HRN Paper

# Fair, equitable pay: impossible ideal or a HR priority we finally need to practise?

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*For far too long now, HR professionals have been talking a good game on fair pay and equality yet failing to deliver, with continuing, persistent and unjustified pay gaps evident in even our largest and most reputable employers. Covid-19 and now the cost of living crisis have if anything widened these gaps and inequalities.*

*IES's principal associate Dr Duncan Brown argues optimistically, supported by a wide range of IES's research, that the post-pandemic economy has also driven far more employers to rethink and redesign their austerity-driven employment and reward policies of the 2010s. He detects and advocates an emerging trend towards more investment, growth-focused, fairer and more productive reward strategies and practices.*

I teach reward programmes now alongside my IES day job of consulting and advisory support. As an introduction to the subject for my CIPD HR masters students and WorldatWork multinational managers, I like to give them a list of a dozen well-known jobs and ask them to rank and agree the ordering, from biggest and highest-paid through to smallest and lowest-paid.

It is job evaluation at its simplest, a 'felt fair' ranking, a technique still commonly used to test the development of the more sophisticated approaches to comparing jobs and determining market-linked salary levels evident in our large employers today.

Then we compare the group's pay hierarchy with actual median pay levels in the analysis found in the Annual Survey of Hours and Earnings published each year by the Office for National Statistics.

You get a surprising consistency in the results, whatever the nationalities, gender or sector of the participants. Premier League footballers and FTSE 100 chief executives, people generally seem to believe, should not be as high in the ordering, or at least not as far ahead in their earnings in comparison say, with brain and heart surgeons, or charity and health sector leaders. Nor should other male-dominated and traditional trade union-protected jobs like train and tube drivers and telecoms engineers. Nor financial traders. Female-dominated caring jobs, like nurses, nursery and care home workers, almost all my student groups feel, should be paid more and rank higher.

## Pay setting: fairness versus market considerations

'Ha', say my economics lecturer and executive remuneration consultant colleagues: whatever people's subjective feelings, the market must win out. Footballers and CEOs are operating in global talent markets. This somewhat sidesteps the fact that the NHS and social care sector would be in a far worse situation than the current 'workforce crisis' of six figure vacancy (rather than salary) levels without the significant proportion of overseas workers that they employ. Nearly half of the nurses and midwives joining the UK permanent register in the six months to last September were trained abroad, for example.

My group exercise illustrates two important features of economic labour and pay market theory and UK practice. First, as John Stacey Adams defined it in his equity theory of motivation, people make judgements as to the fairness of their own pay based not just on the absolute amount (above a surprisingly low threshold level), but also on their sense of how much they get (for their contribution) relative to others. Part-time catering assistants at Premier league grounds don't think they should be paid the same as the male players. But they do want to earn a wage they can live on and as much as the mostly male barmen and baristas serving in the executive box restaurants, or even the predominantly male workers in nearby warehouses.

Second, these perceptions may differ from what employers need to pay to recruit and retain staff, especially in the current UK labour market. As IES's monthly analyses continue to highlight, it is still the tightest on record, with the majority of employers reporting skills shortages and recruitment and retention problems.

UK labour markets are undoubtedly hyper-competitive. As IES's Director Tony Wilson's monthly employment market analysis has highlighted over the past two years, 'if you put together ever-higher vacancies with falling unemployment, you get an incredibly tight labour market and this recruitment crisis. There are now 1.1 unemployed per vacancy – the lowest in 50 years.' But does that justify the pay gap?

'Golden hellos' have been extended in their use outside traditional areas, such as recruiting high-paid lawyers and accountants, right across the economy, from HGV drivers to the chefs in London restaurant kitchens . According to up-market restaurant Gauthier Soho (which is offering £1,000 to recruits), 'it's not the Premier league, but we need to show people the money is there to make the offer exciting…show them as an employer that they don't need to worry about finances'.

In (economic) theory, this situation is good for workers, helping to drive our own UK mini 'great resignation'. Record levels of voluntary job-to-job moves, just shy of one million, were evident in the ONS's quarterly statistics last year. But it is also having the unfortunate side effect of making pay rates for new recruits increase faster than those of in situ staff. As well as potentially incentivising people to leave, this also means that in an increasing range of employers and jobs, new recruits are being hired in at the same pay, or even higher pay, than that of existing experienced employees in the same role.

'That's not fair' I hear you (and them) say, although the failure of the majority of UK private sector employers to publish their pay rates means existing staff may not be aware of this.

Yet, rather than the market winning out, considerations of fairness appear to be reviving in importance at the moment, along with the recognition that pay levels on their own won't deliver a highly engaged, high performing workforce.

## The decline and rebirth of fair pay?

The TUC's research shows that UK real wages fell by 3.0% in 2022, the worst annual decline for 50 years. They forecast, like the ONS, that employees will experience a similar 2.5% decline this year (which is likely to be a lot more accurate than the Bank of England's own inflation forecasting ,which was heavily criticised by the House of

Commons' Treasury Committee recently for underestimating last year's steep rise and now overestimating the predicted rate of its decline). That means £1,500 per annum less for someone on average earnings, £1,800 less in real terms for a nurse, helping to explain (and many would say justify) their industrial action.

What's very different in the UK compared with most of the rest of Europe has not just been the lack of consideration of prices and real pay by many employers, but also that these real pay cuts are not just a short-term feature driven by the immediate post-Covid economic environment battered by the impact of the Ukraine war. They are a much longer-term phenomenon, moving progressively according to the International Labour Organisation from 'crisis' to a 'catastrophe'. Data from the Office for National Statistics show that real average earnings in the UK are, astonishingly and scarily, at the same level in April 2023 as they were in April 2005 - £497 a week.

The value of benefits for many employees has also fallen in real and (in some employers) actual terms over the period. The austerity emphasis in government and employer employment policies in the 2010s supported the common switch by private sector employers from providing defined benefit to defined contribution pension plans. Average employer contribution rates to the latter are less than half of the former.

Cutting sick pay benefits and tightening eligibility terms was also a surprisingly common employer and HR cost-reduction measure in the 2010s. It suddenly looked a pretty dumb strategy when the deadly virus struck. As REBA's Debi O'Donovan observed, 'it appears that it takes a global pandemic for employees and directors to realise how important 'boring benefits' are', like a good pension, sick pay and health insurance.

The picture in the UK does vary significantly by occupation, pay level and age, although it is perhaps surprisingly widespread, with professionals such as auditors and new graduates as a whole experiencing real pay cuts during the 2010s. Tom Carver's excellent analysis using the ONS's data shows that while there have been real pay gains for some, often those in male-dominated and skilled jobs such as train drivers, since 2012, there have been declines for the majority of employees and roles.

The biggest falls have been in the public sector (where strike action has been concentrated), of over 10% in the inflation-adjusted pay for nurses for example, and 20% for teachers, again in marked contrast to Carver's comparisons with other OECD economies.

## Fairness, unfairness and pay inequality

I share the ideas of the 20th century American political philosopher John Rawls with my CIPD students to help us to think through what fairness means and how we might come closer to delivering it in our pay and reward management practices. His most famous work on Justice as Fairness describes the ideal society being underpinned by two basic principles:

- Principle 1: the basic liberties principle – that everyone should have equal rights and equality of opportunity, but that in order to be fair and to deal with potentially conflicting rights, see below:

- Principle 2: the difference principle should also apply, which is to justify difference in treatment only if it can be shown to benefit the worst off.

Many would argue that the UK is far from this ideal and at least since the 2008 financial crash, has been moving in the opposite direction.

Whatever the inter-occupational and group differences, there can be no doubt that the worst-off and lowest-paid workers, and the women and ethnic minorities who are heavily overrepresented among the three million-plus earning less than a real living wage, have suffered disproportionately badly from the Covid-19 and cost-of-living crises.

Health-wise, frontline care and retail workers experienced the highest occupational mortality rates during the pandemic. As Professor Sir Michael Marmot quoting Camus expressed it at the time, 'pestilence brings the hidden truth of a corrupt (and divided) world to the surface'. His research has highlighted the critical impact of under-investment in health and wellbeing, by government and employers, on the economic circumstances as well as the physical and mental health of employees. The latest employment figures from the ONS reveal that a record 2.5 million UK employees are on the long-term sick list, unable to work, intensifying labour shortages and the intense work pressures on employees in areas such as the NHS and social care. Health and financial wellbeing has also been pressurised by the growth of (imposed, one-way) work flexibility and job insecurity, which the Living Wage Foundation estimates affects 6.6 million, mostly low-paid, workers, with half of those working shifts receiving less than one week's notice of their hours.

And as well as having less money to cope, the lowest paid suffer proportionately harder, and effectively experience a 50% higher rate of inflation than the rest of us, as so much of their income goes on essentials like food and energy which have experienced some of the highest rates of price growth. According to the Joseph Rowntree Foundation, low-income families have been living through a 'frightening year of financial fear'. JRF have recently helped the CIPD to set up an 'In-Work Poverty' resource area on their website.

It is bad for low and averagely paid workers. But not for everyone. The earnings of higher paid employees have steamed ahead at much faster rates of growth than the overall economy and general rates of inflation. By 39%, for example, for the chief executives of our largest FTSE 100 companies last year, according to the High Pay Centre's latest annual survey. Bizarrely, the Covid and cost of living crises have also witnessed the emergence of the £100 million executive bonus. Despite the furore over bonuses on this scale being earned by bosses at housebuilders Persimmon and Berkeley group (achieved, many would argue, on the back of the government's Help to Buy scheme supporting first-time buyers), we have seen a similar scale of opportunity introduced in the 2020s for the top executives at firms including Boohoo, Wizz Air and Fraser Group.

We have seen many of the major financial and legal services firms, telecoms companies and utilities, retailers and supermarkets, and the big charities all taking action, most commonly by making a one-off cash bonus payment, or with flat rate pay awards that have been common in the public sector and represent a higher percentage increase for lower-paid workers. Tesco CEO Kevin Murphy justified its out-of-cycle additional pay award for store staff to £10.30 per hour late last year by stating ‘we try to ensure colleagues don’t have to go to food banks’. But he also said it’s ‘a key part of how we see the world’.

What the government’s press release on this year’s NLW increase doesn’t tell you however, (as well as that the average earnings target has been declining in real terms), is that a growing number of employees are paid at or within 10% of the government minimum, with some 3.5 million UK employees still paid less than a real living wage at the rate set out by the Living Wage Foundation. This is why IES emphasises the importance of regular pay progression for employees, not just paying at least the real living wage as a minimum, in addressing employer productivity and employee poverty.

According to the Joseph Rowntree Foundation over 13 million people are living in poverty in the UK, more than four million of whom are children, the majority of whom have at least one parent in work. In-work poverty, a phenomenon which the founder of the welfare state William Beveridge never envisaged, as jobs were then the solution to ‘idleness’, has grown, as real wages have fallen.

While minimum wages may have been going up, the other terms and conditions for low-paid workers, as the Resolution Foundation points out, have been getting progressively worse and are poor by international standards. The UK for example, has over a million people on zero-hours contracts and a third of the UK workforce (32%, mostly in low paid work) receive less than a week’s notice for shifts, hours or work schedules. Our statutory sick pay rates are 11% of average earnings, compared with an average in the OECD of 64%, which is not great for a country when a pandemic hits, nor now for employer productivity in the post-pandemic recovery.

What is indisputable is the fact that real pay cuts and growing in-work poverty at the bottom of the UK income scale have contributed to a widening gap with the escalating real incomes and wealth of those at the top of the distribution. This was boosted by their capital gains evident throughout the 2010s, in areas ranging from house price growth to executive share options, which are taxed at a much lower rate than income.

The High Pay Centre calculations show the median earnings of CEOs in our largest FTSE 100 companies went up by an inflation-beating average of 12% in 2022 to £4.15m, which is 109 times the average pay level of their employees. This is up from a ratio of 20 times in 1970 and 50 times in 2000. As a result, we are the now the most unequal society in Europe.

So, long-term real pay reductions for most, but definitely not all, of UK workers. New analysis from the Institute for Fiscal Studies based on payroll data collected by HM Revenue & Customs confirms this pandemic/post-pandemic trend towards growing inequality. UK pay growth since the start of the pandemic has been strongest for top earners in London. The IFS found that between February 2020 and May 2023, mean earnings for employees living in the capital had increased by 5% after adjusting for inflation, to £4,400 a month before tax.

However, these real pay gains in the capital have not been evenly shared. Pay at the median has risen only 1.7% in real terms since the pandemic began, to £2,700 a month before tax. Looking by sector, earnings in finance were 7.6% above their pre-pandemic level, and in similarly male-dominated, high paying technology information and communication roles they were up 5.5%. Mean earnings in low-paid female-dominated sectors, such as hospitality and retail, and in others including education and public administration, have fallen in real terms since 2020.

So the Covid-19 pandemic (and ensuing economic disruption and cost of living crisis) have definitely not been the 'great leveller' of Defoe's Journal of the Plague Year three and a half centuries earlier.

## Unfairness and the persistence of pay gaps

Measuring pay gaps, from top to bottom and between different groups in your workforce, is one of the most important actions IES recommends that all employers take to assess the fairness of their pay and reward management and to help to specify where and how to act to address any inequities. So how is the UK doing on its main pay gaps? As on inequality between the high and low paid, the picture again I am afraid is not a pretty one, with persistent pay gaps adding to continuing evidence of discrimination and unfair, unequal treatment in recruitment and talent management by many employers, as well in their pay and reward practices.

'The Gender Pay Gap Reporting Regulations have driven an important national debate on fairness at work, amplified by the unequal health and economic impact of the pandemic', according to the then chair of the EHRC David Isaac on Twitter, as reporting resumed in 2021. The compulsory reporting regulations that were finally implemented in 2017 certainly gave a boost to government and employer actions designed to address the size of gender pay gaps that had plateaued in their gradual long-term reduction trend in the 2010s. The national all-employee median earnings gap in the ONS data came down from 20% to below 15% in 2019.

Most importantly the regulations have helped to drive employer actions to close gaps, for despite the lack of compulsion, around two-thirds of these employers by 2020 were publishing their action plans, with the best setting themselves targets for further reduction (although this proportion has fallen since reporting resumed in 2021). My old employer PwC for example has set itself targets for increased gender and ethnicity representation at each grade level over the next five years in their annual report.

That's the good news. The bad is that the national gap widened once again with the government's misjudged 18-month suspension of reporting in 2020, with around two-thirds of employers not publishing data over that period. The national gap widened once more to 17.9% in 2021 and although the resumption of reporting has refocused employer attention on addressing pay inequalities, the latest 14.9% all-employee level in the ONS's annual analysis is still above the 2019 figure and the gap has widened in many large employers.

Look more widely at total rewards and the gap becomes a gulf. The Pension Policy Institute funded by Now in 2022 found 'by age 65, the median women's pension wealth is £69,000, while men's is £206,000'.

While the government apparently enthusiastically consulted with employers in 2018-19 on extending and repeating the gender 'trick' with compulsory ethnicity pay reporting, which is supported by many in parliament (including the Labour and Liberal Democratic parties) and most employer, industry and trade union bodies, as well as IES and CIPD of course, the government backtracked and instead endorsed the recommendation of the review it commissioned led by Lord Sewell, a position which the Commons' Women and Equalities Committee characterised as 'nonsensical'. It worried about 'adding undue burdens on business' and is now only in favour of encouraging voluntary ethnicity reporting, publishing some not particularly helpful guidance on this earlier this year.

So the vast majority of UK employers, over 90% of those covered by the gender requirement, continue to refuse to publish their ethnicity pay and representation data. As a result we have much less understanding of the nature and causes of these cross-ethnicity gaps. The ONS in its latest annual review trumpeted that 'The ethnicity pay gap between White and ethnic minority employees has narrowed to its smallest level' since first measured in 2012 in England and Wales'. But it also acknowledged that, breaking the data down more meaningfully between the different non-white categories, 'most of the minority ethnic groups analysed continue to earn less than White British employees'.

The ONS notes that 'major variations are evident by group and gender, location and birthplace', with the overall white/BAME average pay gap being over 23% in London. Also, very different sizes of the populations can present challenges even with measuring differences nationally, never mind in small and medium-sized employers. But detailed investigations in sectors ranging from higher education to medicine conclude that there are unfair and unjustified pay gaps when it comes to ethnicity, which are generally larger than those still evident for gender.

IES's research work with CIPD highlights some of the causes of these gaps and we have published guidance on how to report and act on ethnicity pay gaps most effectively. Without compulsion however, the rate of progress is likely to continue to be slow.

IES's research and experience in helping members to address pay gaps points to a range of factors:

- A **lack of prioritisation and consequent resourcing**, which is perhaps understandable given the range of external 'shocks' that HR departments have experienced since the onset of the pandemic in 2020. Yet this also points to the common failure by HR (which McKinsey highlights in its call for a new 'playbook' of policies and actions to promote equality and fairness effectively) to engage their leaders and line managers in these issues and solutions to them. A manager in a local authority told me on one project 'we put it in the equality/diversity box', rather than addressing it as a priority from an organisation-wide perspective.
- An **excessive focus on 'soft' voluntary and developmental initiatives**, particularly unconscious bias training (UBT), often characterised as 'focusing on what's easy, rather than what works'. A research summation by the EHRC certainly suggests that UBT on its own has no discernible impact on the relative pay and representation levels

of women in a variety of settings, including the NHS. IES's research highlights a common tendency within organisations to 'siloism' or a single issue and initiative focus. The causation of gaps and unfair and inequitable treatment in most employers is too complex and deep-rooted to be addressed by a single initiative or any supposed 'quick fix'.

- An **excessive legal and procedural focus**, again, perhaps understandable given the tortuous equal pay legislation and process in the UK, but often inducing in HR a failure to be proactive or act without legal pressure. In many employers there has been an excessive focus on confidentiality (through, for example, the use of non-discrimination agreements), and in the worst cases, even reinforcing abusive and discriminatory management and cultures. In this area, 'HR is not your friend' according to one former Microsoft executive.
- In reward management, an **over-focus on formal base pay mechanisms** and structures as defences against unequal pay, such as job evaluation and grading, with a consequent lack of attention to underlying cultural and process issues which often lie at the root of pay gaps. HR has emphasised the importance of maximising line manager discretion and freedom. Yet there is good evidence that this discretion, often unwittingly, leads to white males receiving, for example, higher starting salaries, higher PRP awards and bigger bonuses.

But I am optimistic about signs of a widespread recognition in many employers and their HR departments of these traditional failings and the need to shift towards a more strategic, wider-ranging and sustained approach in order to crack their persistent pay gaps and inequities. Presenting at an excellent meeting of Mr Richard Goff's People Director Partnership in Soho recently, I was pleased to hear that pay equity and the newly 'hot issue' of pay transparency was so high on the priorities of many of the HR directors there, particularly those with operations in North America and continental Europe. After tracing the origin and impact of this new-found emphasis, I will conclude by summarising what else IES has found that 'works' in combating unfair and inequitable pay levels and practices.

## Pay transparency

The European Commission's pay transparency directive was finally passed last December and member countries and larger employers in them now have until 2026 to implement its provisions. The new directive states that all companies with at least 50 employees must disclose information that makes it easier for those working for the same employer to compare salaries and expose any pay inequalities. Pay includes bonus, overtime, allowances, sick pay and occupational pensions.

It also mandates pay transparency for jobseekers. Employers will have 'to provide information about the initial pay level or range in the vacancy notice or before the interview' and 'will not be allowed to ask prospective workers about their pay history'. Data from jobs aggregator site Adzuna shows the majority of their UK job adverts (56%)

not only don't include the pay range information, but also that this proportion has declined over the last five years rather than improved. And earlier this year, the government 'quietly dropped' its commitment to launch a trial of greater pay transparency and its impact with a sample of major employers.

The European directive also extends the rights to pay information for employees – giving them the right to request information from their employer on average pay levels, broken down by sex, for categories of workers doing the same work or work of equal value – and generally strengthens equal pay legislation. For example, it wants member states to force employers to address gender pay gaps of over 5% or more, which is the case for more than three-quarters of UK employers reporting a gender pay gap in favour of men.

## How else can we close pay gaps and make pay fairer? Practical steps for employers

### A wider strategic approach

A broad range of initiatives across a full range of HR/employment areas for a sustained period is, in my research and consulting experience, the most effective route to fair pay. And this generally needs to include more difficult, sometimes controversial and internally-compulsory actions, what Harvard professor Iris Bohnet refers to as 'Diversity by design', as well as the 'easy' initiatives such as UBT. This might involve progressively moving to blind or 'blinder' recruitment processes, which The London School of Economics and Political Science, for example, has introduced successfully. Or the proportionate representation of minority groups on selection panels. And even the use of 'the Rooney rule' of compulsory shortlisting of minority candidates, that was successfully used to increase the low number of black American football coaches despite the preponderance of that community amongst the players.

Our research work for the EHRC led us to the following recommendations for removing pay gaps and moving towards fairer pay:

1. Address differences in **subject and career choices**, educational attainment and access to apprenticeships among different groups. **Talent management and development,** and particularly the importance of and access to internal promotion routes into higher paying jobs, emerge as consistently important factors in my work on fair pay.
2. Improve **work opportunities for everyone**. Unemployment rates vary significantly by ethnicity – for example, the gap with white males has worsened since Covid-19 struck.
3. Make jobs at all levels available on a **flexible working** basis.
4. **Reduce prejudice and bias** in recruitment, promotion and pay decisions.
5. **Report on progress** in reducing pay gaps.

IES's own academic research also recommends pay reporting and transparency, along with:

6. A **focus on recruitment**, targeting underrepresented groups in the workforce and ensuring recruitment processes are fair and equal in their treatment of all of these groups.
7. Providing **training and career progression opportunities** for the whole workforce and particularly nurturing talent from underrepresented groups.
8. Targeting increases in representation at senior levels.
9. Raising minimum pay levels and progression for all.
10. The implementation of wide-ranging diversity and inclusion policies, including UBT.

Learning from our case study work with members reducing their pay gaps, meanwhile, highlights the following common factors underpinning their progress and success:

- A values-based, culture-driven approach over many years was seen as being at the heart of the progress they had made in reducing pay gaps, with the most senior managers setting an example and signalling and monitoring its importance, which helps embed it into the culture of how people behave and act in the organisation.
- A consistent focus and approach over time, with clear goals and priorities but with flexibility and opportunism in implementation across the organisation, appears to pay off.
- Recognition that no one formula works for all employers. Parity needs to be central to the aims and services of the organisation, but the approach needs to be tailored to each employer; no one set of leadership behaviours or diversity policies will deliver.
- A balance of informal activities (such as mentoring) and formal policies (such as flexible working and recruitment methods, and monitoring) appears to have been important, varying to suit over time.
- HR DEI policies and quantitative data play an important enabling and supporting role, particularly in terms of board reporting and providing regular management information for review.
- Active career and talent management and development policies and particularly a ‘promote from within’ policy were highlighted as a vital areas for action, opening up opportunities to people at whatever level and from whatever background to develop the confidence, skills and experience needed to move into senior roles.

All of this, as my IPA colleague Nita Clarke emphasised at our IES annual conference earlier this year on building a fairer world of work, has to be based on a strong narrative and clearly articulated principles around what fairness at work means, which can act as a guide to HR and reward policy and practice decisions. Without that ‘energising North Star of what we should aspire to and hope to achieve’, as she put it, ‘how should we expect to make real progress?’

### Pay actions to close pay gaps and support fair pay

Our message here to employers and their HR departments is the same: the fair pay solution is not based on individual practices – a well-designed and tightly enforced job evaluation system and process, or a tidy grading structure and pay review process. These are the foundations for fair pay, but on top of these you need to build broader people investment and reward strategies which can move far more employers in the UK closer to realising that government vision of a high skills, high pay, high performance economy that Prime Ministers from Gordon Brown through to Boris Johnson have been so fond of talking about.

Our work at IES highlights a range of specific actions and practices that employers can take that are linked to both fairer and more productive pay, reward and HR management.

These include:

Addressing low and unequal pay, as we have seen in the case of social care, but which needs to be addressed far more widely across the UK economy. Low pay is actually associated with higher employer costs, through increased turnover, absenteeism and lower employee commitment. While not necessarily moving to inflation-indexed salaries, the cost of living and inflation are certainly now rightly assuming a much higher importance in pay setting and bargaining. The Living Wage Foundation has seen major growth in membership since Covid-19 hit. There are over 13,000 accredited Living Wage Employers in the UK and one in nine workers are employed by these firms. Every year, 430,000 workers receive pay rises linked to the real Living Wage. But that still leaves over 3.5 million workers in the UK, or one in eight, paid below this.

Providing pay and career opportunities for all employees, especially the lowest-paid. I am a big fan of this, based on my own experience of skills-based pay and career progression. IES's Europe-wide research project demonstrates this approach can deliver potentially huge benefits for employers, with the additional costs far outweighed by an increase in added value and falls in recruitment and attrition costs. Measures we found being taken included: the redesign of jobs to facilitate progression of part-time workers into supervisory roles; structured career pathway mapping and competency building; contracted minimum hours; and regular career conversations. In their latest study, Mckinsey report that, 'our research shows that fostering a growth mindset among leaders and employees—for example, by providing training and internal advancement opportunities (with associated pay increases)—is a cornerstone of effective organizations' in the 2020s. In the previous decade, as Professor Ewart Keep at Oxford University highlights, the fall in apprentice training since the introduction of the compulsory levy has been part of the wider cuts to employer training days provided, to a record low of under four days per employee per annum in 2019, representing a fall of 60% since 1997. This has to be reversed, in support of higher and fairer pay and more productive organisations.

Moderating executive pay differentials and distributing rewards for success more widely in employers through the much more widespread use of profit sharing, employee ownership and all-employee share schemes. My recent research on reward trends in Europe demonstrated that 'a greater presence of collective variable pay schemes coincides with better performance, especially at site level', as well, obviously, as higher real and actual pay. The Employee Ownership Association has demonstrated a similar performance premium over quoted companies for employee-owned companies.

Adopting fair pay practices, such as job evaluation, pay gap reporting and so on, which as IES details in its research for the EHRC are associated with higher levels of employee trust, engagement and performance.

Providing a comprehensive package of wider rewards and conditions focused on ensuring the security and wellbeing of all employees. Fair employment rather than just fair pay needs to be the goal, underpinned by measures such as stable contracted ‘living’ hours, a decent pension and more comprehensive, compassionate health, sickness and financial wellbeing support.

### An example: addressing the staffing crisis in social care

To give a concrete example of IES’s work, social care is one of the lowest paying occupations in the UK. Care workers are always moved up the fair pay league table above their low market-based positioning in that ranking exercise by the students on the university HR masters classes that I run. The care workforce is over 80% female with ethnic minorities heavily overrepresented too: 21% of workers are black, Asian or from other ethnic minorities. The average age is 44 years and over a quarter of care workers are older than 55 (Skills for Care, 2021).

While hourly pay rates have increased with the National Living Wage, pay in social care is lower than in most supermarkets, at a mean hourly wage of £8.30 in the independent sector (IES and Health Foundation, 2020). Close to a quarter of the workforce are on zero-hour contracts, providing insecure employment with unpredictable hours and income. Unlike the NHS, a relatively low proportion of the workforce is unionised.

Perhaps not surprisingly, a recent analysis described the crisis in social care staffing, with almost 200,000 vacancies and the existing workforce ‘on its knees’ in trying to cope with increased workloads post-Covid and staff shortages.

Our analysis led IES to the following three main recommendations for the social care workforce:

1: Skills for Care should work to increase the esteem of care work, through introducing ‘a good work adult social care employer kitemark’, awarded where pay rates exceed National Living Wage rates, contracts provide stable hours, and all employees are provided with regular learning and development.

2: Employers should improve career and pay progression, through: training managers and leaders to tackle unconscious bias, open promotion strategies and identifying progression pathways; providing training, development and career conversations for frontline carers, and identifying redeployment opportunities and providing job development for older employees in the adult care workforce.

3: Government and HMRC should regulate more stringently to stem tax avoidance and loss of funds, so that monies recovered can be directed to the frontline and improve employment terms and conditions in the adult social care sector. The King's Fund estimates that the social care workforce would need £1.7 billion of investment to match the NHS package, which IES calculates is broadly equivalent to the amount of 'leakage' each year largely resulting from a complex ownership structure of private sector, often private equity-funded, employers in the provision of care. The IPPR report Fair Care calculated that ensuring all care workers are paid at least the real living wage (excluding London) would require an additional £340 million.

## Conclusions on fair pay and moving from policy to practice

My students have been right all along: the market doesn't give us all the answers and care workers and other low-paid workers need to be paid more. In his best-selling book published just before the pandemic in early 2020, *Head, Hand, Heart: The Struggle for Dignity and Status in the 21st Century,* journalist and commentator David Goodhart makes a cogent, evidence-packed case that we need to fundamentally rethink the world of work and the relative value of jobs within it, specifically addressing the huge premium we have placed on intellectual skills and roles in recent years at the expense of our valuations of manual and caring work.

The world of work has certainly had a series of huge shocks since then and as our IES annual conference this year highlighted, this has led many employers (and many of us) to question our own and our organisations' historic approaches and priorities, with fairness, or the lack of it, a key area of concern.

Covid-19 and the ensuing disruption and inflation-driven cost-of-living crisis have blown away the cosy, employer-driven, market-wagon-train-following, top-down-imposed, low-pay/lowest-cost employment model that too many employers had unthinkingly followed over the previous decade. But what will replace it and will a fairer and more productive approach emerge in its place?

Baggage handling is really tough work, physically demanding and low paid, with angry passengers never far away. Long shifts often begin in the small hours of the morning. Yet the handlers often only receive between £9 and £10 an hour. If they had taken the opportunity during their period of being furloughed to seek out and find less demanding and better-paid jobs, who could blame them?

British Airways' immediate response to the pandemic included attempting to dismiss and rehire its workforce, a move which the Labour party is promising to outlaw, along with banning zero hours contracts, if voted into government at the next general election. Unions accused airlines and airports more generally of using the opportunity of the pandemic to cut jobs and pay. Some airline executives, facing the staffing shortages and travel chaos resulting from the resumption of widespread travel in 2022, expressed the hope that it would become easier to recruit as cost of living pressures and rising unemployment started to bite.

According to Akbar Al Baker, chief executive of Qatar Airways: ‘The only way we will get out of it is when people will realise that they have to go back to their jobs and work to earn’. Al Baker sits on Heathrow’s board representing the Qatari sovereign wealth fund, a major shareholder at the airport (pay level not disclosed).

Yet increasingly IES are seeing a different approach from employers. Rather than panic responses like selective golden hellos, staff shortages are being addressed by better workforce planning, more training, extensive employee and trade union consultation and higher core pay. BA awarded their check-in staff and refuelling workers respectively a 13% and 12% pay rise last year and introduced a £1,000 signing-on bonus for new employees. This August, after extensive discussions with trade union Unite, they awarded 24,000 check-in and ground staff a further inflation-beating 13% plus a one-off, cost of living bonus of £1,000. The agreement includes the potential for pay to rise further if inflation fails to fall in line with the Bank of England’s optimistic forecasts.

My Rewards after the Pandemic group member was right too: government, employers, HR and reward professionals, all of us, need to work much harder at building fairer and more engaged workplaces underpinned by fairer employment and pay practices and outcomes.

Hopefully future governments will help us to focus on this, strengthening employment rights and protections, continuing to push up minimum pay levels and conditions, and making much more extensive pay and human capital metrics reporting mandatory using a standardised format.

As HR professionals, we know from our research and experience what these practices need to include, such as:

- a clear and communicated people and reward strategy linked to our culture and values;
- much greater pay transparency characterised by banning salary history discussions in recruitment, and by publishing grades and pay ranges for internal staff as well as recruits to see and understand;
- measuring and publishing at least ethnicity as well as gender pay and representation gaps, with accompanying action plans to close any gaps, and moving where possible to do likewise for all protected minority groups in our workforce;
- targeting and promoting the achievement of diversity representation targets at all levels;
- paying at least a real living wage to all of our employees and working to achieve this in our supply chain;
- providing pay and career progression opportunities to all employees, not just managers/high potentials;
- offering security of employment and ‘living hours’ to all employees and where possible suppliers;

- providing a good 'living' pension plan, as part of a comprehensive financial wellbeing policy and associated support and advice;
- sharing the benefits of success with all our employees, not just executives, and rewarding/recognising the collective contribution and achievements of all of our employees, for example through all-employee profit sharing and share plans;
- talking with and polling employees regularly on their work, reward and recognition;
- measuring and reviewing the effectiveness of our reward policies on a regular basis against a clear set of metrics, feeding this into management meetings and processes, and changing and adapting accordingly.

I can't ever remember a more positive reaction by employees to the pay deals I have helped their employers with than to those over the past 12 months where we put a cap on pay awards above a certain level, and heavily skewed the budget towards the lowest paid. Especially from the highest paid. Being fair and getting even just a little bit closer to Rawls' ideal and principles feels good.

As my colleague Dan Lucy put it, summarising the IES annual conference, 'Whilst we may never actually achieve perfect fairness, we should strive to be more fair'. And frankly, we can certainly make a far better fist of it than many employers did in the previous decade.

Ultimately though, I won't mislead you, this is hard. It requires courage and patience, in many cases challenging existing leadership styles and cultures, working across our traditional silos in considering the full range of our HR and employment practices through the lens of fairness, allied with sustained effort (and resources) over time.

'Society doesn't value the work being done in social care.' That comment by the woman reluctantly leaving her care home job in Nottingham to earn 30% more (enough to feed her kids) in the Amazon warehouse up the road, still haunts me. So does the UK's continuing national all-employee gender pay gap, after a career of working with governments and employers to try to eradicate it, especially now both of my girls are in that employed population and part of the gap.

'How can we create a more equitable, collective, compassionate approach to reward and people management?' Keep asking that question, keep fighting to answer it. Our daughters demand it.

## About IES

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- building, exploiting and sharing the evidence base
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