

Newsletter Winter 2006

Welcome to our Winter Newsletter for 2006.

Our new brand name

We have completed the transfer of our consulting services - currently delivered through Hurst Associates and QBHR - into an integrated company and brand – Quintige Consulting Group, to be known as QCG (qcg.co.uk). This brings together our business and HR consultancy and HR support service offerings into a single entity. We will be formally launching the new brand and website in the New Year.

We are also pleased to announce that **Paul Mather** has joined our consulting team. Paul recently completed a challenging stint as Global HR Director at the healthcare technology firm, iSoft and returns to consulting after previous leadership roles in both Towers Perrin and Sibsons. Contact: paul@qcg.co.uk.

We have been a bit too pressed recently to hold one of our seminars on current client issues. We will host an event in March 2007 - details to be circulated shortly. We will also celebrate the launch of our new brand in January. If you would like to reserve a place at either event contact Anna Cummins: anna@qcg.co.uk.

The war for Talent – it's back

Both the business press and our work with senior managers conforms that many are raising the same issue - where to get talented people, how to develop them, incentivise and keep them.

Our observations were confirmed in the recent survey by the Economist (*The Search for Talent, The Economist 7th October 2006*) which stressed the currency of the issue, long after the 1997 McKinsey study exposed the 'war for talent' as a strategic business challenge. We commend the Economist feature.

The article cites a number of survey results to support its case, including a Corporate Executive Board international poll in which 75% of senior HR managers said that 'attracting and retaining' talent was their number one priority. Some 62% worried about company-wide talent shortages. Add to the pot the impact of factors such as the ageing population, fading loyalties to employers and the 'de-standardisation' of the workforce and you have a potent mix.

As well as discussing the impact of the talent wars on various sectors, the survey reaffirms that the issue is central to corporate strategy and business

planning. It goes on to reflect on the critical role to be played by HR/OD functions – an issue explored in a recent QCG benchmarking study of the OD function. Are organisations likely to grip this – or respond with the short term palliative of raising compensation levels?

The success of advanced economies is increasingly dependent not on their physical capital but on their capacity to mobilise brainpower - to keep moving up the value chain. This, the research suggests, raises issues beyond business success: productivity, scientific progress, social mobility – allowing all sorts of talents to succeed. If you would like a copy of our synopsis of the Economist research – or more details on our benchmarking of the vital role of the OD function, please contact Alison Pennington: alison@qcg.co.uk.

Building capability, defining contribution and making the links to reward

Given that talent is so vital, what are organisations doing to ensure that, as they build it, they both reap the expected business benefit and then measure and share the rewards that accrue? Sadly we do not see too much evidence of these connections being made. Why?

Well, clearly there are issues about the different mindsets of HR folk who work in OD and those in compensation and benefits. They have their own pressures and agendas. Smaller organisations can bring these facets together more easily given the likelihood of overlapping work in the HR team.

You might think it likely that alignment would be achieved at management board level, but disappointingly the degree of understanding and commitment to people issues at that level is not as great as might be expected – no doubt inhibited by the degree of pressure to achieve short term results.

We believe, however, that the trick lies in smarter policy and practice design – linked to clear guidance on execution. We are increasingly seeing opportunities to define the step changes in skill and behaviour, linked to desired contribution, which allows talent development to be aligned with business success and appropriate recognition. Traditional approaches to job sizing (particularly those based on generic models) are a barrier that is easily removed with careful thought and design.

What a prize, however, if the basis for defining the capability you need, how you hire it, develop, deploy it **and reward it** is all in the same, business-led language. Work we have done proves that this linkage is no panacea. Because we are doing it in our own organisation, I guess we have more confidence that it works!

Reward Trends

Our regular summary of reward trends will be out shortly. Price indices have edged up – as did interest rates in November. Economic growth has been steady, with most commentators suggesting a similar growth rate in 2007 – against the Chancellor's pre-Budget report which is more optimistic. Wage inflation is showing some small signs of upward pressure, but broadly stable in most sectors and levels. However, there are signs of decompression in relative pay through higher increases at board and top management levels – see war for talent. We see a continuing shift to more

variable pay to reward performance (in some sectors) and the likelihood of narrower base pay ranges to reflect both the general low pay inflation environment and the response to employment legislation/case law – see below. Pensions remain a hot topic, with very different approaches between public and private sector to funding and benefit level provisions. Our reward trends can be obtained from Nick Neish: nick@qcg.co.uk.

Is pay for length of service here to stay?

Well, at least on the surface, it looks so. There have been two key, recent developments here. The *Employment Equality (Age) Regulations 2006*, which came into force in the UK on 1 October, include an exception allowing pay and benefits arrangements to be related to length of service up to five years' service. Beyond five years, it must reasonably appear to the employer that the service requirement 'fulfils a business need of the undertaking', which potentially might include rewarding experience or encouraging loyalty. This does not have the hallmarks of a very stringent test!

The second key development is, of course, *Cadman vs Health & Safety Executive*. The European Court of Justice ruled in October that as a general rule 'length of service goes hand in hand with experience ... [and] the employer is therefore free to reward length of service without having to establish the importance it has in the performance of specific tasks ...' unless, that is, a worker gives evidence raising 'serious doubts' that length of service is an appropriate criterion for the particular job. In other words, employers don't have to justify a service-related pay system – unless they do have to justify it! It is for the employee to produce evidence that length of service may be inappropriate. Only then does the employer have to provide justification. UK employers may breathe again – the Government's evidence to the ECJ indicated that 36% of UK employees' pay is based on length of service.

It's never quite that simple of course. The Equal Opportunities Commission noted that the Cadman ruling has left longer, service-related bands, for

routine and lesser-skilled jobs vulnerable to challenge. Clearly, a reasonable approach would be to assess how long an average employee might take to reach full competence in a given role when determining the appropriate length of pay scales. The answer will vary by grade and seniority. Among the other questions employers might consider are:

- How is relevant experience acquired in previous employment reflected in the pay system?
- Is there any evidence of difficulties retaining experienced staff in the organisation?
- Does the system have a disproportionately adverse impact on women? Contrary to myths surrounding the Cadman ruling, it is not lawful to subtract maternity leave from overall length of service to justify a lower rate of pay.

It is worth remembering too that Cadman was an equal pay claim and that the ECJ had to decide whether the criterion of length of service needed to be justified by the employer because women tended to have less service than men. It isn't entirely clear that the ECJ would apply the same reasoning in the context of age, logical consistency not being their strong point.

Longer term, we have noted (and generally applaud) an emerging trend towards thinking about pay management in a more sophisticated way, relating it to the specific nature and markets of roles at different levels/functions of an organisation – i.e. not a 'one size fits all'. The key tenet of such an approach must be; ***'developed systems that fit your organisational and business needs'***. This should include a wide range and selective use of various reward arrangements – pay structures and management, recognition and bonus plans, etc. If you would like to hear more, sign up for our master class taking place in January on ***'developing and managing a modern pay system'***. Contact Mike Curtis, mike@qcg.co.uk.

Putting PSG in its place (in the government sector)

As our public sector readers will know, Professional

Skills for Government (PSG) is a long-term development programme designed to ensure that civil servants have the right mix of skills and experience to deliver more effective 21st century services. Whilst PSG applies to all civil servants priority has been given to the skill requirements and the means of delivering such skills to the more senior levels in Government.

PSG requires civil servants to demonstrate skills and experience in a complex range of pre-determined areas. In Whitehall, there is a, broadly, common agenda and the size and capacity of resource to plan, design and implement appropriate development programmes. We are finding, however, that clients further from the centre (e.g. in NDPBs) need programmes to be more tailored and developed in such a way that they do not become a drain on limited resources. This does not negate, however, the value of the PSG initiative – more that it has to be fit for purpose in those organisations. For this reason we are conducting a cross-organisational survey of how to gain the best impact of the PSG in NDPBs. If you would like to take part in this please contact Sophie Vallance, sophie@qcg.co.uk.

Employee surveys

Employee attitude surveys are widely used to evaluate motivation in the context of employee commitment, satisfaction and engagement. These factors have a major impact of course on organisational performance.

The Cabinet Office recently published a series of reports of surveys conducted within large government departments from the 2004/05 period.

<http://www.civilservice.gov.uk/management/statistics/news/index.asp#survey>.

Whilst there were some differences between the individual surveys, not surprisingly most questions clustered around some common topics. Analysis of responses to the top five questions with the highest level of agreement, lowest level of agreement and highest level of disagreement reveals a series of

consistent messages, both in terms of *issues about which staff were positive and those where they thought their organisation could improve*. These are summarised in the following table:

Staff were positive about:	Organisation could improve:
Good cooperation amongst immediate colleagues/team members	Management of poor performance
Feel they are treated with fairness and respect at work	Career development opportunities (including promotion) are not fair
Flexible working conditions	Insufficient use of recognition at work
Confidence in and respect from Line Managers	Confidence in and visibility of Senior Management
An understanding of what is expected from them at work	Motivation and inspiration from Senior Management
An understanding of how their work contributes to the objectives of the Department	Management of change (including consultation about change specific to employee's jobs)
Employees are looking for opportunities to improve their skills, management skills and leadership skills	Acting on the results of employee attitude surveys

These are important messages that managers need to understand and take on board in developing their HRM policies and workforce strategies. They should also be reflected in risk strategies since they represent both business opportunities and risks. In our view the messages demonstrate the value of these surveys which should of course be undertaken at regular intervals to build up a picture over time.

They are too an essential building block and a key part of accounting for human capital. We never ceased to be amazed that despite the masses of financial information that public sector bodies are required to produce it has never been a mandatory requirement to report basic 'people' information of this kind in annual reports.

For further information or our more in depth analysis of employee motivation please contact Laura Heathcock: laura@qcg.co.uk.

Contact Us

For more information about any of the articles in this newsletter, to express an opinion on them or to find out more about our services please contact one of our CRM team or the consultants identified in the features:

Alan Hurst Tel: 020 7462 4833, e-mail alan@qcg.co.uk

Paul Mather Tel: 020 7462 4845, e-mail paul@qcg.co.uk

Nick Neish Tel: 020 7462 4841, e-mail nick@qcg.co.uk

London Office: 27 Hanson Street, London W1W 6TR

Chobham Office: The Park Gallery, Station Road, Chobham, Surrey, GU24 8AQ

Tel: 020 7462 4800 Fax: 020 7462 4801

Website: www.qcg.co.uk