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OPINION

Fairness, flexibility and affordability

What are the lessons from recent pay and reward approaches and trends in the UK?

Duncan Brown

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OP27

Introduction

The UK has seen major changes in pay approaches over the last 30 years, influenced by a range of factors. These include:

- economic conditions and particularly the financial crash of 2008/09;
- changes in political power and the legislation passed by successive governments of the Conservative party (eg supporting incentive plans and share schemes since the 1980s and devolving centralised public sector pay bargaining and structures in the 1990s) and the Labour party (eg introducing a national minimum wage in the 1990s and increasing rates of taxation on high-earners); and
- management philosophies and approaches from overseas, particularly the American ideas of strategic human resources (HR) and reward management from the mid-1980s.

In this article, I will try to summarise this somewhat complex, mixed landscape of UK pay and reward methods, and forecast where I think it seems to be moving. In the process, I will draw out the possible learning implications for government policymakers and HR and reward managers.

I consider in turn: the UK employment context at present in public and private sectors; predominant pay and reward methods and three key trends in them (in base pay, variable pay, and major benefits and total rewards); and the major questions and challenges being posed to these pay methods. I then focus in on three key areas which I believe need now to be addressed in this context by many UK employers: prevailing low pay levels in major areas of the economy and increasing pay and skills; the significant gender pay gap and government and employer actions designed to close it; and widely low levels of employee engagement and the need for genuinely total reward approaches to improve them and, thereby, UK productivity. I conclude with some (tentative) implications from the UK's experiences and learnings for other countries and employers.

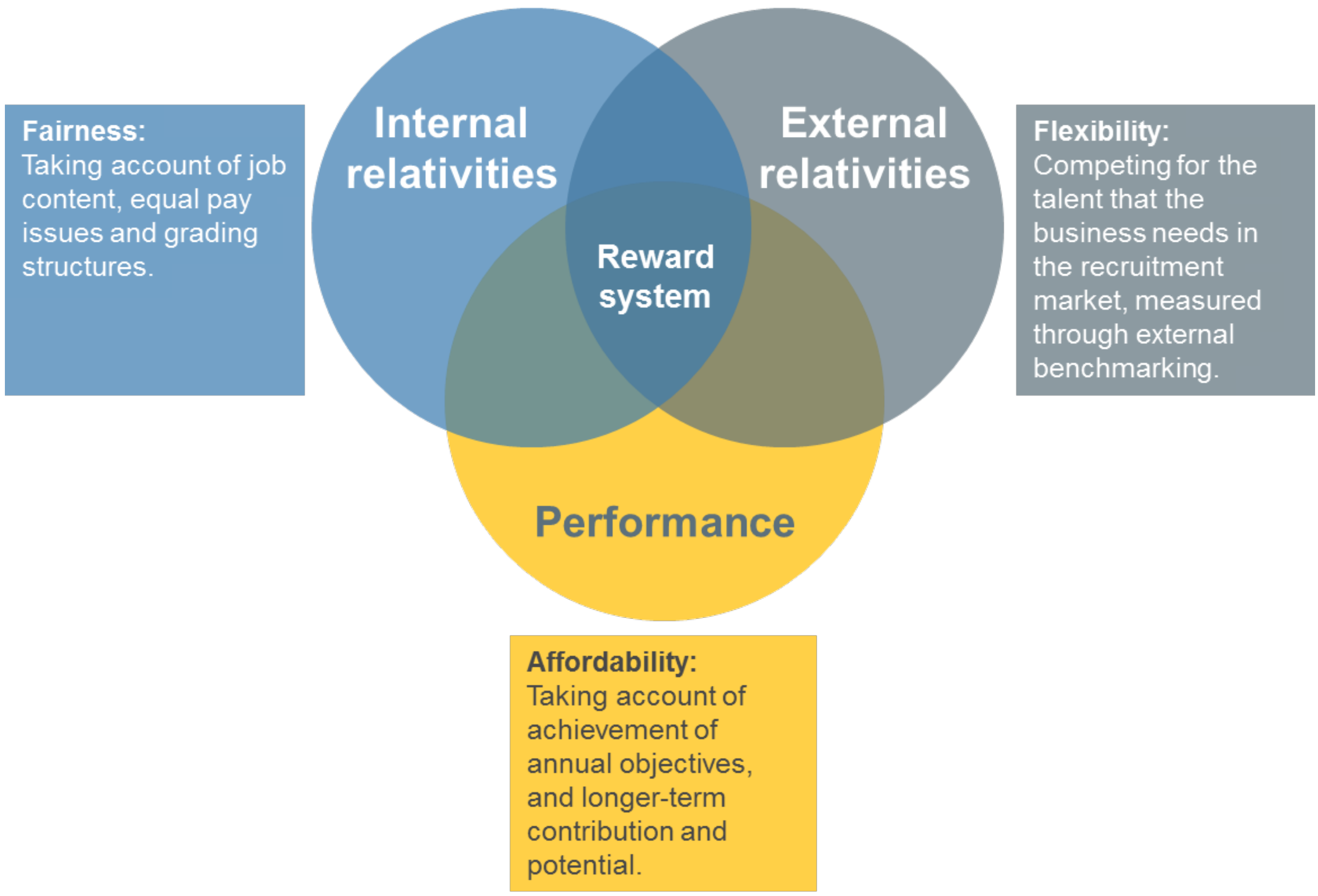
The famous writer Aldous Huxley once described the British as an island race who 'dream in a pragmatic way' (Huxley, 1962). I conclude that the shifting blend of reward approaches we see between sectors and through time in the UK is continuing to evolve. I believe that we may be seeing major shifts in this once again, back towards more employee-centric approaches which emphasise pay fairness, rather than the very flexible and un-regulated, wholly market- and performance-driven wage systems which have come to predominate across all sectors over the past 25 years.

Classifying a complex landscape

The UK pay and rewards landscape is a complex and highly diverse one. Two ways to help us classify and understand this are first, in terms of the primary drivers of pay and rewards, and second, the prevailing reward structures in different sectors.

Research has highlighted three primary drivers of UK reward strategies (Brown, 2001). As illustrated in Figure 1 below, these are internal considerations of fairness and relativities, supported by job evaluation systems and grading structures; external considerations of market rates of pay, to enable the employer to recruit and retain; and performance-related factors linked to incentivising delivery of the strategic goals of the organisation and ensuring pay budgets are affordable.

Figure 1 UK pay management: three key drivers



In a practical sense, the HR director of a major UK charity summed up the strategic goals of its reward policies at present as 'the three F's'. That is fairness, flexibility and (af)fordability.

With the freeing-up of UK capital and labour markets by successive administrations under Prime Minister Margaret Thatcher and the decline in trade union membership and power, market- and performance-related factors have been overwhelmingly predominant. However, since the financial crash of 2008/09 and the subsequent period of austerity, political and social questions of fairness and justice have become increasingly influential and, as I will describe, have forced employers to respond.

Market- and performance-related pay approaches spread initially in the private sector but were transferred by successive governments to apply to their own employees in the public sector, encouraged by the outsourcing of public sector services and staffing to private companies. The changes have speeded up since the financial crash of 2008/09. The government responded to this with a prolonged period of economic austerity applied to public sector spending and pay, initially with job cuts and pay freezes, followed by a one per cent cap on public sector pay awards.

Some of the key features of the public- and private-sector pay landscapes are summarised in Table 1, below. The two right-hand columns compare the prevailing public sector pay arrangements a decade ago with the situation now, with the latter a blend of private and public sector approaches, which some academics have christened 'new public management' (Hood, 1995; Larbi G A, 2003).

Table 1 Sector reward structures compared

Aspect	Private sector	Public sector	'New' public sector
Employment	26.5 million	6.5 million	5.5 million
Base pay setting	External market	Internal job evaluation	Mix of market and job evaluation
Base pay increase	Performance and contribution-related	Service-related	Flat rate at bottom, contribution-related at top
Pay levels	Higher	Lower	More market related but still lower
Pay bargaining	~10 per cent unionised Decentralised	~65 per cent unionised Mix of centralised frameworks and local practice	More areas set by the government eg redundancies
Bonuses	~50 to 100 per cent at top, profit share c5 per cent others	None	Tried at lower levels in various parts eg top one third senior civil service
Pensions	Defined contribution approx. eight per cent	Defined benefit ~20 per cent	Career average ~15 per cent
Job Security	Medium	High	Medium

Context: the worst pay decade for two centuries?

What are the key features of contemporary pay and rewards in the UK at present and what issues and questions are we facing? A recent literature review by IES highlighted the following 10 important features of this historically unprecedented landscape, which I have referred to as 'the cost:talent squeeze' (Brown, 2012).

1. On the one hand the UK has **record numbers in employment** – unemployment is down to 4.3 per cent, the lowest rate since the mid-1970s (ONS, 2017a).
2. As a result there is growing evidence of **widespread skill shortages** (Calnan, 2017), reported by a growing majority of employers in all sectors and particularly in London, with fears heightened by the potential impact of Brexit on the supply of continental European staff.
3. However, despite economic growth, **cost pressures** remain intense in the majority of private- and, particularly, public-sector employers – who have been the focus of economic austerity since 2008. Thus pay awards have been capped for almost a decade at one per cent in the public sector and have also stayed remarkably constant in the private sector, averaging around two per cent (McCarthy S, 2017). As with estimates of productivity growth, this has been consistently under the level of economic forecasts made by the government's Office for Budget Responsibility (Partington and Inman, 2017).
4. **Benefits**, and particularly pension costs, have been increasing at rates above both price and wage inflation, as a result of the UK's ageing population. This has encouraged the closure of better-funded final salary pension plans in the public and private sectors, replaced by less generous defined-contribution and career-average plans (TPR, 2017). This has also encouraged the spread of flexible- and voluntary-benefits plans, which are a key feature of the total rewards approaches described below. There has been a significant transfer of risk through these changes from the employer onto the employee.
5. The intense cost pressures and growth of the UK economy, at an average annual rate of only half the level seen in the two prior decades to 2009 (OBR, 2017), has also seen common patterns of **cuts in training investment by employers**, with national statistics showing a subsequent failure to recover from the fall in off-site training days registered in 2008/09 (ONS, 2017b). A significant part of the growth in employment has been in relatively low-skilled service sector jobs on fixed rates of pay (see for example Holmes, 2014), and service-related pay progression has been removed across wide areas of the economy, such as all central government departments. Twenty per cent of UK jobs earn less than two-thirds of average earnings, the Organisation for Economic Co-operation and Development's (OECD) definition of low-skilled workers (OECD, 2017a). This is higher than in countries such as Greece, Portugal and Slovakia. Two-

thirds of these roles are held by women. The UK has also seen the spread of more flexible employment models, with firms such as Uber and Deliveroo using self-employed people to deliver their services, saving on national insurance, other employer costs and employee protections. Agency and contract working has also been increasingly used by employers, while for their own employees, part-time working and so-called 'zero hours' contracts with no guaranteed working hours have been used – the latter now being applied to over one million employees (Monaghan, 2017). The self-employment labour market has grown exponentially in the last five years but remains financially insecure for many of its workers. The number of self-employed people in the UK labour market increased from 3.3 million (12 per cent of the labour force) in 2001 to 4.8 million (more than 15 per cent) in 2016, contributing around one-third of total employment growth in this period. However, self-employment remains a comparably financially insecure profession, with self-employed workers earning an average distributed income of around £240 a week – compared to an average of £400 a week for full-time employees (ONS, 2017c)

6. This situation has seen the majority of UK employees experiencing **negative real earnings growth** for the majority of the past decade, a situation unprecedented since the Victorian era (Resolution Foundation, 2017). Initially price inflation in the recessionary period stayed very low, but it has increased since then and is now some 0.5 per cent above the rate of average earnings growth.
7. Perhaps not surprisingly then, **employee engagement levels** are found to be at best flat and in many employers falling in employee surveys (see for example Aon, 2017). National employee attrition rates have been increasing, especially in the private sector. A number of leading authorities believe that this lack of engagement and poor management explains a significant portion of the UK's lower productivity and lack of competitiveness compared to key competitors in countries such as Germany and the USA (The Economist, 2015). Younger employees, the so called 'millennials', have been much commented on as a generation with a distinct motivational profile who are difficult to attract and retain (see for example Benson, 2016). Yet young people have been worst hit by the cutbacks with, for example, pay levels for new graduates still below their 2008 rates in real terms, and levels of student debt and house and rent prices increasing far faster than their rates of pay (IFS, 2014).
8. Nationally it looks equally bad, with the UK the only advanced economy in the past decade which has experienced the combination of **economic growth but real wage decline** (Romei, 2017). The traditional link and inverse relationship between unemployment and wage rates, the so-called Philips curve (Cunliffe, 2017), appears to have broken down, as has the historic link between productivity and earnings growth, with a declining share of that growth going to employees (OECD, 2017b).
9. However, losses have not been equally apportioned across the labour force. Helped by capital gains, the wealthiest have done proportionately well in recent years, with executive remuneration continuing to escalate, meaning that **levels of inequality in the UK**, as measured by the Gini co-efficient, have increased to above the average OECD rate and closer to American levels (OECD, 2011).

In this environment, the predominantly free-market and performance-based pay and reward approaches that UK employers have adopted have been increasingly brought into question. The Prime Minister, Theresa May, came into office pledging to help those families who were ‘just about managing’ and referred in a keynote speech in 2017 to ‘the obvious and everyday social injustices’ such as men routinely earning more than women, and the need to ‘build something that I call the shared society’ (May, 2017).

The current free-market Conservative government has become increasingly willing to intervene in pay and the wider labour market to achieve this goal, in a manner perhaps reminiscent of Labour administrations in the 1970s. Recent government reviews and employment legislative changes include the introduction of a higher National Living Wage, which is being increased by around five per cent per annum to bring it up to a level closer to two-thirds of national average earnings by 2021, as well as an escalating minimum required level of employer pension contribution introduced under auto-enrolment. Meanwhile, we saw a major review in 2017 of flexible working and the so-called ‘gig economy’ (Taylor, 2017). It seems likely that this will result in stronger regulation and improved worker rights with the government consulting further, in the first-half of 2018, on how this can best be achieved. Reviews of senior pay have also taken place in a number of parts of the economy, leading to further planned reforms to senior pay regulation in the private sector (BEIS, 2017) and in areas such as higher education. Finally, a variety of initiatives to address gender pay gaps have been introduced, including new reporting legislation affecting all organisations with more than 250 employees.

Key questions raised for policymakers and employers in this context therefore include:

- **Why is the UK’s productivity lower** than its major international competitors? What part does the free-market approach and the flexible labour market (with significant numbers of low-paid/low-skilled workers) play in this? Does the government need to intervene further?
- **Has economic austerity failed** in public and private sectors in so far as it has been applied to employment and pay costs? Do government and employers need to invest more in skills and pay to enhance productivity?
- **How do we involve and engage employees to achieve high performance?** Are our internal pay ratios and relativities right and how do we enhance perceptions of a fair and rewarding workplace to help to drive improved productivity?

I will move on to consider the future pay approaches which might address these key questions. But first, I profile predominant recent trends which have, in part, contributed to these growing social and political concerns.

Contemporary reward practices and trends

The pay practices and trends evident in the UK public and private sectors for the past two decades have in part led to some of these concerns and questions. Professor Paul Sparrow told IES' HR conference in 2017 that in the 1980s HR functions in the private sector moved away from national questions of innovation and productivity, under the influence of strategic human resource management (HRM) ideas from North America, to focus on a narrower 'vertical' agenda of the company boardroom and delivering on strategic corporate goals, such as higher shareholder returns. The public sector followed closely behind, importing leaders and prevailing pay approaches from the private sector, such as performance-related pay (PRP). The current chief people officer in the Cabinet Office for the civil service was, for example, formerly the HR director at Lloyds Banking Group.

Sparrow (2017) argues that now is the time for HR and reward professionals to broaden their focus once again to consider these wider questions of national productivity and social justice.

The reward agendas of UK HR and reward leaders seem to confirm Sparrow's interpretation of their recent priorities, with a strong 'vertical' and internal focus on performance, 'top talent' and cost effectiveness. According to an Aon Hewitt survey of more than 250 UK employers (profiled in Brown, 2012), their top reward priorities have been:

- recruiting and retaining high performers;
- tying pay and incentives to performance;
- recruiting and retaining top talent; and
- getting a better return on their total reward spend.

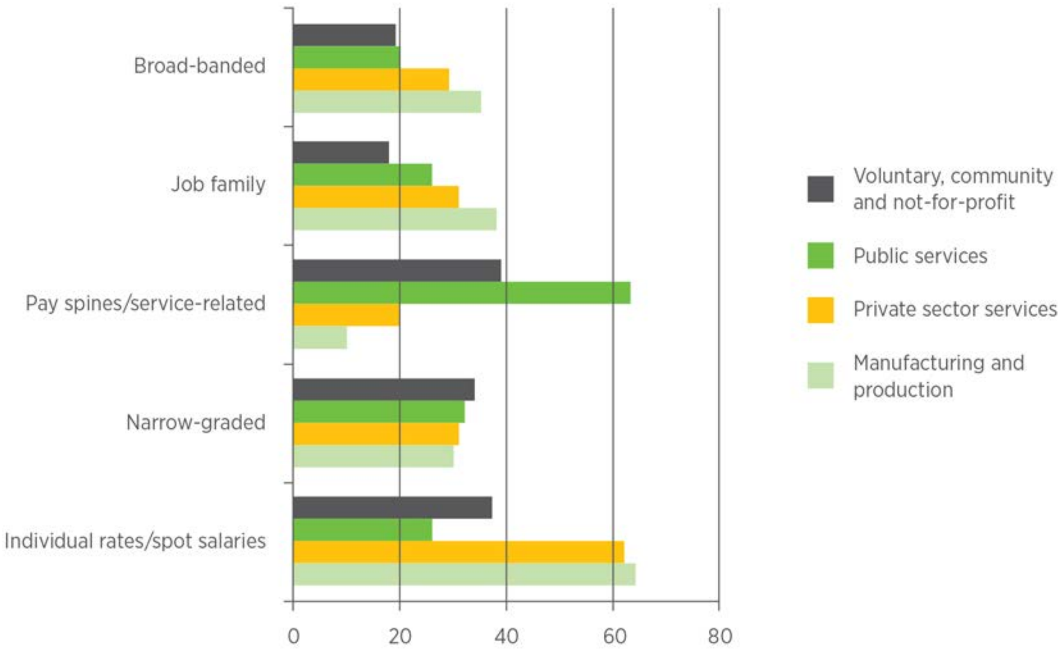
However, concerns with more general recruitment and retention and the need to generally improve staff moral and engagement, do move up the rankings when employers are asked about the future.

These priorities have driven a high rate and wide range of pay and reward changes in pay and benefits practice across all sectors. I will briefly describe three of these developments.

Flexible pay structures

UK employers have continued to move towards flatter and more flexible organisation designs and market-driven pay structures (Armstrong and Brown, 2006). Pay structures have been integrated and harmonised across different staff groups, and fewer grades generally made for wider pay bands. However, 'broadbanding', in the true American sense, did not become common in the UK, and in the private sector we have instead seen job family pay ranges emerging, with different market-related rates at the same grade level for different functions and types of jobs. Job evaluation continues to be used, increasingly in a simplified classification form in the public sector (CIPD, 2015).

Figure 2 Base pay structures, by sector



Source: CIPD (2015) – With the permission of the publisher, the Chartered Institute of Personnel and Development, London (www.cipd.co.uk).

Rewarding performance

Recent years have seen the spread across all sectors of attempts to better link employee pay and performance and the removal of service-related incremental progression (see Table 1 in CIPD, 2017). Since the 1990s this has involved individual performance-related base pay awards, with so called 'equity share' or 'pay matrix' approaches becoming commonplace in all sectors for managers and professional staff. Under these schemes, pay awards are adjusted to reflect both the assessed level of individual performance and the results achieved (high rating equals higher increase) and position versus market (low position equals higher increase).

However, there is now something of a reaction evident against these approaches, partly reflecting the difficulties of setting personal objectives in some roles (which has led to skills and competencies also being taken into account – what we might call 'paying for contribution' (Brown and Armstrong, 1999)) and, in part, tight pay budgets. Across the civil service, higher pay-awards are now limited to the top 25 per cent of individual performers, although the forced ranking approach to performance assessment for senior civil servants was recently dropped. Direct links between skills growth and pay are still comparatively rare in the UK, with mixed performance/competency/skills assessments and ratings more typically used.

We are now, though, seeing growing interest in the use of skills- and contribution-based approaches and more employers copying the sorts of skills-based incremental progression that is used for hundreds of thousands of NHS workers and school teachers.

Variable pay and bonuses have, outside of financial services where their incidence and size was highest, continued to spread, since the crash of 2008/09. Forty-nine per cent of employers, according to the Chartered Institute of Personnel and Development (CIPD, 2015), operate variable pay plans, generally in the form of executive and management incentive plans at senior levels with payments dependant on a mixture of collective and individual metrics, and with profit sharing and recognition awards now common amongst other categories of staff.

Flexible benefits and total rewards

UK employers increasingly claim to be adopting total rewards approaches and the most common change this has occasioned has been the introduction of flexible- and cafeteria-benefits plans – again, following North American practice norms but with some adaptation to reflect the unique UK environment.

Approximately one-third of UK employers and over half of larger ones now operate flexible benefits plans. Public sector employers are now following the private sector leaders with, for example, the UK Cabinet Office introducing a flexible benefits platform for individual departments to use whilst also developing schemes centrally to achieve economies of scale, such as employee rental assistance.

The most commonly offered benefits' choices are: vacation days; private medical cover; dental insurance; and health screening (Aon, 2016). Financial education (26%), financial advice (20%), and 'wellness' benefits are the fastest growing areas. Communications and costs are the main issues reported by employers, with UK employees at least initially appearing less well educated in determining their own rewards packages than is normal in the United States. Hence the majority of UK employers are planning to increase their communications over the next year. Total rewards statements are generally provided alongside flexible rewards and the research on their use is generally positive.

Future challenges and areas of focus

Given the social and political concerns with the current employment and rewards landscape in the UK, IES' research and client consulting highlights a further three areas for the future where HR and reward functions will need to concentrate their attention in support of improved employee engagement and productivity at local employer and national levels.

Low pay

Cost has been a major concern for all UK employers and their HR directors over the past decade and so it is perhaps not surprising that, given the growth of the service- and knowledge-based firms in which people are by far the major part of employers' total costs, pay awards have remained below economic forecasts. This is despite the somewhat restrained and faltering economic recovery. However, there is increasing evidence that this parsimonious approach is becoming counter-productive and that economic austerity is failing. As we have seen, economists believe that a significant part of the UK's productivity gap with countries like Germany is rooted in the failure to equip people with adequate skills and pay them accordingly (The Economist, 2015). Such thinking drove the recent introduction of the national living wage, supported by research on the beneficial effects of higher minimum wages from North America (Dube, Lester and Reich, 2012). The UK government has also introduced a compulsory apprenticeship levy to force employers to invest in the skills of their staff.

IES' own research (Armstrong, Brown and Reilly, 2010) highlights the damaging effects of paying below market median rates, such as increased attrition and absenteeism. There is also a generally positive research record for skills-based pay systems (ibid). These are, again, factors that encouraged the government to abandon its cap of one per cent on pay awards in Autumn 2017.

The UK Commission on Employment and Skills similarly concluded (UKCES, 2015) that high-skilled, higher-paid work pays off for UK plc. It recommends practices which grow staff skills and competence, and motivate, involve and engage employees to perform. UKCES also ran some pilot projects with employers to develop employees' skills, pay and careers in low-paying sectors such as retail and hospitality. We have seen employers in these sectors such as Walmart and John Lewis introducing pay awards for their retail shop workers linked to the development of skills, with the former reporting higher sales as a result (Irwin, 2016).

At IES, we believe that skills-based pay progression will become increasingly evident once again across all sectors in the years ahead.

Gender pay

Addressing low pay will also help to address the UK's gender pay gap, in that the majority of low-paid workers are female and the majority of the highest earners are male. IES research suggests that a wider range of actions will also be required.

The median gender pay gap for all UK employees (full-time and part-time) has reduced from 27.5 per cent in 1997, to 19.3 per cent in 2015, and down to 18.1 per cent in 2016 (ONS, 2016). This is marginally higher than the European average and the rate at which this gap has reduced has slowed considerably in recent years. The business case for closing it seems strong. The McKinsey Global Institute estimates that harmonising female with male rates of employment and pay would add $12 trillion dollars to GDP globally by 2025 and £150 billion to the UK economy (McKinsey Global Institute, 2016).

Various parts of the public sector have been required to promote equality and report on their gender pay gaps for some time. In the private sector, the issue has generally been given lower priority, with some evidence that recruiting externally and negotiating starting pay levels contributes to gender pay gaps, as well as the gap being wider when bonuses and performance-related pay are included in the comparisons. The government initially tried to encourage companies to report on and address their gaps voluntarily. But, while more than 250 major employers initially signed up to the UK government's 'Think, Act, Report' voluntary initiative, only 11 of these companies had voluntarily published their gaps by the start of 2016. A survey carried out in 2015 for the Government Equalites Office (Winterbotham et al, 2015), published in conjunction with its consultation on the reporting legislation, found a lack of current and planned activity in both reporting on gender pay gaps and acting to address them.

This lack of progress undoubtedly led the government to compel employers to report. The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 (Houses of Parliament, 2017) require all UK-based employers with 250 or more employees to calculate and publicly report on the gaps in pay between their female and male employees each year on a fixed date. Six calculations are required:

- the mean gender pay gap;
- the median, or mid-point, gender pay gap;
- the mean bonus gap;
- the median bonus gap;
- the proportion of males and females receiving a bonus payment; and
- the proportion of males and females in each quartile in a list from top to bottom of the pay levels of all employees.

The reporting legislation is already having a positive impact on both awareness of gender pay gaps and plans and actions to address them. A major survey of 900 employers (Murray, Rieger and Gorry, 2017) found that 98 per cent were aware of gender pay gaps, a third having measured theirs in the prior 12 months (in anticipation of the legislative requirement), with almost two-thirds communicating their gaps to senior management.

Thirty-eight per cent were using the information to inform or revise their HR practices, whilst a quarter (26%) were developing plans or actions to address gender issues. So, what actions are likely to be the most effective in addressing their gaps?

IES has recently been reviewing the evidence on what actually has an impact in closing gender pay gaps (Brown, Rickard and Broughton, 2017). Looking across different studies, employers and geographies, the following factors and actions have come out as potentially making an impact.

- Transparency, in employer as well as national pay relativities and systems.
- Recruitment and careers. A number of studies have identified that the uneven distribution of jobs between men and women is key to the maintenance of gender disparities (Parken, 2015). It is also at the point of recruitment that interventions around controlling starting salaries for new recruits and limiting line manager discretion in this area will, in turn, impact the size of the gender pay gap (City of Boston, 2013). Careers advice is a related area that is revealed to have a significant impact in a number of qualitative research studies, reinforcing heavy occupational gender skews in industries such as engineering and information technology.
- Female representation. This comes out of the research as a key issue and again the UK government is encouraging employers to voluntarily set targets and improve board level female representation. A new five-year plan was agreed in 2016, focusing on building the talent pool below board level and greater representation in executive as opposed to non-executive roles. Although a voluntary initiative rooted in individual corporate actions, the tacit threat of legislation has undoubtedly also encouraged progress.
- Training and development. Investment in skills comes out as a driver of more equal pay and IT and STEM skills appear to be particularly influential in raising the pay of women.
- Flexible working and parental support, provided both through national and employer policies.

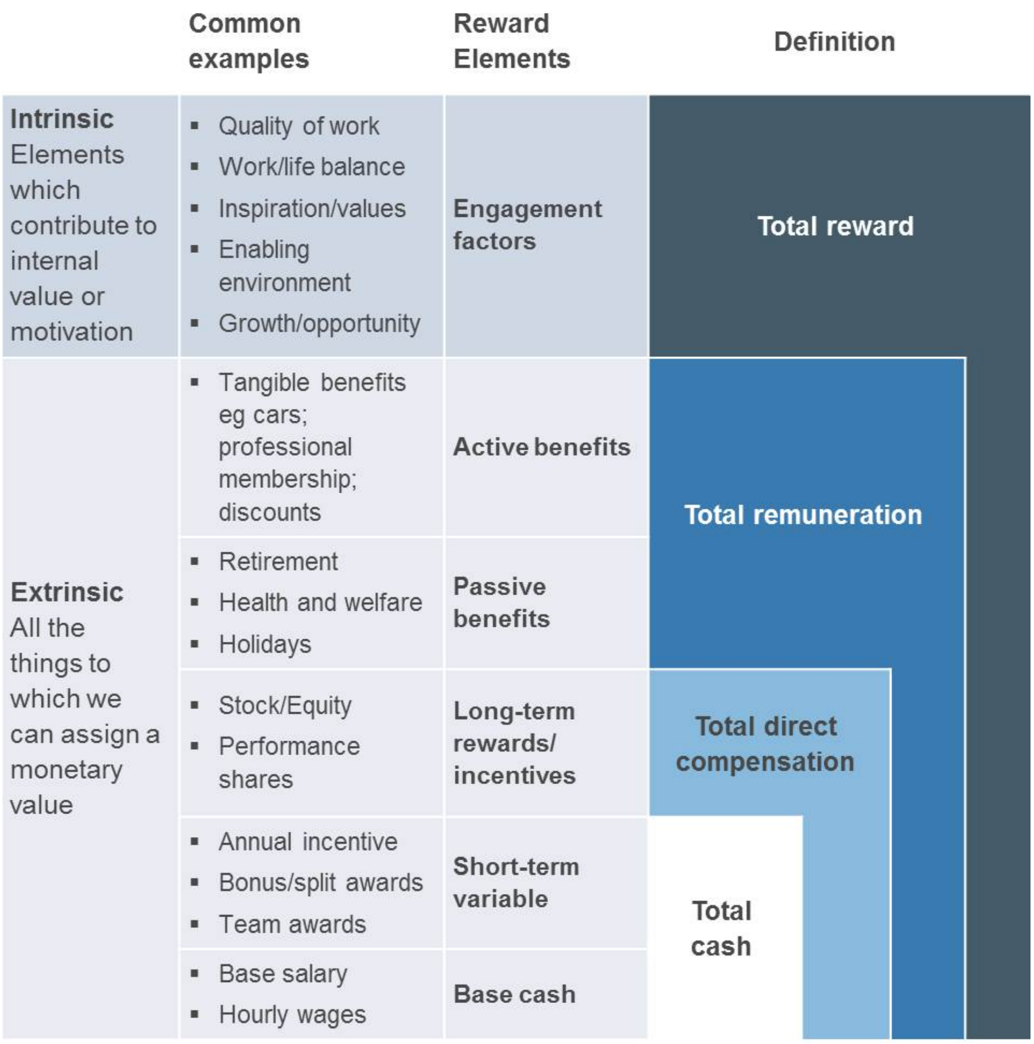
In sum, our research analysis shows that many individual actions by employers and governments have the potential to impact positively on gender pay gaps, and these are the areas that we focus on when advising individual employers on how to address their gender relativities. However, unregulated and flexible performance and market-based pay and bonus systems do appear to have reinforced gaps and produced unexplained gender differences, particularly in bonus scheme payments. The new reporting requirements are forcing many private sector employers to review the consistency and fairness of their pay determination methods.

Engaging employees through total rewards

Emphasising the total rewards offer to an employee in order to enhance their motivation and productivity is not a new approach. Economist Adam Smith wrote in the 18th century that 'workers seek to maximise their total utility of employment…Their total net advantage will depend upon the agreeableness or dis-agreeableness of work, the difficulty and expense of learning, the responsibility, …compensating for wage differentials' (Smith, 1982). However, in the present cash-strapped times of relatively low pay awards in the UK, many employers have moved to emphasise the non-pay aspects of remuneration to help to retain and motivate staff, encouraging the use of this terminology. A commonly used total rewards model is illustrated in Figure 3 below.

Research does indicate that when employees feel totally rewarded and engaged then their performance and productivity is likely to be higher. Brown and West (2005), for example, researching 22 service employers, found strong links between the quality of financial and non-financial rewards, levels of employee engagement, and customer service and financial performance. Engagement has been linked with a range of positive outcomes in research, including attendance, safety, and attrition, while HR and total reward practices are associated with a number of organisational performance metrics and, particularly, with turnover intention. Levels of employee engagement are low and UK productivity is low by international standards, so there does seem to be some association between these two variables.

Figure 3 A total rewards model



Source: IES, 2018, adapted from Armstrong and Brown, 2006

IES' recent analysis of research on total rewards and the links with employee engagement (Brown, Callen and Robinson, 2016) and performance has revealed two confused and often overlapping concepts and terminology, which have proved difficult to isolate and research, and equally difficult to put into practice by employers. Many organisations appear to survey employer engagement levels, but then a majority do not act to improve them. Likewise, many talk about total rewards yet do little beyond copying what other employers are doing and, perhaps, introducing flexible benefits plans to make employees feel well recognised, rewarded and engaged. Indeed, some employers may even have used total rewards terminology to disguise cost savings, pay restraint, benefits cuts and reductions in their total reward costs (Brown, 2014). This helps to explain the growing divorce between productivity and real wage growth.

Some studies support the importance of employees having choice in the benefits available to them and reward communications comes out as an important need and an employer failing in much recent research. Total reward statements therefore come out positively from a number of studies, as do employee recognition programmes – a similarly important need and employer failing in many settings.

However, research studies suggest that the links between reward practices, employee attitudes and performance are complex and highly situation specific and so, as with addressing gender pay, no one universal reward practice, pay approach or 'solution', such as PRP, skills-based pay or flexible benefits, is going to have a major impact. Rather, improving levels of engagement and productivity is about the interaction of financial and non-financial factors and tailoring the approach to suit each organisation and its workforce, not a single pay practice.

Conclusions and implications

In this paper I have reviewed predominant pay and reward approaches in the UK public and private sectors over recent decades. We have seen that these have generally focused on the twin aims of providing performance-related rewards, in order to ensure affordability and provide incentive effects, and external market-focused rewards, to support recruitment and retention.

The financial crash of 2008/09 initially reinforced this emphasis, with a significant rate of change in pay and reward systems driven by austerity policies and cost-control needs. Increasingly, evidence is emerging that this has disrupted the traditional and somewhat pragmatic balance in UK pay and reward systems. As economic growth has faltered, general employee incomes have stagnated and real pay levels have declined. Meanwhile, inequality between the high- and low-paid has increased.

Key questions have therefore been raised about these twin priorities:

- Why is UK productivity lower than its major international competitors? Is a low-skill, low-paid, disengaged workforce at least partly to blame?
- Has economic austerity failed as a policy in public and private sectors in so far as it has applied to pay? Does the UK need to invest more in employee pay and skills?
- How do we involve and engage employees to high performance, given that employee engagement levels are low and only one-third of employees think that their pay is fair?

The government has increasingly intervened in labour and pay markets in the past two years and there are signs that more UK employers are now recognising these issues. These employers are shifting the emphasis back towards more employee engagement-oriented and fairness-driven agendas, addressing in particular low pay, gender pay gaps and the need to ensure employees feel rewarded and recognised.

A CIPD (2013) report argues that the financial crisis in many western economies has reshaped the relationship between market, state, organisations and individuals. It outlines six key issues of fairness faced by organisations, including women on boards; pensions; executive pay; wider diversity concerns; corporate social responsibility; and intergenerational rewards. A new book authored by my colleague, Stephen Bevan, and others (2018) similarly argues that rewards will need to evolve to incentivise workers and in order to reinforce a fairer and more responsible capitalism through, for example, wider employee share ownership.

Huxley (1962) described the British as ambitious pragmatists. Armstrong and Brown's strategic reward model (Armstrong and Brown, 2006) similarly emphasises the importance of tailoring pay and reward approaches to reflect external trends as well as internal needs, balancing employer and employee agendas.

The key learnings to be drawn from the UK's recent experiences for other countries and major employers in public and private sectors when considering changes to their pay systems would be as follows:

- Rather than pursuing extreme individual techniques and approaches, be that performance pay, skills pay or any other method, effective national and employer reward strategies over time:
  - involve evolutionary rather than revolutionary changes and adaptations;
  - combine , tailor and blend approaches, rather than adopting extreme positions;
  - address multiple programmes and initiatives (total rewards) rather than gambling on ambitious individual 'solutions' like PRP; and
  - combine state, sector, employer and employee interests and actions.
- Rather than copying a set of supposedly generic and universal 'best practice' HR and reward techniques, each country and employer needs to:
  - research the drivers and determinants of their own employees' engagement levels;
  - explore how rewards can and could influence their engagement levels;
  - give employees some options and choices to tailor their own packages where possible; and
  - train managers to communicate about reward and ensure that practical implementation matches policy intention.

In summary, governments and employers in whatever country need to: first, know their direction, values and culture; second, understand their people and their demographics, needs and desires; third, recognise the importance of pay and reward, both financial and non-financial, its link to employee engagement and the relationship with productivity; and, finally, tailor and evolve approaches which most effectively leverage these complex relationships in practice.

Duncan Brown is head of HR consultancy at IES. Duncan has more than 20 years' experience in HR consulting and research, with firms including PricewaterhouseCoopers and Towers Perrin. He also spent time as Assistant Director General at the CIPD. His latest book is on reward effectiveness.

Duncan's clients include companies such as National Grid, Lloyds Banking Group and Guardian Media Group, public sector bodies including the Cabinet Office, House of Commons and NHS Employers, and not-for-profit organisations such as City University and the United Nations.

He has also participated on Government taskforces on pensions, human capital reporting and fair pay, and has carried out studies for a number of the Pay Review Bodies.

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