Forté MANAGEMENT
business & economic development advisors

Forté Enterprise Digest

Complimentary news and information
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Hello

This edition of *Forté Enterprise Digest* has a heavy emphasis on people performance management. Why people performance management when Forté Management's prime interest is in innovation? First – because people performance management is the first of three strategic tools included in *Forté Management*'s *eNZyme^3 Business Performance Supercharger* tool. Second, because innovation is the tool that we use to drive productivity and according to our research one of the most strategically important innovations businesses can apply is to improve people performance management. In fact the Ministry of Economic Development's publication *Management Matters in New Zealand Manufacturing* predicts a labour productivity gain of 40% or capital productivity gain of 70% if New Zealand could move its performance from the bottom quartile of the 16 nations measured to the top quartile. That means that by improving people performance management Kiwi firms could produce a great deal more value from the same amount of labour and capital or conversely, need a lot less labour or capital to produce the same results as now. In a world of capital and talent constraint there are few things that should be of more interest to shareholders and managers.

We have prepared this newsletter trying to avoid any particular political slant apart from saying that we do not agree that issues of adequate remuneration can be properly addressed sustainably by the arbitrary raising of minimum wages, nor conversely that simple supply and demand where in times like the present with supply in many occupational categories exceeding demand, some employers are taking the opportunity to squeeze down remuneration rates. Neither approach we believe, will achieve for employers optimum efficiency or productivity.

We're at the tail end of another year – one that has had more than its fair share of challenges. Let's use the transition from 2011 to 2012 as an excuse to stop and take stock, decide what and how we can change (innovate) to ensure that we individually and collectively have a better year in 2012.

Very best wishes for the Christmas and New Year season from Helen and Tony.

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The contentious issue of what to pay staff.	It's widely reported that people aren't motivated by money – they are motivated by much more nuanced things like recognition and meaningful work. We've loved that idea here in New Zealand, perhaps as some sort of renouncement of materialism. We want to pose a question though. *"Is it just possible that we've used that as an excuse to squeeze pay rates and in squeezing pay rates have we actually driven productivity down not up?"* This is vitally important because, *w*hile more pay may not result in more motivation, less pay, or perceptions of less or unfair pay most certainly creates dissatisfaction that in turn de-motivates. Eminent psychologist Frederick Herzberg's theory of motivation states that there are certain factors in the workplace that cause job satisfaction, while a separate and independent set of factors cause dissatisfaction. This is critically important because we know that satisfied workers are more productive and dissatisfied workers are less productive. If pay is not perceived as fair then we have a productivity issue. So what is an appropriate pay rate? If it is true that money is not a motivator then from a productivity perspective, employers at the very least must aim to avoid *dissatisfaction* – the point at which pay is no longer a dis-satisfier and other factors can then be used to motivate staff. From a strict economic perspective, the obvious thing to consider is *"What's the work worth?"* That's not all that difficult to calculate for occupations where "things" are made or where a service is sold by the hour. Other positions can be more challenging, especially as you go up the pay scale. There are good executive remuneration firms around so these should be utilised where appropriate. A caution though. The results may be surprising and can result in even more dissatisfaction. But here's the problem. All Kiwis want, it is reported, is a *"Fair day's pay for a fair day's work"*. The problem that we face increasingly in the Western world and especially in New Zealand with its long term productivity issues is that more often and in more occupations there's a disconnect between the economic worth of many positions and what represents a fair day's pay. We now face a circular argument. The only way to increase remuneration within an occupational category is to increase productivity while productivity may be restrained by the failure or inability to increase remuneration. That leads into the subject of the next edition where we will consider how to create new revenue streams from the existing investment.
Squeezing harder is counter productive.	Everyone we talk to – doesn't matter whether they are the MD or the shop floor worker - is more dissatisfied and more stressed about work than we have seen in 20 years of consulting. That's of real concern because inevitably it's hurting productivity. Part of the stress is a general unease about the global financial crisis but part of it is also because we've all been put under ever more stress by the demands placed on us each day to produce more and more - often without any change in the tools and resources we have at our disposal – and more often than not with less of both! Managers are expected to perform alchemy every day. I joked recently with a national divisional general manager about the days when we told managers that the further they went up the ladder the more time that they should spend thinking. *"What happens"* I posed *"if you are seen sitting at your desk thinking these days?"* We both laughed. Thinking time has been reduced to the minutes before you go to sleep and when you are laying awake in the middle of the night – unable to sleep – and stressing! Then I read with some

	amusement the CEO of e-Bay saying that he beleives thinking time is so important that he puts aside one day every two months. Yep that's right one day each two months! Placing managers under so much pressure and stress that their thinking time is squeezed out is reducing them from managers to administrators and that's something that we should be greatly concerned about – especially since generally speaking – they are paid to be managers. "Stressed people don't do math very well, they don't process language very efficiently, and their ability to remember – in both the short and long terms – declines."(John Medina/Diane Coutu, Harvard Business Review article reference #R0805B-PDF-ENG). It makes people sick and affects absenteeism – and presenteeism (that group of employees whose presence, by their negative attitudes, poor quality, disruptive behaviour, lousy customer service, etc lowers overall productivity below what it would be if they were absent). Yet it seems that loading staff up with more and more stress is the strategy of choice for many firms/managers! To create value – and that's the role of every employee and especially every manager - sometimes you have to actually stop and think. Action without thought leads inevitably to what the Japanese call *muda* – an activity that is wasteful and doesn't add value. It's very hard to actually stop *doing* and start *thinking*, but it is one of the most important tools to eliminate waste and create value. We have an obligation then as managers and especially as entrepreneurs to make and take quality thinking time!
Exposing products and services to the risk of sale.	We hear constant complaints about how hard it is to make ends meet. We see businesses closing every other day. Yet we see so often firms that just don't take their chances – even when presented on a plate. We've talked about this previously and have little doubt that we'll do so again. Here are three more stories to add to the collection. *Forté Management* recently exhibited at a local business trade show. We were approached by five representatives from three different companies turning the tables and aiming to sell to us. We told each that we had particular and definite needs for their products. We sent specifications to one and have not heard back. We had an email from another saying they were out of the office for two days and would get back to us on their return. We have not heard back and six weeks has now passed. The other three – no contact at all – so we are still looking! Helen recently visited two retail stores targeting locals and visitors. She spent about 10 minutes in each. She was the only shopper in both stores. She left one store without acknowledgement despite having deliberately stood within a metre of the attending shop assistant (wrong title obviously!) She left the other without being acknowledged. Needless to say she did not discover any "must-haves". What is it that businesses make it so difficult to buy their products and services? The third was a curious case given *Forté*'s interest in the influence of national culture on business performance. Tony had been a key note speaker at a conference talking about Kiwi culture and its impact on innovation, engagement and business outcomes. At the pre-dinner drinks session he was waiting for a drink. A waiter walked by with three glasses and a bottle of bubbles. Tony asked if the waiter was delivering the bubbles or could he have a glass. The answer *"No*

	– *I'm delivering them."* That was the end of the contact. A few minutes later another waiter (this time clearly from a culture more accustomed to delivering service – and we expect – achieving sales outcomes) passed by in an identical manner. The same question was posed and this time the answer was *"Yes sir – I'm delivering them but give me a moment and I'll be right back."* And she was – bottle and glass in hand – and called back more than once to refill. It just struck us as an object lesson! Note the subtle difference in answer. The first replied *"No – you cannot have one because I'm delivering them to someone else."* The second answer was *"Yes sir – you can have a drink. I'll deliver these and be right back."* Nuanced but important differences.
On changing culture.	We recently attended a workshop examining economic development opportunities for a region. During the day we were struck that three of the speakers mentioned that *"we need to change our culture"* when referring to making the transition from invention to established commercial products. Now that struck us as interesting because it's right in our sweet spot. Making a call for a change of culture is a common one – everyone from New Zealander of the Year Sir Paul Callaghan on is identifying the "need". But what it implies is rarely well thought through. Suffice to say that changing a culture – and they were talking about national culture rather than organisational culture – is a dangerous and difficult thing to attempt. In fact, it is, short of massive social engineering all but impossible. What is possible however is to provide people with tools, the use of which will cause them to change their behaviour. That's exactly what *Forté Management*'s *eNZyme^3 Business Performance Supercharger (http://www.forte-management.co.nz/resources/78-Forte_Management_eNZyme3_brochure.pdf.ashx)* is designed to do. First step? Get a very clear and insightful picture of our own culture whether that's Kiwi culture here in New Zealand or the dominant culture in any other country.
Economic Development – why is it so hard?	Economic development has a chequered history in New Zealand. There are some great success stories but there are too many frustrating examples of under performance and conflict, particularly with funders. We want to suggest that the greatest cause of problems arises from lack of clarity as to what is to be achieved. The greatest dichotomy is between accelerating the current trajectory of economic growth and changing that trajectory to a new one. The former very much dominates in common thinking. Conventional wisdom is that economic development is about growing the economy and in fact that growing the economy will, through trickle-down, lead to job creation and improved conditions including wage increases for the population. But that is overly simplistic and the experience over the last three or four decades is that – generally speaking, it doesn't work because neither the occupational category makeup nor productivity are changing. There are really only two ways to increase a region's or nation's average wage – increase productivity (the amount of value created for each hour worked) or change the makeup of the occupational categories to include higher value jobs. New Zealand's economy grew over the decade to 2008 largely by increasing labour participation – adding more bodies to the workforce doing similar jobs at the same level of productivity. Net effect – more people employed (good) but eventually constraints on the supply of labour started to force up the cost of that labour (a short term gain for workers but long term pain for competitiveness). Flow-on effect – reduced competitiveness because one of the important factors of production was now more expensive and productivity remained steady while

	the value of the goods and services produced remained the same. In fact to increase the average wage rate of one region (or country) relative to another (including increasing minimum wages – no matter what the moral argument to do so) without changing the occupational category profile or increasing the real productivity of the current occupations will reduce its relative competitiveness and lead to inevitable decline. So – the first step in economic development is, we contend – to establish a very clear understanding and unequivocal <u>agreement</u> as to what is to be achieved. When that agreement is in place a great deal of the all too common tension should disappear.
On being civil.	Saying "thank you" and offering positive feedback is just good manners – but an all too rare thing. Kiwis have profound feedback reluctance so it is very rare that we will tell a business when we are dissatisfied and even more rare that we provide positive feedback. Kiwis simply go away and complain to friends and family instead. At *Forté* we don't, except in the most extreme situations offer negative feedback either. But we do however try to offer positive feedback when we think it is deserved – not because we want something in return but because we think it's just the right thing to do. Even businesses getting things near to perfect typically hear more about their rare mistakes than their consistent good performance. If we said thank you for the "well dones" perhaps we would see superior employee performance across the board. See the next article on *employee engagement* to see why.
Employee engagement high value strategy.	Tens of thousands of workers are actively disengaged from their jobs according to a Gallup survey, which says they are costing New Zealand more than $3.6 billion a year in lost productivity – that's something in the order of $37,000 per employee. That warrants a substantial investment and commitment to recapture. Employee engagement is an interesting concept. For one, engagement, which is the degree of employee-employer alignment is voluntary. Employees have a choice about the level of engagement they offer their employer. And here's why ensuring employee engagement is so vital. Engaged employees: • Are committed to making the business a success. • Are enthusiastic about, involved in and satisfied with their job. • Want to stay with the business. • Are willing to talk positively about the business. • Are willing to go the 'extra mile'. This is so important because there are important correlations between employee engagement and: • Performance/efficiency/productivity. • Safety. • Attendance and retention. • Customer service and satisfaction. • Customer loyalty and retention. • Profitability. • Return on Assets. Engagement is a function of:

- The company, its structure and culture.
- Leadership.
- People management systems including fair remuneration.
- Stakeholder satisfaction.

Consider how the articles above are therefore all interlinked around this theme of employee engagement.

Employee engagement – analysing, diagnosing and planning it – are at the heart of the Managing People Performance component of the *eNZyme*^{3} *Business Performance Supercharger* (http://www.forte-management.co.nz/resources/78-Forte_Management_eNZyme3_brochure.pdf.ashx).

The "flight to quality" – how real is it?

Commentators have for years now talked about the *"flight to quality"* – buying less of better quality – but it's been pretty hard to see the evidence with the on-going proliferation of cheap-n-nasty stores. But when we look carefully maybe there are some emerging signs. We watched with interest for years the success of an independently owned butchery here in our home town Blenheim and then more recently the emergence of a fresh fish and greengrocers shop – all three competing with the big supermarket chains. In all cases quality and service and product knowledge are at the forefront of the business model and all the signs are that there is indeed a flight to quality. These places are always chocker with customers.

Any move to quality is likely to have positive sustainability implications as we move away from a disposable high waste business model to a more sustainable quality model. Consider this – the average time from factory to land fill for a toy in the USA is sixty days! Maybe, just maybe the flight to quality represents the early beginnings of decoupling our idea that the only path to prosperity is growth. Prosperity through growth alone is in fact probably the single most unsustainable business model. We need to be searching for a new one that relies upon stasis or equilibrium instead.

Sometimes the competition isn't the biggest threat.

Fighting off the competition and contending with the global financial crisis are quite enough to cope with. But we know that there is a real threat from within and it comes from dissatisfied staff. Some are just lacking motivation but some are much more dangerous - exhibiting presenteeism – and don't think these people are rare. They can be found in almost every business in every role and function throughout the firm.

Envy or jealousy is surprisingly common in the workplace and such people are prime prospects for undermining their colleagues and sabotaging their employers. University of British Columbia research, co-authored by UBC Sauder School of Business Professor Karl Aquino, shows that team members who are connected and engaged are less inclined to workplace sabotage. The study reveals that envious employees are more likely to undermine peers if they feel disconnected from others. Refer back to the Employee Engagement article.

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