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HOURGLASS^{HR}

Issue 21 – April 2011

Enhancing value through people

Recruitment goes back to school

Women in the boardroom:
Would quotas work?

Preparing for a
'black swan' event



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Editor's welcome

01

Thought leadership without the padding,
Hourglass cuts through the clutter to reach the key issues.



As sure as a rainbow follows a downpour, no sooner have the first suggestions appeared that we're emerging from recession than talk turns to a potential talent shortage. At least business is learning from the last recession, when many organisations were caught on the hop when conditions improved. There's certainly a lot to be done – employee engagement and morale has probably suffered during the downturn and, as Nick Martindale says on page 6, these are firmly the domain of HR.

There are signs that employers are looking at more innovative ways of finding and retaining talent – partly in response, in the UK at least, to an upheaval in the university system. On page 10, Sarah Perrin looks at how educational policy may change the way companies recruit in the future.

For many, 2010 was characterised by seemingly once-in-a-lifetime events, mostly caused by natural disasters – the Icelandic volcano, earthquakes and appalling flooding. Four years ago, Nassim Nicholas Taleb's book *Black Swan: The Impact of the Highly Improbable* introduced a new phrase into business language. We've certainly seen our share of black swans recently but, Philip Smith asks on page 18, is it worth planning for something that may never happen? Or should we all float through life on a wave of eternal optimism? As the recent victim of a small-scale black swan (see page 34), I'm beginning to wonder...

Liz Fisher
Editor

Editor

Liz Fisher

Deputy Editor

Beth Holmes

Contributors

James Ashton, Liz Fisher, Beth Holmes, Mick James, Nick Martindale, Lesley Meall, Sarah Perrin, Philip Smith

Editorial Committee

Michael Rendell, Isabel McGarvie, Edward Irwin and Steve Ash (Human Resource Services, PwC); Liz Fisher, Beth Holmes

Design and Production

PwC Brand and Design

Publication Sponsor

PwC
Human Resource Services
Plumtree Court
London EC4A 4HT

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Fax. 44 (0) 20 7212 2040

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To comment on this issue of Hourglass

edward.c.irwin@uk.pwc.com

To request additional copies of Hourglass

samantha.cotton@uk.pwc.com



Talent management is top of the CEO agenda



Confidence is back say CEOs in our 14th Annual Global CEO Survey. Finding the right talent is vital for future success, so as confidence grows now is the time to invest in your people. Visit www.pwc.com/ceosurvey for the full survey.

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author

Looking forward

Michael Rendell

Where is the tale

If HR is to live up to the principle of recruiting innovative people, it needs to take an innovative approach to attracting talent.

04



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At last, we have some encouraging signs of recovery in the recruitment market. A number of recent reports suggest that many more jobs are to be created this year as organisations prepare for future growth. PwC's own surveys of HR directors and CEOs globally show a reassuringly bullish feeling amongst the respondents. Around half of the CEOs surveyed expect to increase headcount over the next 12 months when only 35% managed to boost staff levels last year. Conversely, and perhaps even more encouragingly, only 28% expect to reduce headcount, after an alarming 44% cut job numbers in 2010.

This is all very positive, but the big question is how firms are going to meet these headcount targets. While there are undoubtedly large numbers of people currently looking for work, a limited supply of candidates with the right skills was cited as one of the top concerns among both the CEOs and HR directors we polled globally. While more acute in certain sectors such as IT, skills shortages seem to be a growing challenge for most businesses. Addressing the problem is no easy feat and needs a combined effort from employers, government, and education providers. These issues are explored further in this issue of Hourglass, in the following articles by Nick Martindale on page 6 and Sarah Perrin on page 10.

Certainly in my experience, employers need to take a more systematic approach to learning and development, identifying the skills they need for particular roles and training staff accordingly. Ultimately, training spend should be treated with the same rigour as any other capital investment, with appropriate due diligence and evaluation. This has not always been the case. Moreover, employers need to do more to ensure people have the right skills when they start their careers, and partnering with universities and schools may help achieve this goal.

Of course, improving the skills base is only half the issue; identifying and attracting new sources of talent is equally important. Many firms are now looking to supplement their graduate intake with people without degree qualifications. At PwC we take about 60 people direct from school each year, and we're clearly not alone in recognising that these individuals bring many different attributes to the table. There are many reasons why people may choose not to go to university, with cost becoming a particularly significant issue. Firms will not want to miss out on what is likely to become a growing potential talent base.

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Employers need to do more to ensure people have the right skills when they start their careers, and partnering with universities and schools may help achieve this goal.
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Recruiting from different sources has added benefits. Research suggests it makes for a more diverse workforce which can, in turn, lead to a more creative environment. A large proportion of the CEOs we surveyed said they found that talent with the right technical skills often lacked flexibility and creativity, so tapping into new sources of recruits could help here.

So organisations need to ensure they market themselves to a broadening group of prospective candidates, and HR professionals have a strong role to play in making this happen. Even details that may seem inconsequential, such as whether staff are allowed to use networking sites like Facebook during working hours, may have a bearing on whether someone might be able to envisage working for a particular firm. Likewise, it's worth involving people from different backgrounds in the interview process. An organisation that projects itself as diverse is, in turn, more likely to attract a diverse group of people.

Ultimately, if innovation is something we seek from our people, we as HR professionals need to take an innovative approach to attracting talent. While skills shortages are undoubtedly a significant issue for employers globally, taking a more flexible approach to hiring and the skills sought may go some way to alleviating these difficulties.



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

topic

author

Talent management

Nick Martindale

Let the battle c

HR needs to have an integrated approach if it is to tackle the talent shortage and attract and retain the best employees.

06



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How quickly things change. A year ago the main preoccupation in most developed countries was cost-cutting and staff redundancies as they fought to survive a crippling recession. But as economies recover, already thoughts are turning to the fight for talent. PwC's recent *14th Annual Global CEO Survey*, for example, found that 51% of organisations plan to increase headcount this year, with the number anticipating cuts falling sharply over the past year to just over a quarter.

This upsurge in recruitment activity, however, brings an old favourite back on to the agenda for HR practitioners: that of skills shortages and the battle for talent. The same PwC survey found 53% of HR directors in the UK saw this as the biggest single challenge they face, while the firm's 2011 CEO survey found that two-thirds of CEOs believe they have only a limited supply of skilled candidates, particularly with regard to establishing a presence in emerging markets. A similar survey by the Chartered Management Institute (CMI) backs this up, with 63% of managers in the private sector – and 58% overall – saying their organisation is already suffering from a lack of key skills, and 35% – 43% overall – believing they lack the right people to fulfil their business objectives for the coming year.

According to Manpower's most recent talent shortage survey, the industries facing the biggest shortages are accounting/finance, chefs/cooks and engineers. Drivers, nurses, technicians and sales representatives are also in short supply, while the top 10 is completed by production operators, hotel and restaurant staff and marketing/PR professionals. In addition to these, however, there are shortages in specific types of talent; where individuals require certain skills and experiences, says Jon Andrews, a partner in PwC's HR consulting division. The HR function itself is a case in point. "There are some immensely talented people running HR in a business-as-usual environment where it's responding to change and supporting the business," he says. "But that doesn't necessarily translate into big programme management capability and the ability to create integrated solutions across the entire HR spectrum."

Andrews claims every organisation has its own definition of talent management. "If you take it in its broadest sense it's the cradle-to-grave or the hire-to-fire or hire-to-retire path; the development of those individuals in a way that's consistent with the needs of the organisation," he says. "In order to do that organisations need to be far more integrated in the way they approach the different elements of HR," he adds. "We talk about

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There's a natural dip in employee engagement as a result of having been in a recession, so organisations need to think long and hard about how they can help their best people feel wanted.

processes like recruitment, internal staffing, career development, performance and reward, but you need to totally integrate all those areas." This can only be achieved if HR is linked into both the short-term priorities and long-term vision of the business.

Organisations are already putting a greater emphasis on recruitment. PwC's CEO survey, for instance, found that 39% of CEOs intend to change their people strategy to attract and retain more women, and 25% plan initiatives designed to attract older workers. Ruth Spellman, Chief Executive of the CMI, urges employers to look beyond their traditional recruitment base, particularly ahead of the expected surge in redundancies from those working in the public sector. "We've got into this attitude of private sector good, public bad, but there's a lot of talent in the public sector," she says. "People management in the public sector is so complicated with so many stakeholders that these people are very good at multi-tasking and managing politics. These are the things that managers and leaders need to be able to do."

Even those organisations that have yet to fully enter recruitment mode can lay the foundations for building up talent pools in the future, suggests Claire McCartney, Chartered Institute of Personnel and Development adviser, resourcing and talent planning. Building up the employer brand and developing corporate and social responsibility initiatives will stand companies in good stead, she says, while developing alumni networks can create a pool of former employees who may be interested in returning to their old company in the future.

Talent management

Nick Martindale

Case study: National Grid

With the UK in need of an extra 50,000 engineers over the next five years, developing a pipeline of talent is vital for National Grid. The company currently offers a range of entry points, including a graduate-entry programme; an industrial placement for students as part of their degree; a year-in-industry option where potential recruits work for a year before going to university; and a traditional apprentice scheme.

Recently, though, it's also introduced an engineering training programme targeting school-leavers with A-levels or equivalent qualifications, as well as an intern scheme giving undergraduates the option of working over the summer break.

"We introduced the workforce planning project a couple of years ago to establish the type of skills we need and where we need them," says Julie Moore, resourcing specialist at National Grid. "In the past we'd do a campaign and that would be it for three months. Now it's much more continuous because we need so many engineers and there's a lot more competition." The business also works hard to attract experienced hires, says Moore, including a programme to recruit people with technical backgrounds from the armed forces.

The company only pays 'medium' salaries but the overall benefits package probably puts National Grid in the top quartile of employers in its sector, says Moore: "We have to educate recruiting and line managers about the whole benefits package, making sure they know how to sell the benefits of National Grid."



National Grid CEO Steve Holliday (right) and new FD Andrew Bonfield (left)

Yet an equally important aspect of developing talent is to retain, engage and motivate existing employees. Andrews at PwC says this is particularly challenging when coming out of a recession as the jobs market can heat up very quickly and individuals may not have been rewarded as well in recent times as they have in the past. "There's a natural dip in employee engagement as a result of having been in a recession so organisations need to think long and hard about how they can help their best people feel wanted and understand the career that they've got and the opportunity they have in the organisation," he says. "Then, out of that, reward should always be driven by a perceived market value and what the business can afford, rather than just throwing money at individuals."

It seems that companies, at management level at any rate, are aware of this; the CMI's *Future Forecast* report found that two in five managers intend to increase training and development opportunities and improve internal communications in their team in 2011, while PwC's CEO survey found almost 60% of UK CEOs intend to increase their use of non-financial rewards.

In some cases, the answer to talent shortages could lie in using an existing employee in a manner that is better suited to their skills. "People could actually be in the wrong job and might be much better working in a different department where it plays to their strengths," says McCartney at the CIPD. Companies could give someone a horizontal move, put in place a secondment or offer individuals an element of cross-functional working, she suggests.

Other organisations will look to younger talent in a bid to land the skills they desperately need, and confirmation that university students in England could face fees of up to £9,000 a year from 2012 could open up opportunities for firms willing to take on school-leavers. A survey by the Association of Graduate Recruiters (AGR) suggests a small increase in school-leaver programmes run by its members in 2010-11 (up from 26.3% 2009-10 to 27.3%) but Carl Gilleard, Chief Executive of the AGR, believes this is likely to increase further as more talented individuals opt not to go to university. "If you can find a way of engaging with top talent at an earlier age then it's worth exploring and for some young people it will be a very attractive option," he says. But there are downsides, he suggests; notably being able to gain access to students through schools that have traditionally encouraged pupils to go on to further study, and also the risk of individuals taking such decisions at a young age and subsequently changing their minds.



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If you can find a way of engaging with top talent at an earlier age then it’s worth exploring, and for some young people it will be a very attractive option.

PwC is one company that is already active in this area. In addition to its graduate recruitment programme, this year it will take on around 70 A-level students in October, who will spend four years gaining work experience while studying for the ACCA qualification. For those who want to, the firm also offers the option of going on to study for a degree in accounting and finance at Oxford Brookes University. “Our approach has always been that we want to recruit the best talent coming out of the UK education system, wherever it may be,” says Richard Irwin, Head of Student Recruitment at PwC. “For a long time that’s been university but for us it’s also been from school, formally for 10 years and informally for longer than that.

“Given what’s happening with tuition fees we can reasonably expect that there will be more talented people who will make that choice,” he adds. “They’ll go in, study for a qualification and we’d expect them to progress to manager, senior manager, director and even potentially partner as they would if they were a graduate. Once they’re qualified, the route they’ve taken to get there is no longer relevant.”

However organisations choose to tackle the talent shortage, this is only going to become more important in the coming months. “This exclusive focus on the bottom line and cost-cutting isn’t healthy,” says Spellman at the CMI. “It’s a parallel with what the government is focusing on with squeezing out costs; you also need a strategy for growth. That inevitably depends on people.”

topic

author

Recruitment

Sarah Perrin

Companies in t

A closer relationship between universities and the future employers of their graduates is seen as a possible solution to the talent shortage.



he classroom

The combination of an increased focus by companies on the ways in which they attract young talent and, in the UK, a shake-up of the university funding system, is raising the question of whether corporations should become more closely involved in the institutions that are training their future employees. There have been low-level rumblings for some time that graduates are not emerging from further education with the specific work-place skills that they need. If companies become directly involved in developing university courses, goes the argument, they can virtually guarantee access to well-trained, work-ready graduates.

Relationships between universities and employers have existed for some time, but interest in developing these further appears to be growing. The Confederation of British Industry (CBI) encourages such relationships. When MPs were voting on the new student finance arrangements in December, the CBI wrote to its members. “We said business will have a bigger role to play in advising on business-relevant degree courses,” explains Leo Ringer, CBI Policy Adviser on education and skills. “It’ll make sense for businesses to get involved if they want graduates to have a particular set of skills. We talk about employability skills, like problem solving, literacy and numeracy, communication skills, business and customer awareness. The best way of developing these is through engagement with business, for example, through work placements.”

Work placements are only the start, however. Employers are also influencing degree course content. PwC established its Flying Start programme with Newcastle University in 2002 – a three-way partnership between the university, PwC and the Institute of Chartered Accountants in England and Wales (ICAEW). Participants study towards a degree in Business Accounting and Finance, while also gaining accelerated progress towards their professional accountancy qualification. “One of our requirements in setting up the programme was to get people graduating from the course who are as qualified as they can be,” says Richard Irwin, Head of Student Recruitment at PwC. The ICAEW and Newcastle University liaised to ensure there was extensive alignment between the degree curriculum and the professional qualification content requirement. “There’s been a change to the [original Business Accounting and Finance] curriculum and Newcastle has been flexible about that, without comprising what they want to achieve from an academic perspective,” Irwin says.

PwC co-funds the degree course, helping to pay for the academic staff costs. “We make a significant contribution towards the cost of the programme,” Irwin says. The firm also provides work placements for all the students and

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There are potential benefits for universities in partnering with employers to shape degree courses, because students will gain greater employability.

Newcastle’s course timetable has been adjusted to enable these to take place from December to April – the busy period in audit. “The students come into the audit business at the time they get most relevant work experience,” Irwin says.

Around 55 students join PwC’s Flying Start programme in Newcastle each year, of whom around 40 ultimately graduate. “100% of those would tend to join us,” says Irwin, who sees significant benefits for the firm. “The people coming out of the programme are better performing and ‘stickier’ – their retention rates are better because they understand what they are getting into and their career paths have had that accelerated push up the ladder.”

There are potential benefits too for universities in partnering with employers to shape degree courses, because students will gain greater employability. The CBI’s Leo Ringer predicts that students will “get more demanding about what they get from higher education”. “They will be looking for stronger employment outcomes.” In theory, by teaming up with employers, universities can improve their graduates’ employability and so attract the highest calibre students.

But are there risks for universities too? David Docherty, Chief Executive of the Council for Industry and Higher Education (CIHE), says: “The problem universities often find is that, unless they [employer-linked degree programmes] are done for the long term, the universities can gear up and hire the right people and change the course, and then the [employer’s] HR director or CEO changes. And suddenly the university is left with all the costs.” However, Eluned Jones, Director of Student Employability at the University of Birmingham, believes the risk of a university being left completely high and

Recruitment

Sarah Perrin

BP: teaming up with the University of Birmingham

BP has collaborated with the University of Birmingham to develop a Design and Professional Skills module as part of the university's degree programmes in mechanical engineering. This is the second year that the module has been fully up and running.

"The Design and Professional Skills module is like a spine that runs throughout the three years of the undergraduate degree," says Alex Ryder, a lead project engineer at BP, who helped to establish the programme. "It provides a constant drip-feed of information through specific interventions that build on each other, helping students understand what it means to be a professional engineer in the twenty-first century" – the "meaningful industrial insight" that Ryder, himself a Birmingham University engineering graduate in 2005, would have valued. "I didn't really have any idea what a professional engineer did," he explains. "I was in for a bit of a shock when I started my job and found I wasn't sitting crunching numbers all day."

The Design and Professional Skills module complements the existing academic teaching. "The university is the right place to learn the academic engineering theory and to hone those technical skills," Ryder says. The module then provides the industrial input, starting at the end of the engineering students' first year, when they participate in a three-day workshop training session at facilities run by the Engineering Education Foundation. BP covers the costs of this activity, which gives the students practical, hands-on experience in manufacturing and metal-working techniques. "This fits with BP's aim of trying to make sure engineers are not just theoretically-minded, but have practical ability too," Ryder says.

During the students' second year, BP provides guest lecturers – BP specialists who give talks on topics such as sustainability, health, safety and environmental issues, project management or business and law. The module culminates in the third year with a substantial design project lasting six or seven months. "The students are set a challenge, they identify the real problem, solve that problem and come up with a design solution. They also create a business case to show their solution is commercial." The students, who work in groups, present their solution to a panel of judges from both the academic staff and BP. The best team wins a residential, expenses-paid trip to a BP facility.

Why does BP have these links with Birmingham's mechanical engineering department? Firstly, Ryder is keen to help Birmingham graduates improve their job application success rate. "There's also an element of wanting to improve awareness of what it is to be a professional engineer beyond the number-crunching and theory," he says. "It's helping students along the road from formal academic learning to the reality of the workplace. It's also about publicity. We want people to be aware of BP. We want to position BP as an employer of choice for the high calibre students at Birmingham."

dry is fairly small – because if the degree programme has been developed to the highest standard, another employer will probably step in. “Employers have lots of commonality,” Jones says. “So the risk must be relatively slight. Universities are savvy and cautious in investing in something that may not have a long shelf life.”

Nevertheless, if employers and universities are to work together successfully, employers need to be clear about their needs. “There’s a willingness among universities to work more closely with businesses, the third sector and the public sector, to get people into the right kinds of courses,” Docherty says. “but it requires employers to be more articulate about the shape of their industry going forward, because universities are educating people for the future, not the past.”

To help this articulation, the CIHE is currently working on a taskforce looking at the future of manufacturing, including the kinds of skills that will be required. The CIHE is also promoting the concept of ‘learning to learn’ – which places more emphasis on ‘knowing how’ as opposed to ‘knowing that’. Docherty explains: “What’s crucial for business and universities working together is to ensure that graduates are able to absorb the next wave of technologies or best practice. I am trying to get the conversation away from the language of skills, which is more the ‘knowing that’ concept, and getting it onto the language of expertise, which is the ‘knowing how’ concept.”

The argument is that students need help in developing the ability to apply critical thought and adapt to changing times. “Graduates obviously need to know their stuff, but they need to be critical and reflective thinkers too,” Docherty says. This appreciation of the need for critical thinkers means that traditional and non-vocational degree courses should retain value – alongside vocational and STEM degrees in science, technology, engineering and maths. “If you do analytical philosophy, you are probably quite good at thinking,” Docherty notes.

“We know for sure that the degree subject you’ve done has little or no bearing on how successful you will be in your career,” adds PwC’s Irwin. He does, however, see a case for “creating more internships so that graduates from a range of disciplines can have a taste of professional life earlier on”.

Students, the consumers of degree courses, are certainly still interested in a broad range of degree topics. “Demand for say history or philosophy is strong,” says Jones. “Birmingham is a traditional university, research

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I am trying to get the conversation away from the language of skills, which is more the ‘knowing that’ concept, and getting it onto the language of expertise, which is the ‘knowing how’ concept.

intensive, and has a rich tradition in teaching many subjects. It believes that a university is about intellectual challenge and changing the individual through that experience. We spend a lot of time working with arts students reminding them of the sheer breadth of opportunities open to them.”

If employers do increasingly work with universities to shape degree courses, could they find themselves gradually filling in higher education funding gaps? Possibly, but not necessarily. Jones notes that current relationships between universities and businesses typically don’t involve direct funding for academic salaries or general university costs. “Often the exchange isn’t about cash, but the employer looking at the university for its graduate talent or staff talent. Usually the company will say, because you’re providing what we’re looking for, we will reciprocate in the form of work experience placements.”

Employers are unlikely to see providing funding as the real point. “It’s more powerful if the employer can provide support in a way that’s unique to them,” says Irwin. “Through Flying Start, students begin to build a relationship with the firm and to feel part of the PwC community.” The support PwC provides to higher education, Irwin says, will continue to be done in a way “that creates that sense of long-term commitment and that puts someone on a career track with our firm, rather than just bridging the funding gap – though it might do that as well.”

topic

author

HRD profile

James Ashton

Made to last

The recession affected luxury car manufacturer Bentley more than most, but a thoughtful approach to cost-cutting and a long-term outlook on training has won the company applause.

14



It says a lot about a company if newly-elected politicians flock to visit its premises to hold up how it operates as an example to all. David Cameron made his first business visit as UK Prime Minister to Pace, the television set-top box maker. It's a leader in its field and a major exporter to US giants such as Comcast and AT&T, while remaining headquartered in a former mill in Bradford. Heading to Crewe, the UK Business Secretary, Vince Cable, opted for an even more historic name for his first trip out of Whitehall. Bentley was the classic car favoured by James Bond in Ian Fleming's series of spy novels. With 92 years of heritage and a high-end product that exports well, it's a politician's dream.

Yet polishing up a motor that sells for £220,000 barely tells the story of Bentley. Its survival during tough times for the UK car industry is one thing, but the far-sighted way it has invested in its workforce and maintained production here has won it many plaudits. Playing a key role in Bentley Motors is Christine Gaskell, the board member in charge of personnel. She arrived at the car maker in 1996 and fashioned a 10-year plan to overhaul staff communications and culture. The mantle she inherited was one at a company that was clinging to the past with little thought to the future. "What had happened as a result is that they had completely stopped investing in apprentice graduates, external recruitment and training – it really was an organisation that was still struggling to come to terms with what had happened five years before," said Gaskell.

Bentley had had a colourful past, but lost its distinctiveness under Rolls-Royce ownership, later regaining its luxurious edge with production of the Mulsanne from 1980 onwards. A new model was launched last year, after the investment in a new £25m bodyshop. The first year's production has sold out, proving particularly popular in China. Each car takes up to 500 man hours to build, including 170 for the wood and leather interiors and 'hand braising' to smooth the body.

Today's story is one of a company in recovery mode. It's a far cry from the recession of 1990, when Bentley halved its workforce overnight. When the downturn came again, in 2007, Gaskell was determined to learn lessons from the past. "We wanted to retain as many as possible of the skills that we had invested a lot of money in," she said. "There was also the moral dilemma. The last thing any organisation wants to do is make anyone redundant."

Gaskell came up with a compromise to widespread cuts – a 'time bank' agreement that let workers go home on full pay when the production line was quiet. The flipside was that when the work started to come back, they had to pay that time back in overtime. "You can't have people being sent home and not being paid, you need to give them some security," she said.

At any time, there are 90 apprentices in the business on a four-year scheme. At least half of those go on to higher education, which Bentley sponsors.

In addition, everyone in the business took a 10% temporary pay cut so that Bentley could afford to retain 300 jobs. Around 400 staff did leave, but almost all did so voluntarily. Bentley has since added some of the jobs back, but far from all of them. A really significant move would come if the car maker ever goes back to operating a two-shift system in place of the one shift it reduced to in the downturn. "We're on an upward turn but you would only ever move to that when you were very, very confident in the future and your volumes," added Gaskell, who also persuaded the board to ring-fence the apprentice and graduate programmes. "If we'd stopped recruiting those new people then, five years on when they should have been completing their qualifications we wouldn't have that talent in the business," she explained.

Bentley was bought in 1998 by Volkswagen, the German car manufacturer. It spent an estimated £500m to modernise the former aero engine manufacturing site in Crewe that Bentley has been based at since just after the Second World War. That modernisation happened alongside a more enlightened view on how its workers should be treated. "When I joined, from having a skilled workforce, we'd gone down the route towards semi-skilled," said Gaskell. "The pendulum had swung too far the other way. We build some wonderful cars, but you need skills, not only in terms of building them, but also in terms of managing those people. You've got to invest in the training and development to allow people to do that."

The company, which employs 3,500 people, made an upfront statement when it tore down a training centre that was based at the back of the site, replacing it with an academy. "How better to say both to people externally such as our customers, and more importantly, the people who work in the business, that we really, really value training and developing skills?" she said. "The other

HRD profile

James Ashton



Christine Gaskell's CV

Christine Gaskell joined Bentley in 1996 as the carmaker's board member in charge of personnel. She has spent most of her career in and around vehicle manufacturing, beginning as a graduate trainee at British Leyland. Gaskell rose through the ranks to become corporate personnel and planning manager at Leyland DAF, the van and trucks maker.

Before arriving at Bentley, she left the industry for a two-year spell as a human resources manager at Fisons Pharmaceuticals.

Qualifications: An English literature degree from the University of York. Christine is a fellow of the Chartered Institute of Personnel and Development (CIPD).

Specialisms: Employee relations, internal communications, skills and people development.

Other roles: A member of the government-backed National Ambassadors Network; a champion for apprenticeships in North-West England; Non-executive Chairman of the region's largest work-based training company, Total People; Chair of another company that invests in skills in South Cheshire; and a board member of Cheshire and Warrington Local Enterprise Partnership.

thing is, why should we assume that because you are in a manufacturing role that you don't want the kind of mental stimulation that you and I get from our jobs?"

Now, 60% of the workforce receives some form of training every year, in everything from management skills to IT. By 2018, Gaskell wants half the production staff to be skilled. At any time, there are 90 apprentices in the business on a four-year scheme that follows one of 180 frameworks. At least half of those go on to higher education, which Bentley sponsors. Gaskell says the company's reputation in this area means that the standard of applicants she gets is very high. "We are now finding that young people who historically would have had qualifications to go to university are thinking they would rather come to Bentley and do an apprenticeship because they'll be put through a degree course anyway," she said.

Gaskell describes it as a virtuous circle. Sending apprentices into schools to talk about their experiences makes them the best advert the company could have. It's just another way that Bentley makes a virtue out of being the biggest employer in Crewe. Some 42% of its workforce live in the same CW1 postcode as the factory. "We like to regard ourselves as a family. We are all together, all on one site and that is probably one of our strengths. But like in any family we have our ups and downs and fall outs."





The sense of community extended throughout the downturn. Staff were allowed to use their 'banked' hours for charity projects. Some of them built kitchens and dug the garden in a local hospice. Others refurbished a broken-down red bus that is now used at fundraising events. Such a concentration of staff in one area also makes it easy to promote a green agenda – even for a car maker. Almost a fifth of staff travel to work by bike or on foot.

The long-sighted training regime is one contributing factor to the average length of service at Bentley: 17 years. That isn't to say there isn't competition for talent in the area. Jaguar Land Rover's site up the road at Halewood, near Liverpool, is a rival lure for staff, as is the Vauxhall plant at Ellesmere Port in Cheshire, as well as several nearby aerospace manufacturers. To make sure they are fostering talent, the whole management team sits down to talk through and rate staff on an annual basis. "That way, we understand who we need to put on a development programme, and we can also clearly track where the job opportunities are," said Gaskell. "We're very keen that people don't just have linear careers within one function and that they're encouraged to move between functions."

Despite her best efforts, she concedes there is still a shortage of women in the manufacturing sector: "One of the problems you have is not within our business, it's the external perception. Young women are still not encouraged to come into this environment. There's a huge issue in our education system where it is still promoted that manufacturing is not an environment where women would want to go. That's a complete urban myth."

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Gaskell sits on Bentley's executive board, reporting to the recently-appointed Wolfgang Dürheimer, the Chairman and Chief Executive. "The fact that it is a main board position means that personnel issues get the same profile and airspace as our financial issues or our production issues." The job also involves plenty of travelling. Bentley has sales teams in many of the major car markets, including Japan, China and the US. Recruits are inducted in the same way as everyone else and are brought to Crewe so they understand the culture of the business. As a board member, Gaskell also hosts media or customer events, fronting a lot of things on behalf of Bentley.

Her 30-strong core human resources team are all based in Crewe, although, she added, "we're not called HR, we're personnel, because we're about people, we're not about resources". Each function has a dedicated personnel manager that reports in to her. Nothing is outsourced. "I think if you own it, you can control it," Gaskell said. "You can actually influence the way it is and the quality of the service." It's a bit like keeping careful control over every aspect of the production of a £220,000 Mulsanne. As long as its people remain at the heart of the business, Bentley is unlikely to lose its unique drive.

topic

author

Crisis management

Phillip Smith

Swimming with

Black swan events are by definition incredibly rare, so is it worth investing to survive them?

18



swans

While an earthquake in Japan is far from unusual, could anyone have foreseen the nuclear crisis that would follow? Or was it a genuine 'black swan' event? Did the global financial crisis of 2008 and 2009 or the terrorist attacks on 11 September 2001 in New York and Washington fall into the same category? How about the chaos caused to air travel by an erupting volcano in Iceland? Or is the phrase being used as a convenient explanation by those who failed to see the signs and react accordingly?

This debate is important because it will affect how businesses and other organisations review their business continuity and resilience plans in light of rare events. If there are some events that are unpredictable, and highly improbable, why spend time and precious resources planning on how to react to them? And how can you know where to spend the money? The debate is particularly important to the HR community as there will always be a 'people' element to these plans. If a black swan event is highly improbable, how can you plan to protect your people from it, or equally cut your recovery times after the event and ensure the resilience of your people?

The term 'black swan event' was developed by Nassim Nicholas Taleb, the Lebanese philosopher and Wall Street trader. He put forward a theory on unpredictable events in his million-selling book *The Black Swan: The Impact of the Highly Improbable*, published in 2007. The book warns of an impending financial crisis. As he writes, prophetically: "So the financial ecology is swelling into gigantic, incestuous, bureaucratic banks – when one fails, they all fail."

Summarising his views, Taleb writes on his website: "We don't understand the world as well as we think we do and tend to be fooled by false patterns, mistake luck for skills (the fooled by randomness effect), overestimate knowledge about rare events (black swans), as well as human understanding, something that has been getting worse with the increase in complexity." According to Taleb, there are three criteria that will identify a black swan event. It should be a surprise, it should have a major impact, and afterwards it will be rationalised by hindsight, as if it could have been expected. But, as Taleb points out, a black swan event depends on the observer. He uses a turkey as an analogy – what might be a surprise at Christmas for the turkey is not a surprise for its butcher.

And indeed, Taleb does not attempt to predict black swan events in his book – instead, in an updated version of the book in 2010 he sets out a number of principles for a black-swan-robust society: there will always be turkeys, but they won't know about Christmas or Thanksgiving until it's too late.

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Twentieth century systems are failing to manage twenty-first century risks; we need new networked systems to identify and address global risks before they become global crises.

As black swan events are rare and unpredictable, they will always be an unknown quantity. But they do happen, so organisations need to be prepared, and human resource professionals need to be at the centre of those preparations. "Black swan events will come under the heading of disaster recovery or whatever descriptions are used to for this kind of event," says Neil Roden, a partner in PwC's HR consulting practice with particular expertise in the financial services industry. "It's something that you can't predict, it may be a rare event, but that's exactly what disaster recovery is for most organisations," he says. "It's planning for the unexpected and finding ways to cope."

So whatever the crisis, whether it is an unexpectedly heavy snowfall, an IT systems failure or a global financial crisis, organisations need to find ways to continue operating, or at least to get back up and running with the minimum of downtime. But it can be easy to spend a great deal of time planning, and trying to second guess where the crisis will hit, so Roden suggests that in the first instance organisations should take a step back and look at what type of businesses they are, and how a disruption could affect them.

"You have to take a view about how much planning and contingency thinking you want to put in, and work out a proportionate response," he says. "You have to start at the beginning and ask yourself what type of company you are. What are, historically, the issues that have affected you, how significant are they on the performance of the business, service to customers and so on?" Roden says. Once the organisation has gone through that process it needs to take a view on how much effort, planning and contingency thinking it wants to put into the response. "If you can shut your business for two days and it doesn't matter, it doesn't cost you any

Crisis management

Philip Smith

money and it doesn't disrupt customers, that's fine, but there probably aren't many businesses in that position," he says.

Indeed, for some businesses, shutting down for a day is a particularly big deal, and something to avoid at all costs. Extra investment in business continuity could really pay dividends. "Sadly, because of events such as 9/11, other terrorist threats, and then the financial crisis, I think people have actually taken a far more robust view of the whole disaster recovery and contingency planning. These external factors have made it a sensible business thing to do," argues Roden.

For most large organisations there are usually command groups and teams that coordinate the whole business continuity process, which will include an HR specialist. According to the Chartered Management Institute's (CMI) Disruption and Resilience survey in 2010, HR, alongside IT, are the most commonly involved teams within the cross-functional workings of a business continuity plan. The institute found that 72% of organisations with a business continuity plan involved HR, the same as IT. Facilities ranks as the third most likely function to be involved in planning (66%), with risk management, somewhat oddly, only involved in 57% of cases.

The high ranking for HR demonstrates the importance of the 'people' element of any continuity situation, whether it is a black swan event or more mainstream.

HR professionals will need to look at everything, from which people would be required where to whether an organisation actually knows where everyone is at a set point in time – when London was hit by terrorist bombs on 7 July 2005, it was the height of the rush hour. People were travelling to work, travelling to see clients or attend conferences. Organisations needed to know where their people were.

"Organisations have processes for cascading communications, and in the event of something happening everyone knows what they have to do," says Roden.

At Davos this year, the World Economic Forum, together with a number of insurers and risk analysts, released a hard-hitting report on risk management (one of the key themes of this year's meeting). The report highlights five key risks to watch – cyber security, demographic challenges, resource security, retrenchment from globalisation and weapons of mass destruction. The report says that risk experts believe these areas could have severe, unexpected or underappreciated consequences; as such there could well be some black swans swimming around in these pools.

"Twentieth-century systems are failing to manage 21st century risks; we need new networked systems to identify and address global risks before they become global crises," says Robert Greenhill, managing director and chief business officer at the World Economic Forum. The Forum's point is that it believes the financial crisis has drained the world's capacity to deal with shocks. It believes that the frequency and severity of risks to global stability have increased, while the ability of global governance systems to deal with them has not. The interconnectedness and complexity of issues mean that unintended consequences abound, and traditional risk response mechanisms often simply shift risk to other stakeholders or parts of society.

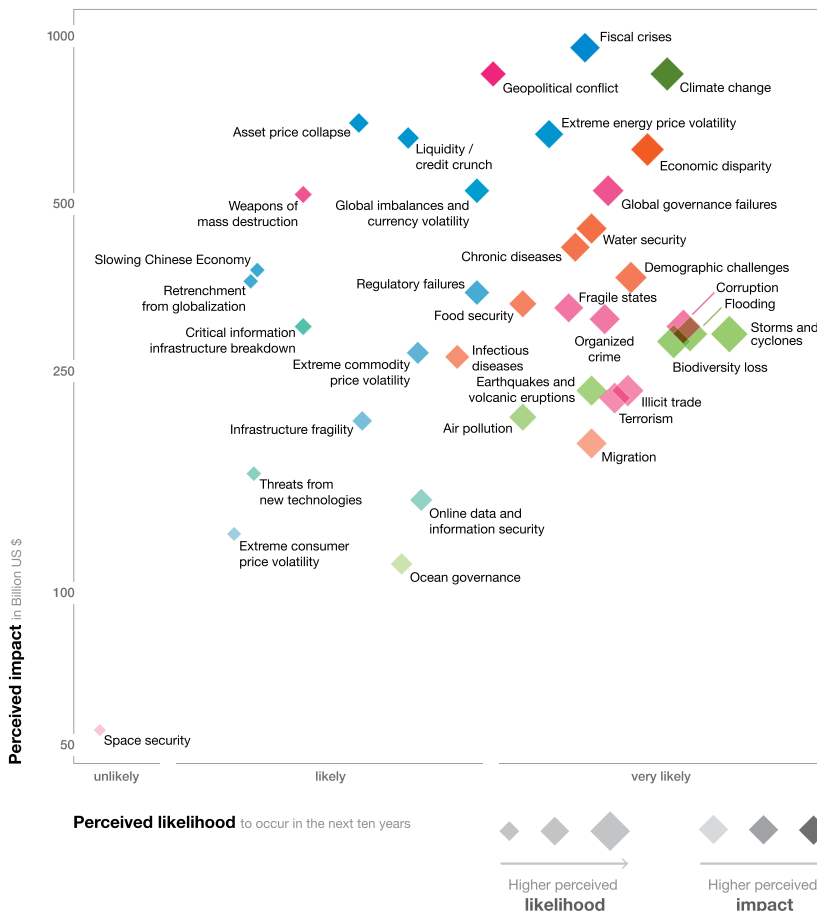
Climate change is perceived to be the area of greatest risk, according to the report, both in terms of likelihood and impact, confirming the view found by the CMI, which identified the impact of extreme weather as the top risk, replacing IT disruption for the first time since the CMI began its research a decade ago. So would it be fair to describe the recent impact of heavy snow in some parts of the UK or the floods in Australia as black swan events? Using the turkey analogy again, the weather forecasters may not have been surprised by the impact, but a commuter struggling to get home from London to Kent might have been caught unprepared. In today's climate of austerity, would an organisation be justified in providing extra cash for extreme events such as these?

Mel Gosling, principal consultant at Merrycon, the business continuity consultancy, contacted a number of companies at the beginning of the year in the hope that the budgetary brakes that had been applied last year would have been eased. "Depressingly, most of those that have replied have told me that they understand the value of business continuity, but it doesn't rate highly in the list of things that they need to do in 2011, so they probably won't be doing anything this year," he writes on his company's blog. "The most shocking reply has come from a company that hosts websites for their clients, which does not even have a disaster recovery plan for the servers

Black swans

The phrase 'black swan' was a statement of impossibility, as in the belief that all swans were white, based on historical records. But then black swans were discovered in Western Australia in 1697, so the phrase was adapted to mean a perceived impossibility that later turned out to be possible.

Spot the black swan: Where are the risks today?



- ◆ **Economic Risks**
 - Asset price collapse
 - Extreme commodity price volatility
 - Extreme consumer price volatility
 - Extreme energy price volatility
 - Fiscal crises
 - Global imbalances and currency volatility
 - Infrastructure fragility
 - Liquidity/credit crunch
 - Regulatory failures
 - Retrenchment from globalization
 - Slowing Chinese economy (<6%)
- ◆ **Environmental Risks**
 - Air pollution
 - Biodiversity loss
 - Climate change
 - Earthquakes and volcanic eruptions
 - Flooding
 - Ocean governance
 - Storms and cyclones
- ◆ **Societal Risks**
 - Chronic diseases
 - Demographic challenges
 - Economic disparity
 - Food security
 - Infectious diseases
 - Migration
 - Water security
- ◆ **Geopolitical Risks**
 - Corruption
 - Fragile states
 - Geopolitical conflict
 - Global governance failures
 - Illicit trade
 - Organized crime
 - Space security
 - Terrorism
 - Weapons of mass destruction
- ◆ **Technological Risks**
 - Critical information infrastructure breakdown
 - Online data and information security
 - Threats from new technologies

Source: Global Risks Landscape 2011: perception data from the World Economic Forum's Global Risks Survey

on which their clients' websites are hosted. How can they decide that having a disaster recovery plan is not a priority? Surely, in their business it's essential." He concludes: "So, here we are in 2011, and not a lot has changed. Business continuity is not seen as a priority. Until, of course, a disruption occurs!"

Maybe these organisations do not believe it is worth spending to protect against the unforeseen and the highly unlikely – or perhaps they're hoping that someone else will come along and bail them out. But although black swans are, by their very definition, extremely rare, it is also extremely rare for a turkey to survive Christmas.

topic

author

Equality

Beth Holmes

All things are n

Is introducing quotas to increase the number of women on company boards tokenism, or a necessary intervention?

22



ot equal

How far should government, and business in general, go to ensure that the percentage of women in the boardroom fairly represents the percentage of women in business? It's an emotive question and one that might soon be answered. The EU is drawing up proposals for a voluntary code on female directors (to be unveiled in April) but is also threatening to force a 40% female boardroom quota on public companies if they fail to sign up by the end of the year.

Such a decree would force UK businesses in line with those in Norway, France and Spain where quotas have already been introduced, but there is consternation among the business community over whether a quota system is fair on business, on the directors already sitting on boards – both male and female – and, indeed, on whether it is fair on the very women it may fast-track to the top.

While waiting for Brussels to decide how far it wants to push the issue, Lord Davies, in his report into women directors, set FTSE 100 employers a voluntary quota to boost the number of women on boards to 25% by 2015 but shied away from recommending compulsory quotas. However, whatever measures end up being introduced, and by whom, it is clear there is still an issue for women in business.

His investigation has further shone the spotlight on enforced regulation over gender and whatever measures end up being introduced in the UK, and by whom, it's clear that there's an issue for women at business.

The 2010 Female FTSE report from Cranfield School of Management recently showed another year of barely noticeable change in the proportion of women in leadership positions of the UK's top 100 companies. There are just 135 female-held directorships out of 1,076 on the FTSE 100 boards, or 12.5%, which maintains a three year plateau (12.2% in 2009 and 12% in 2008). The incremental increase is due to three additional women on the boards of FTSE 100 companies, taking the total to 116 women holding 135 positions. One of the more positive results is that the number of companies with no female directors has decreased to 21 (from 25 in 2009). However, of the new appointees to FTSE 100 boards in the past year, only 18, just 13.3%, were women.

In order to make real changes it's important to discover why women are still finding it hard to break through the glass ceiling and weigh up what action can, or should, be taken to increase the numbers of women on boards. "This is always a contentious issue, mainly because it raises the point that

“ Search firms should take positive action – meaning putting women into the frame, not putting them in the job. It's not the same as positive discrimination. It's just getting them attention. ”

some women feel that they are being blocked by their male counterparts when they return to work after having taken maternity leave,” says Rob Yeung, executive coach at leadership consulting firm Talentspace and author of *The Extra One Per Cent: How Small Changes Make Exceptional People*. “However, some men may resent the fact that women who return to the office don't seem to have the same priorities and therefore aren't willing to make the same commitments and sacrifices.”

Dianah Worman, diversity adviser at the Chartered Institute of Personnel and Development, agrees that “issues concerning ability and opportunity to work more flexibly”, are relevant when looking at the reasons for the lack of women on boards. But she adds that often the problem is “an issue of culture and how people relate to each other – it's not deliberate.” Jacey Graham, Visiting Fellow at Cranfield and Director of Diversity and Inclusion at consultants Brook Graham, co authored the 2010 report and agrees that this is a key point. “Diversity and inclusion is a big movement in large organisations,” she says, “but the effects have not yet reached the top. Further down the talent pipeline, women are coming through in large numbers.”

When business leaders asked about the reasons for a lack of female directors, she points out, one gets a “different response when you ask senior men and senior women. On the face of it the men will say that it's difficult when women are juggling a career and a family, and that that's just the way the world is. [But] talking to women, there is more discussion about the clearly prevailing culture. That's the crux of it. Organisations are established by male rules of operating. Leadership style is male. If you're knocking against those doors, do you flex your own style to suit it?”

Equality

Beth Holmes

A new approach

Cranfield's report made a number of recommendations for opening up the appointments process and increasing the number of women in Britain's boardrooms:

1. Strengthen the new principle on diversity in selection to 'comply or explain'. Any chairman with less than 20% women on their boards and executive committees needs to explain why this is the case in their annual reports. This should apply to all FTSE 350 listed companies. The 20% should be reviewed in three years time with a view to lifting it to 30%.
2. Advertise all non-executive director (NED) positions in the private sector.
3. Require search consultants to produce balanced candidate lists.
4. Continue to make the appointments process as rigorous and objective as possible through use of skills audits.
5. Use peer-to-peer pressure from FTSE 100 chairmen to encourage FTSE 250 chairmen to seek female candidates for their boards

Source: Cranfield 2010 Female FTSE report

Graham pins another reason on the recruitment process in many large organisations and a seeming lack of communication that exists. "Research shows there is tension between search firms and chairmen," she says. "Chairmen were saying that they have to ask search firms to put women forward and search firms say they aren't asked. Search firms should take positive action – meaning putting women into the frame, not putting them in the job. It's not the same as positive discrimination. It's just getting them attention."

This is not something that recruiters themselves necessarily believe. Una Corning is director of executive search company Kestrel Search and says: "Certainly, for our business, in the last three years we have secured some exceptional female candidates for the senior roles on which we have worked for our clients. In terms of relative proportion, our 'placement' ratio has been 51% female and 49% male. Indeed, during the past financial year, we have again placed proportionately more women in senior roles than men, including two female board directors. There's little evidence to suggest, she adds, that there is a need for the culture of companies to change to facilitate the rise of women to the board. "Interestingly we have a strong retail client base, where female progression is particularly visible. We've seen many senior level female candidates successfully balance work and home life as well as achieving board level promotion – they may have had to put the right support structures in place at home to help with that but that is about being pragmatic. That view might vary across industry sector, of course, but our feeling is that the opportunity for women to compete for board positions with their male counterparts has probably never been better."

Nevertheless, the figures have yet to match the optimism. "We have to look at creating ways to help women," says Worman. "Numbers on their own are not enough. We need a raft of other measures to make sure the experienced women are getting the right jobs." In other countries statistics are improving because they're taken more intervention, but Worman points out that even though quotas meant that Norway now has 50% female representation on boards, that was because "they found that there were a lot of capable women and [as well as quotas] there was lots of build up and support [for the idea of female directors]."

Laurel Powers-Freeling is the former Senior Vice President for American Express, and former group executive director at Marks and Spencer. She is currently Group CEO of Dubai First International and was a non-executive director at the Bank of England. "Quotas are a requirement to reach certain



numbers, while targets are an aspiration and I guess I fall more into the aspiration camp,” she says. “It’s helpful for government to pay attention and understand what the issues are in reaching targets.”

Graham agrees: “In Australia, they took action; not quotas but ‘comply or explain’. That’s where I would land. Any chair with less than 20% of women on the board or executive committee – and this should apply to FTSE 350 – needs to explain why. We keep an eye on that and if there is no progress, make it 30%. It’s more of a target than a quota.”

Powers-Freeling highlights the fact that certain industries are less female friendly than others. “In financial services, achieving diversity is fraught with issues,” she says. “There are many conflicting forces. Within banking or insurance, or in any regulated environment, there are an increasing number of people on boards who have to have relevant and specific experience, which means that banking boards are populated by bankers and ex bankers. That makes it very challenging and narrows down the pool to one that is already more male dominated than other industries.”

There is some evidence, however, that companies with women in the boardroom perform better than male dominated ones. In its *Women Matter: Gender diversity, a corporate performance driver* report, McKinsey studied 279 European companies and found a correlation between corporate performance and the proportion of women in senior management positions. Companies with more women scored more highly, on average, on their organisational performance criteria than companies with no women in senior positions. Moreover, the gap increased significantly once critical mass was attained; i.e. at least three out of 10 board members were women.

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“Different industries favour different skill-sets,” says Powers-Freeling. “We’re all on a spectrum...[but] it’s wrong to say that all women are good with people, not risk takers and good organisers; it’s also wrong to say all men are alpha types and take lots of risks. In general, women will collaborate and men will compete, but you can’t rely on that at an individual level.” This may be key for the future, as Graham says: “Research has shown what leadership works, and it’s collaborative rather than hierarchical. The dynamics are shifting.”

Powers-Freeling concludes with a sobering thought that would suggest that quotas, should they be introduced, may simply force inappropriate or even unwilling women onto boards while at the same time undermining efforts to get the right women into the top roles. “Is it a question of can’t do, or won’t do?” she asks. “We’re all much more aware of choices. People’s view of what’s important in life is changing. In the 80s everyone wanted to be rich and be like Gordon Gekko. Now, having been through the financial crisis, there’s a shift in what people want from life – not just women, but men too. It’s more a life balance than a work/life balance.”

topic

author

Pensions

Liz Fisher

A dose of reality

We all need to be more realistic about the true cost of pensions or we are leaving a timebomb for future generations

26





It's a common feature with pensions that few of us think carefully enough about what our income will be in retirement until our retirement becomes close enough to be unnerving. Many of us tend to underestimate what we need to save in order to guarantee a comfortable income. But we are not alone.

Since the turn of this century, the number of companies operating defined benefit (DB) pension schemes has fallen to an all-time low. There are many reasons behind the decline – low long-term interest rates (which increase the amount of money needed today to cover future pension liabilities), falling stock markets (which means that greater pension contributions are needed to make up the gap from smaller investment income in the pension fund) and increased life expectancy (which means that more money is needed to provide the same level of benefit to a pensioner) to name a few – but the fundamental explanation is that companies simply cannot afford them anymore.

Let's take a minute to explain how companies come to the conclusion that a scheme is unaffordable. Under a DB scheme, the employer and employee pays contributions to the fund, which are then invested with the expectation that the value of the fund will increase over time. When a pensioner retires, they are guaranteed a set amount of income for the remainder of their life, which is paid for from the existing fund. In order to assess the level of contribution (and investment income) that will be needed to meet the pensions that have been promised, the scheme's actuaries look at the benefits that will be paid out in the future, adjusted for the life expectancy of members, and then convert this amount to an equivalent value in today's money, using a discount rate that takes into account inflation and economic growth over the intervening years. This gives them the 'present value of

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It's vital that companies fully recognise the ongoing cost of their pension schemes. Understating the true value just undermines the accuracy of total reward assessments.

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future liabilities' and if this is considerably more than the current market value of the pension scheme's assets, the scheme is in trouble because it may not be able to afford what it has promised to pay out, unless the company behind it can top up the difference.

The pension discount rate – normally a concept that would only crop up in a conversation among actuaries – has become a matter of widespread preoccupation in recent years. But it's important because the discount rate that is used to calculate the present value of future liabilities has a strong influence on the outcome; the higher the discount rate that is used, the lower the estimated value of liabilities, and vice versa.

The focus on discount rates includes the public sector, and the rising recognition that state-funded pensions are becoming unaffordable. The UK Government announced as part of its spending review in 2010 that it would review the discount rate that it used to calculate public sector pension liabilities, which is currently 3.5% a year plus Retail Price Index inflation. A public consultation on the discount rate was launched in December 2010 and ends in March 2011.

The UK Government's decision follows a recommendation in the Independent Public Service Pensions Commission interim report. The Committee's chairman, Lord Hutton, wrote in the report that its initial assessment suggested that 'the current discount rate is at the high end of what is appropriate'. The report added that 'there is uncertainty over whether the total contributions paid reflect the costs of the benefits received'.

Many observers agree that the current discount rate used by the UK Government for unfunded public sector pension liabilities is too high.

Pensions

Liz Fisher



Certainly, the rate is considerably higher than the rates used in many other countries. The danger in using a discount rate that is too high is that it potentially undervalues the future liabilities that will be faced – in other words, the company (or state) running the scheme is way too optimistic about how much it will have to pay out in the future. At the level of public pensions, the amounts related to even a marginal change in the discount rate are huge. The UK government's own actuaries have estimated the present value of the unfunded pension liabilities in the UK (meaning state pensions, and government-backed pensions for civil servants and other public sector workers) at around £2.2 trillion. Amending the current UK discount rate to 2% a year above inflation, by contrast, would increase the unfunded pension liability to over £3 trillion.

It may seem that this has little to do with the private sector, but inevitably, the government's consultation is already creating a ripple that will be felt in corporate UK. While they may seem distinct and detached, public and private sector pensions are inextricably linked, simply because the two sectors watch each other closely. As Lord Hutton wrote in his interim report that 'getting the discount rate right...is key to assessing the cost of benefits...and facilitate proper comparisons between remuneration in the public and private sectors'.

An added impetus is that the tough economic conditions have forced both public and private sectors to rethink some of their investment growth assumptions. The combined effect is that the debate around discount rates has spread to the private sector. The Management Board of the Actuarial Profession in the UK recently announced that it would undertake its own project on the discount rates that are used in all areas of actuarial work, with the ultimate aim of 'developing a common language' around discount rates. The first stage of the project (just completed) was the commissioning of objective research on current practice in the area, the timing of which, said the Management Board, was 'particularly appropriate as there is a convergence of interest in discount rates from within and outside of the actuarial profession'.

Companies offering a DB scheme are required to undertake a regular assessment of the adequacy of pension funds to meet future liabilities, usually carried out by an independent actuary. Generally, the discount rates applied in the private sector reflect the strength of the employer, the scheme's assets and gilt yields. Even so, there are concerns that the discount rate used by some companies is too high and, as a result, they are seriously underestimating the true cost of their pension.

The deficit that has led many companies to close their DB schemes is, in effect, a legacy finance issue – these schemes were set up years ago, at a time when companies could afford them and balance sheets were stronger.

The ongoing cost of a DB scheme, however, is an HR issue. The more expensive the scheme is to run, the greater the potential impact on younger employees – most of whom will not have access to the benefits of the scheme anyway.

According to the Office of National Statistics, 13m people are currently members of a private sector DB pension scheme in the UK, 10.5m of whom are pensioners or former employees. Only 1m are current employees in a scheme that is still open to new entrants. The assumption of most companies that have closed their DB scheme is that the underfunding problem has, as a result, been solved. It hasn't; members still have to be paid for years into the future. Even a closed DB scheme could end up costing a company far more than it ever anticipated if yield rates fall.

Legislation brought into the UK in 2003 make it impossible for employers to walk away from their pension fund obligations without paying an exit price sufficient to bring the scheme's funding level up to insurance buy-out levels. The assumption of most large organisations, though, is that they will never need to reach buy-out levels because they never intend to dodge their obligations. But the flipside is that in taking this approach, many companies are in danger of seriously underestimating what their DB schemes will cost in the long run.

This is where 'Black Swan' events raise their head once more. The hammering that worldwide equity markets have taken in recent years has had a profound impact on pension funds. While many remain optimistic that improving economic conditions will eventually seep through to a corresponding improvement in fund deficits, others argue that always expecting the unexpected is the only pragmatic approach. No-one can guarantee that shares in a company, an entire sector or even a volatile region are immune from a cataclysmic event – which means that unflinching optimism is a risky line to take. Five years ago we would all have argued that Lehman Brothers and Woolworths, for example, would be around forever.

"It's vital that companies fully recognise the ongoing cost of their pension schemes. Understating the true value just undermines the accuracy of total reward assessments which employees may make against competitor packages or even against their own colleagues who are in different pension arrangements within the company" said Raj Mody, Pensions Partner and Chief Actuary at PwC. Mody argues that recent economic events have shown that it is not appropriate to ignore the chance that their pension schemes will not deliver the expected investment returns. By doing so, there is a real risk that companies will be forced to divert future profits to make up unexpected shortfalls, which will have to come out of the productivity of future generations of employees.



The level of actual financing required remains open to argument, though. Companies are understandably nervous of 'overshooting' their pension fund investments because of the difficulties of clawing back any surplus. "Current market practice suggests that companies are financing the build up of future DB pension benefits at around two-thirds of the true value, so basically could take credit for providing employees benefits which are actually worth 50% more than their apparent cost" said Mody. "It's a tricky balance, but companies that understand the distinction between measuring underlying value versus how they choose to finance the cost over time, have much to gain."

topic

author

HR policy

Lesley Meall

Dress to impore

How much say should companies have as to what their employees wear, and does it really make any difference?

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If you work on a building site, a hard hat and protective boots are a must. If you're a deep sea diver, then SCUBA gear is advisable, and if you are a circus clown, well, red noses at the ready.

Some dress codes are easier to introduce – and adhere to – than others. And while it can be argued that dictating what people wear is in some way an infringement of their civil liberties, there is undoubtedly a correlation between the culture of a company and the way in which its workers present themselves; the understanding that if you look and behave like a well-groomed and smart professional then, by default, people will assume you are one.

This is one of the main reasons why so many organisations want to influence the clothing that their employees wear to work – even if it can be very difficult to gauge how far you can go before you must draw a line. “It’s impossible to say precisely what is and isn’t acceptable attire for every workplace scenario,” says Angela Baron, Organisational Development and Engagement Adviser at the Chartered Institute of Personnel and Development (CIPD), but she still has some valuable advice for HR departments that need to provide employees with guidance. “If you are going to have a dress code it needs to be consistent, and the policy should be written down and form part of employees’ terms and conditions,” she says, and as part of HR-Inform (an online resource that provides model policies, procedures, letters, and forms) the CIPD offers a sample dress code. This includes common wording that can be used in almost any dress code, with optional sections for cases such as workers involved in food handling or using machinery.

Statements such as ‘come to work suitably dressed’, ‘the dress code is smart casual’, and ‘wear appropriate outfits for a function’, are fairly commonplace, but they are too open to interpretation to be meaningful. “My last two employers had dress down Fridays, but they both meant something different by smart casual,” says marketing executive Nick Morris, who didn’t realise this until he’d spent an uncomfortable day as the only person in the office wearing jeans. “I won’t be doing it again,” he adds, because he wants to fit in.

Morris is not alone. “Most people are capable of using their common sense and they will conform, even if there is no dress code,” suggests Baron. “The way people dress in the workplace is often a reflection of corporate culture,” she observes, and although this can vary widely between industries, companies, and even departments, most people see what is expected of them and dress appropriately. “If their colleagues are all wearing suits and ties, or jeans and t-shirts, most people will want to do the same,” she adds, because very few people want to stand out as the lone non-conformist.

“ ”

Even the most carefully written dress code may not be enough to keep you from the tribunal if an employee decides that they want to make a point.

But what of those that do? According to Baron, very few disputes over dress codes actually make it as far as an employment tribunal, because “99% of the time, having a quiet word with somebody is enough to sort things out,” though there are always exceptions. “Sometimes you’ll encounter people who want to dig their heels in, and that’s when it’s useful to have a formal dress code to fall back on,” she says. However, even the most carefully written dress code may not be enough to keep you from the tribunal if an employee decides that they want to make a point.

International rescue

Creating a dress code is rarely simple, but it is particularly challenging for HR professionals in organisations with international employees and clients, because of the myriad cultural differences that must be considered.

It may help to factor in some of the differences highlighted in the *Ipsos Global @dvisory: Proper Attire in the Workplace*. There is consensus on what’s expected of senior managers, as 66% of workers expect them to be more dressed up than their employees. But more than 12,000 interviews in 24 countries revealed a vast divergence in what is considered acceptable attire for the workplace. Indian workers have the highest expectations and standards, whilst Europe is considerably more laid back – and wearing shorts to work was deemed acceptable by more workers in Hungary than in Australia.

topic

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As the Royal Devon and Exeter Hospitals NHS Trust discovered, when one of its nurses was moved into an administrative position after refusing to remove a crucifix, and claimed discrimination on the grounds that the 'cross ban' prevented her from 'expressing her religious beliefs'. "These were very serious allegations of direct and indirect discrimination," says Jane Viner, Deputy Director of Nursing at the trust, and they were brought despite clear uniform and dress code guidelines, which prohibit all front line staff from wearing any type of necklace on health and safety grounds.

Nurse Shirley Chaplin was unable to wear the cross on a chain only while carrying out clinical duties on the ward, and before moving her away from front line services, the hospital suggested a series of compromises, including wearing the cross pinned inside a uniform lapel or pocket, or keeping the chain beneath a turtle neck t-shirt. But Mrs Chaplin refused, claiming that being asked to hide her faith was 'disrespectful' as two Muslims at the hospital were allowed to wear headscarves under the 'exemption' rules for religious symbols.

These arguments failed to convince the tribunal judge who ruled that the hospital had acted reasonably in trying to reach a compromise. He suggested that the damage to Mrs Chaplin had been 'slight' and noted that wearing a cross was not a requirement of the Christian faith. "Though not a simple case about health and safety law, the ruling is a clear victory for common sense on this basis," says Nikki Duncan, an employment law specialist. It also provides some comfort to those responsible for devising health and safety policies and dress codes.

"Mrs Chaplin's case was significant legally, because her representatives were testing some of the areas of legal uncertainty left open in the high profile BA cross case, including the interpretation of parts of the religious discrimination and belief regulations, and the impact of the European Convention on Human Rights," explains Duncan. "As a discrimination claim on religious grounds it provides some guidance, and encouragement, to other employers likely to face the increasing number of such legal challenges in this emotive area of the law," she adds.

Although the Trust's uniform and dress code guidelines helped its case at the tribunal, its behaviour in response to the initial dispute were also significant. "The fact that the hospital went to great lengths to find a compromise undoubtedly informed the tribunal decision," says Duncan. So as well as creating dress codes that reflect the needs of the company, meet health and safety guidelines, and respect people's religious beliefs, employers need to back these up with adequate and appropriate policies and procedures, and ensure that they are rigorously applied. As Baron adds: "A dress code must be consistently enforced for all employees."

What's behind the uniform?

Uniforms serve many purposes: reinforcing brand identity, giving people a sense of belonging, and making the wearer easy to identify, to name but a few. But as organisations increasingly outsource non-core work, there is a great deal more going on beneath the surface.

"Sometimes our staff wear the Menzies Aviation uniform, and sometimes they wear the uniform of one of our clients," says Kevin Brown, Senior Vice President of Support at Menzies Aviation, the global provider of passenger and cargo handling services. Sometimes one member of staff may wear a variety of uniforms. "Some people have two or three uniforms hanging up, and they may change in and out of them during the day," he says, explaining: "They may do four hours on a check-in desk for airline A and then do three hours at a check-in desk for airline B."

This can make staff training a challenge. "All of our passenger service staff have training on Menzies policies, procedures, rules and regulations, and then on top of this they undergo specialist training to ensure they have the knowledge required by each different airline," as the standards of behaviour and levels of service expected can vary widely.

Because employment law distinguishes 'employees' and workers', and 'contractors', 'sub-contractors', and 'self-employed contractors', there are other HR challenges too. Issues such as health and safety (and the associated risk assessments), employers' liability insurance, public liability risk exposure, vicarious liability, plus the various statutory requirements that comprise employment law, must be addressed.

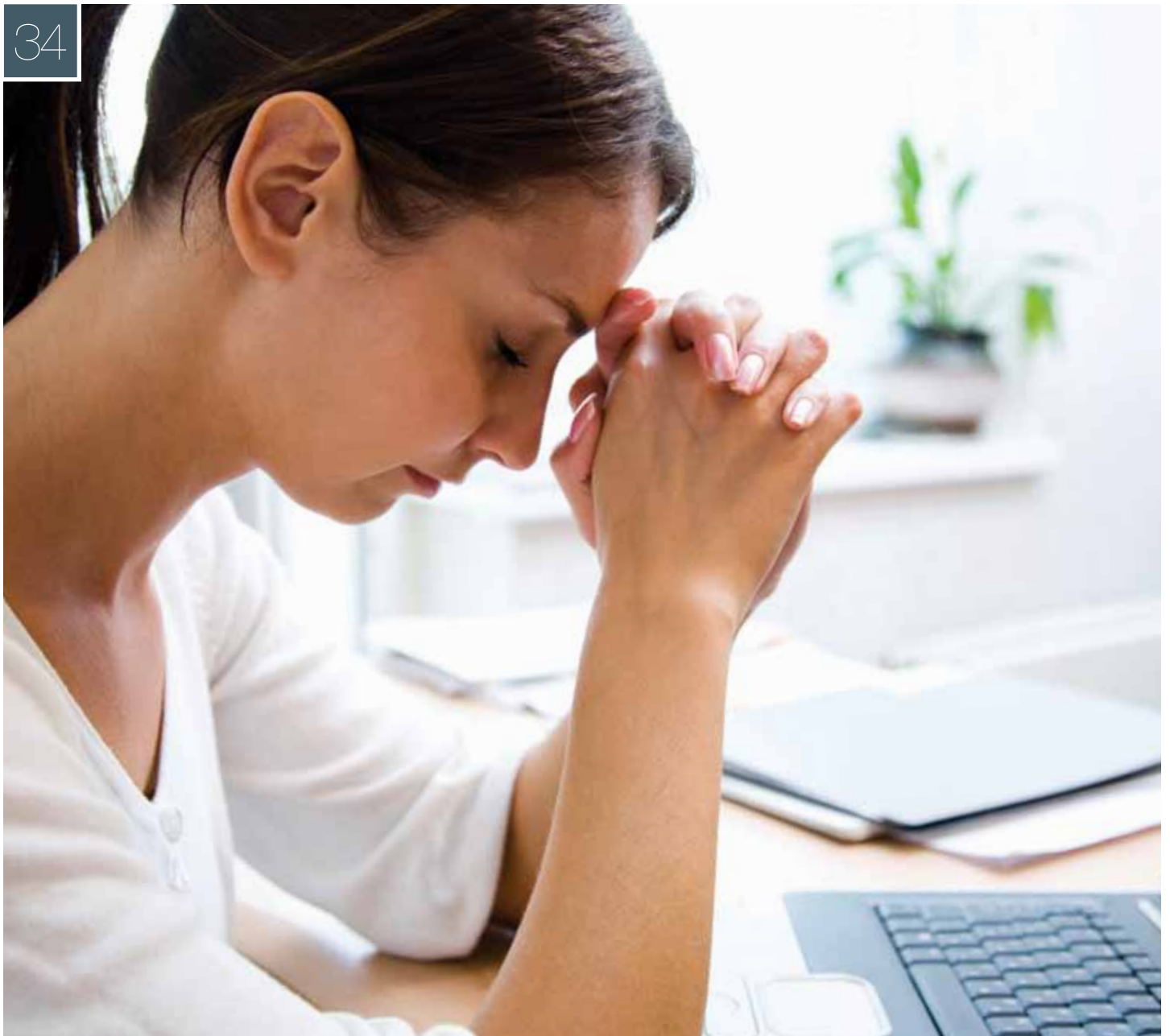
Guidelines are available from the Health & Safety Executive and HM Revenue & Customs, but this is a potential minefield. Even if a person is self-employed for tax purposes they may be classed as an employee for other reasons. So 'employers' must be clear about their responsibilities, and take specialist legal advice, if necessary.

Letter from Warwickshire Liz Fisher

My black swan

How does a self-employed home worker cope with an unexpected disaster?

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When I first went freelance about 11 years ago my father – who ran his own small business – told me that self-employment is a great life as long as you're never ill and don't like holidays. He also gently warned me to always make sure that I had enough money set aside to see me through a dry patch of at least three months, and to plan for the unexpected.

Being a naturally cautious, glass-is-half-empty sort of person, I mostly followed my father's advice. I took out critical illness cover and opened a separate savings account that I only touch in a dire emergency. I even, rather proud of myself, back up my computer from time to time and keep a memory stick at another address just in case (I did say my glass was half empty) the house burnt down. And after 10 years without serious incident, I was beginning to feel a bit smug.

Then, two days before Christmas, a 'black swan' arrived in the form of a burst water pipe. I arrived home after a couple of days away to find the entire downstairs of my house under four inches of water. No electricity or mains water, the heating system destroyed – this was something I hadn't planned for. Mercifully, my computer and the rest of my essential office equipment was safe – more by luck than judgment, as a rug had redirected the worst of the water away from my desk – but it was immediately clear that I wouldn't be able to live (or work) in the house for quite some time. Hardly the ideal situation for a freelancer.

It's been almost 10 weeks since then and I'm still not back at home, although it won't be long now. Looking back, I'm beginning to wonder if there's anything I could have done that would have made things easier. I've certainly learnt the hard way to back up my email archive as well as documents, and I'll never store anything important in a cardboard box at floor level again.

The main thing that I'm grateful for is that I had good home insurance. It wasn't the cheapest option, but the past few weeks have been well worth the extra cost. Insurance companies tend to be confused by home workers and it was obvious from the start that I was somewhat outside my insurer's comfort zone. My circumstances just didn't match their standard approach to a flood. I didn't need a short-term let that was commutable from work, the usual solution, because I don't commute. And managing two properties and two sets of bills would make working out my business expenses and tax return even more of a nightmare than usual, so I wasn't keen. Instead, I opted to move in with family and travel to and from the house while the restoration work was done.

“ I've certainly learnt the hard way to back up my email archive as well as documents, and I'll never store anything important in a cardboard box at floor level again. ”

I've also learned that having several options when it comes to internet access makes all the difference. Moving my home broadband account to an alternative address took time and without my Blackberry and dongle, things would have got rather tricky. I've worked and replied to emails in some strange places over the past few weeks – from the car, plumbers' merchants, or in the remains of my office over the roar of dehumidifiers – and no-one was any the wiser.

The one thing that would have been really helpful is someone who could have helped to organise all of the work on the house, but I don't know of any insurance policy that would have offered that. Work doesn't stop just because you have a disaster. I've had to improvise quite a bit and it's been difficult to co-ordinate all the various workmen that needed access to the house – which at the last count was six plumbers, a builder, flood restoration specialists, a carpenter, a plasterer, three electricians, a Corgi engineer and a carpet layer- around the work I have to do in order to keep my business ticking over. On one occasion I took part in a conference call while the plumbers tip-toed around me, smirking.

So, have I learnt anything from the appearance of my own personal black swan? Not really. I honestly don't think there was much I could have done in terms of planning that would have helped. But I've coped, I have lovely new carpets, and I won't ever complain again at the chore of backing up my computer.

Liz Fisher is editor of *Hourglass*.

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References and further reading

Pages 6-10

PwC' 14th Annual Global CEO Survey can be download from: <http://www.pwc.com/ceo-survey>

Pages 18-21

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The Chartered Management Institute' report, *Disruption and Resilience: the 2010 Business Continuity Management Survey* can be found at:

<http://www.managers.org.uk/research-analysis/research/current-research/BCM2010>

More on the World Economic Forum' research into global risks can be found at

<http://www.weforum.org/issues/global-risks>

Image of Swans, supplied and retouched by Ryan Cutbush Photography.

Pages 22-25

The 2010 Female FTSE report from Cranfield School of Management can be found at

<http://www.som.cranfield.ac.uk/som/ftse>

The website for Kestrel Search is www.kestrelsearch.com

Pages 30-33

Ipsos Global @dvisory: Proper Attire in the Workplace is available free at

www.ipsosglobaladvisor.com/dl/Ipsos_GlobalAdvisor_Proper-Attire-in-the-Workplace-Report.pdf

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