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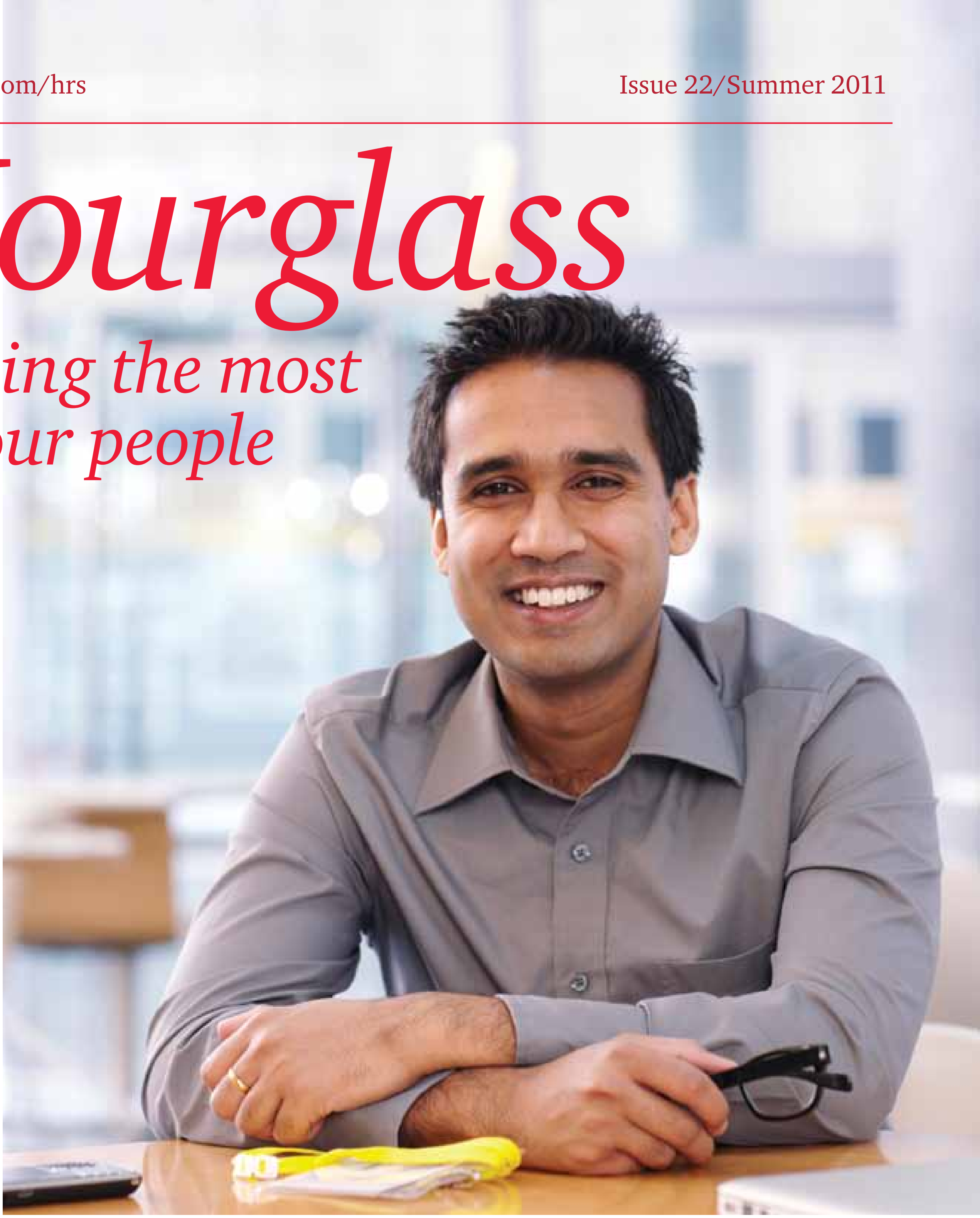
Issue 22/Summer 2011

Hourglass

Making the most of your people



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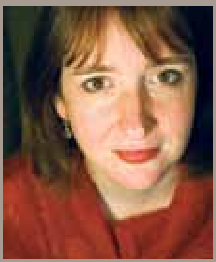

It's a strange time for employers – we naturally all begin to feel more optimistic as the days lengthen and the sun comes out, but with the state of the economy in many developed countries still precarious, the more hopeful disposition is inevitably fragile. Many HR professionals are carefully assessing the mood of their workforce, but given the uncertainties ahead (particularly when it comes to the challenging and as yet largely unknown predilections of Generation Y), predicting the future still feels to some like a stumble around in the dark.

It's a sign of the difficult times that the issue of executive pay just refuses to go away, perhaps exacerbated by the squeeze felt by many employees as the tricky economic conditions continue to grip. But who's to say what is fair when it comes to pay and benefits? A fascinating new study by PwC suggests that our view of what is fair in reward is a very complex issue, which, as Nick Martindale explains on page 3, depends far more on comparison with our peers than it does with the total reward figure itself.

An added complication for HR professionals is the UK Government's decision to allow English universities to charge tuition fees of up to a maximum of £9,000 a year. The move has attracted a great deal of comment, not least from various employer groups who are concerned that the decision might have an impact on the quality of the graduate pool in future years. Are these fears realistic? On page 7, Alex Blyth looks at the experience of the US, where high tuition fees have been the norm for many years. And then, of course, there's the thorny question of the pension arrangements of this new generation of workers. On page 27 we discuss some of the dangers that employers could face if they're left with a large number of workers who simply can't afford to retire. These are fundamental questions for employers, and therefore for HR professionals. It's not overly dramatic to say that the decisions made by politicians, employers and individuals over the next few years will set the model for HR in the future.

Liz Fisher

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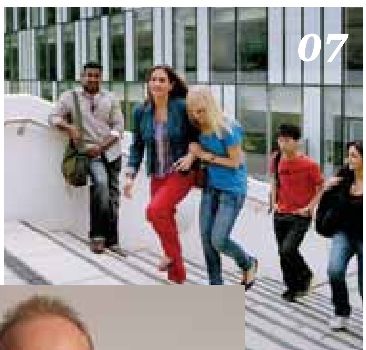

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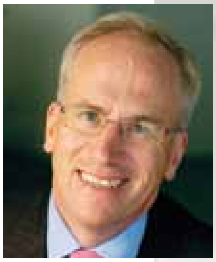
It's understandable that companies and their investors look for certainty during uncertain times, which is perhaps why many businesses are playing closer attention to succession planning than ever before.

Looking forward
Stability from the top



Written by

Michael Rendell
Partner and Global Head of Human Resource Services at PwC

The aftermath of the Japanese tsunami

It would seem strange not to reflect in this issue of Hourglass on the devastating events in Japan and the US and the political upheaval in the Middle East and North Africa. The enormity of suffering puts any economic difficulties into perspective. Many of you may know people affected by these events or have been involved in moving employees from troubled areas. We can sometimes feel powerless in the face of disasters of this scale, and it brings contingency planning to the forefront of our minds. In this issue, Philip Smith's article on page 23 draws on this theme, looking at what steps companies can put in place to ensure they can move their people quickly if the need arises, particularly if they have offices in unstable jurisdictions.

Planning is at the heart of what we HR professionals do, whether gearing up for expansion and change, or managing the talent pipeline. Yet sometimes the adequacy of such plans is only apparent when tested through a particular event, such as the departure of a significant individual.

In my view, there can be very positive reasons for recruiting a CEO from outside the firm, with similarly positive results. Such external appointments can bring a fresh perspective – particularly if the company is to move in a different direction — but this tends to happen where the organisation has made a deliberate decision to bring about change.

In other cases, the benefits of having a candidate who's been promoted from within the organisation, who can help ensure that existing plans and strategy are continued, cannot be underestimated. Markets and customers want predictability. There are also significant cost implications that come with hiring someone externally. With a limited pool of people to choose from, salaries inevitably ratchet up, particularly if the search is at short notice and the firm is under pressure.

These issues aren't going unnoticed. The majority of companies are now committed to building succession plans around board level roles. But more needs to be done to ensure plans are precisely that: plans to ensure smooth succession, rather than one-off documents that are forgotten about until there's a need for them. Many organisations are now defining more clearly the skills required and mapping these against potential candidates. Perhaps the most important aspect is how then to fill the gaps. HR has a vital role to play here, ensuring a regimented approach that reviews candidates' development on a regular basis.

Of course, if a number of people are going for the top job, there's a risk that those not chosen will become disaffected and leave. Ultimately, companies need to cultivate a culture where people see progression, recognise they might not get to a particular level and do not feel disenchanted as a result.

A 20-year study in the US found that companies which promote chief executives from their own staff tend to outperform those that recruit externally.

The benefits of succession planning were highlighted in *The Times* recently. A 20-year study in the US found that companies which promote chief executives from their own staff tend to outperform those that recruit externally. The report argues that coming from the outside gives external recruits the sense that they can assert their authority almost immediately, making significant changes before they fully understand the company dynamics.

The process is similar at any level, and the value of better succession planning will be felt increasingly as the war for talent continues. In these uncertain times, anything that can provide a certain degree of stability should be seized upon.

A new report suggests that fairness is the greatest motivating factor in reward – but our understanding of what's fair and what's not is highly complex.

Reward Fair for all?

Written by
Nick Martindale

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FTSE 100 chief executives earn more than 202 times the minimum wage

It's the time of the year when many UK banks and financial institutions announce their bonus payments for senior executives and traders and inevitably, this has once again focused attention on the sensitive issue of executive pay, and the associated bonuses and long-term incentives that have increasingly become expected components of top remuneration packages. Yet while the economic downturn may have thrust this issue – particularly for those in the financial sector – firmly into the spotlight, executive remuneration has actually spent the last decade quietly spiralling upwards.

According to the recent Hutton report *Fair Pay in the Public Sector*, the median pay for FTSE 100 chief executives has increased from 124 times the national minimum wage and 47 times the average earning in 2000 to a colossal 202 and 88 times respectively. "We haven't got top pay right in Britain," says Will Hutton, author of the report and executive vice chair of The Work Foundation, who will take up a new post as principal of Hertford College, Oxford University, from September 2011. "There are a lot of institutional shareholders, directors and remuneration committees which just think pay across the private sector has got completely out of hand for not much reward. There may be individuals who can justify what they have done but collectively they're not worth twice as much as they were ten years ago. Everyone knows that, including them. The question is how to stop it."

Hutton makes a number of recommendations in the report but a central concept is that of the earn-back, whereby chief executives and other senior managers put aside a percentage of their salary each year and are only awarded this if they hit certain pre-agreed targets. "If you have chief executives with base pay of £1m, how about them putting 20% at risk through an earn-back, and then they can have a cash bonus?" he suggests. "The only conversation we have at the moment is about what the degree of upside is and we've created this culture where if things go wrong you still have your base pay, quite a lot of your cash bonus and certainly your pension entitlement."

There are signs that there's an appetite for change, certainly among shareholders if not the executives themselves, says Tom Gosling, a partner in the Reward practice at PwC. "There's not been a dramatic change in structure yet but the pressure is building," he says. "One of the themes has been closer alignment of pay increases between executives and the general workforce, whereas for the decade up to 2007 we saw executive pay increase by two to three percentage points a year more than general pay."

An emerging trend in the financial sector is the use of long-term incentives to encourage executives to act in a responsible manner that will deliver sustainable growth rather than short-term gains. HSBC recently announced proposals to reward top management on a wider range of performance metrics, with executives presented with shares they would be forced to hold until retirement, while RBS has linked its long-term incentive scheme to specific targets around transforming the performance of the bank and paving the way for its eventual exit from government ownership.

"If you look back over the banking crisis, the traditional programmes that were in place were often in favour of the banks taking up leveraged positions and taking more risk," says Gosling. "In the run-up to the crisis the banks that did best tended to be the Northern Rocks, Alliance & Leicesters and Bradford & Bingleys, which subsequently didn't look so clever. Part of what the banks have been doing is to get a perspective that wouldn't have encouraged that behaviour."

As yet there is little sign of such set-ups spreading beyond the financial services sector, he adds, but there's a move towards less volatile schemes with lower total reward and a greater responsibility for remuneration committees in overseeing the award of performance-based elements. "Shareholders are very comfortable with this in principle. The one sticking point is whether they believe remuneration committees will be tough enough in administering a system that is more based on discretion than in the past," he says.

Bonus payments are also a topic of contention between executives and shareholders, says Gosling. "Bonuses fell by about 25% in 2009 but last year they bounced up quite strongly," he says. "Shareholders are saying that given it's been the worst financial recession for 70 years, bonuses

Fairness is ultimately determined not by the amount of money that is handed over but to how it compares with peers. Perversely, greater disclosure could eventually lead to even higher levels of executive remuneration.

falling by 25% for one year doesn't seem like all that should have happened. There's a lot of pressure on companies to justify the levels of bonuses that they're paying, given the strained circumstances in which we still find ourselves."

The psychology of incentives, a recent report by PwC in conjunction with the London School of Economics and Political Sciences, meanwhile, sheds new light on the psychology behind incentives, stressing the importance of the perception of fairness in pay awards and highlighting the perils of using overly complex formulas to determine pay, which can often then be seen as arbitrary and unfair. This is something with which Peter Reilly, Director of HR Research and Consultancy at the Institute for Employment Studies (IES), agrees. "The transparency and fairness argument is absolutely critical to the way in which people receive this," he says. "But that's where it's an automatic mechanism that benefits everybody and you know in advance what it's going to be, rather than it going to a select few on some sort of dubious basis, which is the suspicion with financial services."

"We've always done what seems to be the right thing rather than looking at why people come to work, what motivates them, what makes them stay and what annoys them, and designing reward around that."

The report goes further, too; warning that fairness is ultimately determined not by the amount of money that is handed over but to how it compares with peers. Perversely, greater disclosure could eventually lead to even higher levels of executive remuneration. "Disclosure of pay just leads to information being analysed more frequently, leading to more frequent increases in pay," says Gosling. "It enables this fairness itch to be aggravated in executives."

Below executive level, organisations have been much more willing to keep pay under control. The *2011 National Management Salary Survey*, published by the Chartered Management Institute, for instance, revealed an average salary increase of just 2.2% for the 12 months to February 2011; the lowest rise for more than a decade and way below the rate of inflation.

Despite all the controversy over bonus payments, switching to performance-related pay across entire teams or organisations makes sense in such tough economic conditions, says Peter Reilly at the IES; particularly at a time when the jobs market remains relatively stagnant. "In an economic downturn you want to reduce the amount of money you're committed to paying," he says. "Bonuses have got a dirty name and yet, in many ways, bonuses that are linked to organisational performance are just what you should be doing when you're trying to respond to difficult times."

At the same time, there's much admiration for the John Lewis style of partnership, where employees of all levels take a share of profits. High street baker Greggs recently awarded its shop staff average bonuses of £350 each after the firm made record profits, while the Spanish retailer Mango announced plans to introduce a John Lewis model, possibly from next year. "It's the same principle as the bonuses in other organisations but the key difference is perhaps the fairness of it in that everyone is in it together and rewarded separately," points out Reilly.

Elsewhere, the downturn has seen an all too predictable scaling back of many incentives and rewards, says Charles Cotton, Performance and Rewards Adviser at the Chartered Institute of Personnel and Development, with the acceleration of the trend towards closure of defined benefit pension schemes perhaps the most significant. Yet as the private sector economy continues its fragile recovery, companies are beginning to look at how they can both retain and compete for talent once more. "Organisations are taking a more targeted approach and focusing their rewards on those individuals they believe add most value," says Cotton. "Pay is important but just as important could be other benefits such as pensions, for instance. If you, perhaps, pay a generous a defined contribution pension, it may be difficult for individuals to find an organisation that will match that."

Companies can also help retain staff – or minimise the fallout from any decisions not to increase pay – by offering a range of benefits, with those that can make a real difference to an individual's bottom line or offer a degree of protection proving particularly popular. "Many employers are using a benefits programme to introduce something, very often at little or no cost to them, which can provide their employees access to a range of offers such as retail shopping discounts or commission-free holidays," says Nigel Brittle, Group Chief Executive at Personal Group. Hospital or income protection plans are also popular, he adds.

2.2%

National average salary increase for managers for the 12 months to February 2011

Deferring pay is a costly business

Organisations considering holding back pay until the true implications of executive or management performance become clear will have to contend with an unexpected consequence. Research by PwC, in conjunction with the London School of Economics and Political Sciences, suggests executives discount the value of deferred pay by as much as 20% a year, with most executives highly risk averse.

"Deferred awards with performance conditions on them are a bit of a problem," says Tom Gosling, partner in the Reward practice at PwC.

"If, however, you say you'll give them shares but you just have to hold on to them for a long time, the evidence is that they are much more valued."

People are also more psychologically disposed to remember bad news than good, the research revealed, so making sure incentive schemes pay out at least something most of the time is essential. "The idea is to increase the probability of them getting something so it's got value for them," says Gosling. "But the flipside is that they'll never have the chance of getting a really dramatic upside."

Very often, organisations now offer such benefits on a voluntary basis, where employees foot the bill, says Manesh Patel, Head of Account Management at You at Work. "Core benefits that you get as part of your employment – so death-in-service cover, private medical cover and critical illness cover – are being cut back and the nice-to-haves such as gym memberships and free car parking are starting to become a thing of the past."

The challenge for HR practitioners over the next few years will be to overhaul both executive pay and wider rewards programmes in a manner that will enable them to attract and retain top talent without paying vastly over the odds or rewarding mediocrity. The key, perhaps, lies in the concept of fairness and getting back to basics. "There's always been a problem that theory on reward hasn't been put into practice properly by organisations," says Reilly at IES. "We've always done what seems to be the right thing rather than looking at why people come to work, what motivates them, what makes them stay and what annoys them, and designing reward around that. We're now getting back to what does and doesn't work."

The decision to increase university tuition fees in the UK has resulted in radical predictions about the implications for employers in the future. What can we learn from the US experience?

Generation Y
Fees and the future

Written by
Alex Blyth

From September 2012, universities in England and Wales will be allowed to charge students tuition fees of up to £9,000 per year, payable after graduation once the student is earning more than £21,000 a year. That is a dramatic increase on the current maximum of £3,290 per year. These controversial plans have already sparked demonstrations on the streets of London, but more than 40 English universities have now declared the fees they plan to charge next year. Three quarters are planning to charge the maximum.

It's clear that this will have a significant long-term impact on young people deciding whether or not to go to university, on those entering the jobs market who will be carrying unprecedented debts, and on companies that recruit fresh graduates. What is less clear is the exact nature of that impact. Some argue that increased fees will improve university teaching, make students more committed, and provide a fairer basis for educating the nation's future high earners. Others paint a bleaker picture in which those from poorer backgrounds cannot afford university, those that do attend are only willing to study subjects with high earning potential, and the emergence of a generation of demotivated and disillusioned young people.

Senior HR executives in organisations up and down the country are keen to find out which prediction is more realistic. The implications are potentially far-reaching, influencing their future recruitment, training and remuneration strategies. While it is an experiment without precedent in the UK, in the US universities have charged high fees for a long time. So, what can the UK, and other countries, learn from the US experience?

In 1993 Andrea Jackson began her degree in Voice & Theatre at the Boston Conservatory. She's from Canada, and has since returned home to work as the Director of Education at the Stratford Shakespeare Festival in Ontario. She was fortunate that her parents were able to contribute towards the fees of $21,000 a year, and, because her course was not available in Canada, the Canadian government provided some subsidy for the course. She also condensed her studies into three rather than four years and worked throughout her studies, sometimes in more than one job at a time.

But by the time Andrea graduated she had amassed debts of around $35,000. This was less than many of her contemporaries, and she is clear about the effect high tuition fees have had on US society. "In the US it's not unusual for people to take out mortgages and loans to pay for their children to attend university," she says. "And if you don't have parents who can pay for it, you don't go. That said, there is a great deal of funding available for US students by way of sports scholarships and that's great for people who can't afford the tuition costs."

That is purely anecdotal evidence, but there is also statistical support to indicate that the US experience of high university tuition fees has not been an altogether happy one. A 2006 study for *USA Today* found that 22% of graduates had taken a job they would not otherwise have taken in order to earn more money to pay off student-loan debt. 26% had deferred buying a home, 55% had no pension, and 40% were not contributing regularly to a savings account. William Strauss, co-author of *Millennials Rising*, describes student loan debt as 'the single greatest problem facing this generation'.

Or as Dr Anton Franckeiss, Managing Director at training provider ASK Europe, puts it: "If there are rainy days ahead, Generation Y will have no

"If there are rainy days ahead, Generation Y will have no umbrella, and possibly no appetite to borrow the money to buy one. Total US student loan debt – which now stands at around $850bn – overtook credit card debt in 2010 for the first time, and default levels are rising."

umbrella, and possibly no appetite to borrow the money to buy one. Furthermore, it may be that tuition fees provide less revenue for universities than the government expects. Total US student loan debt – which now stands at around $850bn – overtook credit card debt in 2010 for the first time, and default levels are rising."

Already the UK is seeing signs that young people will be deterred from studying subjects less obviously linked to high-paying careers. For example, it seems unlikely that anyone would be that keen to spend upwards of £30,000 learning Ancient Greek. In March the University Council for Modern Languages warned that £36,000 fees for four-year language courses could deter students from learning even living languages. The universities themselves are adopting varying approaches to the issue. Essex University plans to subsidise language students for the extra fourth year, while the University of the West of England is consulting on withdrawing all modern language courses.

Of course, not everyone believes the taxpayer should fund people to study *The Iliad* or to spend a year in Milan. Many even argue that a whole tranche of careers do not require anyone to have spent three years studying. In a recent interview with City University's *XCity* magazine, the former editor of *The Sun* Kelvin MacKenzie, who did not attend university, argued that a degree is by no means essential to becoming a journalist. "There's nothing you can learn in three years studying media at university that you can't learn in just one month on a local paper," he said.

The UK is already seeing a growing number of young people opting for trade-specific qualifications. According to a recent survey conducted by the National Inspection Council for Electrical Installation Contracting, 63% of 16-24 year old women polled said they are more interested in learning a skilled trade rather than a profession. Several forward-looking companies have noticed this trend, and are acting to take advantage through the launch of apprenticeship schemes. Andy Palmer, Head of Skills at BT Group, says: "It's important that young people understand all of the options that are available to them when they leave school or college and we believe that apprenticeships are an excellent route into employment. Over the last five years we've successfully placed some 1,400 apprentices across the UK alone."

One of BT's apprentices is Nimesh Chauhan, who joined in 2005 and is now a sales manager. He says: "University didn't really appeal to me. I wanted a more hands-on approach to learning. At the time it felt like a hard choice. There was a lot of pressure in the media about going to university, and everyone said university was the route for young people to take. But since joining BT I've never looked back. Not going to university was the best move I ever made."

So, the effect of this change may be to produce a new generation of workers with skills that are useful to the labour market. It may even encourage more people into work at a younger age, taking some pressure off pensions, and reducing the need for further large-scale immigration to plug labour shortages. It's possible, in other words, that the introduction of higher university fees may have a positive economic effect. Yet, there's a growing body of evidence to suggest that the UK will follow the US in seeing high tuition fees result in a less fluid labour market, a dearth of qualified graduates in key sectors, and a society where parental wealth is a more significant factor than ability or effort in determining a young person's career prospects.

63%

of 16-24 year old women more interested in learning a skilled trade rather than a profession

Futuretrack is a major research project following 50,000 people from university application to graduation and into the world of work. In 2006 it interviewed 8,546 students about how they expect debts to influence their future decisions on employment. 38% of those with debts of £15,000 or more said they won't take a postgraduate course (that they'd like to have taken) because they couldn't afford the further debt. 24% said they'll need to take a job that would not be their first choice so they can pay off their debts. Potentially, that's a severe restriction on the fluidity of the UK's labour market.

Recruiters in many sectors are worried that higher university tuition fees will reduce the number of quality candidates available to them.

Recruiters in many sectors are worried that higher tuition fees will reduce the number of quality candidates available to them. Speaking to the Interactive Advertising Bureau for a white paper, Phyl Pound, Talent Advisor at advertising agency Aegis Media, recently said: "The media industry will suffer as graduates go into traditional industries such as law and financial services. The media sector can't offer the sorts of salaries that financial services can. There is often a £3,000 to £4,000 difference in starting salary."

Finally, it's hard to see how higher education won't become the preserve of those born wealthy rather than those born bright. Charlie Ball, Deputy Research Director at the Higher Education Careers Services Unit, says: "With fees at £3,000, students viewed it as an irritation, but one they could deal with. At £9,000 per year, £27,000 is more than the UK annual medium wage for graduates. This will deter those from poorer backgrounds. That's a problem not only for those individuals but also for UK businesses and UK society as a whole."

The UK Government has declared it will offer funding to encourage those from poorer families into higher education, but the details of this funding are, as yet, unclear. Many are concerned that while it may help those from the very poorest families, it will do little for the increasingly disgruntled 'squeezed middle'. Visit the campus of 2020 and you're maybe more likely to meet students with three B-grade A-Levels, but with parents in the higher income bracket, than you are students with three A-grades, but with parents on a lower income.

Andrea Jackson has now paid off her student debts, but she's concerned that Canada is heading down the same route as the US. "University has become much more expensive here in recent years," she says. "I fear for future university students and worry about the impact this will have on our economy and society." Those are fears, concerns and worries that should perhaps be shared by those in the UK's campuses and boardrooms.

Pentland Brands is the company behind some of the world's most iconic sports, outdoor and fashion brands. And it's a business that Tim Pointer, Head of Global HR, believes runs on passion.

HRD interview
It's all about the brand

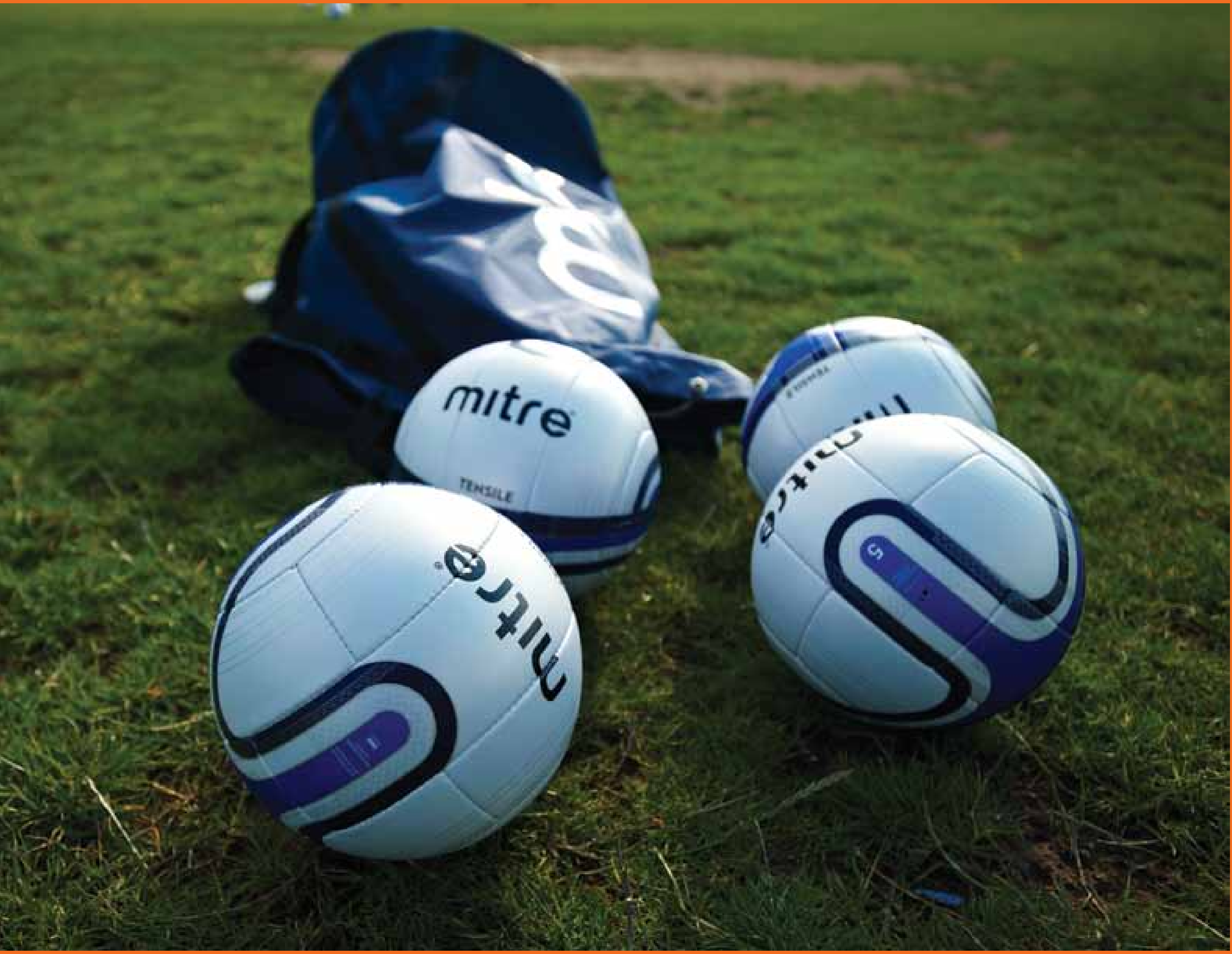
Written by
Jenny Hirschkorn

Tim Pointer
Head of Global HR for Pentland Brands plc

Tim Pointer, who completed his first year as Head of Global HR for Pentland Brands plc in May, describes himself as a failed actor. After graduating in English from the University of York, Pointer took a masters degree in Contemporary Theatre Practice, but as soon as he realised that he didn't have the talent required to get to the top as an actor, he changed tack and found himself in HR.

"I was lucky enough to perform alongside people who were exceptional and I knew I wasn't good enough to have the success in acting that I wanted," he says. Five minutes in the ebullient Pointer's company and you see why coming second is not an option. Besides, he's keen to point out the parallels between the two disciplines. "When I was accepted onto Marks & Spencer's graduate training scheme, there was a choice between specialising in finance, commercial or personnel. I chose personnel because my experience of working in theatre – behind the scenes as well as front of house – involved understanding the psyche of people involved at all levels of the organisation, from carpenters to prima donnas."

And there's something distinctly theatrical about the quirky, cutting-edge space where Pointer sits down to chat in Pentland's award-winning nerve centre. Here, hidden behind the rows of terraced Edwardian houses in north London suburbia is what can only be described as the Pentland campus. It incorporates two modern office buildings linked across a lake, no less, and offering employees all the facilities they need – think swimming pool, state-of-the-art gym, massage therapy – to blend their social lives seamlessly with their working ones.



But what tempted Pointer away from his previous job as UK HR Director for the űber-cool brand Diesel to a company that most people, outside its own industry at least, have never heard of? Well, they may never have heard the name Pentland, but mention the brands in their portfolio and it is quite another story. Walk down any high street and you'll be surrounded by the iconic leisurewear and sports names that are either owned or licensed by Pentland: Speedo, Berghaus, Mitre, Red or Dead and Kickers are just a few of them. Originally founded as a shoe wholesaler in Liverpool in the 1930s, in the 1960s the business became one of the first UK companies to set up manufacturing operations in Asia. The business took off in earnest in 1981, though, when it invested in a small business that had a brand but no money to make its product. The brand was Reebok and by the time Pentland sold its 55% investment ten years later, it was worth something in the region of $700m.

The group now has three divisions: Pentland Brands, a retail arm and a venture capital operation.

Don't be misled by the 'plc' in the company name. Although the Pentland Group was listed on the London stock exchange for 35 years from 1964, it was taken back into the private hands of the founding Rubin family in 1999. This was a major attraction for Pointer, who worked for public companies and venture capitalist-owned firms before joining Diesel, another family business, when the headhunters came calling. "I adore the values working for a family business," he says. "When you are working in a bureaucratic, overly-structured business there can be such a delay in getting the green light to go ahead with your projects. Working for a family business, for me, means clarity and being able to move quickly and embed the changes that I instigate."

"Working for a family business, for me, means clarity and being able to move quickly and embed the changes that I instigate."

The role is international (Pentland has operations across Europe, in the US and in south-east Asia) and across multiple brands. For Pointer it was an easy decision. When he was going through the selection process for the job, he got to meet not just the directors but managing directors from across the business, members of the HR team and other senior staff including the CEO, Andy Rubin, and realised that he had a real affinity with Pentland's values. It's a methodology that is vital to the recruitment strategy at all levels of the organisation. "Exposing candidates to a wide range of people with whom they'll be working helps us get a very rounded picture of that individual and for them to get a thorough understanding of us," says Pointer.

Following that through, one of Pointer's current projects is the production of a new employee handbook, which he has designed in collaboration with the marketing department and which has effectively evolved into a brand book. This is sent out to new staff members once they've accepted a job offer so that they absorb a very clear impression of what the business is about before they even start work. "It's about externalising the environment and allows them to hit the ground running," he explains.

Pointer's team is made up of five divisions: people services; employee relations and governance; HR business partners; talent and resourcing; and learning and development. According to Pointer, there's one thing they all share and that is a passion for the business. The 'p' word features a lot in his conversation. "I am fortunate because I work for a very passionate, business-focused CFO [Andy Long]." Then, "I have a fantastic team who are very smart, passionate, industrious and funny." And, when they are recruiting, passion is a pre-requisite amongst their candidates: "If they don't fall in love with the brand, and we don't fall in love with them, this isn't going to be fun. It's so important that people enjoy what they are doing."

The strategy seems to work: "Our Pentland role model is our Chairman, Stephen Rubin, who has 52 years' service with the company and shows no sign of retiring at 73. We recognise people every year when they reach significant milestones in their length of service, and we have thirty two members of staff who have been here more than 25 years."

But with a workforce spread across 12 different countries, from Vietnam to the US, how does Pointer ensure a global HR strategy that encompasses such a variety of cultures? "Firstly, it's imperative for us to align ourselves with the overall strategy of the business, which is the global development of our brands. That global ambition requires us to have a clear global HR strategy. So, for example, we recently had our head of HR for Asia over here reviewing our whole offer to all of our Asian employees. How are we attracting people to the business? How are we ensuring their continued development? How are we moving our talent around globally? We also looked at succession planning and how we deal with cultural issues."

Inevitably, the recent changes to immigration law have made life more difficult for this international business: "I think that when we look across the portfolio of global brands that we have, an area that we have to consider very closely is the way we bring

global talent into the organisation, both by moving people within our global structure and identifying top talent externally. These changes have made that much less practical."

In fact, reviewing the international side of the business is at the top of the agenda for Pointer in the current year. Also a priority is gaining a thorough understanding for the ambition of the business, to ensure that every project his department works on 'drives performance across the organisation, be it functionally, brand-centric or individual-centric'.

Closer to home, as well as offering a graduate programme in which between eight and 12 young people are taken on across the disciplines each year, Pentland works closely with local schools, by offering work experience, mentoring local students and creating design projects that students can become involved with. It is a manifestation of the ethos that attracted Pointer to the company in the first place. "As a profession, we need to be clear that we are maintaining the sustainability, the community responsibility and the focus of our organisations to ensure that they live up to their values and that those values are not just a piece of paper on the wall.

"It is imperative for us to align ourselves with the overall strategy of the business, which is the global development of our brands. That global ambition requires us to have a clear global HR strategy."

CV: Tim Pointer

Tim Pointer joined Pentland Brands plc in May 2010, after three years as HR director for Diesel UK & Ireland.

He specialised in HR as a graduate trainee with Marks & Spencer, where he spent the first five years of his career. From there, Pointer, who is married with three young children, moved to the venture capital-backed HMV Group, where he was closely involved in the restructuring of Waterstone's in preparation for the group's flotation.

He then decided to take a break and left with his wife to go travelling, but stopped in Australia when their bank balance needed revitalising. He took what was supposed to be a three-month placement with premium drinks firm, Maxxium, and ended up staying four-and-a-half years as senior HR business partner for Asia-Pacific.

Qualifications: Pointer has a BA in English from the University of York and MA in Contemporary Theatre Practice from Lancaster University. He's a Fellow of the Chartered Institute of Personnel and Development.

Specialisms: "I've built experience across different sectors and global regions to grow a broad commercial understanding. I'm a generalist by design, but I particularly enjoy the business strategy and organisation development challenges of my role."

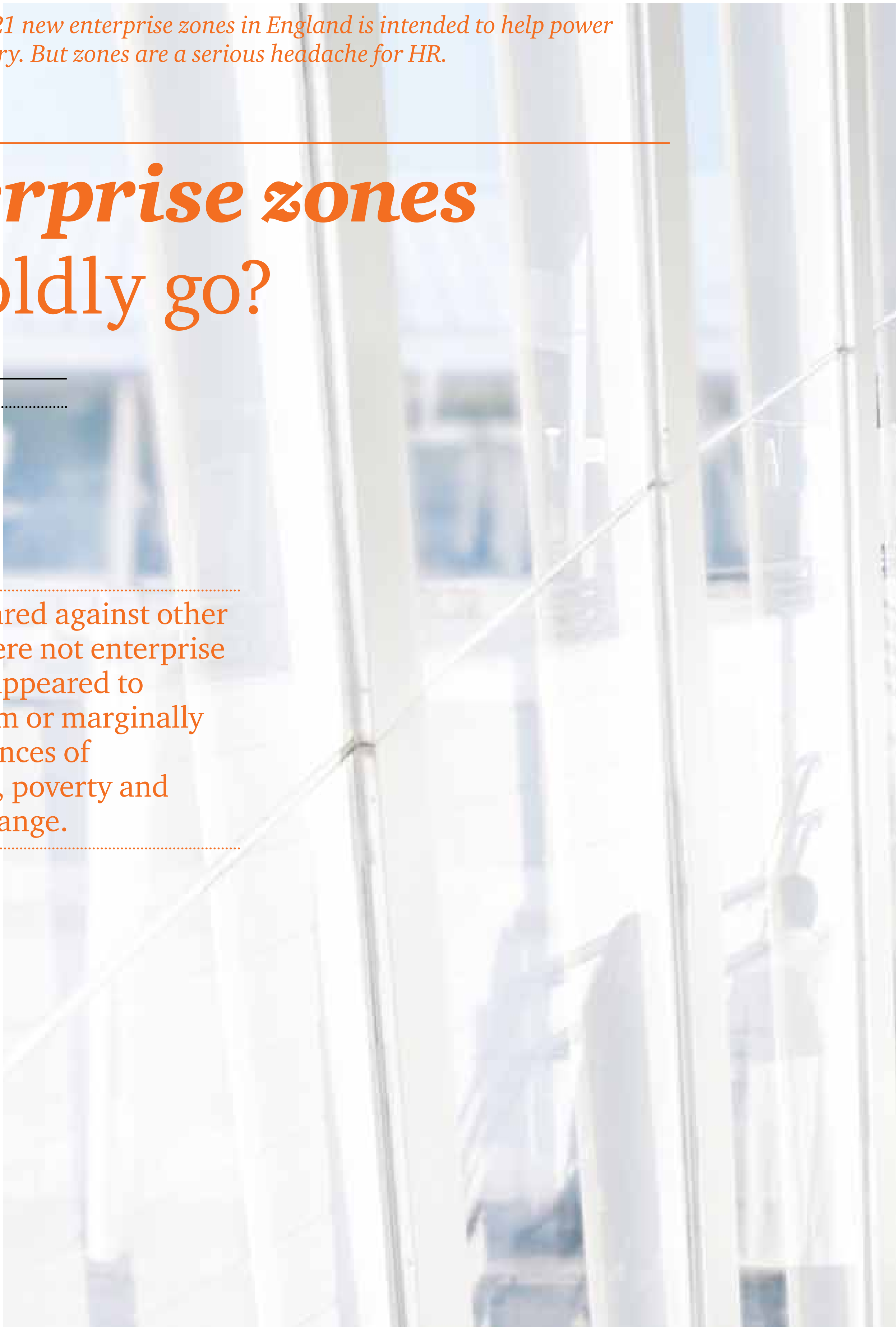
The creation of 21 new enterprise zones in England is intended to help power economic recovery. But zones are a serious headache for HR.

Enterprise zones To boldly go?

Written by

Beth Holmes

When compared against other areas that were not enterprise zones, they appeared to underperform or marginally worsen instances of employment, poverty and economic change.



When the UK Chancellor, George Osborne, announced the creation of 21 new enterprise zones – business developments offering attractive tax breaks to companies locating at the site – across England in his latest Budget, for every business owner viewing the scheme as a new opportunity there was probably an HR manager reaching for the paracetamol.

Enterprise zones, both in the UK and abroad, have enjoyed mixed fortunes. There are only a limited number of zones that can be viewed as a stand-out success, although they do exist. As this new wave of schemes was announced it seemed that the Government had responded to some of the criticism that enterprise zones have attracted in recent years, but critics are still adamant that the concept itself is flawed, however it's executed.

So what do enterprise zones offer to business and the economy, how do they work, and what are the challenges for HR in terms of staff mobility? Enterprise zones are being hailed as a quick-fix solution for the UK economy. Proponents claim that they create jobs in depressed areas, while moving the country towards an investment-led economy.

The four confirmed enterprise zone sites already announced are: Nottingham (the Boots campus); Liverpool (Liverpool and Wirral Waters); Manchester (Airport City); and London (the Royal Docks). Seven local enterprise partnerships which will have an enterprise zone in their area were also named in the 2011 Budget. These partnerships are: Birmingham and Solihull; Sheffield City Region; Leeds City Region; Western England; the Black Country; Tees Valley; and North Eastern. Local enterprise partnerships are being invited to bid to host the ten remaining zones. The winning bids will be announced in the summer.

The enterprise zones will offer a business discount rate worth up to £275,000 over five years for firms that move into the area over the course of this Parliament. The Government said it will also help develop 'radically simplified' planning processes, and pledged to introduce superfast broadband in the areas. The Chancellor also said he would consider enhancing capital allowances for plant and machinery in the zones and announced that, for at least 25 years, all business rates growth within the zone will be retained by local authorities to support their economy.

But not all business groups agree that the zones will deliver what's promised. The Work Foundation report *Do Enterprise Zones Work?* concluded that there are a number of inherent weaknesses that will ultimately stop the zones from being flagships of economic success. Andrew Sissons, author of the report, explained that: "The key issue is it focuses on small geographic area of land, but the focus on land is wrong. There's too much emphasis on physical assets and too little on the intangibles that actually matter, such as investment in people, human capital or research and development (R&D)."

There's also the danger that the new enterprise zones could make life worse for the deprived areas close by. "For instance, in Manchester, the enterprise zone is a long way from the town, near the airport, while in fact, the most deprived areas are Oldham and Rochdale," continues Sissons. "Very few people from those areas will travel to the new zone. That's the risk. One of our biggest concerns is that you can get it very wrong. You end up moving jobs from more competitive areas to less competitive areas. It's important to minimise displacement."

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The report says that this type of local displacement risks seriously destabilising local economies, as it involves artificially enticing businesses into less competitive areas within towns. In subsidising existing businesses to move locations, enterprise zones may also be artificially inducing firms to locate in economically inefficient locations.

Before analysing those challenges of relocation and displacement for HR teams, are there lessons that can be learnt from zones of the past? The evidence from UK enterprise zones tells a story of limited success. Significant numbers of jobs and companies moved into enterprise zones since their inception – by 1987, there were over 4,300 companies in the 11 original enterprise zones, with an estimated 63,300 jobs created. But according to a 1987 government report, only 13,000 of the 63,300 jobs created in enterprise zones were new jobs, with the remainder displaced from other local areas. The same report put the cost of enterprise zones at £23,000 per new job, with an estimate for the original 11 zones putting the cost at £45,000 per new job.

Among the enterprise zones of the 1980s, by far the most successful was Canary Wharf in the London Docklands. The Docklands area had fallen into decay following London's decline as a port, losing 150,000 jobs in ten years. In response, the London Docklands Development Corporation (the first urban regeneration company) was formed in 1980, and the Isle of Dogs was designated an enterprise zone in 1982. Since then, there's been huge investment in the area and it's now seen as London's financial services hub. In 1999, just 15,000 people worked in Canary Wharf. Today about 90,000 people work there.

As well as the UK's experience during the 1980s and 1990s, there's a considerable body of evidence on the impact of enterprise zones in other countries, particularly the US. California has operated a wide-ranging enterprise zones policy that's now coming under serious scrutiny. A report into the impact of enterprise zones in California found that the net cost of the zones to the state had risen to $299.3m by 2003, up from $15.6m in 1993 (*California Budget Project [2006] California's Enterprise Zones Miss the Mark*). And, when compared against other areas that were not enterprise zones, they appeared to underperform or marginally worsen instances of employment, poverty and economic change.

"The UK Government has responded to some criticism from the 1980s," believes Sissons. "It's channelling influence through local enterprise partnerships (LEPs). The previous Labour Government had originally introduced the concept of regional development agencies and they had some success, but LEPs are an attempt to reflect the real functions and labour market in those economic areas. Each LEP can say that their area is particularly good at a particular function. In one sense this is a good thing, but there's the danger that LEPs will become too focused on their enterprise zones and not enough on other deprived areas."

So how likely is it that businesses will up sticks from one part of the country and relocate to an enterprise zone? "As far as private businesses are concerned I can't see many moving," says Sissons. "You certainly wouldn't move a financial services company from the South East to Middlesbrough. It would need to be a huge strategic decision to move from one part of the country to another, perhaps in industries where land space is needed, like call centres, they may make the move in the same way as they may once have moved to China. There are tax breaks but they will have very little impact. These companies will be looking more at long-term factors."

It may be a huge strategic decision, but it does happen. The British Broadcasting Corporation (BBC) is the lead partner of a major regeneration programme at Salford Quays in Manchester, relocating 2,500 jobs there from this year and helping, according to the North West Development Agency, local and regional development agencies create up to 15,000 jobs and a potential £1bn additional net value to the north of England's economy over the next few years.

That might be the noble plan but the headlines are less concerned with the figures as with the news that BBC Breakfast's move has been thrown into crisis because up to 80% of the programme's staff, including key presenters, refused to go. Angela Baron, Senior Advisor at the Chartered Institute of Personnel and Development, says whether you're relocating to an enterprise zone or not, HR must tackle 'the same old stuff with mobility'.

"It's got harder to relocate. Nowadays, usually both adults in a family work so there has to be a process of negotiation."

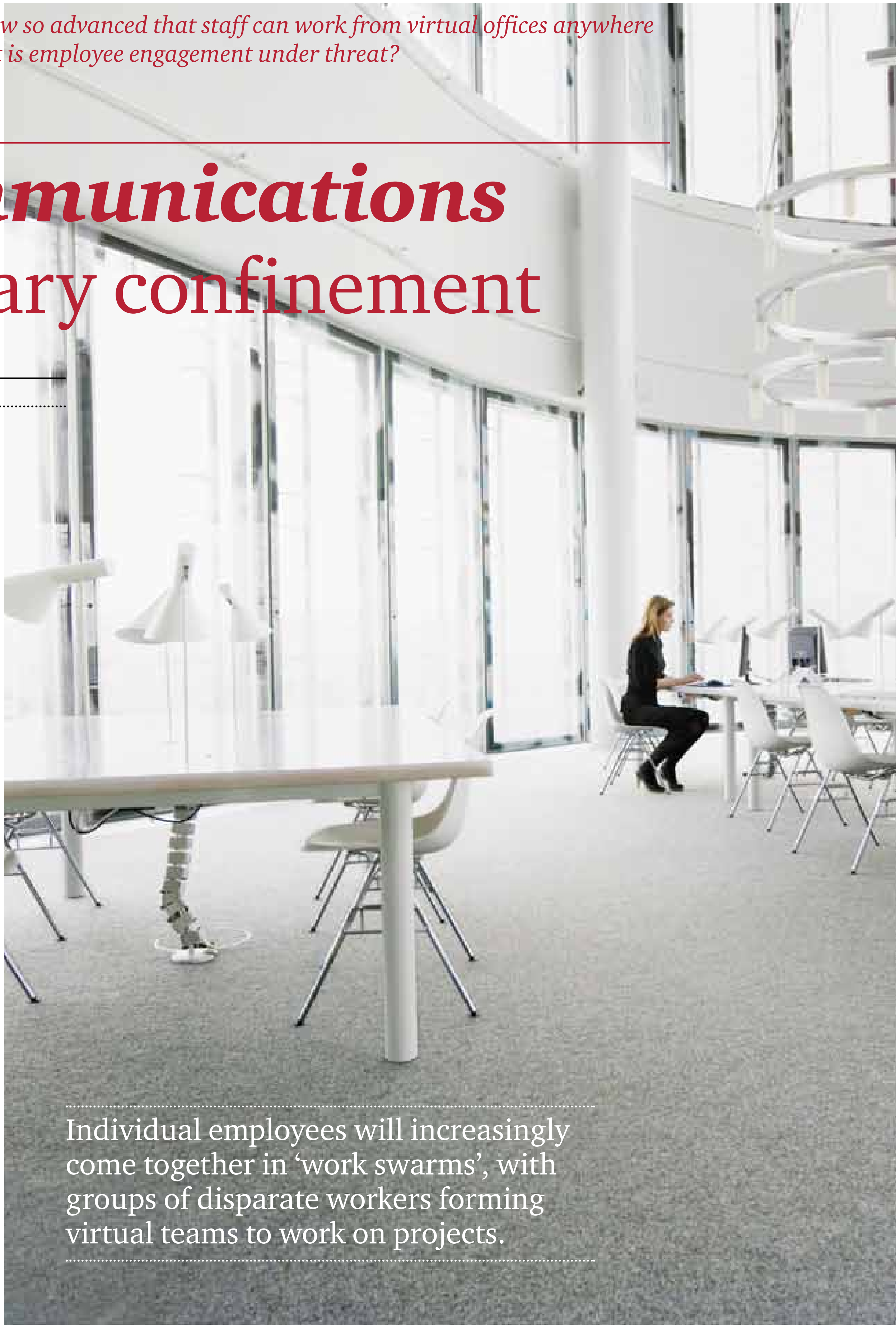
"It's got harder to relocate over the years," she points out. "Nowadays usually both adults in a family work so there has to be a process of negotiation. Of course it depends where the enterprise zone is." In other words, the location of enterprise zones may be a deal breaker for many members of staff. "'It needs to be large enough to have deprived areas but small enough to not have to live there," she says. "The big plus is that, given where the enterprise zones are, you can usually get a much bigger house." That said, she adds, 'throwing money at them is not the answer'.

Communication is key for HR, says Baron: "Telling the staff how it's good for the business, how the business will grow and how this will make more career opportunities. As a business they have to weigh up the cost of losing certain people with accessing the labour market in the enterprise zone. Future scenario planning is critical; giving information on the area, showing them what it's really like by visiting the area. But the key is really about job security. If people think their job is not secure they won't take that leap of faith."

Technology is now so advanced that staff can work from virtual offices anywhere in the world, but is employee engagement under threat?

Communications
Solitary confinement

Written by
Lesley Meall



Individual employees will increasingly come together in 'work swarms', with groups of disparate workers forming virtual teams to work on projects.

Until recently, if you wanted to check your emails, let loose a few tweets, or use Google Maps whilst climbing Mount Everest, you would have been dependent on expensive satellite phone coverage. But since the end of 2010, thanks to TeliaSonera and its Nepal subsidiary Ncell, 3G wi-fi has been available. So if you do happen to find yourself on the peak, access to a mobile phone network and the internet are unlikely to be a problem.

Mobile telecommunications networks now cover the planet so extensively that you can access myriad apps and services from almost anywhere you happen to find yourself, from the highest mountain in the world to its most remote valley – and businesses are increasingly exploiting this connectivity. Some are using it to facilitate communications between employees, or employees and clients, others are opening up access to corporate networks, and the range of mobile products and services is proliferating.

"Some companies worry that employees waste time on it, but people have wasted time ever since work was invented," he says, adding that "people also use the site as a work tool," and that this can make Facebook, and other social networking tools, invaluable to those in HR and the managers they guide and support.

"A lot of management practice and experience relies on face-to-face contact between managers and staff," observes Prentice, so the sort of casual interaction that takes place between workers in a traditional business environment, and the line of sight management that can take place informally across an office, need to be supplemented. Those managing remote workers need more up-to-date ways of supporting collaboration, building team spirit, and keeping staff engaged, efficient, motivated and healthy (see page 22).

The social networks and social tools that some organisations have actively been discouraging in

Technological advances are accelerating so quickly it can be hard ensure that corporate systems can keep up or deal with the many challenges they create for those in HR.

Farmers in remote parts of China are using China Mobile's Nongxintong – or farming information service – to receive tailored text and audio alerts on weather, market prices, buyers, and sellers. Fledgling enterprises in rural Africa are using SMS text messages to gain access to micro-finance and mobile banking facilities such as sending and receiving money, and paying bills. While in more developed parts of the world, we have become so reliant on mobile internet access that we sulk when it's unavailable.

But the pace of technological advances is accelerating at such a relentless rate that it can be hard to keep track of the ever increasing possibilities (see page 21), or ensure that corporate systems and procedures reflect these (see page 22), let alone deal with the very many challenges that they create for those in human resources. Traditional approaches to management, motivation and communications can be inappropriate and inadequate when applied to remote workers, with whom actual face-to-face contact may be rare or non-existent.

"Facebook is the collaboration tool of choice for the next generation," reports Steve Prentice, Vice President with the analyst Gartner, and viewing the implications of this pragmatically is unavoidable.

traditional work environments can become the glue that connects remote workers and those who manage them. By making it easier for workers to informally exchange knowledge and insights and provide mutual advice, social tools can support team building and cohesion, as well as helping to foster a spirit of community and a sense of corporate culture.

In the future, Gartner predicts that individual employees will increasingly come together in what it calls 'work swarms', with groups of disparate workers forming virtual teams, to work on projects. The interactive tools that characterise our use of the internet will be vital enablers in achieving this. So HR will need to be au fait with the latest developments in communication and collaboration technology, if they are to fully exploit them. "HR people don't need to be technology experts," says Vanessa Robinson, Head of HR Practice Development at the Chartered Institute of Personnel and Development (CIPD), "but they do need to be aware of the possibilities."

You don't have to transform yourself into a technology guru (though having one in the team would be a boon), but you may want to cultivate your relationship with the IT department. The role of systems for recruitment, induction, staff

development, performance management and employee retention has grown demonstrably in HR over the past few years, along with the rise of self-service web-based tools – there will be more of this in the future. Social media can be incorporated into the corporate intranet to help feedback via discussion boards, the sharing of ideas via knowledge repositories, or to enable workers to get together and solve problems more collaboratively.

By utilising social media and other web-based tools, oDesk, has developed a business with just 40 workers at the corporate headquarters and 160 remote workers, many of whom have never met each other. A group chat platform is used to keep groups of people constantly connected to each other, and face-to-face meetings take place using internet-based telephony.

"Our conference rooms are wired with mikes and speakers, so we can use Skype to hold a meeting with a distributed team as easily as if they were all in the same office," says Chief Executive Officer, Gary Swart – though it isn't always easy,

"It's much harder managing remote workers than it is having everybody working locally, and there are lots of complexities that need to be managed," says Swart. This can mean ensuring that communication is really effective, and accomodating differences in culture and time zones, but he says it's worth making the effort. "The cost savings and productivity gains have been phenomenal," he says. "We've been able to develop our business by building a remote, distributed, transparent, workforce," he adds, "and I can feel just as connected to a remote worker as to the person sitting in the next cube."

Health and safety for remote workers

Almost two thirds of remote workers report psychological distress, and a higher than average incidence of ailments such as neck, shoulder and lower back pain, according to research from the British Occupational Health Research Foundation (BOHRF). The reasons for this and the implications of it require careful consideration by HR.

"People who work at home are online constantly, and because they work harder and find it difficult to stop, they tend to burn out more," comments Dr Carsten Sorensen, Senior Lecturer in information systems and innovation at the London School of Economics and Political Science. But burn out and aches and pains are not the only potential problem areas. The Trades Union Congress (TUC) suggests that some employers are not fully aware of their responsibilities to remote workers, which include the need for appropriate risk assessments, welfare provision, recording of injuries, and so on, to ensure the health and safety of workers and compliance with relevant legislation.

The TUC cautions against using standard checklists for the risk assessment of lone workers. As well as assessing the job and tasks to be performed, the remote working environment must also be assessed for risk factors associated with fire, inadequate provision of rest, hygiene, and welfare facilities, theft and intruders, sudden illness and emergencies, the effects of social isolation, and lack of supervision and training.

Anytime, anywhere, any device access to the workplace

Providing staff access to corporate systems from outside the workplace has been possible for some time, through virtual private networks, but these require a significant investment, which can be hard to justify. "The growing shift towards a hosted model fundamentally changes the equation," says Mike Risley, Commercial Director, Nolan Business Solutions. "Now organisations can cut their overheads by getting their infrastructure hosted in a secure, third party data centre, or using the Software as a Service [SaaS] delivery model."

The hosted approach requires some investment in infrastructure and systems, but with the SaaS model, software and data live in the cloud (on secure third party servers).

"There's no need for organisations to ever install systems internally," explains Risley. "They can be securely accessed by users from any location with internet access, and on any device," he says, "and there's no need to make any investment in expensive remote access technology." So it's possible to work from a diverse range of locations, whenever its required, using a range of devices – and they won't always belong to the employer.

Organisations will increasingly need to support the use of personal technology devices, such as the iPad. "If individuals are willing to buy these devices themselves, then enterprise should be ready to support them," suggests Steve Prentice, Vice President with the analyst Gartner. The SaaS approach supports this growing consumerisation of information technology, but organisations with more traditional infrastructures will need to create virtual environments for workers, so that company applications can be accessed while sensitive data stays behind the firewall on corporate servers.

High five: managing the team of the future

Managing people that you meet up with only occasionally, or not at all, can be challenging, but the following five rules can help you to get the best from teams of remote workers:

1. Communicate, communicate, communicate. Remote workers and their managers need to be very clear about what is required of them, when it's required, and how their achievements will be measured.
2. Trust them. Managers need to be able to let remote workers do what they have been asked to do, without constantly checking up on them.
3. Provide support. Repeatedly revisit your HR policies and procedures to ensure that they reflect the latest technology trends and the required legislation.
4. Set them free. Allow remote workers and their managers to experiment with social tools and other emerging technologies, to see how they can be exploited.
5. Be adaptable. Encourage remote workers to provide feedback on their experiences, and be open to ideas that may change the way things are done.

In the face of earthquakes, nuclear leaks and political upheaval, organisations have to know if, how and when they need to move their people.

International mobility
Time to go

Written by
Philip Smith

"It's essential that all companies have an effective HR policy in place which includes immigration."

It made great headlines, but the evacuation of 150 British oil workers from a remote area of Libya by the British special armed services served to underline the risks many face when working abroad. As the security situation in Libya deteriorated during February, the troops were deployed to rescue the workers from several isolated camps in the desert south of Benghazi. The operation covered an area four and a half times the size of the UK, and required airstrips close to the remote oilfields to be secured while the workers were collected from surrounding sites. The operation was part of a wider move to evacuate British citizens from the North African country, which has been in turmoil since the uprisings in neighbouring Tunisia and Egypt. The British embassy has been closed, the ambassador has left.

troublesome areas. We are also arranging for expats, if they so desire, to leave the country along with their families until the situation stabilises and settles down." The firms will have be keen to maintain some continuity of business service, but looking specifically at Libya, some firms arranged for their people to be evacuated within a day or so of the troubles starting. Julia Onslow-Cole, Partner and Head of Immigration for PwC Legal LLP, explains: "During the Egypt and Libya crises we worked around the clock to secure exceptional visa and carriers liability waivers from the immigration ministers of the receiving countries to facilitate the evacuation. The so-called 'black swan event' is becoming increasingly common and is almost white; it's essential that all companies have an effective HR policy in place which includes immigration."

As the events unfolded, many multinational companies would have been turning to their business continuity plans to ensure they would be capable of reacting to a rapidly deteriorating political situation in the North African and Middle East regions. All would have been keenly watching developments through the world's media while at the same time heeding advice issued by government departments such as the UK's Foreign Office, other European governments and the US authorities. When would be the right time to go?

And just as the multinational companies would have begun to feel on top of the situation, the world witnessed in real-time the impact of the massive earthquake, tsunami and nuclear leaks in north Japan. Again, the companies needed to quickly assess the

Do you have extra precautions in high-risk areas, such as secure housing, security-trained drivers and awareness training?

And of course it was not just the energy companies that were required to move quickly to protect their people – there are a number of different sectors represented, including the professional services sector; all the Big Four firms have offices throughout the Middle East and North Africa, and they have taken steps to ensure the safety of the staff, in many cases arranging for expats to leave the country if they expressed a wish to do so.

Mike Davies, PwC's Global Director of Public Relations, says: "We're keeping a very close eye on a variety of countries in the Middle East and North Africa and we're taking different steps in consultation with our people there. Obviously there is heightened security around our buildings and in some circumstances our offices are closed, we're asking people to work from home and avoid

appropriate course of action for their staff, what the risks were, and indeed what their liabilities were.

"Soon after the earthquake, our crisis management team in Tokyo was activated along with teams in Singapore, Philadelphia and London in response to the earthquake," says Michael Hancock, Group General Manager of Worldwide Assistance at International SOS, a leading healthcare, medical and security assistance company. International SOS works alongside Control Risks, the specialist risk consultancy, to assess and then implement action plans to ensure the safety of workers around the world. Companies signed up to the International SOS service were able to turn to them for assistance with health and travel security advice, ground transport, accommodation and travel arrangements while evaluating evacuation options.

Staying in touch

Technology, especially in the realms of mobile communications, has proved to be a great asset in keeping people up-to-date and informed on situations that can change rapidly.

One example is Boiling Frog, an app that provides travel and first aid advice to travellers worldwide. It works on a number of different platforms and smartphones including the iPhone and BlackBerry. Boiling Frog was created by ex-special forces and medical experts, and can allow any organisation to provide proper health and safety information for its employees, particularly those travelling in high-risk areas.

Another is TravelTracker, provided by International SOS, which helps organisations act immediately during a critical event by identifying travellers at risk and facilitating communications with them through integrated email and optional SMS. Employers have round-the-clock web-based access to a simple, aggregated view of their employees' travel itineraries. It is also available on mobile devices.

Of course, there's much that companies can put in place before a situation reaches a crisis point, and many companies will already have a plan in place as part of their wider crisis management and disaster recovery programmes. Such programmes would require the mobilisation of a cross-functional team that would involve security advisers, insurance and risk specialists, public relations executives and, most importantly from the staff's point of view, HR representatives.

According to Warren Heaps, a partner in Birches Group, a consultancy that specialises in labour market data in developing countries, communication will be the key to success in any plan. "Do all of your assignees and their families know the details of your plan when it comes into play, and what actions to take when the plan is activated?" he asks. "Make sure you've communicated this information to those concerned. It's a good idea to have it available on your assignee website as well."

Heaps suggests that there are a number of questions that a good programme should be able to answer. Where are all your assignees? And their families? Can you identify short-term assignees and business travellers? Do you conduct security briefings? Do you have extra precautions in high-risk areas, such as secure housing, security-trained drivers and awareness training?

The Japanese earthquake was a clear demonstration of the need to keep on top of all available information when assessing any potential threats to staff, and evaluating whether expats should be brought home. After the initial earthquake and devastating tsunami, the crisis was compounded with fears of radioactive leaks from the Fukushima nuclear power station. As the crisis unfolded, a number of employees complained about the inconsistency of information, especially those based in Tokyo, which although it was not at the epicentre has suffered from aftershocks and growing fears over radiation. Surveys also suggested that HR professionals on the ground in Japan were concerned that media coverage overseas was 'sensationalising' the story, adding to the worries felt by the families of expats in the country.

This serves to remind the HR community and the directors of organisations the importance of communications – timely, accurate information and instructions are of paramount importance, especially in a potential evacuation situation. With the right information, people are then in a position to decide whether it's time to go.

Disaster recovery programmes would require the mobilisation of a cross-functional team that would involve security advisers, insurance and risk specialists, public relations executives and, most importantly from the staff's point of view, HR representatives.

Long-term implications of an evacuation

Short-term evacuations (up to 30 days) are usually relatively straightforward. After that, though, HR will need to think about a myriad of issues. For example:

- Temporary living expense reimbursements.
- Adjustments to expat allowances.
- Housing costs – who pays for temporary housing while evacuated? What about the housing in-country?
- Schooling gets interrupted. What is the best approach to get children back in school?
- Which payroll to use, if you were using the host for some payments?
- How will paid time off benefits be affected if employees cannot work for an extended period?
- Evacuations are usually done in groups to one location. How long before people go their own way, back to their home country, perhaps, to stay with family, or to a temporary new assignment location?

- What about visas and immigration issues? Some people may be able to stay in a new location indefinitely, while others may have to leave sooner.
- Will your evacuees become accidental tax residents in their temporary location, piling on even more expense to an already expensive adventure?

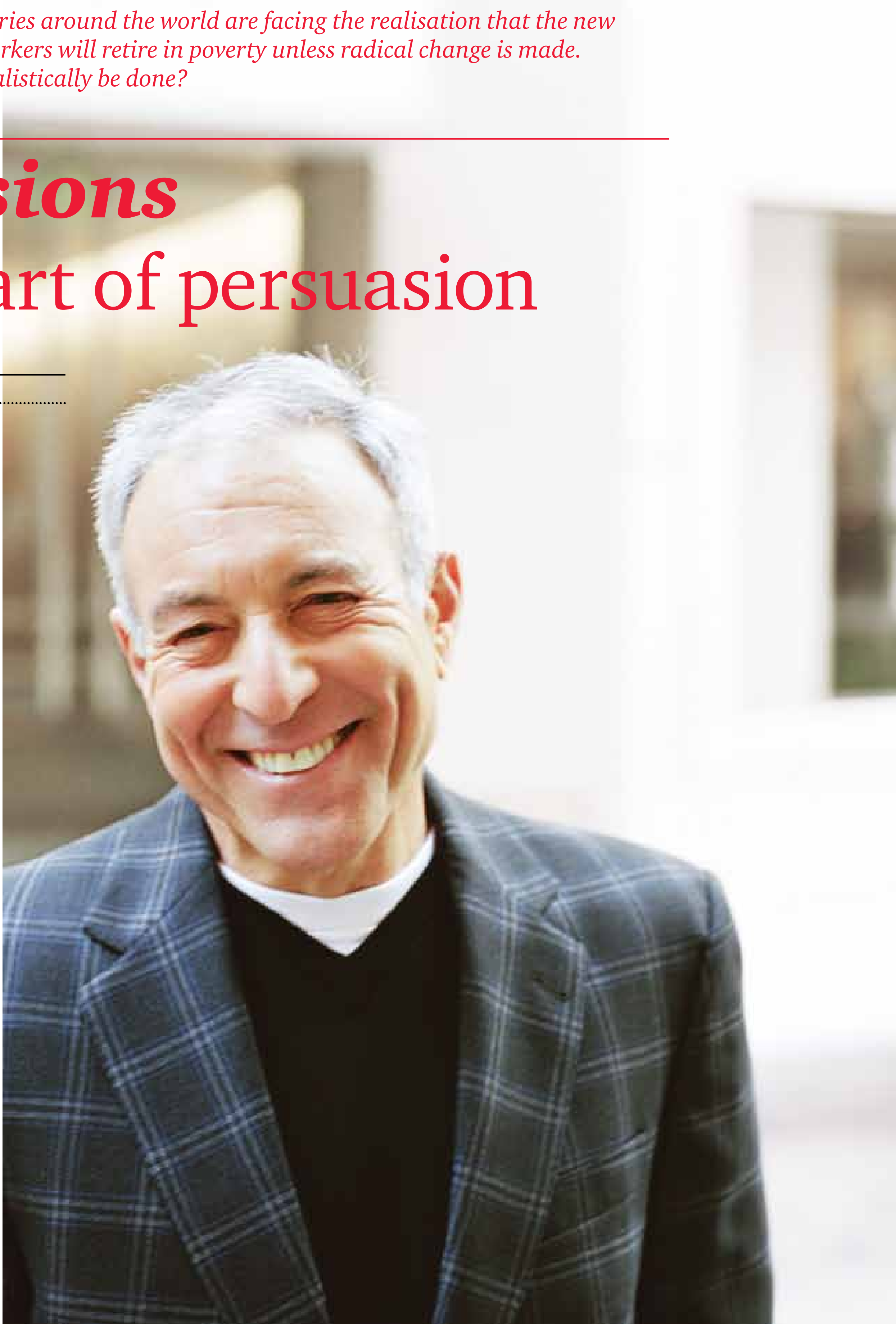
Source: W Heaps, InternationalHR

Developed countries around the world are facing the realisation that the new generation of workers will retire in poverty unless radical change is made. But what can realistically be done?

Pensions
The art of persuasion

Written by

Liz Fisher



Who would be a 16-year-old today? For all the optimism of youth, the long-term outlook of the new working generation does not look particularly rosy. They will, most likely, leave higher education with a hefty debt that will take years to repay. Saving for their first home suddenly looks like a Herculean task. And as for retirement? The demise of generous employer-funded pensions means that this generation will retire older, and almost certainly far worse off, than their parents.

Developed countries across the world have grappled with the problem of pensions, some earlier and more successfully than others, for a number of years. The deadly convergence of events and developments that have created a potential retirement crisis are well-documented: We're living longer, which vastly increases the cost of our retirement and, as many companies have already realised, makes final salary schemes unaffordable; people are not saving enough for their retirement, partly due to a lack of trust in the pensions industry following the closure of defined benefit (DB) schemes, shortfalls in some pension funds and the collapse of high-profile company schemes; and the higher cost of living and homes, and increased graduate debt, means that Generation Y have different financial priorities But while there's general agreement on the reasons for crisis of faith over pensions, there's little consensus on what governments and employers should be doing about it, beyond the realisation that doing nothing is no longer an option.

The implications for employers are profound and touch not only on their financial ability to meet pension obligations, but on almost every aspect of HR. It's clear, for instance, that offering anything less than a gold-plated DB scheme has little impact on a company's ability to attract and retain good staff. That means a fundamental rethink of reward strategy and incentive and benefits schemes in particular. According to research conducted by Hyphen, only 4% of 16 to 24-year olds were attracted to their current employer because of its pension plan, compared to 17% of 45 to 54-year-olds. But 25% of 16 to 24 year-olds said that one of the major attractions of their current job was the number of holidays on offer.

Governments around the world continue to grapple with the question of how to persuade people to save more for their retirement while protecting the most vulnerable in society. But it's clear that employers will be expected to shoulder much of the responsibility, in terms of providing 'encouragement' to save, at the very least. And shoulder the responsibility they should, as business will have much to lose if the crisis isn't addressed.

The importance of hitting the right balance in terms of pensions strategy cannot be underestimated, as the risks to employers of inadequate pension planning are considerable:

- If workers cannot afford to retire, companies will be left with a disproportionate level of older, disillusioned and demotivated employees, who will block the progress and ambitions of younger workers.
- The mobility of workers past the age of 45 is heavily influenced by their pension arrangements – those with a good pension at their current employer will be unwilling to leave, for instance, and could spend the next 20 years providing only the minimum required effort.
- As DB schemes are phased out and younger workers find themselves left with less lucrative options that their older colleagues, the potential for resentment and discord increases.
- Corporate reputation and the employer brand are closely tied to the pensions issue, and the willingness and ability of employers to look after their workers.

What's certain is that a new, more imaginative approach to retirement planning is long overdue. One of the many options under consideration is the adoption of a more flexible approach to long-term saving that allows employees to access their fund before retirement, if necessary.

So what can be done? What's certain is that a new, more imaginative approach to retirement planning is long overdue. One of the many options under consideration is the adoption of a more flexible approach to long-term saving that allows employees to access their fund before retirement, if necessary. The argument behind the approach is that Generation Y, who are likely to be saddled with university debts and a more expensive housing market, will be more likely to participate in long-term savings plans if they know that their money won't be locked away for 40 years or more.

In December 2010 the UK Government released a consultation paper, *Early Access to Pension Savings*, which discussed a number of approaches that have already been adopted in other countries, with varying degrees of success. The paper put forward four options which explore the possibility of employees accessing their retirement savings if they need to, throughout their working lives.

The first is a loan repayment system, where employees are permitted to borrow from their pension pot in set circumstances, at an agreed rate of interest. This is similar to the US 401k system, which allows loans as long as they don't exceed five years (except in the case of the purchase of a primary residence), are made at a reasonable interest rate and are repayed equally over the life of the loan (i.e. at least every quarter). Employers do have the flexibility to amend these restrictions, though. Initial evidence from the US suggests that schemes offering a loan option attract a higher level of participation, perhaps by as much as 30%, than others, although there is some disagreement over whether 401ks attract long term investment, or if employees are only participating for as long as they need to take advantage of the loan facility.

401ks were introduced in the US in the 1980s as an alternative to the employer pension. The 401k effectively shifted much of the responsibility for retirement saving to the worker and it is estimated that around 60% of US households how have a 401k account. The first wave of employees under 401k are about to retire and there are growing concerns that their funds are not adequate. According to a study carried out for the *Wall Street Journal* in February 2011, the average household headed by someone between the ages of 60 and 62 and about to retire under a 401k has less than a quarter of the income needed to maintain their standard of living in retirement.

The second option put forward by the white paper is a 'permanent withdrawal system', which allows a lump sum to be withdrawn from the pension pot with no obligation to repay, under strict conditions of individual hardship. A similar system, known as the KiwiSaver plan, operates in New Zealand. The psychological advantage for employees is the knowledge that their pensions savings are not locked away until they retire – a major disincentive for many. But the system may be difficult to apply in practice, as the criteria for hardship will need to be established and policed.

The KiwiSaver scheme was introduced in July 2007. Under the scheme, all employees between the age of 18 and 65 are automatically enrolled into an approved savings scheme when they start a new job. The New Zealand Government contributes $1,000 initially, as well as an annual tax credit, and the employee can choose to contribute 2%, 4% or 8% of their gross pay. Early withdrawals can be made in specific circumstances:

- to allow the member to buy their first home (after three years' membership of the scheme)
- in the event of serious illness or significant financial hardship, or
- if the member leaves New Zealand for at least 12 months.

The third option is to allow pension fund savers to take their 25% tax-free lump sum at any age. The paper argued that this would be the easiest option to administer, and was the most popular of options when tested among the public by the Association of British Insurers. The risk, of course, is that employees would find it difficult to retire if they have taken their lump sum early, but then find that they need more money later.

The final option is to combine a pension with a savings product, such as an ISA. Under the system contributions are made into a feeder fund, up to a set amount, with the excess placed into a ring-fenced pension fund and attracting pensions tax relief. The attractions of this system are flexibility for savers, although experts point out that it's already possible to use the proceeds of an ISA to contribute to a pension, but it's a facility that is underused.

An arrangement that allows hardship access to retirement savings is seen as one of the features that could save us from a large-scale pensions crisis in the near future. But while the idea is being tested in some countries, there's not yet enough evidence to suggest whether the concept does persuade employees to invest and save.

HR round-up

Who gets the top job?

A new study, sponsored by PwC, has looked at how the role of HR, and the attributes required by chief HR officers, has developed over recent years. *Who Gets The Top Job?,* by Peter Cappelli and Yang Yang, focuses on the US economy but many of its findings apply equally elsewhere.

The report argues that the past decade has been particularly volatile for HR, beginning with a long economic expansion and closing with the worst financial downturn since the Great Depression. But, the report concludes, changes to the HR function have been much more modest that some believe. The dramatic changes have been restricted to the gender mix of senior HR professionals, and the continued decline in lifetime careers with the same employer.

The report also found that HR career paths seem to have become more siloed over time, saying that "for better or worse, the top HR role appears to have become more of an internal affair". HR executives tend to be promoted from within the HR function and have only a narrow experience elsewhere in the business.

The report speculates on the reasons for this, arguing that 'perhaps HR leaders don't need experience outside of HR to play an important role in business decisions because understanding of such decisions is now so much more widespread'.

The report can be read at http://www.pwc.com/en_US/us/people-management/assets/hr-leader-attributes.pdf

The India Way

The rapidly expanding BRIC (Brazil, Russia, India and China) markets are leaving a lasting legacy on international business, and particularly on how we see leadership, according to a new book.

The India Way: How India's Top Business Leaders are Revolutionising Management (Harvard Business Press) argues that the success of India's largest companies has resulted in the development of a distinctly Indian form of management – an area that has traditionally been dominated by Western and particularly US models.

Written by Wharton Business School's India team, the book draws on interviews with more than 100 leaders of India's largest companies. The authors look at what Indian managers do differently from their Western counterparts, and ask whether any innovations could transfer well to other countries. Given the rapid rate of growth in the country, the authors raise the question of whether this new management model could one day modify or even replace accepted Western styles.

The state of HR

An annual survey of senior HR executives in the UK paints a picture of a profession faced with problems from all sides as the fallout from the recession bites. Many reported a rise in incidences of workplace stress over the past year, while others said that their employers were struggling to retain talent and engage effectively with employees.

The State of HR: From Recession to Recovery?, carried out by King's College London and the law firm Speechly Bircham, shows how much of the burden in talent management and retention inevitably falls on the HR function.

The main findings of the survey include the following:

- Almost half of the HR professionals questioned (44%) said they expected to see an increase in the size of their workforce over the coming year. 19% said they expected to increase the number of graduate recruits over the same period.
- One in five respondents said they had experienced difficulty finding candidates with specific skills, particularly managerial and technical skills.
- Employee engagement was identified as the most significant HR challenge over the past year, mentioned by 68% of respondents, compared with 58% in 2009. Succession planning was identified as a priority for 53%, with 42% saying that talent management remained a significant challenge.

The survey can be read at http://www.thestateofhr.com

Executive pay

The issue of executive pay has reared its head again in the US, with the release of data from The American Federation of Labor and Congress of Industrial Organizations (AFI-CIO), a union movement representing over 12m members.

Executive PayWatch, the AFI-CIO's annual survey of the pay of chief executives of Standard & Poor's largest companies, shows that the reward levels of the CEOs of 299 companies have increase by 23% over the past year to $3.4bn.

The survey adds that the average wage earned by the CEOs now stands at $11.4m, and the combined pay of the CEOs, at $3.4bn could support 102,325 median workers' jobs. Following the Dodd-Frank Wall Street Reform and Consumer Protection Act, passed in the US in 2010, US companies are now required to disclose the ratio of CEO-to-worker pay.

The survey can be seen at http://www.aflcio.org/corporatewatch/paywatch/

Keeping in touch

Are you on the move, and want to carry on receiving your copy of Hourglass?

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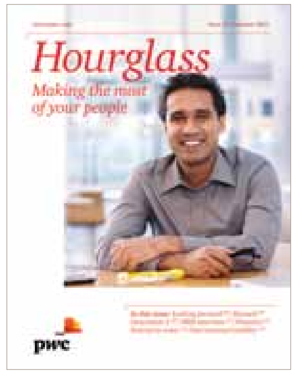
We'll do the rest.



If you'd like to receive more copies of *Hourglass*, please email us at samantha.cotton@uk.pwc.com

References and further reading

Martindale

PwC's report on executive pay can be seen at http://www.pwc.co.uk/eng/publications/if-executive-pay-is-broken-making-it-more-complex-is-not-the-answer.html.
The Hutton report on fair pay in the public sector can be seen at http://www.hm-treasury.gov.uk/indreview_willhutton_fairpay.htm.

Blyth

Millennials Rising: The Next Great Generation, by Neil Howe and Bill Strauss, is published by Vintage books in the UK and by Random House in the US.

Holmes

The Work Foundation's report, Do Enterprise Zones Work?, can be downloaded from its website at www.theworkfoundation.com.

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