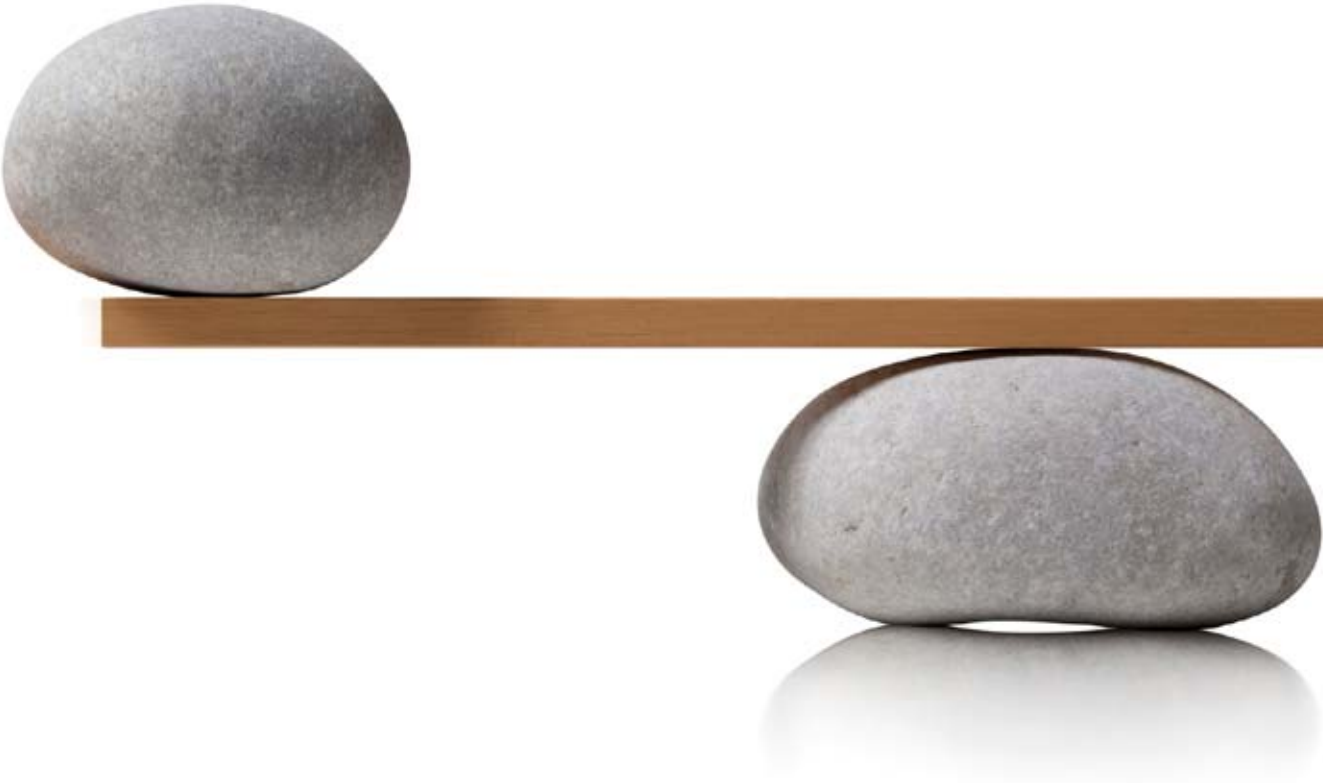


Talent Edge New Zealand
Getting the balance right



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Talent Edge New Zealand Survey

Talent Edge New Zealand is a new survey from Deloitte New Zealand. This inaugural report contains results from a November 2010 online survey of businesses across New Zealand. The survey explored what types of talent shortages are being experienced today, the consequence on business results, the types of employees in short supply, future employment outlook, what people management practices are emphasised, and personal expectations about taking a new job within the next year. We received 360 respondents covering the spectrum of industry segments, and a good mix of small, medium and large employers.

For more information, go to www.deloitte.com/nz/talentsurvey

Key findings

As New Zealand's economy slowly hauls itself out of recession, business leaders now have to address an old problem that has been thankfully absent for the past couple of years. The much promised upswing in economic performance brings with it the bittersweet pill of shortages in key areas of a business's talent pool. Employers now need to turn their minds to new strategies to allay the problem which represents a significant threat to growth prospects.

New Zealand employers report talent shortages are affecting business results today, and shortages are anticipated to intensify as the economy improves. Neither the global financial crisis nor recent economic softness have reduced the pace of globalisation, the ageing of the workforce, or advancing technology – all key influences on talent shortages in New Zealand.

These trends create new economic conditions that call for new talent strategies, but organisations may be relying on old tactics and outdated programmes. Adjusting to this environment with new approaches will be critical to reducing the impact of inevitable talent shortages that will intensify in the next few years of recovery.

To gauge the thinking of New Zealand employers on this critical issue, Deloitte conducted an online survey of businesses in November. That there were 360 respondents, from a range of industries and business size, demonstrates a keen interest in the issue, and the following key observations have emerged in our analysis of the results:

Talents problems are real, not an abstract concept of something that may happen in the future.

This is shown by a majority of employers saying they are experiencing some shortages affecting their business results right now. Yet this doesn't seem to be translating into action. Employers should be doing more to analyse and predict their future talents needs over the next 2-3 years, and what they can do to limit shortages and compete in an increasingly tight talent market.

The outlook is that it's only going to get worse.

Don't delay addressing talent issues, even if they aren't significant right now, because as the economy improves there will be increasing demand for key types of employees. At the same time, these valuable employees will be enticed by better opportunities elsewhere far more than in the past two years.

Employers need to spend more time understanding what their employees really want.

This is something every employer should be devoting time and energy to. Now is the time to reflect on your overall people strategy and make sure it is directly aligned with what your employees value and with your business objectives. Retention and engagement strategies are just as important as recruitment strategies.



Shortages are real and affect business results

Impact of shortages

Our survey results demonstrate that even during this period of continued economic turmoil, an overwhelming majority of New Zealand employers is experiencing shortages of specific types of employees, and this is affecting their business results. A whopping 81% of respondents report at least moderate shortages today that have some impact on business results, and 13% indicate these shortages are significant.

While many casual observers may find this surprising, given the relatively high levels of unemployment, this result is consistent with overseas trends. This figure alone makes it critical employers reapply focus to their people strategy.

While 19% report no current shortages, this perspective varies rather significantly by size of organisation – 30% of small employers (under 50 employees) versus only 11% of large employers (over 500 employees). This indicates small businesses may lag behind their larger counterparts in rebounding from the economic downturn, but competition from larger, better-resourced businesses will soon have an impact.

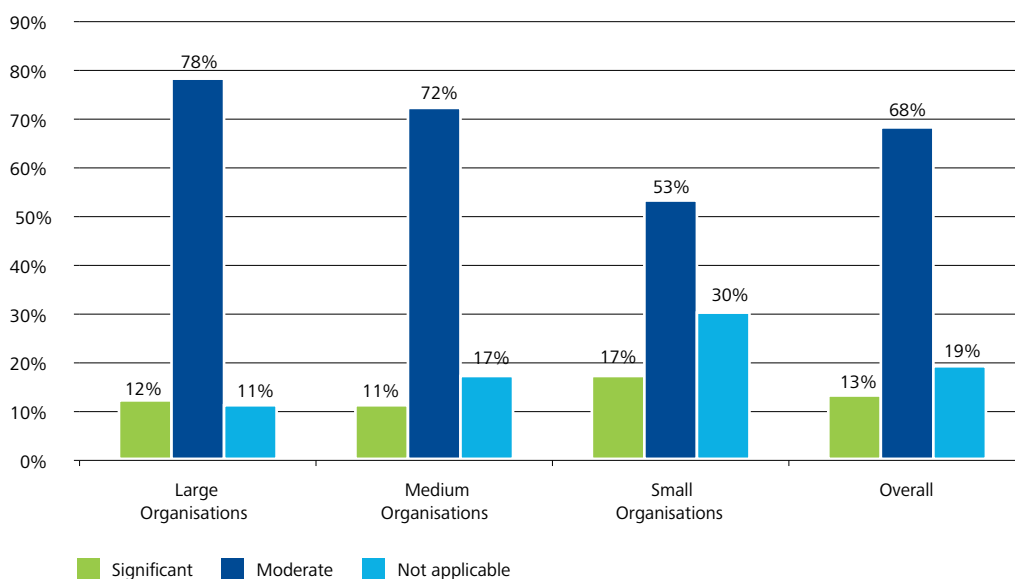
Shortages vary by category of employee and business size

When asked to indicate which types of employees are in short supply, New Zealand employers identified these five categories as the most difficult to find:

- **Managers and Professionals – 32%**
- **Information Technology, especially technical development professionals – 28%**
- **Sales and Marketing, especially sales representatives – 27%**
- **Accounting and Finance, especially Chartered Accountants – 27%**
- **Engineers – 19%**

The pool of well experienced managerial talent is often cited as an impediment to business growth in New Zealand. It doesn't take a rocket scientist to understand the impact this shortage can have on a business and the potential cost in time and reallocation of resource to upskill staff to perform roles beyond their existing capability.

How severe are the talent shortages?





IT specialists are another key area where businesses will look to leverage off technology advances to drive their return to growth. This will be particularly apparent as the continued growth of emerging economies in Asia, while Western countries are stagnating, results in a heightened global demand for IT employees.

Interestingly, only 8% of respondents reported research and development (R&D) staff to be in tight supply. This stands in stark contrast to the results of a global survey recently conducted by Deloitte and Forbes Insights about global talent issues and strategies¹. Respondents to this global survey, all large employers, indicated that R&D staff were the most difficult type of employee to recruit, cited by an overwhelming 72% of survey respondents.

The difference between the global results and our New Zealand findings is in part due to the fact that most of our respondents are small to medium organisations, which may place less explicit emphasis on R&D. As the New Zealand economy aspires to produce higher value-added contributions and improve its global standing, the need for more qualified R&D professionals is likely to attract more focus.

¹Talent Edge 2020: Blueprints for the New Normal, December 2010

Large employers (over 500 employees) and small employers (less than 50 employees) have different perspectives on the types of employees who are in short supply, and the extent of shortages for these specific employee types. Both identify Accounting and Finance, and General Professional employees as among those in tightest supply. However, large employers seem to be feeling the pain more acutely, as evidenced by higher rates of reported shortages. They, more than in the wider economy, are most acutely impacted by shortages in IT talent.

Top shortages reported by large employers are:

- Information Technology – 52%
- Accounting and Finance – 48%
- General Professional – 34%

Conversely, top shortages reported by small employers are:

- General Professional – 28%
- Sales and Marketing – 27%
- Accounting and Finance – 27%

Bigger talent challenges loom ahead

Future outlook

We asked respondents to describe the outlook for changes anticipated in their workforce over the next 2-3 years. In general, the outlook is somewhat bullish: 45% anticipate at least moderate growth, 41% see relative stability ahead, and only 14% anticipate contraction of their workforce. This is surprisingly upbeat given the rather sluggish return to growth that the economy is currently experiencing.

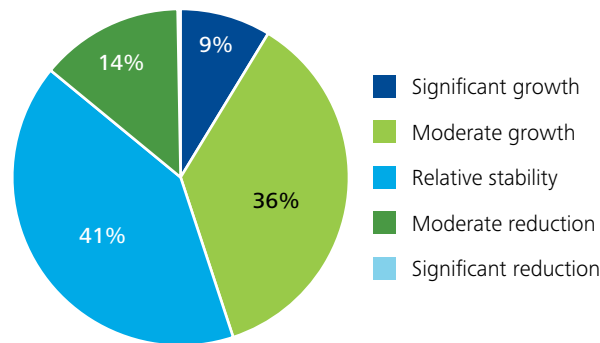
However, these overall results mask rather significant variations by company size, and among specific industry groups. Large employers are less sanguine in their outlook, with a higher percentage anticipating contraction compared to organisations overall, and a smaller percentage anticipating growth.

From an industry perspective, 50% or more of respondents in the following groups anticipate at least moderate growth of their workforce over the next 2-3 years: IT, Professional Services, Construction and Property, Utilities, and Healthcare (see graph next page). The IT industry posted the highest expectations for anticipated growth at 80%. The shortage of IT talent will be exacerbated as this industry grows faster than other sectors, and IT specialists have been identified as the hardest to find and recruit.

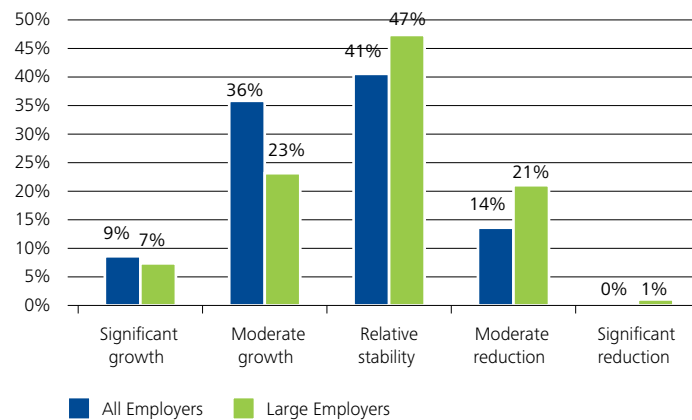
Professional services also predict they will benefit from and drive growth, as they seek to invest in their businesses after a period of “steady as she goes” or even contraction strategies. And the construction and property sector’s long-anticipated return from a dramatic slump should finally be realised.

The one and only industry that had a strong outlook of contraction was the public sector, with 42% predicting contraction and only 13% predicting growth. It is still reeling from the expenditure ceiling imposed by the current Government when it came to power in 2008 and the threat of greater austerity measures if fiscal revenue doesn’t grow in the desired way. Recognising these fiscal realities, it is hard to see this sector turning around to a more positive outlook any time soon.

Anticipated workforce changes: Overall



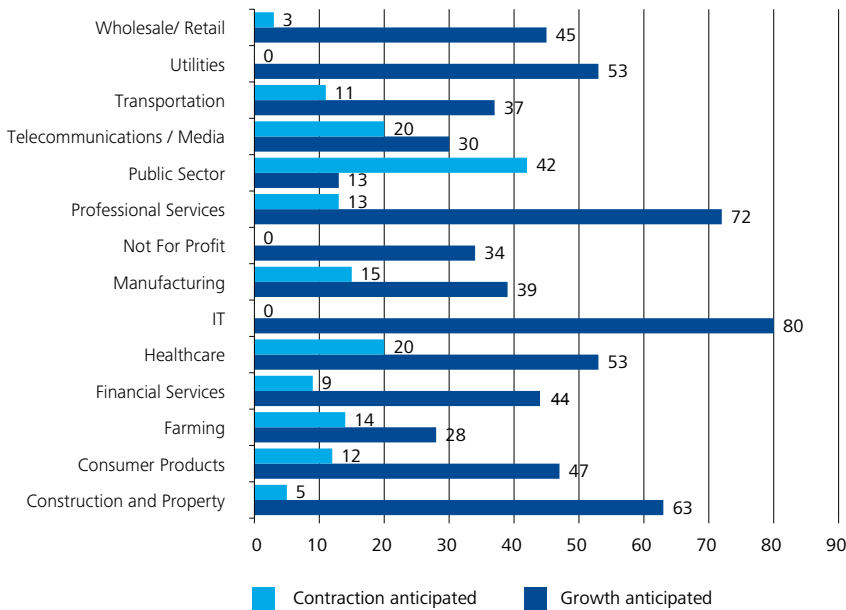
Anticipated workforce changes: All Employers vs. Large Employers



One striking feature of responses to this question was the number of industry groups that were unanimously, or almost, unanimously positive in their outlook. Utilities, IT, and not-for-profits didn’t have a single respondent that anticipated workforce contraction, while only 3% and 5% thought there would be contraction in wholesale/retail and construction and property respectively.

Much has been written about what will happen when the economy strengthens, and some have predicted a “CV tsunami” lies ahead as high-talent employees frustrated by recent salary stagnation, downsizing and belt-tightening start seeking out greener pastures, both here and overseas. We therefore wanted to know the likely rates of voluntary turnover (departures due to resignations or retirements) expected over the next 2-3 years.

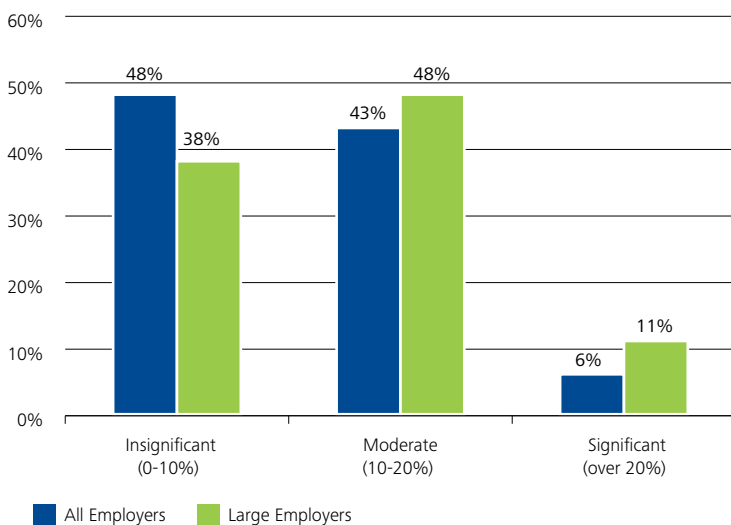
Anticipated workforce changes: Growth/contraction anticipated



Most employers are relatively unconvinced they will face “significant” voluntary turnover rates – 48% expect the level will be insignificant (less than 10%) while only 6% predict significant voluntary turnover (over 20%). Large employers are somewhat more concerned, with 11% predicting significant voluntary turnover.

These results are somewhat surprising and perhaps need to come with a warning. Such relaxed levels of concern around voluntary turnover may indicate employers have not recognised this as a potential problem and are not devoting enough thought to their overall people strategy, which will be necessary as the economy improves.

Anticipated workforce changes: rates of voluntary turnover for All Employers vs. Large Employers



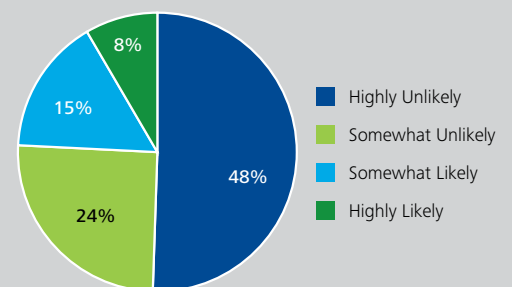
Even execs plan to change jobs

What about our survey respondents: how likely are they to opt for greener pastures or new challenges? We asked the individuals to indicate how likely they are to leave their current employer within the next 12 months.

Our survey results predict departure rates less severe than some other recent studies. Specifically, nearly half of respondents say it is “highly unlikely” they will leave within the next 12 months.

However, nearly one in four indicates at least some likelihood of departure, and this remains true even among respondents who hold CXO positions.

Respondents likely to leave in next 12 months



New conditions require new talent strategies

So how are New Zealand employers faring when it comes to their people strategies – what are they doing to retain, reward and attract talent, and what might they do in the future? Studies have indicated that having an explicit people strategy directly linked to the business strategy is important in driving business results and we see no reason why New Zealand would not follow this global finding².

People management practices

According to survey respondents, the two people management practices that will have most impact on the success of businesses over the next 2-3 years are employee/leadership development (far and away the most commonly cited at 76% of respondents) and employee communications.

Given that managers were cited as the types of employees in shortest supply, it is therefore not surprising that their development features so prominently. By developing leadership talent within a company, employers can develop a leadership pipeline and build succession from within.

Most highly favoured people management practice

People management practices	% Total Respondents
Employee / leadership development	76%
Employee communications	54%
Definition of required competencies	38%
Performance management	32%
Clear employment brand	26%
Rewards and incentives	25%
Succession planning	17%
Workforce planning	14%
Job rotation / secondments	8%
Other engagement strategies	7%

Also of note, however, was that performance management was prioritised by only 32% of all respondents. This is lower than comparable evidence from overseas, and New Zealand is perceived by some to lag behind global standards in terms of performance management practices.

Responses from large employers were slightly different in several regards, with relatively more emphasis placed by large employers on employee/leadership development and on workforce planning, and relatively less emphasis on employee communications.

Regardless of size, more review and consideration should be given to understand whether the focus of leadership development efforts is only on “leaders” at the top of an organisation, or on employees throughout the organisation. The latter approach can be far more resource intensive, but the benefits are manifestly greater than a narrow focus on senior executive leadership, by helping organisations create a robust internal leadership pipeline.

²Deloitte Review, Issue 7, 2010, “People Management Practices and Profitability in Manufacturing”



Rewards practices

The types of incentives and benefits offered to attract and retain the right people are critical to the success of businesses. Professional development opportunities (65%) topped the list of our survey respondents, which is in accordance with many other studies on what employees value most. Flexible working arrangements and performance-based bonuses were next on the list.

Perhaps surprisingly, given recent media and public discussion regarding retirement savings schemes, only 13% of respondents (21% among large employers) provide superannuation contributions greater than KiwiSaver requirements. We would anticipate as the national conversation about retirement savings increases, in keeping with the Government's proposed focus on improving savings and investment in the coming Budget, there will be greater attention by employers to this as a rewards practice.

Recruitment practices

Overwhelmingly, respondents identified online advertisements (81%) as the type of recruitment channel they most rely on, followed by recruitment agencies and print media. This result reflects the numerous advantages of online media over traditional media in this regard and will come as no surprise to newspaper publishers.

We anticipate print media's share will continue to decline, and other forms of online media – particularly social networking sites – will come into play. Surprisingly, near the bottom of the list, only 14% currently indicate reliance on social media such as Facebook and LinkedIn.

Most highly favoured rewards practice

Rewards Practice	% Total Respondents
Professional development opportunities	65%
Flexible working arrangements	64%
Performance based bonus	54%
Health insurance	20%
Car park	18%
Superannuation contributions greater than KiwiSaver requirements	13%
Other, please specify	11%
Wellness benefit	9%
Work from home	9%
Share options	6%
Maternity leave greater than legislated	3%
Childcare	1%
Sign-on bonus	1%

Most commonly used recruitment practice

Recruitment Practices	% Total Respondents
On-line advertisements e.g. Seek, Trademe Jobs	81%
Recruitment agencies	57%
Print media	45%
Head hunters	35%
Alumni, recommendations	33%
Social media e.g. Facebook / LinkedIn	14%
Campus recruitment	11%
Other, please specify	12%

The gold standard

One in five respondents to the recent Deloitte global survey Talent Edge 2020 rate their company's programmes as "world class". Some of the practices that set this group of companies apart include:

- Aligned business and talent goals
- Responding to generational issues and to gender and global diversity
- Searching for critical skills
- Heavier emphasis on training
- Clear employee value proposition
- High quality employee communications
- Developing future leaders

It's time to take stock

In closing, talent shortages represent a real business challenge for employers in New Zealand today – 81% of respondents say they are experiencing shortages that are impacting on their businesses – and many predict the situation is likely to get tighter in the next 2-3 years. Relatively few organisations expect future workforce contraction, and many individuals anticipate moving on to other opportunities.

But it appears that New Zealand employers haven't quite yet adjusted their thinking to this new reality. Given many employers anticipate their workforce will grow, the question is where will these new employees come from given the limited pool of resources? It seems a little naive to think that turnover of employees will remain relatively low, when demand to fuel the growth of the workforce is high, culminating in competition for resources and favourable incentives to potential employees to jump ship. Employers who start to review their people strategies now and analyse how well their current practices are working will have a head start on their competitors.

More significantly, those who follow best international practice and ensure their talent programmes are aligned with their business goals will be the most successful. We are concerned there is a trend for organisations to rely on the old tactics, strategies and programmes to recruit and retain employees, and they haven't updated them for the new economic realities that prevail.

It's time to carefully review the talent needed for business success as we move forward, understand what employees really value and how to reach them, and update talent strategies and people management practices. New economic circumstances represent a "new normal", and this requires new talent strategies.

The question remains open as to whether or not a CV tsunami lies ahead or perhaps when it will hit. One fact remains certain regardless: if businesses are not prepared in advance, they will be in for a rude surprise.



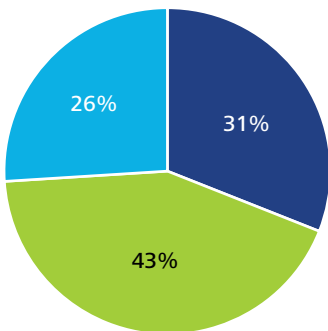
Survey demographics

Of the 360 respondents, more than half were individuals in the Public Sector, Manufacturing, Financial Services, or Professional Services industry segments.

Survey respondents were also well balanced by organisation size.

Respondents represent senior perspectives in terms of organisational role, with 73% of respondents report being in the CXO suite (CEO, CIO, CFO, or CHRO). The survey data should represent a well balanced business perspective, not dominated by the HR functional view, as only 6% of respondents report being in an HR role.

Respondents' organisation size



- Less than 50 employees
- 51-500 employees
- Over 500 employees

Respondents' industry

Industry	% Total Respondents
Construction and Property	5%
Consumer Products	5%
Farming	2%
Financial Services	13%
Healthcare	4%
IT	7%
Manufacturing	13%
Not For Profit	4%
Professional Services	11%
Public Sector	15%
Telecommunications / Media	3%
Transportation	5%
Utilities	5%
Wholesale/ Retail	9%



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