



Special Report: The Employee Engagement Challenge

Spring 2018

Introduction

Employee engagement is pivotal in the renewed war for talent. Our customers are being affected to varying degrees. All seek to recruit the best staff and avoid high employee turnover, but a combination of skills shortages, the question of how to engage multi-generational workforces and more flexible working requests are affecting the recruitment and retention picture. According to our Spring UK Reward Management survey, employee turnover increased in the last year amongst respondents (by two per cent), with the outlook for employee turnover levels looking similar for the year ahead.

REWARD AND ENGAGEMENT

Reward strategy is a critical tool to address the engagement challenges which vary by sector, enabling organisations to attract and retain those with the right skills, capabilities and experience and underpins their continued motivation. Ensuring that reward arrangements support recruitment, retention and career planning whilst remaining within steadily constrained budgets has remained the status quo. Optimistic results from our spring survey suggest that HR budgets may be gradually increasing alongside projected order, revenue and profitability. 50 per cent also expect pay award budgets to increase by three per cent, which may signal longer-term planning and a broader opportunity to consider the packages in place to promote engagement.

A HOLISTIC APPROACH

A well-rounded approach to benefits allows the employer to truly promote their values, cement its culture and position themselves as a great place to work in the long-term. Considering what makes their employees want to come to work translates into how to keep their best people more engaged and productive for longer. Younger generations have profoundly changed the way we work. Being true to themselves, exploring their passions and caring about the world are values that challenge traditional hierarchies and career progression models that organisations have been built on.

THE FUTURE OF THE WORKPLACE

Workplaces have to engage up to six or seven generations of workers – with baby boomers who value benefits such as pensions and medical insurance to millennials who are driven by values, purpose and making a difference. Existing generations have 10 to 15 years in between them. Next generations are being created in even shorter time frames of around five years. Each generation is characterised by a different set of values, bringing their own engagement challenges to the future workplace.

Our report outlines the recruitment and retention picture across different sectors and key considerations for securing sustained levels of employee engagement.



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TIM KELLETT,

Paydata Director

If you have any questions or would like to discuss any of our report in more detail, please get in touch.

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Sector Analysis - Construction

RECRUITMENT AND RETENTION

LAST 12 MONTHS

61%

had difficulty retaining people



NEXT 12 MONTHS

57%

expect this difficulty to continue

57%

had difficulty recruiting people



57%

expect this difficulty to continue

CONFLICTING SALARIES

65%

offered new recruits salaries that conflict with those paid to existing employees



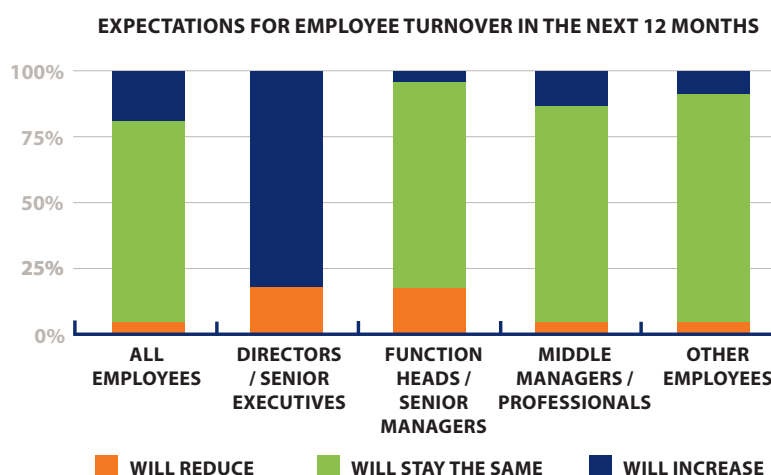
47%

offered **up to 20%** more, although some offered over 50% more



EMPLOYEE TURNOVER

Respondents reported low turnover levels for directors and senior management, but higher turnover for middle management and professionals. Most respondents expect turnover to stay the same at all levels. Voluntary employee turnover figures indicated that only half of middle management turnover is voluntary.



Sector Analysis - Housing Associations

RECRUITMENT AND RETENTION

LAST 12 MONTHS

50%

had difficulty retaining people



NEXT 12 MONTHS

30%

expect this difficulty to continue

40%

had difficulty recruiting people



30%

expect this difficulty to continue

CONFLICTING SALARIES

40%

offered new recruits salaries that conflict with those paid to existing employees

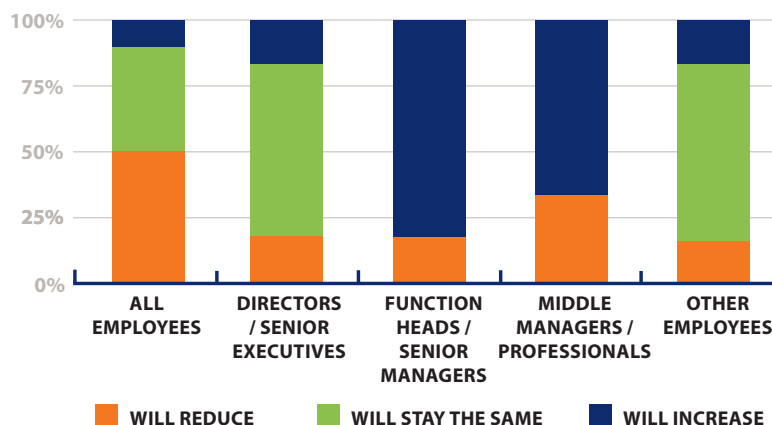


The majority of respondents offered **up to 20%** more

EMPLOYEE TURNOVER

There was lower turnover at management levels than for all employees. Very little turnover occurred at the highest level (directors) compared to relatively high turnover at middle management / professional level. Voluntary employee turnover figures indicated that most turnover at management levels and above was voluntary.

EXPECTATIONS FOR EMPLOYEE TURNOVER IN THE NEXT 12 MONTHS



Sector Analysis - Manufacturing and Production

RECRUITMENT AND RETENTION

LAST 12 MONTHS

25%

had difficulty retaining people



NEXT 12 MONTHS

38%

expect this difficulty to continue

50%

had difficulty recruiting people



50%

expect this difficulty to continue

CONFLICTING SALARIES

1/2

of respondents have offered new recruits salaries that conflict with those paid to existing employees



75%

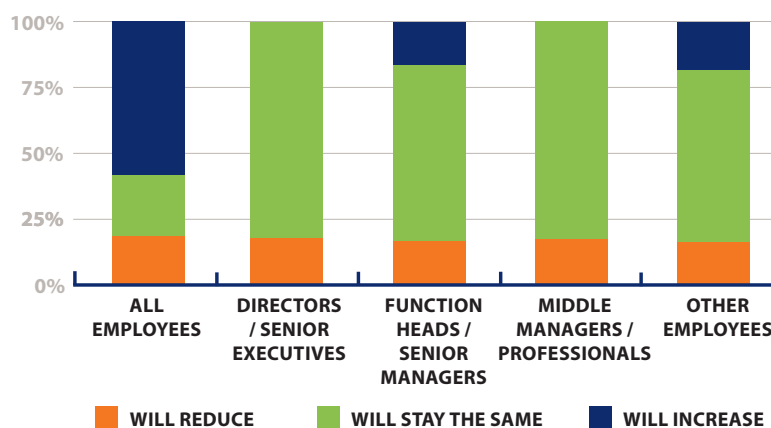
doing this offer **up to 10%** more and a quarter offer up to 20% more



EMPLOYEE TURNOVER

Overall, employee turnover was 10% median, but is far lower for middle management positions and above (1%). Voluntary employee turnover is much lower for middle management positions and above (6%). Employers generally expect an increase in turnover of all employees over the next 12 months. The majority of employers expect middle management positions and above to stay the same.

EXPECTATIONS FOR EMPLOYEE TURNOVER IN THE NEXT 12 MONTHS



Sector Analysis - Professional Services

RECRUITMENT AND RETENTION

LAST 12 MONTHS

80%

had difficulty retaining people



NEXT 12 MONTHS

80%

expect this difficulty to continue

2/3

had difficulty recruiting people



60%

expect this difficulty to continue

CONFLICTING SALARIES

60%

offered new recruits salaries that conflict with those paid to existing employees



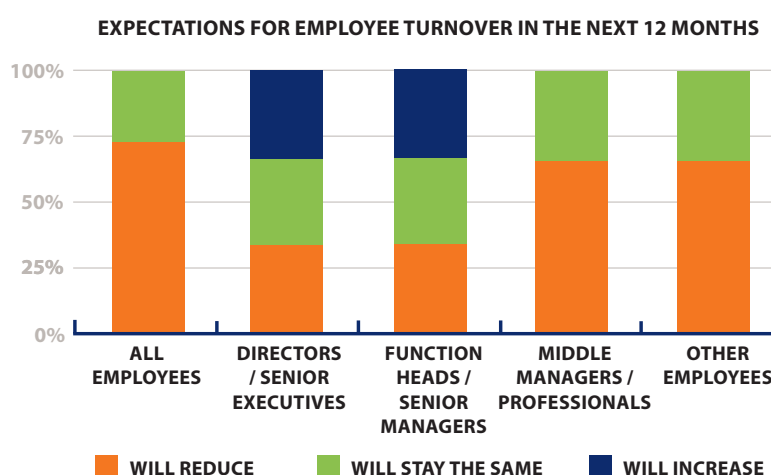
2/3

of respondents offered **up to 20%** more than current incumbents



EMPLOYEE TURNOVER

Most turnover is voluntary at all levels, but are the highest amongst the sector results, with a median turnover of 19% overall for all employees.



Sector Analysis - Charities, Associations and Institutes

RECRUITMENT AND RETENTION

LAST 12 MONTHS

31%

had difficulty retaining people



NEXT 12 MONTHS

23%

expect this difficulty to continue

46%

had difficulty recruiting people



38%

expect this difficulty to continue

CONFLICTING SALARIES

58%

offered new recruits salaries that conflict with those paid to existing employees



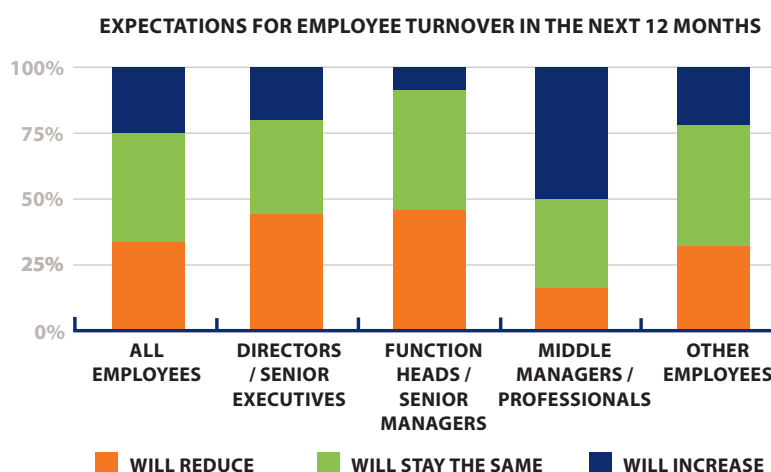
71%

of respondents offer up to 10% more



EMPLOYEE TURNOVER

Overall employee turnover is lower for middle management positions and above. Directors and senior executives saw the highest levels of turnover; voluntary employee turnover figures indicate that very little turnover of directors and senior executives in this sector is voluntary. Most employers expect overall turnover levels to stay the same or decrease in all areas apart from middle managers / professionals, where the outlook is notably less positive.



Common Themes

Common themes can be identified across all sectors.

PAY IS A HYGIENE FACTOR

In our Spring UK Reward Management Survey, we noted that businesses are noticeably more optimistic about the future, with nearly two thirds of organisations predicting that their order book, revenue and profitability will increase overall, an increase from half of respondents in our autumn survey 2017. Fewer organisations predicted a decrease in orders, revenues or profits. Increasing numbers of housing and infrastructure projects combined with business rates is creating the right conditions to encourage wage growth. Competitive pay packages where organisations pay people fairly and enough addresses the basics of how to activate employee engagement. Anything extra that can be put on the table to bolster the employee experience can then be recognised, promoting employee loyalty.

RETENTION OF EMPLOYEES

When comparing staff turnover between sectors, it was clear that manufacturing and production was the industry that saw the steadiest levels of turnover and had the highest levels of retention. This may be because job descriptions can be quite niche and therefore moving roles can be difficult within this industry. Another interesting trend was that charities, associations and institutes had the highest turnover at director level and that the majority of this was involuntary. A possible explanation is that more senior staff are being made redundant due to constrained HR budgets. The figures for construction are similar to the other industries. Traditionally in our experience, this industry has seen the highest levels of turnover, however the picture is complicated by the fact that many employees are sub-contractors who could possibly be excluded from these figures.

REWARDING TENURE AND PERFORMANCE

Long-term incentive plans (LTIPs) and bonus schemes are much less common as an employee engagement device or method to secure employee loyalty and tenure below senior management levels. LTIPs were commonplace across all sectors in the survey at higher levels. 43 per cent of all respondents operate LTIPs, which has increased from one third of respondents in 2017. Whilst they are particularly dominant in the construction sector across all employee levels, no respondents in the charities, associations and institutes sector reported using LTIPs, which is in line with the streamlined approach that may be expected from a non-profit organisation. These plans are generally aimed at directors, especially those on the main board.

Similarly, bonus levels are broadly similar to those reported in 2017. The usual pattern emerged: the most senior roles continue to attract the highest bonuses and potential than those generally available for other employees. Actual or expected payments suggest that employees are generally meeting targets set by organisations and performing in line with them.



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Paydata Director

CONFLICTING SALARIES

Indeed, loyalty no longer equates to increased pay packets. Significant numbers of organisations in all sectors offered new recruits salaries that conflict with those paid to existing employees. 49 per cent of respondents to our UK Reward Management survey said that they had to offer new recruits up to 10 per cent more than current incumbents, with four per cent offering over 50 per cent more. Most companies were offering either up to 10 per cent (49 per cent of respondents) or up to 20 per cent (31 per cent of respondents) more to new employees; however, there were companies in construction and, more surprisingly, charities, organisations or institutes who paid up to 50 per cent more.

SKILLS SHORTAGE

Conflicting salaries are often driven by a shortage of skills and talent which is becoming increasingly apparent. Brexit is likely to exacerbate the skills shortage so securing competitive packages at this stage may save companies in the scramble for talent that is becoming more and more prominent. The Open University published the Business Barometer 2018, which highlighted the staggering amount of £6.3 billion being spent on temporary workers, recruitment fees, inflated salaries and training because of the lack of skills in the UK labour market. This threatens to stagnate productivity and is particularly acute in the construction sector.

INNOVATIVE WORKING ARRANGEMENTS

In designing packages that retain top performers and attract the best external talent, employers must address the different needs across the multi-generational workforces that they now need to engage. Flexible working arrangements are a key opportunity to truly engage younger generations. Misconceptions about flexible working generally mean that these benefits are rarely offered with higher paid roles. However, by focusing more on the outcomes rather than the time worked, flexible working can also be a key driver of productivity in the workplace. The government estimated that just two per cent of parents had taken shared parental leave, meaning that women are more likely to be not working due to childcare commitments. The push for equality within the workplace is something that flexible working can help to address. The Fawcett Society has gone as far as to call on the government to require all roles to be advertised on a flexible working basis to promote diversity.

49%



of respondents to our UK Reward Management survey said that they had to offer new recruits up to 10 per cent more than current incumbents

The Engagement Challenge: short, medium, long-term

You want your people to connect with your organisation's goals and values. You want to inspire them to achieve more, perform better and develop with you. You need to do this even when pay budgets are tight.

Employee engagement helps people feel part of your story and history whilst understanding their role in its future direction. The right benefits can support the renewed war for talent where skills shortages are increasingly acute. Employee experience is synonymous with employers looking to avoid high turnover. As employees themselves are increasingly defining what benefits matter to them, an employee-centric approach is critical.

Employee buy-in helps boost job satisfaction and enhance your business' reputation. Engagement is driven by many elements of staff reward – including pay, benefits, personal growth and organisational culture. Your reward practices and strategy should show clear links to overall business goals, team contributions and individual behaviours. According to Gallup's recent State of the Global Workplace Report 2018, 85 per cent of the workforce across Europe and the US is not engaged or is actively disengaged at work.

This begs the question: what steps can your organisation take to mobilise your workforce and demonstrate your commitment to their development and role in delivering the company's vision?

SHORT TERM OPTION	MEDIUM TERM OPTION	LONGER TERM OPTION
Total Reward Statements	Employee Surveys	Staff Incentive Schemes



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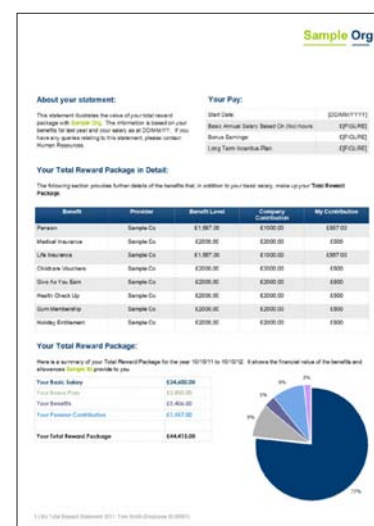
1. SHORT TERM OPTION: TOTAL REWARD STATEMENTS

Employee benefits packages are one of the biggest incentives that you can offer your people. It is a finely-balanced exercise to get the right package in place and maintain the momentum through your internal communications. Total Reward Statements can help you to engage employees and demonstrate the overall value of the reward package that you provide. Employees become more engaged when they understand the rewards you provide as an employer and the true value of their reward package.

A Total Reward Statement demonstrates the breakdown of the reward package in terms of both the financial and non-financial elements. This in turn improves the opt-in rate as employees become more aware of the potential benefits and their full value offered to them. Whilst employees get a clear picture of the full range of potential rewards available, employers show the investment they are providing in one clear snapshot to each employee, promoting greater levels of employee engagement.

Total Reward Statements have long been a valuable and effective way to communicate the full value of reward packages; capturing the value of traditional benefits, such as base salary, bonus earnings and pension schemes, alongside additional benefits and personal development and growth, and environmental factors (culture and physical working conditions).

The statement provides the opportunity to balance all elements of the reward package. An organisation with a strong people-based culture and a good track record of providing personal development will most likely be able to off-set this against pay or any other part of the package.



TOP TIPS FOR PRODUCING AN EFFECTIVE TOTAL REWARD STATEMENT



1. PAPER VERSUS ONLINE

Some organisations make their statements available online as an add-on to an existing Flexible Benefits or HR software system. Whilst this can be a convenient solution, some organisations have faced the challenge of some employees not logging-in to the system, therefore not seeing the statements. It is down to individual preference, but by providing a printed hard-copy format, this can create greater impact from the outset and generate greater awareness.

2. BRAND THE STATEMENT

It is important that your statements reflect your brand and are consistent with your internal communications, both in terms of format and content. We work closely with marketing functions to design statements; a useful reference tool is your company's brand guidelines.

3. INCLUDE AS MANY REWARD ELEMENTS AS YOU CAN

The statement is an opportunity to promote as many of the reward elements you provide to your employees as you can. According to Paydata director Tim Kellett, "There is no shame in promoting the benefits you provide. Often organisations leave elements off if they are difficult to quantify financially.

We address this by including a glossary on the reverse of the statement to explain the benefits further, such as a training and development investments, discounted canteens or free parking."

4. INCLUDE GRAPHS AND PICTURES

We often see statements that are purely text and numbers. Branded pictures and graphs help to make the statement a part of the employee experience and highlight to employees that they do not just receive a salary. By capturing the tangible and intangible benefits as fully as possible, this is a key part of crystallising the central reasons that employees should be proud and motivated to work there.

5. ENSURE YOU DEDICATE THE TIME AND RESOURCES REQUIRED

Organisations often underestimate the amount of work required to design, produce and distribute statements. Indeed, we are often asked by our customers to print and distribute statements on their behalf, to minimise the impact on their resources. We can also help you to answer the question of when they should be published; for example, many employers choose to produce and distribute their statements just after the pay review.

2. MEDIUM-TERM OPTION: EMPLOYEE SURVEYS

Employers need to look at every point of engagement to understand what truly engages their workforce. An employer brand perspective is key to unlocking a stellar employee experience. What kind of employer do you want to be seen as?

Employee satisfaction surveys, focus groups and workshops can all track your return on investment for the reward packages you offer. We help to strengthen the employer and employee relationship on both sides.

Organisations are increasingly striving to be innovative and holistic about the benefits packages they offer, ensuring that they align with the company's values and promote their employees' long-term wellbeing. Personnel Today's recent report 'Global Employee Benefits Watch' analysed the disconnect between some benefits packages and what employees truly want. Over 40 per cent of UK employees aspire to own their own homes, but only four per cent of workplaces support them in doing so. Over 40 per cent would like to get fit and healthy, yet less than 20 per cent of benefits schemes support this.

Attracting and retaining the best people involves honing an organisation's offering to meet the needs of current and potential employees including caring for their financial, physical and mental health. The long-term view of retirement and health is not enough. Direct feedback from employees is critical to ensure that you are capturing what your employees really want from their work.

3. LONGER-TERM OPTION: STAFF INCENTIVE SCHEMES

Develop your reward strategy to align your policies and practices with your organisation's objectives.



Pay Benchmarking



Reward Strategy and Design



Job Evaluation



Pay Modelling



Research and Insights

Our reward strategy design and job evaluation services can help ensure that progression is clearly mapped out and can support long-term employee engagement. Equally, Paydata's salary benchmarking consultancy services can help you to compare salaries and benefits with your peer groups, industry sectors and the general marketplace. Providing you with a clear and concise breakdown of the data available to make informed decisions on salary and benefits within your organisation.

The difference in salary can be the deciding factor in keeping key staff members or inviting established executives into your team. It's important for companies to obtain the necessary information so effective remuneration decisions can be implemented, in addition to providing shareholders with peace of mind that high paid executives bring positive value to the company.

The key trends that have emerged from our UK Reward Management Survey in relation to the challenges faced in recruitment and retention highlight the importance of engaging your employees. Get in touch to find out how we can help you impact employee engagement in your business.

Call us on +44 (0)1733 391 377.



Using Total Reward Statements to engage employees

Employee pay and benefits packages are one of the biggest incentives that you can offer your people. But it's a challenge to get the right package in place and maintain momentum through your internal communications.

Total Reward Statements can help you engage your employees and demonstrate the overall value of the reward package you provide.

Paydata can help you design and deliver clear, concise and visually appealing Total Reward Statements.

Statements outline the value of traditional benefits, such as base salary, bonus earnings and pension schemes, as well as additional benefits, such as gym memberships.

Why use Total Reward Statements?



Increased employee engagement

Employees become more engaged as they gain a greater understanding of the rewards you provide as an employer and the true value of their reward package.



Demonstrate the value of non-financial benefits

Demonstrate the total value of the reward package, in terms of both financial and non-financial elements.



Improve the take-up of benefits

Employees become more aware of the potential benefits available to them.

To discover how Total Reward Statements can help you project the value of your reward package more and to discuss your requirements, please contact us today on **+44 (0)1733 391 377** or via **info@paydata.co.uk**

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