Paper

Pay and Reward Strategies After Covid-19

Angels Advancing Back to Fairness and Security

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Introduction

‘Fools rush in, where angels fear to tread’ was the wisdom first expressed in 1711 by Alexander Pope, our famous local Augustan moralist poet and satirist, here in Twickenham, . Forecasting pay and reward trends is, as I have found throughout my career, a fool’s game at the best of times, never mind locked down in the midst of this unprecedented pandemic, as I write now.

I confidently predicted the death of job evaluation and a move to ‘clean cash’ in the ‘greed is good’ 1990s; completely missing the growing impact of EU-driven equality legislation, which strengthened the first, and flexible benefits platforms which quashed the second.

And while the years of anaemic economic growth following the 2008 financial crash surprised nobody, no-one I know or read forecasted the decade of real pay and pension cuts for the majority of the UK working population that we subsequently experienced in the 2010s; the worst decade for living standards for at least 200 years.

Daniel Defoe published his *Journal of the Plague Year* ten years after Pope’s observation, over 300 years ago. Although a novel, it was designed to promote the ‘public good’ and highlight the lessons learned to help to prevent any repeat, after a quarter of the London’s population had been killed off by the last major plague that would strike the city until 2020.

Defoe wrote of the benefits of the forced collective lockdown imposed by the city’s authorities, and of its downsides; the impact of ‘the strange temper’ and selfish behaviour of some citizens, which ‘contributed extremely to their own destruction’. Partying pandemic super-spreaders are nothing new apparently.

Defoe was also the originator of the phrase, later borrowed in times of crisis by Roosevelt, Churchill, and many other leaders since, that the ‘fear of danger is more terrifying than the danger itself’. Listen to Roosevelt’s electrifying inauguration speech from 1933 and his announcement of the ‘needed efforts to convert retreat into advance’ with his massive New Deal investments designed to address the ‘common difficulties of existence’ of tens of millions of Americans.

We face not dissimilar challenges as a society, and as employers and HR and reward professionals today, working out just how to escape from this economic and health Armageddon.

So, what is the balance of ‘retreat’ to the pre-pandemic situation, and ‘advance’ to a ‘new normal’, of ‘fools’ and ‘angels’ in UK reward management now? And what do we need to do to convert the former into the latter in each case?

Covid-19 contexts and choices

Your initial impression might well be that our 2020/21 version of the plague and Great Depression combined, coupled with its hugely detrimental health and economic impact, is not going to be good news for pay and rewards in the UK; and you would be correct of course.

The onset of the pandemic in 2020 saw a record decline in UK GDP–20 per cent in the first quarter–the worst year for economic growth at least since the Great Frost of Pope's time in 1708-09. As I write at the start of 2021, many businesses are locked down once again and unemployment is increasing now at record rates, surpassing even the Great Depression post-1929 (up by 370,000 in the third quarter of 2020 alone). Oxford Economics forecasted a still awful 4 per cent decline in Q1 2021. Yes, the 2021 outlook for the UK economy looks distinctly gloomy.

Despite the denial of a repeat of post-2008 austerity, on November 25th the chancellor announced a 'pay pause' for the majority of the 5.5 million public sector workforce in order to help to begin to address the £2 trillion debt burden induced by the pandemic. Interestingly, he described it as 'fair', given what is happening in the private sector, although his political opponents labelled it as 'morally obscene'. The TUC described the chancellor's actions as 'a "kick in the teeth" to all key workers who had kept the country going through the coronavirus crisis'.

Incomes Data Research in its *Pay Planning 2021* review, covering over 300 employers, found slightly more positively that the median pay award in 2020 was 2.3 per cent, with 16 per cent of reviews resulting in a pay freeze, and significant variations by sector. Though almost half of reviews in 2020 were below the previous year and approaching two thirds of these firms predicted lower awards still in 2021.

For the more than five million UK self-employed workers, the work and income situation has been even worse, with no national insurance or sick pay to shield them, and a less generous government Self-Employed Income Support Scheme, as our director Tony Wilson has pointed out regularly over the past year,. In the second quarter of last year alone, their numbers fell by 180,000 and average incomes are estimated to have halved.

But I am going to argue more positively in this *Perspectives* piece. As the renowned epidemiologist Sir Michael Marmot puts it in his new report:

> *'Inequalities in health, and in the social conditions that lead to ill health, have been revealed and amplified by the pandemic and the response to it… the "normal" that existed in February 2020 is not acceptable'.*

Sir Michael Marmot

2021 represents a critical pivot and decision point for governments, employers, and HR leaders: do we move forward with new and fairer reward strategies, or revert to tired failing ones? Do we pursue investment or austerity, practice compassion and collectivism or continue to incentivise individualism and inequality? The choice and change are ours to make.

'All in this together?' The plague of inequality

Rhetoric and reality for executives

> *'All over our planet, we are all pulling together in a massive way to beat the health threat that has turned our world upside down'.*

Bernard Looney, CEO, BP[1]

Chief executives the world over have been prone to making similar 'we're all in this together' comments over the past 12 months in recognition of, and appealing to, their employees with varying degrees of justification. The trouble is that in their actual treatment of employees, from the highest to the lowest paid, and their wider commitments to society and stakeholders beyond just their shareholders, the pandemic has shone a spotlight on chief executive and corporate practice as well as the wider unfairness of the social contract for business and the UK's welfare state itself.

Bernard Looney was appointed on a salary of £1.3 million, plus incentive schemes and benefits, in February 2020. His predecessor, Bob Dudley, earned a total of $13.23 million in 2019. Through the UK's new pay ratio corporate reporting requirement, we can now see that this was the equivalent of 543 times what the lower quartile earning employee in the Company earned that year.

Analysis by the High Pay Centre published in December showed that this was the second widest gap (after Ocado) amongst the UK's FTSE 350 companies. Amongst BP's peers in the largest FTSE 100 companies, the median CEO/employee median pay ratio was 73:1 and the median CEO/lower quartile ratio was 109:1. Forty years ago, the median chief executive was paid 18 times the median employee in their company.

Employees in most companies are less 'all in it together' with their leaders, pay and rewards-wise, than they were then, especially in companies with obscenely rich long-term executive incentive plans that do not enfranchise all the employees, like Ocado.

King Charles II apparently responded to the Great Plague, which killed 15 per cent of his subjects in London, by retreating to Hampton Court and not coming out until it was all over. Although according to the National Archives Education Service, 'The Lord Mayor and aldermen remained to enforce the King's orders (successfully) to stop the spread of

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[1] BP (2020), 'In this together'. *BP Insights.* April 23rd. [Online]. Available at: www.bp.com/en/global/corporate/news-and-insights/covid-19-bp-response/inthistogether-our-response-to-covid-19.html [Accessed: 10 June 2021]

the disease… (and) The Council of Scotland declared that the border with England would be closed'. No change there, then!

But the historical reference raises some serious questions; which of these two courses of action are most of our political and corporate leaders pursuing today? And how will their leadership strategies will reflect the learning of Covid-19 in the future?

Covid-19 and inequality

Covid-19 has therefore turned out not to be the equivalent of 'the great leveller' before the God of Old Testament 'plagues and pestilences' Defoe referred to. It certainly has not turned the UK's reward clock black to the 1980s, which was when I started my career and there were almost no executive incentive plans or zero-hours contracts in place. Covid-19 has had the reverse effect. It has intensified the UK's already deepening social, health and income inequalities—between rich and poor, male and female, white and black, older and younger. The economic and health impact in the UK and globally has been far worse on the already poor and lowest paid and on minority groups in society.

According to Mckinsey's Covid-19 dashboard the unemployed and the poor have been between 2.4 and 1.5 times more likely to die from Covid-19. The UK has one of the lowest rates of unemployment benefit and state sick pay in the OECD, which was intensified by the benefits freeze after the 2008 recession, averaging just 17 per cent of pre-employment income (in New Zealand its 34 per cent, in Germany 59 per cent).

Having given evidence on behalf of IES to the House of Commons Women and Equality Committee inquiry on the unequal impact of the pandemic on people with protected characteristics, there can be no doubt that female employees have been disproportionately affected by this pandemic. According to the ONS, the risk of death involving Covid-19 for people from Black ethnic backgrounds of all ages was two times greater for men, and 1.4 times greater for women, compared with those from a White ethnic background.

The precarious nature of much of the UK growth in employment over the past decade also came in for criticism by the committee, who were 'deeply concerned by the impact of the zero-hours contracts'. Women are more likely to be in low paid and insecure employment, resulting in higher rates of in-work poverty. According to the ONS, women make up the majority of low paid earners, (69 per cent) and the majority of keyworkers exposed to higher risks of contracting Covid-19. Furthermore, women make up the majority of those in part-time employment (74 per cent), temporary employment (54 per cent), on zero-hours contracts (54 per cent) and in part-time self-employment (59 per cent).

Looking internationally, The UN's conclusion is that 'Despite the clear gendered implications of the crisis, response and recovery efforts tend to ignore the needs of women and girls until it's too late. We need to do better'. According to UN Secretary-General Antonio Guterres, who chastised governments last October for their lack of response, 'a higher level of ambition is needed to make the necessary policy changes'.

Employment and reward policy choices: retreat or advance, back to 'normal' or build back fairer?

As we have seen, the last austerity-dominated, supposed 'jobs miracle' decade, witnessed a huge growth in low paid, low skilled jobs, filled mostly by young and female workers, employed on precarious short-term contracts, while shareholder- and individual-driven incentive plans fuelled continuing escalation in executive remuneration and differentials. The focus in state and employer benefit plan designs switched away from collective security through defined benefit pensions, sick pay and insurance plans, to 'freedoms', individual choice, and flexibility. And risk.

These trends were not driven by some isolated and uncontrollable economic market force— Adam Smith's 'invisible hand'—but by a myriad of individual employer, remuneration committee, and HR decisions. Is this really what we want to go back to post-pandemic?

More caring, flexible, equal rewards: The start of a trend?

The UK's Reward and Employee Benefits Association (REBA) has been surveying between 100 and 200 employers every couple of months on their pay and reward priorities and actions since the start of the pandemic last March, with the most recent fifth survey published in December. Perhaps unsurprisingly, they have found that the crisis has 'impacted on reward and benefits thinking in almost every business'.

Initially the surveys highlighted a focus on the immediate needs and concerns of employers and their employees: introducing the furlough scheme, providing PPE for keyworkers, organising homeworking, and introducing new benefits to support staff in that environment, ranging from home-schooling to online GPs, and therapists and mindfulness apps, dealing with the effects of reduced profits in many businesses on executive bonuses.

But as well as continuing to review and extend their employee wellness benefits, with twice as many employers investing more in employee benefits, there are signs in this latest survey of employers starting to look further ahead and plan their post-pandemic futures. Twenty-seven per cent plan to review their pay strategies and 20 per cent both to restructure their benefits packages and their existing bonus plans.

Additional factors, such as a renewed focus on responsible business and Environmental, social and corporate governance (ESG) in performance management and pay plans, and the need to re-engage workers after a fragmented and uncertain year, will also be high priorities according to the REBA survey, in 2021 and thereafter.

Reward choices and actions for 2021 and beyond

> *'The coronavirus pandemic has sharpened the focus on pre-existing inequalities across a range of policy areas. With the possibility of a vaccine and the end in sight,*

now is the time to tackle these inequalities, now is the time to carve a better, brighter future, now is the time to act.'

Women and Equalities Committee inquiry report, December 2020

In that famous New Deal inauguration speech 90 years ago, Franklin D. Roosevelt pledged 'action – and action now', calling for 'bold experimentation'. He implemented major social and economic structural reforms, designed to ensure a security baseline for all Americans– social security payments, insurance protection, followed by the federal minimum wage.

Governments and employers will face similar choices in 2021, once the coverage of vaccinations now rolling out across vulnerable groups in the UK hopefully finally tames the virus. Broadly speaking, it is a choice of whether to retrench financially and economically, and retreat to the 'old normal' of the 2010s, or to invest in and advance to a 'new' employment and reward model of the 2020s.

We at IES would not deny the case for retrenchment. Nor would we underestimate the tough choices, bravery and courage required from our politicians and business leaders to do, essentially, the opposite and proactively invest further, beyond the 2020 emergency response, in the value and wellbeing of their people, in a climate of unprecedented financial and economic damage.

However, the tide is hopefully turning, as awareness of the practical impact of the last decade of austerity upon employment and rewards has become much more apparent during the pandemic. Seventy two per cent of us, according to a Fawcett Society study of public opinion, think care workers are underpaid; three in four people support carers getting the Real Living Wage; 65 per cent of us (including 88 per cent of Tory voters) agree with a rise in income tax to fund this.

We believe it would be a mistake to return to the reward world of the last decade once the virus has receded. However, much as we might all yearn to return from our back bedrooms to our previously 'normal' lives of coffee shop meetings, restaurant meals, and hugs with friends and family. It was and is, as I have outlined, a world increasingly characterised by significant weaknesses, increasing inequality, and unfairness; damaging both to employer productivity and employee wellbeing.

The pandemic has shown that flexible, 'just-in-time' economic and rewards models have failed, when a 'just-in-case' more secure approach was needed, and we believe that permanent changes are now required.

So, what does the 'new normal' involve? What are the key features of this 'society that will work for all'? And what is a more collaborative, equitable and caring employer rewards model?

The combination of state and employer support that will be required going forward was described to us Defoe-style, by 40 low-paid/low-protected workers that we consulted for IES's current research project, funded by the Standard Life Foundation, on the immediate impact of the pandemic.

To quote from our findings contained in the interim report, when we asked them about what additional support they would value:

> *'A wide variety of recommendations were put forward, including better awareness of workers' rights and legal protection in the context of Covid-19; greater assistance with job searches, retraining and childcare for those currently unemployed; and a range of financial support measures, from access to free financial advice services to further raising the Universal Credit standard allowance'.*

Government actions

Prior to the pandemic, the government had recognised the growing damage of increasingly unproductive and insecure, uber-flexible and individualised, economic and employment 'gig economy' models. It had adopted many of the recommendations from the employment review it commissioned by the RSA's Mathew Taylor in its Good Work Plan, published in late 2018, following up with a comprehensive gender equality plan the following July: *Gender Equality: A roadmap for change'*.

Our common experiences over the past year, in highlighting the amazing contribution, but appalling pay and conditions of many of our low-paid, but no longer considered low skilled keyworkers, you might would think reinforce an implementation, but also a significant strengthening of the 'Good Work' and equality agendas. This is both desirable and feasible to enact in 2021, mostly through the government's much-delayed and ever-more-necessary employment bill.

You can read in IES' other policy publications about the wider reforms we support to rebuild the UK's welfare state and to make it fit for the post-pandemic future, including:

- Retaining and making the temporary uplift to Universal Credit permanent in 2021.
- Moving the rate of Statutory Sick Pay much closer to the level of the minimum wage level, as well as extending eligibility by removing the lower-earnings level floor on people entitled to it, and opening the plan up to the self-employed.

Employer actions

My research over the years at IES has highlighted that the strategic goals of being business and market-aligned, and individually flexible, have overwhelmingly driven the reward policies of most UK employers in all sectors for more than two decades now.

I suggest that it is belatedly time to re-assert three other important reward principles and goals that research suggests are critical to the effectiveness of reward policies:

- being fair and consistent in how all employees are treated, with an appropriate distribution of rewards and maximum levels of reward transparency;
- reinforcing the collective identity, performance and contribution of the whole organisation and the teams and individuals it comprises of; and
- providing an appropriate degree of workforce security, health, and wellbeing to reward with compassion.

Conclusions

Sir Michael Marmot's conclusion and answer to Roosevelt's 'retreat or advance' question is unequivocal: 'The "normal" that existed in February 2020 is not acceptable. The Covid-19 pandemic must be taken as an opportunity to build a fairer society'. This latest report is subtitled Build Back Fairer.

Stanford historian Walter Schneidel in his book *The Great Leveller*; and feminist author of *Paradise built in Hell*, Rebecca Solnit, , have both, from their very different occupation and political perspectives, considered the history of major human crises and disasters, including great plagues, depressions and wars.

Perhaps surprisingly, they both came to the same conclusion: that Daniel Defoe and the London aldermen who enforced our first lockdown, the Winston Churchills and FDRs, the New Deals and welfare state creation, are not actually so unusual. Such situations and challenges have often provoked major and successful collective efforts to rebuild and improve society. Schneidel concludes that it is the period following a pandemic, not during, that is the great leveller for income equality.

Solnit observed during the pandemic last year that:

> *'In the midst of fear and isolation, we are learning that profound, positive change is possible. Ordinary life before the pandemic was already an environmental catastrophe, an obscenity of inequality. It is too soon to know what will emerge from this emergency, but not too soon to start looking for chances to help decide it. It is, I believe, what many of us are preparing to do'.*

Rebecca Solnit

I believe that IES' research supports a stronger emphasis on fair, collective, and compassionate reward policies, and practices in future pay and rewards, which would be a justified and highly beneficial outcome from the horror of Covid-19.

So where are you placed on FDR's decision: retreat or advance, invest or cut back? Please do keep IES in touch with your advances and seek our help with your retreats.

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