

HR and tsunamis: time for a new model?

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Thirty years after strategic human resource management (HRM) ideas hit the UK, does the HR function need to rethink its purpose and structures again? Tsunamis become important when those inside organisations are busy looking down, getting the job as they see it done, fixing things, and digging trenches to shore up their organisation's 'resilience'. Behind their back, seen by those in the trenches but not by them, there is a huge tsunami on the horizon, rapidly approaching. Will the structures hold, or is it time to flee the trenches? Well, I think it is time to start digging faster, but also to build some new structures to a better design. Allow me to explain.

The HR function has always had to manage tensions that exist across two agendas:

- The looking-in agenda, where we try to align the thrust of people management to the organisation's strategy, business model, and the performance challenges that this creates;
- The looking-out agenda, where the HR function helps the organisation adjust its people management to the actions of the agendas of institutions, and social and technical change.

When the strategic HRM model first came in, we had just observed a wave of social change, and had experienced the competitive restructurings of the 1970s and 1980s. The challenge that remained was to realign people management to the new strategic realities of the organisation. In this, HR did pretty well. Adopting an internal service model (the Ulrich model) to tidy up and monetarise the activity of HR into that of business partners, centres of expertise and e-enablement (of the more transactional parts of service delivery)

made as much sense to those in HR as it did to other service centres, such as IT and finance. However, two new challenges have now arisen.

■ In a more networked and collaborative business structure, we are seeing a new organisational effectiveness context for HR that extends increasingly beyond the organisation. We need to rethink how HR should play in this new horizontal space. The solutions to all of today's performance challenges – productivity, innovation, and customer centricity – are cross-functional. They need a bringing together of expertise from all the core management functions, and collaboration with outside institutions.

■ The tsunami is getting awfully near now. We are moving into a world that is going to need radical and collaborative interventions as a range of disruptive technologies, from the internet and digital platforms, to knowledge-work automation and 3D printing, will blow apart many existing business and service models. At a societal level,

these near-term developments will create paradoxes and policy debates around purpose, globalisation, democratisation and fairness. These are debates to which HR will simply not be allowed to turn a blind eye.

It is time to start building HR's capability and structures now for this new world. I believe that if we look at some of the experiments HR functions are already making, it provides us with some clues about how HR can build its capability and structures. At the moment, there seem to be three options:

1. Creating a place in the structure for dedicated HR project resources that can be assigned to more strategic activity. These professionals become the ones equipped to work on the cross-functional projects aimed at dealing with business problems such as productivity, innovation, globalisation and so forth, on an as-needs (and business-funded) basis.
2. Partitioning the HR function, with one half (or proportions determined on your business model) being aligned to the

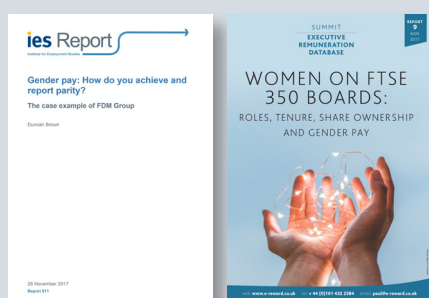
'internal' world (your own organisation) and the other half being aligned to the other business partners, strategic alliances, collaborations, and external institutions that you need to both work with and influence.

3. Creating 'integrator' roles within the HR structure that operate across internal and external businesses, designed to bring together the new expertise and provide leadership around that expertise.

We must move away from the days of adopting 'one size fits all' HR structures and instead find the people with the educational wherewithal and network-building skills to establish meaningful projects and interventions.

This article draws heavily on Paul Sparrow's presentation at the IES annual conference 2017, which considered the future of HR and people management. Find out more about our events in 2018 on p4.

New reports on gender representation and remuneration



Continuing our extensive body of work on gender equality, IES has recently produced two new reports on gender remuneration and representation.

Firstly, a new IES case-study report considers how FDM Group, an international professional services organisation focusing on information technology, was able to almost eliminate its gender pay gap. With a zero per cent median wage gap, the organisation stands out in the technology

sector and beyond as an example of the benefits that an open and diverse culture can bring.

The report offers important guidance for other employers hoping to reduce their wage gaps, with six key factors that employers can address to help eliminate gender pay gaps. These include genuinely diverse recruitment; a 'grow your own' approach to talent; leading by example; and an open, high-communications culture.

Elsewhere, E-reward has published new analysis of female remuneration and representation on FTSE 350 boards, with commentary from Duncan Brown, IES head of HR consultancy. The report and commentary present the relationship between remuneration and representation at senior levels, and suggests that, while the proportion of female directors is on an upward trend, for both executive and non-executive roles, women tend to be employed in positions of less responsibility

and influence, and therefore of lower pay.

The analysis reveals how, although issues of gender pay discrepancies and female representation are linked, they are not interchangeable. The findings suggest that moving closer to equality on board representation may not in and of itself lead to greater gender pay parity, as many of the newly published gender pay gap reporting narratives seem to assume. Wider changes in government and employer policies may also be required, a conclusion also reached in IES' research for the Equality and Human Rights Commission (EHRC) on what works in closing gender pay gaps.

Download the IES case-study report:
<http://www.employment-studies.co.uk/FDM2017>

Download the E-reward report:
<http://www.employment-studies.co.uk/e-reward2017>

Market supplements in the public sector

Catherine Rickard, Senior Research Fellow

With case-study insights, new in-depth research by IES for the Office of Manpower Economics (OME) examined the use and effectiveness of market pay supplements and Recruitment and Retention Payments (RRPs) across the Pay Review Body Groups and wider public sector.

Our latest study for OME used a rapid evidence review across the public sector, stakeholder interviews and six case studies covering nurses and IT workers in the NHS, nurses in the armed forces and social workers in local government, to examine policy and practices on the use of market pay supplements. The research also aimed to understand how the processes of their management and use can impact on effectiveness. The focus of the research was on distinct cash payments made to address recruitment and retention issues for particular occupations, jobs and/or skills.

Of course, there is nothing new in the use of market supplements in government and across the wider public sector for hard-to-recruit and retain roles. However, a context of a tightening labour market, historically low levels of unemployment – likely to be further impacted by Brexit and the supply of EU workers – and continuing restrictions on public sector pay increases, have encouraged the use of market pay supplements and RRP for some public sector workers.

However, divergent views, practices and trends are evident across the different Pay Review Body employee groups and the wider public sector in terms of the desirability, use and efficacy of market and skill supplements and RRP. Indeed, in 2016 in the Armed Forces there were 16 different categories of RRP costing around £107m and the Armed Forces Pay Review Body noted in its 2017 report that ‘MOD should be more proactive’ in using market supplements.¹ The NHS Pay Review Body also ‘continue to believe that RRP are an important flexibility’², although the total cost of RRP for non-medical staff in the NHS has reduced by 74 per cent since 2008/09, from £57 million to £15 million in 2015/16.³

Our research found that the situations and settings and the aims and nature of these payments vary enormously across the populations we studied. However, a number of common factors supported the effective use of the payments including:

- the presence of severe and generally long-established and evident skill shortages and recruitment and/or retention issues;
- the constraint of national pay structures with limited ability to reflect market differences in base pay;
- clear criteria and goals of usage, and regular monitoring and review of the supplement’s operation;
- tight targeting on specific groups with effective guidelines and controls on usage to ensure that the supplements are operated in the manner intended;
- good availability of external market and internal HR data;
- use as part of wider strategies and actions across the HR and employment field to address the defined staffing issues, typically encompassing workforce planning; career management; recruitment; and training and development, in order to boost the supply of staff;
- HR, line management and staff involvement in the development of the supplement to ensure understanding of both the logic for, and the practicalities of, the supplement operation; and
- co-operation with other employers locally to avoid escalation in supplements and costs.

Our study also highlighted some key practical implications, particularly based on the experiences and advice of our case study employers. For example, the study stressed that recruitment and retention problems are not the same. A small-ish RRP might work to attract, but may not be sufficient to retain. Generally there is a need for differentiated measures within an overall HR and reward strategy to address the two separate issues.

Also it is necessary to distinguish between difficulties which are caused by a shortage of supply and those caused by an inability to attract a fair share of

recruits. There needs to be a much wider employment strategy addressing supply issues, combining reward (typically with financial and non-financial components), resourcing and capability-building elements.

Our research concluded that despite the widespread existence of skill shortages and many UK employers experiencing recruitment and retention issues, we have not seen significant growth in the use of supplements as a ‘knee-jerk response’ to the tightening labour market. Their use is, in fact, still twice as common in the private sector than the public sector. Employers and policymakers have perhaps learnt the lessons of the past and understand the risks of these payments – namely that they risk becoming permanent and can drive ‘tit-for-tat’ escalation in supplements and costs between competing employers. Our research suggests that employers have mitigated these risks by being highly selective in their introduction and usage and also well controlled and managed in their practical application.

Funding issues have also played a part and we found detailed control processes operating, requiring comprehensive evidence to justify a supplement, with annual renewal also featuring. Overall, used selectively and with strong targeting, there is evidence of some positive impact from using supplements, particularly in a lump sum form.

The report

Brown D, Reilly P, Rickard C (2017), *Review of the use and effectiveness of market pay supplements: Project report*, Office of Manpower Economics (OME). Download the report at <http://www.employment-studies.co.uk/resource/review-use-and-effectiveness-market-pay-supplements>

- 1 AFPRB (2017), *Forty Sixth Report*, Armed Forces’ Pay Review Body
- 2 NHSPRB (2017), *Thirtieth Report 2017*, NHS Pay Review Body
- 3 Ibid

Strategic HR – The view from Milan

Stephen Bevan, Head of HR Research Development

aroundIES

2018 events calendar announced

In 2018, we will be running events on a superb array of current and future HR and employer topics.

Online booking for our 2018 events programme will open in the New Year. For more information about our events, please contact gwen.leeming@employment-studies.co.uk.

Good work and mental wellbeing

Thursday, 18 January

Talent management strategies, practices and challenges

Thursday, 15 February

The employee value proposition

Thursday, 29 March

Annual HR Directors' Retreat: Managing across the generations

Wednesday, 2 May to Thursday, 3 May

Getting the most from performance and development conversations

Thursday, 17 May

Gender pay reporting

Thursday, 21 June

Job/work engagement

Thursday, 13 September

ANNUAL CONFERENCE

Organisation change: doing it well

Thursday, 11 October

Annual Provocation:

Apprenticeships, T-levels and employer engagement

TBC, November

Sleep and work

Thursday, 6 December

One of the distinctive characteristics of the Italian economy is its reliance on small, family-owned enterprises. There are more than 3.6 million micro-firms in Italy, with fewer than 10 employees in each. They contribute more to both employment and to value added than in any other EU member state and they remain the backbone of Italian enterprise. You could, therefore, be forgiven for thinking that large companies in Italy are left in the shadows by comparison. Yet Italy has some of Europe's premier brands and, for many years, has employed thousands in large automotive, high-tech manufacturing and consumer goods businesses in the industrial North of the country. And like all larger organisations, the challenges of HR management need to be addressed and it is HR professionals who are expected to lead the way.

So, what is on the minds of HR Directors (HRDs) of large Italian enterprises and how are they grappling with the strategic puzzles being posed by low economic growth, higher than average unemployment and stagnant wage growth? Well, I got to hear about these issues in person during a recent trip to Milan where I was presenting at a couple of learning events on talent management, retention and data analytics for Italian HRDs from several larger businesses.

The day I spent in conversation with these groups gave me an insight into both their daily and more enduring challenges and how they were going about tackling them. Overall, I think there were three themes which illustrate the current people management situation in Italian businesses – and all of them will have resonance with their counterparts in the UK.

First is the conundrum of managing careers in a low growth economy. The UK labour market has been quite resilient both during and after the financial crisis, but in Italy the recovery has been more sluggish. In these circumstances keeping talented and ambitious people engaged and motivated can be difficult and offering career progression in a growing business is often easier than in one which is contracting. There was considerable interest in how to manage horizontal but developmental job moves in larger organisations, which want to demonstrate

they are investing in their talent but are not able to deliver progression and pay increases. HRDs in foreign-owned businesses had the advantage of being able to offer international job moves for some, but the main challenge was to support line managers to have career conversations with their direct reports which focused not just on their next job move but the subsequent job moves – those which would help ensure an adequate supply of internal candidates for senior specialist or generalist roles over the next five to ten years.

Talent retention, even when the labour market is not buoyant, is another preoccupation for many of the HRDs I met. There was a recognition that retention strategies which were heavily weighted towards rewards were unlikely to be seen as affordable and were probably not addressing the core problem. Active career management was generally agreed to be part of the solution for some and others included placing the 'high-risk' (ie likely to be 'regretted leavers') on important corporate projects. Tweaking job content to increase responsibility and exposure to senior managers were also on the agenda.

Finally, there was a recognition that intelligent use of HR data (through analytics), offered the HR profession the opportunity to demonstrate its strategic influence by 'joining the dots' on a number of business performance issues. The idea that HR could help operational managers make the journey from intuition to insight was appealing to many of the HRDs in the group and some were investing in HR specialists with data mining skills and curiosity about business metrics. This was regarded as one of the areas of untapped potential in the large organisations represented at the meeting.

For most of the HRDs there was cautious optimism that the Italian economy, especially in the more prosperous North, might allow larger businesses to be more expansive and ambitious, both in the opportunities they could offer employees and the HR practices and tools they could adopt. As we know from the UK experience, however, the path to recovery can be slow and opportunities to re-invest in 'human capital' need to be justified with energy and imagination.



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