SECTOR FOCUS: ENGINEERING

AT A GLANCE

1 Engineers may be well remunerated but are often prepared to move jobs

2 Benefits packages may need to reflect a work-life balance

3 An innovative approach to reward may prove to be most effective in retaining staff

They're well paid, very much in demand and already have a full suite of benefits. **Peter Crush** finds out what reward professionals can do to keep engineers happy

WHAT were you doing on Boxing Day? Unless you were one of the 4,493 people who submitted an online tax return – really – most people will probably have done one of the following: watched TV, entertained the family, or generally succumbing to festive excess.

Except, that is, for one particular group – engineers. For it seems that those working in the engineering sector were more likely to be looking for a new job that day than any other employee group, according to recruitment website Jobsite. It experienced a 28% increase in traffic overall on 26 December, with engineers the keenest to change roles.

So why exactly do engineers top the list of those with the itchiest feet? It can't be the money, can it? According to The Engineering Council, median total annual earnings in 2010 (including bonuses, and overtime pay) for engineers was a tidy £55,000, while the mean was £67,714. For chartered engineers total packages are even better. Around 60% earn more than £50,000, while nearly a quarter (22%) earn more than £80,000. In fact those earning £50,000+ grew from 48% of all engineers in 2007 to 60% in just three years – an annual rate of increase of 15.4%.

But if it's not pay, it surely can't be lack of opportunity either. There are just 1.5% of engineers out of work and, if anything, exciting engineering projects including Crossrail (the biggest engineering project in Europe), the building of a new Forth Bridge, tube extensions, a new system of power tunnels from the National Grid (as well as the prospect of HS2), have caused some to say that Britain is once again entering a golden era in engineering.

Surely, now is not the time to be jumping ship? Is it?

So what's going on? Well, perhaps there's an interplay at work between these two clear success stories – because if there's one truism in the world of reward, it's that when times are seen to be plentiful, people don't stay put, but start to look at their own deals, no matter how good they outwardly look.

For after some tough few years, it seems searching for a new role somewhere else (even at the same level) is top of engineers' minds – if only because it's been their first real opportunity to broker a better deal.

This makes more sense when you consider the most recent statistics and analysis of this sector that *Reward* has collected. Pay and perks might appear good, but it seems that the engineering community is not happy with its lot.

INCREASING WORKLOADS

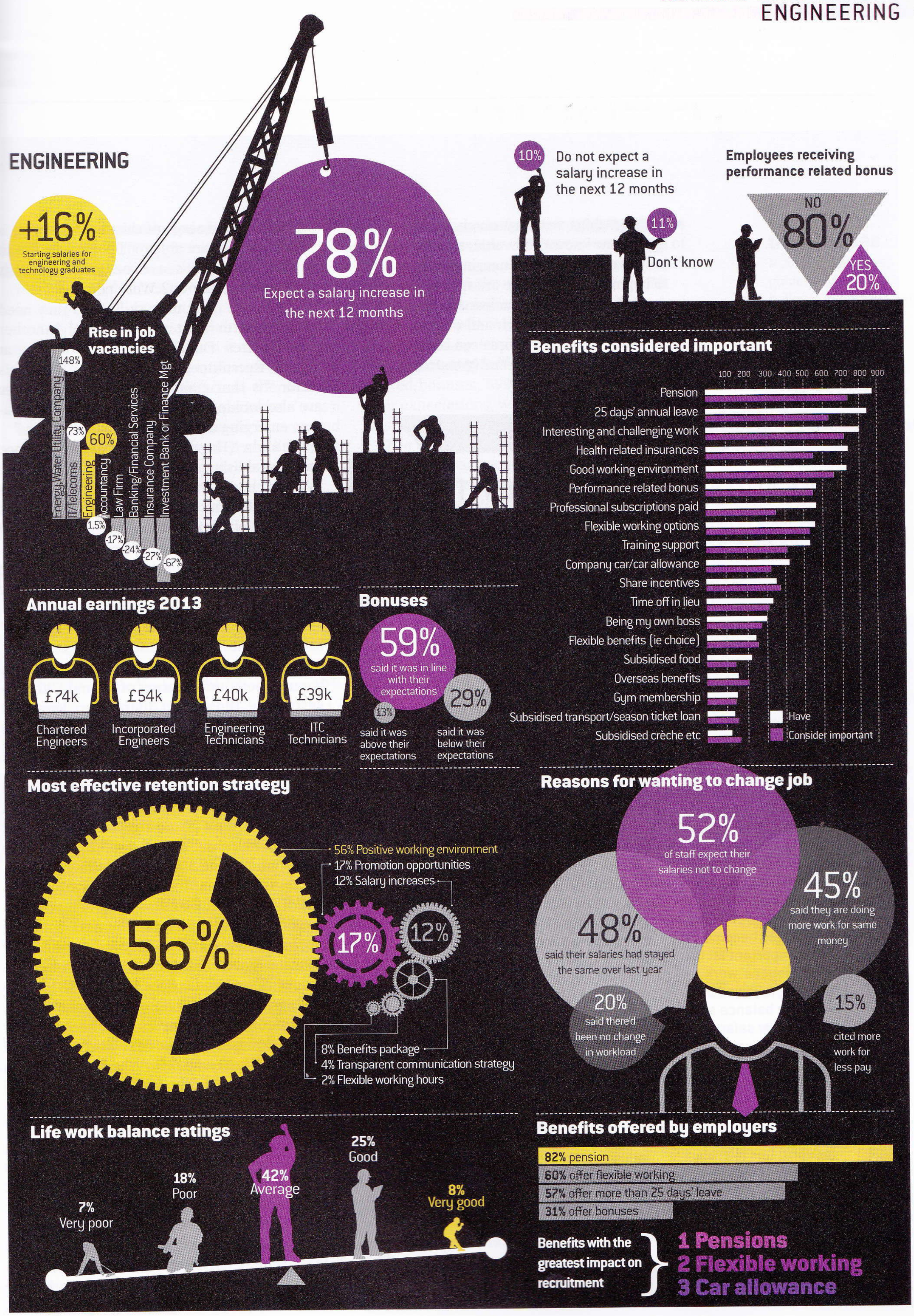
Before looking at the details, it's worth seeing why engineers are putting the content of their package under the microscope more. According to data from the likes of The Civil Engineering Contractors Association, while work itself may be buoyant, it's the amount of work they're doing compared to what they get in their pay packet that is starting to drive a wedge.

A combination of a shortage of skilled people and an expansion in projects means that 55% of engineers expect their workloads to substantially increase, but many don't see an improvement in what they're being offered.

This is supported by data from Hay Group, which in its latest poll last summer asked engineering employees what they expect in the coming year. Around 49% (see graph, p73) said they expected to move jobs in the next 12 months, with a further 20% saying they expect to want to move within the next 24 months.

When asked why, the reason was emphatic: despite recent overall rises in pay, 45% said they were expected to do more work for no commensurate increase in pay, while 15% of respondents said they were doing more work for less pay. Only 20% of staff said they had experienced no change in their workloads.

"What's clear is that those working in the engineering sector are aware of what they are worth, and are wanting to exercise their chances of improving it," says Sarah Lardner, senior consultant at reward specialist Innecto Reward Consulting.


ENGINEERING
+16% Starting salaries for engineering and technology graduates
Rise in job vacancies
Energy/Water Utility Company 148%
IT/Telecoms 73%
Engineering 60%
Accountancy 1.5%
Law Firm -17%
Banking/Financial Services -24%
Insurance Company -27%
Investment Bank or Finance Mgt -67%
78% Expect a salary increase in the next 12 months
10% Do not expect a salary increase in the next 12 months
11% Don't know
Employees receiving performance related bonus
NO 80%
YES 20%
Benefits considered important
100 200 300 400 500 600 700 800 900
Pension
25 days' annual leave
Interesting and challenging work
Health related insurances
Good working environment
Performance related bonus
Professional subscriptions paid
Flexible working options
Training support
Company car/car allowance
Share incentives
Time off in lieu
Being my own boss
Flexible benefits (ie choice)
Subsidised food
Overseas benefits
Gym membership
Subsidised transport/season ticket loan
Subsidised crèche etc
Have
Consider important
Annual earnings 2013
£74k Chartered Engineers
£54k Incorporated Engineers
£40k Engineering Technicians
£39k ITC Technicians
Bonuses
59% said it was in line with their expectations
13% said it was above their expectations
29% said it was below their expectations
Most effective retention strategy
56%
17%
12%
56% Positive working environment
17% Promotion opportunities
12% Salary increases
8% Benefits package
4% Transparent communication strategy
2% Flexible working hours
Reasons for wanting to change job
52% of staff expect their salaries not to change
48% said their salaries had stayed the same over last year
45% said they are doing more work for same money
20% said there'd been no change in workload
15% cited more work for less pay
Life work balance ratings
7% Very poor
18% Poor
42% Average
25% Good
8% Very good
Benefits offered by employers
82% pension
60% offer flexible working
57% offer more than 25 days' leave
31% offer bonuses
Benefits with the greatest impact on recruitment
1 Pensions
2 Flexible working
3 Car allowance

» "The chips are very much in their hands. Specialists know their value, and what is acute is that not only is engineering quite specialist to begin with, but there are specialisms within specialisms – such as nuclear – where there are few people in that field, and even restrictions on which countries people can come into Britain from, because of security concerns."

AGE AND ATTITUDES TO BENEFITS

ACCORDING TO RESEARCH BY THE ENERGY INSTITUTE (40% of whom are engineers) it's not until people reach the ages of 46–55 that benefits such as health insurance and performance-related bonuses are considered the most important.

By the time respondents reach 56–65, actual benefits received match the importance respondents attach to them more closely. By this stage of their careers employees are more able to negotiate a benefits package that suits their career and life needs, undoubtedly helping to boost the 'good' ratings for work-life balance.

Above the age of 65 priorities change considerably, and flexible working becomes the most important item, as does having a company car allowance and gym membership, whereas interesting and challenging work ranks almost the lowest (annual leave being the very lowest). Overall, higher salary is the most important feature for respondents looking to move jobs, but only just. There are some interesting age-related differences.

Up to the age of 46, career development is the most important feature, followed by higher salary and then new challenges. After the age of 46 new challenges become the most important factor in employees' work choices, followed by work life balance and then higher salary.

Perhaps surprisingly, job security and better benefits never rank highly but this could indicate that in general the energy industry has tolerated a relatively high level of job insecurity as a trade-off for better than average salaries.

COMPARING BENEFITS with location shows that a pension and 25 days' annual leave entitlement are achieved by over 55% of respondents.

Respondents were likely to be satisfied (50%) or very satisfied (25%) with their current role with only 1% being very dissatisfied.

Just over 23% of people had been with their employer for less than three years. Almost a third had been with their employer for more than 11 years, suggesting a high level of loyalty to the industry. However with over 10% of respondents having been with their company for less than a year, it suggests that recruitment is still very healthy.

The long and short of this, Lardner says, is that employees are able to "hold employers to ransom", – and it's a situation she admits employers can't do much about.

Employers need their skills, and they need to be able to start on contracts. "Another factor," cites Dominic Morris, director at Twenty Recruitment, and a specialist in this sector, "is that many engineering companies are also looking to set up operations in lucrative, emerging markets such as East Africa."

He adds: "These firms only have one chance to get established and create a secure foothold in their chosen market, so they have to overpay the odds and give more generous benefits to boot. It's bad news though, because all this does is fuel further rises in pay, as other companies have to match this to catch up – paying above-average rates for jobs that don't warrant it, but which now become the new normal."

So bad has this so-called 'dash for cash' become, that Morris has seen some engineering companies offer senior engineers sign-on bonuses, retention bonuses of around £30,000-£40,000 – those paid literally to keep top people staying with them (and not always related to performance) – as well as traditional results-related bonuses.

The very privileged could even receive all three over the course of a 12-month period. "A firm might think it has a certain budget, but after six months," he argues, "this will have pretty much gone out of the window."

THE RISE IN BASE PAY

Looking at the statistics, there is evidence employers have had to respond to this very buoyant movement. Data from Michael Page (*source: Salary and Insight Report 2013*) unsurprisingly shows that base pay has increased.

Some 79% of employers in the sector expect salary increases over the next year: 12% above its cross-industry average. Whether it's enough though, and whether just paying more will continue to work, is something some are beginning to question.

"We try to talk companies out of offering golden handshakes, and would advise others to consider doing the same," says Stuart Hyland, UK head of reward and consulting at Hay Group.

"To pay these sorts of perks, we feel, drives the wrong behaviours. It means you're effectively bribing people to come to work. The threat of people leaving and giving them anything to stay is always a scary prospect. We can see why firms do it, but we feel retention is something that can be managed if the industry acts together to try and curb employees holding them to ransom."

The Hay Group data certainly shows firms are aware of the issue. When it asked employers in the sector what they thought were the biggest problems they'll face in the next 12 months, 'unrealistic salary expectations' was a unanimous worry. It was straight in at second place, with only skills shortages eclipsing it. Competition from other employers was fourth in firms' top five concerns.

But despite being aware of the behaviours it causes, will firms be moderating pay? The answer is probably not. While Hay Group found that 19% of firms gave below-inflation pay rises last year, the signs are these companies won't stick to this.

They appear resigned to succumb to high wage inflation. Last year (see graph, p73) salary rises were small by this sector's standards: 33% upped salaries by 3% or less; 19% gave 4% and only 20% gave 5%. In the next 12 months though, 37% of companies forecast rises of 5%; 11% forecast rises of 4%, while 11% predict rises above the 10% threshold.

At a macro level pay rises of this scale will affect a lot of people. The sector is massive – according to Engineering UK it employs more than 5.4 million people across 542,000 engineering companies, and 42.5% of these people work for small and medium-sized enterprises. The fear is that if rewards heads don't stop this, they'll soon run out of money.

The question, therefore, is whether there is anything else that's significant enough to make a virtue of in the total reward package.

Working this out is not simple. Engineering firms tend to offer a similar suite across the board – retirement benefits, employee stock purchase plans, health benefits, disability benefits, life and accident insurance and generous holidays. There is little data about how benefits provision compares to benefits actually received, although according to a poll in 2012 by the Energy Institute (over 40% of whose members work in engineering), there is an interesting comparison between what people consider important, and what they actually have (see chart, p73).

The data shows that when it comes to benefits received, in almost all categories, by and large, employees receive what they consider to be important, and often by a wide margin. In fact, the basics are very good, with 81% of engineers getting a pension and more than 25 days holiday.

This suggests that there is not a great deal left for employers to play around with, and this is supported by further analysis of the statistics. Hay Group finds that of those who were offered bonuses, 59% said it was in line with their expectations, with 13% actually saying it was above their expectations.

The first tool, it seems, is money.

But there are some intriguing differences. There were just four benefits types where employees wanted them more than they received them and, interestingly, two of them were in terms of work-life balance: flexible working and childcare provision.

Like many other sectors *Reward* has profiled, a debate is emerging about whether the engineering sector is falling behind promoting a more work-life balanced and family-friendly workplace. Maybe it doesn't want to, or knows it doesn't work. But is this really the case?

THE WORK-LIFE ARGUMENT

The figures certainly show there is some scope for promoting work-life benefits. Hay Group always asks for both the employer and employees' views on benefits, and normally there is a difference in opinion about the role of some benefits, and in engineering it's no different.

It finds 31% of employers said it was important to offer an attractive package, with 33% saying it helps retain staff. But only 10% admitted supporting this through their benefits portfolio (other than pay).

The result is that it finds the most common benefits were pensions (82%); 25 days' leave (57%) and bonuses (31%). Only 7% of employers said they offered the chance for staff to work from home for up to a full week.

Similar to the 10% figure, the Michael Page data corroborates the employer view, finding using benefits is a retention tool for just 8.1% of engineering companies.

THE VIEW FROM THE OTHER SIDE

Ask employees, however, about how benefits can be changed to meet their needs, and there is a very different picture. Some 25% of engineering workers rate their work/life balance as either poor or very poor (see charts, p73). And Hyland has identified some worrying trends about those who do offer it.

Top of the bonuses

> Joining bonuses, golden welcomes/hellos – in engineering it's all about money. BP offers graduates £3,000, with Airbus offering £2,750. Engineering/construction consultancy Atkins pays graduates a total of £5,000, split into two payments: the first half on joining, the second half on passing their professional qualification exams (around three or five years later). Rolls-Royce, Jaguar Land Rover, BAE Systems, Network Rail and National Grid all provide a £2,000 joining bonus while E.ON and British Sugar each offer £1,500. Then if staff do well, performance bonuses take over. At BP, graduates in their first year can earn a bonus worth up to 10% of their salary.

CASE STUDY
ATKINS
DEALING WITH WAGE INFLATION

AT ENGINEERING CONSULTANCY ATKINS, Matt Patterson, its director of rewards and international, knows all about the rising pressures of wage inflation. "There's a skills shortage of engineers, and we now find we're competing with organisations who we wouldn't previously have considered competitors – like those in the oil sector." He says: "We're in professional services; they're in energy, but that doesn't seem to matter any more. These trends put pressure on the ability we have to compete, and in our ability to attract and retain."

Patterson says Atkins offers the expected fare of benefits – good pensions, long-term incentives, private medical insurance, and so on. However, faced with the pressure to attract and retain staff, a comprehensive benefits study it conducted last year revealed some surprising results.

"Flexibility came through extremely strongly," he says, "and we were surprised about the strength of feeling." As well as this, a wish from staff to do more charitable work was also strong, as was demand for more health and wellbeing-related initiatives.

"Up until this point, our reward focus had probably been quite heavily concentrated around base pay," he admits. "The research has enabled us to change our approach, and introduce benefits that focus on what they want, and what how they want to run their lives. "

He adds: "Since the study, we've introduced volunteering – where people can take off two fully paid days a year to pursue a project –while we'll also be introducing some new wellbeing initiatives."

Patterson says: "The research was a powerful insight, but when you talk about the Atkins culture, sentiments around responsibility already existed, so it is good to be able to integrate this into our benefits package."

As a result, a greater emphasis is now being given to promote flexibility – including one great benefit: enabling staff to buy up to 15 days' extra holiday.

Whether more, softer benefits will eradicate the sector's demand for pay is a moot point, but Patterson says he believes a less financially based conversation is coming through: "We've done a separate piece of work around our employee brand," he says. "The results come to a similar conclusion as our rewards work. Reward does align very closely to brand."

» "Engineering broadly separates into two types of company," he says. "There are those who offer the traditional benefits and keep their heads down, and they accept the fact the recruiting might be difficult. Then there are those who will offer things like flexible working and be a bit different."

But, he says there is a caveat – the firms he sees behaving like the latter are still not offering these extra benefits universally:

"Companies that have tended to offer flexible working have been those who have not had the same levels of money to throw around," he says. "We're seeing more use of Monday-Thursday packages, but a problem we note is that we're also seeing it offered on more of a personalised basis."

He adds: "This can lead to people having inconsistencies in their reward packages, based purely on how good their individual bargaining is – which isn't a very transparent way of working."

Hyland says he has also noticed that much of the bargaining for flexible working still tends to be done prior to hiring, when candidates are being interviewed or are ironing out their final employment deal. And, once they're hired, this is often fixed (although April's right to request flexible working might change this).

But perhaps engineering companies do have another card to play. Michael Page's analysis of what firms are using to retain people throws up one interesting tactic. Far eclipsing salary (by 11.9%) and promotional opportunities (by 17.3), is what they call creating a positive working environment – by some 56.2% of employer respondents.

While it may not be flexible working or family-friendliness, it's arguably a prelude to it. This suggests that engineering firms are at least on the journey to considering providing elements around the softer side of working.

For Arnab Dutt, Network Rail Public Member, and chief executive of engineering company Texane, which specialises in polyurethane products and development, 'working environment' is something he's always been keen to provide.

He says: "We're a relatively small business – around 200 people – so I know I can't compete with the multi-nationals. So we've decided to take a holistic approach to our benefits.

"We have typical benefits – such as more holiday, childcare provision and longevity awards – but we try to make it personal, too

– such as offering travel and life insurances to not only staff but their family, too."

He says: "Environment plays a key role in this. We have a deliberate atmosphere set, where people aren't micro-managed and are able to feel part of the team. My view is that if people have to spend so much time here, then it needs to be an environment where they can feel at their best."

Dutt complements this with an unusual benefit in the engineering space: a profit-share mechanism – typically a percentage of the idea staff come up with. He even set up a new business division for one employee to manage as a reward for the idea that he came up with.

GOOD BUSINESS SENSE

Crucially, Dutt says he doesn't feel like he is forced to offer these perks – he simply regards it as just good business – and as such, people value them. "Bigger companies have canteens; we have free tea and coffee – it's that sort of difference, but I know that you can throw all the pension contributions you want at people, but they'll not be happy if you haven't got the fundamental element of working right."

He adds: "We've had people leave and then six months later rung me up to say that the job they moved to wasn't what they thought it would be, and could they please come back because the new place didn't have the atmosphere they needed. Most of the time, I say yes."

While accepting pay is still king, even Morris accepts that employer 'brand' is becoming more important – and this is where SMEs in particular are potentially able to add value.

"People won't stay at a Shell or BP or even Rolls Royce, just because it's them anymore," he says. "Serious engineers are not bothered about logo anymore, they're more interested in the project they can work on, and the experience they can gain."

Hyland adds: "There are some companies – particularly in the oil and gas sector, where there hasn't been a recession, so big brands have continued as normal. But these firms who have failed to innovate could be in trouble. Companies that have suffered some form of stress will be those who have innovated, and will have something different to offer, and this could play into their hands. Companies who haven't put anything else but money into their benefits offering could suffer."

The bigger players are responding to this, and some of the best examples of innovation in benefits include Jaguar Land Rover, which lets staff try out the company's vehicles (either off-road or on a track), and also offers them a discount car purchase scheme. Staff have the chance to take part in sustainability projects, such as a two-week Earthwatch trip to Kenya to help study endangered species.

Wellbeing (see p22) is starting to be taken seriously, too, as a differentiating benefit, with Npower offering engineers psychological healthcare, including workshops on managing stress and maintaining a 'healthy mind'. National Grid and BP are also known for providing generous relocation packages.

Of course, some might say the immediate challenge may not be what benefits can be given to staff, but making sure more people are interested in joining this sector. High salary expectations are undoubtedly explained by skills shortages, and staff who know they command a premium. If the sector were more balanced, experts suggest packages could be less under scrutiny.

The bad news is that the sector is in need of more people. Between 2010-20 engineering companies are projected to have had 2.74 million job openings yet in 2010, only 18% of pupils selected triple science (individual physics, chemistry and biology) GCSEs.

Demand for people with level 4+ (HNC/D, Foundation Degree, undergraduate or postgraduate and equivalent) qualifications in engineering is projected to be 865,100 over the ten-year period: an average demand of approximately 87,000 recruits per year. But worryingly, only around 46,000 people qualify at this level each year in the UK.

Lately government has placed a huge emphasis on apprenticeships, and employers will no doubt hope that these will start to fill in the gaps. But, even so there will be a massive shortfall for some time yet. Industry demands 690,000 people qualified at level 3 (BTec National, S/NVQ level 3, advanced diploma, Advanced Apprenticeship) – an average demand of 69,000 per year. Yet only 27,000 UK apprentices a year qualify at level 3.

For rewards heads wondering how to attract and retain staff, this makes for grim reading. It's not often rewards' heads have little power to stop the inextricable rise in pay, but this might be one sector where rewards – while tweakable around the edges – may not be able to command the power they possess in some other, less pay-driven sectors. **R**

> 5 of the top 10: graduate average salaries in the UK are in professional engineering-based employment
Source: Higher Education Statistics Agency

> The top two job shortages globally are skilled trades workers and engineers. In particular mechanical, electrical and civil engineers
Source: Manpower Group Global Talent Shortage Survey 2013