

CIPD

*Championing better
work and working lives*

PRACTITIONERS' GUIDE TO THE LABOUR MARKET OUTLOOK

WINTER 2018-19

Guide

WINTER 2018-19

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 150,000 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

Contents

Introduction	4
Refocusing on raising productivity	5
Strengths-based performance management	6
Countering skills mismatches	7
Clarifying team and individual objectives	8
High performance working practices	9
Conclusion	10
References	10

Acknowledgements

This guide was written by Ally Weeks, HR Consultant, CIPD and edited by Derek Tong, Editorial Manager, CIPD

1 Introduction

The CIPD's quarterly *Labour Market Outlook* (LMO), produced in partnership with The Adecco Group UK & Ireland, is an authoritative employment indicator 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 best frame a practice response to the potential opportunities and risks.

Highlights from this quarter's data:

- Hiring remains a critical issue as the share of hiring employers with hard-to-fill vacancies rose for the fourth successive quarter to 71%, up from 64% a year ago.
- Pressure on retention continues to grip a significant portion of employers – 32% say it has become harder to retain staff over the past 12 months.
- Over half of employers facing increased difficulty in recruiting (56%) or retaining (55%) staff have increased salaries in response.
- Almost half (49%) of employers considering a pay review over the course of the year are anticipating an increase to basic pay.
- Although productivity is a crucial factor within this scenario, 40% of employers are not measuring productivity or are unsure if they are, and 64% do not view 'improving productivity' as a current priority.

Alternatives to raising pay for recruitment and retention

As employers turn to salary increases to unblock recruitment and retention difficulties, alternatives that make their employee value proposition (EVP) more attractive should also be considered. The CIPD's *Summer 2018 Practitioners' Guide to the Labour Market Outlook* has outlined a range of options employers could explore, including:

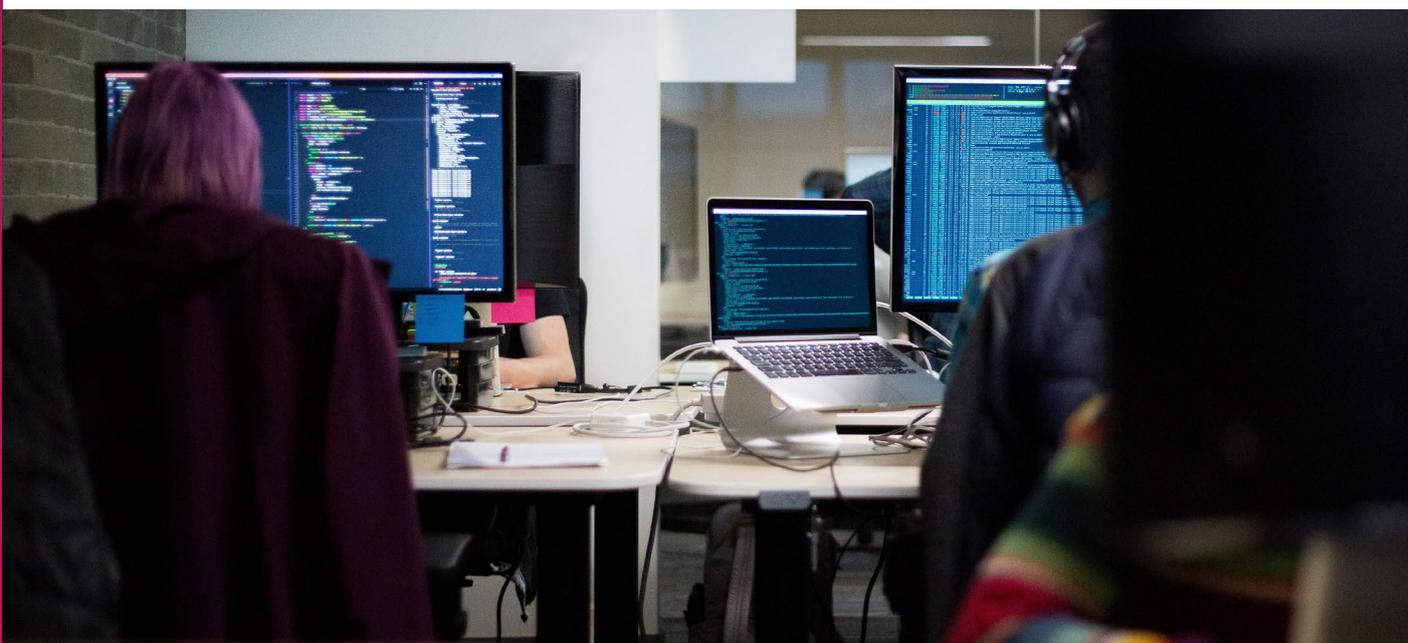


- providing clear development pathways and career options
- offering a breadth of experience within a role, with exposure to different parts of the business through cross-team collaboration or secondments
- flexible working arrangements, particularly in a time of high demand and low apparent supply
- demonstrating a commitment to people development, equal opportunity and social responsibility, for example, through accreditation such as Investors in People or Disability Confident
- improving talent management, giving recognition, praise and frequent feedback (which motivate employees but are often neglected by poor managers).

However, the pressure to raise pay, particularly in the context of growing market rates and persistent recruitment and retention problems, cannot be ignored. To sustain pay growth and continued competition for skills on higher pay, employers will need to refocus on improving productivity. This will be the core focus of this guide.

2 Refocusing on raising productivity

Productivity is a key driver of higher wages and long-term changes in living standards. It *'represents the relationships between inputs and outputs in the production process'*,¹ and in this quarter's *Labour Market Outlook*, we looked specifically at output per hour worked. Using this measure, the Office for National Statistics (ONS) has shown that the UK's productivity, which was on an upward trajectory prior to the global financial crisis, has flatlined since 2007.² Had growth continued on the same course, productivity would be 22.3% higher than it is today.



¹ OFFICE FOR NATIONAL STATISTICS. (2016) *Productivity handbook*. London: ONS.

² CIPD. (2019) *Labour Market Outlook, Winter 2018–19*, Figure 13. London: Chartered Institute of Personnel and Development.

Businesses, meanwhile, seem little aware of the problem. This quarter's LMO survey revealed that the vast majority of employers (88%) believe their organisation's productivity is average or above average relative to their peers. Yet 40% of employers do not have measures of productivity in place or are unsure if they do, while half do not consider the term 'productivity' at all when talking about organisational performance. Nearly two-thirds (64%) of employers do not view 'improving productivity' as a current priority.

Productivity measures within sectors such as manufacturing may be easier to quantify, for example, the average value of goods produced each working hour. However, for services, technology and knowledge industries, which account for 80% of British industry, productivity may need to be tracked using a variety of different metrics, including:

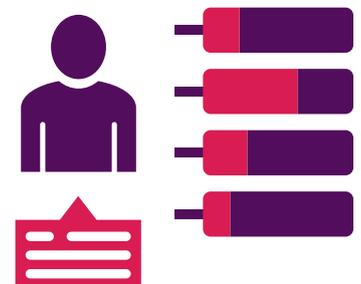
- profit per pound spent on salary
- the number of customer complaints versus repeat business
- net promoter score
- calls answered over a given unit in time
- how long it takes for an order to be fulfilled.

A [recent study by the ONS](#) examined the connection between structured management practices and productivity. Actions such as performance reviews, training, promotions and particularly managing underperformance were seen as having the strongest positive correlation with productivity. The study found that even an incremental improvement in a firm's management score could be associated with an increase in productivity of up to 9.6%. Employers should therefore prioritise investment in improving their management practices, as part of broader considerations to raise organisational productivity.

While this is not a call to return to a Taylorist age of industrial efficiency, more effort should be focused on productivity measurement if it can help to ensure that value creation is long term and sustainable.

3 Strengths-based performance management

Performance management is one of the practices that can have a direct impact on employee performance and overall motivation. It is about creating a culture which encourages the continuous improvement of an individual's skills, behaviours and contributions to the organisation. It forms a key part of the relationship between managers and staff.



Views on how performance management should be carried out to the benefit of employers and employees have been the subject of some debate. In recent years, we have seen movement towards dispensing with yearly appraisals and replacing them with coaching style conversations on a more frequent basis.

Particularly, an area where there has been growing interest is around taking a strengths-based approach to performance management. This is based on the theory and

practice of 'appreciative inquiry',³ which suggests that people's greatest opportunity for improvement comes from understanding and building on their strengths, rather than fixing their weaknesses. It is presented as a way to help employees develop and improve their effectiveness and performance.

A recent CIPD field trial⁴ among UK public sector employers sought to test the effectiveness of a strengths-based approach to performance management. The trial included two interventions: one a discrete, one-off workshop to develop people manager capability in leading strengths-based conversations; the second, a more extensive and holistic intervention, including additional training, aligned changes in HR policy, supporting resources and wider communication.

The trial showed that these interventions had positive impacts on the personal as well as performance conversations that took place between managers and their staff, both in terms of frequency and quality. Perhaps most significantly, the trial provided evidence demonstrating how useful employees themselves believed performance conversations with their managers were and how these had helped their professional development as well as overall performance.

While the more extensive and holistic intervention was needed to support learning and development as well as wider change, the results showed that even a one-off workshop for managers can offer meaningful improvement.

Employers looking to raise performance and productivity should therefore consider training for their people managers and adapting their HR policies to support regular, strengths-based performance conversations.

4 Countering skills mismatches

Research by the CIPD⁵ identified the inefficient matching of people's skills and competencies with those required for their jobs as one of the key problems facing organisations and their workers. Those in mismatched roles are more likely to suffer from psychological distress, report lower job satisfaction and more likely to want to quit. In addition, they are saddled with more limited earning potential and progression opportunities. A significant portion (32%) doubt there is trust between management and employees. These factors produce a further knock-on effect for the organisations they work for, manifesting in poorer staff retention and reduced workforce productivity.



Conversely, where people are able to use their skills fully, organisations benefit from improved retention of workers, greater employee engagement and enhanced relations between management and employees. Analysis from the OECD further suggests that the UK on the whole could benefit from a 5% productivity gain if the level of skills mismatches could be reduced to OECD best practice levels.

³ COOPERRIDER, D. and SRIVASTVA, S. (1987) *Appreciate inquiry in organizational life*. *Research in Organizational Change and Development*. Vol 1. pp129–69.

⁴ GIFFORD, J., URWIN, P. and CERQUA, A. (2017) *Strengths-based performance conversations: an organisational field trial*. London: Chartered Institute of Personnel and Development.

⁵ CIPD. (2018) *Over-skilled and underused: investigating the untapped potential of UK skills*. London: Chartered Institute of Personnel and Development.

How well people's skills are used in the workplace is shaped by the way work is organised, how jobs are designed, as well as other people management practices. Well-designed work that provides opportunities for growth, a supportive workplace culture that fosters commitment and engagement, alongside effective reward and performance management, all contribute towards people staying motivated and deploying their skills more fully. In particular, employers and people managers can look at a number of specific actions to reduce skills mismatches and improve development opportunities within their organisations. These include:

- conducting a skills audit
- reviewing job design and team structures
- revising recruitment practices
- investing in deliberate training and skills development
- improving line management capability.

The CIPD's guidance on *Countering Skills Mismatches through People Management Practice* outlines the practical approaches employers could explore to adopt these measures.

5 Clarifying team and individual objectives

Objectives, targets and goals are definable achievements that your employees are expected to accomplish. Setting clear objectives and corresponding performance measures which in turn are tied to business targets will give employers additional leverage to address their organisational productivity.



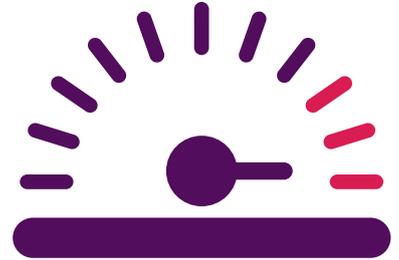
Objectives should be fair, accurate and reflect the tasks employees actually carry out. They should focus on areas where the employee has control over the outcome. Job descriptions and team objectives can provide a good starting point in identifying what employees should be reasonably expected to achieve in their roles. The clearer the performance measurements, the clearer employees will be on what is expected of them and the easier it will be to assess whether performance is at the level that is required.

A caution regarding performance measurements relates to where employees with disabilities could be disadvantaged. Acas advises that while it may seem easier to set the same objectives for all staff doing the same role, managers should be given the discretion to vary objectives where appropriate and to make reasonable adjustments to performance measures as well as to provide additional support.

Some industries and certain roles may be subject to higher than average employee turnover. However, where there is a noticeable spike in attrition, this will warrant closer examination. This could be attributed to labour market trends, but don't overlook the possibility that this could be down to unmanageable objectives or manager behaviours, which will need to be dealt with to prevent malaise in staff morale and ultimately have a negative impact on productivity.

6 High performance working practices

Another approach that can help boost productivity is the adoption of high performance working (HPW) practices. Studies indicate that productivity can be increased by between 20% and 40% in this manner.⁶ HPW practices are broadly held to be a set of complementary work practices covering three broad areas.



High employee involvement

- **Consult employees:** provide platforms for employee voice and for opinions to be heard.
- **Self-directed teams:** for example on sprints or in scrums. Pull together teams of people who may or may not usually work together to collaborate on specific projects or on the development of a product, process or continuous improvement.
- **Keep employees informed:** share access to company information, organisational strategy and performance.

Human resource measures

- organisational alignment in recruitment processes and bias-free practices
- work redesign to include responsibility and authority to problem-solve and greater autonomy and control over decisions
- flexible working (for example, hours, locations, job-share, opportunities to work from home)
- annual review of employees' training needs and ongoing skills development programmes, on and off the job
- mentoring and coaching
- formal feedback on job performance.



⁶ TAMKIN, P. (2004) *High performance work practices*. Brighton: Institute for Employment Studies.

Reward and commitment

- success and/or contribution related pay
- flexible and/or voluntary benefits
- employee financial well-being programmes
- pay Living Wage and above
- equitable and equal pay practices.

Adoption of HPW practices begins with awareness, and their ultimate implementation will be dependent on the size and composition of your business. HPW needs to be a leadership initiative promoted from the top, to encourage momentum for new workplace norms throughout the organisation. Successful application of HPW has seen greater cross-functional collaboration, a boost to problem-solving skills among the workforce and the opportunity to develop capability.

7 Conclusion

When considering the various measures discussed to raise productivity, particularly in view of the ensuing expectations employers will have on employees to work harder/smarter, it is important not to lose sight of the psychological contract. This includes the informal, mutual expectations and obligations between an employer and their employees. These can be numerous and may also be based on individual perceptions, but the most common ones are trust, respect, commitment, professionalism and fairness.

Consideration for and the honouring of the psychological contract is critical to building trust and good management. It will help to strengthen the employer–employee relationship that is at the core of any workplace. Once this is understood and firmly in place, employers can go on to implement the industry-relevant, high performance work practices and other initiatives to gain discretionary effort from their employees, which will in turn support the needed growth in productivity.

8 References

GIFFORD, J., URWIN, P. and CERQUA, A. (2017) *Strengths-based performance conversations: an organisational field trial*. London: Chartered Institute of Personnel and Development.

OFFICE FOR NATIONAL STATISTICS. (2018) *Labour productivity, UK: July to September 2018*. London: ONS.

STONE, I., BRAIDFORD, P., HOUSTON, M. and BOLGER, F. (2012) *Promoting high performance working*. London: Department for Business, Innovation and Skills.

SUNG, J. and ASHTON, D. (2005) *High performance work practices: linking strategy and skills to performance outcomes*. London: Department of Trade and Industry, and Chartered Institute of Personnel and Development.

TAMKIN, P. (2004) *High performance work practices*. Brighton: Institute for Employment Studies.



CIPD

Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ United Kingdom
T +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201
E cipd@cipd.co.uk **W** cipd.co.uk

Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797)
Scotland (SC045154) and Ireland (20100827)

Issued: February 2019 Reference: 7817 © CIPD 2019