

**CIPD**

*Championing better  
work and working lives*

# PRACTITIONERS' GUIDE TO THE LABOUR MARKET OUTLOOK

Summer 2018

**Guide**

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The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has more than 145,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

## Guide

# Practitioners' guide to the Labour Market Outlook

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## Acknowledgements

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# 1 Introduction

The CIPD's quarterly *Labour Market Outlook* (LMO), produced in partnership with The Adecco Group UK & Ireland, is one of the most authoritative employment indicators in the UK and provides forward-looking data and analysis on employers' recruitment, redundancy and pay intentions. In addition to providing a general picture of market trends, the findings also hold important significance for employers and HR. The following guidance provides recommendations on how organisations can frame a practice response to best capture surfacing opportunities and mitigate potential risks.

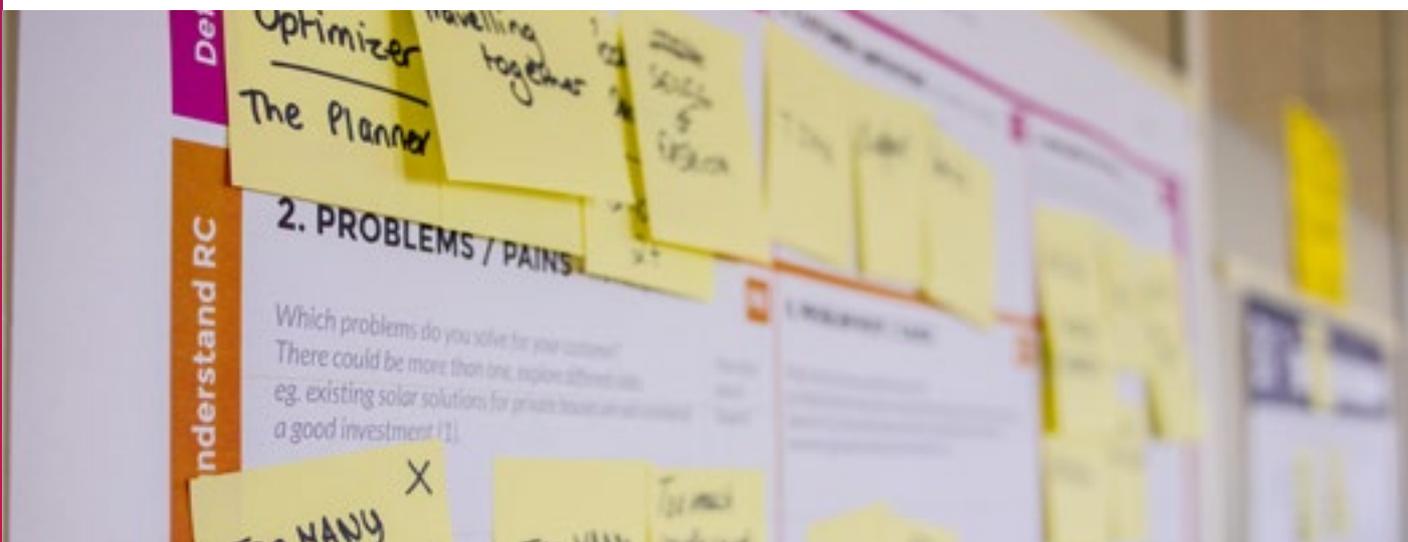
From this quarter's data, a number of particular points should be highlighted:

- Despite a tight labour market, median pay increase expectation remained at 2%, and is not accelerating as predicted by other commentators and institutions such as the Office for Budget Responsibility.
- Over half of employers currently facing recruitment difficulties are raising starting salaries for at least some roles in response. Pay for some key staff has seen an increase as a retention measure.
- The number of applicants per vacancy across all skill levels have fallen, most significantly for medium-skilled roles where the number has nearly halved.

## 2 Addressing pay stagnation through improved productivity

The figures show little change in pay expectations, which have not reflected the growth anticipated by official statistics.

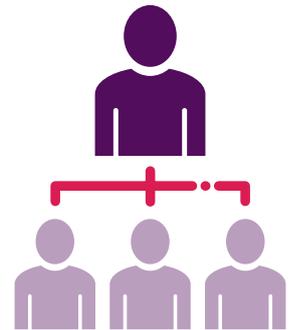
Improving productivity is considered crucial in unlocking wage stagnation, but with a recent European survey by ADP<sup>1</sup> reporting that nearly four in five people struggle to be productive at work, the battle for productivity must be won in the workplace.



<sup>1</sup> 'The Workforce View in Europe 2018', ADP, 2018.

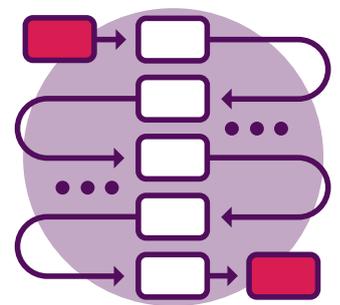
### Improving line management

Poor line management capability is often cited as the key reason many UK companies are unproductive. Good managers meanwhile help drive productivity while minimising risk and costs. The quality of your management is a key factor in employee retention but also conversely in turnover, and both impact organisational productivity. Keeping abreast of spikes in turnover will highlight areas for immediate attention. Introducing retention metrics into managers' objectives could be an option, but better still would be to invest in formal management training to help managers learn how to motivate teams through praise and feedback, and how best to attain discretionary effort from team members.



### Auditing and replacing ineffective practices

Another obstacle is inefficient or ineffective systems, processes and practices.<sup>2</sup> These ultimately hinder productivity and restrict the scope for innovation. Examine the way meetings are run, for example. Do too many meetings lack purpose, relevance or clear actions and follow-up? Or are staff not meeting regularly enough to ensure collaboration? What about workplace practices more generally — do they seem outdated, laborious and in dire need of an overhaul?



Assess your workplace environment to determine whether it is fit for purpose. Open-plan offices can be conducive to relationship-building among colleagues and promote cross-functional working. However, for work that requires focus and concentration, consider creating separate areas where staff can work without disruption. All of these factors contribute to productivity (or lack thereof) and should be addressed.

Decide on the most appropriate actions to take and assign priority, rather than making too many changes at once. Remember that change is an unsettling prospect for some, but by giving people the opportunity to contribute ideas for future success, it can become an inclusive experience. Offer all staff, regardless of grade, a chance to innovate, for instance towards transactional/transitional change projects to improve and/or revise inefficient practices. Often, a team member will have greater clarity than a manager on how to improve a clunky or defunct process.

### Making better use of skills and technology

It is possible that many routine and repetitive tasks can be replaced or made more efficient by technological interventions over the short or medium term. Whether this is in the form of new software or the adoption of, say, different management platforms, explore the options in consultation with your workforce to clearly understand where the blockages are and where time or cost savings can be made.

<sup>2</sup> 'Labour Market Outlook — Summer 2018', 13 August 2018, CIPD.

At the same time, organisations should undertake a more structured approach to discern the skills and experience their people can contribute. Productivity can be improved by more accurately matching people's skills with the roles or functions needing to be performed, but the converse is also true; productivity suffers when skills and roles are poorly matched. Segment your workforce, look at skill sets, consider demographics and identify business-critical roles — both strategic and operational. A skills audit via a self-assessed learning diagnostic and regular development conversations can help organisations identify and make better use of their people's skills, particularly in areas of the business where those skills are in high demand.



### 3 Alternatives to raising starting salaries to help recruitment

One of the more notable findings from this quarter's LMO is that, despite general pay stagnation, employers are beginning to increase starting salaries to overcome recruitment challenges. More than half of organisations (53%) that have experienced difficulty in filling vacancies during the past 12 months have increased starting salaries in response, with around a quarter (24%) doing so for most of the vacancies they have. While this is one way to make the recruitment offer attractive, there are other means employers should look to.

#### **Offer of non-financial benefits**

Apart from providing a more attractive salary, employers can include non-financial benefits as part of their offer, for example genuine career development and opportunities, a breadth of experience within the role or flexible working arrangements.



With some organisations evolving flatter structures, over time we may see fewer vertical career opportunities. Employers often neglect to offer an environment for personal growth and aspiration, even as they seek evidence of these from prospective candidates. Ensure you have mechanisms in place, through a combination of good management, workplace culture and processes, to create development pathways and provide career options within your organisation.



What can also help to contribute to growth and employee fulfilment, and hence role attractiveness, is breadth of experience within a role. Examine how a role could be broadened within its remit to allow practice of a wider skill set or give better exposure to other parts of the business through cross-team collaboration, with options for internal secondments and so on.

Provision of flexible working arrangements could be another draw card, particularly in a time of high demand and low apparent supply. As many as 87% of employees either work flexibly or wish they could, but currently only 21.2% of jobs under £20K FTE and 11.1% of jobs over £20K FTE are being advertised as being flexible.<sup>3</sup> Coupled with a growing population of people with caring responsibilities who want to work, genuine flexibility will not only benefit employees, but will also allow employers to tap into skilled workers they might otherwise miss out on. Expanding the recruitment pool in this way can also help to introduce more diverse talent, as well as alleviate the problems of restricted labour supply, as discussed below.

### **Building the employer brand**

Many C-suite leaders are now recognising the value in candidate-centric processes and building a strong employer brand. This is about creating an emotional connection to your organisation even before the applicant has ascertained whether the role is right for them.

A good place to start is by understanding your employee value proposition (EVP), which will vary from employer to employer. This, in essence, is the reward (or value) an employee derives from working for you. Some facets of EVP include tangible rewards and benefits (for example salary, bonuses, discounts on merchandise/services) as well as intangibles such as recognition, pride or development, as touched on above. Be sure to articulate these in simple declarative sentences.

The next area to examine is your image: how are you perceived as an employer by the external market? Prospective employees may prefer an employer who is involved in notable or worthwhile initiatives, perhaps one tending to demonstrate clear corporate social responsibility. Likewise, attributes such as Investors in People accreditation or being Disability Confident will stand employers in good stead among competitors.



<sup>3</sup> Flexible working relieves hard-to-fill vacancies pressure, K. Rüdiger, 20 July 2018, CIPD.

### Retain rather than back-fill

While employers fix their attention on filling vacancies, better efforts to retain staff should not be forgotten, as this could counter attrition and even preclude difficult vacancies arising in the first place. A recent study by Oxford Economics revealed that the overall cost to employers of replacing a single member of staff averages more than £30,000 (+/- depending on the sector).<sup>4</sup> The research further found that the biggest contributor to that cost, at more than £25,000, comes through loss of productivity, due to the time it takes for a new recruit to get up to speed — about 28 weeks on average. When employers tally the number of replacement hires and their associated costs, and factor in the tight labour market where recruitment is more difficult, there is a strong case to argue that the money could have been better spent on retention measures.



These measures can include rewards such as performance bonuses or increased pay, as some employers have adopted for key staff. Other examples include the non-financial benefits already discussed, as well as an inclusive approach to talent management overall. Giving recognition, praise and frequent feedback (which motivate employees but are often neglected by poor managers), providing progression and adopting more formal development initiatives can remedy some of the reasons many people leave their employers.

## 4 Responding to the drop in applicants per vacancy

This quarter's LMO also showed that the number of applicants per vacancy across all skill levels have dropped, the most alarming for medium-skilled roles where they fell by nearly half from the year before. A drastic fall in the influx of EU nationals (from 148,000 in 2016-17 to only 7,000) could have contributed to this. The figures also noted the ratio of applications to vacancies as being in decline by approximately one-third depending on the level of vacancy. While these statistics would not be such a concern if your ideal candidate could be found within the first application pool, the impact could be profound if this is not possible, as is increasingly the case. On the back of an unsuccessful recruitment campaign, new directions may need to be set and advertising relaunched to attract people to your vacancy. Consider the negative impact on time, cost, morale and well-being if, for example, colleagues have to cover for the vacant role for a length of time over and above what is sustainable. The measures suggested for addressing hard-to-fill vacancies would apply well here, but there are other additional possibilities.

### More inclusive recruitment

Recruiting from broader, more diverse groups who are typically underrepresented in the job market can be another way to boost candidate choice. People who are neurodivergent, those who have a disability, the long-term unemployed, single parents or those with significant caring responsibilities, ex-offenders or ex-military may require different support or processes, but could ultimately provide the skills and labour needed by an organisation.

<sup>4</sup>The cost of brain drain — Understanding the financial impact of staff turnover', February 2014, Oxford Economics.



Recruiters should be prepared to take a broader view on transferable skills and seek not only candidates with like-for-like experience but those with potential and ability to grow with the changing requirements of the organisation. This would curtail the need for businesses to play catch-up on replacing rapidly changing skill sets.

Employers should also examine the various elements in their recruitment process, from their job advertising to role descriptions and interview methods. In-house recruiters and talent acquisition experts should, for example, be calling out job descriptions that:

- unconsciously favour one gender over another
- are too rigid in scope and do not allow for growth or autonomy
- do not cater for flexible working when they could do.



If your strategy is to change and embrace inclusion in the workplace, then a back-to-basics job analysis exercise can be a great starting point.

This should also extend to the construct of the interview stage. Traditional processes based on interview performance or ones calling for group tasks or prolonged eye contact will, for instance, disadvantage neurodivergent applicants, a group that represents more than 10% of the population.<sup>5</sup> Leading employers such as Microsoft, JPMorgan, EY, Google, SAP, DXC Technology, Ford and Amazon are all running neurodiversity-at-work initiatives, or are developing one.

### Accessibility

Many organisations still rely on cumbersome application processes requiring completion of various forms, writing a covering letter to articulate how candidates match the essential criteria, lengthy screening questions and so on. While these stages may have relevance and a meaningful role in selection, companies should not be caught up in what others are doing but understand the needs that drive talent



<sup>5</sup>Neurodiversity at work, 15 February 2018, CIPD.

outcomes, the needs that are right for their workforce and needs based on differentiation and capabilities.

Employers could also consider these requirements in phases, so that applicants are not discouraged by the complexity of applying.

### **Strategic workforce planning and development**

With fewer candidates to choose from, organisations are more likely to face the prospect of not being able to bring in the skills they need, should the trend continue. Some 52% of private sector and 38% of public sector organisations responding to the LMO say they are only now planning to upskill their existing workforce to address the potential skills shortage. To be able to respond in due time, employers need to assign greater urgency to undertake strategic workforce planning that will help identify the skills and knowledge required now and for the future, which in turn will help to narrow down the focus of the learning and development required.



## **5 Conclusion**

With the labour market set for further tightening following Brexit, employers should look ahead particularly to improving productivity and addressing their skills needs in the longer term. Identify where improvements can be made to line management and work processes and where better use can be made of your people's skills and available technology. Building on your employee offer through non-financial benefits and enhancing your brand, alongside more inclusive recruitment, will not only address hiring difficulties in the short term but make your organisation more attractive as an employer in the long run. Likewise, measures such as the provision of flexible working and clear career development and opportunities will help organisations both recruit and retain the people and skills they need.



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