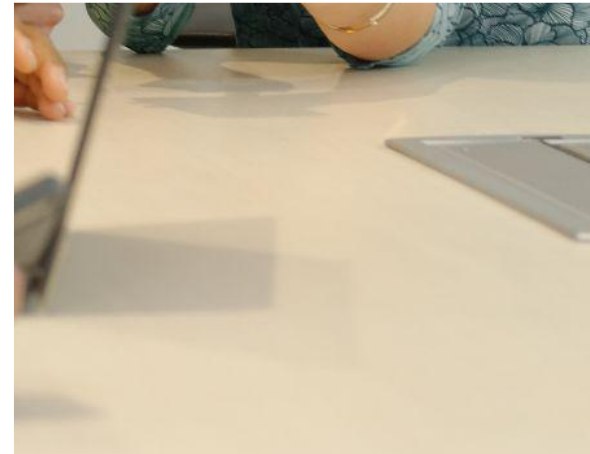
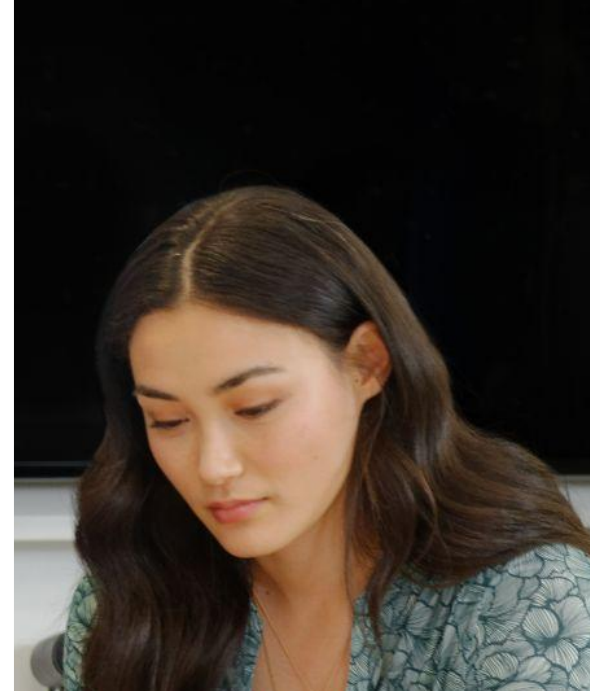




The great rethink survey

When it comes to the workforce, how are businesses responding to uncertainty?
Key findings | September 2022



Introduction

We surveyed just under 100 reward specialists from 84 large UK businesses on the challenges they face around cost, talent, skills and productivity, as well as their response when it comes to reward. In this report we share insights and themes from the survey.

‘The great resignation’ was a call to action. It highlighted the need for employers to think creatively about attracting and retaining talent. However, a new set of challenges have now emerged.

These demand ‘the great rethink’. We need to rethink how we engage, reward, motivate and manage the workforce.

Rising levels of inflation, coupled with fears of a global recession and geopolitical uncertainty, mean that employers are navigating a complex landscape. At the same time, many organisations continue to face high levels of labour and skills shortages. All of this is happening as the workforce continues to undergo significant transformation, accelerated by the pandemic.

In this pressure cooker environment we must - once again - deal with many competing priorities in the short and long-term. However, it is also a time to investigate, evaluate and and potentially innovate. It is now time for the ‘the great rethink’.



Alastair Woods
Partner

Cost of living is top of the agenda.

Organisations need to consider short-term, tactical responses, while keeping in mind their long-term people strategy.

Reward needs a rethink. Reward needs to evolve to keep pace with the needs of a diverse, hybrid workforce. This ranges from performance management considerations to benefits.

The employee experience goes beyond reward.

There is renewed focus on the overall Employee Value Proposition (EVP) to create a more compelling and financially sustainable offering.

Skills shortages can be addressed internally.

By building learning and upskilling into the EVP, and linking it to career progression, gaps can be filled.

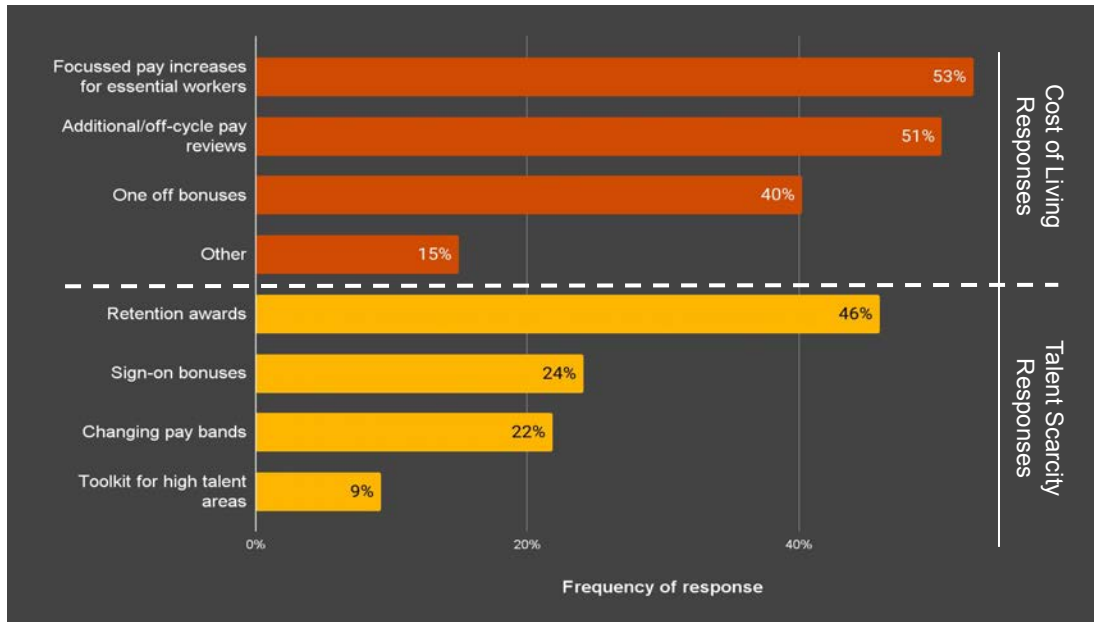
Diversifying talent pools to unlock skills.

Consider the internal talent market place and new untapped sources across geographies and demographics.

Cost of living

We have now reached double digit levels of inflation. Those in lower paid roles are being hit the hardest, and it appears most respondents are looking at how they can support.

While **83%** of respondents are considering interventions to help employees with the rising cost of living, this is coming in different forms, alongside wider interventions to deal with talent attrition.



82% Of respondents operated **2022 pay budgets** between **1.5%** and **4.5%**. Most of these reviews were conducted earlier in 2022 and the later the pay review, the higher the budget has tended to be.

Looking ahead, very few organisations have decided on figures for 2023. Collective bargaining discussion is in early stages. Our anecdotal data suggests ranges of 5% - 9% (depending in part on how the economy performs). But this will be deployed in a targeted way along with a toolkit of reward options to maximise value for money.

Examples of targeted interventions that we expect to see around pay reviews over the next 12 months include:

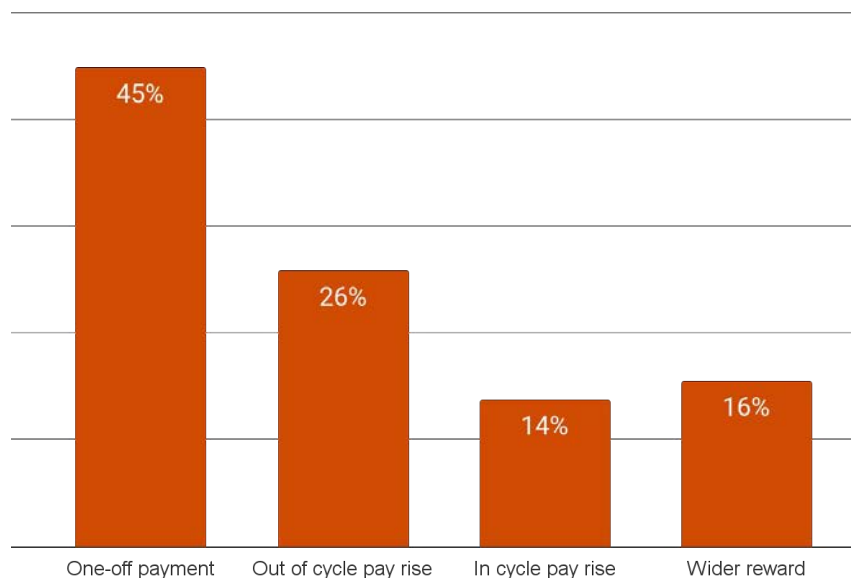
- **Greater segmentation** – Pay increases for targeted populations with a focus on essential workers, critical roles, hot skills and retention risks.
- **Redistribution of pay budgets** – Shifting spend from higher paid workers (i.e. executives) to lower paid workers and those lowest in their relevant pay band.
- **More frequent pay reviews** – A move away from the annual review cycle to more regular reviews (across the workforce or for targeted jobs).
- **Fairness guardrails** – There are concerns that the current pay pressure is impacting gender pay gaps as decisions are made in a more agile way. A balance needs to be struck between good governance and fair decision-making with flexibility and devolved decisions for critical roles.

Cost of living (continued)

While organisations consider their response to the cost of living challenge, it is important that they look at the long-term implications of any action. From our recent experience, it is important that any interventions that are taken (or not) are considered in the round.

From the headlines over the past few weeks, the focus has been on one off payments, but as the data shows, wider reward programmes are being considered - from enhanced equity to store discounts. The sectors where we've seen the most intervention are retail, financial services professional services and industrials.

As part of our research, we also analysed the public announcements of 50 organisations. Below illustrates the most common responses to cost of living from companies so far (as at 1 September 2022).*



*Some organisations have implemented multiple responses - each response is included.

Immediate pressures will rise in the coming weeks, particularly as energy costs increase. Many organisations are debating the following:

- **Should an out of cycle intervention be considered?** The question is whether it can wait until the 2023 pay review, or if additional support is warranted. Many organisations are thinking about their social impact and balancing this with wider impacts of the crisis and business performance and margins.
- **Do we target intervention at lower paid staff?** Many organisations have considered those on salaries below £30,000 to be the hardest hit, but others extend this to household incomes up to £50,000 or £70,000. Therefore, many are asking whether they operate in tiers or provide an underpin (e.g. an earnings threshold) to guarantee a certain award? This can create tensions around fairness.
- **How helpful are one-off payments, given how long the crisis might last?** One off awards are certainly impactful - but concerns have arisen about the fact that the crisis (and energy bills) will last longer. There have also been considerations around knock-on effects on taxation and tax credits.
- **Are there alternatives to cash?** Some organisations are considering non-cash related support in the form of staff discounts (or vouchers) and even help with home insulation and travel costs. Others are looking at how they can better optimise current reward packages - for example through salary sacrifice schemes and more enhanced benefits.

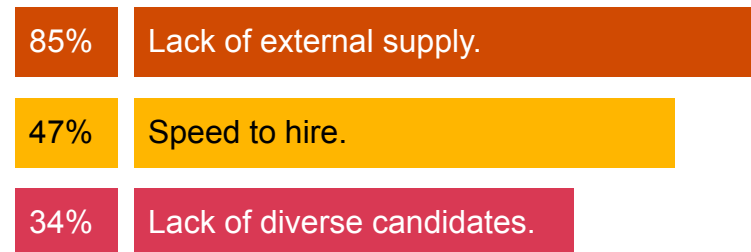
Talent and skills

78%

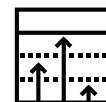
of respondents have said they are addressing talent scarcity and attrition with reward and pay budgets. However, this is typically being done in combination with other interventions, as part of the overall offering.

'The great resignation' saw turnover over the past two years spike to unprecedented levels. Fears of a potential global recession have seen a 'cooling off' in some sectors but the market remains hot for certain jobs.

The mismatch between supply and demand continues to be the main challenge for many organisations:

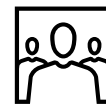


We asked respondents what investments they were making to tackle skills shortages:



Greater flexibility – working days, hourly patterns, etc.

62%



Wellbeing – additional support for financial and personal wellbeing.

62%



Introduction of international working policies – including remote working or setting up international talent pools.

44%



Training and career pathways.

42%

To manage issues around talent scarcity, organisations are looking internally. They're focussing on retraining or upskilling, and improved workforce planning.

56%

Retraining / upskilling for key areas.

52%

Improved workforce planning.

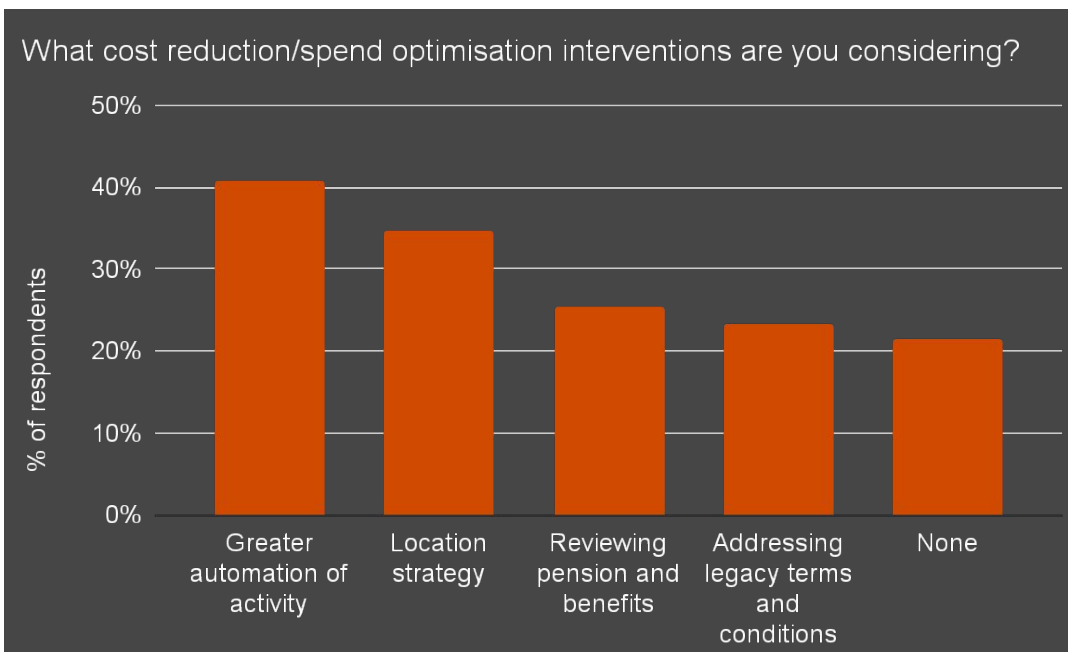
28%

New hiring programmes for specialist resources.

Costs and productivity

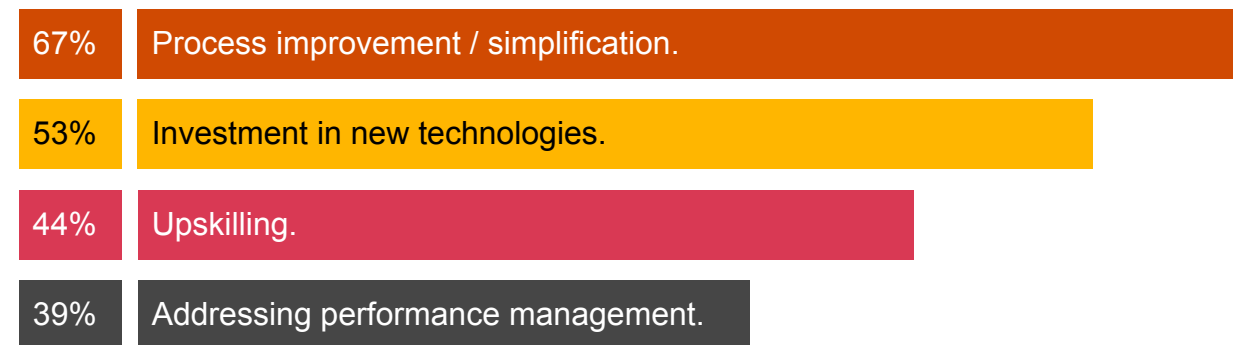
With the likelihood of a downturn later this year, organisations will need to look at new ways to manage other costs as wages rise. Responses are set out below:

79% of respondents are considering cost reduction and spend optimisation interventions.



We also believe that there will be renewed focus on productivity – either through getting better return on investment on people spend, or through increased focus on technology to remove some of the more basic tasks.

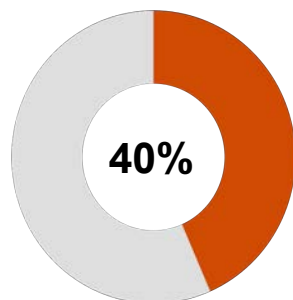
97% of respondents are considering some form of productivity improvements. The most popular approaches are:



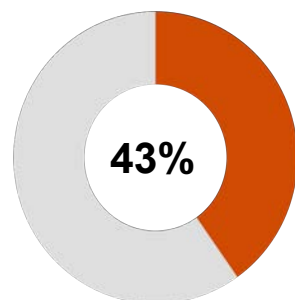
The reward response

Organisations are considering more strategic interventions and innovation around reward over the medium to long-term.

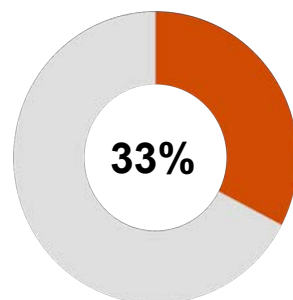
While respondents could choose multiple answers, most frequently, businesses are looking to **innovate their reward offering** while **reviewing job structures**.



of respondents are considering **new incentive programmes**.



of respondents are considering **changes to job architecture**.



of respondents are considering **an overhaul of the benefits structure**.

Other strategic and innovative reward programmes that companies are adopting.

It is early days, but organisations may start to rethink areas such as: how to manage pay progression and how to manage contribution. But some of the initial responses include:



Targeted increases (often mid-year).



Introduction of employee recognition programmes and other bonus awards outside of the annual cycle.



Equity and profit share arrangements to create new wealth creation opportunities.



Full pay reviews including structural reviews and considerations of pay segmentation models.

Flexibility remains a key theme for organisations and those that can combine **reward, opportunity, flexibility** and **purpose** will attain the competitive edge.

Organisations are evolving their **internal talent market place** by creating **flexible career pathways** and **upskilling** in key areas. We are also seeing improved **workforce planning** involving modelling supply and demand to develop plans that bridge future skills gaps.

Considering the overall deal

The range of challenges require a multi-layered and joined up approach. One of the ways of doing this is through the employee value proposition – which is the people strategy made real. By using this as an anchor, decisions on cost of living, talent attraction and investment emerge in a more coherent way.

Purpose / vision

Values

People strategy

EVP

Reward and talent strategy

- The people strategy incorporates who your people are, the experience you want to provide them and the overall culture of the business.
- The overall EVP brings to life how the organisation will deliver on its promise to its people, encompassing all the elements above.
- From this you can develop the reward framework – decisions on pay but also the new priorities around flexibility, wellbeing, career development.
- From here – proof points and investments can be built that connect to the strategy. Career path frameworks and recognition programmes are common examples.

In our Hopes and Fears survey, we asked the importance of different elements of the deal in considering making a change and those placing extremely important or very important on the following.

71% – fair financial reward



Over 50% – flexibility on how, where, when you work



60% of millennials and GenZ – having a clear career plan



60% – wellbeing



Key areas of focus for HR

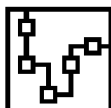
These challenges present HR teams with a number of areas to rethink as they prepare for the next few years.



The **talent supply and demand gap** will continue but will take a different shape – as certain jobs and skills demand will accelerate irrespective of the economic climate (e.g. data scientists, software engineers and supply chain roles) but for others, we expect a slow down. The organisations that will succeed will make the most of the tools they have – a modern offering, flexible workforce practices and training / upskilling for jobs as they change.



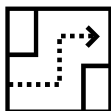
In this context, **capability and skills acquisition** become business critical and will be an even bigger differentiator in the talent marketplace. Organisations that deliver here will be better equipped to handle future disruptions in the labour market.



Productivity will be back on the agenda. Investment decisions will be increasingly made through the lens of return on spend from HR programmes. **Workforce costs will come under scrutiny for return on investment.**



Reward will be the area most demanding of a rethink. Practices of the past will no longer suit the new complexities of the hybrid and remote workforce and competing dynamics. So customisation, in-the-moment recognition and new approaches to progression will form part of that landscape.



This means there will be **new focus on the EVP and employee experience**. It spans inclusion, purpose and fairness through to personal growth and recognition – powered by technology.



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