re-design of the KSF performance management system in the NHS
- Evaluating the success of the government's apprenticeship growth programme
- Surveying the career intentions of university leavers
- Reviewing and evaluating youth unemployment initiatives in the EU
- Review of labour turnover in a government department
- Design of all employee bonus plan in an IT company
- Looking at options of HR service structure in a fast growth firm
- Development programme for an HR team in a local authority

Some questions

- How happy are you with the market data you receive?
 - Cost/value
 - Quality
- How much difference do you think it makes to staff recruitment and retention?
- How much time do you spend on workforce planning relative to market pay surveys?
- Think of a job in your employer where the market data comes out much higher than the perception of internal value. Do you:
 - Pay a market supplement?
 - Pay more base pay?
 - Introduce a job family/technical ladder?
 - Ignore the difference?
 - Look at the labour supply and your workforce plan?

Aims today

- Review the effects of tightening labour market on how pay is managed
- Question the effectiveness of common responses:
 - Survey the market
 - Pay a market supplement
- Consider some alternative/additional responses:
 - Labour market studies and workforce plans
 - Studying staff attitudes and reasons for leaving
- Written up in:

<http://www.employment-studies.co.uk/news/back-future-pay-benchmarking-brexit-induced-strategic-hr-planning>

<http://www.employment-studies.co.uk/system/files/resources/files/op26.pdf>

What's happening with market pay comparability?

“There is remarkably little contemporary academic literature on occupational pay comparability” Findlay, 2014.

Pay comparability: “the processes through which organisations classify and reward jobs” ibid

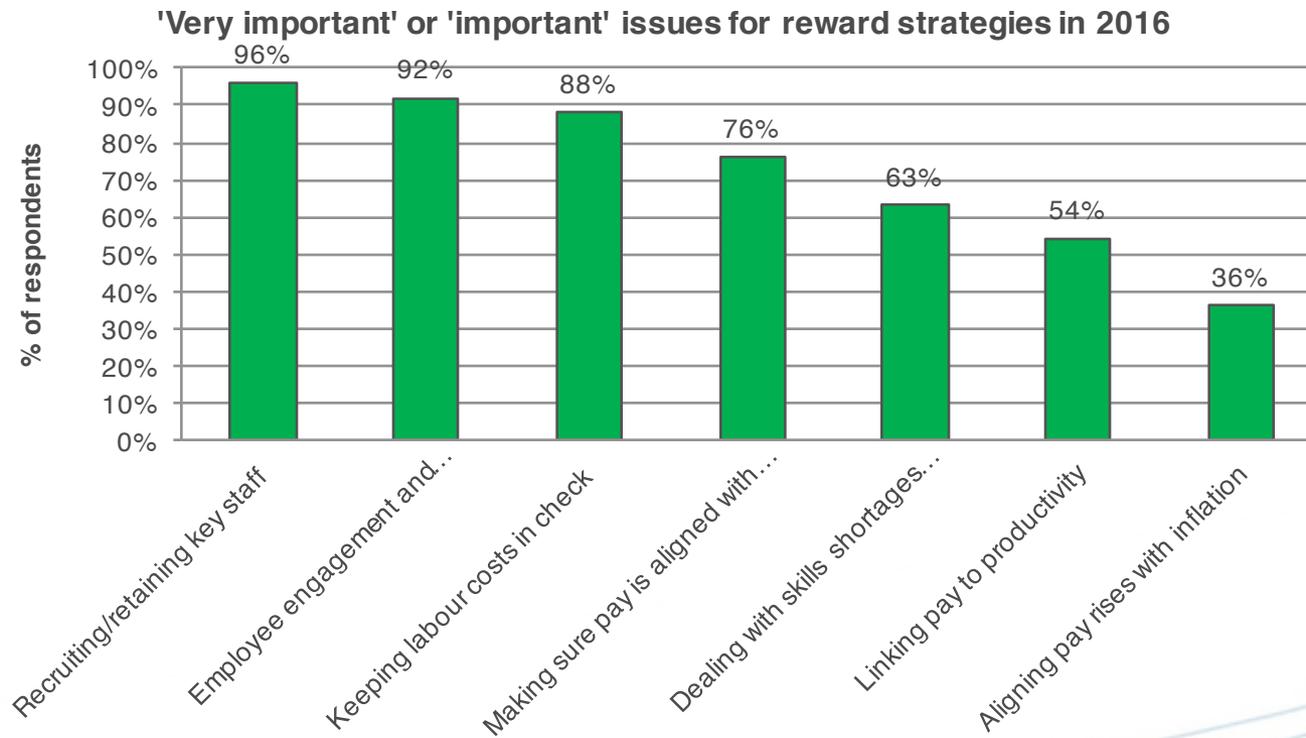
Job evaluation: “a systematic method to determine the relative worth and size of jobs within an organisation, in order to establish internal relativities” Armstrong, 2012

What's happening with market pay comparability?

- Growing concerns at recruitment and retention with record numbers in employment.
- The death of job evaluation hasn't happened, but its purpose and design has shifted.
- Huge growth in market survey benchmarking activity.
- Growth of more market-driven pay comparability and pay management approaches eg levelling/ classification methods
- Spread of technical ladder and job family approaches/differentiation by function.
- Spread of total reward applications and greater attention to reward communications - total reward statements, flexible benefits etc.
- But is this addressing turnover and retention?

What are other UK employers focusing on?

- IDR's latest survey of strategic reward issues at the end of 2015 highlighted growing concerns over staff retention and recruitment, particularly amongst employers in London. The priorities vary surprisingly little by sector, with more emphasis on rewarding performance, contribution and productivity in the private sector and cost concerns still predominant in the public sector.
- CIPD's latest 2015 rewards survey similarly finds 'ability to pay' as the most important policy driver at present, ahead of concerns at market competitiveness/rates (n = 525).



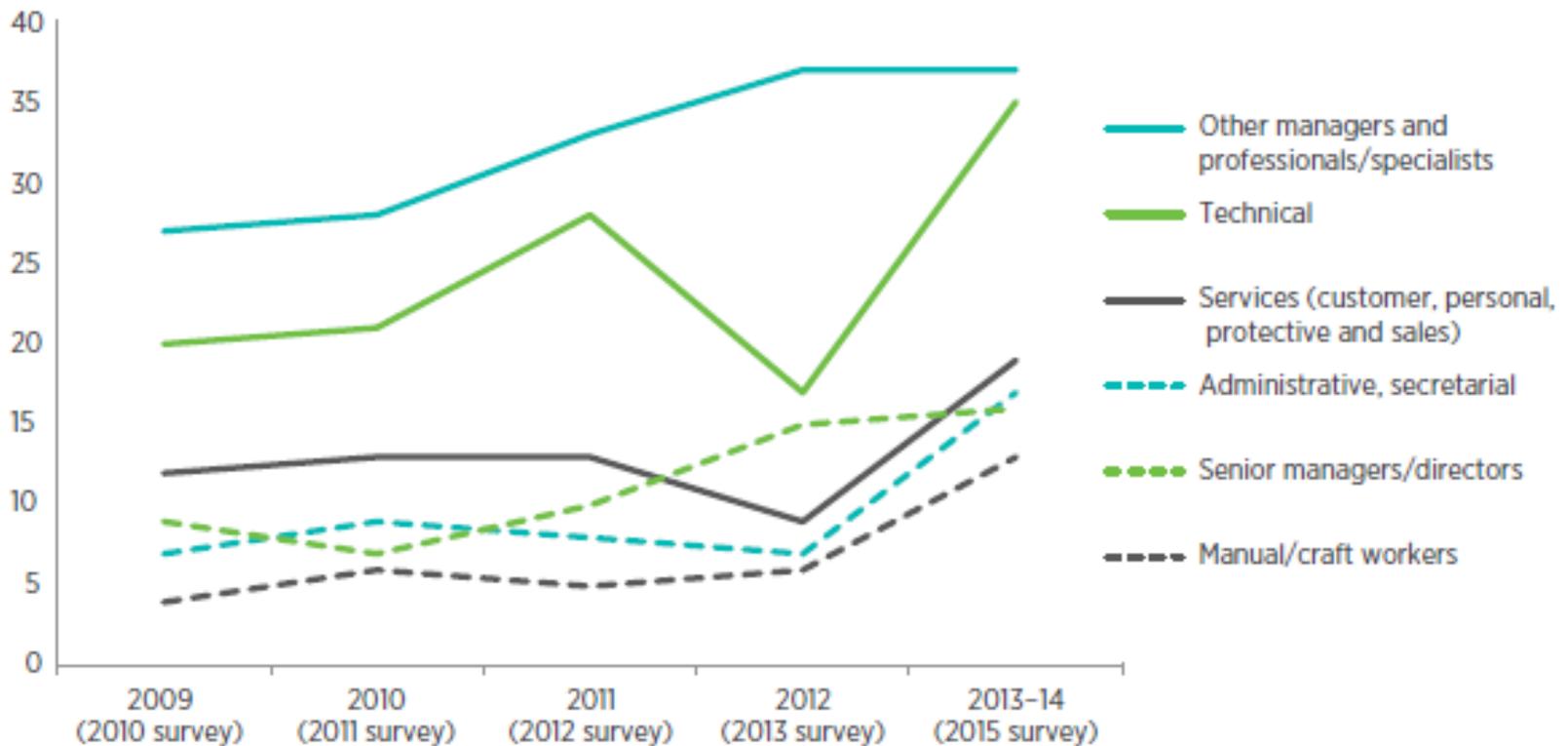
The external labour market situation

- May 2016 ONS stats:
 - UK unemployment 5.1% down 0.5% on 12 months previously;
 - Earnings growth 2% pa versus 1.9% 12 months ago, private sector 2.1% and public sector 1.6%.
- Graduate starting pay rates £24,000 at the median, the same nominal rate as 2008.
- The CIPD Annual Survey of Resourcing and Talent (2015) found:
 - ¾ employers (78%) recruitment problems, common for managers/profs/specialists,
 - training and upskilling are commonest employer responses, and ‘improving employer brand’.
 - 77% retention issues, first increase in average labour turnover since 2010, to 13.6%.
 - Employer responses: improve pay/benefits; more training; improving line management
 - Public sector organisations significantly less likely than the private sector to have improved pay (28% compared with 56% of private sector) or benefits (24% vs 44%).
- XpertHR (2015) median voluntary resignation rate in the whole economy 12.8% (15.3% on average); and the median total labour turnover rate 18.5% (20.7% on average).
- Public sector median voluntary resignation rate is lower at 9.3% (11.5% on average); the median total labour turnover rate 13.4% (14.1% on average) (2014 figures).

Trends in labour turnover by staff group

(Source: CIPD)

Figure 19: Retention difficulties, by occupational category and year (% of respondents)



Base: 280 (2015 survey); 426 (2013 survey); 491 (2012 survey); 601 (2011 survey); 451 (2010 survey)

Steps taken by employers to address retention (Source: CIPD, 2015)

Table 10: Steps taken specifically to address staff retention (% of respondents)

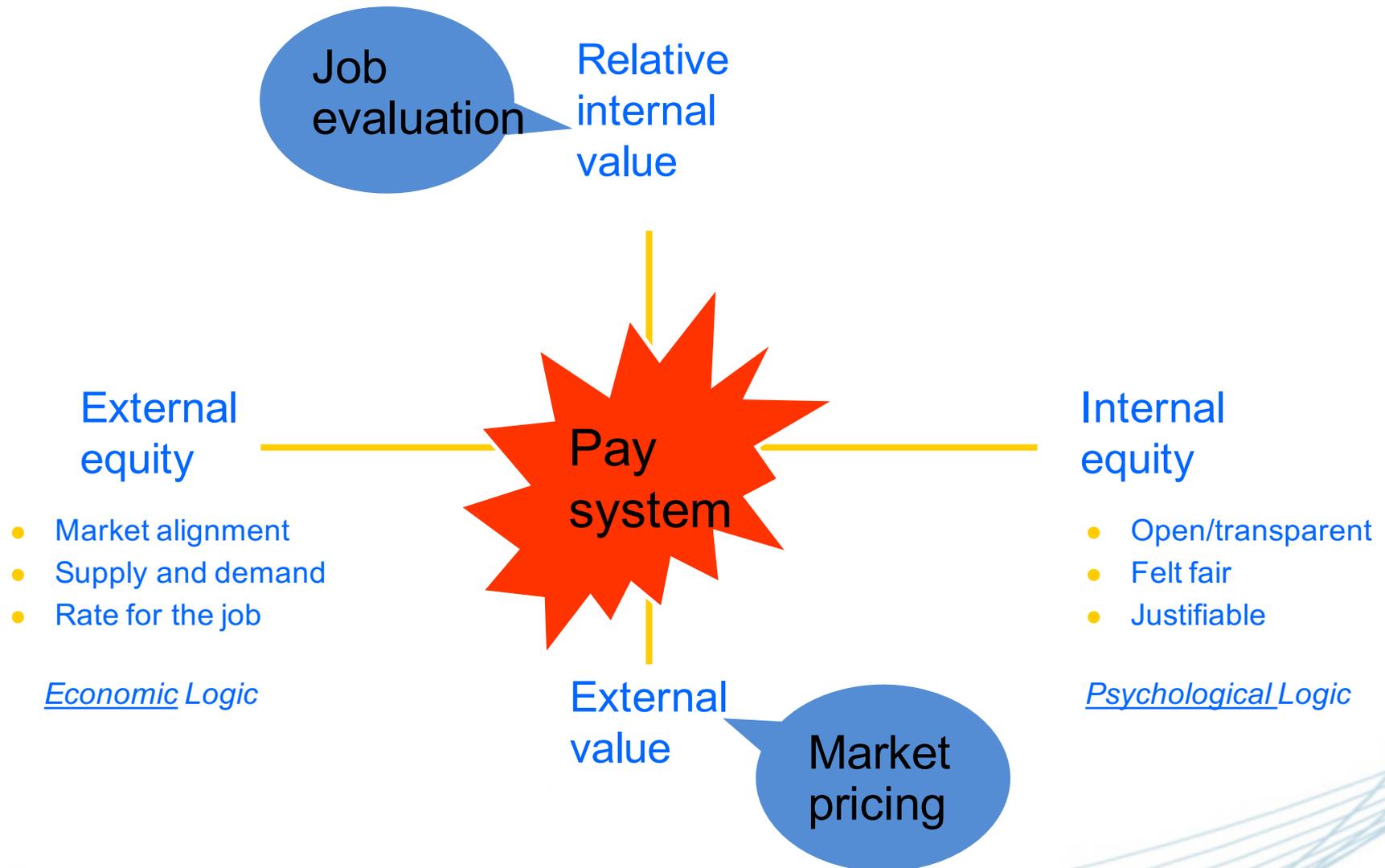
	2008 survey (Used In 2007)	2009 survey (Used In 2008)	2010 survey (Used In 2009)	2011 survey (Used In 2010)	2012 survey (Used In 2011)	2013 survey (Used In 2012)	2015 survey (Used in 2013 and 2014)
Improved pay	53	42	22	27	28	34	50
Increased learning and development opportunities	46	47	35	38	47	40	49
Improved line managers' people skills	37	39	42	39	46	42	45
Improved selection techniques	46	42	31	30	37	36	40
Improved induction process	45	45	31	38	43	45	39
Improved employee involvement	29	35	32	34	39	38	38
Improved benefits	36	32	19	21	27	27	38
Made changes to improve work-life balance	30	31	19	17	21	29	36
Offered coaching/mentoring/buddy systems	22	24	20	24	28	31	29
Created clearer career paths	17	18	21	18	22	19	26
Revised the way staff are rewarded so their efforts are better recognised	19	19	14	18	20	21	23
Improved physical working conditions	12	19	13	15	16	23	22
Better promotion to employees of the employer brand	16	21	15	18	18	18	22
Redesigned jobs to make them more satisfying	14	18	13	11	16	15	20
No specific initiatives undertaken	9	13	27	23	19	21	12
Increasing use of counter offers*	-	-	-	4	5	4	12

Base: 476 (2015 survey); 390 (2013 survey); 459 (2012 survey); 559 (2011 survey); 431 (2010 survey); 695 (2009 survey); 710 (2008 survey)

* Item added In 2011

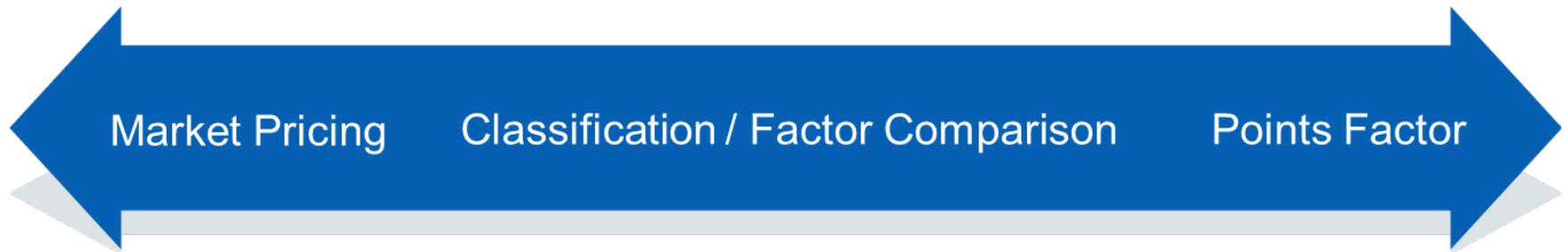


Balancing Reward Priorities



The range of job evaluation and market comparability approaches

- General move in incidence to the left instead of/in addition to detailed job evaluation
- 74% UK employers use market pricing methods (Xpert HR), and for 70% includes 60% of jobs, vast majority using multiple sources.
- Traditional je criticised for inflexibility and ‘rewarding the wrong things’ (Kettley, 1995; Lawler, 2002)
- 71% still use job evaluation: major rationale equal pay (69%)



- More informal, flexible, qualitative
- Simple
- Greater external focus

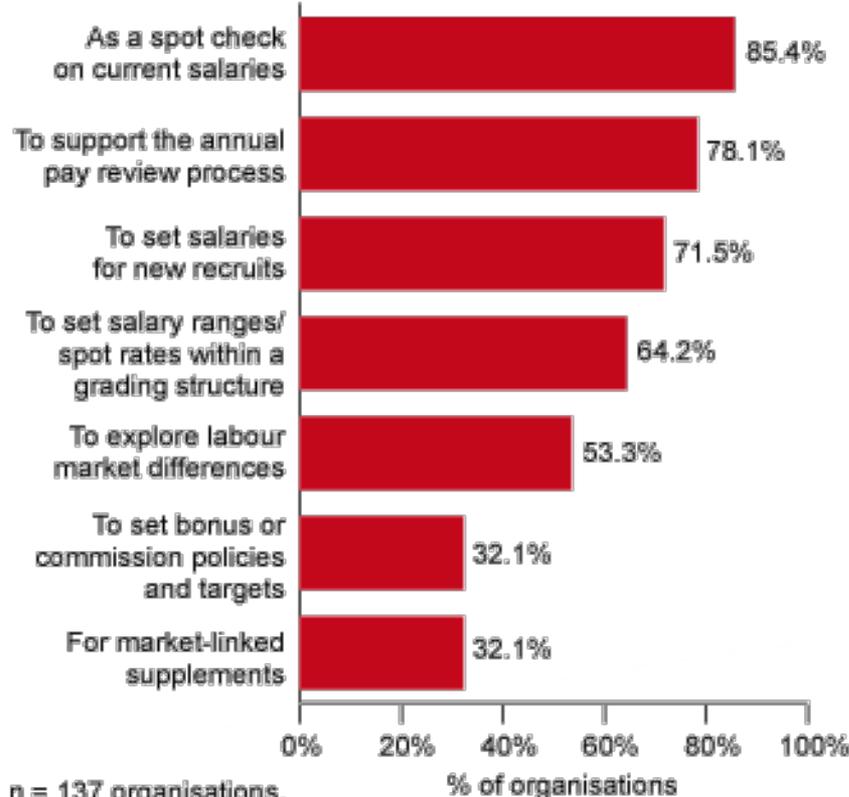
Balance structured calibration and practical considerations with organisational priorities

- More formal, structured, quantitative
- More complex
- Greater internal focus

Approaches to market pay surveys

- Some surveys underpinned by je, but most used generic classifications and job catalogues for participants to match
- More employers reporting dissonance between internal and external worth, addressed through supplements or technical/job family ladders (c50%, OME, 2014)

Chart 1: Reasons for using market-pay comparisons



n = 137 organisations.
Source: XperHR.

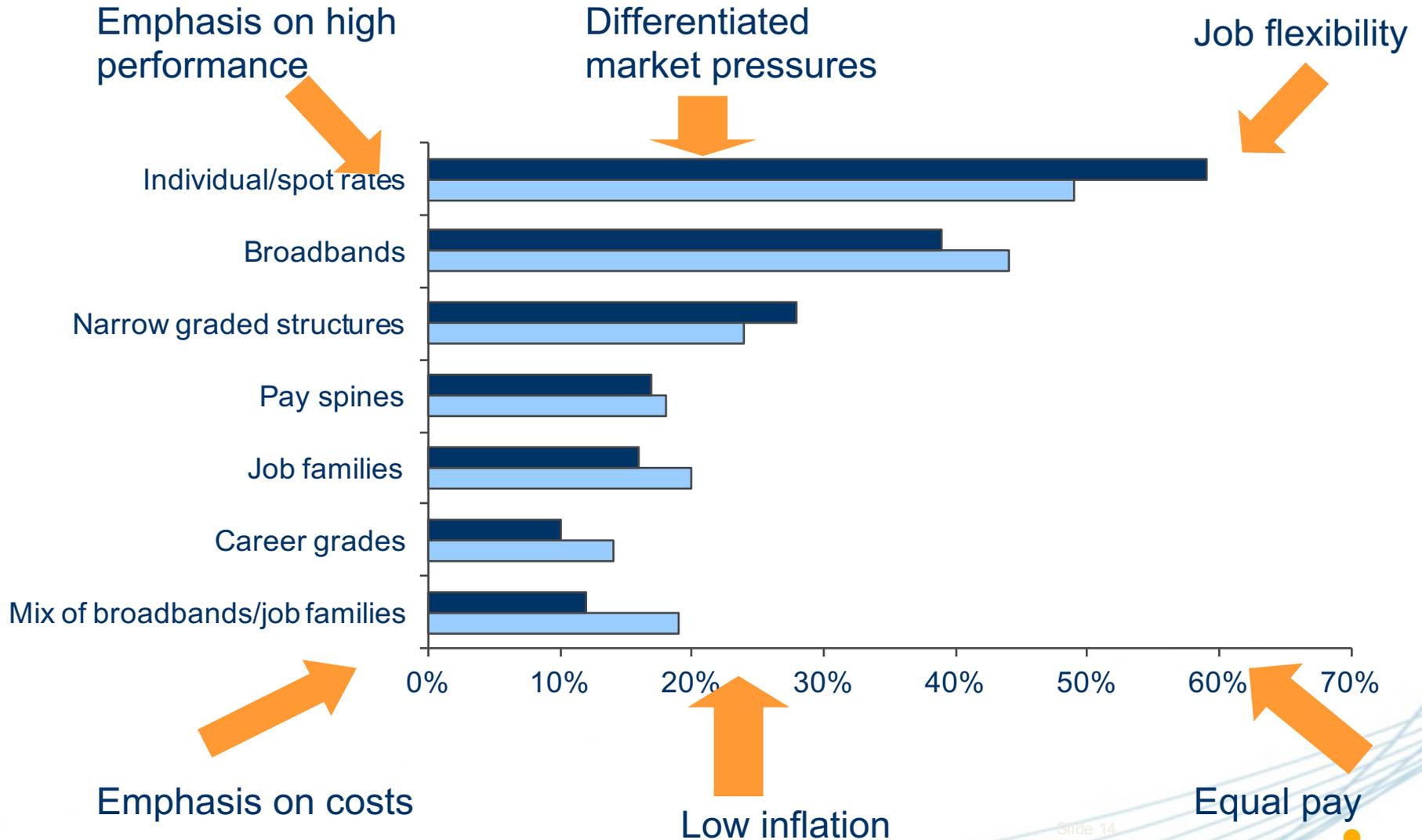
Chart 2: Elements of reward package compared against market



n = 137 organisations.
Source: XperHR.

Limited use of detailed total reward methodologies: cost and complexity barriers

Base pay structure trends



Example job family ranges at FCA

Economics & Research Job Family	We are looking for people who exhibit the skills and behaviours we define in our capability framework. People in this job family will be involved in economic analysis and research, including data extraction and manipulation.																					
<p>Market Ranges</p> <table border="1"> <caption>Market Ranges Data</caption> <thead> <tr> <th>Job Family</th> <th>Lower Bound</th> <th>Upper Bound</th> </tr> </thead> <tbody> <tr> <td>ER D</td> <td>£60,000</td> <td>£102,000</td> </tr> <tr> <td>ER D1</td> <td>£55,000</td> <td>£95,000</td> </tr> <tr> <td>ER C</td> <td>£40,000</td> <td>£70,000</td> </tr> <tr> <td>ER B</td> <td>£32,000</td> <td>£59,000</td> </tr> <tr> <td>ER A</td> <td>£20,500</td> <td>£33,000</td> </tr> </tbody> </table>	Job Family	Lower Bound	Upper Bound	ER D	£60,000	£102,000	ER D1	£55,000	£95,000	ER C	£40,000	£70,000	ER B	£32,000	£59,000	ER A	£20,500	£33,000	Job Family Code	Level Descriptor	Lower Quartile	Upper Quartile
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ER A	£20,500	£33,000																				
ER D	Manager (Economics & Research). Individual will lead/manage a team, providing management and technical guidance to team members. Will have excellent people management skills and is likely to have broad and/or in-depth knowledge of their area of Economics or Research. Working with Senior Management will significantly influence divisional strategic planning and will have authority to make most management decisions without referral but may refer high impact or sensitive decisions.	£60,000	£102,000																			
ER D1	Technical Specialist (Economics & Research). Individual will provide expert advice to colleagues and/or apply knowledge to undertake or manage highly complex tasks and projects. Role requires in-depth specialist knowledge and experience of their sector or specialism. The role holder is recognised for their specialist knowledge and experience, which is likely to be particularly valuable or scarce in the market. Although role holder is likely to report to a manager or head of department, they are likely to advise management in their area of expertise. Role may also involve acting as a mentor (and on occasion advisor/supervisor) and providing day to day support and advice to more junior staff and sharing specialist knowledge across the organisation and/or externally.	£55,000	£95,000																			
ER C	Senior Associate (Economics & Research). Individual will undertake complex tasks, projects, analysis and research and provide expertise to more junior staff. Will have detailed technical knowledge and experience in their area of Economics or Research and are likely to be academically qualified (or equivalent experience) in the area. Will work with minimal supervision although may refer to more senior team members for very complex or sensitive matters. May act as a team leader for more junior staff.	£40,000	£70,000																			
ER B	Associate (Economics & Research). Individual will undertake or contribute to tasks, larger projects and/or analysis and research, sometimes of a complex nature. Will provide guidance to more junior staff. Requires a good level of technical knowledge of Economics or Research methods relevant to the team to do their role. Usually work is not likely to be closely supervised unless it is complex but rather reviewed on completion.	£32,000	£59,000																			
ER A	Trainee Analyst/Actuary. Individual will undertake small scale and less complex work under direction of more senior colleagues, and contribute, over time, to larger and more complex work. Role will require basic risk, quantitative analysis or actuarial skills and aptitude evidenced, as appropriate, by progress in professional examinations or in-house tests. Accent will be on training, but, over time, job holder will be expected to be able to discharge more routine tasks without referral.	£20,500	£33,000																			

A typical market survey job family catalogue



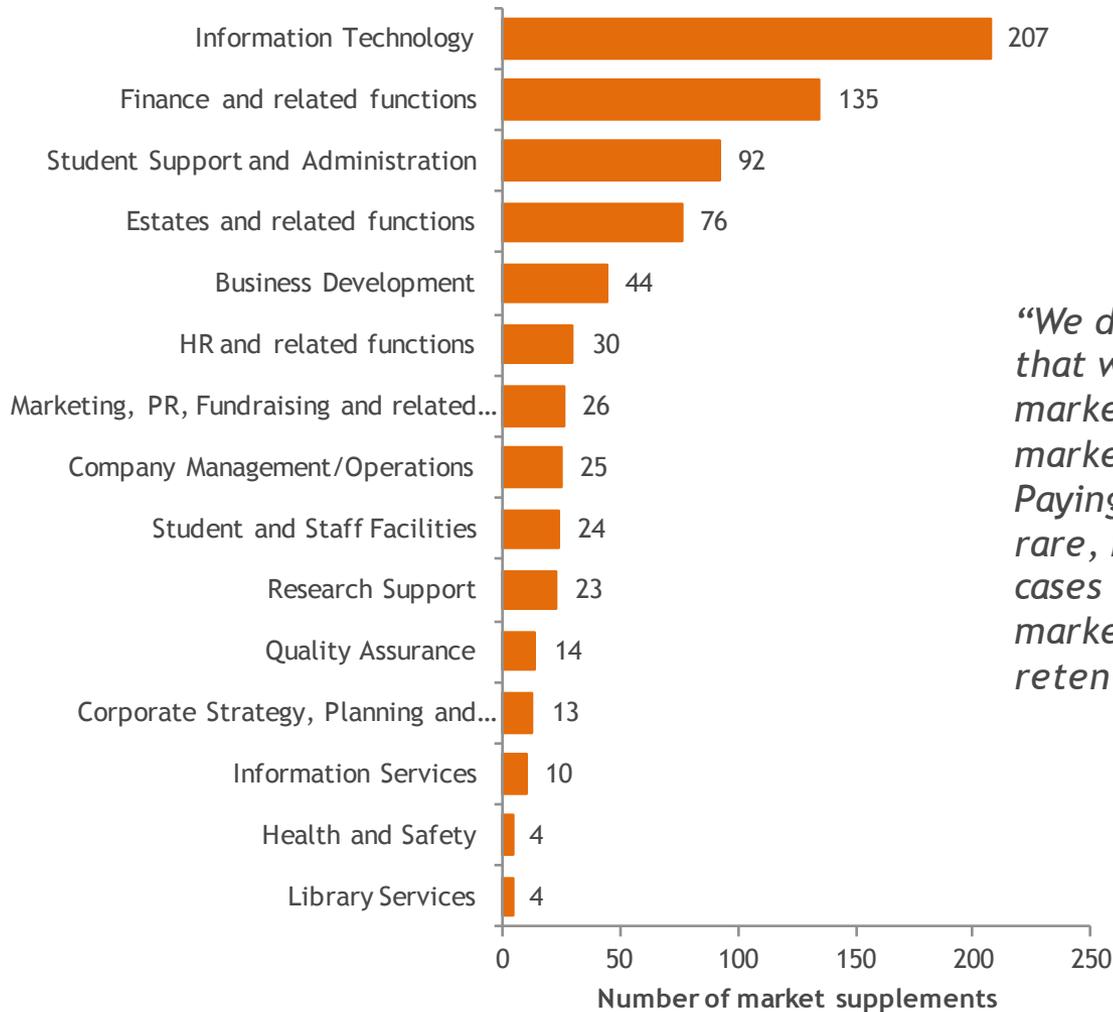
Aon Hewitt Global Job Family Framework
Benchmark Jobs

Job Family	Sub Family	Jobs	Job Title Description	JobLink Level
Administration	Administrative Services	Administrative Employee - Junior	Under close supervision, assists in the delivery of a full range of administrative services to various units within the company. Some of the activities may involve liaising with office suppliers on requisition of stationery and office equipment, overseeing and effecting mail traffic and other miscellaneous office tasks (e.g., filing or photocopying). Learning role with 1 or 2 years of experience.	2
Administration	Administrative Services	Receptionist	Responsible for the courteous and swift reception and direction of visitors. Also responsible for fax messages, conference rooms, couriers, and related house services. Usually also acting as telephone operator. Establishes the first contact with visitors. Maintains visitors' records. May do incidental typing and/or routine clerical work as assigned. May issue identification badges.	2
Administration	Administrative Services	Chauffeur	Transports Senior Managers and other company representatives to and from official work meetings and functions. May be required to perform miscellaneous errands. May be responsible for ensuring the vehicle is clean and well-maintained.	2
Administration	Administrative Services	Administrative Employee - Intermediate	Under general supervision, responsible for certain aspect of the satisfactory delivery of a full range of administrative services to the various units within the company, some of the activities of which may involve liaising with office suppliers on requisition of stationery and office equipment, managing and training messengers/drivers/receptionists/telephone operators, overseeing and effecting mail traffic. Possess knowledge and experience of a specialized technical or administrative function. Role typically has between 3 and 5 years of experience.	3
			Provides secretarial support services to middle managers or a pool of management staff. Takes over	

Navigation: Families | Levels | Sub Fam | Jobs | Administration | Building Support | Business Leadership | Corporate Affairs | Customer Service | Engineering | Finance | ... (+)

- Common criticisms of market comparability methods:
 - 'mimetic wages' (Schmidt & Dworshalk), search for 'perfect numbers' (Gee)
 - lack of accurate job matching (Babcock)
 - importing discrimination/self-serving bias
 - cost
- Yet sense in broad class/grade comparisons with functional breakdowns (Marsden, 2002)

Market supplements usage (Source: UCEA)

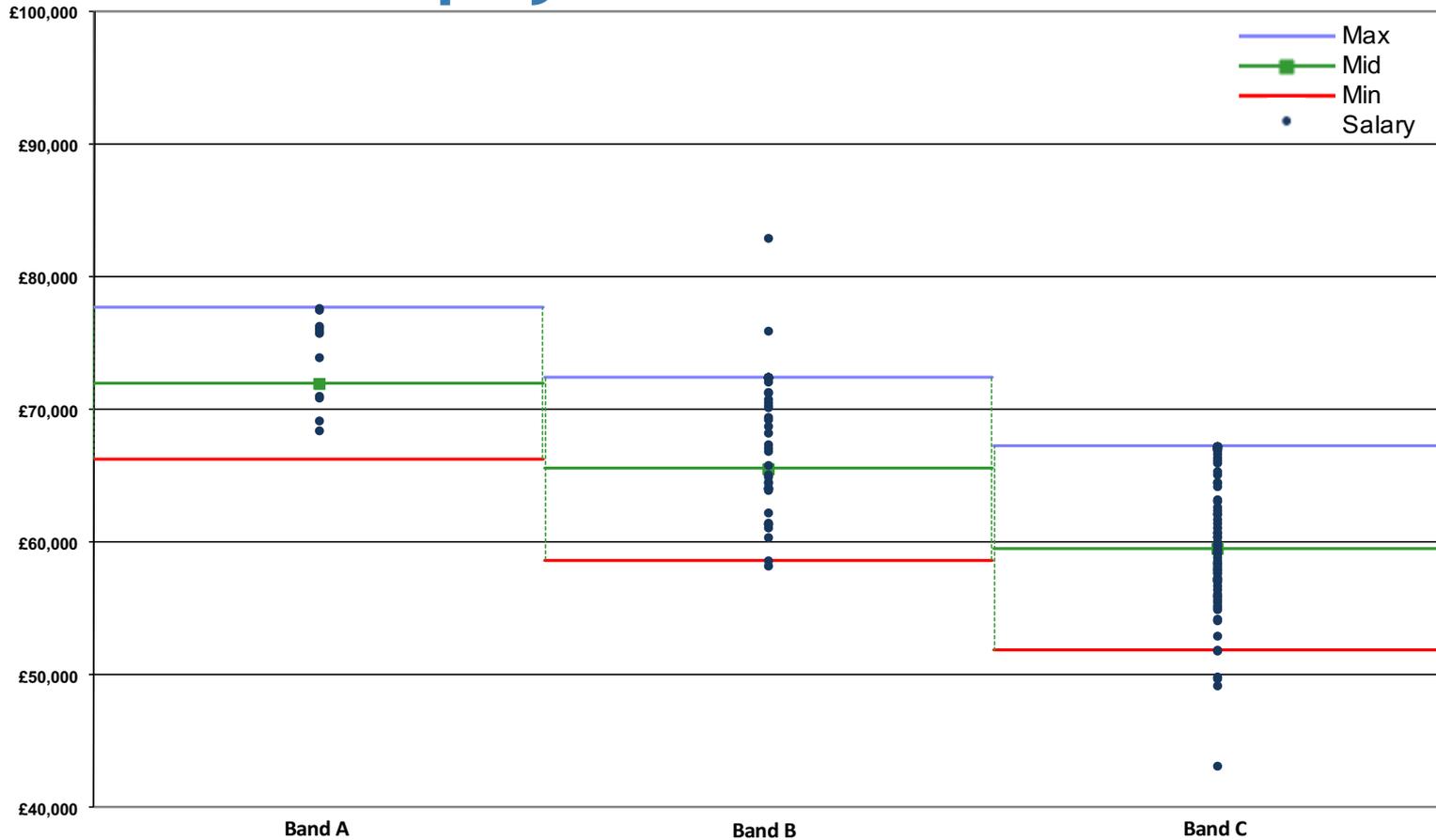


“We did the market analysis and realised that we were out of sync with the market. We have just recently agreed a market supplement in that respect. Paying a market supplement is quite rare, but we have now got two to three cases where we have had to resort to market supplements because of a retention issue.”

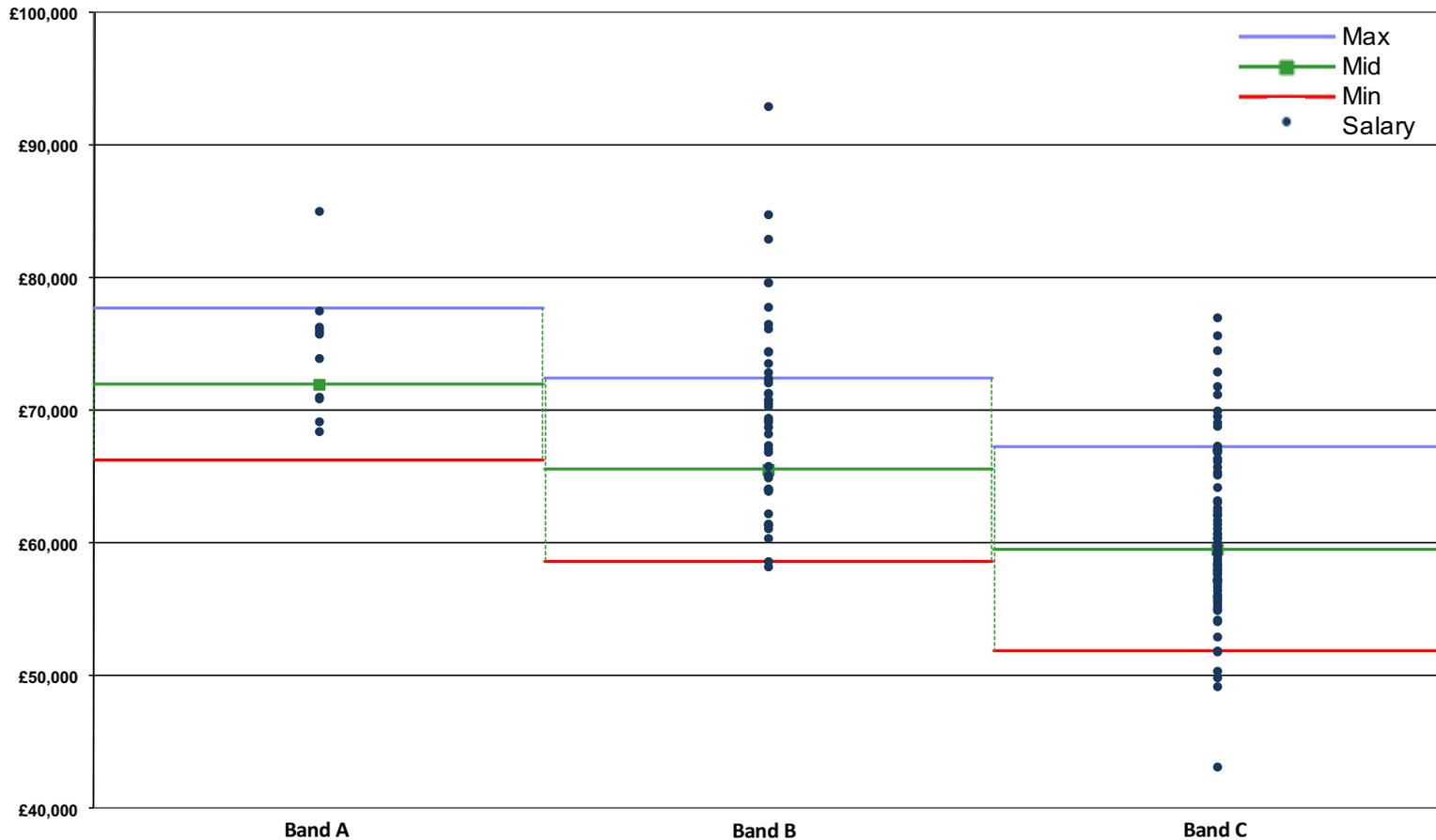
So how do we respond? the case of business schools

- Significant turnover of staff at all levels
- Increasing evidence of pay independence
- Additional earnings evident
- Case of the footballer/winner-takes-all/stars model?
- Business schools have the widest gender pay gaps in universities
- So do we:
 - Introduce discretionary market allowances?
 - Move to separate pay scales by faculty?
 - Let business schools manage their pay independently?

The Risks of supplements- Distribution of current base pay



Distribution of current base pay *plus cash top-ups*



Pay management and beyond; Responses to skill shortages in key areas

Short term

- Allowances/supplements

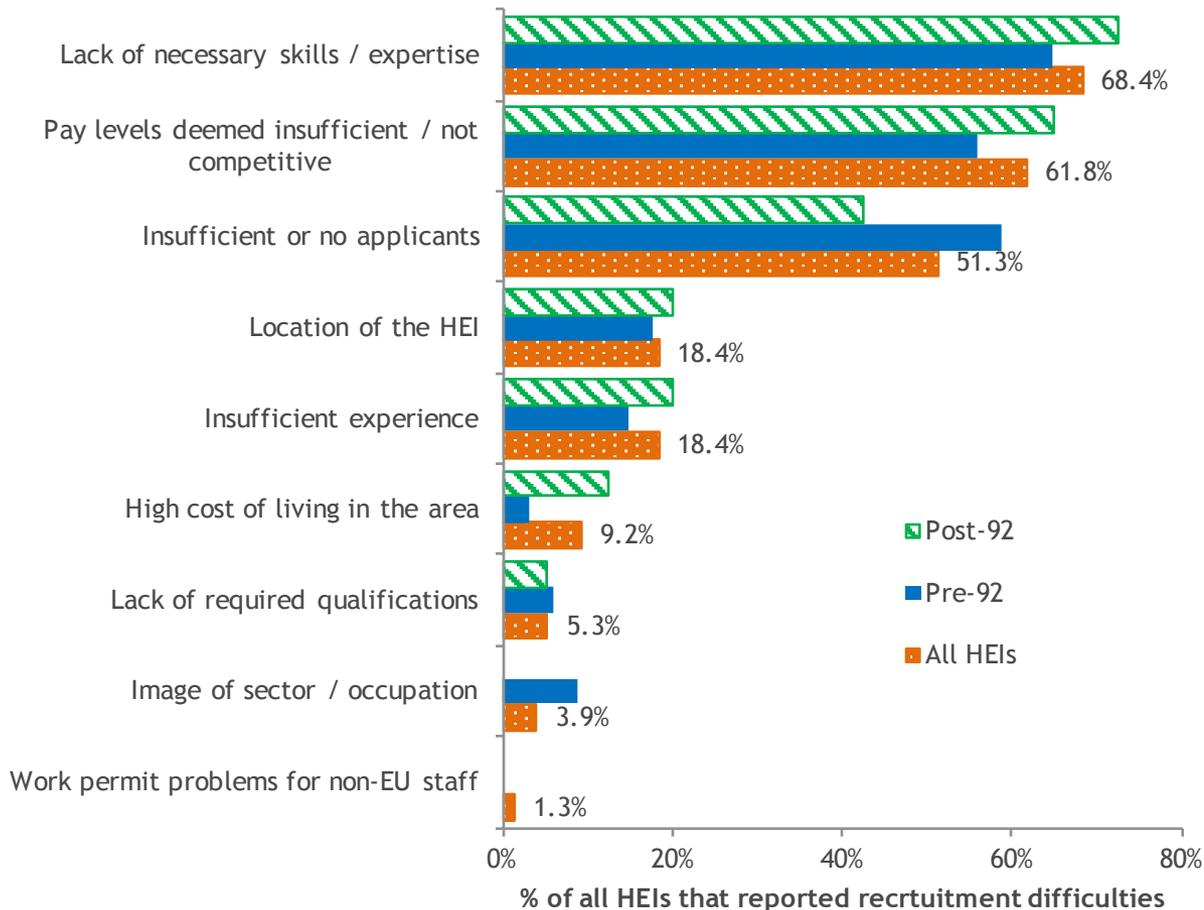
Medium term

- Shadow pay ranges

Longer term

- Job families
- Labour supply
- Employee attitudes
- Workforce plans

Reasons for recruitment difficulties



“I think the reputation is that universities are behind the times, they’re bureaucratic, they don’t use technology as effectively as other organisations do. There are perceptions about the sector that are problematic.”

“I think my perception when I joined would be that it would be quite slow, that there would be little change but that it would be interesting. I would say that the only thing that’s right about that is that it is a really interesting sector to work in but I think people outside that don’t know that it’s fast, it’s changing and it’s exciting. I think we probably do have a general image issue.”

How's the supply looking post Brexit?

Skills Forecasts

Employment Levels (000s)	1990	2000	2010	2015	2020
1. Managers, directors and senior officials	2,284	2,540	3,016	3,279	3,560
2. Professional occupations	4,181	4,820	5,843	6,189	6,712
3. Associate professional and technical	3,050	3,561	3,926	4,138	4,476
4. Administrative and secretarial	4,437	4,078	3,698	3,466	3,312
5. Skilled trades occupations	4,736	3,767	3,526	3,389	3,295
6. Caring, leisure and other service	1,446	2,142	2,719	2,801	3,032
7. Sales and customer service	2,309	2,479	2,608	2,555	2,610
8. Process, plant and machine operatives	2,819	2,349	1,950	1,829	1,737
9. Elementary occupations	3,504	3,454	3,173	3,209	3,274
Total	28,768	29,192	30,458	30,855	32,008

Percentage Shares	1990	2000	2010	2015	2020
1. Managers, directors and senior officials	7.9	8.7	9.9	10.6	11.1
2. Professional occupations	14.5	16.5	19.2	20.1	21.0
3. Associate professional and technical	10.6	12.2	12.9	13.4	14.0
4. Administrative and secretarial	15.4	14.0	12.1	11.2	10.3
5. Skilled trades occupations	16.5	12.9	11.6	11.0	10.3
6. Caring, leisure and other service	5.0	7.3	8.9	9.1	9.5
7. Sales and customer service	8.0	8.5	8.6	8.3	8.2
8. Process, plant and machine operatives	9.8	8.0	6.4	5.9	5.4
9. Elementary occupations	12.2	11.8	10.4	10.4	10.2
Total	100.0	100.0	100.0	100.0	100.0

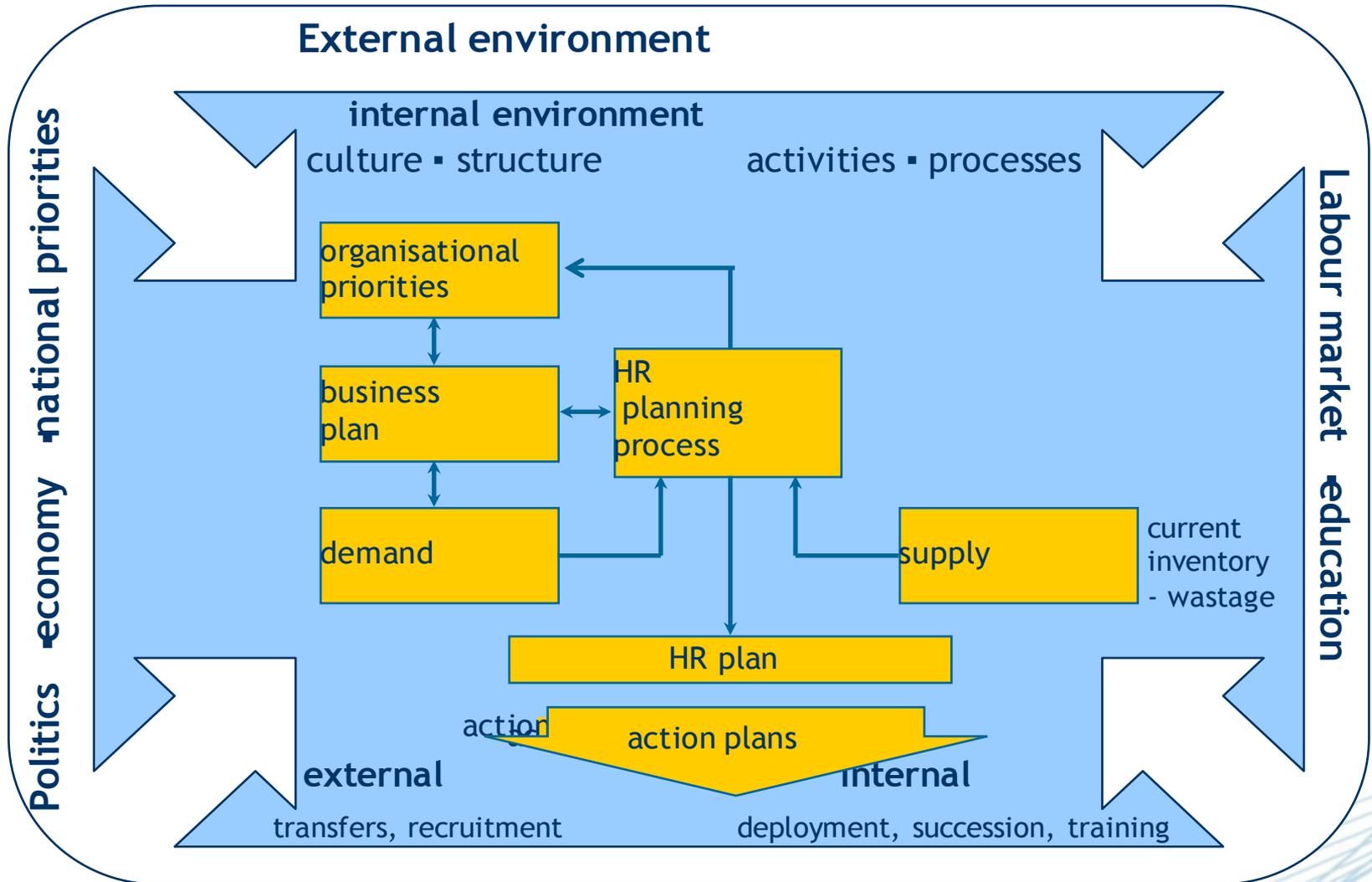
Definition of workforce planning

...a process in which an organisation attempts to estimate the demand for labour and evaluate the size, nature and sources of the supply which will be required to meet that demand...

Why do we need a strategic workforce plan?



A workforce planning model



Five stages

1. Working out the demand for labour in your country, region and project
2. Calculating your supply position
3. Conducting a gap analysis between what you need and what you have got
4. Taking action to respond to the results of your analysis
5. Monitoring to see how well your actions deal with situation

What drives engagement and turnover?

Research in London behind the IES model

(Source: Hayday et al, 2004)



Research demonstrates the total reward/engagement/performance linkage

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

Staff Attitudes/ Engagement

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



Performance

Ask Staff: Why people join and leave

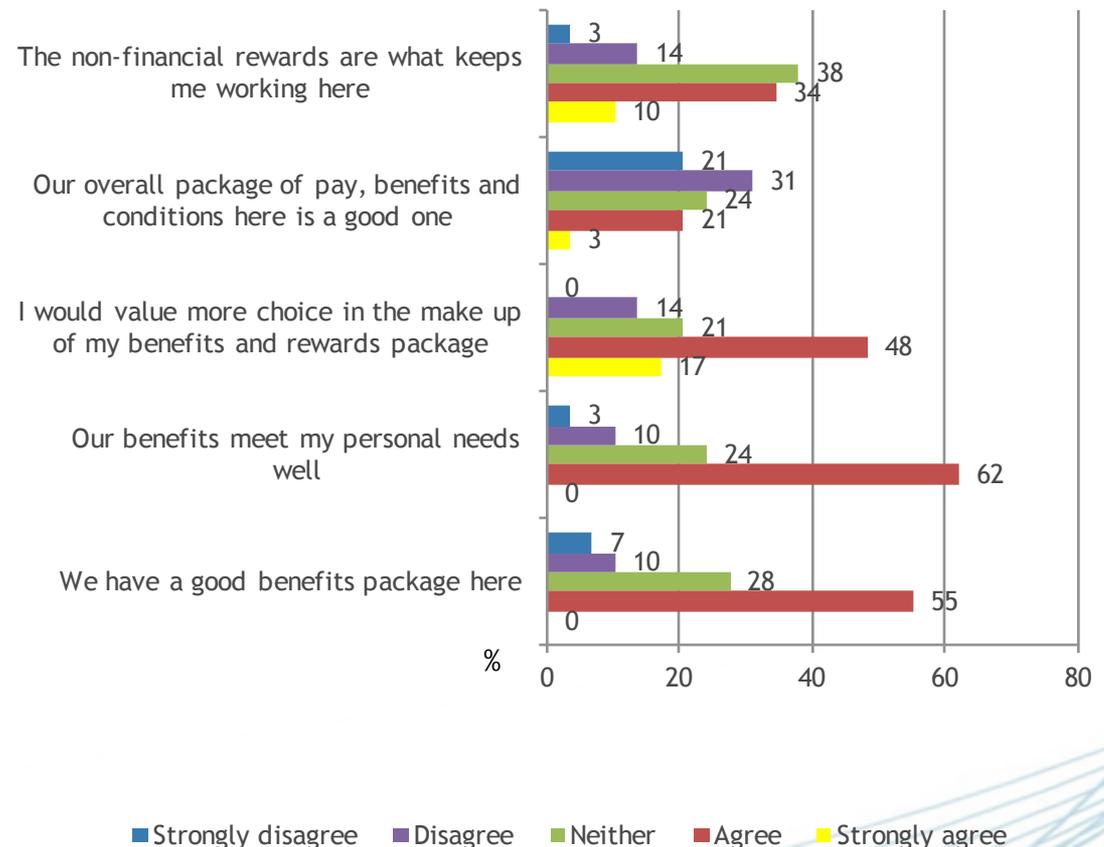
Key Themes	Detail and Illustration
<p>People join for the work and the job and career opportunities</p> <p>But leave for a variety of reasons:</p> <ul style="list-style-type: none">-Primarily to develop their careers and increase their pay-But increasingly due to ‘push’ factors - unfairness, workload, etc <p>And leaders/ managers are not seen to be responding/ caring about it</p>	<p>Joining</p> <ul style="list-style-type: none">- People join for the interesting & important nature of the work and the job and career opportunities:--‘You can input on important social issues, see policy right the way through’-- ‘I wanted to achieve a level of responsibility quickly’- Flexible working and better work life balance also mentioned in many of the groups, particularly by higher graded staff <p>Leaving</p> <ul style="list-style-type: none">- Labour turnover is perceived to have increased, in some cases significantly. This is seen to be affecting services with the loss of important knowledge and it has a demotivational impact on staff remaining. Lack of response to this.-- ‘We have lost good colleagues’; ‘Nothing is done to address at-risk people who they know are going to leave’.- Largely perceived to be people leaving for more pay and career opportunity-- ‘People leave for career opportunities and higher pay’;-

Employee Focus Groups: Questionnaire findings (n= 29)

Findings on benefits and reward package

- Over half of participants did not agree that the overall package is a good one (52%).
- Over two-fifths (44%) agreed that the non-financial rewards keep them working
- Over three-fifths (62%) think that the benefits meet their personal needs well, and over half (55%) agree that the benefits package is good.
- However, almost two-thirds (65%) would value more choice in the benefits and reward package.

Views on Benefits and Reward Package



Different dimensions of pay

Question	Reward Survey % Strongly Agree / Agree	Difference from UK average	Difference from UK Best Employers	XYZ's Engagement Survey 2012 Results
I believe my pay and job performance are linked.	31%	-5%pts	-18%pts	-23%pts
I feel my pay is competitive compared to people doing similar jobs in other companies.	25%	-15%pts	-21%pts	-16%pts
I receive appropriate recognition (beyond my pay and benefits) for my contribution and achievements.	29%	-8%pts	-21%pts	
I am paid fairly compared to colleagues who do similar jobs.	26%	-10%pts		
I am paid fairly for the contribution I make to XYZ's success.	25%	-15%pts	-28%pts	

Why are people leaving? Exit interview data

Reason for leaving	Primary (no.)	%	Secondary (no.)	%
Career progression	60	49	16	15
Caring responsibilities	1	1	0	0
Change in career direction	4	3	9	9
Dissatisfaction with working environment	13	11	15	14
Domestic/personal issues	1	1	1	1
Further education	2	2	1	1
Loss of interest/challenge	11	9	11	10
Other reason	7	6	10	9
Relationship with manager	3	2	6	6
Relocation	6	5	3	3
Remuneration/benefits	8	7	27	26
Go travelling	1	1	2	2
Travel/commuting issues	3	2	4	4
Work life balance	3	2	6	6
Ill health	0	0	2	2
Relationship with colleagues	0	0	1	1

Source: 146 exit questionnaires

Where do staff go to?

Exit - sectors staff go to:

- FS -1 (1%)
 - Consultancy - 14 (12%)
 - Industry - 15 (13%)
 - Government department - 32 (28%)
 - Other industry - 37 (32%)
 - Out of UK - 22 (19%)
 - Other bodies - 25 (22%)
-
- **Exit - could anything be done to keep you**
 - Yes - 74 (49%)
 - No - 76 (51%)

Thank You



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 NHS Employers, universities such as Southampton and City, and not-for-profits such as Cancer Research and the United Nations.

Duncan is a leading commentator on HR, publishing many articles and books. His last book was on HR 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.

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

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

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