

Managing European Compensation in Challenging Times

Today's Presenters:



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Today's Agenda

- Today's challenging landscape
- Managing compensation in volatile markets
- Tips for resilient compensation
- Q&A

Spotlight on the economy: May 2023



Economic Outlook

- Still an uncertain outlook, but the latest EU data points to a smaller-than-projected contraction in the economy for the final quarter of '22 and positive growth in the first quarter '23
- Euro area headline annual inflation was **7.0 % in April 2023**, up from 6.9 % in March 2023
- Unemployment at record lows, in March 2023, **the Euro area seasonally-adjusted unemployment rate was 6.5 %**, down from 6.6 % in February 2023 and from 6.8 % in March 2022
- Europe employees facing a persistent pinch from one of the worst cost of living crises since the second world war, despite inflation falling almost as quickly as it rose

Spotlight on the economy: May 2023



Labour Market Outlook

- UK has emerged as the worst-performing country in the G7 for workforce participation since the Covid pandemic, after an exodus of half a million people at a time of record levels of long-term sickness
- Skills shortages persist, in the UK two in five employers (**42%**) have hard-to-fill vacancies
- EU worker wages are rising, after growing by 5.0% in 2022. The annual growth rate of compensation per employee is projected to increase to **5.9%** in 2023 before falling to **4.6%** in 2024, unfortunately, inflation is eating up those gains
- Employee bargaining power has increased, and workers are demanding more from employers: more humane treatment, more autonomy to choose where and how they work, more transparency, and fair pay

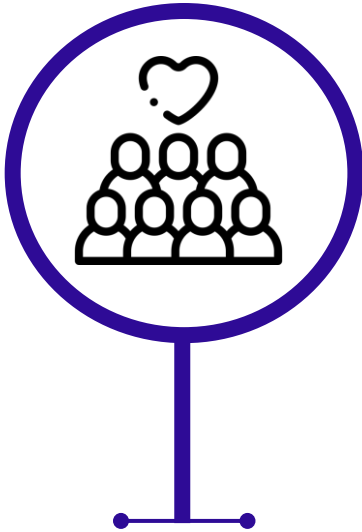
Poll Question 1: Thinking about your organizations own business climate how optimistic are you feeling?

- A. Highly optimistic
- B. Somewhat optimistic
- C. Neutral, neither one way of the other
- D. Somewhat pessimistic
- E. Highly pessimistic

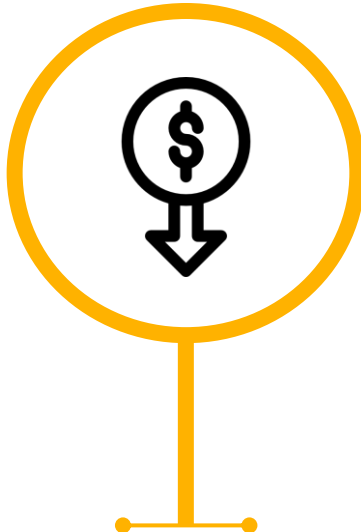
A photograph of a dense forest of evergreen trees, likely spruce or fir, shrouded in a thick mist or fog. The scene is captured with a blue color overlay, giving it a cool, atmospheric feel. The trees are tall and pointed, with their branches covered in needles. The mist is particularly thick in the background, creating a sense of depth and mystery. The overall composition is centered, with the text overlaid on the lower half of the image.

**Compensation is an evergreen
activity**

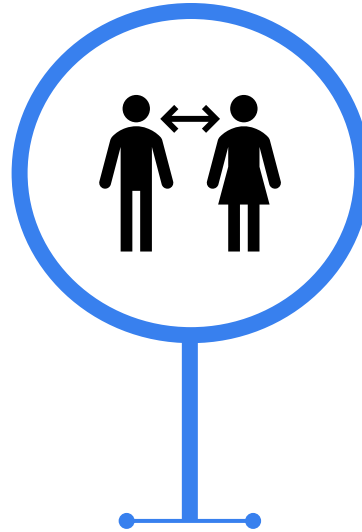
How to prepare



Identify which
talent creates
the most value



Optimize
compensation
spend



Maintain pay
equity and
transparency



Focus on data
for
critical insights

Identify which talent creates the most value

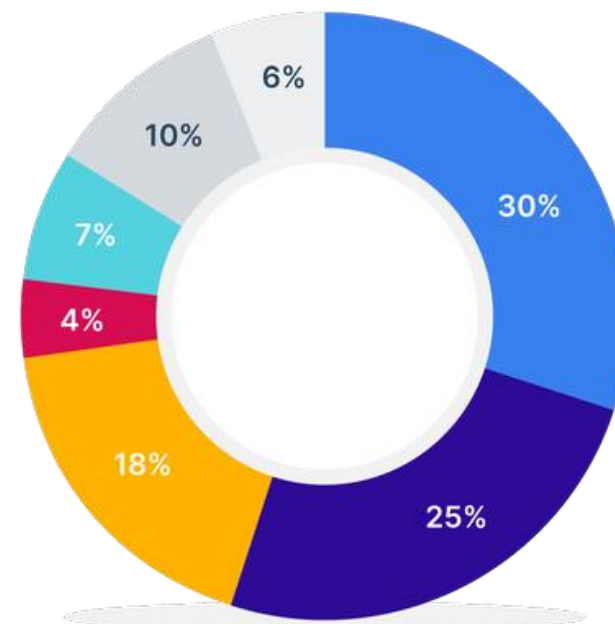
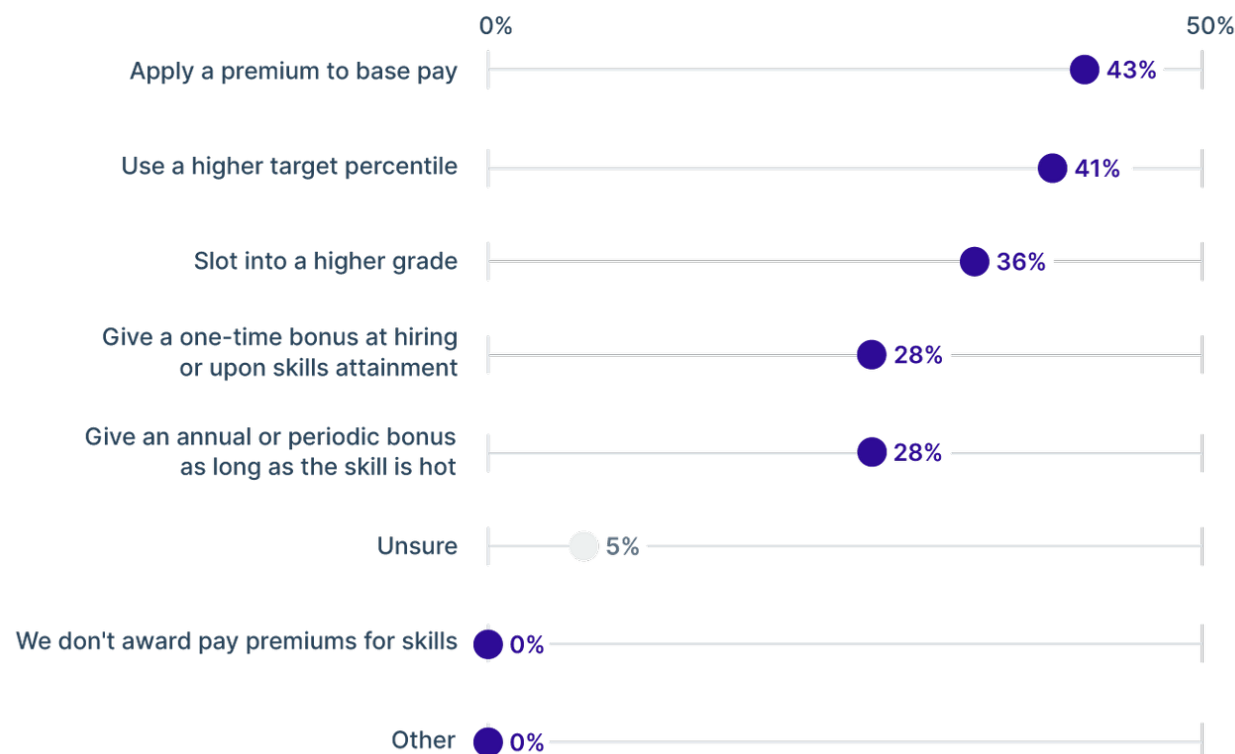
1. Retaining key talent that drives value creation becomes a priority - continue to invest in talent programs.
2. If you are reducing headcount - you end up with less talent – what you retain needs to be high value.
3. Evaluating which of your employees and teams represent key, superior talent and which are average (or worse) is critical.
4. Hiring may get easier, but skills shortages will still prevail.
5. Unknown factor - the longer-term impact of the Great Re-evaluation and increases in worker inactivity.

Approaches to classifying skills

Payscale CBPR Europe Edition 2023

Compensating for competitive skills

How do you compensate for critical, hard-to-find skills?



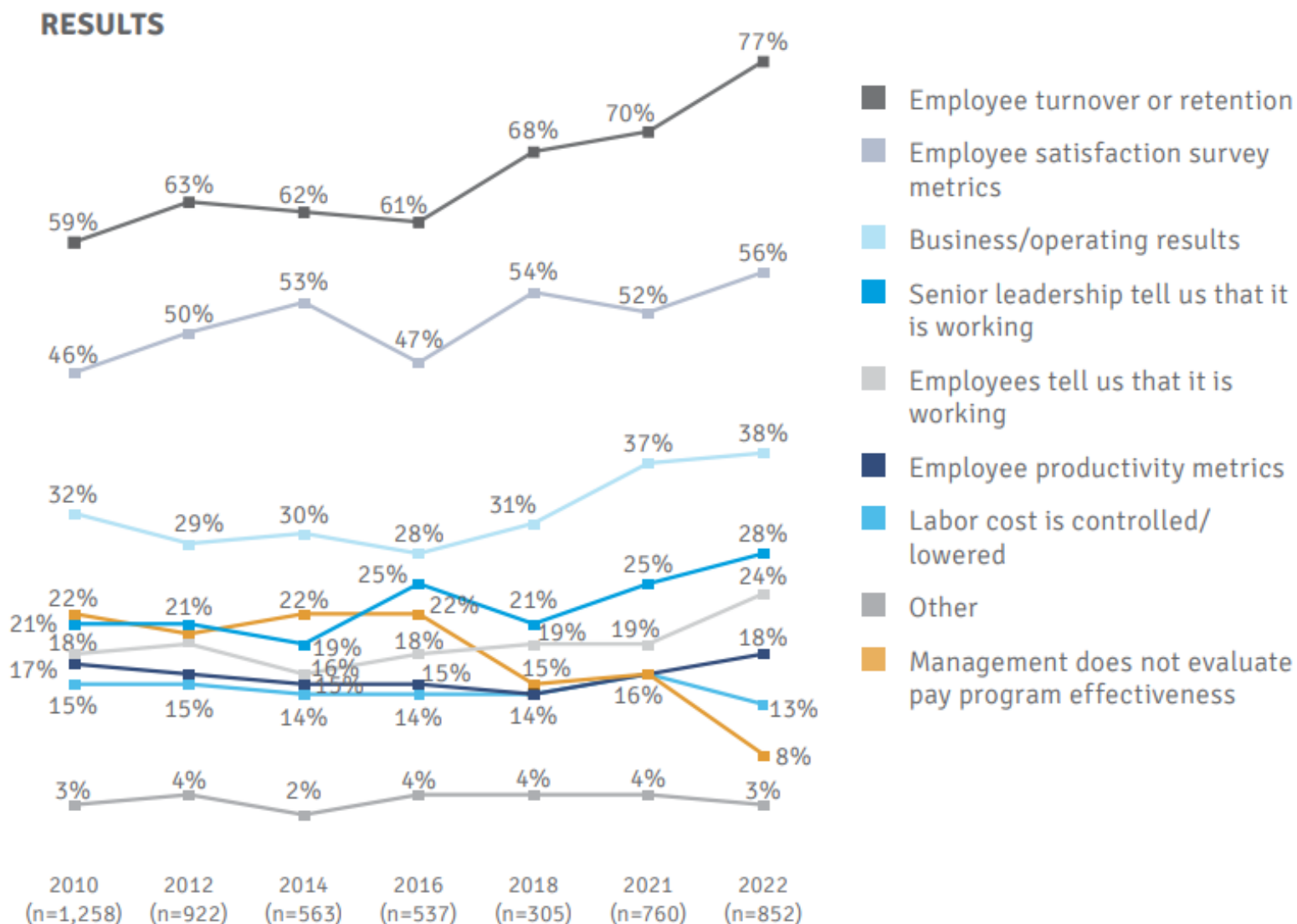
- Yes, we have classified skills and use a skills taxonomy across the whole organisation
- Yes, we have classified skills and use a skills taxonomy for segments of the organisation
- Yes, we classify skills as part of our job/role definition process
- Yes, we gather skills information but not in a structured manner
- No, but we are working on it
- No
- Unsure

Optimize compensation spend

1. Linking compensation to the activities that create value in your business becomes critical.
2. Optimize compensation spend to engage and retain critical talent and drive business performance.
3. Make sure you are prepared to support discerning and differentiated compensation decisions, and managers are trained for this.
4. Let's not return to the peanut butter approach to pay differentiation!
5. Focus on a high impact approach to compensation - aim to demonstrate strong ROI.

How does management assess effectiveness of compensation programs?

World at Work Compensation Programs & Practices 2022



Maintain pay equity and transparency

1. Heightened employee & stakeholder expectations, together with emerging legislation will make it hard to deprioritize.
2. Organizations that have started their pay equity journey and stated a commitment will damage employee engagement if they halt this now, plus increasing transparency necessitates a proactive stance.
3. As pay budgets potentially become constrained, continue to consider pay equity adjustments and wages for lower earning employees.
4. In any downturn you do not want any expensive legal challenges.

Pay equity is becoming an indispensable pillar of compensation management.

Payscale CBPR Europe Edition 2023

Why is your organisation not interested in pay equity analysis in the next year or two?

Our org isn't prepared to do this	30%
Our org can't afford to do this right now	28%
Our org is too small for pay equity analysis to be statistically meaningful	28%
Our org measures pay equity and we know we don't have a problem	28%
Our org doesn't measure pay equity but we believe we don't have a problem	21%
Decision makers in our org believe pay gaps are nonsense	7%
Other	4%

Focus on data for critical insights

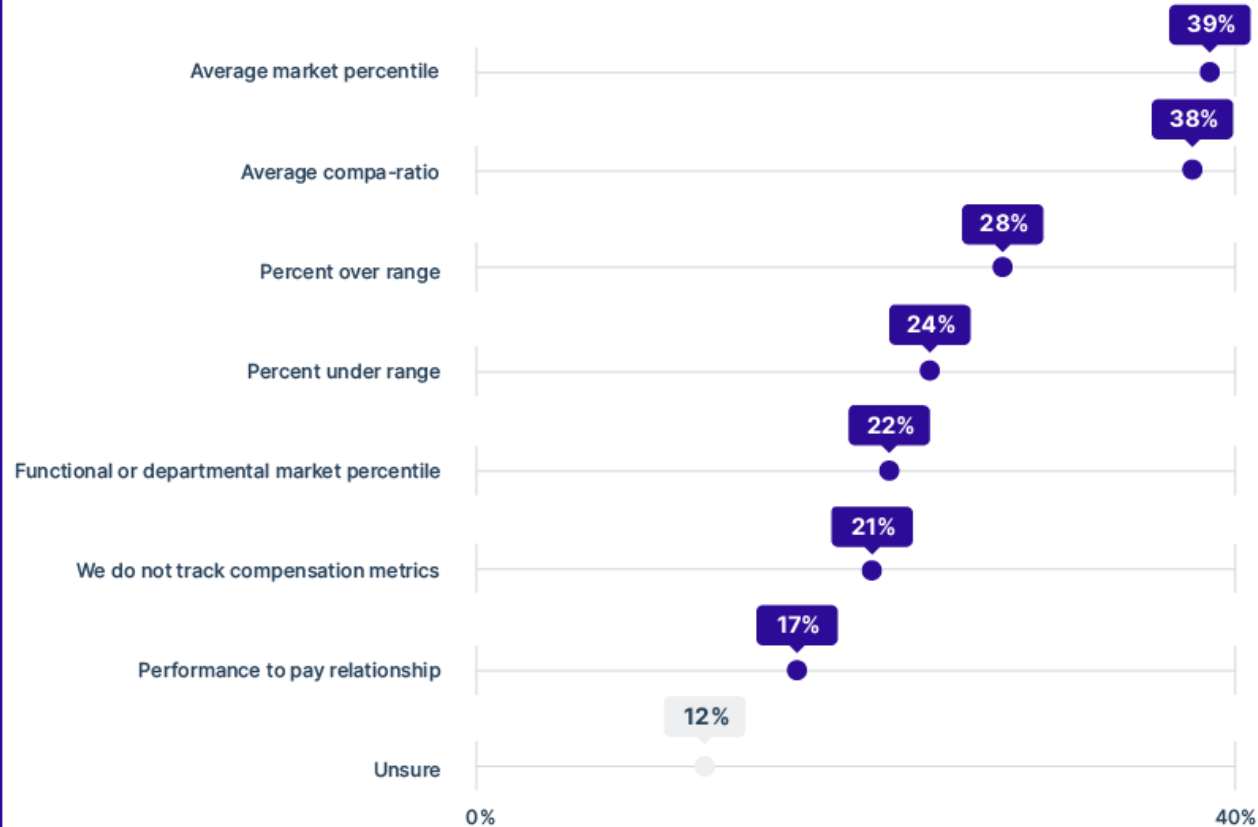
1. Data readiness: Are you prepared to provide clear evidence linking reward effectiveness to business performance?
2. Are you using information that is accurate, relevant and timely?
3. How can I easily share that data with decision makers to help them make informed pay decisions?
4. Can I demonstrate the ROI of reward?
5. Build ongoing assessment into reward program design and implementation.

Use of data metrics

Payscale CBPR 2023

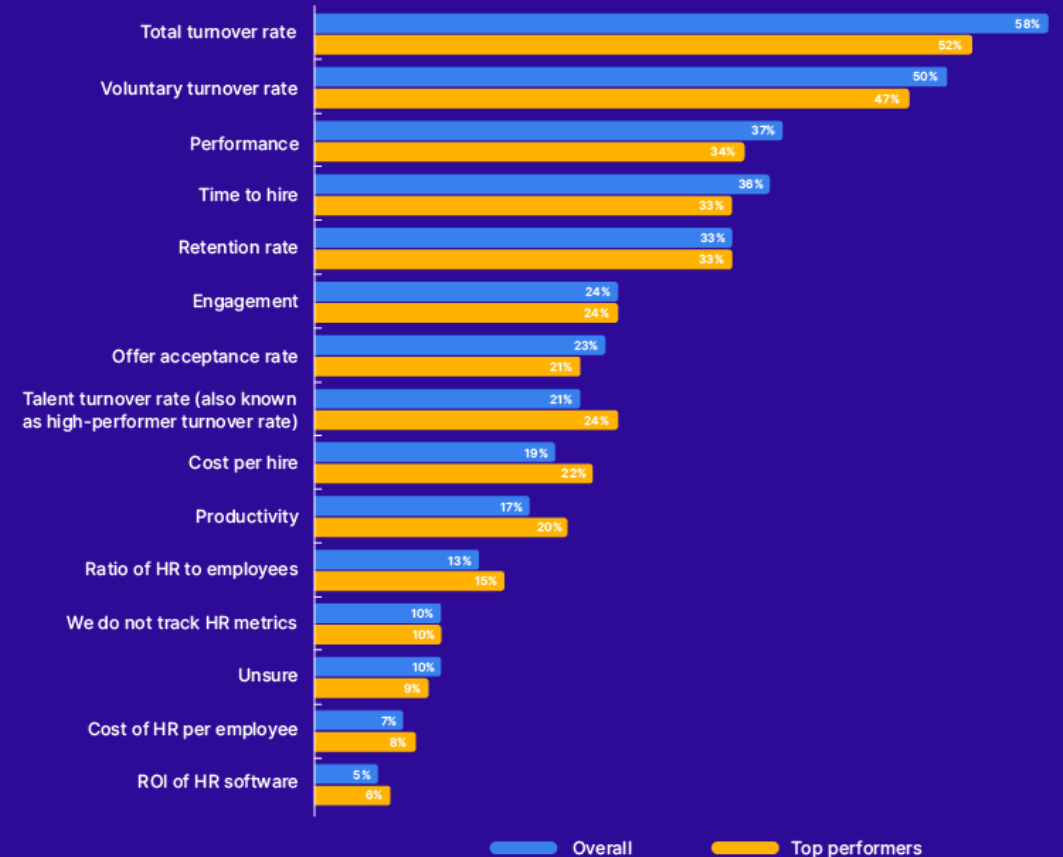
Percent of organizations that track compensation metrics

Which of the following compensation metrics does your organization track?



Percent of organizations that track HR metrics

Which of the following HR metrics does your organization track?



Poll Question 2: Looking ahead which of the below do you think is your biggest challenge?

(Select the one that applies most)

- A. Identifying which talent creates the most value to our business.
- B. Demonstrating optimization of compensation spend.
- C. Maintain pay equity and transparency.
- D. Being able to provide data for critical insights to support differentiated compensation allocation.

Top tips for resilient compensation



Ensure you are clear on key business metrics and talent requirements for your business to calibrate planned compensation allocation



Work to gather your talent intelligence, so you can use compensation as a form of talent insurance



Maintain a focus on pay equity and transparency, to meet stakeholder expectations



Consider your data readiness



Plan to demonstrate ROI of compensation spend



Expect the unexpected and be prepared

Poll Question 3: What's your key takeaway today?

- A. I will work with business leaders to focus on key business metrics to focus compensation allocation.
- B. I will work with HR to understand our talent priorities.
- C. I will work to maintain a focus on pay equity and transparency, to meet stakeholder expectations.
- D. I will consider our data readiness.
- E. I will investigate ways to demonstrate ROI of compensation spend.

Q&A

Feel free to ask any questions in the chat!

