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ResourceBank

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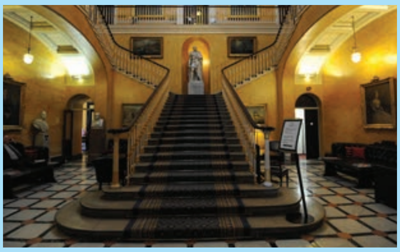
20th ResourceBank HR Directors' Forum

myth busting

Executive Reward: Where did it all go right?

FEATURED IN THIS ISSUE...



Executive Reward: Where did it all go right?

The 20th – and largest – ResourceBank HR Directors' Forum saw Deborah Rees, Director of Consulting at Innecto Reward Consulting, take centre stage. Rees stepped into the limelight in a bid to take the audience on what she referred to as 'a journey through executive reward' – and perhaps to prove that, media hullaballoo notwithstanding, the reward specialists have done a good job in rewarding senior players.

Reward specialists, said Rees, are working against a backdrop of unengaged shareholders and poor communications and dealing with three key developments – increased regulation, a changing workplace demographic make-up and growing stakeholder requirements. Add to this the popular perception of senior executives as grossly overpaid 'fat cats' and you're left with a far from pretty picture.

Myths

It's all about myths, Rees told her audience, before setting out to shatter the main culprits. Chief amongst these, she told us, is the idea that executives are entrepreneurs and deserve to be treated as such. Not so, insisted Rees, stressing that most executives are quite risk-averse.

The second myth, according to Rees, is that long term investment plans (LTIPs) align shareholders and executives. Again, not so, she said. Most LTIPs are not understood by executives, who fail to appreciate their value. The same executives heavily discount the value of their LTIPs – by up to 50% over three years – making them an expensive option.

Myth number three, said Rees, is the idea that an organisation needs to offer upper quartile pay in order to get upper quartile performance. This is wrong, she said, insisting that people will work for less money if they feel that the job is what they want. There is more to reward than money, she told us – and pay is relative. Rees spoke of research by consultants PwC – 'The psychology of incentives' – which found that when offered the choice of a £150,000 salary (compared with the £140,000 paid to their colleagues) or a £185,000 salary (compared with the £200,000 paid to colleagues), respondents opted for the former – in other words they considered earning more than their peers more important than boosting the value of their own salary. So, stressed Rees, pay isn't the main thing for everyone.

Rees's final myth – and presumably one dear to her heart – is that 5.5% of FTSE 350 executive board members are female. It would be easier, she told us, to spot a mermaid than to catch sight of a woman in the boardroom.

The way we were

Having set the record straight on executive pay myths, Rees cast a glance backwards. The business landscape has changed, she said. Where once large companies were the norm, today a lean structure is preferred. Innovation has replaced consistency and the way in which we work now focuses on being nimble rather than having a routine. Today's employees are valued for their ability to join the dots, rather than the technical skills appreciated in their predecessors, while the average company demonstrates diversity and cultural difference, rather than the cultural homogeneity of the past.

Baby boomers – the 50 to 70 year olds - are leaving the workplace and with them leave their traits of loyalty, working for a company for life and deferred gratification (waiting to achieve partner status after 15 years of work, for instance), Rees said. They are being replaced by Generation Y – 21 to 35 year olds – with very different values and priorities. Rather than the career-long loyalty of old, this generation is more likely to sell its skills to the highest bidder, said Rees, and to move on once they consider their earning potential met.

> "It would be easier to spot a mermaid than to catch sight of a woman in the boardroom."
>
> **Deborah Rees,**
> Director of Consulting.
> Innecto Reward Consulting

Pictured below:
Deborah Rees and Jonathan Davies

Pictured left:
Kevin Ringrose

Panel session »

Read more about the Panel Session at this years HR Direcor's Forum on p04...

What next?

The future for executive reward, predicted Rees, will see a move towards CEO pay performance alignment. Reward specialists will have additional regulations to grapple with, and they may have to rethink their idea of what rewards people value most.

At this point in her presentation Rees talked about what motivates people and quoted an interesting view of American author Daniel H. Pink in his book 'Drive: The Surprising Truth About What Motivates Us'. It claims that the secret to high performance is not the traditional 'carrot and stick' approach, but 'the deeply human need to direct our own lives, to learn and create new things, and to do better by ourselves and our world'. It's to be hoped that sales of the book spiked on Amazon the morning after the Forum...

Rees also pointed to the growing challenges around rewarding people in non-commercial organisations – and how these will be further complicated by demographic changes and the increasing dominance of the workforce by Generation Y.

Where the reward is financial, there will be a move towards making CEO pay more closely measurable against company performance, as shown by Kepler Associates' 'broad zone of fair play'.

Considering elements of pay – base pay, bonus, recognition and benefits as key pillars in the employee deal is essential and Rees stressed the importance of clarifying what separate role each component of pay plays in making up the overall deal. For each company, the blend of the deal will look different and should reflect the organisation's unique DNA. Communication will be key. ■

Case studies

Unilever

CEO Paul Polman describes the company's sustainable living plan as 'probably the most audacious plan that exists in the world'. Under the terms of the plan, published in 2010, Unilever aims to double the size of the business while reducing its environmental footprint. And according to the annual report and accounts, this year could see the company align executive remuneration to its long-term sustainable living plan. Details are yet to surface.

HSBC

In the light of the banking crisis, HSBC has rethought executive reward. Last year the bank launched a pay plan requiring directors to hold shares until they retire – despite 15% of shareholders voting against the idea when it was mooted. HSBC is also moving away from total shareholder return as a performance measure, concerned that this may have encouraged bankers to take risks in the past. It is now awarding shares based on past performance.

This year's HR Forum...

"It's been useful to hear about executive reward in very commercial organisations, such as FTSE100 companies. Whilst my organisation isn't quite like that, that's the model we would like to have, being a high performing organisation, whether that means LTIPs for executives or not, or more focus on financial performance. The RFU is an organisation that has grown hugely over the last few years, and is now working in very different ways, doing very different things, but ultimately with the same aim of reinvesting profits back into the game of rugby and developing sport within the country. So I'm always keen to hear from companies that maybe we don't have anything in common with – it's good to keep up to date with what's going on. And this is a great opportunity to network and to hear what other people are thinking about."
James Whittaker, Rugby Football Union (RFU)

"I thought Deborah's presentation was very straightforward and uncomplicated – it was easy to understand. From my perspective, I thought the point around what an entrepreneur looks for in reward differing from what the executive looks for – making that distinction between base pay and variable pay – is really important and resonates with us as a business. The panel was very good – I liked the new format."
Jane Perks, The White Company

Panel session

Q: It used to be said that a CEO's salary should be seven times that of the lowest paid worker in the organisation. This is clearly no longer the norm! In the face of the current scrutiny and public dissatisfaction, how do you think we should balance the need to retain and attract senior talent with the need to control salaries, bonuses and contentious exit packages? *Kathy Poole, Channel 4*

KR: If you strip down the question and ask what is really annoying people at the moment, to me it's about executive behaviour. If people can see clearly a link between the performance that they deliver to an organisation, and the way in which they do it, I don't think people really have a problem. Many, many high profile figures deliver incredible performances and they behave in a way we find acceptable. It's when performance or behaviour is poor and the executive walks away with a fat pay-off at exit – that's where people are getting really upset. I was thinking about it last week with the José Mourinho case where he said 'If I resign, I pay you £10m, if you fire me, you pay me £10m'. I just wonder whether this would work in terms of executive reward. I don't have a problem negotiating exec packages on performance – I have a problem with exits.

JD: A simple way to do this is that, on exit, you can't touch your shares for another two years. That means that the departing executive can't simply cash in on his or her shares if the company share price subsequently collapses, therefore they will suffer along with the shareholders. The only good scheme as far as the executive is concerned is one that pays. If it doesn't pay, there must be something wrong with the scheme.

DR: In terms of the CEO's salary being seven times that of the lowest paid employee, the trade union movement and Labour get very excited about it. The simple difficulty is that if you are Tesco, and you're operating a number of shops, the people in the shops are doing the same job – but if you open another 200 shops, or you're opening opticians, or financial services organisations or mobile provision, the business becomes incredibly complex for the people that are managing it, but the people at the lower end of the organisation are essentially doing the same job. It is unrealistic to think that there is still going to be that relationship between the bottom and the top of the organisation. It might have worked a long time ago, but it just doesn't now.

Interestingly, I think if you look at environments like call centres, where people are paid £15,000 to £20,000, and you multiply that by seven, you'll find that a senior manager in charge of a group of people is paid about that. But often there's a whole raft of management above that, who are looking after different businesses – and again, there's complexity around the way things work.

Q: Given the current shareholder desire for simplicity and the changing legislative environment, does the panel agree that there is still room for innovation around executive reward, and if so, in what form? *Matt Beer, ITV*

JD: Innovation – as far as a lot of shareholders are concerned – is a dirty word, because they now want everything to be as simple as possible, except when it comes to their own remuneration. This was borne out by a paper brought out by the Church of England last month, as part of their ethical investment guidelines. It's quite interesting – they pointed out the conflicts that the shareholders have. Companies like Aviva and Prudential have seen some of the biggest shareholder revolts recently – because of the short-term nature of their businesses, shareholders have expected similarly short-term returns.

DR: Innovation is about not being lazy, and about using real metrics rather than just on TSR. Think about timing of incentives. We tend to stick with three year plans (where, for example, four and a half years may be better for your organisation, or three and a half years for another organisation). There is always a process to go through and it can be difficult to get new ideas through, but it is possible, particularly if you work in an organisation that's not FTSE100 listed.

KR: It's about transparency, not simplicity – that's my personal observation. When you're having those conversations with the stakeholders, my advice is to make sure that the line of sight, between what you are trying to achieve and what you then deliver, is transparent. And the second thing is a personal observation: the comp and benefits specialists are the king and queen makers of HR Directors. HRDs in the room, watch out – if you don't have the relationship right between the comp and benefits specialists and your REMCO... You can be innovative but you need to stay close to your REMCO, and to remember your stakeholders.

Q: As a non-profit making, regulatory, organisation, we often face criticism from our stakeholders about running an executive performance bonus scheme. We believe that it is an important part of recruiting, retaining and motivating at that level but it is not so easy to persuade stakeholders of this. Can the panel suggest any innovative reasoning to address these difficulties? *Clare Dale, British Horseracing Authority*

DR: It can be tricky for a not for profit to create what's seen as a bonus. You need to turn it on its head – 'we are not guaranteeing all of their pay; we can hold back some of it depending on their performance'. Just that simple switch can help the organisation say 'It's not extra, that part is not guaranteed'. That pay at risk concept is really useful.

KR: If the performance management process works, link it to reward. It doesn't really matter if it's a private or a public company, but you've got to get to the root of it to work. If the performance management system isn't working, don't try to put a reward system on the top of it – it won't work, either.

JD: I agree. It's all about performance management. It's interesting looking back at the dictionary definition of a bonus. Twenty five years ago it was an unsought, unexpected extra bonus, a seasonal gratuity to employees beyond their normal pay. It's now expected, as a retention tool.

Questions from the floor

Q: How many companies believe LTIPs deliver what is wanted? *Phil Herbert, Aliaxis*

KR: LTIPs are complex and communication is poor. The complexity of what has been done is lost on the senior team, and you have to question what happens below, as we're not great at communicating what we've done. If you've got an LTIP that is complex and poorly communicated, what is it doing to the organisation? How much money are we throwing away?

DR: PwC has looked at the psychology of incentives, and found that people like being in the club when it comes to having an LTIP but they don't always understand it (75% of executives said they didn't understand how the LTIP works). Too many LTIPs are lazily designed around TSR – they've become just another vehicle for paying executives. They don't always work.

Q: Can reward strategies be aligned throughout the organisation so it's not just the Board that benefits?

DR: What you're talking about is the trickle-down effect and how it impacts on the organisation. In terms of some elements, for example benefits, there is a push to move from having a hierarchy. I'm working with a few clients at the moment where they are deliberately moving away from that and saying 'You know what? If you work here, you get the same package – if you want to buy more cover for your family, that's fine, you can do'.

This is a healthy approach – how far it will go in terms of trickling down around things like shareholding, my sense is that probably won't, simply because of the cost and the impact on the balance sheet. But there are organisations where a significant amount of money has been put aside for employees, meaning that they are reaping rewards and having some sort of shareholding.

KR: I have a bit of a dream, that there's something out there for Generation Y. At the moment, I'm really struggling to see how Generation Y is going to adapt to an organisation that says 'We're going to reward you after you retire' (when they can't, for example, afford a house) – it seems to me that this is executive reward at the wrong end of life. Generation Y won't hang around to be 50 year old chief executives. They want the basics now – a new reward equation will be needed.

JD: I agree – share ownership and pensions are irrelevant to Generation Y. I read the other day that the average 38 year old today has had 14 jobs.

Deborah Rees (DR), Director of Consulting, Innecto

Melody Hermon, Director ResourceBank, Panel Chair

Kevin Ringrose (KR), Interim HR director, Stocks Spirits Group

Jonathan Davies (JD), Interim Head of Reward

Richard Pearson
MD, ResourceBank

Evolving our brand to reflect service range and differentiation…

Our new service logos

RB RPO

RB Executive

RB Shared HR

RB Extra

The more observant of the regular readers of The Source will have noticed a new style for this 14th edition. It is part of a brand evolution that we have undertaken this year to better communicate the strengths of the ResourceBank business and to reflect the mission we have to grow the company over the next few years.

ResourceBank of 2013 has nearly 100 employees, we undertake a whole range of recruitment and HR services, and we support a growing number of key clients in the UK, Europe and worldwide. Many customers identify us as an RPO provider but are unaware of the breadth of our service range. We have therefore adopted a clearer positioning for our business, with four distinct service lines:

ResourceBank is an HR business partner offering tailored people solutions in four key areas:

» **RPO** *(outsourced recruitment)*
» **Executive** *(bespoke search service)*
» **Shared HR** *(outsourced HR administration)*
» **Extra** *(HR projects including assessment, exit interviews and outplacement)*

Each of the service lines has dedicated teams with a clear business plan to develop the services to meet our customers' needs.

We have also asked customers what they think our key strengths are and why they choose to use ResourceBank. Their feedback is that we are flexible, we listen, we give fabulous service to both our clients and their candidates and we have a positive impact on their employer reputation. We are now ensuring that these strengths are communicated in our client promotional material and have adopted a "Tailored solution – nothing fits better" strapline along with a tailored image *(see below)*.

Our aim is to grow and develop each business line over the next three years and continue to focus on high quality tailored services that continue to support our customers in meeting their business objectives.

We thank our existing clients for their continued support and look forward to working with those of you who haven't tried us yet!

> "Our aim is to grow and develop each business line over the next three years and continue to focus on high quality tailored services that continue to support our customers in meeting their business objectives."
>
> **Richard Pearson,** CEO ResourceBank

Sourcing Talent for Tesco...

The ability to source great products at competitive prices is a prime focus for retail giant Tesco and ResourceBank has been appointed to help deliver this objective. We have been retained to identify and attract key industry talent to staff-up two key strategic divisions sourcing projects within Tesco – Global Business Unit (GBU) and Group Food Sourcing (GFS).

GBU manages the commercial buying relationship of Tesco's top 20 global suppliers, with whom they have an annual turnover in excess of £10 Billion. GFS is developing a group food sourcing capability that leverages the Tesco scale, brand and expertise to deliver better products at cheaper prices. Currently they have a spend of £3bn per annum and plan to increase this to £15bn in the next 5 years.

While Tesco already has significant in-house capability for staff recruitment, the management of the GBU and GFS wanted to supplement this activity with the appointment of a retail executive search specialist who could proactively search and identify key professionals within the industry who could add value to these two key units. ResourceBank had worked successfully on a similar key project for ASOS and, as a result, were introduced to the GBU and GFS.

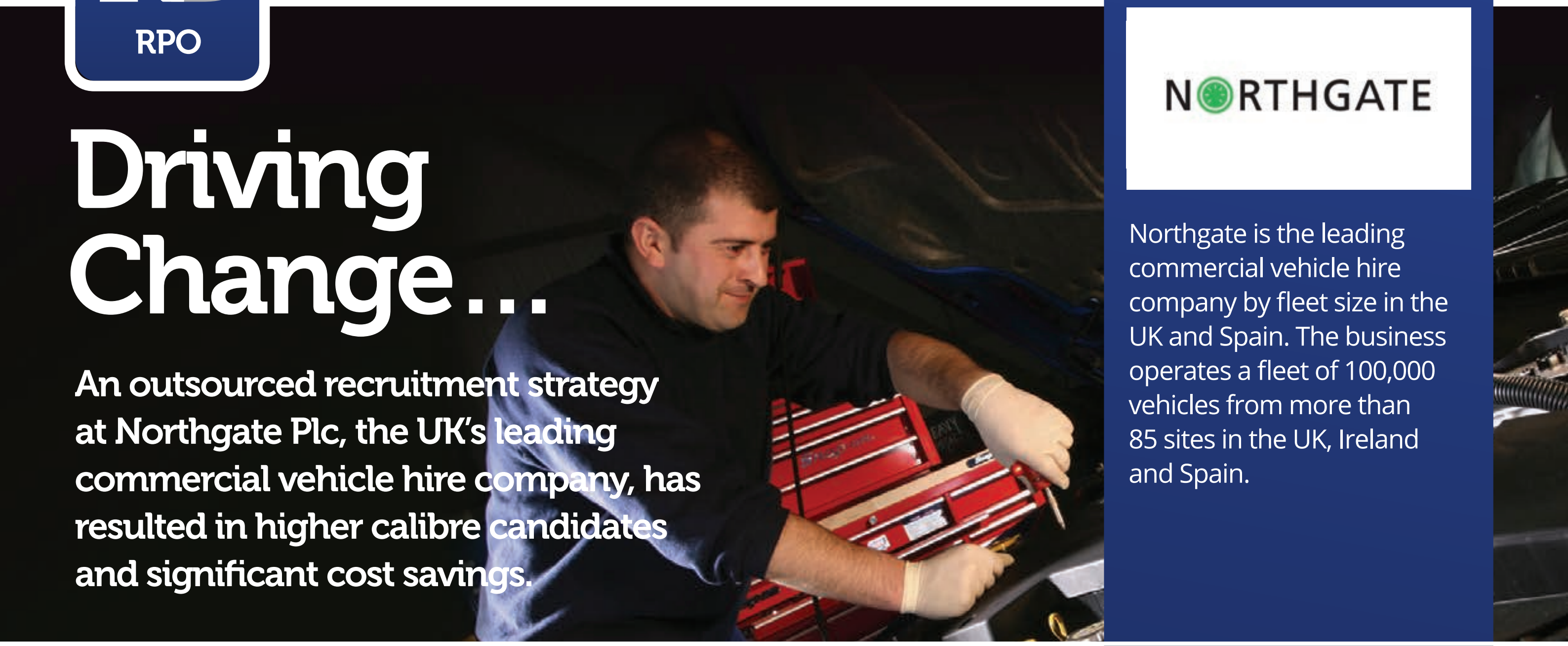
An initial appointment to work on 15 roles in February 2013 has grown to a requirement to source for 65 business critical roles for Tesco. A dedicated team within ResourceBank Executive (RBE) has been created directed by Sarah Hopkins and with day to day management by Phil Brakewell and Sarah-Jane Chatterton. They are supported by a team of Consultants and Researchers who identify, hook-in and source talent for Tesco into this exciting new arena. The Tesco priorities are talent and pace and the RBE team are doing an excellent job in delivering to this challenging agenda.

ResourceBank has already received positive feedback and introductions to exciting new areas of the Tesco business to support on their talent agenda globally. ■

Tesco Positions include:

- » Senior Buying Manager – Poultry Buying
- » Buying Manager – Poultry
- » Buying Manager – Meat
- » Brand Manager
- » Supplier Commercial Manager
- » Marketing Insight Manager
- » Production Manager
- » Category Marketing Manager
- » Category Development Manager
- » Supply Chain Development Manager
- » Head of logistics

RESOURCEBANK RPO
Case Study



Driving Change...

An outsourced recruitment strategy at Northgate Plc, the UK's leading commercial vehicle hire company, has resulted in higher calibre candidates and significant cost savings.

THE COMPANY
Northgate

NORTHGATE

Northgate is the leading commercial vehicle hire company by fleet size in the UK and Spain. The business operates a fleet of 100,000 vehicles from more than 85 sites in the UK, Ireland and Spain.

THE CHALLENGE

Prior to 2010, Northgate operated 30 separate businesses in the UK and Ireland, each responsible for its own recruitment. The standard of recruitment between the different organisations varied dramatically and there was an over-reliance on agencies so the cost per hire was unnecessarily high. Northgate merged its 30 separate businesses into a single 'One Northgate' organisation and, rather than establish an internal co-ordinated recruitment service, Northgate decided to outsource to ResourceBank at the end of 2011.

SOLUTION – WHITE LABEL INTEGRATION RPO

Following a three month implementation period, ResourceBank established a dedicated team of seven people who form the Northgate Resourcing Centre and reflect Northgate's brand values at all times. All candidate communication is done under the Northgate brand and candidates are never aware that the Northgate Resourcing Centre is run by an external organisation. Candidate care is paramount and satisfaction is running at 90%. Even though it is not compulsory to use the Resourcing Centre, Line managers have quickly seen the benefits and uptake has been virtually 100%, with 450 vacancies filled during the first year – with roles varying from motor vehicle technicians through to rental team staff, customer service assistants, managers and new business managers.

Key facts:

DURATION:	Dec 2011 - ongoing
SIZE:	450 hires per annum
SCOPE:	All UK permanent recruitment
SKILLS:	Customer service, motor vehicle technicians, head office
SERVICE:	End to end white-label off-site RPO
RESOURCE:	Team of 7 ResourceBank staff

Before	After
30 SEPARATE BUSINESSES	**ONE ORGANISATION**
VARIED RECRUITMENT PROCESSES	**ONE PROCESS MANAGED BY RESOURCEBANK**
POOR CANDIDATE EXPERIENCE	**90% CANDIDATE SATISFACTION**
HIGH COST PER HIRE	**60% REDUCTION IN RECRUITMENT COST**
EXCESSIVE MANAGEMENT TIME	**MANAGERS FOCUSSED ON KEY INTERVIEWS**
OVER-RELIANCE ON AGENCIES	**DIRECT / EMPLOYER BRANDED WEBSITE**

> "Outsourcing to ResourceBank has improved the service we give to the business, has reduced my budget and makes us a key business function because the recruitment of the right people is vital to our future. I wouldn't hesitate to go down this route again."

Marc Bertrand, HR Director, Northgate

Kerensa Leatherland joins Shared HR division from Astra Zeneca

ResourceBank has significantly increased the expertise of its Shared HR division with the appointment of Kerensa Leatherland as HR Services Manager responsible for the askHR service at Pitney Bowes.

Kerensa is an experienced HR Professional who has worked for blue-chip companies including Marks and Spencer, Pizza Hut and, most recently, Astra Zeneca where she was involved in establishing a new HR Shared Service centre.

Kerensa says "I am excited to have the chance to work with an open and innovative company like ResourceBank and consider myself very lucky to be able to work with the extremely talented and committed team at Hatfield. I am looking forward to using my years of HR experience and passion for getting the HR foundations right to deliver customer service that really will delight everyone at Pitney Bowes."

ResourceBank were awarded the contract to run the askHR service for Pitney Bowes in 2011 and employ a team of seven based at the Pitney Bowes offices in Hatfield operating a first-line HR support and administration service to all of Pitney Bowes UK. The team process in excess of 1,000 individual transactions per month and have been praised for providing a fast and responsive service.

1,000 Vector apprenticeship applications

ResourceBank have managed nearly 1,000 applications for just 12 Apprenticeship positions with Vector Aerospace, a global provider of maintenance, repair and overhaul to helicopters.

The Machinist and Mechanical Apprenticeship positions are based at Vector sites in Almondbank, Scotland and Gosport, Hampshire and provide an excellent opportunity to start a career within the Aerospace industry. The ResourceBank Vector Aerospace recruitment team reviewed every application, pre-screened, telephone interviewed and then shortlisted candidates who have been invited to Assessment centres in June. Unique within the industry, the team spoke to every single rejected candidate, giving them personal feedback on their application and advice on other career options.

This is the fourth year that ResourceBank, as part of their RPO partnership with Vector, have managed the apprentice recruitment programme.

Magnet Careers website incorporates video

Magnet careers website has just undergone a redesign giving it a fresh, contemporary new look and improved functionality. The new website enables visitors to discover more about the many different opportunities Magnet have across their business and helps candidates to find a role with the company that best fits their skills. As part of the redesign Magnet asked members of their existing team to say a few words about themselves, their roles and what they think it takes to excel at Magnet. These short films give the new site a friendly and welcoming feel which will help support the company's candidate attraction and application process.

Global Search for Aliaxis

ResourceBank Executive have successfully completed a search campaign for Aliaxis in New Zealand – identifying an HR Director to drive the Group's HR strategy in New Zealand.

ResourceBank have now delivered on search assignments for Aliaxis in the UK, Belgium, Australia and New Zealand, demonstrating that a successful search activity is not limited to the country of operation. Key interviews were undertaken through video conferencing at times to suit the candidates.

Follow ResourceBank

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