Overview of CIPD surveys

A barometer of HR trends and prospects 2008

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Findings from the 2007 surveys: a human capital checklist for UK plc

Key human capital benchmarks (UK averages)

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Labour turnover	18.1%
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Organisations experiencing retention problems	78%
Reward management	
Organisations with reward strategy	35%
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Organisations using broadbands	40%
Organisations linking salary levels to market rates	51%
Employers with bonus or incentive plans	70%
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Learning and development	
Training budget spend per employee	£272
Training days received per employee	5.0
Absence management	
Absence	3.7%, 8.4 working days per employee
Cost of absence	£659 per employee per year
Organisations using some form of incentive system to encourage attendance	17%

Introduction

Throughout 2007 the Chartered Institute of Personnel and Development (CIPD) surveyed every changing contour of the world of work.

This sixth annual people management and development barometer report is a compendium of individual surveys, drawing out common themes and highlighting emerging trends. The summary of main findings (see key benchmarks, page 2) can be read as a baseline 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 and development
- absence management
- diversity management
- managing conflict at work
- changing HR function.

These surveys are regularly supplemented by background data obtained from the CIPD/KPMG quarterly *Labour Market Outlook* survey.

Our surveys are drawn from relatively large sample sizes (see individual sections of this report for details) 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. Some surveys are accompanied by separate 'Reflections' reports in which experts and practitioners comment on various aspects of the survey findings.

This 'all in one place' compendium presents the main findings from each of our 2007 surveys and outlines the challenges facing HR practitioners in 2008.

The 2007 surveys cited are:

- *Absence Management*
- *Diversity in Business: A focus for progress*
- *Employing Ex-offenders to Capture Talent*
- *HR in International Mergers and Acquisitions*
- *Labour Market Outlook* (quarterly)
- *Learning and Development*
- *Managing Conflict at Work*
- *Managing Drug and Alcohol Misuse at Work*
- *Recruitment, Retention and Turnover*
- *Reward Management*
- *The Changing HR Function.*

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

Recruitment, retention and labour turnover

Recruitment, Retention and Turnover 2007 (Respondents: HR practitioners in 905 UK organisations)
Labour Market Outlook (quarterly) (Respondents: HR practitioners in 1,000+ organisations)
Employing Ex-offenders to Capture Talent (Respondents: 474 employers)

- Eighty-four per cent of organisations reported difficulty in filling vacancies, up from 82% in the 2006 survey.
- The most frequently cited causes of recruitment difficulties were lack of specialist skills (65%) and looking for more pay than the organisation could offer (46%).
- Between the 2006 and 2007 surveys, the proportion of organisations reporting retention difficulties rose from 69% to 78%.
- Labour turnover for all UK employees averaged 18.1%, similar to the 2006 survey.

Economic context

The CIPD's annual benchmarking survey of recruitment, retention and turnover provides data relating to the year prior to each survey – in this case the period from 1 January to 31 December 2006, during which the UK economy staged a strong recovery from the marked slowdown experienced in 2005.

The annual rate of economic growth accelerated from a well-below-par 1.8% to an above-par 2.8%. However, while the number of people in employment increased by 278,000 (to around 25 million), unemployment increased too (by 150,000 to 1.7 million). And there was virtually no change in the average rate of labour turnover as recorded by the CIPD survey (18.1%).

What emerges from the survey is that employers initially responded to improved economic conditions by reducing redundancies (therefore lowering involuntary labour turnover), operating fewer recruitment freezes and gradually increasing overall recruitment (in the process raising voluntary labour turnover by providing potential job-quitters with more vacancies to choose from). The broadly offsetting net combination of these recruitment and redundancy patterns was thus to leave the overall labour turnover rate almost unchanged.

This outcome is consistent with official data (published by the Office for National Statistics (ONS)), which show that the level of job vacancies increased by 20% (to 0.63 million) in 2006, while the level of redundancies fell by 8% (to 136,000 per quarter).

Labour market less tight in 2006–07

Unemployment increased in this context because growth in the supply of labour outstripped growth in demand. Economists estimate the total supply of labour available by observing the so-called 'economically active' population, that is, people in work or not in work but actively looking for jobs. This figure currently stands at around 30 million in the UK and increased by 370,000 in 2006, mainly because of migrant workers – especially those from the eight central and eastern European countries that joined the European Union (EU) in 2004. At least 580,000 people from these countries came to work in the UK in the first two and a half years after EU enlargement, although the rate of inflow has halved during that period (from 14% in the year to spring 2006 to 7% in the year to spring 2007).

The rise in labour supply outpaced the gradual improvement in the demand for labour, which meant that unemployment was higher at the end of the year than at the start of the year despite a stronger economy. In other words, the labour market was less tight in 2006 than in 2005.

The broad pattern continued in 2007 despite an even faster rate of economic growth. The economy expanded by 3.2% in the year to the third quarter of 2007 (compared with an underlying sustainable rate in the range 2.5–2.75% per annum).

Employment grew further in 2007 (by 0.6% in the year to September, the latest period for which data are available at the time of writing) but not enough to cause a substantial fall in unemployment, which remained above its 2005 level. Moreover, the pattern of employment growth in 2007 was somewhat different than in recent years. Net job creation was confined to the private sector (public sector employment has been on a downward trend since 2005) and consisted largely of self-employed people rather than employees. For the economy as a whole, self-employment increased by 1.1% compared with an increase of 0.4% in the number of employees.

Among employees, growth was confined to full-time staff. The number of part-time employees fell by 0.5% and there was a very large fall in the number of temporary employees (down 2.2% in the year to September). Bucking the trend of recent years, there was a small rise in the average number of hours people work each week (up from 37.1 hours to 37.3 hours for full-timers and up from 16.6 hours to 16.7 hours for part-timers). The proportion of people working long hours (that is, more than 45 hours) also increased – from 18.4% to 19.1%, though this may in part reflect the composition of employment growth during the year and the increase in full-time relative to part-time working.

Are migrant workers the answer to recruitment difficulties?

The CIPD survey shows that a substantial proportion (around a quarter) of employers were actively recruiting newly arrived EU migrants in 2006 or engaged in recruitment overseas to 'import' migrant workers to the UK. But it is clear from the survey that this did not provide anything like a full solution to recruitment difficulties, the extent of which remains significant and got worse in 2006 at a time of increased labour supply (84% of employers reported recruitment difficulties in 2006, up from 82% the previous year).

It is of course likely that recruitment difficulties would have got worse still in the absence of large-scale migration. But in addition, the survey finds migrants don't always have the kinds of UK-accredited skills and/or relevant work experience that employers require. This helps explain why 80% of migrants from the new EU member states are employed in less-skilled jobs (earning between £4.50 and £5.99 per hour in 2006).

Retention pressures bite

With specialist skills and required experience still in short supply and a larger supply of recruits not solving the problem, it's no wonder that many HR professionals commonly cite addressing retention pressures as their top priority. According to the survey, desire for a change of career or promotion opportunities in another organisation are the main reasons why employees quit their jobs. Pay, though clearly important, is no more significant than lack of development or career opportunities within an organisation.

It's therefore encouraging that increased learning and development opportunities heads the survey list of initiatives taken by employers to address retention problems. Less encouraging is that improvements in pay and benefits take precedence over improved line management HR skills, even though the bulk of research suggests that pay is far more likely to have an effect on quit rates if relations between managers and potential job-quitters is weak or getting weaker. However, this might reflect the survey finding that lack of support from line managers came way down the list of factors identified by employers as causing staff to quit in 2006.

Does labour turnover matter?

The survey estimates that the cost of labour turnover averages £7,750 per job-leaver. The general assumption is that this should provide an incentive for employers to minimise turnover. But this doesn't mean that a high measured rate of labour turnover necessarily indicates that an employer has a turnover 'problem' that needs to be better managed. While an organisation's voluntary labour turnover rate is usually determined in part by the way in which it manages its people, a variety of other factors should be adjusted for to establish its 'natural' rate of turnover. This, rather than the raw quit rate, represents the most appropriate measure of how problematic labour turnover actually is for an employer.

For example, quit rates decrease with age as workers become more settled in jobs and generally face fewer opportunities to switch employers. Employers with relatively high proportions of younger staff will therefore tend to have relatively high natural quit rates. This is particularly true for hotels, catering and leisure – the sectors with easily the highest turnover rates in the survey (around 33%). Although high turnover in these sectors might, as is often suggested, result from low pay, poor working conditions and poor management practice, the age effect should not be overlooked.

Similarly, as the survey also shows, quit rates are relatively low for managerial, professional and highly skilled staff (typically 10% or less). While people in these occupations will be in demand, they are typically somewhat older than average and will normally have established stable positions in their organisations. Yet despite their low propensity to quit, workers such as these are often a prime focus of employers' retention strategies because, as the survey finds, they cost much more to replace.

Such factors help explain why almost one in three employers surveyed felt that the level of turnover either had no effect (25%) or indeed a positive effect (6%) on the performance of their organisations, presumably because they feel that too little turnover can leave an organisation short of vibrancy. Nonetheless, the vast majority of employers reckon that turnover has a serious (15%) or mild (56%) detrimental effect on organisational performance, while 52% wish to reduce it – presenting considerable scope for HR professionals in those organisations to raise their game.

Recognising the potential of ex-offenders

The recruitment and retention survey highlights the importance of adopting more imaginative ways to respond to recruitment difficulties. This message was reinforced by the findings of a separate CIPD survey in 2007 illustrating the business case for employing ex-offenders.

Three-quarters of employers surveyed indicated that they would consider employing ex-offenders if they had the relevant skills – and already as many as one in ten employers were found to be actively targeting ex-offenders for jobs. Significantly, employers that have knowingly employed ex-offenders generally report positive rather than negative experiences and, where problems do arise, these are seldom due to reoffending.

Reward management

Reward Management 2007 (Respondents: reward managers in 466 organisations)
Croner Personnel Rewards 2007 (Respondents: 2,115 HR practitioners, CIPD members)

- The two most popular ways to manage pay structures are individual pay rates, ranges and spot salaries (used by 44% of organisations) and broadbanding (40%). More than three-quarters consider a variety of factors, including individual performance and organisational performance, when determining employees' pay progression.
- Employers generally have an integrated reward budget combining provision for pay progression with annual pay awards, the latter determined in 2007 primarily by reference to keeping pace with inflation (cited by 64% of respondents to the survey), organisational performance (58%), and movement in market rates or the going rate of pay awards elsewhere (30%).
- Twenty-nine per cent of organisations now use salary-sacrifice arrangements for their occupational pensions. The same proportion automatically enrols employees into their pension scheme.

Pay trends

A slacker labour market has kept a lid on the rate of pay increases. By October 2007, average earnings excluding bonuses ('regular pay') were rising at an annual rate of 3.8%. This is comfortably below the 4.5% consistent with the Bank of England Monetary Policy Committee's 2% Consumer Price Index inflation target.

The more detailed 2007 *Annual Survey of Hours and Earnings* (ASHE), published by the ONS, reports that median hourly earnings increased by 3.1% between April 2006 and April 2007 (2.8% for full-time employees and 3.8% for part-time employees). The (mean) average gender pay gap for full-time employees fell from 17.5% to 17.2%. The gap is now three percentage points lower than in 2000, though progress in narrowing the gap has been relatively slow since 2004.

On 1 October 2007, the National Minimum Wage (NMW) was increased by 3.1% from £5.35 to £5.52 per hour. This was a lower increase than in recent years, which have seen the NMW rise relative to average earnings. The level of the NMW is now 53% above its level when introduced in 1999 (during the same period average earnings increased by 38%).

The median pay increase for personnel professionals in 2007, as recorded by the *Croner Personnel Rewards* survey of CIPD members, was 3.1%. The forecast rise for 2008 is 3%. Basic salary levels range from an average of £71,000 for personnel directors to £28,000 for junior personnel officers. Senior personnel managers average £43,000; compensation and benefits specialists earn around 21% more than this.

Pay expectations as measured by the CIPD/KPMG quarterly *Labour Market Outlook* survey also remained subdued. The autumn 2007 survey found that two-thirds of employers expected pay levels to increase on average by between 3% and 3.5% at the time of their next review. This is despite the widespread fear that much higher pay rises will be triggered by increases in the cost of living as measured by the

Retail Prices Index (RPI). The RPI – which, as the CIPD's annual reward survey confirms, remains the most commonly applied cost-of-living benchmark used in UK wage-setting – reached 4.4% in June 2007 before easing back slightly later in the year.

Reward strategy

Just over a third (35%) of organisations responding to the CIPD *Reward Management* survey in 2007 had a written reward strategy. The principal goals are usually business focused: to support business goals (cited as the principal goal by 79% of respondents); to reward high-performers (67%); and to recruit and retain high-performers (62%). Slightly fewer than half (48%) cite 'managing pay costs' as their principal goal, though this has become a somewhat more important consideration in the past five years.

There are variations in reward strategy by sector. Public sector managers are more concerned with internal equity (59%) than those in private sector services and manufacturing (43% and 50% respectively) due to equal pay issues. Overall, 55% of organisations assess the effectiveness of their reward strategy, but this is far more likely in the private sector (68%) than the public sector (41%).

Determining pay, bonuses and benefits

Whatever the strategic context within which reward is determined, many employers, especially within the private sector, link base pay, progression along pay levels and bonus payments to some measure of performance – most using a variety of factors to determine pay rises, levels of bonuses and the extent of pay progression.

The two most popular ways to manage pay structures are individual pay rates, ranges and spot salaries (used by 44% of organisations) and broadbanding (40%). The most common approach to managing pay progression is to determine this on the basis of individual performance (either solely or, more usually, in combination with other factors). There is also widespread use of cash bonus and incentive schemes, offered by 70% of organisations.

Employers generally have an integrated reward budget combining provision for pay progression with annual pay awards, the latter determined primarily by reference to organisational performance (cited by 58% of respondents to the survey), keeping pace with inflation (62%), and the going rate of pay awards elsewhere (39%). Keeping pace with inflation has become a more important factor of late as the rate of inflation has increased. These latter factors appear more common determinants of awards than the need to recruit and retain staff.

Pensions

Nearly all (96%) respondents to the survey have a pension plan for their employees. The most common types of arrangement are final salary schemes, group personal pensions and stakeholder plans with an employer contribution. However, outside the public and voluntary sectors, most of the final salary pension schemes are now closed to new entrants, while a significant proportion are closed to future accrual as well.

Twenty-nine per cent of employers now use salary-sacrifice arrangements for their occupational pensions. The same proportion automatically enrols employees into their pension scheme.

Equal pay reviews

The final report of the Women and Work Commission in 2006 did not call for compulsory equal pay reviews (EPRs) on the conclusion that EPRs would be more effective if employers understood the business case for not having gender-biased reward systems.

The 2006 CIPD *Reward Management* survey discovered a considerable difference between the proportion of employers that had conducted EPRs in the public sector (38%) and the private sector (16% in manufacturing and 14% in private sector services). In 2007, however, this discrepancy had narrowed significantly (the corresponding proportions being 24%, 21% and 22%). On average one-fifth of employers were conducting reviews. Of these employers, almost all (97%) intended to use the review to cover age – probably a reflection of the anti-age discrimination legislation implemented in October 2006 – while some also intended to extend the review to cover race (69%), disability (64%) and religion (45%).

Learning and development

Learning and Development 2007 (Respondents: 663 learning, training and development managers)
Latest Trends in Learning, Training and Development
Labour Market Outlook (quarterly) (Respondents: HR practitioners in 1,000+ organisations)

- Just under three-quarters (72%) of organisations surveyed have a training budget.
- The median training spend by organisations per employee is £272, with employees receiving an average of five days' training.
- Almost two-thirds (63%) of organisations surveyed undertake coaching activities.
- The most frequently used learning and development activities are on-the-job training (cited by 81% of organisations surveyed) and in-house development programmes (cited by 60%).

Training budgets

Fifteen per cent of respondents to the CIPD *Learning and Development* survey felt that the economic circumstances facing them had improved in the previous 12 months. Thirty-nine per cent felt things had got worse. However, half reported no change in their training budgets, with 12% reporting an increase.

Almost three-quarters (72%) of responding organisations have a training budget. The median training spend per employee is £272 and employees receive an average of just over five days' training per year. The voluntary sector has the highest training spend per employee – £375 – while the figures for the private and public sectors are £273 and £250 respectively.

The most frequently used learning and development activities are on-the-job training (cited by 81% of respondents) and in-house development programmes (60%).

Integrating learning and development with wider organisational strategy

The majority of respondents (81%) believe that when their organisation's overall strategy is being planned, the learning and development implications are considered to be 'very' or 'quite' important. Thirty-six per cent report that they are involved in the initial stages of the organisational strategy planning process, with 30% becoming involved after all the major decisions have been made.

However, over half state that learning and development professionals in their organisations don't have enough involvement in organisational strategy, usually either because they are not considered to be a key stakeholder or because the training and development requirements of implementing a strategy are not given sufficient attention.

Coaching capability

Sixty-three per cent of respondents undertake coaching activities, which are more likely to be performed by line managers than external coaches – although few organisations train line managers to coach. Two-thirds train only a minority, while 15% don't train any.

The most common methods used to help coaches update their skills are networking opportunities and updates on issues key to the organisation. One in ten respondents report that coaching has become completely integrated into the wider HR and learning and development strategy in their organisation, with a further quarter reporting that this has happened to a great extent.

The Leitch Review 'skills pledge'

In December 2006 Lord Leitch published his final report for the Government on raising UK skills to world-class levels: *Prosperity for All in the Global Economy – World class skills*. The following summer, July 2007, the Government published its response to the Leitch recommendations; it mostly accepted them and outlined the plan for implementing them, including establishing an employer-led Commission for Employment and Skills, which met for the first time in December 2007.

Leitch's recommendations are directed at government, employers and individuals. Those directly aimed at employers include a call to employers to make a so-called 'skills pledge'. This amounts to a promise by employers to allow employees without basic or level 2 equivalent skills (that is, equivalent to five GCSEs at A–C grade or comparable vocational standard) to undertake work-related training leading to a level 2 qualification. The pledge is intended to help meet what Leitch thinks should be a priority of government skills policy – raising the proportion of adults qualified to at least level 2 equivalent from around 70% at present to above 90% by 2020.

Leitch also recommends that if, by 2010, the contribution of employers to making progress toward meeting the 2020 target for level 2 equivalent skills is deemed insufficient, the Government should consult on introducing an individual legal entitlement to workplace training for employees without level 2 equivalent qualifications. In other words, if too few employers make a voluntary pledge to improve the basic and level 2 equivalent skills of their staff, they might in effect be legally required to do so.

With this in mind, the spring quarterly CIPD/KPMG *Labour Market Outlook* survey asked employers if they would be likely to sign the skills pledge. Two-thirds of those responding agreed that raising the proportion of UK adults with at least level 2 equivalent skills qualifications should be a priority for government policy. And more than half (54%) of responding employers said that they were either very likely (27%) or fairly likely (27%) to make the skills pledge.

Of the remainder, around one in five seemed indifferent or uncertain, while a further 12% said that the pledge is for one reason or other not applicable to them (sometimes because they do not employ people without basic or level 2 equivalent skills and sometimes because they don't feel their staff would necessarily want or benefit from the required training). This leaves 15% of employers who said that they were either fairly unlikely (9%) or very unlikely (6%) to make the pledge.

Absence management

Absence Management 2007 (Respondents: 819 HR practitioners)
Managing Drug and Alcohol Misuse at Work (Respondents: 505 HR practitioners)

- The average annual level of 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 £659 per employee per year.
- A positive net balance of 31% of organisations identified an increase in stress-related absence compared with a year earlier.

Level and causes of absence

The average level of absence recorded by the 2007 CIPD survey was 3.7% of working time, or 8.4 working days per employee. This represents an increase on the previous year's figure of 3.5%. The average cost of absence increased from £598 to £659 per employee per year. On average employers believe that about 16% of sickness absence is not genuine.

Average absence levels increased across all main sectors apart from manufacturing and production. In private sector services the rate increased from 3% to 3.2% (7.2 days). Non-profit organisations saw an increase from 3.6% to 4.2% (9.6 days), while in public sector services organisations there was an increase from 4.3% to 4.5% (10.3 days). In manufacturing and production, absence fell from 3.5% to 3.3% (9.6 days).

Seventy per cent of absence is short term (up to seven days). Minor illness is the most significant cause of short-term absence for both manual and non-manual employees. For non-manual workers, stress, musculo-skeletal injuries, back pain and home and family responsibilities are, after minor illness, ranked as the most significant causes of short-term absence. Back pain is the leading cause of long-term absence for manual workers, while stress is the leading cause of long-term absence for non-manual workers.

Managing absence

Forty-two per cent of organisations have a target for reducing employee absence and an equal proportion benchmark their absence rates against comparable employers. Return-to-work interviews are considered the most effective method of managing short-term absence (cited by 68% of respondents). Trigger mechanisms (28%) and disciplinary procedures for unacceptable absence (27%) are also rated as being highly effective. Involvement of occupational health professionals tops the league table of most effective methods of managing long-term absence (cited by 76% of respondents), followed by rehabilitation programmes (70%) and flexible working opportunities (67%).

Occupational sick pay and statutory sick pay

Nine in ten respondents report that their organisation pays occupational sick pay (OSP), with 84% offering this to all employees. Half of respondents also identify Statutory Sick Pay as a significant or very significant cost to their organisation.

Just over half of employers impose a qualifying period of service that must be met before employees are eligible for OSP. A total of 87% of employers say that their OSP scheme covers the first three days of absence, with the number of weeks for which OSP is paid averaging 15.

Employee well-being support

Forty-two per cent of organisations reported that they had an employee well-being strategy or similar initiative to help improve the physical and mental health of their workforce – up from around a quarter in 2005. Forty-two per cent of respondents also planned to increase spending on well-being measures in 2008.

The most commonly provided employee well-being benefits are access to counselling, employee assistance programmes, 'stop smoking support', health screening, healthy canteen options and subsidised gym membership. However, nearly 40% of respondents rate their organisation's communication strategy on employee well-being as poor and only 11% believe their employees fully appreciate what is spent on well-being benefits.

Employing people with mental health problems

Mental ill health – mainly comprising stress, depression and anxiety – is the second biggest cause of time lost to work due to sickness absence. With this in mind, the autumn CIPD/KPMG *Labour Market Outlook* survey asked employers about their attitudes towards and experience of employing people with a history of mental ill health. Employers were also asked about the effectiveness of GPs in supporting employers when dealing with employees that develop mental health conditions.

Around half (52%) of UK organisations responding to the survey had had no experience of hiring applicants with a known history of mental ill health. Of those employers that had hired people in this situation, 61% rate their experience as positive and 15% negative.

On average employers receive medical reports from GPs for only 50% of employees with long-term health problems, this proportion falling to 44% in the case of smaller employers. Where medical reports are provided, employers rate them quite highly. In all, 12% of respondents rated medical reports as 'very useful' and 52% as 'fairly useful'. However, the results show that employers don't regard the support they receive from GPs very positively. Only 3% of employers rate the level of support as 'very good', while 17% rate the support as 'fairly good'. Moreover, more than a quarter (27%) regard the support as 'fairly poor', and 11% as 'very poor'.

Managing drug and alcohol abuse in the workplace

A separate CIPD survey found that four in ten employers believe alcohol misuse is a significant cause of employee absence and lost productivity, while one in three reports that drug abuse has a similarly negative effect. Half the organisations surveyed had disciplined staff for alcohol misuse, and a quarter for drug misuse, in the previous two years.

Yet despite this, 40% of employers have no policies in place to deal with these problems. And even where there is a policy, there is often little emphasis on communicating it effectively. Only a third of respondent organisations train line managers in how to deal with drug and alcohol misuse.

Even so, around half of employers surveyed provide employees with drug and alcohol problems access to counselling, a similar proportion provide access to occupational health services, and 40% refer employees to GPs or other medical services. Encouragingly, the survey indicates that 60% of employees helped in these and other similar ways are successfully retained in the workplace.

The survey also sheds light on the controversial issue of testing for drug and alcohol misuse at work. More than one in five (22%) of employers currently test, with a further 9% considering introducing testing. The majority of employers that test work in safety-critical industries or have a significant proportion of employees in safety-critical occupations. Where employers do test, the most common approach is to test where there is a suspicion as a result of an individual's behaviour or performance – only 10% of employers say that they randomly test staff.

Diversity management

Diversity in Business: A focus for progress (Respondents: 285 diversity managers)
Labour Market Outlook (winter 2007) (Respondents: HR practitioners in 1,000+ organisations)

- Sixty per cent of organisations recognise that effective diversity management makes business sense, but primarily in terms of aiding recruitment and retention.
- Almost a third (32%) of organisations cite 'legal pressure' as the most important factor driving them to make progress on managing diversity.
- Two-thirds of organisations provide diversity awareness training to progress diversity, but 70% of diversity professionals don't set objectives to progress diversity.

Drivers of diversity management

The CIPD believes that successful organisations are those that are open to people from all parts of society but which treat people as individuals rather than simply as members of different social groups defined by their gender, age, ethnicity, disability, religion or sexual orientation. Put this way, diversity policy is neither tokenistic nor a simple matter of ticking the right legal boxes; it is at the very heart of good people management.

Yet despite this, talk of promoting diversity in the workplace is a turn-off for many in the business world, who tend to associate it with complying with equal opportunities legislation. As the 'second wave' findings of a CIPD diversity management survey indicate, almost a third (32%) of organisations cite 'legal pressure' as the single most important factor driving them to make progress on managing diversity, twice the proportion referring to any other single factor.

Sixty per cent of organisations recognise that effective diversity management makes business sense, but primarily in terms of aiding recruitment and retention. But only around a third of organisations have either a specialised diversity or equal opportunities department (36%) or a budget for diversity management activities (30%). This is in spite of the fact that two-thirds of respondents reckon that the tasks they undertake in relation to managing diversity have increased in the last few years, which implies that they are working under greater pressure.

The survey indicates that the inclusive nature of diversity management isn't very well understood, with only 20% of respondents stating that their organisations' diversity policies cover 'all forms of difference'. Organisations tend to focus on issues covered by legislation, such as gender, race, disability and, more recently, religion (see overleaf).

The survey explored the activities organisations use to progress diversity. Awareness and diversity training for employees (66%) and employee attitude surveys (62%) are the most commonly used tools. However, the findings indicate that over two-thirds (70%) of diversity professionals don't set objectives to progress diversity, which suggests that it's not a strategic issue in their organisations. This may in turn reflect lack of support.

It is well recognised by those experienced in managing diversity that the support of senior management and top teams is vital to facilitate progress. Yet less than half the survey respondents feel that their senior managers encourage diversity in their organisation, with only 16% positive about senior management support. With the new Equality and Human Rights Commission (EHRC) having been launched in autumn 2007 – and likely to truly start coming into its own from 2008 onward – diversity is an issue that will soon have to climb up the senior management agenda.

Managing diversity of religion and belief in the workplace

The way in which employers should treat the expression of religious belief in the workplace and respond to the various practical issues raised by accommodating employees in observance of their religious practice has come to the fore as a diversity issue in recent years, as Britain has become both a more overtly multi-faith and secular society. Moreover, the legal context within which employers cope with this issue was transformed in December 2003 when regulations stemming from an EU directive were introduced outlawing discrimination in matters related to employment and training on grounds of religion and belief. Many employers thus have to manage staff with a greater diversity of religious beliefs as well as, and often alongside, staff with little or no religious belief.

The complexity surrounding the treatment of faith in the workplace emerged late last year when public debate was sparked by the decision of British Airways to suspend a check-in worker for displaying a crucifix on a necklace – contrary to the then company policy stating that any religious jewellery should be worn under employees' uniforms. The policy was deemed by some as anti-Christian because it did not extend to Sikh turbans or the Muslim hijab.

In light of the 'cross and veil' debate, respondents to the winter 2007 CIPD/KPMG *Labour Market Outlook* survey were asked about their policies relating to employees' religious beliefs and whether these have a positive impact on staff recruitment and retention.

Although the vast majority of employers surveyed have a formal diversity policy, only one in three employers has an explicit policy on managing religious beliefs in the workplace. The incidence of an explicit policy is far higher in the public sector (55%) than in the voluntary sector (31%), private sector services (30%) and especially manufacturing and production, where fewer than one in five employers (17%) have a policy.

Almost one in four employers surveyed report that they have introduced or changed their policy as a result of the 2003 regulations. Thirteen per cent intend to change their policy in the next two years, mainly to update practice in line with the regulations. However, legislation is not the only driver of change. Indeed, following best practice and improving employee relations are cited as being slightly more important factors. Just under one in five (17%) employers cite fear of litigation as a driver. Yet, interestingly, only 1% of respondents had faced an employment tribunal claim in the past three years related to alleged religious discrimination, with similarly small proportions reporting they had been involved in disciplinary (1%) or grievance (3%) cases related to discrimination.

Managing conflict at work

Managing Conflict at Work (Respondents: 798 HR practitioners)

- On average, respondent organisations report 18 formal disciplinary cases per year and eight grievance cases.
- Respondent organisations received on average 3.1 employment tribunal claims in the 12 months prior to the survey.
- Organisations spend on average 15 days in management time, HR time and in-house lawyers' time preparing for an employment tribunal hearing. The average cost associated with employment tribunal claims is around £20,000 per year.

Causes of conflict at work

The CIPD survey identifies general behaviour and conduct issues as the most common causes of disputes at work, followed by conflicts over performance, sickness absence and attendance, and relationships between colleagues. Almost 80% of respondents provide training in the use of disciplinary and grievance procedures.

Formal disciplinary and grievance cases and employment tribunals

On average respondent organisations report 18 formal disciplinary cases per year and eight grievance cases. Employers spend on average 13 days in management and HR time on each disciplinary case. Managing grievances on average absorbs nine days.

Organisations spend on average 15 days in management time, HR time and in-house lawyers' time preparing for an employment tribunal hearing. The average cost associated with employment tribunal claims is around £20,000 per year. The survey shows that, almost without exception and regardless of sector or size of organisation, there are more tribunal claims in organisations that recognise trade unions for collective bargaining purposes.

The impact of statutory dispute resolution procedures

The survey finds that 59% of organisations changed their disciplinary and grievance procedures following the introduction of statutory dispute resolution procedures in October 2004. These changes have usually resulted in adding stages to existing procedures. Two-thirds of organisations report that their use of their HR departments to manage disputes increased in the two years following introduction of the statutory procedures.

Eight per cent of respondents to the survey think that the statutory procedures have increased the number of tribunal claims, 18% think that they have led to an increase in the number of formal disciplinary cases, and a quarter think that they have led to an increase in the number of grievance cases. The survey finds that, on balance, HR professionals believe individual employment disputes are less likely to be resolved informally as a result of the statutory procedures.

The Government is (at the time of writing) considering its formal response to the 2007 review of workplace dispute resolution led by Michael Gibbons. The Gibbons Review – aided and supported by the CIPD – recommends scrapping the current regulations on disciplinary and grievance procedures, moving toward greater reliance on a voluntary approach and making more use of alternative dispute resolution methods to settle disputes early. These changes are likely to be brought forward in the Employment Bill due to be debated in Parliament in 2008 (see page 22).

The review indicates that greater reliance on voluntarism will require increased awareness of and demand for mediation and other alternative dispute resolution services. The CIPD survey finds that one in four organisations uses internal mediation (involving members of staff trained in mediation skills) to resolve individual employment disputes, while one in five uses external mediation services (such as the Advisory, Conciliation and Arbitration Service (Acas)). The survey suggests that organisations that train staff in mediation skills receive fewer tribunal claims.

The changing HR function

The Changing HR Function (Respondents: 787 senior HR practitioners)
HR in International Mergers and Acquisitions (Respondents: 257 overseas-owned and 45 UK-owned multinational corporations)

- Just over half (53%) of organisations have restructured their HR function in the past year and 81% have done so in the past five years.
- More than a quarter of organisations centralise provision of HR administration. Over two-thirds of these deliver shared services wholly in-house, while a quarter partially outsource.
- HR business partners are present in 38% of organisations and centres of expertise in 29%.
- The two most common difficulties encountered in restructuring the HR function are in defining new roles (cited by 42% of survey respondents) and having insufficient resources (40%).

Restructuring the HR function
The CIPD survey forms part of a larger CIPD-commissioned study examining how HR is changing in response to the emerging business challenges facing organisations and the possibilities provided by new technology.

The survey findings highlight the scale of change. Just over half (53%) of responding organisations have restructured their HR function in the past year and 81% have done so in the past five years. However – although at a theoretical level the work of HR gurus such as Dave Ulrich have been influential in advocating a new model of HR comprising business partners, centres of expertise and shared service centres – of responding organisations that have restructured, only 57% have opted for some form of the Ulrich model, others preferring to restructure along more traditional lines. In general, organisations prefer to tailor HR to their specific needs rather than adopt a generic best-practice model.

The survey finds that more than a quarter of organisations now centralise provision of HR administration. Over two-thirds of these deliver shared services wholly in-house, while a quarter partially outsource. HR business partners are present in 38% of organisations and centres of expertise in 29%.

Restructuring challenges
The two most common difficulties encountered in restructuring the HR function are in defining new roles (cited by 42% of survey respondents) and having insufficient resources (40%). These are followed by skills gaps (38%), ineffective technology (35%) and resistance to change within HR itself (23%).

Three-quarters of survey respondents would like to go further in the transfer of people management responsibilities to line managers. Obstacles to progress in this direction are line manager priorities, skills, time constraints and poor manager self-service of people management tools.

Raising HR's game
Virtually all the responding organisations measure HR's efficiency and over half examine HR effectiveness through people management practice and its effect on performance outcomes. With respect to the competencies of HR staff, the biggest challenges identified by the survey are found to be in developing influencing skills, strategic thinking, business knowledge and leadership skills.

The future of HR in Europe and globally

As a member of the European Association of People Management (EAPM) the CIPD has also been in close touch with the findings of survey research conducted by the Boston Consulting Group (BCG) in co-operation with the EAPM. Although not a CIPD survey, the BCG survey of 1,355 executives in 27 European countries helps place the CIPD's UK-focused surveys in a wider context.

The key challenges identified were managing talent, managing demographics, the need to become learning organisations, managing work–life balance and managing change and cultural transformation. However, the BCG survey finds that fewer than one in three (30%) of responding executives said that they had begun to tackle all these challenges.

Serious questions are also raised in the CIPD's own 2007 survey of the role of HR in international mergers and acquisitions (M&As). Despite international M&As bringing forth a range of issues that HR practitioners must confront, the survey finds that the HR function is actually smaller in organisations growing by way of merger and acquisition than in those growing by way of 'greenfield' investment.

Outlook 2008 – a radar check for HR

What will be on the radar screen of HR professionals in 2008?

The economy: growth not great in 2008

The economic outlook is not great for 2008. Slower economic growth has been long anticipated in response to the five quarter-point hikes in the official Bank rate (as set by the Bank of England) between the summer of 2006 and summer 2007. Indeed, with the rate of growth well above trend for most of 2007 against a backdrop of limited spare capacity and robust underlying inflationary pressure, a slowdown is necessary to maintain economic stability.

What became clear toward the end of 2007, however, is that the economy faces the possibility of a hard landing with activity slowing by far more than necessary or desirable. The shock wave that spread from the United States housing market to world financial markets in the form of the so-called 'credit crunch' has made financial institutions less keen to lend to one another and has pushed up the interest rates banks charge to one another. The consequences of this were most visible in the Northern Rock incident in September 2007, but the overall effect of the crunch was both far more pervasive and persistent. Faced with a credit squeeze, financial institutions have in turn been less keen to lend and started to make loans more expensive – in many cases raising interest rates actually paid by home-owners and businesses well above the Bank rate.

By the end of 2007 there was already mounting evidence that the combination of both a higher Bank rate and higher effective interest rates was starting to dent consumer confidence and business investment, even though consumer spending remained fairly healthy in the run up to Christmas. But the outlook for household incomes had deteriorated due to a combination of muted growth in earnings, a fairly flat stock market and, perhaps most significantly, the first real signs of genuine weakness in the housing market. Add in the likelihood that a significant housing-market-led economic slowdown, if not recession, in the United States could adversely affect UK exports and reduce growth prospects in the euro area (which is the UK's biggest export market) and it is little wonder that there is mounting pessimism about the prospects for 2008.

The Bank of England's decision to cut the Bank rate from 5.75% to 5.5% in December 2007 (despite the fact that it expects inflationary pressure to build in the near term) indicates the degree to which the perceived risk of a sharp economic slowdown has intensified. Indeed in the same month the Bank of England joined forces with five of the world's other major central banks to inject a massive £50 billion into the international banking system. On current trends it is probable that at least two further quarter-point interest rate cuts (one more than implied by the Bank of England in its November 2007 Inflation Report) will follow at some point in the coming year to try to prevent the annual rate of economic growth in 2008 dropping to below 2%.

A 2% growth rate, though easily below par and well down on the 3% growth rate chalked up in 2007, would represent a soft landing for the economy. Far from being a recession it would be a much better outcome than often experienced in recent decades and in fact better even than achieved as recently as 2005 when the economy last experienced a dip and grew at an annual rate of just 1.8%. However, while a recession is therefore far from inevitable, there is enough uncertainty around as we enter 2008 that it cannot be ruled out. Indeed, even if the economy ends next year in the black, it's possible that it could flirt with a period of zero or negative growth before next summer – finally ending the long run of unchecked expansion in the economy that stretches back to the early 1990s. Moreover, even a soft landing for the economy will not prevent 2008 from being a much tougher year for job-seekers and wage- and salary-earners.

Jobs outlook worst in decade

Assuming the Bank rate is in due course cut to 5%, the CIPD estimates that there will be a net rise in total UK employment of 75,000 (0.25%) in the year to December 2008, only a third of the rise recorded in both 2006 and 2007, resulting from a combination of much reduced net hiring in the private sector and net job reductions in the public sector. This would be the worst year for jobs growth this decade, and easily the worst since the Labour Government came to power in 1997.

Prior to the credit crunch, the CIPD remained optimistic that 2008 would witness a rerun of what happened in 2005 when employers adjusted to weaker economic conditions by cutting back on recruitment and hours of work rather than making larger numbers of people redundant. The result was a period of 'labour hoarding' in the market sectors of the economy and a cyclical slump in growth in productivity in 2005 but no great shake-out of jobs.

However, employers are currently under greater pressure to cut wage costs and improve productivity. Although pay growth remains muted, growth in non-wage labour costs, such as recruitment bills and employer pension contributions, is robust as is growth in non-labour input costs, notably fuel costs. In 2008 jobs will thus be squeezed between rising costs and reduced demand.

In the private sector the jobs squeeze will initially be most evident in financial services, which have in recent years been a substantial driver of employment growth but are now facing a direct hit from the credit crunch. But in 2008 the labour market impact of public sector job losses, stemming from the Government's efforts to improve public service efficiency, will also take on greater significance.

Earlier in the decade periods of slower growth in private sector employment were masked by relatively rapid growth in public sector jobs. By contrast, a downward trend in public sector employment in the past two years has been more than offset by rising numbers of private sector jobs. 2008 will therefore be the first year since Labour came to power in 1997 that the engine of job creation will be spluttering right across the economy.

In this context the CIPD estimates that unemployment as measured by the Labour Force Survey will rise by around 150,000 (to 1.8 million or 5.8% of the workforce). However, this estimate is complicated by uncertainty over the impact of weaker demand for labour on the supply of labour. It is possible that a weaker labour market will attract fewer migrant workers than in recent years. But by the same token the Government's welfare reform measures may draw some previously economically inactive benefit claimants into the market at a time when finding jobs will be more difficult. CIPD surveys suggest that whenever the going gets tough, as is likely in 2008, the 'core jobless' – such as people with limited skills or a track record of physical and mental ill health – are pushed to the back of the job queue and struggle to get a look in no matter how actively they search for work.

Pay squeeze continues

With higher fuel costs and food prices set to raise the cost of living in the first half of 2008, the squeeze on real incomes experienced by many workers in 2007 will continue to bite and could intensify. The CIPD/ KPMG *Labour Market Outlook* surveys offer no indication that workers will be any more likely to achieve above-inflation pay rises this year than last. On the contrary, the slackest labour market conditions in a decade, plus employers' needs to contain costs, is likely to limit average pay rises to at best 3% in 2008. With jobs also harder to come by, this could reinforce the impact of the economic slowdown, necessitating even bigger cuts in the Bank rate than currently anticipated to head off the threat of recession and a worrying prolongation of the slowdown into 2009.

The pay squeeze will be most noticeable in the public sector, where employers will be required to limit pay increases to an average of around 2% or less. The National Minimum Wage might also be pegged at the current level. Unlike recent years, however, workers in all sectors and all occupational levels will feel something of a pinch, with high pay awards and, in particular, large bonus payments the exception rather than the norm in 2008.

Political landscape shifting

The UK political landscape shifted more than once in the second half of 2007 and may continue to do so in 2008. The Labour Government received an initial fillip from Gordon Brown's premiership only to end the year on the back foot amidst charges of incompetence and sleaze. 2008 will kick-start what will in effect be an 18-month to two-year long General Election campaign, with David Cameron's Conservative Party seeking to build on recent gains while the Government attempts to regain the initiative in key areas of policy.

It will become obvious in 2008 that, in contrast to the build-up to the past three General Elections, political debate will be influenced to a far greater extent by the state of the economy and matters related to the world of work. And CIPD members and HR practitioners more generally will be interested in a variety of issues emerging from the debate on these matters.

Public sector efficiency and performance

For example, aside from the overall economic and jobs situation, the next few years may feel like a period of fiscal austerity. Total public spending is planned to rise in real terms by 2.1% per year during the period covered by the 2007 Comprehensive Spending Review (2008/09–2010/11). Although this is higher than the average 1.5% per year increase experienced under Conservative governments between 1979 and 1997, it is only half the average rate of increase delivered by the Blair Government from 1999 to 2007.

The perception of a slowdown in spending may be lessened by the Government, which has earmarked relatively generous spending on the NHS (spending on which will rise in real terms each year by 4%) and education, with the bulk of this extra spending on new capital. But many other parts of government will experience real-term cuts in expenditure, while for government as a whole, real increases in current spending will be limited to an average of 1.9% per year. Moreover, the planned 2.1% growth in total spending itself assumes 3% efficiency savings across government – in order to release resources for priority areas – including 5% a year real-term reductions in administrative budgets.

This is already posing a significant challenge to public sector HR and will continue to do so. Spending constraints will intensify the jobs and pay squeeze felt by public sector workers. 2007 witnessed a rash of industrial disputes and stoppages of work as public sector unions agitated against the effect of the first wave of the Government's efficiency drive following the Gershon Review in 2004. Such disputes look likely to become more widespread and more vociferous in 2008 and increasingly linked to low pay awards as well as job cuts.

The management task of keeping public sector staff engaged and motivated in this situation, let alone that of improving their overall performance, is clearly a daunting one. But in 2008 the politics of public service reform will be about keeping the workforce on side.

A key political charge against Prime Minister Brown is that in his time as Chancellor of the Exchequer he attempted to micro-manage the public services by means of centralised targets and, as a result, failed to improve genuine performance outcomes. The opposition parties are seeking to outflank the Government on this battle front by advocating greater devolution of power to local communities and front-line professionals. In response, ministers have stressed the need for greater employee empowerment and freedom for so-called 'lead professionals' over resource budgets. But it remains unclear how far the Government is going to shift in this direction – which would clearly have profound implications for public sector management in general and public sector HR in particular.

The public policy agenda

In terms of specific work-related public policy issues, 2008 looks like being another busy year, with important developments likely on flexible working, managed migration, skills and pensions. The Government announced its legislative programme for 2008 in the annual Queen's Speech to Parliament in November 2007 (which did not include a Single Equality Bill, designed largely to harmonise existing anti-discrimination law, which following the mixed response to a consultation document published in June 2007 is now expected to be presented to Parliament in November 2008). In addition, decisions in Brussels could have big implications for UK employers.

Skills

An Education and Skills Bill aims to ensure that (by 2015) young people stay in education or training until the age of 18 and provides new rights to skills training for adults. Employers will be required to release under-18s for the equivalent of one day a week of training. Young people failing to attend education or training courses will face fines or community service. Low-skilled adults will have a statutory right to free tuition in literacy and numeracy. The number of apprenticeship places will expand from 250,000 at present to 500,000 by 2020.

Alongside the provisions of the Bill, the work of the newly established Commission for Education and Skills will move into full swing in 2008 and the Government will step up efforts to encourage employers to make the 'skills pledge' (as discussed on page 10) to offer training to employees who lack basic skills and qualifications. The CIPD's current position is to support efforts to improve work-focused training and learning but to caution against compulsory training, which runs the risk of failing to engage the necessary commitment and enthusiasm of either trainees or employers.

Employment law

An Employment Bill intends to improve enforcement of existing employment law and to introduce measures designed to increase the speed with which workplace disputes are resolved. This in effect means that the Government is revisiting the statutory dispute resolution procedures introduced as recently as 2004 (as discussed on page 16). The CIPD's current position is to support the Bill, which will help protect vulnerable workers and reduce unnecessary bureaucracy in resolving disputes.

Pensions

A Pensions Bill will legislate for the introduction from 2012 of Personal Accounts. Employees will be automatically enrolled into a Personal Account pension unless they are already part of an approved occupational pension scheme, though they can choose to opt out. Employers will be required to contribute 3% of employee salaries, employees themselves 4%, with the state adding 1% in the form of tax relief. The CIPD's current position is to support the objectives of the Bill but to stress the need for the Government and the new Personal Accounts Delivery Authority to listen to HR when implementing the new system.

Flexible working

On flexible working the Government has asked the HR director of Sainsbury's Plc, Imelda Walsh, to undertake a review of the existing right of parents of very young or disabled children and people with broader caring responsibilities to request to work flexible hours. Ms Walsh will issue a report in spring 2008, though the Government is minded to extend the right to parents of older school-age children. The CIPD's current position is to argue that the right to request should be extended to all employees, not just parents and carers.

Managed migration

Spring 2008 will also mark the introduction of a new points-based system for managing migration to the UK from outside the EU. Economic migrants will have to score sufficient points – based on such criteria as age, skills and experience – to gain entry to the UK. Highly skilled professionals or entrepreneurs who pass the points test can enter without a job and seek work. Workers with occupational skills deemed to be in short supply by a new Migration Advisory Committee will still need a work permit.

The Government has already announced that for the foreseeable future there will be an effective ban on unskilled migration from outside the EU. Employers will have to sponsor migrants entering the UK on work permits and check that they have the legal right to work here. Failure to make the checks and/or employ migrants illegally will result in fines or other legal penalties. The CIPD's current position is to support the points-based system on the grounds that it strikes a sensible balance between meeting the legitimate need of UK employers and the wider economic and social interest.

Welfare to work

The Government is hoping that a combination of improved skills training and welfare-to-work measures will enable more UK-born unemployed and economically inactive people to fill job vacancies at present having to be filled by EU as well as non-EU migrants. As part of a broad policy of 'British jobs for British workers', the Government will introduce skills checks for jobless people when they sign on for benefit and improve pre-employment training in basic and soft skills. In return, greater responsibilities will be placed on benefit claimants to accept the help on offer. Employers will be encouraged to make a 'jobs pledge', with the aim of offering work trials and interviews for benefit claimants helped in this way. The CIPD's current position on this matter is to support the Government's objectives but to question the merit of nationalistic rhetoric when presenting its policy, which could undermine social cohesion.

Work-related health and well-being

As part of the work-focused welfare reform agenda, Incapacity Benefit will be replaced by a new Employment Support Allowance (for new claimants) in autumn 2008. This will be tied to practical support designed to increase the chances that claimants will find work, and a new work test will be introduced. The new test will assess what kinds of work claimants might be able to perform rather than what they cannot do.

In addition, the Government announced at the end of 2007 that it was launching a National Strategy for Mental Health and Work. This will co-ordinate efforts across government to improve the employment chances of people of working age with mental health problems. Advice will be provided to employers and GPs to assist people in this situation and there will be an expansion of existing pilot schemes that place JobcentrePlus employment advisers in GP surgeries. The CIPD's current position is to welcome the reforms to Incapacity Benefit but to stress in addition the need for employers to adopt more-progressive attitudes to recruiting people with a track record of health problems and also to improve workplace health and well-being practice to help retain in work people that develop health problems.

EU developments

At EU level the UK is likely to be involved in further wrangles in 2008 over the proposed Agency Workers Directive – offering agency temporary workers the same rights as permanent staff – and the continued possibility that the existing provision in the Working Time Directive allowing employees to opt out of their rights under the Directive will be removed. The UK Government blocked agreement or movement on these measures – which would have considerable consequences for UK employers and possible employment levels – in 2007, but both issues are likely to be further debated at some point in the coming 12 months. The CIPD's current position is to oppose the Agency Workers Directive as currently framed and to support no change to the existing opt-out provisions of the Working Time Directive.

HR in 2008

2008 will be a year in which HR professionals will have to cope with a variety of intense short-run pressures while also staying focused on the long-run challenge to become more business-savvy, to get better at demonstrating the value of people management practices to organisations, and to keep attuned to the needs and aspirations of people at work (see page 25).

Hard times revisited

For seasoned HR professionals, 2008 may evoke memories of tougher times past. By contrast, those whose experience doesn't stretch back to before the economic stability and tight labour market conditions of the past decade or so may have their first taste of seriously choppy business water.

Although a softer labour market may ease overall retention pressures – since staff will have fewer alternative job offers to consider – the war for talent might, if anything, intensify against a backdrop of tighter recruitment, training and reward budgets, and many HR professionals may also be dusting off redundancy manuals to rediscover best practice on trimming staffing levels.

Even in a muted labour market the most talented people are capable of seeking out a better deal, and in recent years skills shortages have persisted at a high level even during periods of relative slowdown. Organisations faced with tougher trading conditions will be desperate to recruit and retain the best talent to enhance their performance and competitiveness. But the cash required to achieve this will be limited.

Organisations will be keen to secure better value for money from their recruitment and reward budgets. This will put additional pressure on HR to raise its game. In-house HR departments will have to prove their worth and account for the efficiency of every penny spent. And HR professionals will in turn expect greater value for money from recruitment agencies, training providers and organisations managing outsourced HR services.

Despite a considerable amount of organisational restructuring in the past decade, large-scale redundancies have been running at historically low levels. This is likely to change in 2008, with more HR professionals having to deal with the particularly tricky task of handling compulsory redundancies. This presents a challenge to those HR professionals that have not had to walk the tightrope of laying off large numbers of people while ensuring that staff who keep their jobs remain committed and motivated. Moreover, unlike previous bouts of large-scale job-shedding in the early 1980s and early 1990s – which tended to fall relatively heavily on older staff – redundancy practice in 2008 will have to take care not to fall foul of recently introduced age discrimination legislation.

All of this puts an even higher premium on establishing best-practice benchmarks and improving human capital measurement. HR will need to get better at compiling data on people management practices and outcomes and analysing these to identify key trends and patterns. The integrity of these data should be demonstrated to ensure that they are accurate, reliable and of value to assessing performance.

Don't stop thinking about tomorrow

Over the long term, improved human capital monitoring should be followed by progress to higher levels of data collection – including measurement of the effects of various processes on organisational performance – in order to inform managers and let them see how their actions (or poor practices) can impact on performance. The need for this grew more apparent in 2007 as the medium- to long-term challenges facing HR came into sharper focus. These challenges must remain at the forefront of professional thinking, even during the hard times that lie ahead in 2008.

Demand for resources in the rapidly growing economies of India and China has been a factor in driving up UK input prices in the past two years. This adds a higher cost dimension to the competitive challenge these economies pose. The necessary response is for organisations to adopt 'smart work' – deploying the full battery of state-of-the-art people management practices to maximise available human capital and increase the quality of what UK plc produces. But with organisations having to run ever faster just to keep up in the competitive race, the mantra for HR must be 'innovation, innovation, innovation'.

Be seen to go green

The environment has risen rapidly up the corporate agenda in recent years. However, evidence compiled for the CIPD/KPMG *Labour Market Outlook* survey in summer 2007 suggests that UK workplaces are much more active when it comes to energy-saving and recycling than they are at directly people-related green practices. This suggests a failure to fully exploit homeworking and the technology and broader practices that would support this, such as green transport plans.

HR has tended to take a back seat on green issues. But with research suggesting a link between environmentally friendly organisations and employer brand – and the CIPD/KPMG survey indicating that 'being seen to go green' aids recruitment and retention, especially with regard to younger people – 2008 should be the year when HR finally starts to parade its green credentials.

Winning the generation game

Official projections published in 2007 confirm that the UK population structure is continuing to age even though population and rising birth rates are boosting the size of the population. Indeed, 2007 was the first year in recorded UK history in which the number of people of state pension age has been higher than the number aged under 16.

Employers and employees are gradually getting the message that population ageing requires people to stay in work later in life. But the broader implications of this are still not fully appreciated. In an ageing society with people set to stay in work far longer than ever before, tomorrow's workforce will be the most age-diverse in history. Much of the younger end of the mid-twentieth-century Baby Boomer generation will still be in work in 2020. Managing them in ways that also suits the young guns could prove a major challenge. Insofar as the old guard really do cling to traditional lines of authority and ways of behaviour, as standard depictions of their demographic suggest, this would grate against any youthful desire to do things differently. HR must take a stronger lead in ensuring that organisations get ready to handle this complexity so that they can successfully play the generation game.

Put trust in collaborative networks

It became increasingly evident in 2007 that the second- and emerging third-generation Internet – or Web 2.0 and 3.0 – is about far more than making the job of getting hold of information quick and easy. What matters now is using the evolving web to collaborate – locally, nationally, globally and in the workplace – to swap ideas and solve problems, including via virtual social networks like Facebook.

This makes the interactive web a potentially powerful people management tool. Yet while this might mean that all workers become more collaborative, it leaves unresolved what is perhaps the most critical issue confronting HR in the Internet age: how to strike a sensible balance between autonomy and control.

Web 2.0 and 3.0 enhance the power of the Internet to do both good and ill. Myriad examples illustrate how workers can abuse interactive technologies, ranging from simple time-wasting during working hours to defamation of an employer's reputation. Employers too can overstep the mark by using the web as a way to monitor staff behaviour both on and off the job. All such behaviour breaks the bond of trust that is crucial to effective people management. What HR must start to do in 2008 is devise ways of using the interactive web that maximises the power of the technology while preserving personal trust between managers and those they manage.

The main challenges for 2008 are to:

- get started on designing a usable armoury of human capital metrics
- better measure the effectiveness of HR policies and the HR contribution
- obtain greater value for money from reward budgets
- improve recruitment and retention practices without increasing costs
- ensure redundancy practice is consistent with anti-age discrimination legislation
- shift the balance of training activity from programme delivery to supporting and facilitating the learning process in a way that develops organisational talent
- more effectively reorganise working methods and help line managers get better at delivering on a 'smart work' people management agenda
- raise the standards of employee communication, involvement and engagement by means of web-assisted interactive technologies.

We explore leading-edge people management and development issues through our research. Our aim is to share knowledge, increase learning and understanding, and help our members make informed decisions about improving practice in their organisations.

We produce many resources on HR issues including guides, books, practical tools, surveys and research reports. We also organise a number of conferences, events and training courses. Please visit www.cipd.co.uk to find out more.

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