

Geoff Nunn & Associates
Australia's Leading Independent Remuneration Specialists

Remuneration Update

In this issue of Remuneration Update we focus on attraction and retention of key staff in a tight employment market.

Key Topics:

- Risk Management in Human Resources
- Retention Plans Increasingly Common
- HR Strategy becomes a key plank of business strategy.
- Strategic reward.

Understanding risk management in human resources.

Risk management as an HR tool is becoming increasingly important. Particularly in times of a tight employment market.

Line Managers and HR Practitioners are being called upon to analyse risks associated with human resource aspects of the business. Risk in this context is broadly defined to include:

- Risks associated with losing key people to the business in an environment where succession planning is difficult and market availability of skills is tight.
- Risks associated with employees experiencing drug and alcohol problems.
- Risks associated with indus-

trial action as a results of changes to workplace legislation and other factors.

- Risks associated with an ageing workforce and the potential loss of skills of those seeking to exit the workforce.
- Occupational health and safety risks.

In recent times we've heard stories about organisations unable to realise business opportunities because they can't source people with the right professional and technical capabilities. This is particularly true in the engineering and skilled trades areas.

HR Practitioners need to be aware the risks their organisations confront from an HR perspective and factor this into their HR Strategy



development. Many organisations now require and HR Risk profile as part of their overall Risk Management Plan.

Retention plans increasingly common in a tight employment market.

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Retention of key staff in times of a tight employment market is critical. Some commentators have argued that money is not important when it comes to retention. We agree that money isn't the only consideration. Other factors such as the work environment, development opportunities, and challenging work are critical.

But we shouldn't underestimate the significance of monetary reward in the employment relationship. Remuneration has a symbolic as well as a tangible value. Recognition of contribution and worth to the

organisation are key to employee engagement.

When an organisation offers a financially based retention plan to a key employee it is saying more than; 'here's a few dollars to stick around'. Its saying that we value your expertise and commitment. You're important to us and we'd like to offer you financial recognition to stay with us.

If you are considering a financially based retention plan remember to build in appropriate performance targets. Consider incorporating details into the employment contract.

Consider also the impact on those employees to whom a plan is not offered.

Geoff Nunn & Associates specialises in the development of non-equity based retention plans. If retention is an issue for you gives us a call and we can talk about the possible approaches.



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Independent Remuneration and Organisation Specialists



Human Resource Strategy development integral to effective business planning

With skill shortages set to continue in Australia for the foreseeable future, human resource strategy development is being recognised as part of the business planning process. The depth and breadth of HR strategies now goes far beyond the traditional functions of recruitment, training, development and employee relations. HR Practitioners need to understand the full scope of business imperatives, corporate direction and resourcing needs in order to formulate an effective HR Strategy.

Business Planning

Corporate organisations spend a considerable amount of time and resources planning for the future. Depending upon the industry business plans can stretch five years into the future and beyond. In listed and private companies shareholders have an absolute expectation that the corporate planning process will be professionally managed in order to ensure capital growth continues and dividends meet expectations. In the government sector business planning focuses on the future delivery of effective services, frequently in an environment of changing demographics and the uncertainty of shifts in government policy. Resource demand, water shortages, energy policy, climate change and the global political landscape are all factors organisations need to consider in their business planning.

Integral to this business planning process is HR Strategy. All organisations need to ensure that they are able to attract and retain the number of people with the right skills set to meet current and future business requirements. The HR Strategy is the map by which this is to be achieved.

Some HR Strategy Issues to Consider

Reward & Recognition

As mentioned in the previous article reward and recognition is a critical component of any effective HR strategy. This does not mean that all organisations should target the Third Quartile of the market. Indeed if they did the

Third Quartile would quickly become the Median thus fueling an upward market spiral (and we are seeing some evidence of this occurring today). Rather reward strategies need to be designed to provide fair and equitable compensation for work undertaken relative to market sector and the organisation's capacity to pay.

The reward strategy needs to be geared to recognise performance and contribution via appropriately structured variable reward plans.

Employee Engagement

The HR Strategy needs to focus on actively engaging employees, at all levels, with the work of the organisation. This means engagement with corporate and business unit goals as well as the individual job based goals.

Be vigilant in implementing changes to workplace legislation and ensure these do not inadvertently alienate some groups of employees.

Workplace Design

Be sure to focus on building a workplace that supports effective performance. Ensure good quality amenities and be flexible in design. Build workplaces which recognise different occupational needs.

Offer some additional benefits like health and fitness talks, good quality tea and coffee making facilities.

Leadership and Management Development

One of the greatest contributions an HR Strategy can make to business performance is to ensure that the organisation's executives and managers have the best leadership and management skills. These are the people that will drive the business forward. These are the ones who shape the culture. The ones who focus on delivering results.

Every executive and manager, up to and including the CEO, needs to have their competencies assessed on an annual basis and development plans formulated accordingly.

Workforce Planning

An effective HR Strategy takes into account the skills and resources need to meet current and future business requirements. In a tight market where demand exceeds supply HR Managers need to think creatively about how they are going to source, develop and keep the people resources necessary to develop the business.

Health & Safety

Creating safe and health working environments is a key plank of any effective HR Strategy. We've come a long way in the past few years. But there is still a way to go before we meet best practice, particularly in some industrial and operating environments.

Performance Management

The management of performance is a key aspect of any HR Strategy. Setting targets, establishing competency frameworks and managing development are all core process which contribute to business success.

Managing underperformance is important as is making a contribution to effective Board performance.

HR Fundamentals

Any effective HR Strategy needs to ensure that sound HR Fundamentals are in place including policies relating to recruitment and selection, training and development, remuneration administration, dispute resolution procedures, EEO and anti-discrimination.

Geoff Nunn & Associates has assisted a range of organisations develop effective HR Strategies linked to business plans.

Strategic reward

In their recent book, *Strategic Reward: Making it happen* (Kogan Page 2006) Michael Armstrong and Duncan Brown, propose nine rules for effective implementation of a reward strategy:

1. "A good strategy is one that works—so focus on implementation programmes.
2. Align reward strategies with business and HR strategies.
3. Ensure that reward strategy fits the culture and characteristics of the organisation,

meets business needs and takes into account individual needs and preferences.

4. Be aware of good practice elsewhere, but don't be seduced by the notion that its 'best practice' — i.e. universally applicable. Best fit is more important than best practice.
5. Pay more attention to using strategic reward initiatives to support the engagement and commitment of people so that they are motivated and

productive, rather than focusing on the mechanics of new reward 'fads'.

6. Bear in mind that the development and implementation of reward strategy is an evolutionary process—it is about doing things better at a manageable and incremental pace rather than extraordinary new developments.
7. Appreciate that any reward strategy implementation programme will require a comprehensive change

management programme.

8. Recognise the importance of the part played by line managers in implementing reward strategy and the need to ensure that they are committed and have the necessary skills.
9. Pay close and continuous attention to communicating with employees and involving them in the development as well as the implementation of reward strategy,"

These nine reward strategy implementation are quoted from the *Reward Quarter Issue 3, Autumn 2006*.



Flexible working arrangements can support retention.

We often hear stories about organisations offering flexible working arrangements to different groups of employees. These typically include:

- Flexible working hours.
- The opportunity to work from home all or part of the time (depending upon occupation).
- Job sharing.

These options enable some groups of employees to work in ways which suit their personal circumstances. However some care needs to be exercised such that operational effectiveness is not

compromised. Whilst email has revolutionised communication it is not a substitute for face to face interaction, especially when difficult issues need to be addressed.

When considering this key HR issue ask your business unit managers to think about real work requirements.

There is no doubt that those organisations which are able to offer options which enhance the work/life balance to key groups of employees will have a competitive advantage when it come to attraction and retention. This is particularly true for younger groups of employees who value their leisure. It also applies to older employees who might be in the last few years of their working life.



Competency development re-emerges as a vital business planning tool.

It's been some thirty years since David McClelland and Richard Boyatzis of Harvard University first set out to model the skills, abilities, traits motives, aptitudes and other attributes which lead to superior performance. The landscape is incredibly complex. Competency requirements vary between different levels, different occupations and different organisations.

Generic skill based models offer a good foundation. But they do not capture the full spectrum necessary to achieve higher levels of performance.

In times of a tight and changing employment market many organisations are now looking to assess the competencies they will need to support their long term business needs.

More and more we see HR Professionals reviewing business plans, facilitating planning workshops, talking to line managers and considering what the competency profile of the organisation will need to look like in five years time.

This can be difficult in some environments. Sectors such as resources, energy and utilities, all levels of government have relatively stable operating environments where long term plan-

ning is possible. Others such as business services, engineering consulting, project management and retail can be more volatile making long term planning more challenging.

Whatever the environment you operate in, it is vital that all HR Strategies consider the skills and resources they will need to meet current and future business requirements.

Most employees value the opportunity for competency development. An employer with a well structured competency development plan will have an advantage in today's competitive employment market.

Seventh Annual Survey of Market Remuneration in the Utilities Sector

In 2000 a number of utilities companies commissioned Geoff Nunn & Associates to conduct a market remuneration survey across the water, gas and electricity sectors. Since that time the survey has grown to become the most definitive source of utilities remuneration information in Australia.

Many organisations use the survey as the basis for their remuneration structures.

The survey now covers one hundred and seventy-five positions from Chairman to operative level employees. Data was gathered from forty-seven organisations in 2006 and we expect this number to increase in 2007.

A letter of preliminary advice went out in December, 2006. Formal invitations will be sent to approximately one hundred organisations late in January 2007. The survey report will be made available to participants toward the end of April, 2007.

Of particular interest this year will be market movements for engineering and technical positions. Attraction and retention of resources in these fields continues to present challenges for all organisations operating from an engineering base. Government owned utilities are often more restricted in their capacity to meet the market. Many are focusing on non-remunerative strategies to facilitate retention.

The trend of mergers, acquisitions and dis-aggregations continues across the sector. This also puts pressure on the market and may spotlight remuneration issues.



About Geoff Nunn and Associates

Geoff Nunn & Associates was established in Melbourne, Australia in 1993. Since then, the Company has established a reputation for professionalism and quality service. Projects have been completed in over 750 organisations across Australia.

Our Services

- **Remuneration Strategy Development.**
- **Job Evaluation.**
- **Market Remuneration Advice.**
- **Board and Executive Remuneration.**
- **Performance-Based Incentives.**
- **Balanced Scorecard Performance System.**
- **Organisation Structuring and Design.**
- **Contracts of Employment.**

Contacts

Geoff Nunn, Executive Director (03) 9629 6866,
After Hours 0418 595 107.
email: gtnunn@gna.net.au

Elizabeth Plant, Senior Remuneration and Organisation Specialist
(03) 9629 6866.
email eplant@gna.net.au

Visit our Website www.gna.net.au

Head Office
Suite 912, 530 Little Collins Street
Melbourne, Victoria, 3000, Australia
Tel No 613 9629 6866
Fax No 613 9629 6877