HaRe Group newsletter: **18 November 2011**

Subject: **Expect the best, plan for the worst**

Continuing media reports of impending financial doom are focused on Europe – but what of the impact here in Australia? Are there warning signs for our own economy?

On some indicators, Australia's economy seems to be resisting the ongoing turmoil in global markets. The good news is that our inflation rate is only 2.3% (excluding volatile items); and unemployment rates are staying around 5.2% (seasonally adjusted), despite a declining rate in job advertisements (ANZ: 1.8% pa). However:

- The ABS has just announced a strong increase in Average Weekly Earnings of 4.7% (all employees, seasonally adjusted), up from 3.9% in three months;
- While most private sector employers have been budgeting for a 4% increase in remuneration cost, their AWE (full-time) has increased by 5.7% overall, largely driven by the Mining sector;
- Average full-time adult ordinary time earnings (seasonally adjusted) is now almost $68,800; the Mining sector average is 63% more; Retail Trade is 28% less.

With so much global uncertainty, can such increases in employment cost be tolerated? At what point will an Australian industry become uncompetitive? A parallel may be found in a manufacturing sector study reported by the Financial Times – it shows that unit labour costs in Greece, Spain and Italy have risen substantially above Germany over the last 12 years.

While the growth in our AWE is being boosted by the mining boom, Australia's big miners are becoming cautious. Shareholders of BHP Billiton have been warned that profit growth may slow as a result of lower commodity prices and trade financing pressure stemming from the European debt crisis.

So for Australian industry leaders and employers, how do they manage their organisations given this torrid global condition? Of course, it's about taking steps to establish a robust and profitable business; however, employers cannot dictate commodity prices or market demand, but their efforts on long term talent management and employment cost control could make a big difference.

All market leaders know that retaining high performing employees is essential – especially when market conditions deteriorate. A talent management strategy is critical to keeping your best people engaged. While our domestic conditions are currently healthy and employees may be expecting a rewarding future, employers should always plan for a downturn (expect the best, plan for the worst). It's well known that, when organisational performance slumps, the best employees will leave first – they will always find good work elsewhere.

There are several practices that should be welded into every talent management strategy – for example:

- Frequently communicate on all matters that involve employees in business performance
- Ensure that all senior managers deliver clear and consistent support of the business strategy
- Focus employees on meaningful work that is openly aligned with the business strategy
- Ensure the correct fit of each employee's capabilities to his/her role
- Act on all suggestions for process improvement and business efficiency
- Provide continuous feedback on each employee's contribution to business success
- Celebrate success and recognise all team & individual contributions to achieving business objectives

Talented employees will know when their contributions are valuable – it is important that they are properly recognised and rewarded for their achievements. They will also be aware of any lack of contribution made by the lesser lights in the organisation. If poor performance is ignored, or if there is insufficient differentiation in recognition or reward, then talented employees may become frustrated and disengaged. Likewise, your best people will probably know their market value and be aware of better paid opportunities elsewhere.

Clearly, a market based and performance oriented system of remuneration management will be essential to retaining talented employees; it will also help eliminate unnecessary remuneration increases and minimise employment costs.

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