



Overview of CIPD surveys

# A BAROMETER OF HR TRENDS AND PROSPECTS 2006



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# Findings from the 2005 surveys – a human capital checklist for UK plc

Table 1: Key human capital benchmarks  
(UK averages)

## Recruitment and staffing

Labour turnover	15.7%
Organisations making 10 or more staff redundant	30%
Organisations experiencing recruitment difficulties	85%
Organisations experiencing retention problems	73%

## Reward management

Organisations linking salary levels to market rates	75%
Organisations using individual pay rates/ranges/spot salaries	46%
Organisations using broadbands	36%
Employers with bonus or incentive plans	52%
Private sector organisations offering employee share plans	40%
Organisations offering private healthcare	66%
Organisations offering DB pensions to existing staff	56%
Organisations offering DC pensions to existing staff	24%
Organisations offering DB pensions to new staff	39%
Organisations offering DC pensions to new staff	26%

## Learning, training and development

Training budget	£621,000
Training spend per employee	£607

## Performance management

Organisations operating formal performance management process	87%
Organisations where line managers operate performance management system	75%

## Flexible working

Employees who take up flexible working options	26%
Organisations making special flexible working arrangement for childcare responsibilities	33%
Organisations making special flexible working arrangement for eldercare responsibilities	4%

## Absence management

Absence	(3.7%, 8.4 working days per employee)
Cost of absence	(£601 per employee per year)
Organisations using some form of incentive system to encourage attendance	18%

# Introduction

Throughout 2005, the Chartered Institute of Personnel and Development (CIPD) surveyed every changing contour of the world of work.

This fourth annual *Overview of CIPD Surveys* is a compendium of individual surveys drawing out common themes and highlighting emerging trends. The summary of main findings (see Table 1) can be read as a human capital report for UK plc.

Individual surveys looked at all the key issues facing HR practitioners:

- recruitment, retention and labour turnover
- reward management
- learning, training and development
- performance management
- absence management
- flexible working
- employment and the law
- age discrimination
- people and technology
- leadership
- HR careers.

These surveys are regularly supplemented by background data obtained from the CIPD's quarterly labour market outlook survey.

Our surveys are drawn from relatively large sample sizes – ranging from 300 up to 2,600 respondents – and provide comprehensive coverage across all sectors and sizes of organisation. Each survey report is an invaluable source of benchmarking information for practitioners and policy-makers.

This 'all in one place' compendium presents the main findings from each of our 2005 surveys and outlines the challenges facing HR practitioners in 2006.

The 2005 survey reports cited are:

- *Absence Management*
- *Employment and the Law*
- *Flexible Working: Impact and implementation*
- *HR: Where is your career heading?*
- *Latest Trends in Learning, Training and Development*
- *People Management and Technology*
- *Performance Management*
- *Labour Market Outlook*
- *Recruitment, Retention and Turnover*
- *Reward Management*
- *Tackling Age Discrimination in the Workplace*
- *UK Global Comparisons Leadership Forecast 2005–2006: Best practices for tomorrow's global leaders*
- *Who Learns at Work?*

Copies of the CIPD's survey reports can be obtained free from our website at [www.cipd.co.uk/surveys](http://www.cipd.co.uk/surveys)

We are constantly reviewing the content of our survey activity. If you have any thoughts or ideas in relation to our surveys, please send them to [research@cipd.co.uk](mailto:research@cipd.co.uk)

# Recruitment, retention and turnover

*Recruitment, Retention and Turnover 2005* (respondents: 715 HR practitioners)

*Labour Market Outlook* (respondents: 1,001 HR practitioners)

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- Eighty-five per cent of organisations reported difficulties filling vacancies, unchanged from the 2004 survey.
- The most frequently cited causes of recruitment difficulties were lack of specialist skills (63%) and lack of required experience (59%).
- Between the 2004 and 2005 surveys, the proportion of organisations reporting retention difficulties fell from 77% to 73%.
- Labour turnover for all UK employees averaged 15.7%.
- The average cost of labour turnover was £4,625 per leaver.

## **Economic context**

CIPD survey data provide clues to puzzling labour market developments in 2005. Employment continued to grow strongly, increasing by more than 300,000 during the year to the third quarter. The number of manufacturing jobs fell by 3.6%. But there were more jobs in construction (a rise of 3.5%), distribution, hotels and restaurants (0.3%), transport and communications (1.4%), finance and business services (1.6%), education, health and public administration (1.6%), and miscellaneous other services (2.3%).

By autumn the number of people in work had risen to 28.8 million – with each passing month registering a new record. Yet the economy was growing relatively slowly.

A combination of weak consumer demand, subdued investment and high oil prices meant that 2005 was, to quote the Chancellor of the Exchequer, the 'toughest year' since the late 1990s. The economy expanded at a year-on-year rate of 1.6–1.8%, well below the 2.75%

trend rate. As a consequence, there were fewer job vacancies (down from 650,000 a month to 600,000 a month). The level of redundancies started to climb (up from 138,000 in the winter to 142,000 in the autumn). And there was a rise of 90,000 within the calendar year to November in the count of people claiming Jobseeker's Allowance. But even so, the labour market still looked healthier than might have been expected in such a slow period for the economy.

The discordant growth and employment figures therefore point to a substantial drop in labour productivity. Third-quarter productivity data are not available at the time of writing but the annual rate of whole economy productivity growth had already fallen to 0.5% in the second quarter, down from 2.8% in the corresponding period in 2004. Given the extent of job creation (and assuming no major revision of the growth figures), it is possible that 2005 will turn out to be the worst year for productivity growth since 1990.

One reason for this may be continued growth in employment in the public sector, where measured productivity is low. Another is that employers have been reluctant to cut jobs fully in line with the economic slowdown, perhaps because of uncertainty about underlying conditions and waiting for signs of any emerging upturn.

As a result, the redundancy rate, though on the rise by the end of the year, remained historically low, with subdued economic conditions showing up mainly in the form of weaker recruitment activity. This is evident both from the annual recruitment, retention and turnover survey and the CIPD's quarterly labour market outlook survey, which tracks employers' recruitment intentions.

Labour turnover averaged 15.7%, a drop from the 16.1% recorded in the 2004 and 2003 surveys. Likewise, the proportion of employers experiencing retention problems fell from 77% to 72%, mirroring a decline in job vacancies. By the end of 2005, only just over one-third of employers (36%) were expecting to recruit extra staff in the following quarter – the lowest figure for net recruitment recorded by CIPD quarterly surveys since winter 2003.

### **Recruitment pressures and migrant workers**

Despite this, the vast majority of employers were struggling to find the people they wanted – 85% of organisations reported recruitment difficulties, unchanged from the 2004 survey. With lack of specialist skills (63%) and required experience (59%) in evident short supply, the various recruitment initiatives deployed by employers and identified by the survey aim to both beat competitors to untapped sources of labour and attract competitors' staff away from them.

Initiatives used in response to recruitment difficulties include recruiting people with potential to grow into a job but who lack all the necessary requirements. The latter is the most popular response (adopted by 68% of organisations), followed by increasing starting salaries or benefits (37%), taking account of a broader range of skills of applicants (34%) and redefining job requirements (34%). Just over a quarter of organisations (26%) offer flexible hours of work to attract applicants (see also Flexible working, page 13).

An ever more popular method of dealing with recruitment difficulties is to hire migrant workers. The 2005 survey found that over one-third of employers did so, with over half (53%) increasing this activity as a proportion of overall recruitment. The most popular source of migrant workers is now the central and eastern European countries that joined the European Union in 2004. By the end of 2005, some 300,000 people from these countries had applied to work in the UK under the Accession Workers Registration Scheme, though around one-third of these people were already working in the UK before the registration scheme was introduced.

Not only does this represent a substantial addition to the available labour pool but also CIPD quarterly surveys found that employers rate migrant workers relatively high on the recruitment scale in comparison with the 'core jobless' (the long-term unemployed, the economically inactive, or those who move rapidly on and off the benefit count because they are unable to hold down a job). While not always ideal recruits (for language reasons and so on), migrants offer an appealing prospect to some employers, especially considering that core jobless people are, rightly or wrongly, not necessarily seen as ideal recruits either.

### **Tackling retention**

The flip-side of recruitment difficulties is concern about the retention of existing skills and experience, especially given the cost of labour turnover (estimated in the survey at £4,625 per leaver on average last year). The vast majority of employers reckon that turnover has a serious (17%) or mild (52%) detrimental effect on organisational performance, while 56% wish to reduce it.

In view of this, it's unsurprising that, even though retention pressures have eased, a clear majority of CIPD members say that staff retention is their most pressing issue. Equally unsurprising is the survey finding that a wide array of steps is being taken to address retention problems. Evidently, most popular are measures to alleviate 'push' factors – those that erode employee commitment and make them actively consider a move – rather than to combat 'pull' factors, notably by improving pay and benefits to diminish the allure of preying competitors. Fifty-seven per cent of organisations were attempting to improve employee commitment and involvement, followed by increased

learning and training opportunities (49%), improved induction processes (45%) and increased pay (40%).

Desire for promotion and lack of development or career opportunities seem to be the main reasons why employees quit. Pay, though clearly significant, seems relatively less important. This is consistent with the bulk of HR research which suggests that pull factors like pay are far more likely to exert an effect if job satisfaction or the psychological contract of potential quitters is weak or getting weaker. In this respect, however, it is still somewhat disappointing to discover from the survey that only one-third of employers see an improvement in line managers' HR skills as a means of increasing retention, since relations between staff and line managers are generally thought to sit at the very heart of the psychological contract in the workplace.

# Reward management

*Reward Management 2005 (respondents: reward managers in 477 organisations)*

*Personnel Rewards 2005 (respondents: 1,150 HR practitioners)*

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- The key reward strategy objectives are business-focused: supporting the goals of the organisation (79%), followed by rewarding, recruiting and retaining high performers (63%).
- The most popular occupational pension arrangement with employers is still to provide existing employees with a defined-benefit (DB) pension (56%) rather than a defined-contribution (DC) pension (24%). However, within the private sector more employers now offer a DC plan to new employees.
- Fifty-three per cent of organisations had carried out or intended to carry out an equal pay review in 2005, with many reviews covering age and race as well as gender.

## Pay trends

The rate of pay increases moderated in 2005. By the autumn, average earnings (excluding bonuses) were rising at an annual rate of 3.9%. This is comfortably below the 4.5% consistent with the Monetary Policy Committee's (MPC) 2% Consumer Price Index inflation target and lower than the 4.4% rate recorded at the beginning of the year. Pay for personnel professionals increased by 3% on average.

By the autumn, earnings were rising at around the same rate in both the private (3.8%) and public (3.9%) sectors, contrary to the pattern of recent years, which have seen public sector pay rises outstrip those in the private sector. Even so, the relative pay and benefits (including pensions) of public and private sector workers remained a matter of controversy throughout 2005.

Pay expectations as measured by the CIPD's quarterly labour market outlook survey also remained subdued. The autumn 2005 survey found that six in ten organisations expected pay levels to increase on average by between 2% and 4% in the subsequent 12 months.

## Reward strategy

Just under half of organisations in the CIPD reward management survey had adopted (or were adopting) a written reward strategy. There were also signs that the reward function is growing. Over one-third of organisations now employ at least one person specifically responsible for reward and the function is predicted to grow in the next two years, albeit at a slower rate.

The key reward strategy objectives were business-focused: supporting the goals of the organisation (79%), followed by rewarding, recruiting and retaining high performers (63%). In line with this, the main determinants of pay budgets in 2005 were organisational performance (66%), 'the going rate' (55%), keeping pace with inflation (53%), and movement in market rates (51%). Collective bargaining continues to have a diminishing influence (23%).

A wide variety of approaches was adopted by organisations to structure and manage pay. The trend away from using individual pay rates, ranges, and spot salaries (46%) towards broadbanding (36%) and job

families (14%) is expected to continue. Slightly fewer organisations are using service-related increments (20%) but more are turning to contribution-related pay (63%) and using job evaluation (51%) to set pay rates (see also Performance management, page 11).

There is widespread use of cash bonus and incentive schemes (52%), especially in the private sector. The maximum bonus or incentive available as a percentage of base salary increases with job level: from a median of 6% for clerical and manual employees to 20% for senior managers.

### **Pensions**

The second report of the Turner Commission in 2005 again threw the spotlight on pension provision. The CIPD survey found that the most popular occupational pension arrangement with employers was still to provide existing employees with a DB pension (56%) rather than a DC pension (24%). However, within the private sector more employers offer a DC plan to new employees.

Most employers surveyed had no plans to change their pension arrangements in 2005. Of those that did, the most popular option was to amend an existing DB scheme rather than simply close them to new entrants.

### **Communication, evaluation and pay audits**

The majority of organisations with a reward strategy assess its effectiveness, mostly by conducting staff surveys but also sometimes using benchmarking data and exit interviews. Around one in ten employers adopt a 'total reward' approach to managing and communicating the strategy. But private sector employers reported that they were not doing well at communicating and integrating the non-financial reward aspects of their total reward approach. And employers in all sectors felt they were not doing well at getting front-line managers to implement the approach.

The 2005 survey registered an increase in the proportion of organisations (53%) carrying out or intending to carry out an equal pay review, with many reviews covering age and race as well as gender.

# Learning, training and development

*Latest Trends in Learning, Training and Development 2005* (respondents: 664 training managers)

*Who Learns at Work? 2005* (respondents: 750 employees)

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- The average training budget is £621,000, with average spend per employee of £607.
- Newer training methods are becoming increasingly popular. Coaching by line managers is now used by 88% of organisations and 72% use mentoring or buddying schemes.
- More than half (54%) of organisations are using e-learning, while two in five of those not using this method intend to introduce it in the next 12 months.
- Eighty-five per cent of respondent organisations are pursuing leadership development activities and 52% have a formal strategy for the development of leaders.

## **Training spend and budgets**

The majority of responding organisations reported that training budgets had stayed at a level similar to that of 2004. The average training budget is just over £621,000 and the average training spend per employee is £607. The private sector has the highest training spend per employee – £817 – while the figures for the public and not-for-profit sectors are £414 and £432 respectively.

## **Training and learning practice**

Traditional training methods such as on-the-job training, conferences and formal education courses are still more commonly used than newer methods like e-learning. However, newer methods are becoming more popular. Coaching by line managers is now used by 88% of organisations, and 72% use mentoring or buddying schemes. Over half of responding organisations (54%) reported using e-learning and 39% of those not currently using this method intended to implement it in the coming year.

Almost all (94%) of organisations believe that e-learning is most effective when combined with other types of training. Despite the fact that more

organisations use line managers to coach employees, most believe that coaching is more effective when carried out by an external provider.

## **Management buy-in to training**

A majority of organisations (60%) reported that line managers take training seriously but fewer than half (48%) believe senior management is firmly committed to training. Only 17% reward and recognise managers for developing and improving the skills of their team members, which may be one reason for low managerial commitment. However, 54% train the majority of their line managers to support training efforts, with a further 12% reporting that they train all their managers.

## **Leadership development**

Two-thirds of respondents to the survey thought there was a shortage of leaders in the UK (see also Leadership, page 20). The main 'leadership gaps' are in leading and managing people, managing change, business acumen, coaching and communication. Consequently, 85% of respondent organisations are pursuing leadership development activities, while 52% have a formal strategy for the development of leaders.

The most common forms of leadership development are development reviews in appraisals (93%) and in-house leadership programmes (85%). The latter are seen as the most effective way of developing leaders. But disappointingly, almost a third of respondents (31%) consider their leadership development activities are ineffective.

### **Who learns at work?**

More encouraging is the finding that, of 78% of respondent employees that had received some form of training in the previous year, 94% reported the training had helped them to improve their job performance. But

there is inequality in provision. Employees with higher levels of qualifications are more likely to receive training, as are those in younger age groups or who work in smaller organisations. Only 16% of respondents declined the offer of training in the previous year – either because they were too busy (43%) or because they thought the training was not relevant to their job (28%).

The most common forms of training people receive are courses held in a meeting room or classroom, or on-the-job training. The latter is by far the most popular with employees, with over half (54%) rating it as their preferred method of learning.

# Performance management

*Performance Management 2005 (respondents: 506 HR practitioners)*

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- Eighty-seven per cent of responding organisations operate a formal performance management process.
- A majority (54%) do not believe that pay contingent on performance is an essential part of performance management, with 46% separating performance management reviews from pay reviews.
- In three-quarters of responding organisations, line managers are said to own and operate the performance management system, though less than two-thirds (61%) of line managers consider performance management to be effective.

## **The role of performance management**

Performance management has become a powerful tool integral to overall people management practice. The survey shows that performance management still largely revolves around objective-setting and appraisal. It also shows that a wide range of tools are used to manage individual performance such as talent management, succession planning, development or career management.

Trends noticed since 1997 – when the CIPD carried out a similar survey – include continued encouragement of line managers to own performance management, the linking of performance management to development, and the further integration of performance management with other aspects of management practice. However, while 75% of responding organisations believe that performance management motivates staff, a quarter consider it time-consuming and bureaucratic.

## **Forms of performance management**

Eighty-seven per cent of responding organisations operate a formal performance management process, 71% stating that the focus of performance management is developmental. Two-thirds of organisations conduct annual individual appraisals, similar proportions using objective-setting, reviews and personal development plans.

Competence assessment is used by 30% of organisations. Thirty per cent also use self-appraisal, with relatively fewer using 360-degree appraisal (14%), rolling appraisal (10%), peer appraisal (8%) or team appraisal (6%).

## **Performance management and reward**

A majority (54%) do not believe that pay contingent on performance is an essential part of performance management, with 46% separating performance management reviews from pay reviews. Almost a third (31%) had performance-related pay systems (though only a quarter of these considered it effective). But only a small minority use competence-based pay (7%), contribution-related pay (4%) or team-based pay (3%).

## **The role of line managers**

Although 99% of respondents agreed that performance management should be a continuous and integrated part of the line manager–employee relationship, only in three-quarters of responding organisations were line managers said to own and operate the performance management system, and fewer than two-thirds (61%) of line managers considered performance management to be effective.

# Absence management

*Absence Management 2005 (respondents: 1,038 HR practitioners)*

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- The average level of sickness absence was 3.7%, or 8.4 working days per employee (10.3 days in the public sector).
- The average reported cost of absence was £601 per employee per year.
- Almost two in five (39%) employers reported an increase in stress-related absence compared with a year earlier. Nearly 60% are using or planning to use the Health and Safety Executive's stress management standards.

## Level and causes of absence

The average level of sickness absence recorded by the 2005 CIPD survey was 3.7%, or 8.4 working days per employee. This represents a fall from the previous year's figure of 4%. Absence levels fell across all sectors but remain highest in the public sector (10.3 days per employee) and lowest in private sector services (6.8 days). The cost of absence increased to £601 per employee per year – a 2.2% increase on the previous year.

Minor illness is the most significant cause of short-term absence for both manual and non-manual employees. For manual workers, musculo-skeletal injuries, back pain and stress are the top three causes of long-term absence. For non-manual workers stress and back pain come top. But survey respondents believe that, on average, 14% of sickness absence is not genuine.

Almost two in five (39%) employers reported an increase in stress-related absence compared with a year earlier. Nearly 60% are using or planning to use the Health and Safety Executive's stress management standards.

## Managing absence

Return-to-work interviews are considered the most effective method of managing short-term absence. Trigger mechanisms, disciplinary procedures and line manager involvement are also rated as being highly effective. Around a quarter of organisations include absence management performance as an element of senior managers' performance targets and appraisal. The involvement of occupational health professionals is seen as the most effective means of managing long-term absence, though only 62% of organisations use them for this purpose.

Just under one in five (18%) employers use some form of incentive to encourage attendance, with manufacturing and production sector employers most likely to do so and public sector employers least likely. More than nine in ten employers provide occupational sick pay, with 83% covering the first three days of absence. A third of employers withheld sick pay in the previous 12 months if they believed that an employee was not genuinely ill.

# Flexible working

*Flexible Working: Impact and implementation* (respondents: 585 HR practitioners)

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- Forty-seven per cent of organisations offer flexible working to help retain staff, 43% in order to meet employees' needs, and over 30% to help recruitment.
- Over a third of organisations make special arrangements for employees who have childcaring responsibilities. However, only 4% make provision for eldercare responsibilities.
- Responding organisations estimate that just over a quarter (26%) of their employees currently take up flexible working options. But two-thirds of organisations report an increase in take-up in the past three years.

## Availability of flexible working

Flexible working arrangements can play a valuable role in organisational performance. HR's role is not to promote flexible working as an end in itself but to look for opportunities to use flexible working where employee and business needs coincide. A central issue is how to implement and operate flexible working policies to create a positive and supportive culture and to deliver the potential benefits they offer, in terms of organisational performance and employee well-being (see also *Employment and the law*, page 14).

Responding organisations offer a combination of informal and formal flexible working arrangements. Part-time working is the most prevalent form (offered by 90% of organisations).

Over a third of organisations make special arrangements for employees who have caring responsibilities. However, only 4% make provision for eldercare responsibilities. Four in ten enhance the statutory right of employees with childcaring responsibilities to request flexible working by making it available to all employees. Over half offer maternity provisions which go beyond minimum statutory requirements. This includes a quarter of organisations with fewer than 50 employees.

## Motivation for offering flexible working

Forty-seven per cent of organisations offer flexible working to help retain staff, 43% in order to meet employees' needs, and over 30% to help recruitment. More than a quarter (27%) reported that flexible working has a major positive effect on retention; a further 47% reported that it has a positive effect. Two-thirds stated that flexible working boosts employee motivation, and half reported that it aids recruitment.

## Implementation and take-up of flexible working

The most commonly reported constraint on implementing flexible working practices was operational pressures (cited by over two-thirds of responding organisations). Another major constraint was the ability of line managers to manage flexible working – 45% of organisations reported such difficulties. The degree of support of senior management and organisational culture were also thought to be important factors helping or hindering take-up.

Problems can also arise from lack of employee take-up. Responding organisations estimated that just over a quarter (26%) of their employees were currently taking up flexible working options. But two-thirds of organisations reported an increase in take-up in the past three years (particularly in private sector services).

# Employment and the law

*Employment and the Law* (jointly with Lovells) (respondents: 601 organisations)

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- The majority of employers surveyed see employment law as making a positive contribution to employment relations and increasing employees' sense of trust and fairness at work.
- Over half of employers believe employment legislation is too complex, while just under half consider available guidance poor.
- The majority of employers see the right to request flexible working as a driver of good employment practice, with only 15% believing this to be unnecessary red tape.

## Attitudes to employment law

UK employers have in recent years had to implement a raft of new employment regulations emanating from both the UK and EU. Legislation has covered the right to request flexible working for parents with young children, extended maternity and paternity provision, new age-discrimination laws (see also Tackling age discrimination, page 16) and the Working Time Regulations. However, there is a lack of agreement as to whether employment law promotes efficient employment practice or creates an unnecessary regulatory burden on UK employers.

An important aspect of this debate is how well drafted employment legislation is and whether it is presented in an employer-friendly format. And equally important is how changes in employment law translate into changes in employment practice and workplace behaviour.

## Attitudes to employment law

The majority of employers surveyed saw employment law as making a positive contribution to employment relations and increasing employees' sense of trust and fairness at work. Less than one-sixth saw employment law as getting in the way or distracting them from the challenges facing their organisations.

However, the survey found that one should not generalise about 'employment law' – different types of legislation received different responses. Anti-discrimination and family-friendly legislation are considered the most necessary, with more than half of employers welcoming regulations introduced to address these matters. But far fewer feel happy with legislation on statutory trade union recognition, freedom of information, statutory dispute resolution, and information and consultation.

In addition, employers have concerns about the degree of administrative red tape attached to regulations. Over half of employers believe employment legislation is too complex, while just under half consider available guidance poor. And in encouraging compliance with the law, the threat of sanctions is not widely perceived to be effective.

## Experience of flexible working and working time legislation

The majority of employers saw the right to request flexible working as a driver of good employment practice, with only 15% believing this to be unnecessary red tape. A large majority found compliance relatively straightforward, the main problem being that line managers find it difficult to manage people on a variety of flexible working arrangements.

A majority also indicated that they had seen some direct business benefits from the flexible working law. Among these are improvements in staff retention, improved morale and a reduction in costs (for example, through hot-desking). Less than one in ten employers have faced grievance or disciplinary proceedings, or an employment tribunal claim, as a result of the legislation.

The response of employers to the Working Time Regulations is more muted. Although just under a third of employers reported that they had reduced working hours as a result, four-fifths reported that working hours had stayed the same, with one in ten reporting an increase. Fewer than a quarter (22%) reported that the Regulations had had a positive effect on the organisation, with the remainder reporting the effect as negative or negligible.

# Tackling age discrimination

*Tackling Age Discrimination in the Workplace* (jointly with Chartered Management Institute)  
(respondents: 2,682 HR practitioners and general managers)

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- Age discrimination remains a significant problem in the workplace. Fifty-nine per cent of respondents report that they have been disadvantaged by age discrimination at work.
- There is a demand from employees for more flexible arrangements in relation to retirement. This may take the form of flexible working arrangements – 68% anticipate working part-time towards the end of their career, and 24% say that this would be the most important factor in their decision-making on when to retire.
- Seventy-seven per cent of respondents agree that training and career advice will be critical to ensuring that older workers continue working effectively past retirement age.

## Experience of age discrimination

Regulations coming into effect in October 2006 will outlaw discrimination in employment on the grounds of age. There has been growing awareness of this issue during the past decade and voluntary activity has stimulated a gradual change in attitudes in the workplace. It is therefore important that the forthcoming Regulations tackle continued discrimination while also creating an environment that supports progressive activities already in existence.

Age discrimination remains a significant problem in the workplace. Fifty-nine per cent of respondents reported that they had been disadvantaged by age discrimination at work. The biggest problem lies in the recruitment process, where almost a quarter of respondents say that age has an effect on recruitment decisions. Less than half of organisations monitor their age profile and only 7% target older workers.

There has been progress in the past decade. For example, the number of people reporting that they have been passed over for promotion for being too old has halved since 1995. But age is still a major

factor in relation to redundancy decisions for people aged over 55.

## Drivers of changing practice

Older workers have benefited from a tight labour market and the shortages of skilled and experienced staff. The need to retain older workers is being driven by concerns about keeping skills and knowledge rather than reducing costs. Eighty-five per cent of respondents reported that older workers do not cost organisations more money.

There is a demand from employees for more flexible arrangements in relation to retirement. This may take the form of flexible working arrangements – 68% anticipate working part-time towards the end of their career, and 24% say that this would be the most important factor in their decision-making on when to retire. However, only 34% of organisations currently offer all older workers the opportunity to work part-time.

Significantly, while 69% of employees anticipate that the average age of retirement in 2015 will be 66 or older, 80% expect that they personally will retire by

the age of 65. Employees would also like to see more flexibility from their pensions – 49% would like access to more flexible pension arrangements, for instance, taking account of reduced hours or part-time working (yet only one in five organisations currently offer this).

Seventy-seven per cent of respondents agreed that training and career advice would be critical to ensuring that older workers continue working effectively past retirement age. Thirty-seven per cent expressed a desire for more careers advice for older workers, countering stereotypes that career expectations decrease with age.

### **Implications of forthcoming legislation**

Almost a third of organisations already have no mandatory retirement age and may therefore be

adversely affected if – under the terms of forthcoming age discrimination regulations – they now have to introduce a default retirement age and new processes to deal with requests from older workers to be kept on beyond this age. Eighty-nine per cent of respondents also say that workers over the age of 65 still need full employment protection rights.

There are also concerns that reward of loyalty may run counter to the Regulations. The proposed ban on length-of-service benefits after five years will affect many organisations. For example, 67% of organisations report offering additional leave as a benefit. Forty-five per cent expect to be able to justify this, but 30% of respondents don't know what the effect of the Regulations will be on this practice.

# People management and technology

*People Management and Technology 2005 (respondents: 332 HR practitioners)*

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- More than three-quarters (77%) of respondents report that their organisation has an HR information system (HRIS).
- Seventy-one per cent of respondents say that their organisation possesses an intranet system, the main purpose of which is the provision of information (98%) and the downloading of forms (88%).
- Access to and use of a personal computer (PC) is becoming the norm. Just over half of respondents state that over 80% of their workforce has regular daily access to a PC.

## **Use of HRIS and problems encountered**

Information technology is changing people management and development practices, both in terms of HR information systems (HRIS) and by line managers. For example, more than three-quarters (77%) of respondents reported that their organisation has an HRIS. And just under half (46%) reported that managers outside the HR department use their organisation's system, while a third say that employees are expected to make use of it.

The five most popular reasons for introducing an HRIS are: improving the quality (91%), speed (81%), and flexibility (59%) of information, reducing the administrative burden on the HR department (83%) and improving services to employees (56%). Absence management (85%), training and development (75%) and reward (75%) are the three functions most likely to form part of an HRIS; they are also the three most likely to be run as an integrated system.

Almost all (94%) organisations find their systems to be fairly or very reliable. And on the whole, HRIS appear to be delivering expected or better than expected results.

But over a quarter (28%) consider that their system is difficult for the HR department to use.

## **HR use of IT for internal communication**

Seventy-one per cent of respondents said their organisation possesses an intranet system, the main purpose of which is the provision of information (98%) and the downloading of forms (88%). Seventy-four per cent considered their intranet system is a reasonably effective or very effective tool of communication with employees.

Twenty-two per cent said their organisation has an HR self-service (HRSS) system and in three-quarters of these cases this forms part of the HR intranet system. Its two main uses are to allow employees to update their personal information, and to apply for jobs online (although in cases where an HRSS system is in place only 64% said all their employees have access to it).

## **Technology in the wider workplace**

Software used for data capture and manipulation is the most readily identified type of technology that employees use in their day-to-day work. Access to and

use of a PC is becoming the norm. Just over half of respondents stated that over 80% of their workforce has regular daily access to a PC. However, in half of organisations, when technology is introduced, decisions are taken without reference to the HR function. HR professionals are more likely to be involved at later stages, for example, in job design and training.

# Leadership

*UK Global Comparisons Leadership Forecast (jointly with Development Dimensions International (DDI)) (respondents: 410 leaders and 63 HR practitioners based in the UK)*

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- Leaders in the UK reach leadership positions less well prepared than their counterparts in other countries, and they inspire less confidence in their ability to execute strategies successfully.
- Only 27% of UK leaders have developed their skills before being put into a leadership position, compared with 37% of leaders globally.
- HR professionals elsewhere in the world are quicker to express high confidence in their leaders at all levels than those in the UK.

## **UK leaders on leadership**

It is sometimes said that the UK suffers a 'leadership deficit'. The finding of the CIPD survey report – prepared in collaboration with DDI – suggest that leaders in the UK often lack dedicated attention from their superiors to help them develop in a planned way through continuous learning, both from job experiences and more formal training activities. As a consequence, they tend to reach leadership positions less well prepared than their colleagues in other countries, and they inspire less confidence in their ability to execute strategies successfully.

Overall, UK leaders express significantly lower confidence in their organisation's current leadership than those in other countries, and are more critical of their peers. UK leaders also differ when asked to identify their organisation's priorities. UK leaders see growth as significantly less of a priority and improving company culture and customer service as a higher priority.

Only 27% of UK leaders had developed their skills before being put into a leadership position, compared

with 37% of leaders globally. UK leaders are dismissive of formal management training and their approaches to development planning lack structure and focus.

## **HR professionals on UK leaders**

HR professionals elsewhere in the world are quicker to express high confidence in their leaders at all levels than those in the UK. Two-thirds of UK HR professionals don't believe that too much is being expected of senior leaders today. HR respects results more than people skills in leaders and regard poor results as the main cause of leader failure.

Substantially fewer leadership positions in the UK are filled by internal candidates. Yet fewer HR professionals globally than in the UK claim their organisations have succession plans in place.

# HR careers

*HR: Where is your career heading? (respondents: 1,833 HR practitioners)*

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- Only around a quarter (26%) of survey respondents started their careers in HR.
- Eighty-one per cent of respondents would opt for HR if starting their careers again. HR is seen as offering variety, challenge and interest.
- The majority of respondents believe it is advisable to move around in HR, gaining experience in different functions, sectors and organisations. Fewer than half think they will achieve their career objectives with their current employer.

## **Jobs in HR**

Major transformations in the workplace in the past few years have resulted in the HR function experiencing considerable change. One of the major challenges facing HR is to consider how the HR function is, and should be, responding to change. This makes it necessary to chart HR career patterns and paths.

Only around a quarter (26%) of survey respondents started their careers in HR. Respondents had had an average of four major career steps in their HR careers to date and had worked for an average of three different organisations. Respondents were most likely to have obtained their first and current HR jobs via external job applications and internal promotions.

## **Attitudes to HR careers**

Eighty-one per cent of respondents would opt for HR if starting their careers again. HR is seen as offering variety, challenge and interest. Almost two-thirds (64%) felt that HR was growing in prestige and only one-third thought there would be fewer HR jobs in the future (though two-thirds also reported that others in their organisation see HR as an unattractive career option). However, the emergence of call centres was viewed unfavourably, with only 16% believing that these offer good career opportunities, while

outsourcing was a concern, with 40% believing this to have impacted negatively on HR careers.

The majority of respondents believed it was advisable to move around in HR, gaining experience in different functions, sectors and organisations. Fewer than half thought they would achieve their career objectives with their current employer. Exposure to public and private sectors was viewed favourably, while almost half felt that international experience improved HR career prospects. Generalists were perceived as having better career prospects than specialists.

## **Getting on in HR**

Respondents considered the main factors important to an HR career today were personal drive, IT literacy, commercial awareness, taking charge of career development, generalist experience, numeracy, financial awareness and networking.

CIPD membership was seen as a 'must have'. Specialist experience, experience outside HR and in different organisations, HR qualifications other than CIPD qualifications, strategic thinking and consultancy skills were all seen as of growing importance. But academic and vocational qualifications were seen as becoming less important.

The two most important single factors in getting to the top in HR were considered to be personal drive and ambition, followed by business sense and awareness. It also appears that taking a number of significant career steps within HR is important. Only 3% of HR directors and 5% of senior HR executives responding to the survey had been in HR for less than five years. Indeed, nine in ten respondents at these top levels had been in HR for more than ten years. These senior people were also more likely to believe that international experience and working for a large organisation improves HR career prospects.

# Outlook 2006 – the productivity and performance challenge

With the pace of growth moving closer to trend (that is between 2% and 2.5%), 2006 will be a somewhat better year for the UK economy. But it might not look like it in the labour market or feel like it in many workplaces. Ironically, a year of faster economic growth will be one of lower job creation as organisations strive to raise productivity and cut labour costs.

## The economy and jobs

Although survey evidence at the end of 2005 indicated that consumer confidence was stable, retail sales were recovering only slowly and the housing market was still fairly subdued, growth is likely to receive a substantial boost in 2006 from increased exports and investment (notwithstanding some easing in the contribution of the government sector compared with recent years). It's also possible that consumer spending will be stimulated by a further cut in interest rates, though the extent and timing of any cut will depend crucially on what happens to exports and investment. The latter will in turn be influenced by developments elsewhere in the world, especially the eurozone economies where activity is improving only in fits and starts.

In all probability, 2006 will also witness an improvement in productivity growth. The productivity trough of 2005 means that the degree of cost pressure emanating from the labour market is greater than the modest rate of increase in average earnings would suggest. The ability of employers to contain wage costs will continue to be aided by the large inflow of migrant workers from elsewhere in the EU and – now that the effects of higher oil prices in 2005 are beginning to wane – by lower price inflation. But after a year of remarkably strong employment growth, more employers will also be looking to reduce costs by making staff redundant, lowering net recruitment or getting more from the people they already employ.

The focus on cost reduction will be evident both in commercial organisations and the public sector, where

employers are not only attempting to meet the Gershon efficiency savings targets but are also under mounting pressure from the Treasury to take a tougher stance on public sector pay.

In a recovering economy, any rise in redundancies is unlikely to be substantial, though job losses are set to continue in manufacturing and may become more evident in specific areas, such as public administration. Adjustment is therefore more likely to take the form of less recruitment activity, extending the trend that, as the CIPD's quarterly labour market outlook survey was the first to identify, began in mid-2005. Either way employment growth is likely to be far more subdued, especially in the first half of the year.

The CIPD estimates that total employment will rise by 150,000 in the year to December 2006 – less than half the increase enjoyed in 2005. Only in the finance and business services sectors is employment growth set to be as rapid as last year, assuming that demand for such services is fuelled by stronger investment and export performance.

People working in finance and business services are also likely to enjoy the biggest pay increases. This year is set to be another year of clear 'winners and losers' in the pay stakes, with large City bonuses again a stark illustration of the widening gap between high earners and those on the minimum wage. Among the relative losers in 2006 will be the bulk of public sector employees – those outside the top tier of public service officials and managers – who may soon wave goodbye to the relatively rapid pay growth of recent years.

## The challenge facing HR

Greater emphasis on cost reduction and the need to raise productivity mean that 2006 will be an especially challenging year for HR. As well as demonstrating that effective people management is crucial to the bottom line, it will be necessary to tread a fine line between

meeting the financial requirements of organisations and maintaining employee ability, commitment and contribution. Preserving the psychological contract in the workplace for the long-term good of organisations and those they employ will be of paramount importance.

Potential strains between managers and staff will be most evident in those workplaces where redundancies are unavoidable. Particular tension may arise in the public sector, especially public administration, where there is already mounting trade union discontent over job cuts, pay and the possibility of ministerial backsliding on pension arrangements. But all employers will be seeking to get a tighter grip on pay rises, and there will be pressure on some to increase working hours and workloads.

The challenge to HR practitioners in such circumstances will be to enable organisations to respond to pressure by equipping, rewarding and motivating employees to achieve higher performance – that is, to work smarter not harder – in as cost-effective a way as possible. But in this regard it will be necessary to stress the difference between cost-effective people management that adds value to products and services and crude labour cost-cutting that so often proves counterproductive. For example, there will be a pressing need to persuade organisations not to sacrifice training budgets in order to make quick, but ultimately short-sighted, cost savings.

For organisations aiming for higher performance, a strategic approach to attracting, selecting, rewarding, and developing their people will be the difference between success and failure. The effective use of measurement and tools will in turn be necessary to help build an appropriate high-performance strategy that is fit for purpose on all these fronts, as well as ensuring that individual people management practices gel so as to meet overall organisational objectives.

In this respect, the 2005 CIPD surveys are an invaluable source of benchmarking data – but they indicate considerable room for improvement to current practice. As the surveys show, of particular importance is the role of line managers and how well they adopt and apply the policies and practices designed by their HR business partners.

Given that wider CIPD research shows successful organisations are those that can translate their HR policy goals into practice so that employees experience the benefits and voluntarily commit to raising performance, it's therefore worrying that, as the 2005 surveys indicate:

- Two in three organisations do not consider improving line managers' skills as a way of improving staff retention.
- One in three organisations report that line managers do not take staff training seriously.
- Fewer than one in five organisations reward and recognise line managers for developing and improving the skills of staff and teams.
- In one in four organisations, line managers do not operate the performance management system.
- One in three line managers consider performance management to be ineffective.
- Three in four organisations do not include absence management performance as an element of managers' performance targets and appraisal.
- One in two organisations report that line managers' inability to implement flexible working practices limits the effective use of such practices.

Closing the 'line manager practice gap' must therefore be one of the major objectives for HR and their organisations in 2006 and beyond (see box).



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