

# HCM

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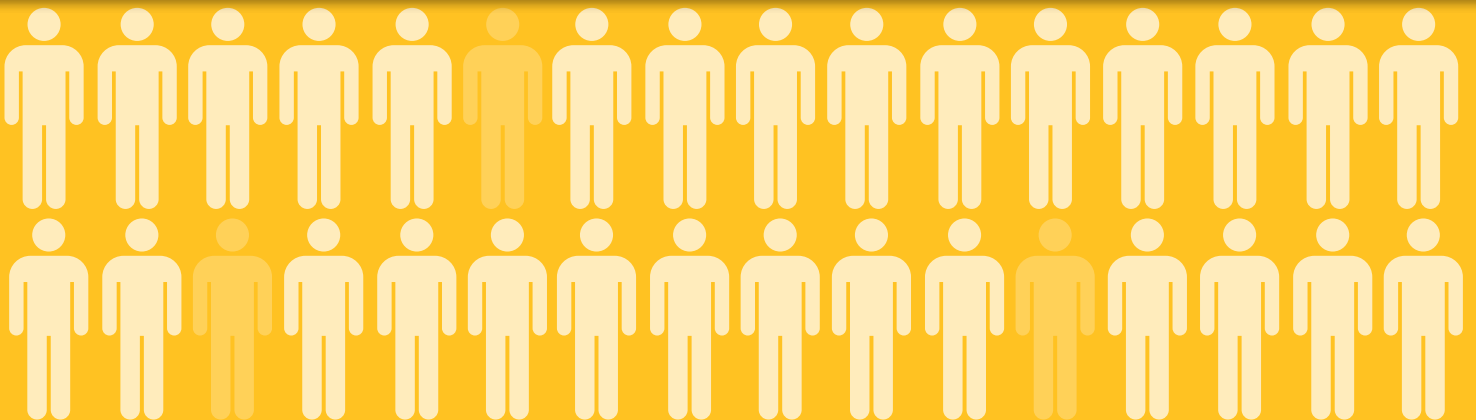
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SPECIAL REPORT

# RETENTION

YOUR GUIDE TO EASING STAFF TURNOVER



### ENGAGEMENT & ATTACHMENT

Focusing on key drivers

### LEARNING & DEVELOPMENT

Enhancing existing skills

### REWARD & RECOGNITION

Maximising what's on offer

### CORPORATE CULTURE

Identifying hidden symbols

# *The death of loyalty*



***Knuckling down and soldiering through the economic turmoil will come down to one key factor: retention. In this special report, Human Capital looks at four key ingredients to retaining happy, productive employees***

**THE PENNY HAS FINALLY DROPPED.** Business leaders globally are starting to realise that talent is the last remaining source of competitive advantage. And just like Australia's mining resources, culled from a finite reserve in the earth, finding and retaining the best people will only become more difficult as time progresses.

The power balance has shifted towards employees. According to a Right Management survey, 56% of the 1,400 CEOs and HR professionals surveyed feared other employers were looking to recruit their best talent. Some 47% expressed doubts about maintaining their middle-level management pipeline, and just 27% said their company has a sufficient number of qualified internal candidates who were ready to assume senior management or executive roles.

In terms of business sustainability, it's that last stat that has business leaders most concerned. "CEOs and HR staff are right to feel enormously vulnerable and many are stressed seeking ways to hold onto their rising leadership," said Michael Haid, senior vice president of Right Management, on the release of the report.

Haid warned that no organisation can consider itself immune from needing effective retention strategies or offering the most competitive recruitment packages.

## THE END OF LOYALTY

So what can employers do? Clearly the notion of having the same job for life and a high sense of loyalty towards employers is a quaint concept that is long gone.

In an article published in the *Financial Times*, workplace specialist Lynda Gratton wrote that loyalty, a virtue prized in personal relationships, has disappeared altogether in the workforce due to the globalised high speed economy.

The result, she said, is “shortening contracts, outsourcing, automation and multiple careers”.

Wendy Phaneuf, managing director of consultancy firm The Training Source, added that what bosses perceive as employee loyalty is often really nothing more than services rendered in exchange for their paycheque and some job perks.

“In the past, you worked for a company for life, and you’d do anything for the company, including sacrificing your family life,” Phaneuf said. “True loyalty means going the extra mile when it’s needed, and many employees today are unwilling to do so unless they’re compensated for their extra effort.”

Further, workforce consultant Tammy Erickson said in her *Harvard Business Review* blog that the concept of loyalty has been replaced with trust, and this is actually a more complex value to manage.

Speaking with *Human Capital*, David Helvadjian from workplace consultancy firm Gallup says that if you really want loyalty and trust to prosper, engagement is the key.

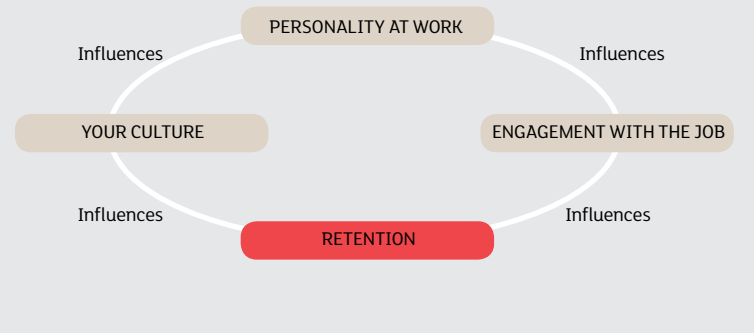
For companies looking to reignite loyalty, he says it is paramount that employers clearly communicate the mission and purpose of their company, as well as clearly communicate employees’ roles.

“When we look at different businesses, if engagement is high, turnover is low. If people are engaged, they will feel valued and a part of something they can remain loyal to, and they can therefore learn and grow. If employees feel that management doesn’t listen to them, they will go elsewhere to have those needs met,” Helvadjian says.

“The organisation will provide interesting and challenging work. The individual will invest discretionary effort in the task and produce relevant results. When one or both sides of this equation are no longer possible – for whatever reasons – the relationship will end,” Erickson says.

The concept that companies need to actively foster trust is a position backed by Australian workplace consults. By talking to employees about what they do well, turnover will be reduced, Helvadjian assures. “We did a study of 65,000 employers, and those who provided feedback had 15% greater retention. By sitting down and talking about their strengths, [employees] will feel valued, and like they’re in an environment where they feel they’re being told what they’re doing well instead of focusing on their weaknesses.”

## The influence of personality



## GET STICKY

While there will be naysayers who claim it’s impossible – and not desirable – to retain everyone, Andrew Warren-Nicholls, a freelance trainer and facilitator with Epilogue Training Solutions, suggests that an employee’s personality is the key to their engagement and retention. The key is to let them use it.

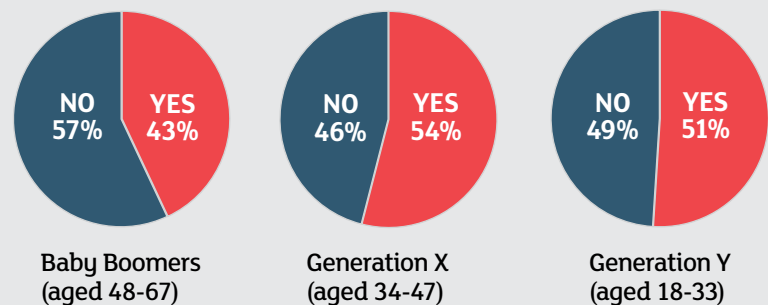
The simple fact is most humans are only good at being themselves, so Warren-Nicholls recommends using that fundamental truth to get the best out of people. He suggests asking two key questions:

- Are you encouraging your staff to use their own personalities at work?
- Are they allowed to work in a way that suits them best? “Allow your employees to be themselves as much as possible and engage them in achieving specific goals and tasks, which you establish together,” he says.

Warren-Nicholls outlines six key areas affecting your employees’ experience – and what you can do about it.

## Danger points

In the last six months, have you been approached by external sources (eg recruitment companies, other organisations, etc) with new job opportunities?



Source: Australia’s Skills Gap, Australian Institute of Management

# Special Report - Retention

## Where to start?

From 2008 to 2011, Quantum Management Indicators compiled data explaining employees' intention to remain with their current organisation. The data includes responses from 21,619 employees from 90 Australian based organisations and provides a succinct insight into the key retention issues.

### TOP 5 RETENTION FACTORS

#### 1 Flexible work arrangements

In 2011, flexible work arrangements became the most important motivator to retain employees, with 43% of respondents selecting this factor

#### 2 Interesting and challenging work

Each year, interesting and challenging work has been selected by at least 37% of respondents, indicating that this is still critical to employees, regardless of the economic situation.

#### 3 Good manager/supervisor

In 2011, 35% of employees believe that working under a good manager is still very important, demonstrating the greatest increase of all the retention factors since 2010. This can be justified by the observation that employees are starting to recover and return to the preference that was predominant pre-GFC.

#### 4 Reasonable pay/salary

In 2011, employees placed less importance on pay/salary, with a sharp fall of 13%. This retention factor was number one in 2010 as a counterattack when employees faced pay cuts or stagnation in 2009/09.

#### 5 Autonomy and empowerment

31% of employees indicated autonomy and empowerment as the fifth placed factor to retain their services from a list of 20. This is a sign that employees are beginning to seek psychological fulfilment gained from having power over another as factors like remuneration begin to settle.

### DEMOGRAPHICS (BASED ON RETENTION FACTORS)

#### Gender

Males tend to place more importance on reasonable pay/salary, technology savvy equipment and empowerment. Females emphasise flexibility, friendly work environment and working within an organisation that values community and the environment.

#### Generational differences

Employees aged 26–45 place a greater emphasis on flexible work arrangements possibly because these groups are raising young families and dealing with general lifestyle issues. This factor is least important to employees aged 25 and under and employees aged 55+

#### Tenure differences

Employees with less than a year's service are more attracted to interesting and challenging tasks. Whereas employees with 1–2 years' tenure emphasise remuneration, demonstrating that they do not mind working hard to progress rather than taking time off.

#### Industry differences

Flexible work arrangements were found to be most important to finance sector employees and to those in the public sector. Industrial sector employees are more motivated by remuneration and performing interesting and challenging work.



### 1. Define your culture, where it is and where you want it to be.

You have a culture already. The question is whether that is the one you want. It's not just the fun stuff; it's the job, and the achievement of going home satisfied. A good culture is being able to tell your friends you like what you do at work.

Small steps are great; start with the boss and work down. Get an external facilitator, run a new pulse survey or blow the dust off your current one. Establish where your culture is, where you want your culture to go and what actions you need to take to get there.

### 2. Have values and hold people to them.

Establish what standard of work, behaviour and values you want and then outline what is considered unacceptable. With people of so many diverse backgrounds in workplaces today, don't assume everyone has the same values; be open, define them and champion them.

"There is nothing worse than people watching others cross a line at work or not knowing themselves if they have crossed one, the result being someone feeling threatened and powerless.

"Facilitate a session to determine what you as a company place value in. It's key to have this conversation, but keep them separate, values are important," Warren-Nicholls says.

### 3. Do you have clear goals and recognition?

What do you need to achieve today and what recognition, praise or incentive will you get for getting there?

Be very specific about the individual targets, the team goals and the company goals. Don't tell people how to work, tell them what to accomplish and help them achieve it.

### 4. Trust the person to do the job you pay them for.

It's their job; you hired them to do it based on experience, skill set and fit within your company. Have faith in your decision and trust them to do the job. Judge people on what they do, not necessarily how they do it.

"Your managers should be supporting and helping their teams to achieve their goals. Support your managers and encourage them to step back and allow your employees to do what you pay them for. In light of this, your managers should have more training, trust and support than anyone," Warren-Nicholls says.

### 5. Understand each other's style.

There will always be tensions at work, we all work in different ways and it takes a long time for any relationship to find its groove. Sometimes it never does. Find out what everyone's personalities are, get them out in the open and use the information to do things better as a group of people.

"Behavioural profiling is a perfect place to start, as it

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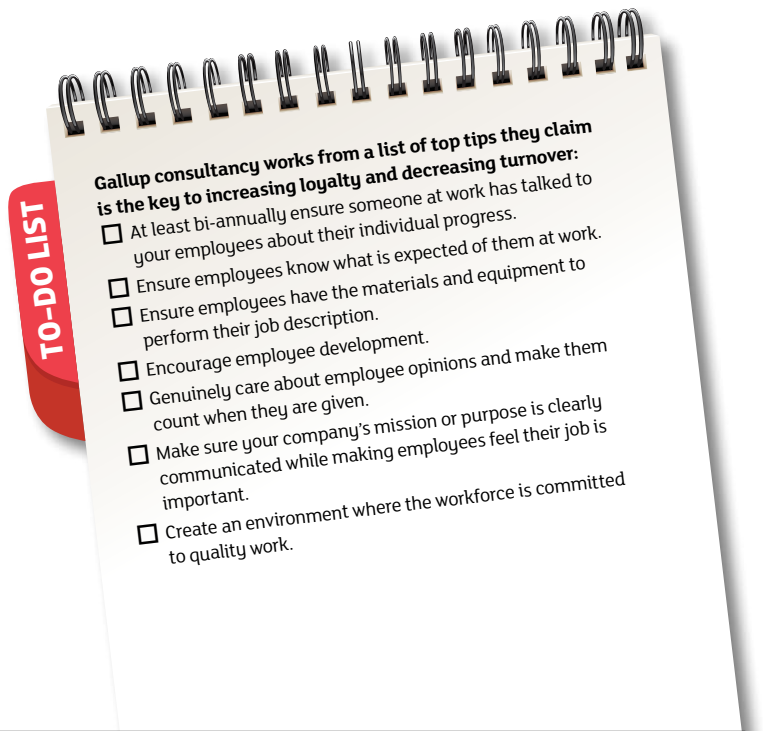
identifies how we like to work,” Warren-Nicholls says. “It’s essential to find out styles, as it empowers people to be themselves, starts worthwhile conversations and helps us understand the way others think and act, which is a powerful thing.”

#### 6. Communication.

Speak plainly. Communicating well and reaching complete understanding should be vital in every conversation, email or meeting. Our résumés say we are great communicators, but how much time do we spend practising or checking ourselves to see if what we say makes sense?

“There is an endless array of training in this area,” Warren-Nicholls says. “Do it by discovery as a team, plan exercises based around what you do. Have training regularly, not when something is deemed to be broken, so your team is always learning and interacting together. Have a simple activity at the end of your weekly team meetings and build from there.”

*Over the following pages HC provides further retention tips around four key areas: engagement, reward & recognition, L&D, corporate culture. **HC***



# Special Report - Engagement



# ON TARGET

*All HR initiatives are now expected to show reasonable ROI; engagement is no different. HC looks at the most effective ways to target engagement efforts for optimal retention*

**OVER THE PAST DECADE ORGANISATIONS** like Hewitt, Watson Wyatt and Gallup have done a solid job of building awareness of the concept of engagement in business. Most HR professionals and a growing number of other business leaders now know that engagement is the emotional and intellectual commitment of an individual towards the entity in which they are employed.

However, while general awareness of the concept of engagement has increased, it's possible we've lost sight of the sub-elements of engagement. If 'engagement' is considered an umbrella term tracking employee perceptions that develop, form and change throughout the course of their employment lifecycle, it makes sense to measure and then manage these sub-phases of engagement separately.

Anthony Sork, managing director of Sork HC, outlines the following key phases of engagement, all of which should be measured and managed:

- **Attraction** – looking at employer brand in the marketplace
- **Attachment** – looking at core perceptions of security, trust, value, acceptance and belonging over the first 120 days that drive risk of attrition, discretionary effort and performance over the first 18 months of employment
- **Alignment** – following the first 120 days, alignment between an employee's desired state and their actual state, and identification of pull factors: the more closely aligned an employee is, the higher their engagement will be. Ideally organisations would see these 'pull factors' consistently across their workforce so they can measure it from a zero to 100.
- **Detachment** – those alignment pull factors drop below zero and start operating as push factors. Detachment is when the push factors influence the employee to be looking at another working environment over the existing one.
- **Post-employment/transitioning** – what will keep the employee connected to the organisation, either as a future resource as an employee or as a referral advocate.

For Sork, the crucial phase is the second. His company has developed the Employee Attachment Inventory (EAI) to focus specifically on the critical bonding period at the beginning of the employment relationship. Most of the time that focuses on new employees coming into an organisation (the first 120 days); however, attachment perceptions are forming all around us all the time in different social structures.

"Where it comes into play within an organisation is

where you have structural realignment of an individual, so where they are changing teams and have a new direct report relationship. Where the direct reporting relationship changes for an existing employee you also have a resetting of attachment perceptions as well," Sork says.

When attachment is looked at as a phenomenon across any social structure – workplace or otherwise – it is apparent that this is the critical period of time in which the core perceptions of security, trust, value, acceptance and belonging are formed. The strength of those perceptions then drive key behaviours: firstly the likelihood an employee will stay or go (the risk of attrition); and secondly, discretionary effort, and through that, the performance of the employee.

## PRIMARY CARER ABILITY

The key here is the skills of the direct manager, or the 'primary carer' as Sork refers to them. "In the first 120 days it's vital that the primary carer is aware of their impact on these attachment perceptions. They are the primary influencer of these perceptions."

Sork believes organisations have the right intentions but they tend to focus on only one half of the equation, which is, "Can the employee do the job, and will they fit in?" They haven't traditionally been focusing on employee perceptions, which in fact drive the behaviours of whether they'll stay and how much effort they'll put in, he says.

There are two sides of the same coin an employer must assess. From the employer centric perspective they need to be able to assess whether the person can do the job, and whether they can align with the organisation's vision and values. The one way to assess that, Sork notes, is by looking at competency, value alignment and performance: essentially, are they prepared to perform to the level needed in order to reach minimum performance criteria in this role.

From an employee perspective it's all about the 20 drivers they are assessing (consciously or unconsciously) during their first 120 days, and how these are influenced most significantly by the primary carer. These 20 drivers include pre-employment, orientation, accuracy of job representation, vision and career path, work-life balance, co-workers, climate/culture, systems and processes.

Ninety days into tenure the attachment level of the new employee is assessed via survey. There are 100 questions that require a response based on a five-point rating scale from strongly agree to strongly disagree. The EAI Feedback Report goes to direct managers and provides an overall measure of attachment based on the

## WHAT DOES HIGH ENGAGEMENT COST?

73% of organisations achieving employee engagement scores in excess of 80% invest at least \$2,000 per employee/per year on their engagement programs. 64% of organisations with engagement scores of between 40–60% invest less than \$1,000. It is three times more likely for an 80%+ organisation to invest more than \$2,000 on engagement activities than those with an engagement score less than 60%.

## WHAT DOES HIGH ENGAGEMENT DELIVER?

On average highly engaged organisations were up to 20 times as likely to see improvements in customer satisfaction, attraction of key talent, a decrease in sick days, and higher productivity, customer loyalty, and profit than those with an engagement score of less than 60%.

Source: RedBalloon/Altus Q Engagement Capabilities Report 2012

# Special Report - Engagement



## DID YOU KNOW?

In February 2012 AON Hewitt released new evidence illustrating that organisations with an engagement score of 65% or more achieve profit growth at a rate four times greater than that of other organisations. The same report also highlighted a drop in overall levels of engagement in the Asia-Pacific region of four points to 56% in 2011.

average of the 20 driver scores, and individual attachment scores per driver (20 drivers in total).

If attachment levels are lower than desired at 90 days on any of the 20 drivers there is an action plan put in place – a window of opportunity – for the manager to work on improvements for the next 30 days.

## WHY BOTHER?

There are two key benefits of working on attachment. Firstly, a reduction in the risk of losing good talent. “If you lose that person not only have you not been able to break even at the 18-month mark but you’re likely going to have to go back and repeat the investment, so you’ll have to add the loss onto the next investment – it can be a really compounding, quite crippling impact on business,” Sork says.

The second benefit is that by increasing attachment discretionary effort is also increased, which means ROI will be achieved faster, and the employee is retained at a higher performance level. “It’s actually a double shift in terms of the ROI,” says Sork. “You go from a loss scenario to a gain.”

As a conservative estimate, Sork says it can cost up to \$100,000 to find, recruit, upskill and onboard a new employee. He says it’s telling to then determine retention of that talent based on average profit contribution per employee.

“We recommend that is a weekly calculation – last year’s profit divided by last year’s headcount, divided by 52 gives you a weekly average profit contribution per employee. From the three month mark, given you are negative \$100,000 at that point, how long do you need to retain them in order to pay back that \$100,000? Look at attrition rates relative to tenure to see how many people are leaving prior to 18 months – that will give an indication of how much loss they are incurring through poor attachment levels. Then the business case would be if we can change even X proportion of this, what’s this going to do in terms of bottom line performance of the business?”

## WHERE TO FOCUS ENGAGEMENT EFFORTS

Research by RedBalloon and AltusQ has revealed what

employers should be concentrating their engagement efforts on, and what they should be moving away from. The Employee Engagement Capability Report identified a framework of 20 core organisational capabilities (see table below) that organisations measure themselves against according to the level of depth, understanding and mastery within their organisation. Gaps are then identified between the desired and the reality.

The report aims to provide clarity for investment decisions around particular skills or organisational capabilities that will provide the biggest uplift in an organisation’s engagement score.

AltusQ partner Oliver Christen explained: “For example, we found that the biggest gaps between the skills of the most engaged organisations and those scoring below 40% engagement – and in turn the biggest opportunities for improvement – are in the areas of brand, expectation management, coaching, rewards & recognition and effective meetings.

“So straight off the bat we have a prescription for improving the employee engagement reality for those organisations and can help them start to close the gap.”

In assessing the reported engagement outcomes of the organisations that took part in the survey, it was demonstrated that whilst the level of investment and type of activity do play a part, it’s not as simple as investing big or delivering a whole list of programs and initiatives.

In fact, the data suggests that it’s probably better to do fewer things in the engagement space and do them really well, rather create an engagement solution that is trying to be all things to all people.

The report surmised: “The evidence gathered confirms our hypothesis that an organisation’s depth of capability or skill in specific areas past implementation or ‘manager awareness’ to a mastery level where mentoring and leverage can occur ... or ‘employee owned and loved’ is the biggest determinant on engagement outcome within a specific cultural context.”

## THE CORE INGREDIENTS

According to the report, the core ingredients for engagement success are flexible working arrangements, recognition programs, non-cash rewards/incentives,

## The 20 core organisational capabilities

Purpose, intent, cause	Managing capacity and workload	Coaching	Onboarding
Culture	Functional structure/resource allocation	Managing expectations	Performance management
Commercial vision	KPI	Work-life balance	Developing people
Innovation	Rewards & recognition program	Compensation & benefits	Decision making
Brand energy	Communication	Recruitment	Effective meetings

training and development programs, paid parental leave and time off for study.

“These are the basics required to deliver on expectations and start to engage a workforce. They are the base of the pyramid, so if you don’t get them right, the whole structure will topple,” says James Wright, RedBalloon’s corporate engagement specialist.

“These findings are backed up by studies showing that non-monetary incentives have a higher perceived value and are 24% more powerful at boosting performance than cash incentives, while rewards and recognition are key to creating and maintaining an engaged workforce.”

## HEAVY HITTERS

According to the report data, the activities that have the greatest impact – once you have the basics in place – are coaching, time off for volunteering, buddy programs and company lunches/nights out.

“Coaching has been identified as a key lever in effecting employee engagement levels within the 911 organisations surveyed. We know there are great ROI outcomes to be realised from a focused, well structured coaching program, so it’s great to see this reality reflected in the data,” Christen said.

“And according to the data, a combination of coaching and buddying specifically in an organisation results in an 82% chance of achieving an engagement score of 80% plus.”

## MISSING THE MARK

Not all engagement efforts are so successful; in fact, some activities traditionally thought of as being contributors to engagement are missing the mark. “What was once a generous extra for an employee quickly becomes an expectation and stops to deliver ever increasing engagement returns that perhaps the investment requires,” the report notes.

Among the list are perennials like training & development programs, paid parental leave, time off for study and flexible working arrangements: all these are now employee expectations, not extras as they once were. The business case for increasing investment in these areas is weak if looking for increased engagement as an outcome.

Christen warns that it’s not about how much you spend but how you spend what you have.

“You have to question the cultural environment of your organisation and what capabilities in your team will deliver the greatest uplift in engagement from the budget available. It’s not about having huge budgets, but learning how to use what you have – in terms of spending and existing capabilities – wisely.

“Increasing the dollars invested in engagement activities only delivers up to a point. The report shows that spending more than \$3,000 a year gives only a 29% chance of achieving a high engagement score.”



“If you lose that person not only have you not been able to **break** even at the 18-month mark but you’re likely going to have to go back and repeat the **investment**”

– ANTHONY SORK

### TO-DO LIST

- What gets measured gets managed. Undertake an engagement climate survey to get some sense of where you’re currently placed with engagement. Data can also be gleaned from exit interviews
- Get the core elements of engagement right: flexible working arrangements, recognition programs, non-cash rewards/incentives, training and development programs, paid parental leave and time off for study
- Concentrate on the first 120 days of employment; this bonding period is when core employee perceptions of the employer are formed. Ensure the direct manager, or ‘primary carer’ is aware of their influence on these perceptions
- Concentrate extra effort into these acknowledged ‘engagement boosters’: coaching & buddy programs, company lunches and nights out and time off for volunteering
- Get your business case right for failing to invest in engagement: average profit contribution per employee compared with cost-to-hire is one way of doing this (see main story)

# Special Report – Engagement

## Case Study – Engagement’s role in retention

*Human Capital* talks to Peter Acheson, CEO, Peoplebank, an AON Hewitt accredited Best Employer 2012

**Q: In your experience what role does the engagement of employees play in retaining key staff?**

**A:** I think there’s a very strong link between high engagement and high retention, and likewise I think one of the predictors of staff turnover would be low engagement. When you see a business with low engagement you can be reasonably certain that one of the outcomes of that low engagement will be some turnover, if not immediately then certainly over time.

**Q: Why has Peoplebank decided to concentrate so heavily on engaging its employees?**

**A:** We started the process of aiming to become an AON Hewitt best employer about four years ago and it’s been through an ongoing process, an ongoing journey that we managed to get there.

There are two reasons why we’ve invested so heavily. One is we see a really strong link to business results. In our business what we sell is totally intangible – we can’t roadtest it, we can’t demonstrate it to people. Our clients and our contractors and our candidates buy our people’s passion, their belief in the company they work for. Passionate, engaged employees create passionate, engaged clients and that ultimately creates passionate and engaged investors, so we see a very strong link.

Our internal analysis has also shown that our more highly engaged account managers and recruiters are actually more productive. In percentage terms our highly engaged account managers are typically up to 25% more productive. What does that mean?

In our terms that means gross margin, so they are able to deliver 25% more gross margin per head. Likewise in the recruiter context – those who do the sourcing of the candidates – typically our highly engaged recruiters will make more



placements per month.

So they’re the left brain rational reasons behind why we think engagement is important, but the other thing is we spend at least a third of our lives at work and I have a fairly simple view that if people are going to spend that long at work you want to make sure it’s a good experience, that you have fun, that it adds to their meaning in life – it’s not a chore, they look forward to coming to work and they are engaged in doing things they feel good about.

**Q: Where did you focus your engagement efforts?**

**A:** As part of the AON Hewitt survey you get feedback on the areas that are important drivers of engagement in your organisation. They’ll be different in other organisations but for us it was career opportunities, communication, benefits and brand/reputation. We then went back to our staff in engagement focus groups and asked them why they nominated, say, career opportunities as an important driver.

Career opportunities in our context means a couple of things: people feel we are interested in their development within their role; secondly, that as being part of our organisation they get the opportunity to participate in some job rotation, perhaps to other state capitals for a period of time; thirdly, as a result of our growth, we’ve expanded into Asia and have just posted our first Peoplebank Australia employees into Singapore.

I look at it as an investment, not an expense


– PETER ACHESON

**Q: Do you think engagement initiatives need to be costly?**

**A:** I look at it as an investment, not an expense. The most significant investment is in time. We’ve never thrown money at this – but I don’t think that’s what staff are asking for. They’re asking that you take the time to listen to them, that you take the time to engage them in conversations around these drivers, and that you demonstrate you are committed to improving the drivers of engagement.

**Q: What are your thoughts on turning around a disengaged worker: is it worth the effort?**

**A:** It depends. The first thing I would say is that people who are actively disengaged are difficult to turn around and they can actually be damaging your business, so you need to make a decision reasonably early on about whether you think it’s a person you can turn around. If that’s the case you work with them on addressing the issues that need to be worked on.

But if the conclusion is you can’t turn them around then you need to go through a process – as hard as it is – of managing them out. AON Hewitt feedback this year showed there were four defining characteristics of best employers: leadership commitment, a compelling promise, connection to the company strategy and differentiated performance – which is exactly what we’re talking about: people perform at different levels and you need to reward them accordingly. 

# What's in the goodie bag?

*Employers and employees are starting to come around to the idea of the 'total remuneration package', but there is still an over-emphasis on financial remuneration. While certainly an important component, it's not the be-all and end-all*



**A FAIR DAY'S PAY** – or at least an iota of recognition – for a fair day's work doesn't sound all too complicated. Yet when the full suite of reward & recognition is factored in, including financial and non-financial elements, it's no surprise that many employers still get it wrong.

## FINANCIAL REWARD

When it comes to adequately providing financial reward to employees, knowledge is strength: knowledge of benchmarks and what's expected in the market at granular (state, sector) level. Garry Adams, head of reward at Mercer, says this is critical given the global economic situation.

“Australian HR and remuneration teams are finding it somewhat more difficult to convince their global headquarters that remuneration budgets in Australia are continuing to be at a median of 4% per annum in 2012,” he says. “For companies with headquarters in the US or Europe that's not an easy sell because in those markets remuneration budgets have been significantly lower and the level of economic contraction in many countries in Europe is quite high at the moment.”

While Adams concedes it's too difficult to paint generalist views of remuneration trends, given that some sectors (mining, resources) are showing real strength while others (retail) are very tight, he says that composition of base pay remains similar to previous years.

“Most companies now would operate with some form of total fixed remuneration or fixed annual reward or total employment cost concept, and would use that as their main way of both measuring the market and calculating their budget increases.”

What he is seeing is an increasing prevalence of incentives and increasing proportion of incentives as a proportion of the overall package.

“We noticed some interesting trends in the data when we looked into it and that was that the companies that have done well in the last year and expect to do so this year tend to be using incentives to a greater degree than companies that have done poorly last year and expect that this year will be tough. So, they are using it both as an attraction mechanism and also as a reward mechanism.”

For long-term incentives (LTIs), Adams says for listed companies remuneration committees are continuing to closely look at the overall composition of the rem package for CEOs and senior execs to achieve the optimal balance of fixed and short and long-term.

“They are looking very carefully at the measures of performance both in short-term and long-term plans and trying to ensure they are both appropriate in terms of being the measures that really matter, and that the incentive opportunity is at an appropriate level. It's a balance between driving strategy and results on the one hand and exposing organisations to risk on the other,” he

A total reward perspective – of which **salary package** is naturally a big part – also **encompasses** career development, work-life balance, the nature of work itself

says. Another feature of listed companies, which Adams says is spreading across the broader corporate market, is some form of deferral of part of the STI and in some cases a clawback, if the results achieved over a particular period ultimately proved to be misstated or have exposed the company to risk or underperformance in later years.

## MAXIMISING WHAT'S ON OFFER

When it comes to optimising remuneration budgets Adams recommends looking closely at the way employers are allocating remuneration increases, targeting those employees who are high performers and those where there are significant anomalies that need to be addressed.

“The consequence of that of course is if you're going to target increases there you need to make some tougher calls about increases for those who are underperforming,” he says.

He recommends having performance management processes up to the task.

“You need a robust performance management system so people have a clear understanding of what's required, how their performance will be measured, and some procedural fairness so that people don't get a surprise at the end of the year,” he says. “Managers must also be comfortable with having performance discussions with employees and providing constructive feedback on a regular basis – not saving it till the end of the period and then dropping a bomb on people.”

Adams also recommends employers look broadly at what their reward offering is. A total reward perspective – of which salary package is naturally a big part – also encompasses career development, work-life balance, the nature of work itself.

“We've been encouraging clients to think about what the totality of their offer to employees is, and to make sure that in a tight time they're not automatically looking to slash budgets. People come to work and expect to contribute but on the other hand they expect they will be developed. The employer must honour its side of the

# Special Report - Reward & recognition

## STIs in the remuneration mix

Country	Year	Percentage of employees receiving STIs	Actual incentive as a percentage of base salary	Target Incentives as a percentage of base salary
Australia	2009	65	20	23
	2010	68	22	24
	2011	66	22	23

**Mercer's Short-term Incentives Around the World report** analysed STI data from executives around the world to gain insights into company confidence that their financial targets will be met.

In Australia and New Zealand specifically, the percentage of executives receiving STIs is increasing, from 56% of executives in 2009 to 67% in 2011. The longer, three-year trend from 2009 to 2012 on STIs as a percentage of base salary across Asia-Pac and Australia/New Zealand is upwards, with awards increasing by 2.3% and 2.6% respectively.

The data also suggests that short-term confidence from Australian employers is also bucking the regional trend, with a marginal increase anticipated in 2012 of 21.9% compared with the 21.6% paid out in 2011.

Outside the executive suite, the report highlights that companies are looking at adjusting their use of variable pay to help manage the cost of labour, which is a major factor for most organisations. The size of potential awards and the eligibility for them are directly related to an employee's level and role within a company. As with other types of remuneration, STI size and eligibility differ by region and country.

STIs can be used at all employee levels to focus employee behaviour and performance on metrics that relate to its success. This is affordable from a company's perspective because awards are typically tied to specific, measurable, agreed-upon financial performance goals – often related to incremental revenue or profits.

bargain in that area of career development. It's a double whammy in a sense, if rem budgets have turned down and then on top of that access to training, etc also gets hammered."

## NON-FINANCIAL REWARD

Countless studies have shown that greater remuneration is unlikely to retain an employee much longer than a few months if they are already disengaged; that's where non-financial reward and recognition programs come into their own.

AON Hewitt confirms that "variable pay programs get the employee's attention", and Buck's Compensation Planning survey of 2011 revealed that 19% of companies intend to shift towards more non-cash recognition.

"The opportunity for moving your investment from increases in pay to recognition in return for discretionary effort and the return to the business is really quite massive," confirms Emma Nicolle, corporate account director, RedBalloon.

Nicolle says regardless of the organisation, rewarding & recognising of desired behaviours is crucial, as is giving line managers the tools to do so; indeed, research from Hay Group indicates that 70% of all engagement is driven from direct line manager to employee – so they need the tools to do that.

There isn't one standard framework or set-piece that works for every organisation when it comes to R&R – each organisation will have different DNA and therefore the underpinning for a recognition program will be very different. For some it may be values; for others it will be built around organisational goals or mission or purpose – it's really about finding the sweet spot in the organisation that is going to provide ROI in a meaningful way and becomes a brand builder for each employee. Nicolle says that the most important element is commitment and leadership buy-in.

## DO SWEAT THE SMALL STUFF

Nicolle says it's "frightening" to realise how many organisations don't understand that recognition does not need to be about spending lots of money; it's about praise.

"A thinktank from the UK called White Water Consulting showed that a simple act of praise can actually have the same impact as 1% increase in salary. It's a simple thing to say but it's all about giving managers the tools to go out and say it. I know there are many managers out there who are afraid of getting too fluffy and not having a distinguished or respectable clout in their small teams."

RedBalloon's *Engagement Capabilities* report highlighted that extras previously thought to deliver in terms of engagement actually did not deliver any more (or in fact never did).

"Things like paid parental leave and flexible work conditions don't actually drive engagement in the way that some organisations believe they will," Nicolle says.

Having Tim Tams in the office is an example. Nicolle says the return from those Tim Tams may be some happy people around the office in the short term but then they become expected – and once they become expected they're not actually delivering.

"The really canny and dynamic businesses are those that are keeping their recognition mix fresh; they're shaking it up every month or quarter and are keeping people on their toes. They're making sure that a \$5 investment in a packet of Tim Tams is going to be used another way – so maybe they're bringing in fresh watermelons on a hot day. That will actually surprise and delight people in a way that something that's expected every day just won't."

What's the key to a sustainable R&R program? Communication is top of the list: ensuring that every person understands the rules of the game, understands what's in it for them, understands how they can be involved – "and that doesn't just mean how they can win but also how they can nominate their peers", Nicolle says.

The other key environmental factor is keeping things seasonal and fresh; ensuring a program is branded in a way that's meaningful for everyone. Nicolle suggests getting employee interaction by getting them to suggest names for programs.

“It’s really about making it personal to the team and keeping it really exciting by driving through different rewards, making sure it’s not always the same package and that people have little sprints they can work on in a two- to three-week period, or teamwork awards that they can activate by working with new groups of people,” she says.

## DISCRETIONARY AWARDS

The traditional school of compensation & benefits was born out of the historically discretionary, unfair and biased practices whereby the bosses decided arbitrarily who would share in the blessings of a good year.

Professional organisations have since moved towards sound and tested remuneration and reward practices which are well researched, objective, consistently applied, benchmarked. As Gary Taylor, HR industry veteran and regular contributor to *HC* says, it’s now commonplace to have comp & bens experts with spreadsheets doing regression analyses, we have the massive surveys that take a month to complete and a morning to read, and we have organised labour negotiating for days “to ensure equity and remove any hint of managerial prerogative”.

“Of course, we do need structure and science in our compensation design – both fixed and variable pay,” he says. “Yes, we tweak with the various elements, but this is all necessary. Remuneration and rewards then become entirely predictable, as we seek to drive and pay for performance. KPIs are cascaded, interlinked, and then locked into a system. No surprises – good or bad – by design.”

Taylor adds that in our sanitisation efforts, we might have missed out on the benefits of discretionary awards.

Firstly, he recommends de-linking discretionary awards from the normal remuneration system, creating a separate budget, and using a different mindset in design. Remember, he notes, this is not a substitute for your compensation strategy, but a supplement to it. “It’s not about money, but psychology. It’s often retrospective, rather than driving future performance. For a start, have as few rules as possible,” he says.

- **Incidental awards** can be useful in supporting a particular drive or project. They can be constructed around a theme, or be introduced just as a once-off for a period of time. Simple movie tickets are a very inexpensive way of recognising extra effort. Vouchers to stores are always appreciated.
- **Sales incentives** frequently involve some of the most imaginative design elements, and clearly are results-inducing, hence the higher price tag. Taylor has seen “some outrageous” incentives targeted at spouses, to induce support and even pressure on the sales employee. The overseas ‘conference’ is a regular winner, he says, as both partners are pampered.
- **Rarity value** of certain rewards can make them particularly memorable. For instance, a ‘collector’s

item’ gift from the CEO can be seen by the ambitious as a status symbol and something to strive for.

- **The Ego boost** is the kind of reward which no one would normally do for themselves. For instance, exclusive car dealerships will rent out a Ferrari or Rolls Royce for a weekend. “The recipient will use it to visit every friend he has over that weekend, each time retelling and reinforcing why he won the award,” Taylor says.
- **A family treat** reinforces why the employee is a hero in the home too. Imagine a dinner at a great restaurant for the family, where they are collected by limo.
- **Above-and-beyond** awards are ideal when a person has delivered outside of their regular KPIs and the regular rewards associated with them. Catch people doing extraordinary things, and reward them extraordinarily.
- **Training** has perhaps wrongly been used as a ‘motivator’ or reward for years, but consider the following. You have a high potential manager; offer them a relevant one-week program at an international Business School of their choice. The cost is a flight, and a few thousand dollars at Harvard, but there is both direct and indirect payback of enormous value.

Compensation guru Ed Lawler spoke about the perceived value of rewards. Generally, the perceived value of cash is ‘dollar for dollar’, while the perceived value of most fringe benefits is just 70% of the actual cost.

“All that energy and money we spend in retirement benefits just doesn’t hit home, yet employers insist in believing that their staff will learn to appreciate the broccoli,” says Taylor. “Lawler’s challenge was for employers to find the reward programs where the perceived value is higher than the cost. I would argue that discretionary awards represent your best chance to delight recipients.”

### TO-DO LIST

- Assess your reward & recognition offerings in totality and communicate this to employees. Assess everything offered to employees: financial (bonuses, base pay, LTI, STI), and non-financial (L&D, work-life balance, the work itself)
- Ensure there are robust performance management processes in place in order to target remuneration and other benefits to those who deserve it; then ensure managers have the skills to be able to hold performance discussions
- Give managers and employees themselves (via peer recognition programs) the tools to be able to recognise good work
- Keep reward & recognition programs fresh, seasonal and tied to meaningful objectives – whatever works for the company: values, goals, purpose
- Implement a reward program where the perceived value is higher than the cost. Discretionary awards might be the answer

# Special Report - Reward & recognition

## Case Study - The role of R&R in retention

*Human Capital* talks to founder and managing director of Pulse Marketing, Lauren Brown, about her company's R&R offerings

**Q: Can you outline the reward & recognition programs in place at Pulse Marketing, and how you position such programs as retention drivers for staff?**

**A:** For a multitude of reasons – from the value and loyalty of clients having long-term relations with their key Pulse contact, to the financial and time investment into growing individual skills – retention of talent within the agency is essential. Therefore there are different initiatives that have been introduced or evolved to foster that retention, which include:

- Training: 48 hours training funded p.a.
- Pulse Ideas School: weekly session run whereby staff are challenged to crack briefs and present back to the group.
- Communication Sessions: a dedicated hour per month to catch up with their managers to talk about goals.
- Over and Above trophy: one of our core values, each month the team vote who has gone over and above in their eyes the previous month, and the winner is then announced at a team morning tea.
- Relationship Days: everyone is given an extra day's leave to invest in a relationship.
- Team activities: without fail, we take a Friday afternoon off each month and do a team activity together.
- Charity days: everyone is encouraged to choose a charity they believe in, and are given one day off per quarter to support that charity.
- Cultural Grants: this is a set amount of money that each person can spend on activities outside of work to get their creativity flowing. Some to date have included learning a language, going to see a play, or getting a ballet subscription.
- Salary sacrifice: there are various policies in place for staff to salary sacrifice.



**Q: We often hear that recognition – a simple 'thank you' for a job well done – can do wonders for engagement and productivity. How do you do this at Pulse?**

**A:** It can be as simple as instead of sending an email without any tone or body language, actually walking across the office and personally thanking them for the work they have done.

When we win a new client, there's usually no-one in the office that hasn't played a part. From the office manager who greeted the client and made their coffees, to the creative team and account service team who worked on the proposal.

Therefore when we get word that we have won the business, we all stop work – no matter what time – and open a bottle or two of champagne to celebrate a job well done.

It's then a chance for the extended team to hear who we are about to start working with, some client background, and what they're all most excited about.

**Q: Do you also use financial reward for a job well done?**

**A:** It's very rare that you find someone who is working solely for the love of it; therefore financial rewards are needed and effective. It's important to recognise, however, that they're not a silver bullet to achieving performance, success and harmony.

The real challenge I have faced over the years is understanding how to generate organic motivation – or 'real motivation', where someone achieves because they want to simply do the best job they can. This is where the person actually takes ownership of what they're doing, and it's by far the most challenging trait to cultivate consistently.

**Q: Can you see any tangible results from your R&R efforts (e.g. engagement, productivity)?**

**A:** Without question. Nurturing the health of the agency is a crucial part of my role as the managing director. To gauge that health, I have a dashboard of results that tell me how we're going, areas that have improved/need work, and each client and staff member's role within that.

These measurements are done through a variety of productivity and job reporting, management updates, monthly communication sessions, and informal debriefs.

Without question, the second I started putting these measurement tools in place and looking at results often, I became a more focused leader with quantifiable requirements always at the front of my mind.

**Q: What's your top tip to other business leaders for making their R&R programs creative and fresh?**

**A:** Never think that you have the perfect combination, not just with your R&R, but across your whole business. I have committed to being on a learning journey, one where I speak to other business owners every day, I hear speakers across a range of subjects, I'm part of a business group called Entrepreneurs Organisation, I genuinely want to know everything that is out there and how I can put the best of the best into Pulse.

I would encourage all business owners who want to retain their staff and head towards enduring profitable growth to always look for more, never sit still. **HC**

# Sure bet: L&D and retention

*The growing body of evidence pointing towards well targeted and meaningful L&D programs and the link to employee retention is undeniable. Where should you be directing your efforts?*



**WHILE SOME EMPLOYEES** may view L&D opportunities as an 'expected right', rather than a perk or benefit, it's interesting to note that employer-provided training has the same effect on job satisfaction as a 17.7% net wage increase, according to a recent study. What's more, job satisfaction emerged as one of the most important factors of overall life satisfaction and happiness. Can HR afford not to invest in employee skills training?

The research was conducted by the University of Madeira in Spain, and canvassed the opinions of more than 5,000 workers. The paper, *The shadow value of employer-provided training*, reported that short-term training spells are particularly beneficial to job-satisfaction levels, and the flow-on effects of receiving new skills training has many and varied results which are critical to HR. These results include:

- Increased productivity
- Decreased rates of absenteeism
- Improved rate of retention

## BENEFITS ON BOTH SIDES

As always, HR professionals will be interested in how best to spend the sometimes too tight development budgets. A 2012 report by Skills Australia, *Better Use of Skills, Better Outcomes* aimed to highlight how employers should be harnessing and developing their workers' abilities and talents to gain maximum value. The paper included 11 case studies of companies excelling in this area (one of which is profiled on p.51).

The report outlined the benefits of linking the skills of the workforce to business strategy in industries as diverse as resources, health, construction and finance.

It found that businesses that harness the skills and abilities of their workers perform well because both parties are getting more out of the employment arrangement: employers benefit from innovations suggested by their staff and lower costly turnover; and employees are more likely to be satisfied at work and motivated to perform at their best.

On the retention side, Skills Australia CEO, Robin Shreeve, notes that providing employees with a clear framework for advancement to more senior roles provides an incentive for staff to develop their skills and remain with the organisation. "By encouraging employees to identify opportunities and by applying those skills within the workplace, employees in our case studies felt their organisations had helped them in work towards their career goals," he says.

## CAREER DEVELOPMENT PROGRAMS

Despite these obvious benefits, formal career discussions between employees and their immediate managers remain a rarity. This limits the ability to help employees steer their career in a direction that will add value to the organisation and allow it to thrive.

## Career development: A 5-step program



### STEP 1: Formalise your career development approach

An essential step in taking a systemic approach to careers is to create a formal career development program. Depending on the needs of the organisation, this could take a variety of forms, but certain features are universally applicable. A distinction must first be drawn between the accountabilities of the organisation and those of employees.



### STEP 2: Conduct a skills vs needs inventory

Organisations must undertake a rigorous analysis of present workforce skills and future talent needs. Creating an inventory of present skills and future needs is important for giving proper direction to individual development. Development cannot succeed for the individual, let alone for the organisation, unless it is strategically oriented towards achieving larger business goals. Employees who develop capabilities of little relevance to their job or organisation won't have an active part to play in the organisation's success.



### STEP 3: Initiate meaningful career discussions

Organisations must also take the lead in initiating and facilitating meaningful career discussions, providing an essential step in empowering employees to drive their own development. Right Management's global research and anecdotal evidence suggests that career discussions between employees and immediate managers are rare. Skilling and equipping managers to have regular, meaningful, career coaching conversations with employees is a foundational step in a systemic approach to careers. Just as important is holding managers accountable for holding those career conversations.



### STEP 4: Make employees accountable for career discovery process

A successful L&D program cannot rely on the organisation alone. With guidance, support and tools from their organisation, employees must be held accountable for engaging in a process of career discovery. This process should involve three phases: self-discovery, organisational discovery, and career discovery.



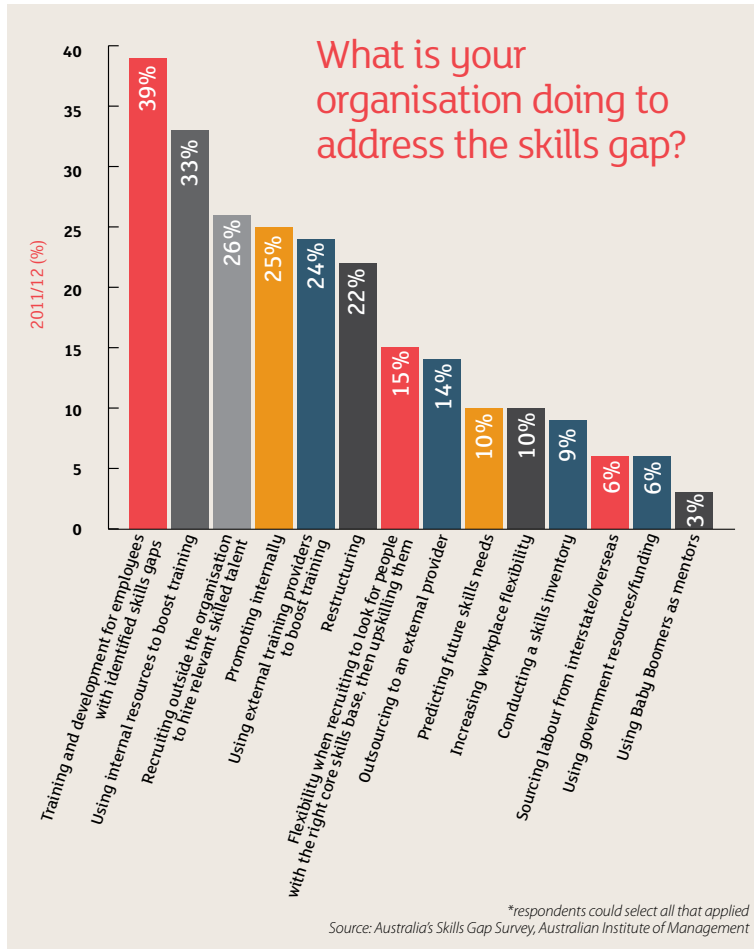
### STEP 5: Articulate ROI

There are several ways to measure the effectiveness of a career development program. Below are some most common ROI measurements organisations can use:

- Decreased recruitment and onboarding costs
- Increased productivity
- Improved quality of career development plans
- Increase in internally filled roles
- Higher engagement levels
- Decreased absenteeism and presenteeism
- Minimising attrition of high potentials

"Ultimately, it is all about alignment between organisations and employees," says Shi. "A successful career development practice should help employees to articulate their value and needs clearly to their managers and organisation, whilst giving managers a framework and the coaching skill to manage career conversations effectively. Together a career development plan can be developed in line with both the organisational needs and the value of employees."

# Special Report – L&D



Striking the right balance between the capability needs of the organisation and employee comes down to a fine-tuned career development strategy.

An effective career development process ensures that organisations have the right people with the right skills to get the job done and meet organisational objectives. It provides the means to build a talent pool able to meet current and future needs through continued development of employees in competencies the organisation needs to succeed.

“It’s a vital part of an organisation’s talent management strategy as it can help retain valuable employees, re-engage the disengaged as well as assist employees in adapting to changing environments,” confirms Yu Dan Shi, senior consultant, Right Management.

So what does it take to successfully introduce a career development program? According to Boxall and Purcell (2003), performance is a combination of ability, motivation and opportunity, known as AMO. The question is what sort of HR and business practices, structures and programs are required for AMO to be

turned into action. Shi says a functioning career development process will involve employees, managers, and HR personnel, each dependent on the other for success and each with specific responsibilities.

## WHAT PRACTICES PROMOTE EFFECTIVE SKILLS USE?

Enterprises have countless options when thinking about upskilling workers. It can start in-house with thinking about future business directions and developments and whether they have the right staff with the right skills for the work that needs to be done. Many enterprises have found workforce planning, and development tools have been useful for this sort of analysis, and Shreeve notes that a wide range of these are available online through various industry and training sources – particularly national Industry Skills Councils.

The types of initiatives used by the Skills Australia case studies include:

- Job redesign** – Changing the role or description of a job so that skills of the employees are put to the best use. Aspects of job redesign can include teamwork and flexibility in job descriptions and work arrangements.
- Employee participation** – Involving employees in discussions on business strategy or direction means that the valuable knowledge and experience that they have can be used.
- Autonomy** – Giving employees a degree of freedom and authority to make decisions about how to do their job.
- Job rotation** – Facilitating the learning and use of new skills by moving employees through different jobs/roles/positions.
- Skills audit (training needs assessment)** – Identifying the skills that employees currently have so that these can be used effectively as well as identifying the skills that are needed.
- Multi-skilling** – Closely linked with job rotation is ‘multi-skilling’, whereby employees are trained in multiple skill-sets enabling them to undertake tasks that may fall outside their traditional job description.
- Knowledge transfer** – Applying new skills – Offering training (either formal or informal) that is highly relevant and able to be used at work.
- Mentoring** – Passing on skills and knowledge of experienced workers. This can assist in providing leadership and strategic direction.

## CRITICAL SUCCESS FACTORS

Skills Australia identified several critical success factors for getting the most from employee skills, including:

### 1. Leadership and management

Shreeve notes that of the 11 companies profiled in the Skills Australia white paper, across the board there was strong support from senior leadership, ensuring

# Special Report - L&D



“An open, **supportive**, inclusive workplace **environment** will better encourage **employees** to contribute their ideas”

– ROBIN SHREEVE

commitment to developing staff and being open to new ideas from staff. This includes an oft-overlooked but crucial sector – middle and frontline managers – through training and mentoring.

Good leaders and managers encourage creativity and innovation in employees by enabling measured risk-taking and providing opportunities for staff to have a say in business processes.

Leadership structures are important, but effective leaders also encourage individuals to take responsibility, “because then you get the ownership rather than the top down”, Shreeve says.

## 2. Culture and values: creating learning organisations

Organisational culture, and a supportive, inclusive workplace environment can encourage employees to contribute their ideas.

Learning organisations make time for learning (lack of time is the most frequently given reason for a lack of learning in an organisation); they integrate learning with the daily work. Best practices and new ideas are discussed on a daily basis. However, the real difference comes at the top: leaders need to demonstrate, rather than just assert, that learning is a priority. “If senior staff don’t participate, then it can’t really be all that important,” says Kate Messenger, director, Meme Partners.

Messenger says that in learning organisations, the executive team attend internal and external training sessions, as well as industry conferences, and they report back on what they’ve learned. Examples of new ideas are shared frequently, customers or guest speakers are invited to address regular staff meetings, and continuous innovation programs are supported by senior resources.

It also helps if training is enjoyable and interesting. People talk, and they’re a lot less likely to make time for a workshop that they’ve heard is boring. “Cutting through the cynicism and apathy is harder than ever now. Trainers must earn our attention, or we’ll go straight back to our Blackberries and iPhones,” Messenger adds.

It’s key that new skills be immediately applicable to

real-world challenges, but it’s also essential that those challenges seem worth tackling. Learning organisations give their employees a reason to acquire new skills, by connecting the daily task to a larger purpose.

“Whether we’re making coffee or cars, selling insurance or balancing the books, we need to believe that what we do matters, before we’ll learn how to do it better,” Messenger says.

## 3. Communication, consultation and collaboration

In some corporate cultures, people are afraid to ask questions or show any gap in their knowledge or understanding, for fear that it will be seen as a weakness.

“In some organisations, the desire to learn is simply overwhelmed by the need to protect your turf or even your job,” Messenger adds.

Here are some tips to remove that ‘fear of learning’:

- Actively listening to the ideas of employees is a crucial way of involving them, as is recognising staff contributions within the workplace.
- Transparency of information gives staff a sense of how their work contributes to the business. This can inspire commitment and contribute to the success of the organisation.
- Staff can contribute to company innovation by being encouraged to raise issues, discuss aspects of work and provide ideas about better ways of doing things.
- Engaging staff in decision-making and continuous improvement processes brings rewards to enterprises, in terms of both financial and relationship benefits.

### TO-DO LIST

- Undertake a skills audit to establish what existing skills are held by employees in the business; this can be mapped against business objectives and where demand for skills lies
- Consider formal succession plans for leadership and business critical roles
- Speak to employees about their own career objectives and how they plan to reach those objectives; perhaps they have their own idea of what L&D initiative might work for them
- Ensure skills transference: provide the opportunity for learners to come away, reflect and understand how their new learning can be applied in the workplace. A good blended learning program will allow learners to take it back into the workplace, practice it, and then come away again and reflect again – sometimes in a social environment, other times individually.
- Identify early on in the design process what are the key objectives you’re trying to achieve in terms of business outcomes. Look at what are the performance outcomes you’re looking to achieve as a result of the program, and then we translate that into learning outcomes and learning design.

## Case Study – Using L&D as a retention tool

*Human Capital* talks to Cassandra Kelly, joint CEO of financial and strategic advisory firm, Pottinger, about L&D

### **Q: What role does skills development play in your retention strategies?**

**A:** The most fundamental point is that we have intentionally created an environment that is attractive to those who love learning new things and who have curious minds. It's no accident that these people see skills development as key, and so for us it is an absolutely critical part of retention.

We're very motivated by employee satisfaction and this goes well beyond remuneration. By regularly offering stimulating training to staff, the benefits are twofold: Pottinger and clients benefit directly through the application of these skills; and our employees are satisfied and more likely to remain with us.

### **Q: Pottinger has been selected as a 'best practice' case study by Skills Australia. Can you outline specifically what you are doing in terms of skills development?**

**A:** There is no single recipe but there is a secret sauce and that is quite simply that we must never forget that people are individuals. It may be tempting to try to standardise and roll out a one-size-fits-all training program but in my experience this just reinforces to a colleague that they are neither appreciated for who they are nor important enough to have something that is tailored to their particular needs.

We have a mix of on the job mentoring, practical training and theory. We also encourage our team to read widely and well beyond the subjects that are immediately relevant to our day jobs. Although we are in an industry which requires detailed technical knowledge across a wide range of subject areas, Pottinger is seeking to build careers, not just skills. So our development program extends beyond technical knowledge.

For technical learning and theory, we draw on knowledge in the team, but we also involve external resources where a fresh perspective or particular expertise will improve the learning outcome.



We also look to maximise the learnings along the way. At the commencement of every assignment, we outline a clear set of goals that each team member is expected to achieve from working on the project and then we review them at the end. We have also agreed that we need to reflect on and review each assignment that we undertake so that we don't overlook the learnings that they provide. These provide benefit to our clients as well as our team.

Our team structures also contribute to skill development, as we undertake all projects, whether large or small, in focused, collaborative and dynamic teams. As a result, each team member gets proper exposure to all aspects of the engagement, enabling them to build their knowledge and learn from the collective experience of the group. The team sizes also mean that team members are able to take ownership of key aspects of the project from which they learn valuable skills. We do not limit people's learning by a job title – instead we acknowledge that limitations are primarily due to their experience and so we focus on broadening that experience.

We put a lot of responsibility on the individual for their own development. We encourage them to read widely across many fields, including finance/economics, science & technology, society & culture, environment and philosophy. To be a truly creative problem solver, this sort of learning is invaluable.

### **Q: What's involved in your skills audits?**

**A:** I've always believed that a performance

review should contain no surprises. The real purpose of a formal performance review in my mind is to encapsulate the year, providing a neat summary of what has been achieved and clear guidance for the year ahead.


Our reviews are very much a two-way process and our annual review framework is very comprehensive. The staff member is required to assess themselves independently of the management review – ie both staff and management provide ratings across various measures without seeing the other's scores.

The outcomes of these are then discussed in a formal review session. Every review commences with a reflection of the individual's performance against our stated values and principles to make it clear that what we stand for is not only important but not negotiable. In other words, have they walked the walk? From there we focus on technical skills. Another important aspect is that each employee has the opportunity to reflect on their achievements and aspirations.

Taken together, the results provide a framework for guiding the development of technical knowledge, experience, management capability, personal impact and related profession skills.

No system in the world is perfect, so we always tell employees that they must not delegate responsibility for their learning and development, and that we are there to partner with them to help them meet their needs. All that being said, we aim to create an environment and operational processes that support their development.

### **Q: What stats do you look at to determine the ROI of your programs?**

**A:** At the end of the day, the value in our business is its people and the individual and collective knowledge. The only really reliable measure of our success is reflected in the success of the firm itself. We've always said that we need to look first at reputation, then at relationships and only thirdly at results if we want to have good long term measures as to whether we are succeeding. 

## Special Report – Culture

# Love me, love me not...



*Organisations often have a desire to change the culture in their business – sometimes as a result of poor performance, poor employee engagement scores, or sometimes just due to a gut feeling that things either aren't right or could be better. What areas should be tackled?*

**IN THE ALTUSQ/REDBALLOON 2012** Employee Engagement Capability Report, the key take-away for HR professionals was that culture is king. That is, it's the most important capability when it comes to the likelihood of a high engagement outcome. Having the expected values and behaviours, the rhythms and rituals, not just articulated by leaders, but demonstrated by managers and lived by employees, is the number one driver of engagement.

So what are the characteristics and attributes that make a culture more effective?

John Kotter and James Heskett described two types of cultures in *Corporate culture and performance* in the early 1990s: constructive and defensive.

Kotter and Heskett showed that whilst defensive cultures were very successful and profitable over a 10-year period, constructive cultures outperformed defensive cultures significantly in all aspects of business performance.

This is backed by AltusQ, which over the last 12 years has differentiated, through case studies, between a culture of love and a culture of fear when working with their clients. These studies show that businesses that adopt a culture of love consistently perform better, are more productive, have higher engagement and typically have people waiting to join their business.

Against that backdrop, respondents in the 2012 survey were asked to rate their culture against nine descriptive pairs. The descriptors, either attributes of a culture of love or a culture of fear, were chosen based on AltusQ's methodologies for driving growth in organisations.

When the cultural characteristics of organisations are compared, it was found that as many as 74% of the organisations with 80%+ engagement scores identified with the culture of love descriptor as opposed to as few as 10% in those with a less than 40% score on engagement.

Looking at the attributes of a culture of fear it was found that organisations with less than 60% engagement score are 2–3 times more likely to be perceived as threatening, protective, judging, controlling and authoritarian than highly engaged organisations.

Further analysis of the individual descriptors consistently shows for each attribute that the culture in a company with 80%+ engagement is a lot more likely to be described with a culture of love attribute.

When the responses of the best (80+) and the average (<60) are compared there are still some significant differences. Here are the top characteristics and how much more likely 80+ are to have this attribute.

1. Acknowledging – 8 times more likely
2. Collaborative – 6 times more likely
3. Trusting – 5 times more likely
4. Transparent, Inclusive & Opportunistic – 4 times more likely

It seems that a single cultural trait on its own will not

CULTURE OF LOVE	CULTURE OF FEAR
Inclusive	Exclusive
Collaborative	Authoritarian
Transparent	Protective
Opportunistic	Threatened
Acknowledging	Judging
Humble	Arrogant
Trusting	Controlling
Entrepreneurial	Bureaucratic
Responsible	Critical

“Whilst **defensive** cultures were very successful and **profitable** over a 10-year period, **constructive** cultures outperformed **defensive** cultures in all aspects of business performance”

create a big difference in engagement, but a combination creates a stronger likelihood of it occurring.

#### BABY STEPS – ACKNOWLEDGING THE HIDDEN SYMBOLS

What further steps can be taken? A ‘cultural revival’, as Tammy Tansley, principal of Tammy Tansley Consulting refers to it, sometimes means a review of the organisation’s mission statement or values – and can be accompanied by a launch showing “how things are going to be different around here from now on”. Whilst mission statements and stated values are important, on their own they are unlikely to do much to change the culture of an organisation.

Instead she suggests that a useful starting point is to review both the overt signs (such as organisational and financial performance, quality, health and safety, absenteeism, turnover, employee engagement survey scores) in conjunction with the ‘hidden symbols’. “Together, these can provide a powerful insight into the culture of the organisation – and a starting point for what

# Special Report – Culture

## A tale of five monkeys

Behavioral scientists placed five monkeys in a cage with a ladder against one wall. At the top of a ladder was a bunch of bananas. A set of sprinklers were installed in the ceiling.

As the monkeys scrambled up the ladder, the sprinklers were turned on, and they got drenched. This process repeated itself several times until the monkeys gave up trying to get the bananas.

The scientists then replaced one monkey with a new one. The new one spotted the bananas and began climbing the ladder. The other monkeys pulled down the climbing monkey. The monkey repeated its attempts several times, facing the same consequences. Eventually, it stopped trying.

The same thing happened when another monkey was replaced. By the end of the experiment, all five monkeys in the cage were replacements, and none reached for the bananas. The scientists put a sixth monkey in the cage. The other five aggressively pulled it down, deterring it from going against the established protocol in their 'organisation'.

This study highlights the power of an organisation's past on its present culture. Stories and histories are passed down, creating rules of behavior that employees sense without necessarily understanding the reasons behind them.



should be celebrated and retained and what might be changed,” Tansley says.

Tansley suggests a model known as Johnson's Cultural Web to check for hidden symbols. There are six elements to consider:

**Stories** – What stories are told about past events and people? These can say a great deal about what is valued. It can also affect ongoing reputations, as these same war stories are likely to be repeated outside of the workplace.

**Rituals and routines** – The daily behaviour and actions of people that signal acceptable behaviour for the organisation. This indicates what is expected to happen in a given situation, and what is valued by management. This is often where a disconnect occurs between the stated values of the organisation and the reality observed by employees, or the written policy and what actually happens.

**Symbols** – The visual representations of an organisation including who wears a uniform, who receives offices (and how plush they are), who receives a parking space and where, the formal or informal dress codes. How up-to-date and professional are noticeboards and notices? How clean and functional are staff amenities?

**Organisational structure** – This includes both the formal structure as written on the organisational chart, but just as important – who wields the informal power and influence and who is most valued (irrespective of the formal org chart).

**Control systems** – The ways that the organisation is controlled. These include financial systems, quality systems, and rewards (including the way they are measured and distributed within the organisation).

**Power structures** – The pockets of real power in the company. This may involve one or two key senior executives, a whole group of executives, or even a department. The key is that these people have the greatest amount of influence on decisions, operations, and strategic direction.

The review of the hidden symbols is most effective when undertaken by an impartial observer who can look for and at symbols with fresh eyes. “Focus groups and one-on-one interviews with employees, managers and the leadership team can provide a rich source of information on the ‘real’ values, rituals and stories that can define an organisation,” Tansley says. “Read in conjunction with quantitative data, the two sources can paint a very real picture of ‘the way things are done around here.’”

The results are often surprising and can provide unexpected aspects of the culture to celebrate and emphasise. Almost always, the results provide a more real and true result of what the organisation is about – good, bad and indifferent; a vital starting point for moving forward with any cultural review.

### TO-DO LIST

- Identify where you are now – what are the characteristics, current values and behaviours of your organisation?
- Develop and clarify the vision for the kind of organisation you need to create (and why)
- Define the kind of culture that is needed. Be clear on the values, principles and behaviours of the desired culture
- Engage others and involve at all levels to shape the cultural values and behaviours that are critical for success
- Communicate the vision widely and constantly reinforce – consider overt signs (such as organisational and financial performance, quality, health and safety, absenteeism, turnover, employee engagement survey scores) in conjunction with the ‘hidden symbols’
- Ensure senior management have worked through their own values, actions and practices that they want to inculcate
- Aiming for a culture of love? Ask these questions: What changes might we make to our approach to decision-making or performance management given what we can see in relation to trust versus control? What would we change around communication knowing what we now know about transparency?

## Case Study – Culture as a retention tool

*Human Capital* talks to Ian Flemington, GM human resources, Canon Australia, about corporate culture

### **Q: What role does the corporate culture play in retaining key employees?**

**A:** Corporate culture is absolutely critical in retaining employees. As an organisation evolves, the culture organically evolves along with the organisation. If the values and behaviours associated with this culture are not aligned with what employees believe or hold true to themselves, then ultimately they may find it difficult to work within an organisation.

Successful key employees who are obviously marketable may then opt to look for external opportunities in organisations that will better fulfil their personal needs.

For this reason, it's important that when defining a corporate culture the organisation stays true to the culture it espouses so that candidates attracted to the values and ethos of the company pre-employment, experiences them as being embedded in the fabric of the organisation and not just empty words. This helps ensure that the organisation is not only able to attract top talent but also keeps hold of key talent longer term.

### **Q: Have you ever had to deal with a culture that needed to change?**

**A:** If I look at the Canon culture and our cultural values journey over the last couple of years, what became really apparent a couple of years ago was that we needed to change to attract and retain employees and ensure that our behavioural expectations were aligned to our Master Brand.

Looking back, we had our values at the time, the 'Canon Keys', displayed on walls around the office, but these didn't really resonate with everyone internally. They were unachievable aspirational statements that didn't provide people with a clear vision of what to expect or how to contribute. This resulted in an environment where employees were confused with the conflict between what the organisation expected and said it was



about, versus the reality. We experienced first-hand people leaving due to the fact the values that initially attracted them to Canon were not being demonstrated internally and that there was no recourse to behaviours that undermined what we said we stood for. Engagement was being impacted as leadership, which is obviously a key driver of engagement, was seen as behaving in a way that was disconnected from the values we espoused.

To address this we involved people from all levels of the organisation in the development of the new set of values that reflected how the brand should be represented and how leaders and all employees should behave to drive the organisation forward. It was important that we aligned these elements so that the culture could organically change in the direction that would support both business growth as well as improving engagement and retention. We conducted 'Why of Leadership' workshops with all people leaders to deploy the new values in addition to shorter sessions with individual contributors. To ensure the work would stay alive within the organisation, we also incorporated the behavioural expectations into performance management and reward structures.

### **Q: How would you describe the culture at Canon?**

**A:** The culture at Canon is changing and is now a far more honest, positive and optimistic environment, which is a change

from two to three years ago. One of the things we wanted to do with that culture is to make it a safe environment to give feedback, enabling people to put things on the table and have honest conversations, which in turn would lead to idea generation and productivity improvements. What I see now is people coming to HR for advice on how they can best provide feedback.

It's also become a far more collaborative culture, where we're seeing the camaraderie, knowledge sharing and support between the divisions. By removing layers at the top of the organisation we have also moved the senior leadership closer to the grass-roots.

Through discussions at performance calibrations and talent reviews it's also apparent that we are becoming a behaviour-led organisation. As a sales and marketing company we have to keep a keen eye on our results and commitments to our parent, Canon Inc; however, how we achieve those results is now equally as important.

### **Q: How do you know you're doing the right things with corporate culture?**

**A:** We have hard and fast metrics such as engagement and also employee attrition, which is coming down. In the current employment market, top talent can easily walk out and find an alternative role as they have much more bargaining power due to the skills shortage. At Canon, this is happening less and less.

In addition to the hard metrics, we offer formal exit interviews to all leavers. When we look at the exit interview feedback, the things that were jumping out 18 months ago are now gone. For example, previous comments about the culture, competitiveness and leadership of the organisation are no longer raised. I'm confident that in the main, those who leave are genuinely leaving for other reasons not related to the culture. The indicators in the past where we needed to change are not appearing anymore, clearly showing us that we are on the right track. 