

The Hudson Report

Employment and HR Trends

New Zealand | July - December 2007

Part Two | **HR INSIGHTS** | Finders, Keepers:
Attracting and Retaining the Right People

Hudson

*From great people
to great performanceSM*

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Introduction

Introduction

The Hudson Report is an established and highly reputable publication based on in-depth, nationwide research by Hudson.

Released every six months, the Report is made up of two parts.

The first part uncovers and analyses the hiring expectations of New Zealand employers over the coming six months. The second part provides insights into a range of human resource issues currently affecting New Zealand businesses and the broader economy.

This is the second part, and in it Hudson examines the issue of staff retention, the cost of losing employees and the best ways for employers to retain the people they want to keep.

Methodology

For this report, Hudson recruitment and consulting professionals personally surveyed 1567 employers from 19 industry groups.

The industry groups were:

- Advertising / marketing / media
- Construction / property / engineering
- Education
- Financial services / insurance
- FMCG
- Government
- Healthcare (government)
- Healthcare (non-government)
- Information Technology
- Manufacturing
- Non profit
- Professional Services
- Resources (eg agriculture, forestry, fishing)
- Retail
- Telecommunications
- Tourism and hospitality
- Transport
- Utilities
- Wholesale/distribution

Hudson asked small, medium and large employers across New Zealand from the above industry groups about their retention practices.

Employers were asked which retention initiatives they used, which ones they believed to be the most effective, what their current and desired staff turnovers were, and in what areas they believed poor retention impacted their business the most.

The main initiatives canvassed were financial incentives, flexible work options, succession planning, formal coaching and leadership development. Potential areas of impact from poor retention practices were on service delivery, client/customer relationships, company morale, employment brand and ability to recruit new staff.

Introduction

Main Findings

- Financial incentives are the most widely-favoured initiative for employers to use to retain staff. This is despite research which shows that successful retention practices requires a combination of factors, and not just financial reward alone.
- The report finds that flexible work options are also considered to be a compelling retention initiative. Many New Zealand employers are providing their employees opportunities to contribute effectively at work while meeting their other responsibilities and desire for quality of life outside work.
- The survey results show the turnover employers both aim for and experience is determined by their size, the nature of their industries and by their geographical location.
- Based on a percentage of their workforce, large employers have a larger turnover than small and medium sized employers and small employers have the smallest turnover of all three.
- Large employers saw a direct link between poor staff retention and a detrimental effect on service delivery. Poor retention also impacted on client / customer relationships and staff morale.

Retention Issues and Strategies in New Zealand

What is Retention?

Retention is the term used to describe the practice of retaining employees in an organisation. In essence, good retention is about focusing on the employees who know they can leave but who choose to stay.

Organisations will always have people who want to leave. But if people who are a "good fit" with the organisation leave when their employer wants and needs them to stay, this amounts to poor retention practice, says Marc Burrage, executive general manager of Hudson New Zealand.

"Good retention is not about keeping everyone on the payroll. In fact, this would be missing the point. An organisation needs turnover to survive. Good retention is looking after those people who an organisation wants to hold on to - with a view to these employees staying long term."

Nor is good retention a function of the human resources department. Poor retention can be typically linked to poor management. Human resources can help fix the problem - to facilitate best practice through the organisation - but it can't fix the problem without the commitment of management.

Retaining the right staff begins with attracting and recruiting the right staff. And organisations need fully-developed attraction, recruitment and retention strategies as some of the central strategies in their organisation.

Or to quote Robert Morgan, the CEO of Hudson's Talent Management for North America:

"You had better pay as much attention to your talent as you would to your marketing or technology plan. Just think if you tried to operate your business today with the same technology you had 10 years ago - how competitive would you be?"

The Local Context

New Zealand currently has a skills shortage as well as a low unemployment rate, when compared historically and internationally. Both the skills shortage and the low unemployment rate negatively affect retention rates and mean that staff retention has become an increasingly serious issue for New Zealand employers and the wider economy.

New Zealand's unemployment rate - currently 3.8 per cent - has stayed below 4.0 per cent for nearly three years and now sits only slightly above last year's 20 year-low of 3.6 per cent. It compares with an average unemployment rate of 5.7 per cent in OECD¹ countries and is the fifth lowest behind Norway, South Korea, Denmark and the Netherlands.

When the labour market is tight and employees' skills are in demand, they are more likely to leave jobs they don't like and easily find another job, particularly when wage and salary rates are rising. This puts them in a better position to ask for more remuneration in their current job or to ask for more when they apply for a new one.

Employers in a tight labour market have a smaller pool of people to recruit from, they face higher costs because positions remain vacant longer, and

they must strive harder to attract employees in a highly competitive local, and global, job market.

International research shows the cost of losing an employee can range from one-and-a-half to three times their salary, depending on their role and how long they have been in their job. In addition, losing an employee can negatively impact on:

- Ability to deliver agreed work programmes
- Client/customer relationships
- Staff morale
- Employer brand, and
- Productivity and the bottom line.

New Zealand's labour market is expected to ease slightly but remain tight in the medium to long term. Employment and economic growth are expected to pick up during the next year but to remain low compared with the past five years.

Low unemployment is expected to help keep pushing wages up² and to contribute to continuing skills shortages - the factor one in five firms surveyed last year cited as the main obstacle to expansion.³

While wage and employment growth are expected to attract more people into the workforce, this will be offset by more people leaving it as our population ages.

As more baby boomers retire, organisations are struggling to replace them with younger workers. In 2003, 19 per cent of the population was outside the accepted working age and this will rise to 41 per cent in 2042.

¹ Organisation for Economic Co-operation and Development, see www.oecd.org

² In the latest Statistics New Zealand Quarterly Employment Survey, salary and wage rates increased 3.1 per cent in the year to March 2007 quarter and average total hourly earnings increased 4.6 per cent.³ Organisation for Economic Co-operation and Development, see www.oecd.org

³ Quarterly Survey of Business Opinion, December 2006, New Zealand Institute of Economic Research

Survey Findings

Which engagement initiatives are used? By organisation size

Hudson asked employers which engagement initiatives they used and which ones they believed to be the most effective.

While results varied according to the size, type and geographical location of employers, financial incentives and flexible work options were the most popular initiatives overall, with leadership development more popular among large employers.

Financial incentives were the most popular incentives among small employers (24.4%), followed by flexible work options (20.6%), formal coaching (18%), leadership development (15.1%), then succession planning (14.1%).

Financial incentives were also the most popular incentives among medium-sized employers (22.6%), followed by flexible work options (19.9%), leadership development (18.7%), formal coaching (17.6%), and succession planning (16%).

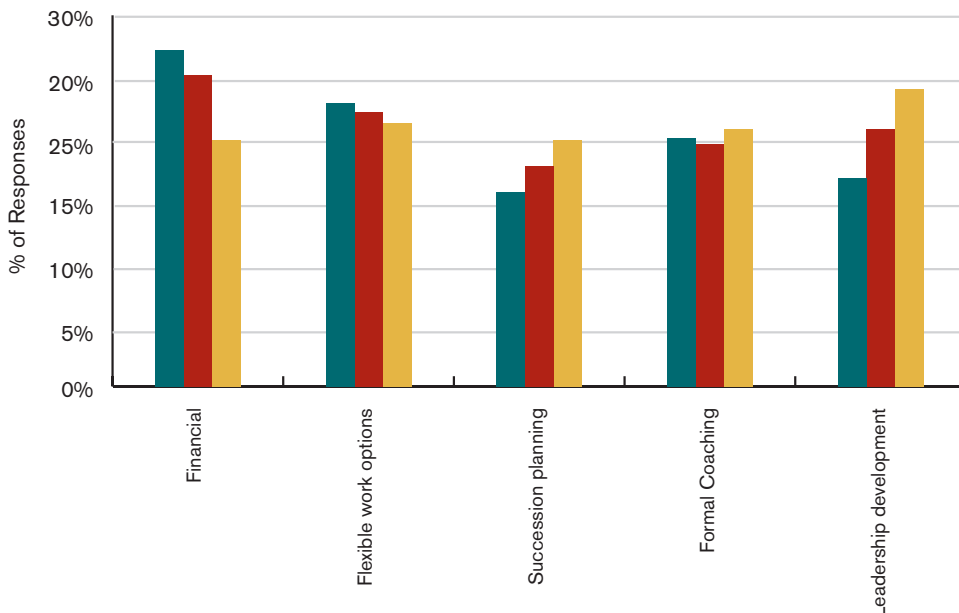
Leadership development was the most popular incentive among large employers (21.6%), followed by flexible work options (19.1%), formal coaching (18.7%), then financial incentives (17.9%) and succession planning.

Burrage says while strategies, such as leadership development, might be common in larger organisations, smaller organisations should not fall into the trap of providing only financial incentives in order to retain staff.

"Flexible work options, for example, can be an effective retention tool for small, medium and large employers. Large organisations often have the financial resources to provide financial incentives; but they choose not to because they know that in themselves, financial incentives will rarely work."

Which staff engagement initiatives does your organisation use?
By organisation

■ Small (<20 employees)
■ Medium (20-200 employees)
■ Large (>200 employees)



Survey Findings

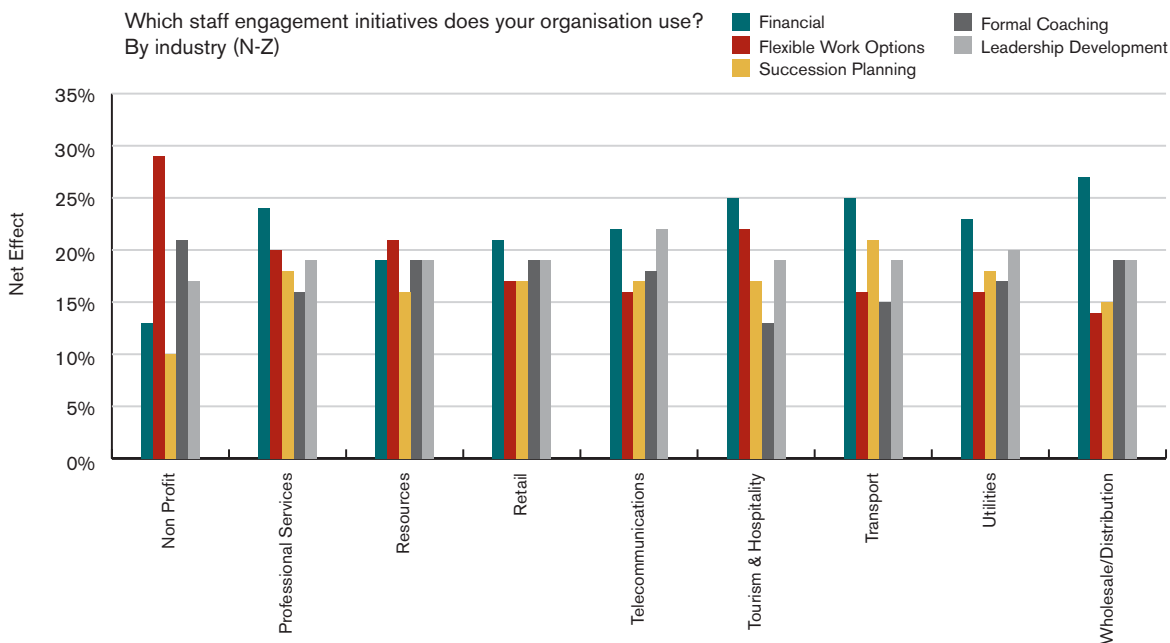
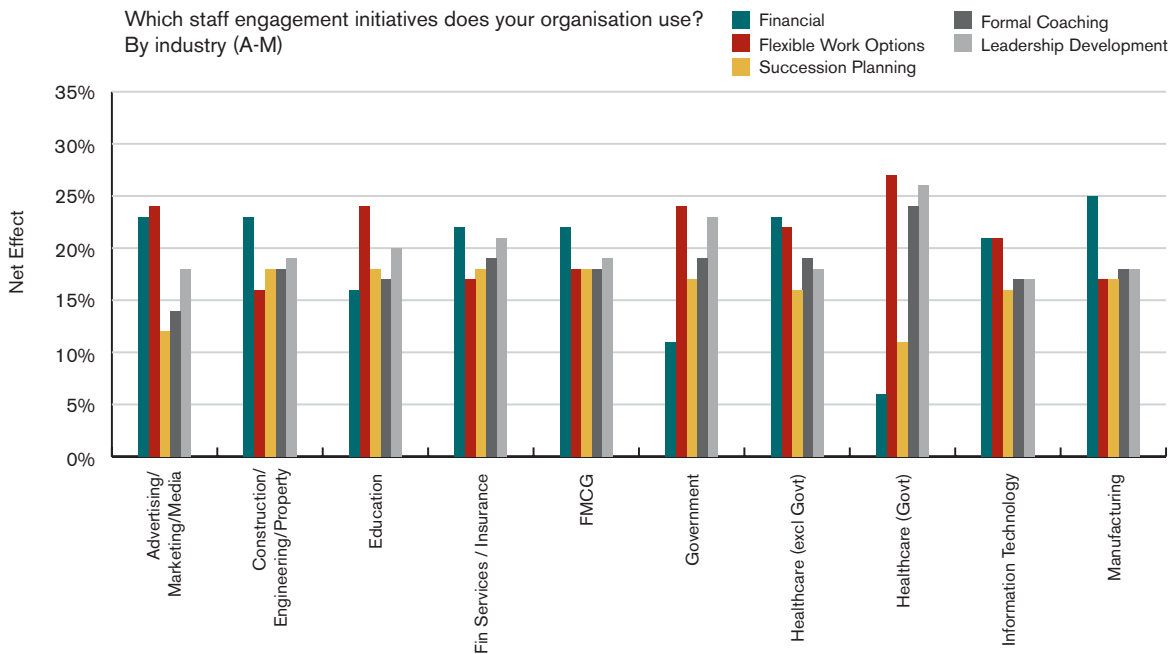
By industry

Of the 19 industry groups surveyed, financial incentives and flexible work options were the two top choices. Financial initiatives were the most

popular incentive for 11 industries⁴. Flexible work options were the most popular for six industries⁵. Information Technology favoured financial incentives and flexible work options equally while telecommunications favoured financial

incentives equally with leadership development.

Leadership development was the second choice for 10 out of the 19 industry groups⁶.



⁴ The 11 industries were: Construction/engineering/property; Financial services/insurance; FMCG; Healthcare (non Government); Manufacturing; Professional Services; Retail; Tourism & Hospitality; Transport; Utilities; Wholesale/Distribution

⁵ The six industries were: Advertising/Marketing/Media; Education; Government; Healthcare (Government); Non Profit; Resources.

⁶ The 10 industries were: Construction/Engineering/Property; Education; Financial Services/Insurance; FMCG; Government; Healthcare (Govt); Information Technology; Manufacturing; Professional Services; Utilities.

Survey Findings

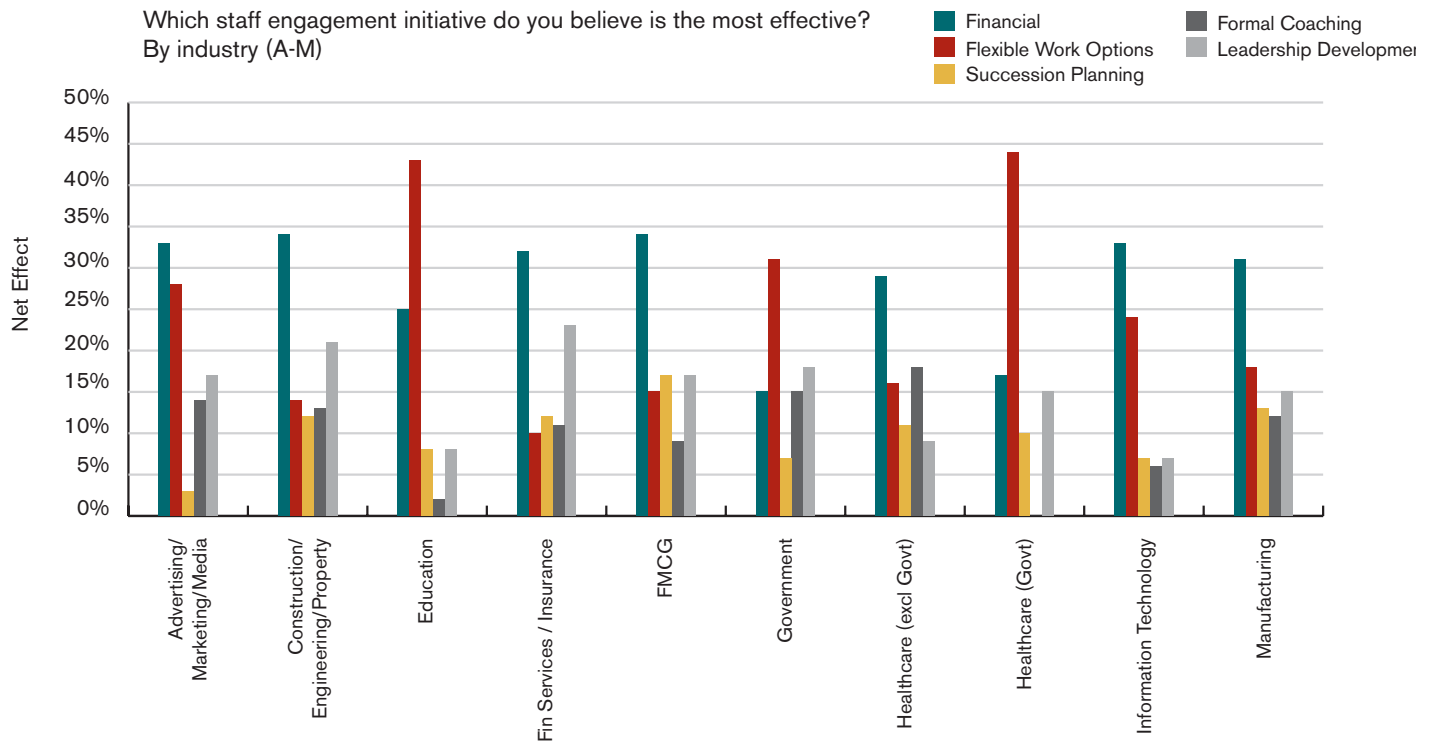
Comment

Hudson's past research shows that, traditionally, employees have rated opportunities for promotion, interesting work and having a good relationship with their manager more highly than receiving financial incentives. But this may no longer be the case.

"Past research has suggested that aspects around career such as opportunities to learn have been key to employees staying in jobs. But New Zealanders' increasing levels of debt and increasingly expensive standard of living relative to wages in other countries may be making financial incentives a more effective retention method.

"In addition, a contributing factor to employees being able to want and get financial incentives to stay in positions is the fact employers have less power to say 'no' in a skills short market," says Burrage.

Although Hudson cautions that research also shows employees will not get job satisfaction from remuneration alone.

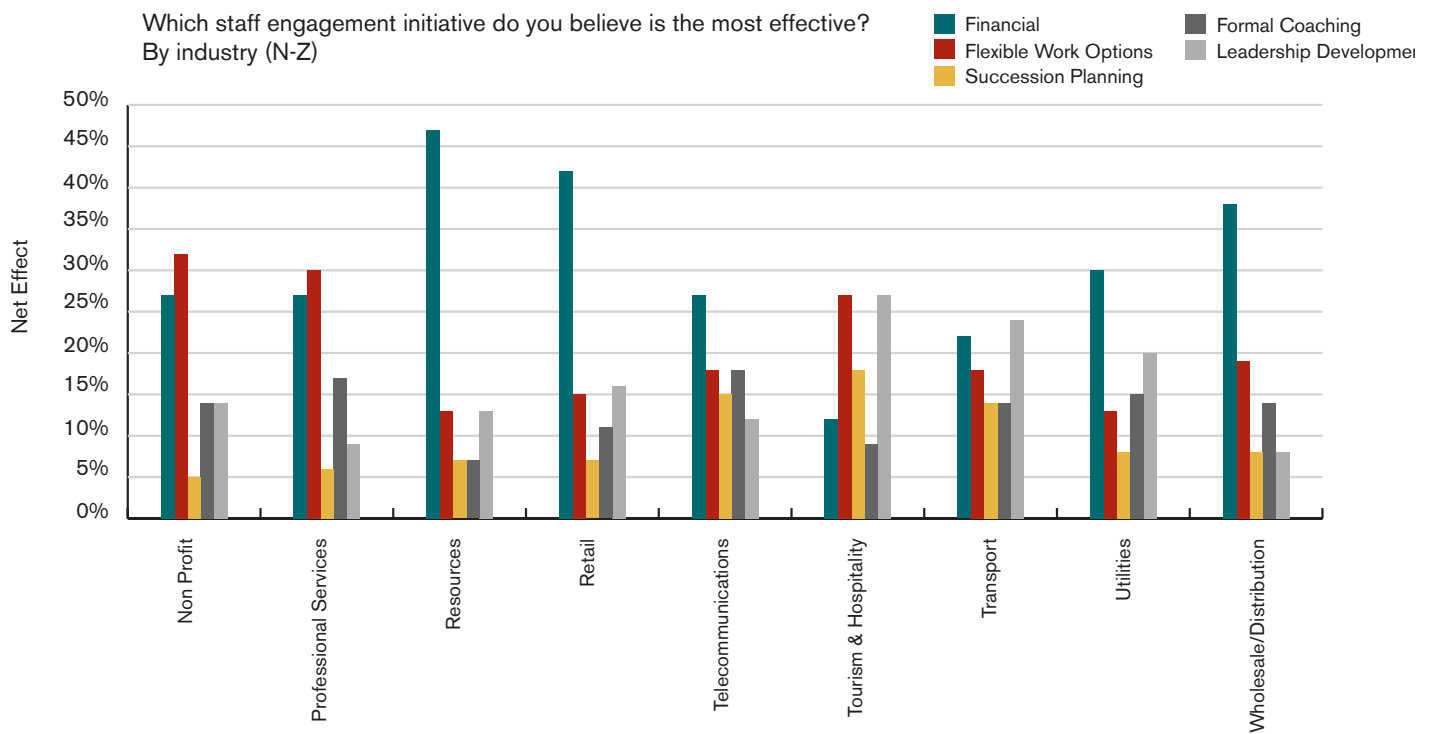


Survey Findings

"Ultimately, financial incentives will not be enough to keep someone in a job if that job does not suit them and they do not feel comfortable in the organisation they are in. They need to feel valued, that they have opportunities and that they can contribute.

"Successful retention practices are brought about by a combination of factors. There is no quick-fix. Good retention is labour intensive and requires effort.

"But if an employee perceives that more remuneration will make them satisfied in the role - even though that may not be the reality - employers may need to offer financial incentives as one of many retention tools. Financial incentives will very rarely be the one-and-only solution.



Survey Findings

Leadership Training

While the survey showed leadership training was more popular with large employers than medium and small ones, Hudson recommends that it should be an essential part of all companies' retention strategies, no matter what their size.

"Organisations, no matter what the size, need leaders who can exhibit leadership qualities, who can articulate where they want the organisation to go and who can connect with people," says Burrage.

"The leader's goal is to engage people and take them on a journey to realise the organisation's business plan. They will be able to say: 'This is where we are going, this is why we are going there and this is why you are an important part of the plan.'"

Succession Planning and Coaching

Succession planning was identified by most industries as the least popular initiative.

Despite this, succession planning is a useful tool for nurturing and retaining staff if developed and implemented properly.

Leadership planning and formal coaching can be tools of succession planning.

"Larger corporates are looking ahead using succession planning to see who in the organisation has potential in what areas and then managing this potential to the organisation and employee's benefit. It's a win-win," says Burrage.

For example, a bank branch manager needs good people skills, empathy with the local community and problem-solving skills. To move up to a regional manager role, the same person will need to develop multiple problem-solving skills, have more strategic skills and be able to work through intermediaries.

By setting out a framework of the new skills that need to be developed, companies can retain their talent and promote them accordingly.

In the same vein, formal coaching helps people change behaviours to be successful in a new role or in an existing one with new challenges.

"Formal coaching is a statement by the organisation to the individual that they are important and worth investing in.

"For the individual, it is a chance to build on their awareness of what they are doing and to make the changes they need to make to be successful. It also helps people recognise what it is they do that makes them successful."

Flexible Work Options

Flexible work options are more widely used by government employers and education employers than financial incentives.

Almost a quarter (24%) of government organisations surveyed offered flexible work options and 11% offered financial incentives.

More than a quarter (27%) of government healthcare organisations surveyed offered flexible work options and 6% offered financial incentives.

Of the education organisations surveyed, almost a quarter (24%) offered flexible work options and 16% offered financial incentives.

The popularity of flexible work options within government may be for a number of reasons. These include political sensitivity around using financial incentives to retain staff and the leadership role central government has taken in recent years to promoting the use of flexible work options.

Survey Findings

Quality, flexible work options benefit employees and employers, the economy and communities. It is about people having the opportunity to make changes to the hours they work (over a day, a week or over the year), the times they work or where they work. It is also about how careers are organised, how transitions in and out of work are managed, and how flexible work is managed in the workplace so that employees and organisations benefit.

Examples of flexible work include:

- Varying starting and finishing times
- Annualised hours or working during the school term
- Part-time working
- Working from home or remotely
- Job sharing
- Selecting or influencing rosters or shifts
- Flexible break provisions
- Flexible leave/time off provisions (paid and unpaid).

The Hudson Report's findings confirm the need for organisations to be flexible about the way potential and existing employees can work for them if they are to achieve good retention. Where appropriate, organisations need to consider one or more of the above options for employees.

"Providing people with quality flexible work options is a key attraction and retention strategy that provides employees with opportunities to contribute effectively at work while meeting their other responsibilities and desire for quality of life outside work," says Burrage.

"Recent research shows New Zealanders are no longer working a standard 40 hour week⁷. But as a nation we value family life and our lifestyles. Flexibility is part of the Kiwi culture.

"When there is a shortage of talent, you need to be flexible to attract and retain good people. The survey's results show flexible work options are an effective way to do this."

⁷ Department of Labour 2006, Work-life Balance in New Zealand: a snapshot of employee and employer attitudes and experiences. 19% of New Zealanders work more than 50 hours per week; 40% have variable hours of work; 18% do shift work; About a quarter work some hours at night.

Survey Findings

Staff Turnover: Who is Most Affected?

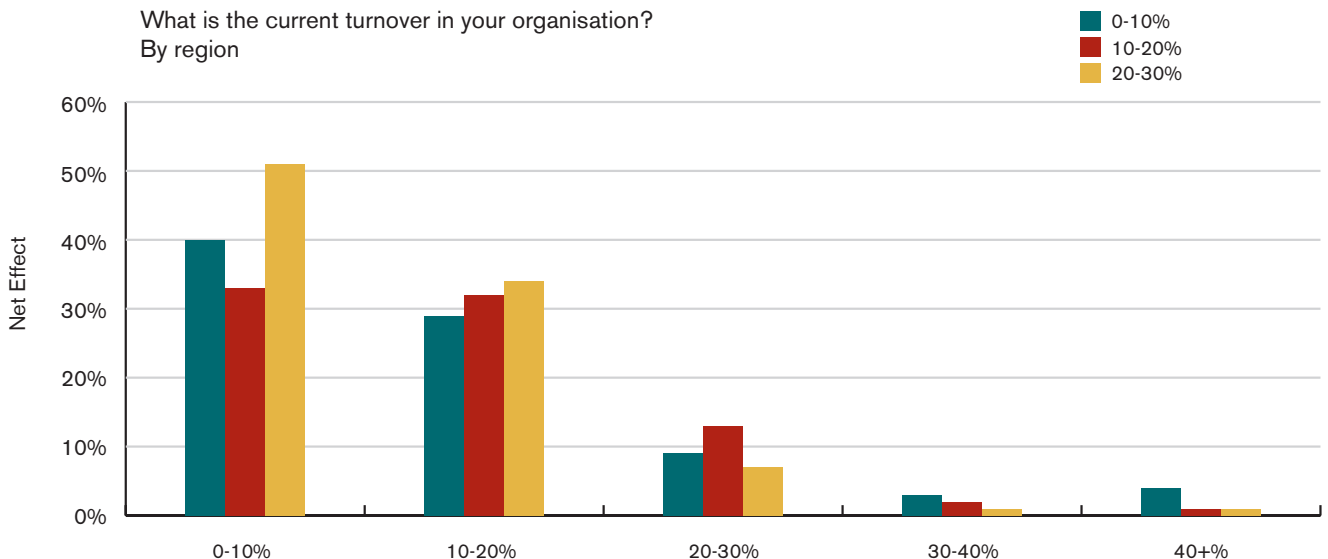
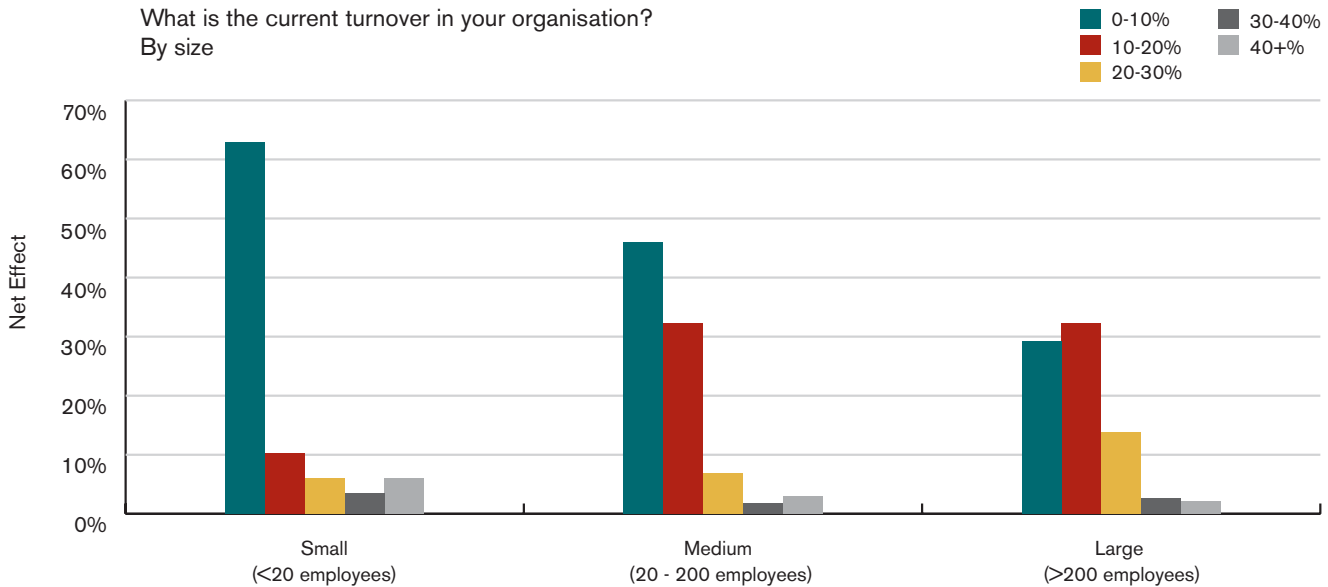
The survey results show the turnover employers both aim for and experience is determined by their size, the nature of their industries and by their geographical location.

Based on a percentage of their workforce, large employers have a larger turnover than small and medium sized employers and small employers have the smallest turnover of all three.

More than three quarters of small employers aimed for an annual turnover of 10% or less compared with less than half of large employers. Large employers were more likely to aim for an annual turnover of between 20 and 30% than small or medium employers.

Employers in the South Island have the lowest staff turnover followed by the upper North Island, then the lower North Island.

Just over half of the South Island employers surveyed (51%) have a turnover of 0-10%, compared with one-third (33%) of employers in the lower North Island and 40% of employers in the upper North Island.



Survey Findings

Comment

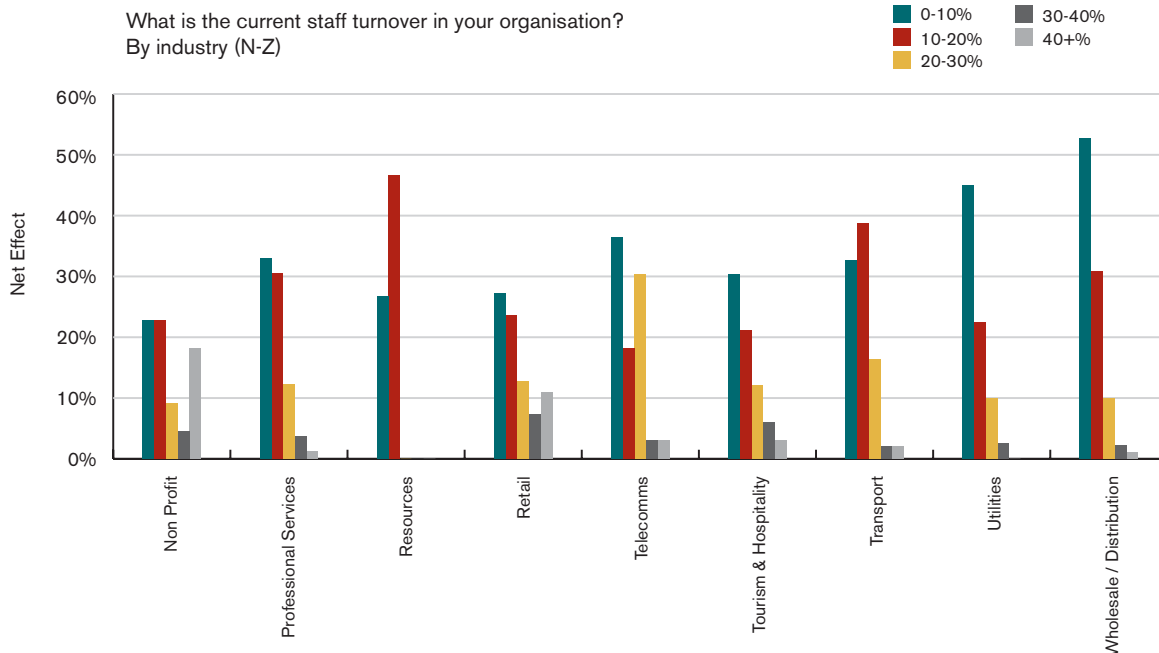
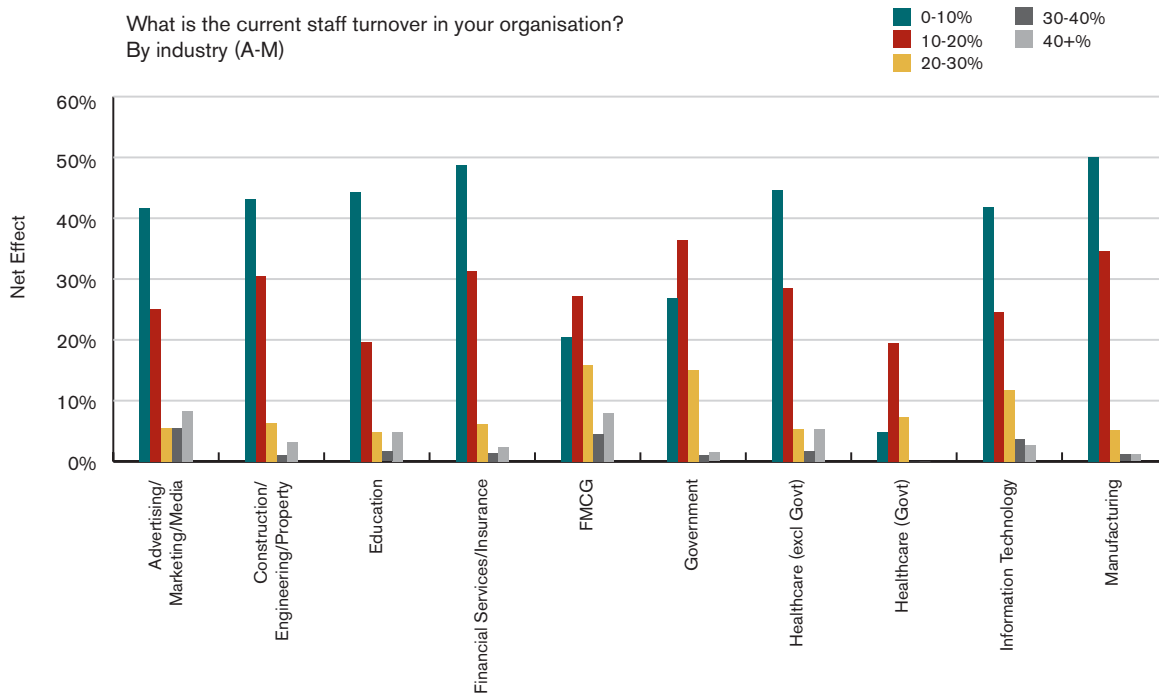
As a general rule, high-pressure industries where people are in frontline, client service or business development roles experience the highest turnovers of more than 30%. Turnover is much lower in the government sector and across the board most other industries appear stable with turnover between 10 to 20 per cent.

Low turnover for South Island employers compared with North Island ones can partly be accounted for by the fact that people who take up roles there sometimes do so for lifestyle reasons so are less likely to leave their jobs.

Hudson says setting a benchmark turnover is of little value to employers

unless it is part of a retention policy that aligns an organisation's business plan with its talent plan.

"Retention is not a numbers game. You can have a low staff turnover but if you've lost the people you really wanted to keep, you've failed at good retention," says Burrage.



Survey Findings

The Impact of Poor Retention

Employers were asked what main areas they thought poor retention impacted on - service delivery, customer/client relationships, company morale, use of management time, employment brand and ability to recruit. They were also asked whether or not it was not an issue for them.

Medium and large employers and those in the tourism and hospitality, education, transport, and information technology industries believe that the primary impact of poor retention is on service delivery.

Those in the resources industry were concerned about the effect on client/customer relationships and staff morale was a significant issue for small employers, those in the lower North Island and those in government healthcare industries.

The retention issue is becoming more and more significant for employers, who need to better understand the value of retaining good staff, says Burrage. The benefits of retaining the right people include financial savings, greater discretionary contributions - or added value - from happy staff who go the extra mile, and talent focussed on achieving business plans.

Poor retention results in low staff morale, financial costs of recruiting and training replacements, damage to an employer's brand in the marketplace and compromised service delivery.

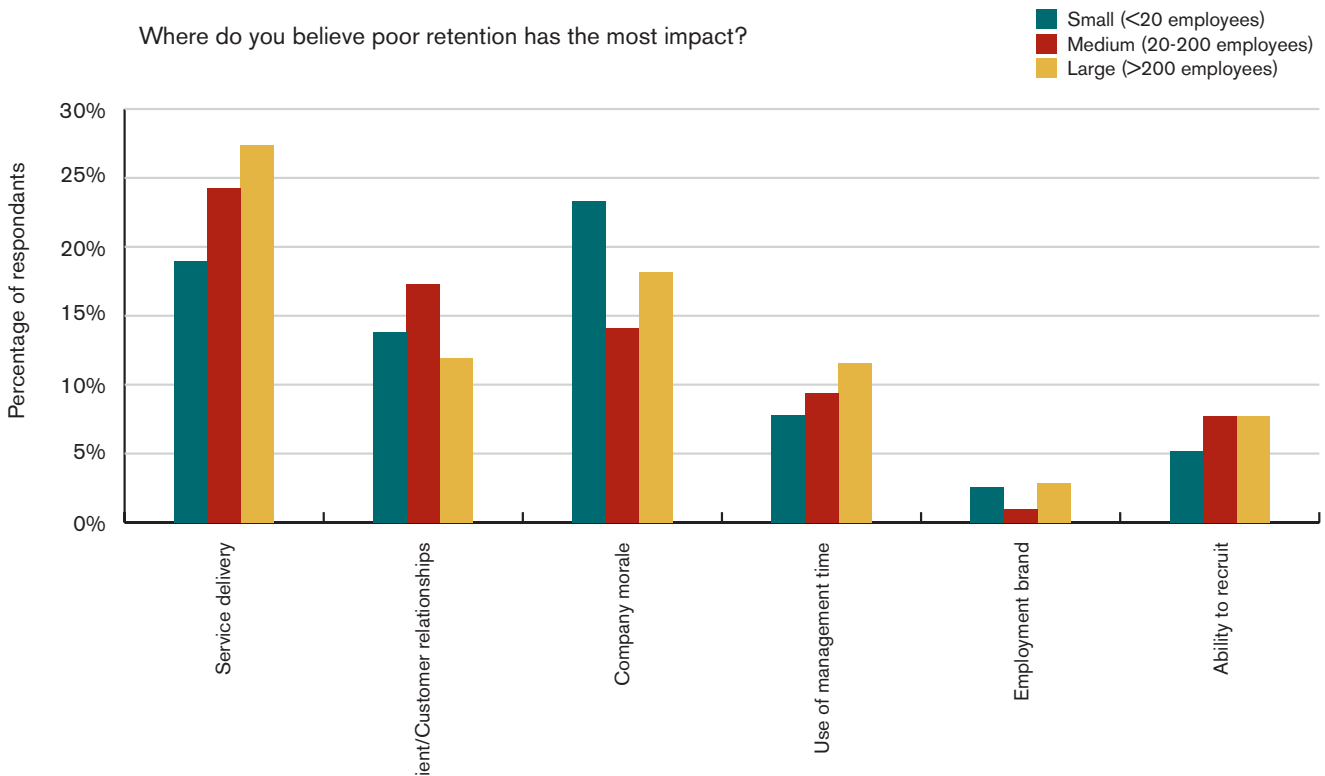
"Most importantly, by retaining the right people in your workforce, you will maintain your culture. A healthy workplace culture is one of the best ways to achieve a business plan," says Burrage.

Many employers do not understand that retention costs differ depending on how long a person has been with an organisation.

"If someone leaves after six months the effect can be less on the organisation than someone leaving after 18 months or more depending on the position.

"As well as hiring and training costs, employers need to recognise it can take someone up to a year to get up to speed in a new job and to develop relationships and networks.

"When someone experienced leaves, those are all real costs that employers need to recognise."



Retention Strategies: Is There a Right Way?

Employers in recent years have become more proactive about having retention strategies and linking their talent plans to their business plans. But there is still a way to go, according to Hudson.

International research and Hudson's research show the top three reasons for high-performing staff leaving jobs are that they want better career development, better relationships with their managers and more interesting work.

For good career development, employees need a road map so they can see what they are working towards.

"A good career management programme will allow a direct report to talk to their manager or an external consultant about their drivers and values and the next most important step for them," says Burrage.

To be part of an effective retention plan, managers need interpersonal skills and reflection training.

"They need to understand how to have good performance review conversations and to understand who they want to recruit so that person can develop a good relationship with their immediate team."

Understanding what motivates employees will help provide them with work that interests them.

While it is important to be proactive about addressing retention, some strategies, particularly targeted rather than generic ones, can backfire if they are not thoughtfully implemented and communicated properly, says Hudson.

"When you target individuals or particular groups it is easy to create friction and ruffle feathers among other employees," says Burrage.

In a tight labour market, giving new staff added incentives to join your organisation can become an equity issue for existing employees if they are doing the same job and not getting the added incentives.

"If someone joins on higher pay to do the same job, that becomes an equity issue and is not an ideal scenario. If a new person has potential it is better to position them differently from the start and communicate that."

As part of their talent plans, organisations need sound guidelines about how they assess the potential of new and existing employees. Potentially difficult situations shouldn't hold an organisation back in implementing their retention policies, but such situations need to be properly thought through on a case-by-case basis and handled sensitively.

Our Recommendations

- Employers need an overall recruitment strategy that is aligned with their business plan to ensure their employees are the right "fit". In other words, organisations who recruit right in the first place have a far better chance of retaining the right people for longer
 - Small and medium sized employers should follow the example of large employers and introduce leadership training to create leaders who will engage employees and make them feel included in the organisation's business plan
 - Employers should use succession planning as a useful tool for nurturing and retaining staff because employees need a road map of where their career is going
- Employers should use formal coaching as a useful tool to help employees change behaviours and to be successful in a new role or in an existing one that has new challenges
 - Employers need to give employees a variety of retention initiatives- but employers need to balance this against thinking that by displaying a menu of options, the problem will automatically be solved
 - Setting a benchmark turnover goal is of little value unless it is part of a retention policy that aligns an organisation's talent plan with its overall business plan
 - To be part of an effective retention plan, all managers of people need to be trained in interpersonal and reflection skills so they can understand who the organisation should recruit and so they can develop a good relationship with their direct reports
 - Assess all retention initiatives against your organisation's retention strategy and business goals before implementation.

Hudson Solutions

Talent Management

Hudson's talent management products include Job Analysis and Competency Profiling; Assessment and Development Programmes; and Leadership and Development Programmes.

Job Analysis and Competency Profiling

Employees are happiest in their jobs when they know what they entail and what other people expect of them. Hudson's Job Analysis and Competency Profiling programmes have been developed as a result of 15 years of global and local practical consulting and formal research to help employers have well-defined job categories and competency profiles.

Assessment and Development programmes

Hudson helps organisations assess and develop their talent with a range of psychometric assessment tools and behavioural assessment platforms that range from customer service, high potential, graduate, through to senior executive level. Hudson provides assessments that are targeted, outcome-focused and commercially grounded.

Hudson helps clients hire the right people and assess the potential of their existing talent so they can select, develop and retain employees more effectively and strategically.

Our Assessment and Development programmes help employers ensure their employees possess the right skills and knowledge and are the right cultural fit.

Leadership and Coaching Programmes

Hudson's Leadership and Coaching Solutions help identify and develop leaders and increase the skills of workers at all levels. Both organisations and individual managers benefit from Hudson's programmes which help managers develop better relationships with their direct reports - a key factor in ensuring good staff retention.

Hudson also offers a unique approach for developing Emotionally Intelligent Leadership. It encourages leaders to consider how their emotions, skills and actions affect them, their team and their desired business outcomes.

Organisational Surveys

Hudson's organisational surveys diagnose the 'health' of an organisation. They measure key performance indicators such as culture, employee behaviours and attitudes on an ongoing basis, enabling business leaders to better steer and influence strategic development. These surveys are effective in facilitating individual management of careers and improving leaders' effectiveness.

Career Management

Hudson Career Management services involve a specialist Career Consultant 'stretching' the employee to increase self-awareness, develop career goals and plan strategies to achieve those goals including overcoming perceived shortcomings and career path blockages.

The Career Managing process provides a highly personalised, politically safe and supportive one-to-one relationship between the employee and a professional Career Consultant. It needs to be tailored to individual needs,

however, to be really effective, it needs to be underpinned by a strong methodology which is the strength of Hudson's approach.

Experience Plus

Hudson's Career Management services include Experience Plus which helps employers secure experienced, mature, highly skilled workers.

New Zealand's ageing workforce means employers are not only challenged with finding younger people to replace older one who leave, but also with making the best use of older workers who can offer a wealth of skills and experience.

Hudson's Experience Plus services also provide experienced, mature-aged workers with greater lifestyle options pre and post retirement or redundancy, and provide tools and processes for organisations to affect knowledge transfer from experienced workers to other employees.

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