

The Hudson Report

Employment and HR Trends

New Zealand | January - June 2006

Part Two | **EMPLOYMENT EXPECTATIONS**

Hudson

*From great people
to great performanceSM*

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Introduction and Methodology

Introduction

The Hudson Report is an established and highly reputable publication, based on in-depth, nation-wide research. Released quarterly, the Report uncovers and analyses the hiring expectations of New Zealand employers over the forthcoming quarter, and provides insights into a range of human resource issues currently impacting business and the broader New Zealand economy.

While a number of surveys currently address hiring intentions and job vacancies, The Hudson Report fills the gap in market knowledge and data on broader human resource issues and trends relevant to business leaders.

The Hudson Report for the half year January to June 2006 involved interviews with 2261 employers across New Zealand. It consists of two parts:

Part One:

Employment Expectations for January to June 2006. Released 11 November 2005

Part Two:

HR Insights. Released 17 November 2005

Methodology

The Hudson Report has established a reputation as a key socio-economic indicator in the New Zealand market. The Report's half-yearly findings on permanent employment expectations are built on the premise that the expectation to increase or decrease net staffing levels represent a significant indication of employers' optimism for the growth of their organisations.

The Hudson Report frequently refers to the term 'net effect' in relation to employment expectations. The net effect figure is calculated by taking the percentage of employers surveyed that expect to increase staff levels during the quarter and subtracting the percentage of employers surveyed that expect to decrease staff levels.

The Hudson Report combines the expectations of key employment decision makers from all major industries across small (<20 employees), medium (20-200 employees) and large (>200 employees) organisations, and extrapolates the findings in relation to other key economic indicators (ie interest rates, housing figures).

For the January - June 2006 half year, 2261 employers were personally surveyed by Hudson recruitment and human resource consulting professionals. Participants were surveyed from 18 core industry groups, as detailed below:

- Advertising/Marketing/Media
- Construction/Property/Engineering
- Education
- Financial Services/Insurance
- FMCG
- Government
- Healthcare
- Information Technology
- Manufacturing
- Non Profit
- Professional Services
- Resources
- Retail
- Telecommunications
- Tourism & Hospitality
- Transport
- Utilities
- Wholesale/Distribution

Getting Smart About Talent Management

New Zealand's growing skills shortage and the prospect of an ageing workforce is challenging employers to examine their approach to talent selection and retention.

As the shortage of skilled people threatens productivity and growth in many key sectors, sophisticated strategies for the management of human capital has never been more crucial to an organisation's commercial sustainability. It would appear that New Zealand organisations are taking notice.

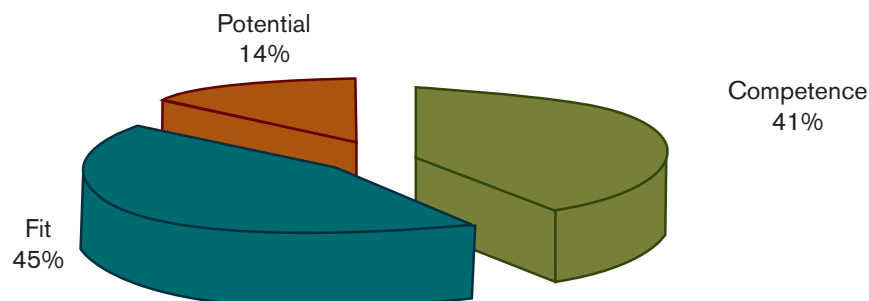
Hudson asked New Zealand managers what was most important when making key people decisions. The results tell an interesting story.

Hiring managers were asked what was most important both when selecting new staff and when promoting staff from within their organisation. Was it a person's 'competence' (technical and non-technical skills), 'fit' (cultural and motivational) to the organisation, or someone's 'potential' (ability to move through the organisation)? Hudson then asked each respondent if their organisation had a systematic process to evaluate potential or if they had any formal career management programmes in place.

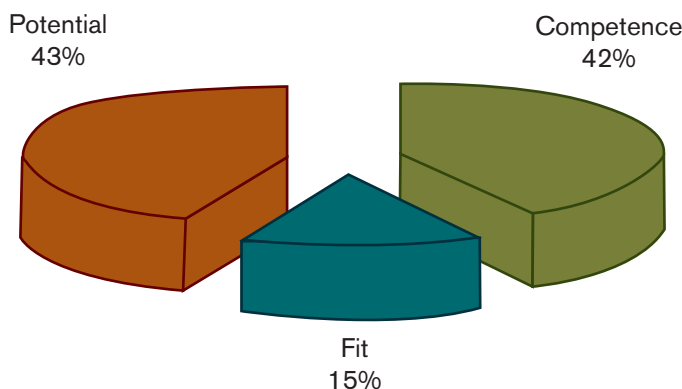
Hudson found that when selecting new staff, almost as many hiring managers considered competence for promotion as important as those who nominated fit. It's heartening to see managers considering motivational and cultural fit as well as the right skills when hiring.

When promoting internally this ratio shifted with managers viewing potential and competence as of almost equal importance.

Most important when hiring new staff



Most important when promoting staff internally

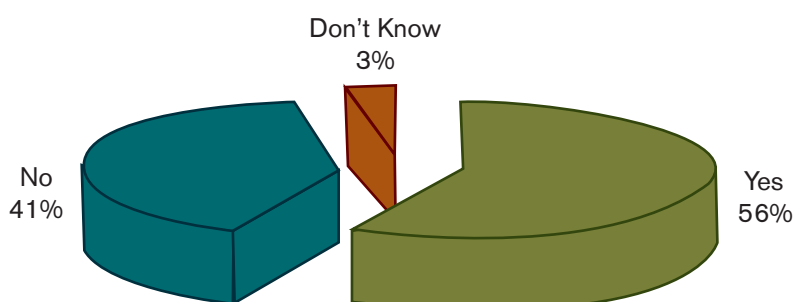


Getting Smart About Talent Management

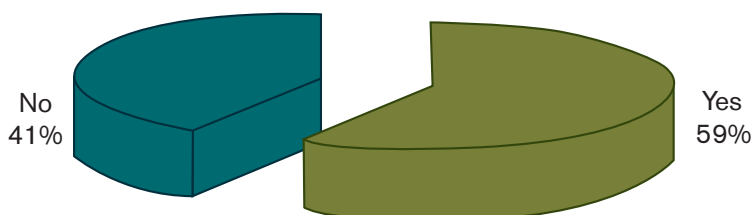
Having assumed that potential would be of some importance; Hudson also explored the presence, within companies, of a systematic approach for measuring potential. Almost 41 per cent of hiring managers responded NO, or that they did not know if such a system existed for their organisation.

Similarly, when hiring managers were asked if formal career management programmes were in place for existing employees, 41 per cent responded NO.

Is there a systematic approach in place to measure potential?



Are formal career management programmes offered to employees?



Getting Smart About Talent Management

Nice to be Told of Your Potential!

“So why would someone promote me if I have potential? Wouldn't they want me to demonstrate my abilities first?”

Organisations are growing increasingly smart about their people strategies, particularly those involved in selection and promotion. They know they have to become knowledgeable about identifying and attracting new staff, as well as retaining top talent. With this in mind, some hiring managers (14 per cent) rated potential as most important when recruiting someone new to the organisation, but significantly more (43 per cent) consider it as most important when promoting.

Some people may see it as a somewhat backhanded compliment to be rated as someone who ‘has potential’, believing that they’re not being properly recognised for their current capabilities or contributions.

In fact, someone can be considered to have potential (to progress within an organisation) when they are rated as having the following features of their professional make-up:

- The ability to learn new things and skills.
- The willingness to learn and develop professionally.
- The resilience and ability to cope with high-level duties and decisions of added consequence.

Those hiring managers who take the time to make an analysis of someone’s potential are clearly supportive of the organisation’s strategic imperatives. There is also likely to be a clear alignment between the commercial and human capital strategy of that organisation. Importantly, it is commonly recognised that organisations with superior people strategies and human

resource practices consistently create more shareholder value than firms whose practices could be considered average or below average.

It would appear that succession planning is conducive to the success of an organisation. In a recent Human Capital Index by Watson Wyatt¹, it was revealed that firms who maintain a balance between promoting from within and seeking external staff members in (non-junior) positions, returned significantly more to shareholders.

Further to this, these companies tend to enhance their employment brand in the marketplace, which in turn attracts more top talent. Incidentally, greater return to shareholders also appeared to correlate with turnover and performance. Firms that managed turnover at a moderate rate created more shareholder wealth than firms with either high or low turnover. Unsurprisingly, advanced recruitment practices and a focus on culture were additional keys to success.

¹ 2005 Watson Wyatt Human Capital Index: Maximizing the Return on Your Human Capital Investment

Getting Smart About Talent Management

Know Where the Treasure Lies

While 59 per cent of the employers surveyed responded affirmatively when asked if they had a systematic method in place for measuring potential, room for improvement definitely remains. Significant variance across different sectors was notable.

Findings suggest that organisations in the financial services/insurance industry are more likely to measure the potential of their employees and proactively manage the careers of employees than other industries surveyed. Non-profit, tourism & hospitality, and advertising/marketing/media all scored well below the national average for this particular question.

Having a systematic method in place to measure and manage the potential of current employees need not be a complex or stifling exercise. However it does need to be as objective as possible, and linked with other human capital strategies such as recruitment and retention.

Using the simple definition of potential outlined in the previous section, any organisation can adopt a process that clearly defines potential, measures and uses the information to inform a succession plan or people management strategy. Tests and questionnaires can be a useful way of obtaining extra data.

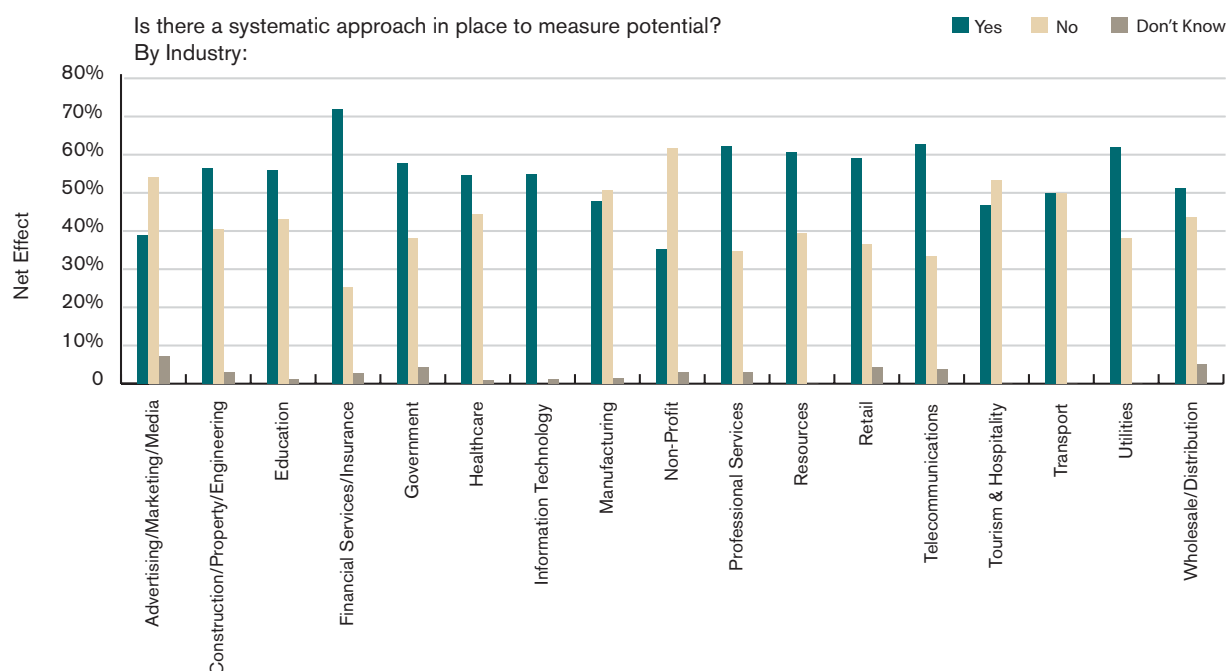
Many organisations use problem-solving tests to give an indication of the person's ability to 'learn new things'. Behavioural style questionnaires can be useful to explore alignment and give employers a clearer idea of the style of person that is going to be most suited to a role. This data can help managers make the right hiring decisions and provide tips on how to best manage people in the role. Smart organisations define what 'potential' and 'fit' looks like in their organisation and look for evidence throughout the interview and selection process, weaving it into established methods of selection and management.

Many organisations are reporting great results. One financial institution has a well-established people management

strategy that defines potential and cultural fit, measures these domains regularly and links graduate recruitment with the leadership programme and a succession management plan. This sophisticated programme has served the organisation well and they have made great strides in their employment branding, recruitment and retention.

An IT employer has experienced growth over the recent years and is now beyond the size where the senior management have a clear 'line-of-sight' into the running of the organisation and the capability of people. They know they are successful and understand on an intuitive level what that success looks like; now they want to replicate it as they grow. In order to do this, they have developed a simple framework and have revised their recruitment, selection and promotion practices to measure the potential of new recruits, manage the career of the existing staff and promote on more than just technical skills.

Moreover, the initiative is being driven by the CEO and has the buy-in of the whole executive team.



Getting Smart About Talent Management

Fit In or Leave

'Fit' is a concept that enjoys a high profile in HR discourse, but can mean diametrically opposite things to different employers. The view Hudson takes toward fit is that it is a combination of three dimensions:

- **Motivational fit** – does the person get their needs and desires met via the role and the tasks being offered?
- **Career fit** – does the role align with the person's career preferences? (For example, some people may choose to work in roles more aligned with marketing than sales.)
- **Cultural fit** – does the person align with the culture that characterises the business unit and the organisation?

So how important is fit when hiring and promoting? It would appear that New Zealand employers are divided with 45

per cent of hiring managers rating it as most important when hiring new staff. Furthermore the importance of fit appears to shift across the different industry sectors. Amongst the respondent groups, professional services, tourism & hospitality and utilities rated it as most important.

Hudson regularly hears from employers that a lack of 'fit with the organisation' has been the cause of resignation or separation. A lack of fit appears to be clearly recognisable and easily articulated in that people tend to intuitively understand congruence and alignment when people fit in with their organisation. It is important to remember that Person - Organisational fit is not related to age, appearance or any other stereotypical grouping.

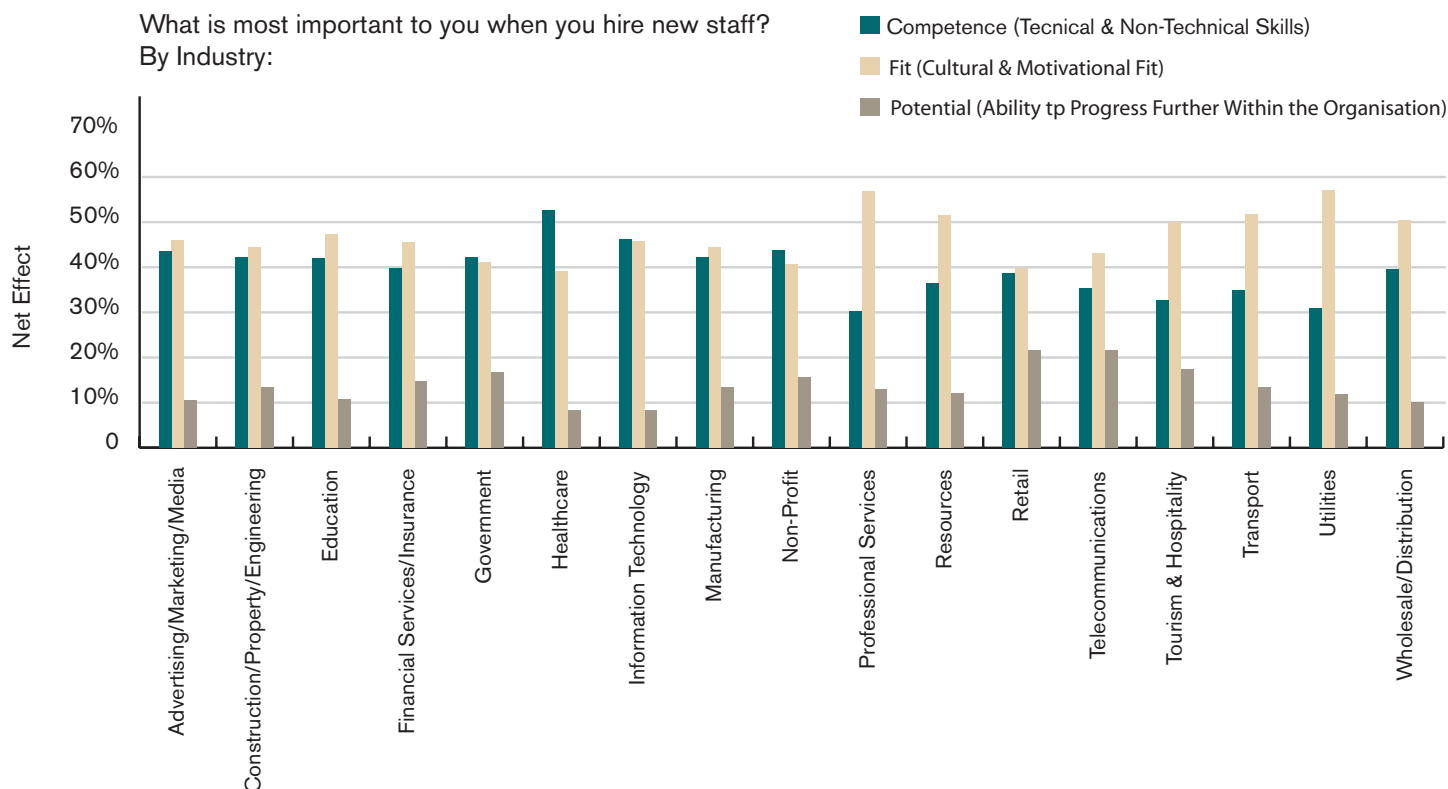
Research has recently been invested in the topic of Person - Organisational fit. A literature review indicates that it is

an emerging field – one that will yield more guidance in the future. One article, (Kristof, Amy L., 1996²) describes Person - Organisational fit as 'the compatibility between people and organisations that occurs when: (a) At least one entity provides what the other needs, or (b) they share similar fundamental characteristics, or (c) both.'

The research goes on to highlight a difference between complementary fit and supplementary fit. The former occurs when a person's characteristics, skills and desires add to what is missing or make the environment 'whole.'

By contrast, supplementary fit occurs when a person 'supplements, embellishes, or possesses characteristics which are similar to (those of) other individuals' in an environment. (Muchinsky & Monahan, 1987, p. 269 + p. 271³).

What is most important to you when you hire new staff?
By Industry:



² Person-Organization Fit: An Integrative Review of its Conceptualizations, Measurement, and Implications, By: Kristof, Amy L., Personnel Psychology, 0031-5826, March 1, 1996, Vol. 49, Issue 1 | Database: Business Source Premier versus complementary models of fit. Journal of Vocational Behavior, 31, 268-277.

³ Muchinsky PM, Monahan CJ. (1987). What is person-environment congruence? Supplementary versus complementary models of fit. Journal of Vocational Behavior, 31, 268-277.

Getting Smart About Talent Management

With this definition in mind it is valuable to consider the importance of Person - Organisational fit depending, for example, on the level at which the person operates within his/her company. It is logical, for instance, for an organisation to think about striving for complementary fit for senior, strategically important roles. However, team-member or entry level roles clearly require an emphasis on supplementary fit, to ensure that cohesion occurs where the organisation requires the bulk of the workflow to successfully happen. For example, a Chief Executive Officer seeking to build the most effective executive team will consider the needs of the organisation and seek complementary fit across the executive group.

To build a team that is homogenous and has a high level of supplementary fit may by contrast foster strong team working behaviours between like-minded people, but may not deliver a balanced group of leaders with necessarily diverse skills sets. The risk here is that the group may not have the diversity of skills and thinking style required to mitigate risk or prevent poor decisions being made.

The manager/leader of a customer service team however, (where skills required to respond to customer needs are similar across the group) may strive for a supplementary fit in the interests of forming a cohesive team that works in harmony and delivers consistently.

Getting Smart About Talent Management

Culture Can't Alone Keep Them!

The reason for a mismatch or ill conceived fit between an employee and employer stretches well beyond issues of company culture. More than ever, professionals are focused on managing their careers over the longer term and are demonstrating increased loyalty to their career – as opposed to their employer. For this reason the consideration of fit needs to explore what the person enjoys and where their career is headed, in conjunction with issues of alignment with the organisation's culture.

Irrespective of a person's level of skills and abilities, they are unlikely to maintain their performance in a role if they are not satisfied by the job or they are fundamentally dissatisfied by the role and all that is related to it. In order to retain high performers, employers need to have an understanding of what motivates them in their day-to-day activities.

This can start from an initiative as simple as taking time to understand what they enjoy in their current and past roles, and considering this in any role changes and promotions.

Some organisations are using structured questionnaires to measure this and systems to capture and manage the data. Indeed, one cannot ignore the longterm career aspirations and goals of individuals. Some refer to this as 'career drivers' or 'career fit'. If these drivers are ignored, an organisation is exposing itself to increased attrition. Take for example the valuable 'technical specialist' with a manufacturing firm.

This specialist ultimately wants to work with people, possibly even manage and lead a team. He is however, in a role that does not formally offer this and is

unlikely to at any stage. The manager suspects that this is the case, but does not have the ability to effect change. It is only a matter of time before this highly valued person resigns all together, as his core career drivers are not being met.

Some organisations are addressing this through an established system that helps staff and managers understand what people's career drivers are and then integrate this data into succession planning and talent management.

Organisations also go further when working with this important, but challenging, area by working with staff to develop a formal career plan that stretches beyond the current and next role.

A More Sophisticated Approach to Promotion

How many times have you heard of someone being promoted to the wrong type of role, or even the wrong level of role? Take for example, the highly skilled and respected specialist who is promoted to a team leader role or a management level position, only to find they are struggling in the new role and de-motivated after a brief 'honeymoon' period.

Through discussion and analysis of this situation, it is likely that one would find that the promotion was made without appropriate support/mentoring and the individual may reflect that they did not realise what the new job involved and how different it was. It is highly unlikely that there was any form of evaluating of the employees' potential to perform in the new role.

The ill-informed decision to promote this person has had ramifications beyond this person's discomfort in the role – it has reduced the effectiveness

of two roles and exposed the organisation to losing a valued employee. Not a great result when you consider today's employment climate.

A more sophisticated approach may involve a process where career drivers and features of satisfaction are explored in more detail, and the employer forms an objective view about the individual's potential to progress to the role. It may be that another, more lateral, appointment would make more sense in the long run.

Furthermore, a higher level of support or coaching could be offered to the person undergoing the transition in their career.

Getting Smart About Talent Management

Conclusion

The results of Hudson's survey indicate that employers are starting to be proactive in their approach to the tough employment landscape. Hiring managers appear to have started to look beyond competence and 'hard' skills alone, both when hiring new employees and when making internal appointments.

This is however a complex arena, awash with many variables. It is important to strike a real balance between the organisation and the person. Some have referred to this area as a 'three-legged stool', with one leg representing the immediate needs of the organisation, another the strategic requirements and the third, the wants and desires of the individual.

Many successful organisations are increasing talent pools and staff retention rates through an integrated talent management platform. These include sourcing and screening people from the external market as well as assisting with internal mobility, high potential pools, and succession planning options.

This integrated approach to the recruitment and retention of talent gives organisations best return on their investment in human capital, maximizing the value and utilisation of both internal and external talent pools.

The benefits are often significant – increased calibre of hires, increased retention of key talent, enhanced speed and efficiency of processes, not to mention reduced overall costs for the organisation.

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