

SARA Conference 2008

Master Class

Optimising the impact of employees on business performance

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Current Leadership, Reward, Performance and Career Management Practice in South Africa

Top 10 Challenges Facing HR Practitioners in South Africa in 2008

| | |
|----|--|
| 1 | Retention of critical staff |
| 2 | Finding skilled staff |
| 3 | Length of time it takes to fill vacancies |
| 4 | Succession Planning |
| 5 | Meeting the growth expectations of individual employees |
| 6 | Availability of appropriate HR metrics to the HR function and/or availability of applicable HR metrics to Line |
| 7 | Employment Equity and BEE compliance/advancement |
| 8 | Performance Management and Recognition |
| 9 | Managing organisational culture and employee engagement |
| 10 | Need for advanced HR Information Systems and/or the implementation thereof |

Source: Dr Albert Wocke; Gordon Institute of Business Science; University of Pretoria

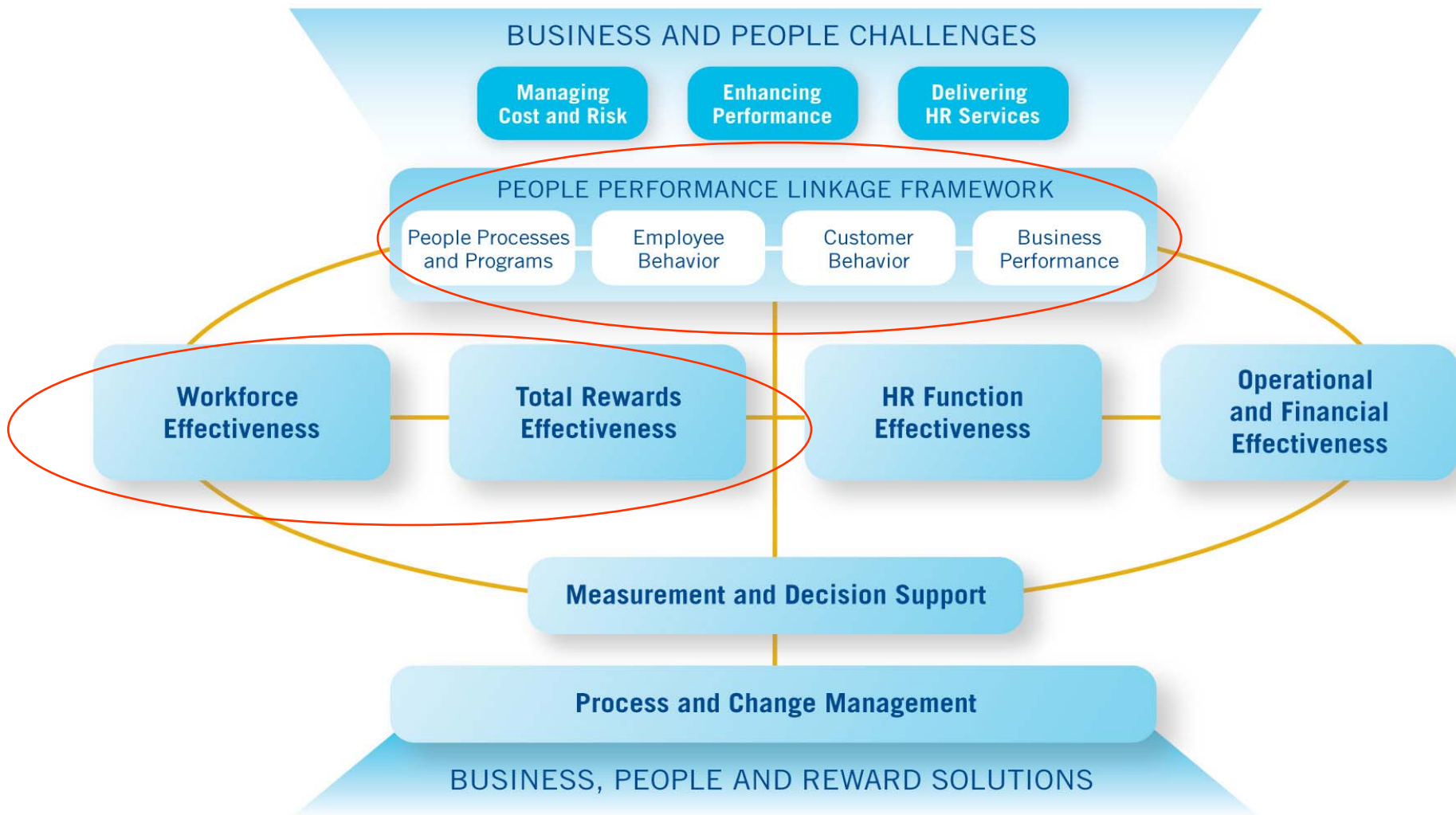
Agenda

- Setting the Context
- Performance and Workforce Management
- Reward Systems / Strategies
- Culture
- Job Design
- Measuring Success and Impact of Interventions
- Conclusion and Q&A

A number of international and local case studies will be used to bring the material alive

The South African case study will be presented by Dean Strooh, Head: Human Capital, MTN

Setting the Context: HR Framework



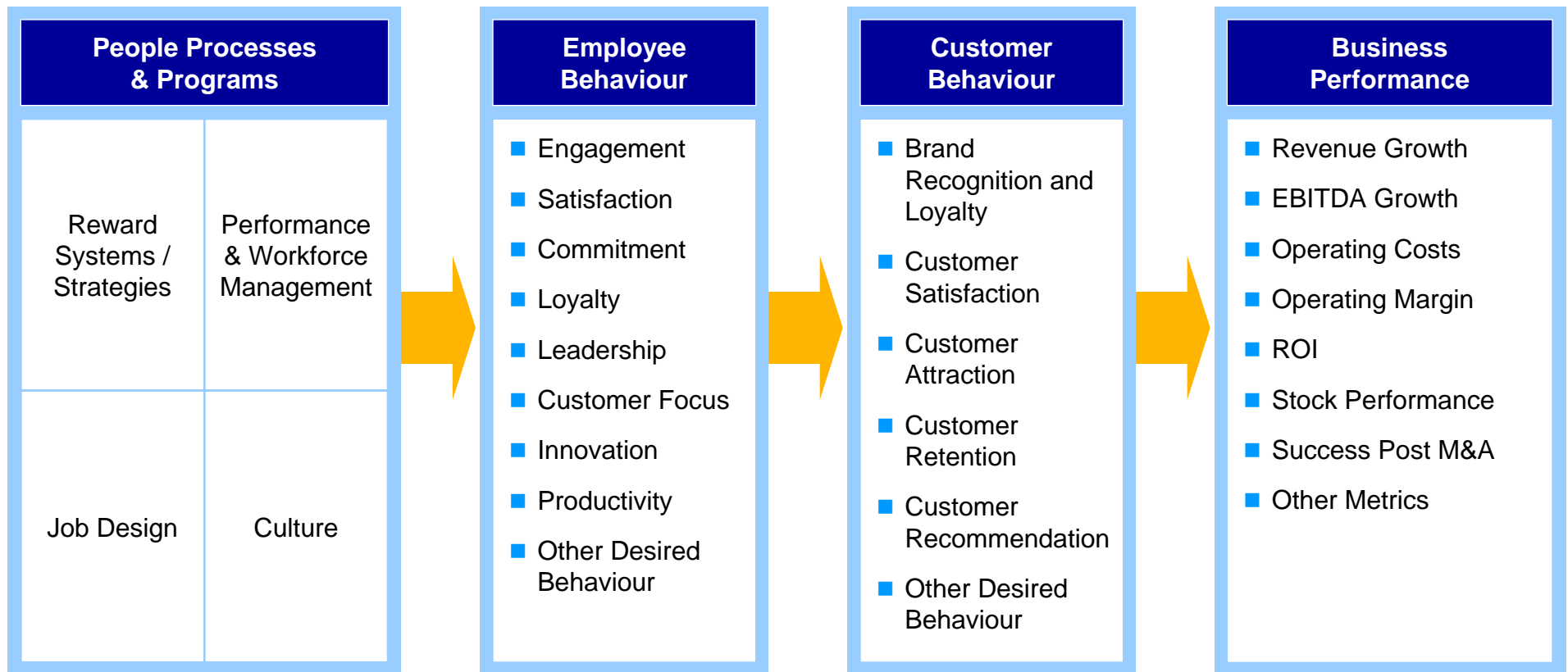
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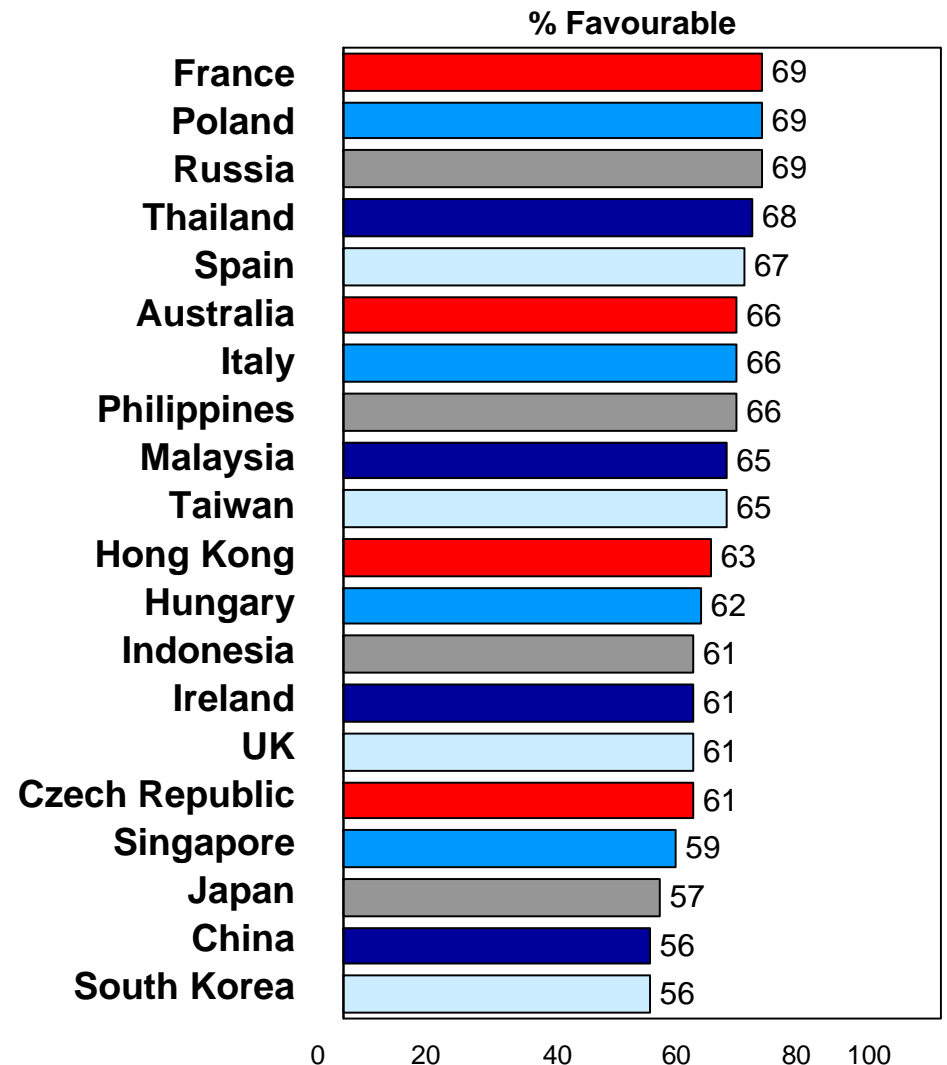
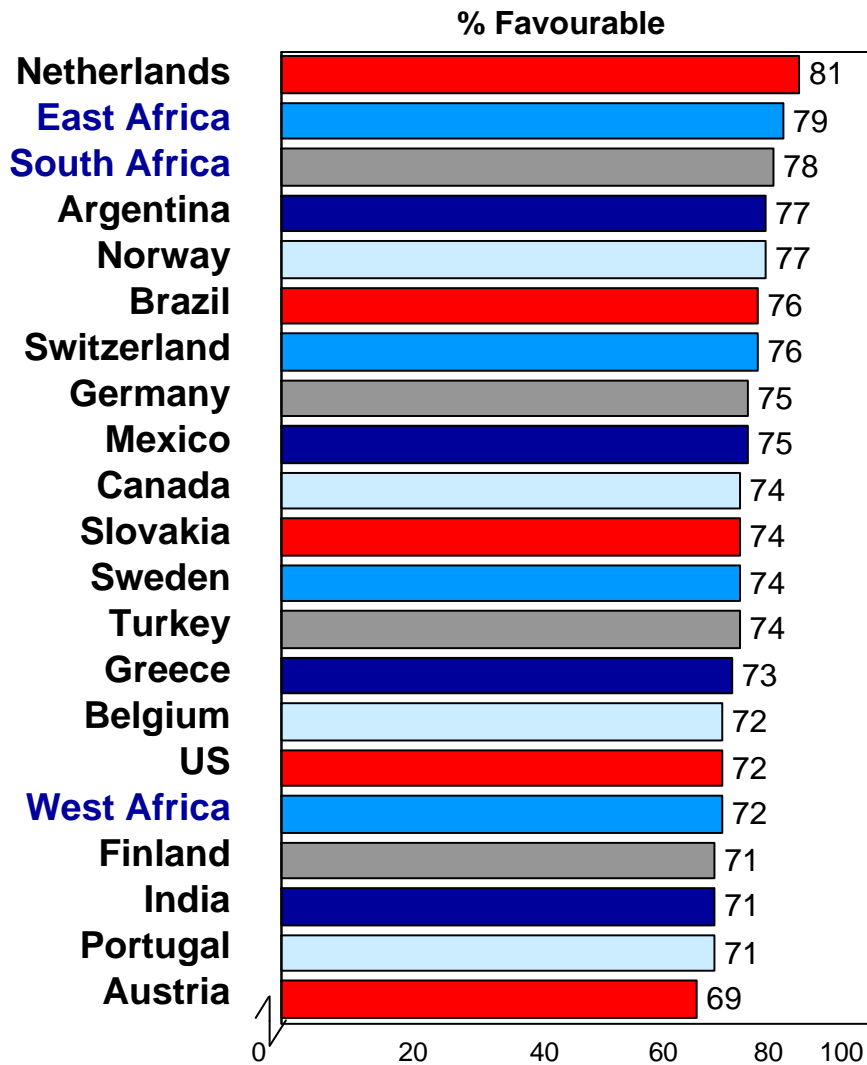
Setting the Context: People Performance Linkage Framework



Towers Perrin: Research Data

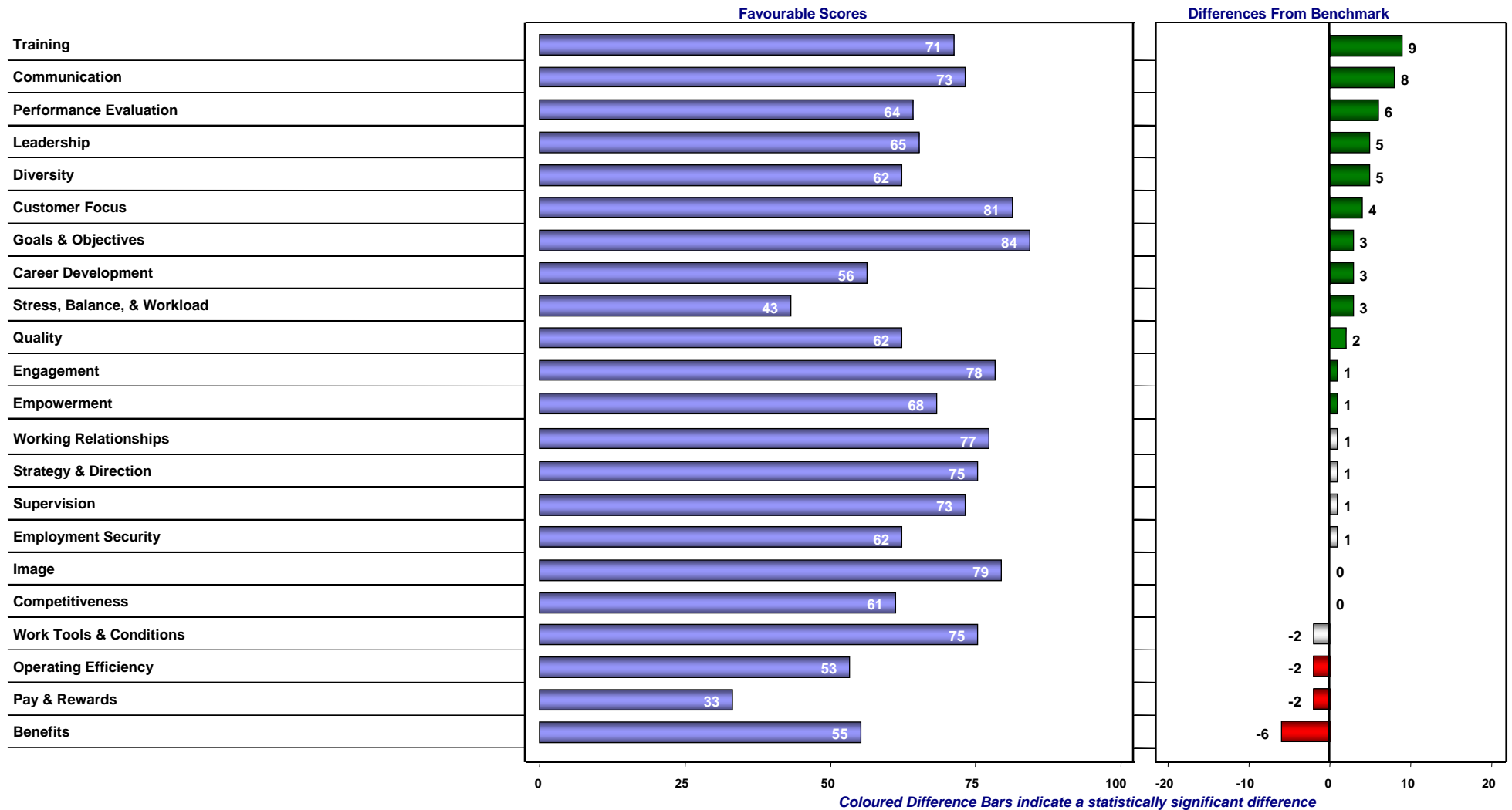
- 2007 Global Workforce Study: Largest polling study on the views of the global workforce
 - 90,000 individual responses
 - 18 countries in every region
 - Focussed on the drivers of attraction, retention and engagement through the eyes of workers at mid- to large-sized companies
- Towers Perrin-ISR Normative Data: Most extensive normative database of employee attitudes and opinions in the world based on 2,000,000 annual responses

Employee Opinion Across the Globe: Some Typical National Differences



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Towers Perrin-ISR South Africa National Norm: Historical Trends since 2005



SA National Norm N=38,582

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Performance & Workforce Management



Business leaders are seeking growth in a challenging and dynamic global environment

- **Demographic shifts** — An aging population in developed countries depleting the workforce while a far younger population in the developing nations forms a new source of cost-effective labour
- **Globalisation** — A “flatter world” opening new markets, introducing new competitors, facilitating the free flow of knowledge and enabling a wide variety of work to be off-shored
- **New technologies** — Continuously redefining how, where and by whom work is performed, changing the required skills and deployment of many workers
- **People-dependent business strategies** — In leadership, innovation, collaboration, process excellence, customer service and compliance
- **Evolving social attitudes and individual expectations about work** — Creating a need to continually refresh insights about what drives workforce attraction, retention and engagement — and what differentiates the employment value proposition

What are the key talent questions that business leaders are addressing?

- How will I ensure that we have the right number of people with the right skills in the right place at the right time to deliver on our business plan?
- What are the characteristics of a successful leader in the next decade – and how do we build a robust pipeline of next generation talent?
- What value proposition do we need to deliver to attract, retain and engage the very best talent – how does it differ by segment and how might it change over time?
- How can we create a high performance culture by aligning individual and team performance with the drivers of financial value for the business?
- How can I align our rewards programs to ensure that we're optimising our total people spend to meet both business and employee needs?
- What capabilities do we need in our HR function to meet our workforce effectiveness needs, and how is the function currently aligned to deliver?
- How do we create a shared leadership mindset around our workforce agenda and embed "Talentship" into our culture?

How do these questions relate to your company?

Evidence is increasingly the key business differentiator

**“In God we trust.
All others bring data.”**

(Gary Berecha, former CEO Sara Lee Bakeries)

“Organisations are competing on analytics...not just because they ‘can’ but also because they ‘should.’ Business processes are among the last remaining points of differentiation.”

(Thomas O. Davenport, HBR January, 2006)

“40 percent of nearly 33,000 employers in 23 countries across the world were struggling to find qualified job candidates.”

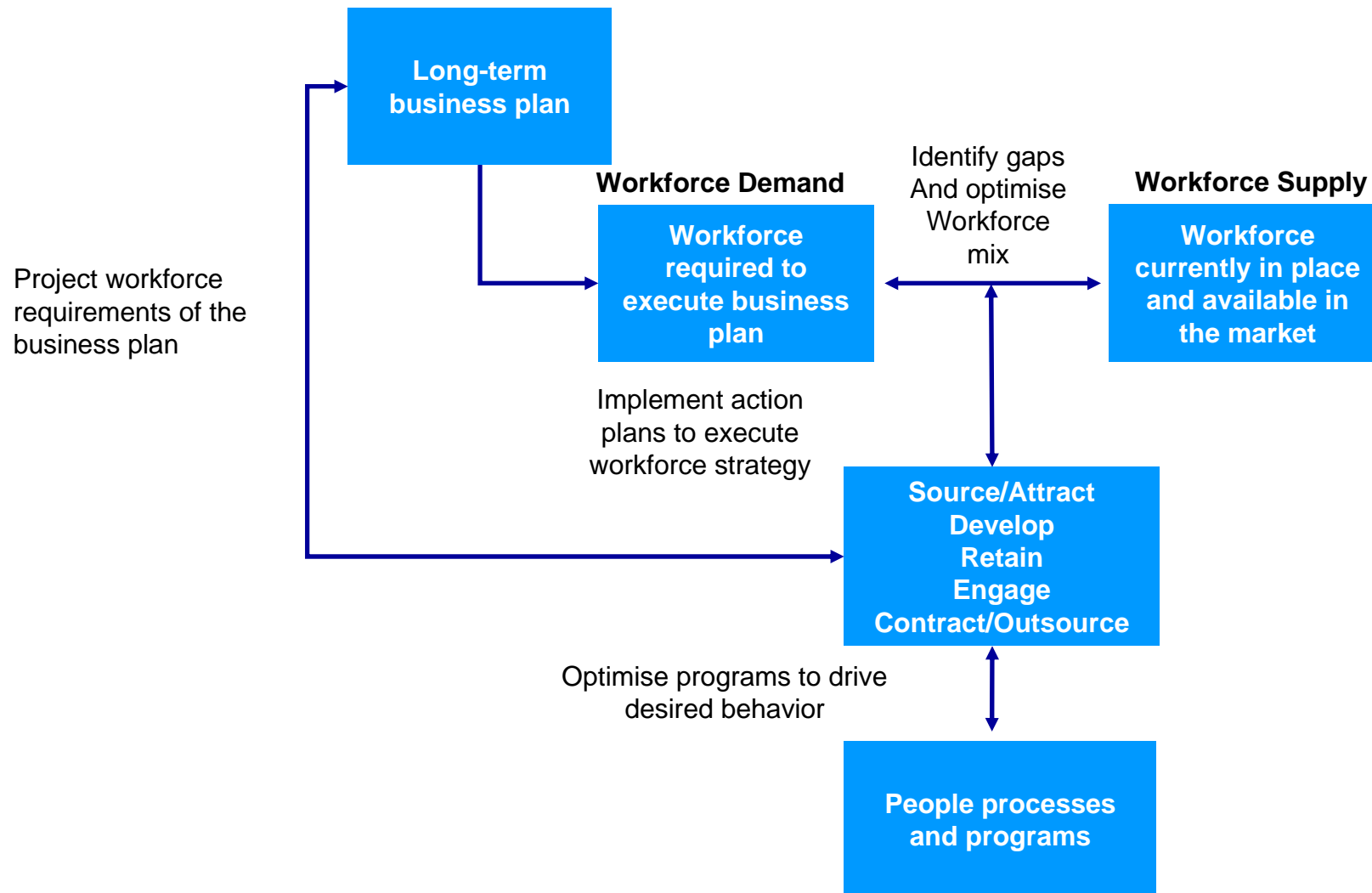
(Manpower's CEO and Chairman Jeffrey Joerres February, 2006 statement)

The Talent Agenda

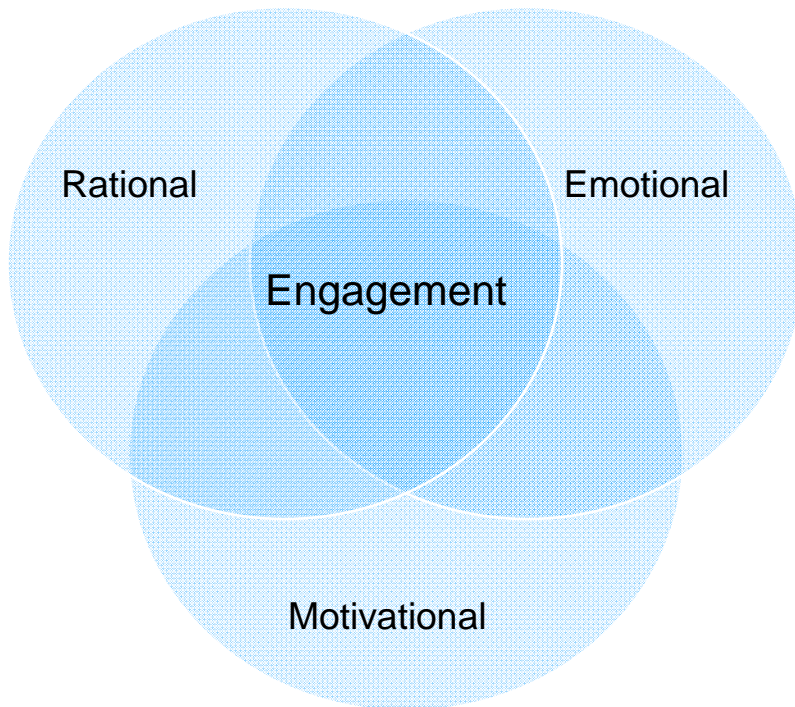
Understand the future talent pool

Engage today's talent

Overview of the strategic resource planning process



What is Employee Engagement?



To be fully engaged, employees must have:

- Rational understanding of the organisation's strategic goals, values, and how employees fit (Think)
- Emotional attachment to the organisation (Feel)
- Motivation and willingness to invest discretionary effort to go above and beyond (Act)

Rational items

- I believe strongly in the goals and objectives of this company
- I fully support the values for which this company stands
- I understand how I can help my company achieve its goals

Emotional items

- I would recommend my organisation to a friend as a good place to work
- I am proud to tell others I work for my organisation
- My organisation inspires me to do my best work

Motivational items

- I am willing to put in a great deal of effort beyond what is normally expected to help my organisation succeed
- I am personally motivated to help my organisation be successful
- I fully apply my skills and abilities in my work

Does engagement matter? Senior executive views

"I have this view that most employees are capable of a huge amount more than they are allowed to do by the system. It's a bit like stored energy... but how do you constructively release that energy?"

Sir David Barnes, AstraZeneca

(former CEO)

"In my business with 140,000 people engagement is my No. 1 concern. In businesses of scale you don't even get started without engagement."

Justin King, Sainsbury's

"You sort of smell it don't you.....that engagement of people as people. What goes on in meetings, how people talk to each other. You get the sense of energy, engagement, commitment, belief in what the organisation stands for."

Lord Currie, Ofcom, Cass

"Sales tend to grow better in a store where the motivation and morale are high, the absenteeism tends to be lower and therefore the mechanistic jobs are being done more efficiently."

Richard Baker, Alliance Boots

"Unless you have got people aligned, you haven't got a hope in hell."

Peter Erskine, MM02

"Some factories are buzzing with a real kind of entrepreneurial passion. They want to do it leaner, faster, more efficiently with higher quality, with less failure. In other factories you go into they don't seem to give a damn and consequently knock out rubbish."

David Spencer, Smiths Industries NSG

Source: "Going The Extra Mile" David Macleod and Chris Brady

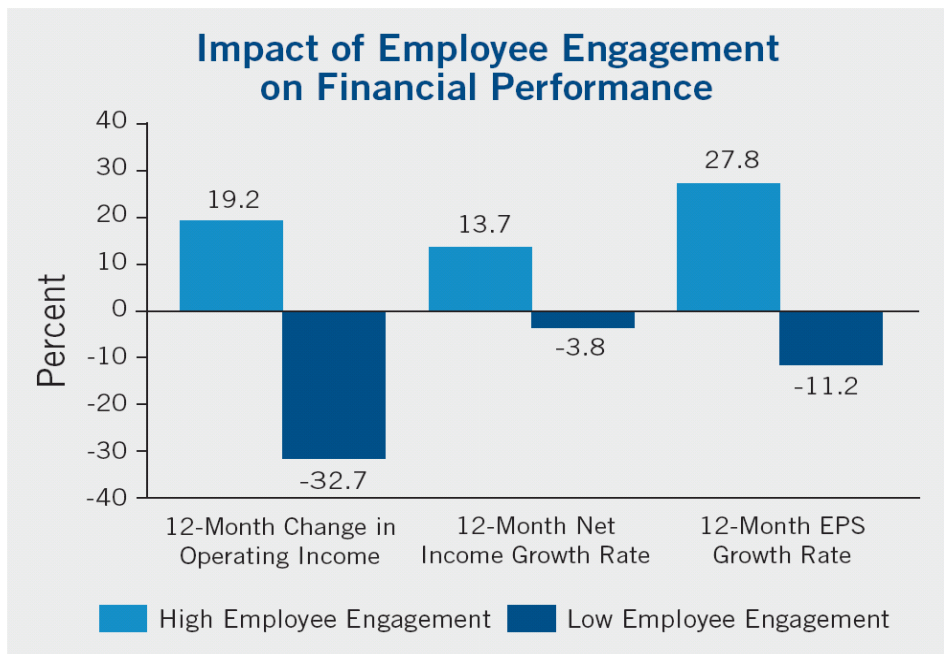
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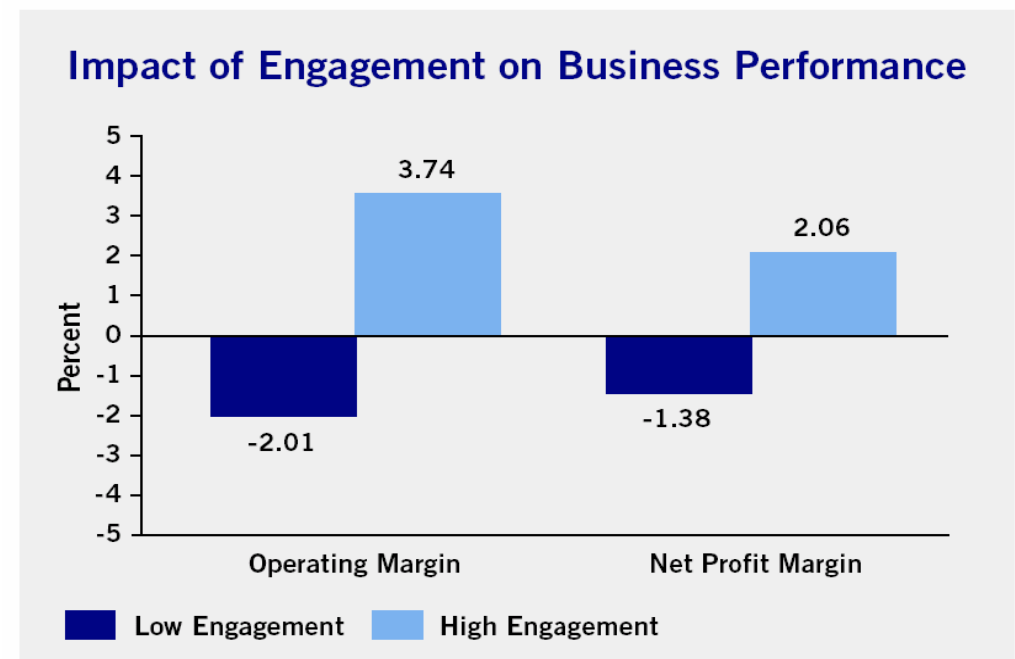
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Employee engagement has an immediate impact on business performance

Towers Perrin-ISR's engagement measure is highly predictive of performance and is noted as being the foundation of many other frameworks in the industry.



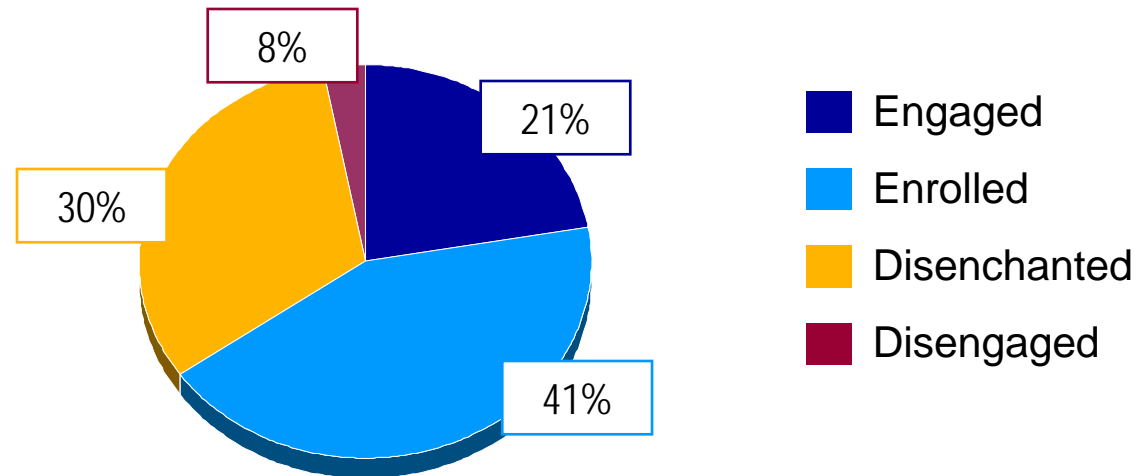
A 12-month study across 50 global companies



A 3-year study across 40 global companies

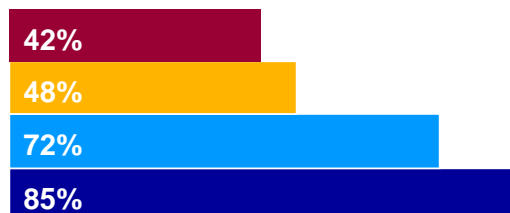
Current employee engagement levels

Global

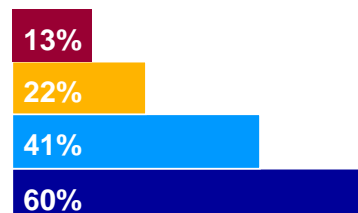


There are enormous gaps between the impact the engaged vs the disengaged can have on the business...

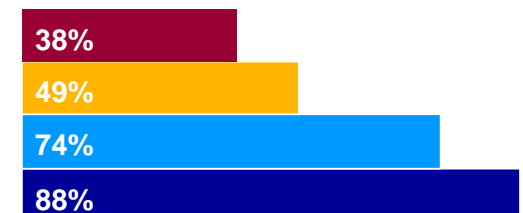
I can impact customer satisfaction



I can impact innovation



I can impact quality



Source: Towers Perrin 2007-08 Global Workforce Study — Global

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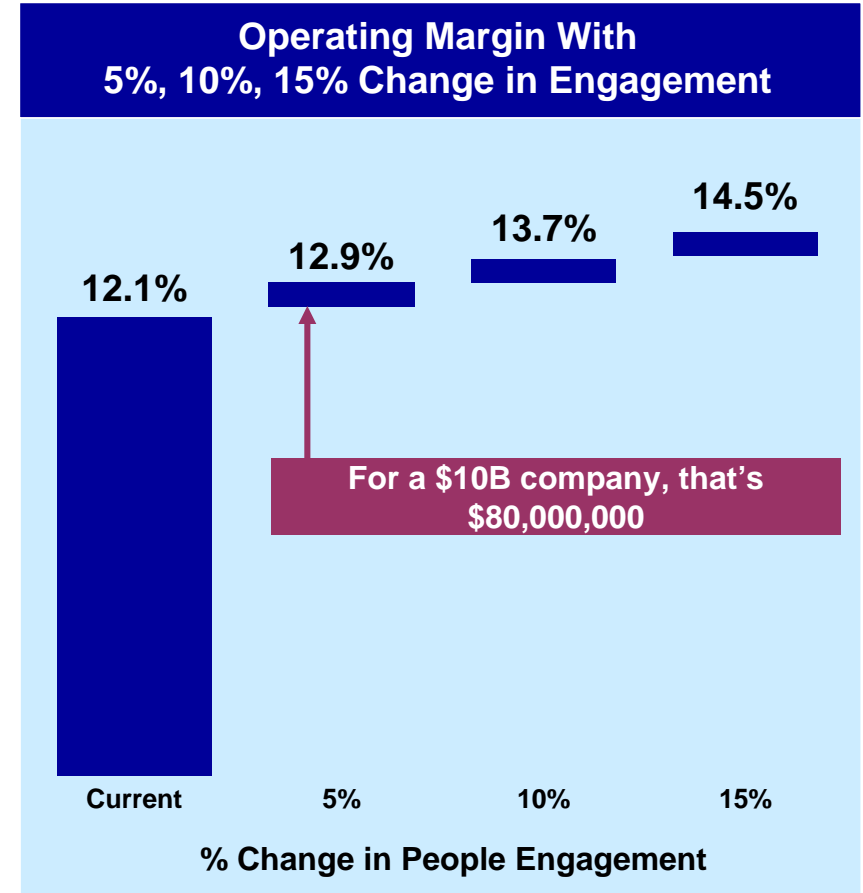
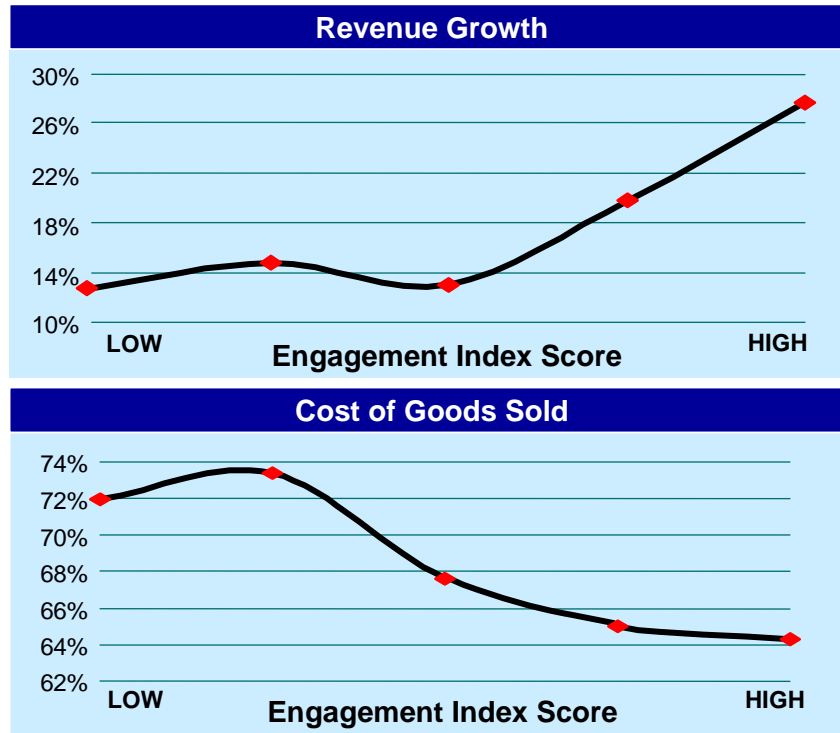
We know what typically drives engagement at each stage of the employment life cycle

| Top Attraction Drivers | Top Retention Drivers | Top Engagement Drivers |
|---|---|---|
| Competitive base pay | Organisation's reputation as a great place to work | Senior management sincerely interested in employee well-being |
| Career advancement opportunities | Satisfaction with the organisation's people decisions | Improved my skills and capabilities over the last year |
| Challenging work | Good relationship with supervisor | Organisation's reputation for social responsibility |
| Convenient work location | Understand potential career track within organisation | Input into decision making in my department |
| Flexible schedule | Ability to balance my work/personal life | Organisation quickly resolves customer concerns |
| Learning and development opportunities | Fairly compensated compared to others doing similar work in my organisation | Set high personal standards |
| Vacation/paid time off | Work in environment where new ideas are encouraged | Have excellent career advancement opportunities |
| Reputation of the organisation as a good employer | Competitive training | Enjoy challenging work assignments that broaden skills |
| Reasonable workload | Input into decision making in my department | Good relationship with supervisor |
| Organisation's financial health | Organisation's reputation for social responsibility | Organisation encourages innovative thinking |

Source: *Towers Perrin 2007 Workforce Study* — Global.

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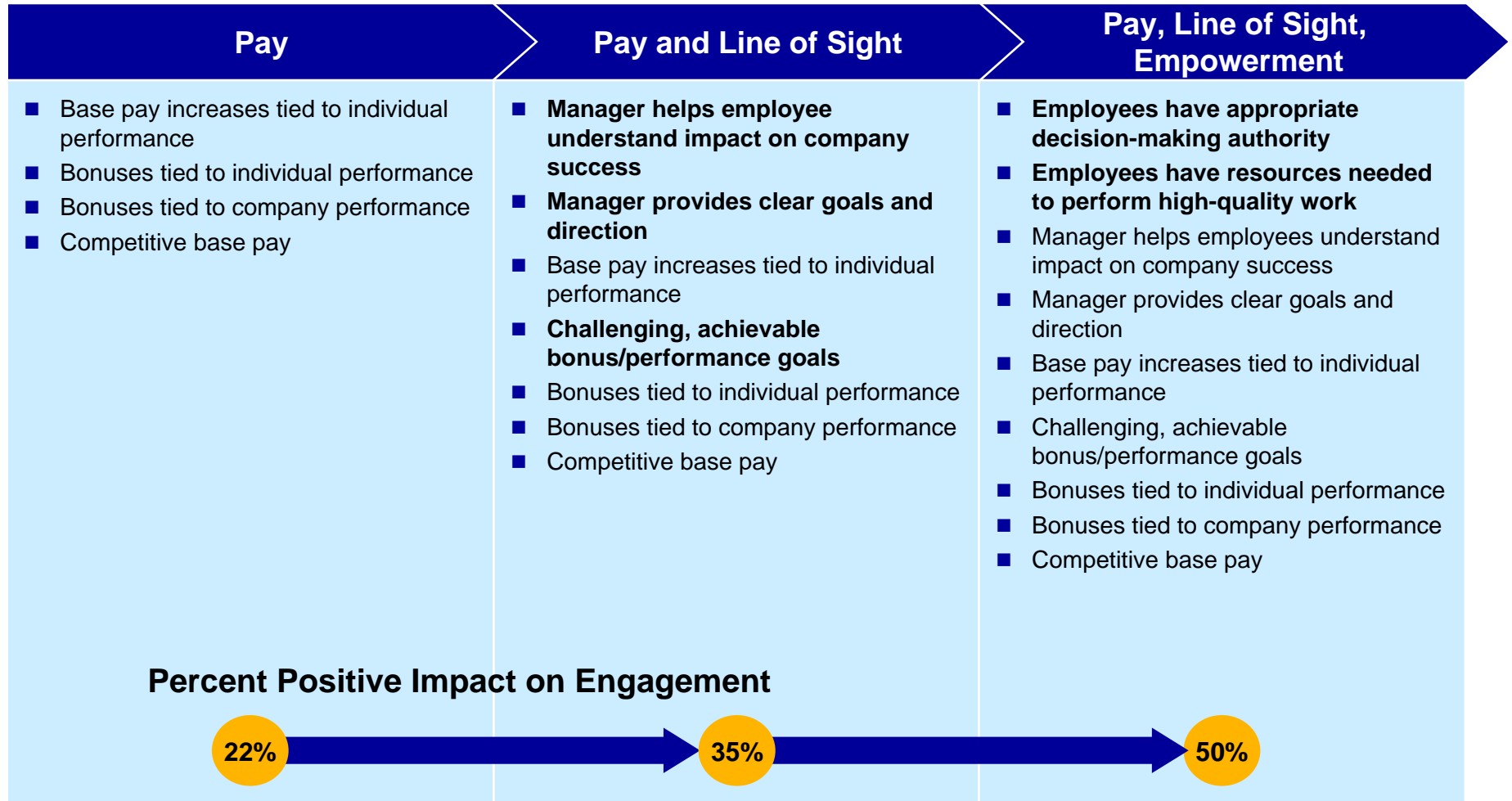
Build the engagement business case



Source: Towers Perrin 2003 Talent Report: New Realities in Today's Workforce.

High-performing organisations focus on performance management because they know that it affects employee engagement and behaviour...

- They design and manage performance management and rewards as an integrated system.



Case Study

Large Global Financial Services Institution

Reward Systems/Strategies



Emerging reward strategies for talent management

- **Differentiated** approaches for performance
- **Customised** rewards for business critical skill areas
- **Engaging** reward programmes for the talent pool

Differentiated approaches for performance

- High performing companies more likely to differentiate
- Employees recognise, accept and need to see differentiation
- Helps to manage scarce resources
- Sends a powerful message about performance

What do we mean by differentiation and business critical?

Differentiation is . . .

- Offering different Total Rewards on the basis of **objective criteria**
- A process that needs to be based on an **analytical understanding** of employees
- A **defensible** way of providing different levels of Total Rewards

Differentiation is not . . .

- Discrimination
- Just about pay and incentives
- Ad hoc, one-off individual adjustments (usually in response to an immediate crisis)

By business critical we mean that which most **significantly** contributes to business success and the **achievement of strategy**

It can be Business Critical . . .

- **Work**
- **Roles**
- **Individuals and their performance**

Why differentiate rewards?

- Isn't it much easier to do the same thing for everyone?
- Aren't there a lot of risks of differentiation?
 - Real or perceived inequalities
 - Administrative burden
 - Unclear ROI
 - May lead to increased costs
 - Decreased alignment between reward costs and business results
- The short answer is yes, if differentiation is not done correctly
- But, if it is done well, **differentiating rewards can lead to a significant ROI for your reward programmes**, as the cases we will share with you today demonstrate.

What are the benefits of differentiated rewards?

- Better **line of sight** between the value contributed and the reward offered
- More **effective spending** of limited reward monies
- Similar to benefits of customer segmentation
 - Segment defined as a group with a **unique** need or interest
 - **Customers**: able to capture a larger market share by providing unique offering meeting those needs (rather than one size fits all)
 - **Employees**: able to capture a larger mindshare and drive higher engagement levels by meeting unique needs

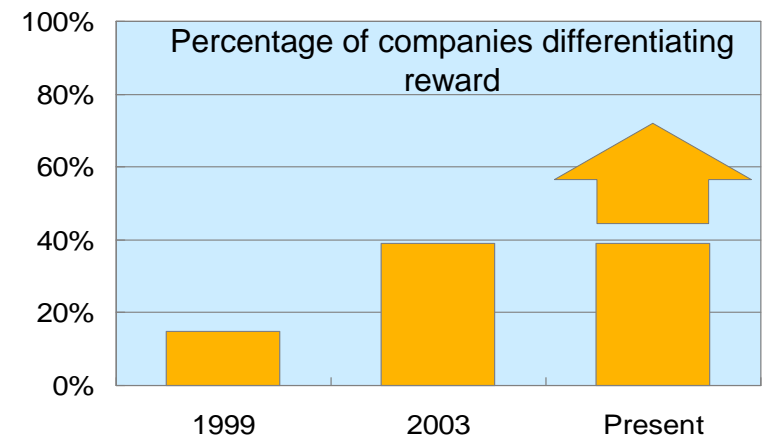
It's not just about pay...

As we have said, **pay** is not the only reward item to be differentiated:

- Smart companies differentiate many aspects of **Total Rewards**
- Indeed many companies differentiate aspects of Reward **unknowingly** and in an ad hoc way
 - Seems to be an **accepted and non-controversial** form of differentiation
 - There seems to be little controversy about differentiating access to training, car programmes, flexible working and the like
- Pay differentiation, however, remains an HR hot potato – but may be where the **greatest opportunities** lie
 - When done well it can
 - Divert spending towards **results areas**
 - Send out **clear messages** about line of sight
 - Respond to the very **differing needs of different roles** – and don't necessarily add complexity

High performing organisations understand the benefit of differentiating consistently

- Differentiation is critical because it:
 - Increases motivation
 - Improves retention of key staff
 - Supports efficient management of reward
- There is a marked trend towards higher degrees of differentiation in terms of performance and reward
 - % who differentiate rewards significantly increased from 15% (1999) to 39% (2003) and continues to rise
- This is confirmed by evidence from Towers Perrin and others




And they leverage the total rewards system to differentiate relative contribution for talent

Actual Performance: Individual, Team or Company

Client Example

Could include competencies, achievement of individual objectives, team or company goals

| | | Below Threshold | Threshold | Target | Maximum | Above Maximum |
|--|--|--|-----------|--|---------|---|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Relative ranking in talent pool</p> <p>High</p>  <p>Low</p> | | <ul style="list-style-type: none"> Average merit No incentive Eligible for equity Normal training | | <ul style="list-style-type: none"> ~1-1.5x average merit Target incentive 1-1.5x target equity High-performer training Consideration for development assignments | | <ul style="list-style-type: none"> ~2x average merit ~3x target incentive ~3x target equity High-performer training Targeted for development assignments |
| | | <ul style="list-style-type: none"> No merit No incentive No equity Normal training | | <ul style="list-style-type: none"> Average merit Target incentive Target equity Normal training | | <ul style="list-style-type: none"> ~1.5-2x average merit ~2.5x target incentive ~3x target equity High-performer training Consideration for development assignments |
| | | <ul style="list-style-type: none"> No merit No incentive No equity No training Immediate performance plan | | <ul style="list-style-type: none"> Below average merit Target incentive Below target equity Normal training Eligible for development assignments | | <ul style="list-style-type: none"> ~1-1.5x average merit ~2x target incentive ~2x target equity Normal training Eligible for development assignments |

Customised rewards for business critical functions

- Identification of business critical functions
- Application of specific reward programs
 - Pay and bonus
 - Development
 - Working environment

Common starting points

Do you already have a large number of plans?

- Think there may be too many plans?
 - Want to reduce the number of plans?
 - Looking to increase their impact?
 - Need to increase the efficiency of administering?
-

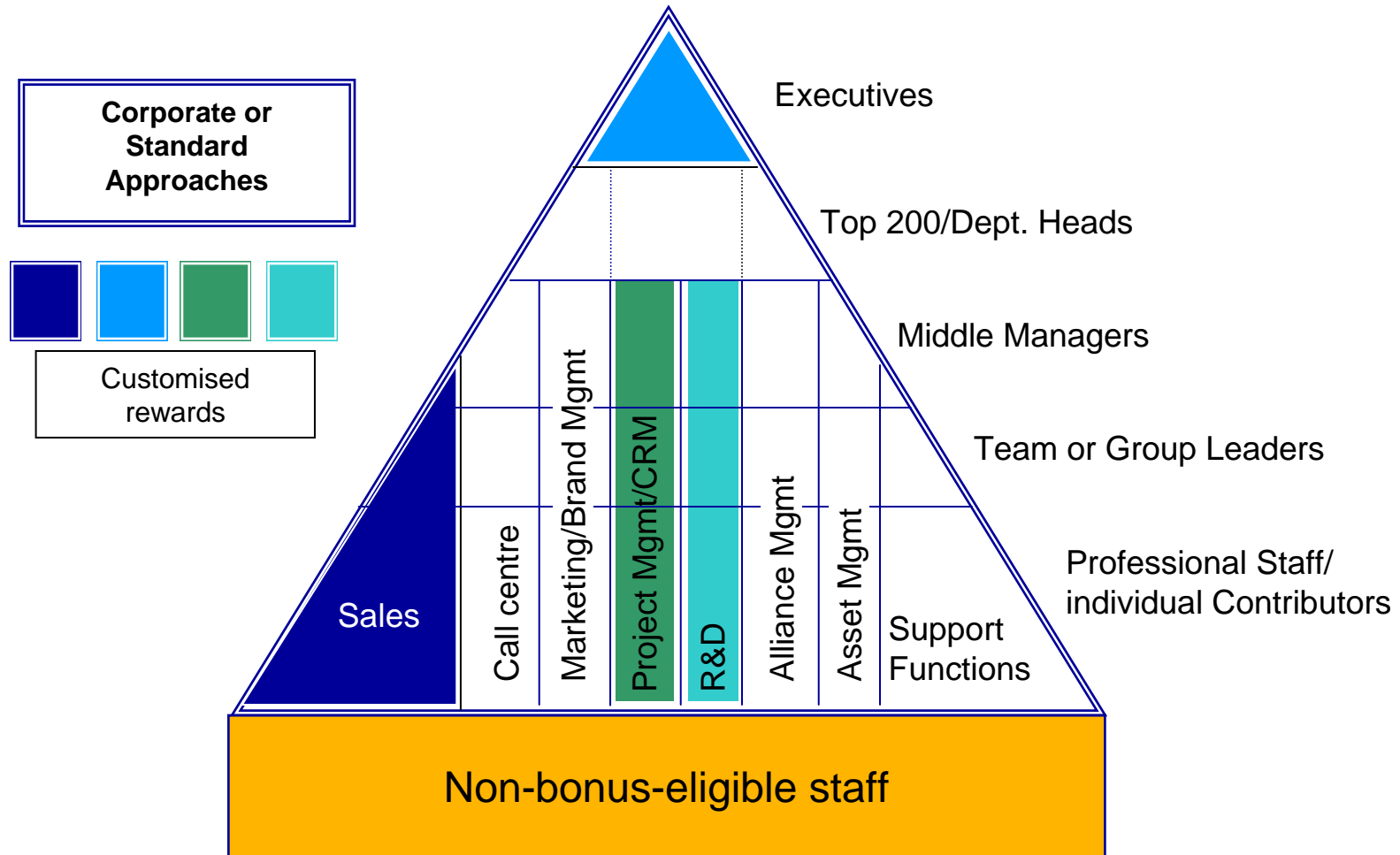
Are you having “plan wars?”

- Have you already established some functional plans?
 - Are other areas clamouring for more?
 - Do you wonder how to say no?
 - Want to support more effective designs?
-

Do your programmes lack meaningful differentiation?

- Do you mostly have a one-size-fits-all employee bonus scheme?
- Are you thinking there might be value in creating more differentiation?

Identifying business critical functions and developing customised rewards



When is it time to think about customisation?

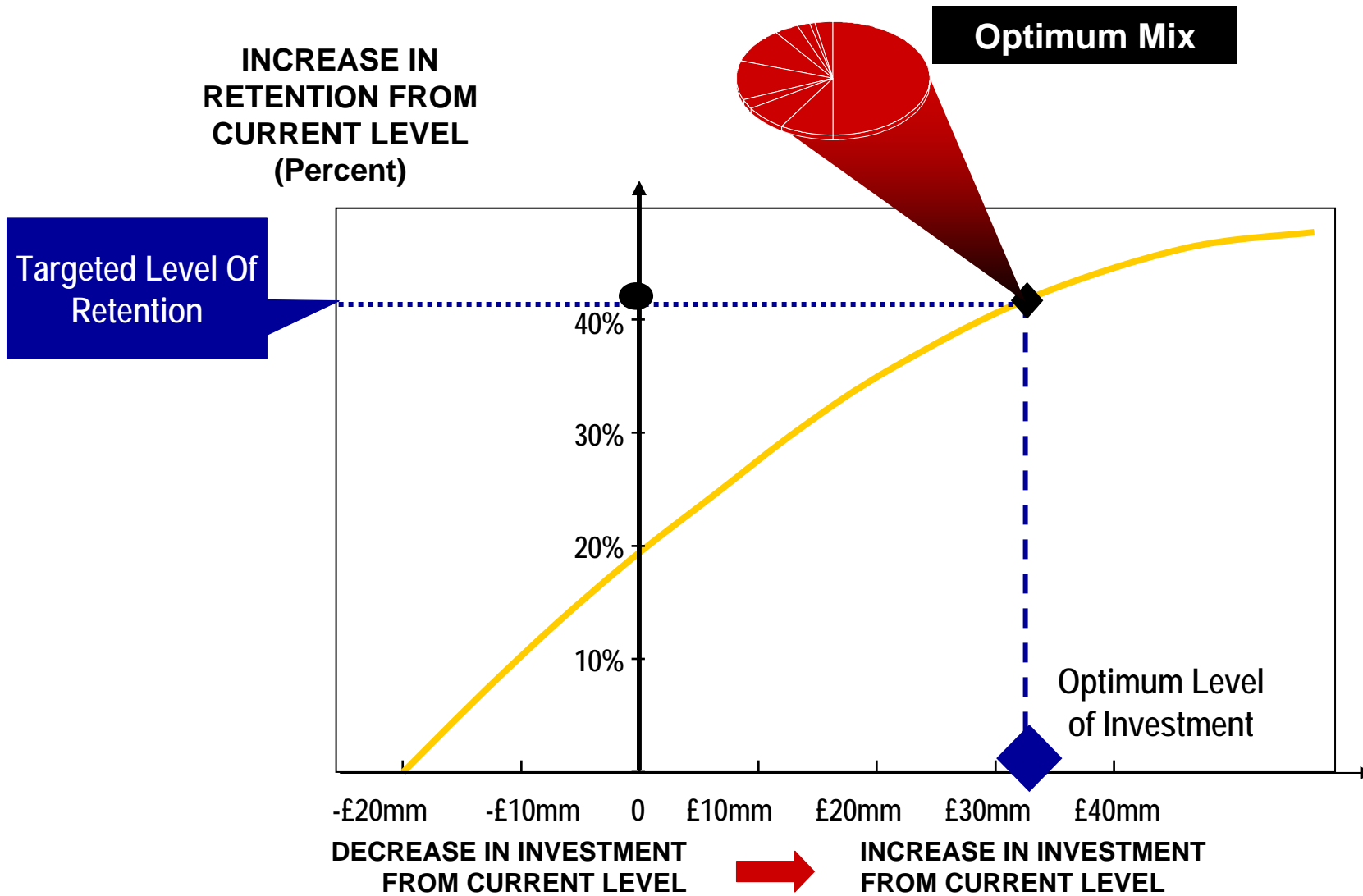
When the answer is “yes” to any of these questions for your talent pool:

- Are you having trouble attracting, retaining and motivating these employees?
- Do you have a lack of clarity around “owns” reward for your top talent?
- Do you find that the corporate standards constrain the way you reward top talent?
- Are you struggling with a one size fits all approach to reward?
- Are there conflicts over rewards between different groups?
- Do your managers complain that the reward package isn't helpful?
- Are managers creating special “deals” to hire or retain key talent?
- Do your worst performers make the same as your best performers?

Distinct reward programmes for the talent pool

- Segmenting the workforce
- Identifying key aspects of engagement for talent pool
- Optimising spend on skill areas that have most impact on business performance

TRO identifies the point of diminishing return on your total reward investment

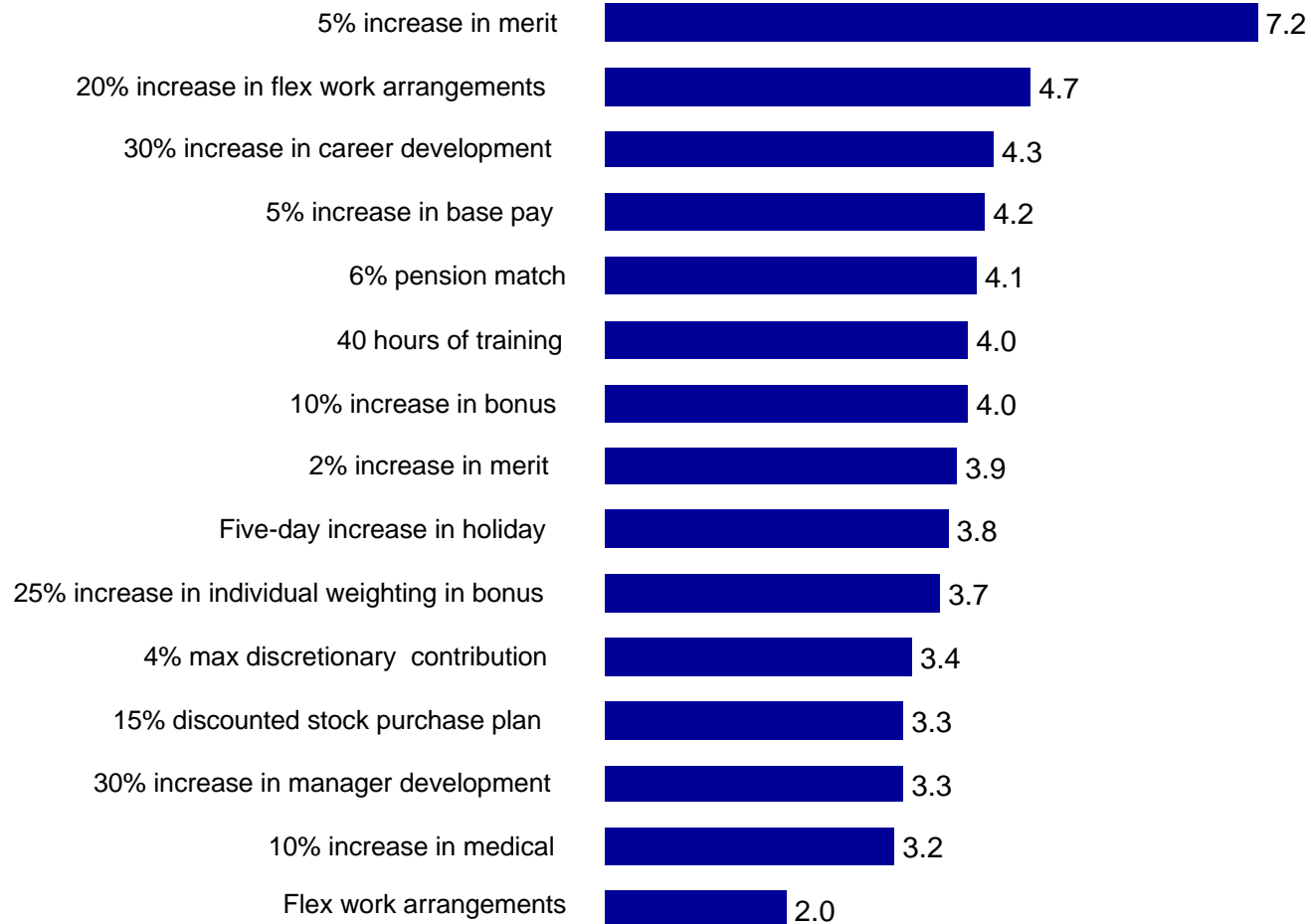


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Optimising the rewards programme for your talent pool can deliver significant ROI

Client Example

Improvements in Engagement



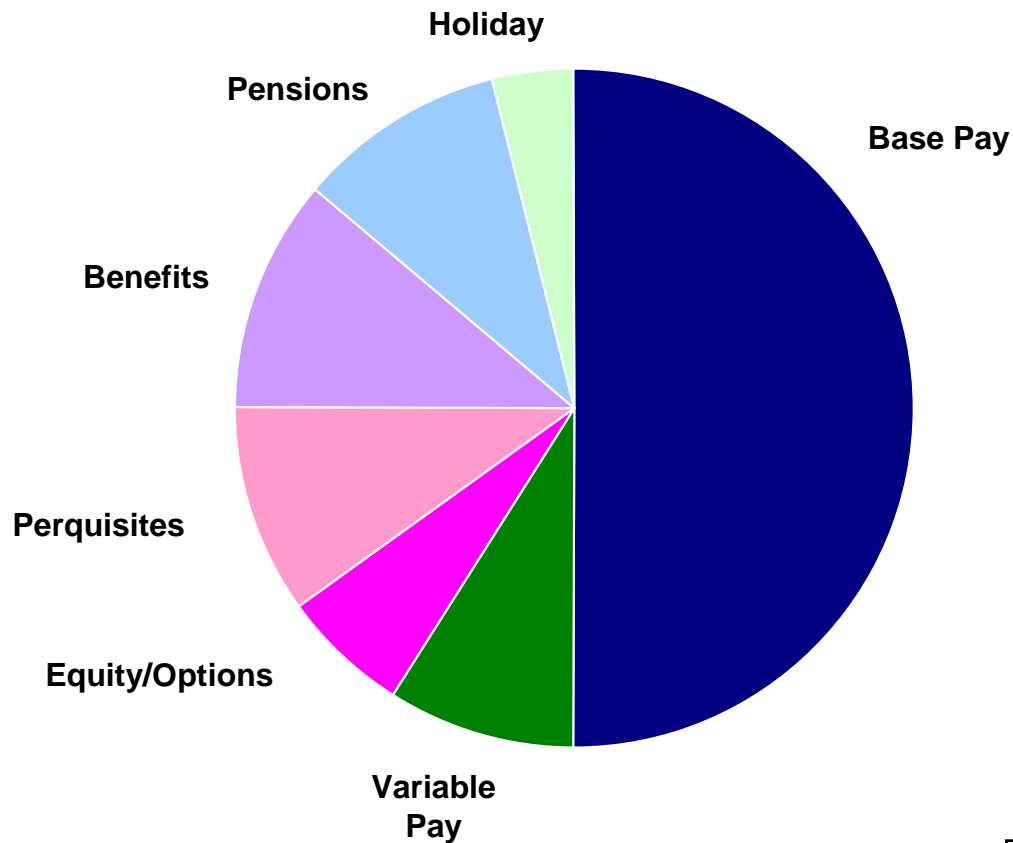
| Change in Reward Cost | ROI |
|-----------------------|----------|
| \$70M | 30% |
| \$5M | 1000% |
| \$5M | 800% |
| \$75M | -30% |
| \$30M | 100% |
| \$10M | 430% |
| \$50M | 5% |
| \$25M | 70% |
| \$20M | 150% |
| \$0 | Infinite |
| \$40M | 20% |
| \$5M | 1800% |
| \$10M | 500% |
| \$10M | 200% |
| \$2M | 1300% |

Note: Modeled impacts of various reward changes on employee engagement are not additive due to the “portfolio effect.” Modeled impact assumes all other programs stay the same. Improvements in employee engagement are point increments to current employee engagement score of 74.9.

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Towers Perrin's Total Rewards Optimisation (TRO) approach will be able to answer three key questions

£ Investments in Employees



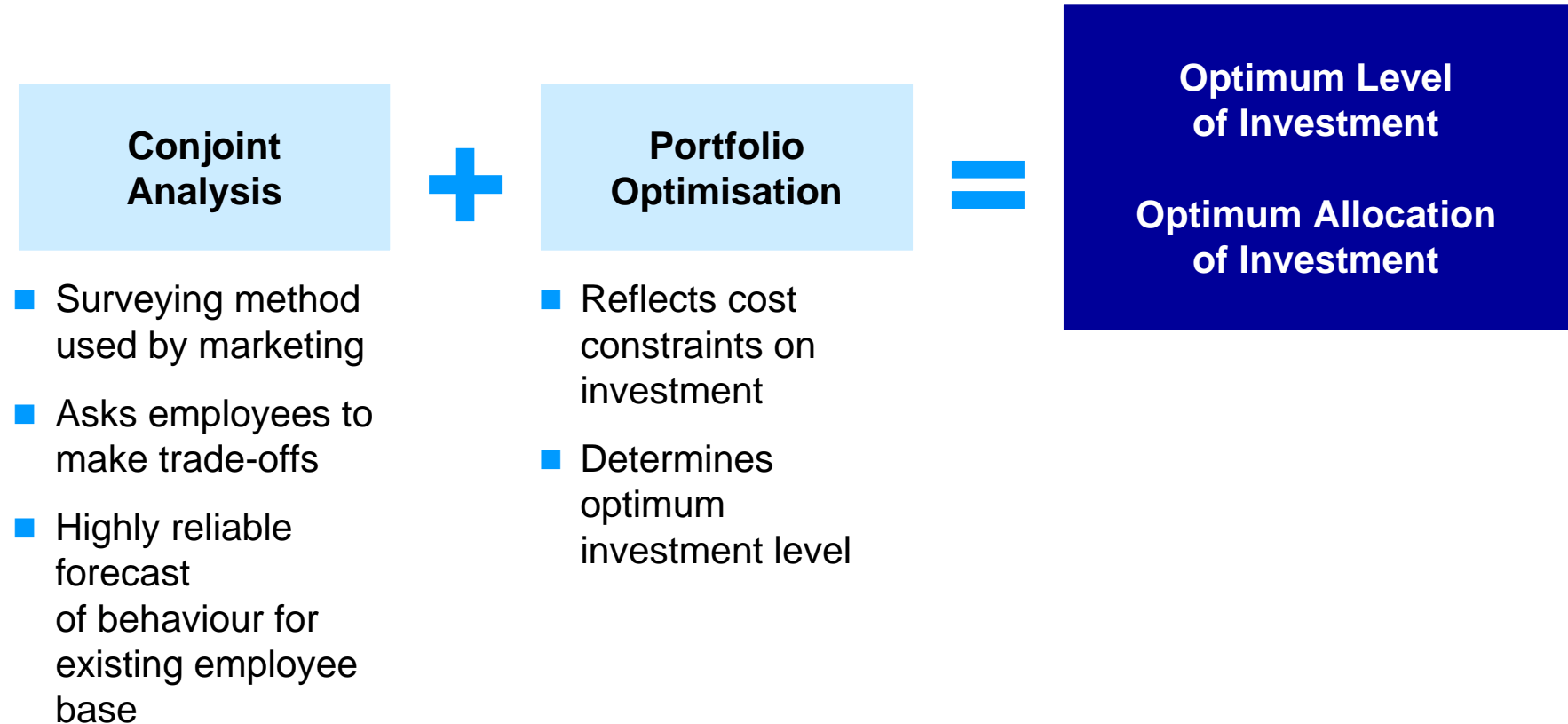
**What is the best level of investment in employees for the company?
Where do inefficiencies exist?**

What is the best allocation of that investment to maximise engagement/retention?

How do the answers vary by business segment, geography, pay level, or other demographic characteristics?

ILLUSTRATIVE

We help to improve total rewards effectiveness by looking at two primary elements



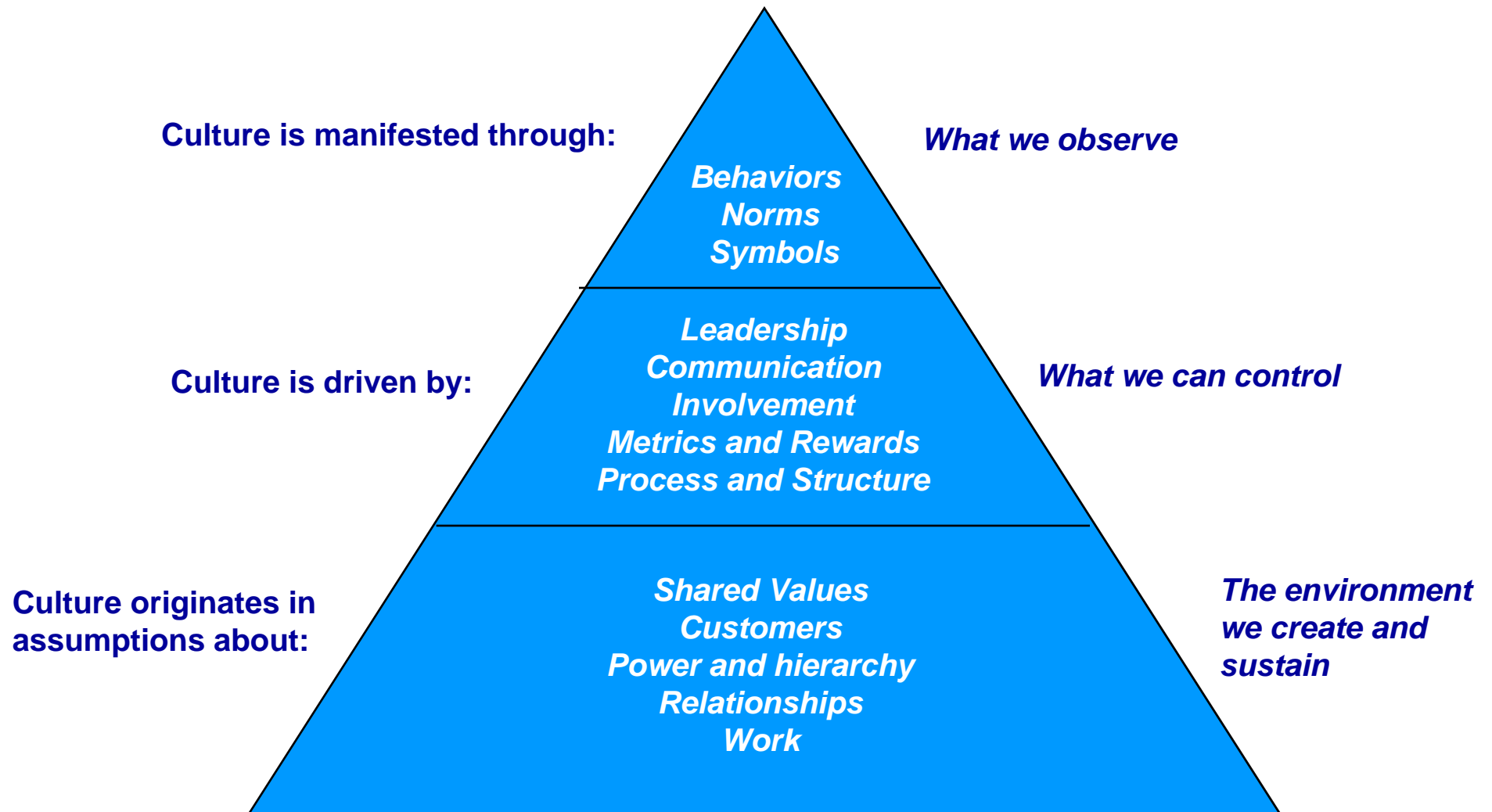
Culture



Culture: Definition

- Behaviors that are shaped by values (shared beliefs) and customs (how we do things around here) and reinforced intentionally and unintentionally, formally and informally, concretely and symbolically within the organization
 - Culture exists whether or not you manage it
 - Leadership is the most potent driver of culture

A view of culture









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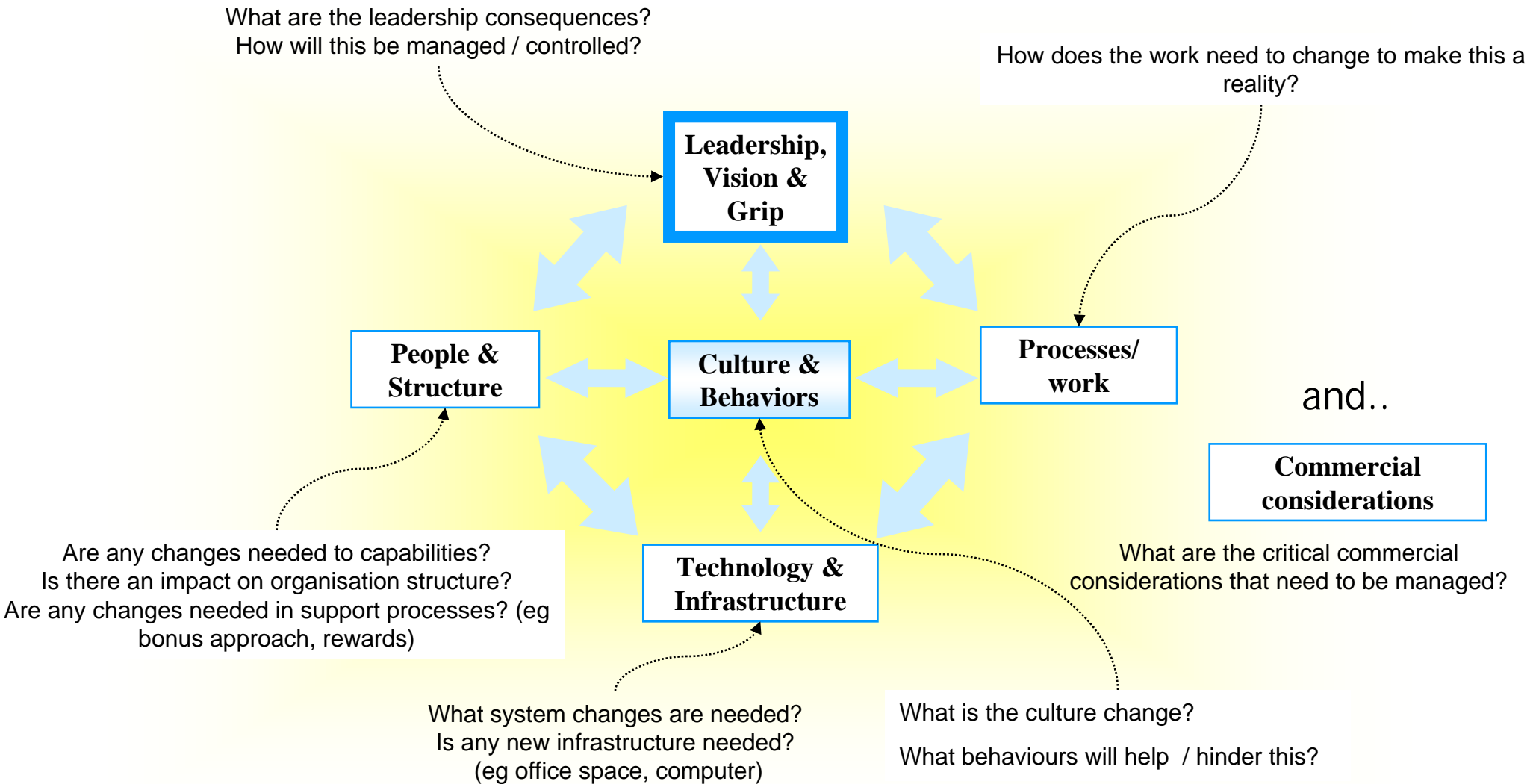
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High performance cultures have some shared characteristics...

| Characteristics | | Description |
|---|--|--|
| 1. Behaviors mirror values |  | <ul style="list-style-type: none"> ■ Leaders "walk the walk" ■ No daylight between say and do |
| 2. Personal accountability |  | <ul style="list-style-type: none"> ■ I'm responsible for results and for me ■ I make things happen |
| 3. People act like owners |  | <ul style="list-style-type: none"> ■ Focus on customers and markets ■ Doing what's right for the business, even if it's not best for me ■ Emphasis on communication over controls |
| 4. Discomfort with the status quo |  | <ul style="list-style-type: none"> ■ Expectations of change ■ How could we do this better? ■ Desire for feedback |
| 5. Leading business results among peers |  | <ul style="list-style-type: none"> ■ Achievement-oriented ■ Focus on benchmarks and comparisons ■ Competitive streak |
| 6. High performance habits |  | <ul style="list-style-type: none"> ■ Discipline, Support, Trust, Stretch |

Culture is shaped and embedded by a number of factors



Case Study



Leadership is the most powerful driver of corporate culture

- 1. What the leader attends to, measures, rewards, and controls**
- 2. Leader reaction to critical incidents**
- 3. Leader role modeling, coaching**
4. Criteria for recruitment, promotion, retirement, and exit
5. Formal and informal socialization
6. Recurring systems and procedures
7. Organization design and structure
8. Design of physical space
9. Stories and myths about key people and events
10. Formal statements, charters, creeds, ethics codes

The implication is that preserving or changing culture starts with senior leadership

Source: Ed Schein, MIT

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Strategic Priorities and Survey Design

High performing companies excel on aspects of culture linked to strategy



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Job Design



Towers Perrin's Career Map provides a platform for the integration of human resources programmes that address company and employee needs

Career Map is a powerful, customisable tool that

- Is supported by detailed processes to consistently define and organise all of the jobs in your organisation — clearly, logically and efficiently
- Creates a framework for a wide range of HR applications



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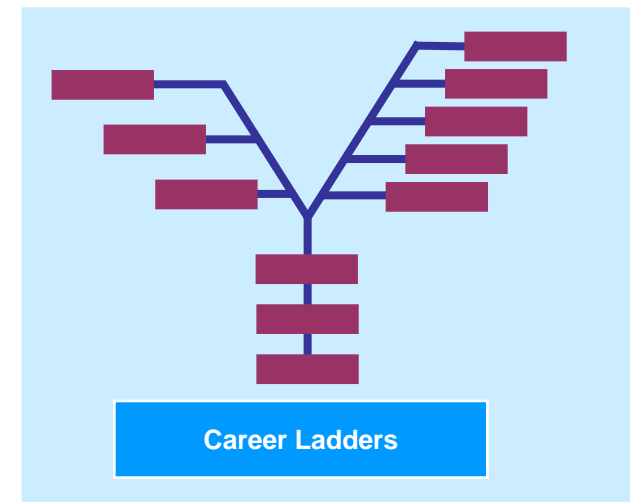
A key component of Career Map is the career ladders

■ Definition

- Series of ladders described increasing in complexity/responsibility, that represent career progression opportunities

■ Purpose

- Organises work opportunities from an employee perspective
- Clarifies responsibilities from one level to another
- Creates an internal platform for determining job value
- Provides a picture or map of potential career paths
- Encourages lateral developmental movement
- Offers multiple career paths; particularly attractive to technical disciplines requiring deep expertise



The value proposition for Career Map is quite compelling

The Career Map Value Proposition

- Clarifies and organises jobs and opportunities in a meaningful, consistent format globally
 - Integrates siloed functions within a common framework, while recognising unique differences
- Encourages alignment of staff skills and preferences with business needs
- Provides transparency and ensures that job definition, performance expectations and titles are clearly articulated and understood
- Provides link to job family specific competencies
- Serves as efficient and effective platform for a number of HR applications
 - Rewards
 - Workforce planning
 - Recruitment and selection
 - Learning and development
 - Career management
 - Performance management
 - Succession management
- Saves significant money in focusing on one single platform for all these HR programmes

Case Studies



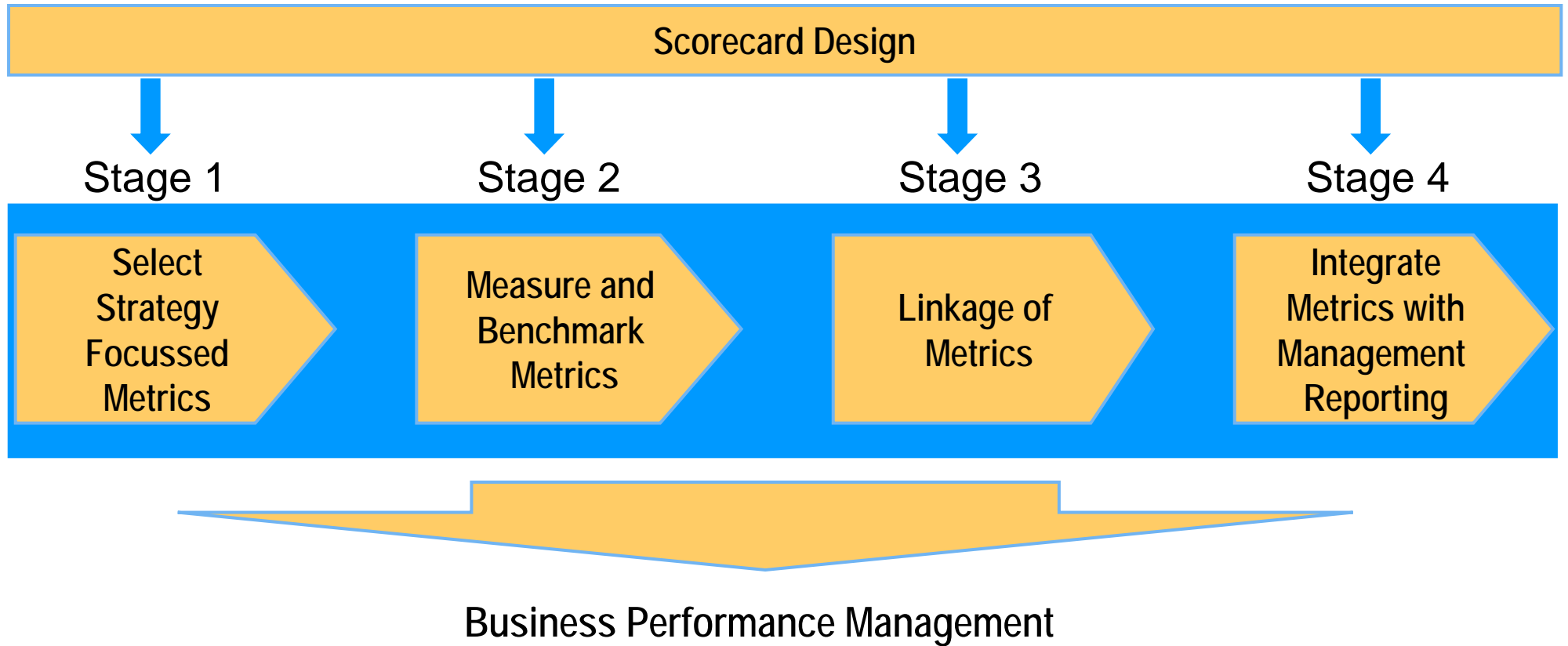
Measuring Success and Impact of Interventions



Interventions: Doing it "right"



Developing your own Scorecard



The "360 Degrees" Scorecard: "What gets Measured gets Managed"

Performance ScoreCard [SAMPLE]

Financials [Score of 1 (very poor) to 5 (very well)]

- How well has the Group met its objectives in terms of increase in market share in 2008?
- How well has the Group met its revenue growth objectives in 2008?
- How well has the Group achieved its targeted earnings per share in 2008?
- How well has the Group achieved its targeted dividend payout in 2008?

Leadership [Score of 1 (very poor) to 5 (very well)]

- Do you think that the Executive Committee has provided a clear sense of direction to the Group?
- Do you think that the Division leadership has provided a clear sense of direction to their Divisions?
- How well do you think the Executive Committee and the Division leadership has acted on the feedback since the last survey?
- How well do you think the Executive Committee manage communications to investors?

Managing People and Change [Score of 1 (very poor) to 5 (very well)]

- How well do you think the Leadership has responded to recent business changes?
- Do you think that internal and external communications have been managed well?
- How much do you feel the Group values the development of its employees?

Health Safety and Environment Objectives [Score of 1 (very poor) to 5 (very well)]

- How well has the Group met its HSE objectives?
- How much do you think the Group has improved in the last year in regard to its HSE objectives?

Customer Satisfaction [Score of 1 (very poor) to 5 (very well)]

- How satisfied do you think customers are with the Group's services and products?
- How well do you think the Group has improved customer satisfaction relative to its objectives?
- How does the Group focus its efforts on external customers versus internal organisational priorities?

- Total Score (This Year)
- Total Score (Last Year)
- 25th Percentile Norm Score
- 50th Percentile Norm Score
- 75th Percentile Norm Score

| Employer | Employee | 3rd Party Assessors | Customers |
|----------|----------|---------------------|-----------|
|----------|----------|---------------------|-----------|

| | | | |
|---|---|---|---|
| 4 | 3 | 3 | 3 |
| 3 | 4 | 2 | 3 |
| 3 | 4 | 2 | 3 |
| 3 | | 2 | 3 |

| | | | |
|---|---|---|---|
| 4 | 4 | 3 | 4 |
| 4 | 4 | 3 | 3 |
| 4 | 4 | 3 | 3 |
| 4 | 3 | 4 | 4 |

| | | | |
|---|---|---|---|
| 5 | 5 | 4 | 4 |
| 4 | 4 | 3 | 3 |
| 4 | 3 | 3 | 3 |

| | | | |
|---|---|---|---|
| 3 | 1 | 1 | 1 |
| 3 | 1 | 1 | 1 |

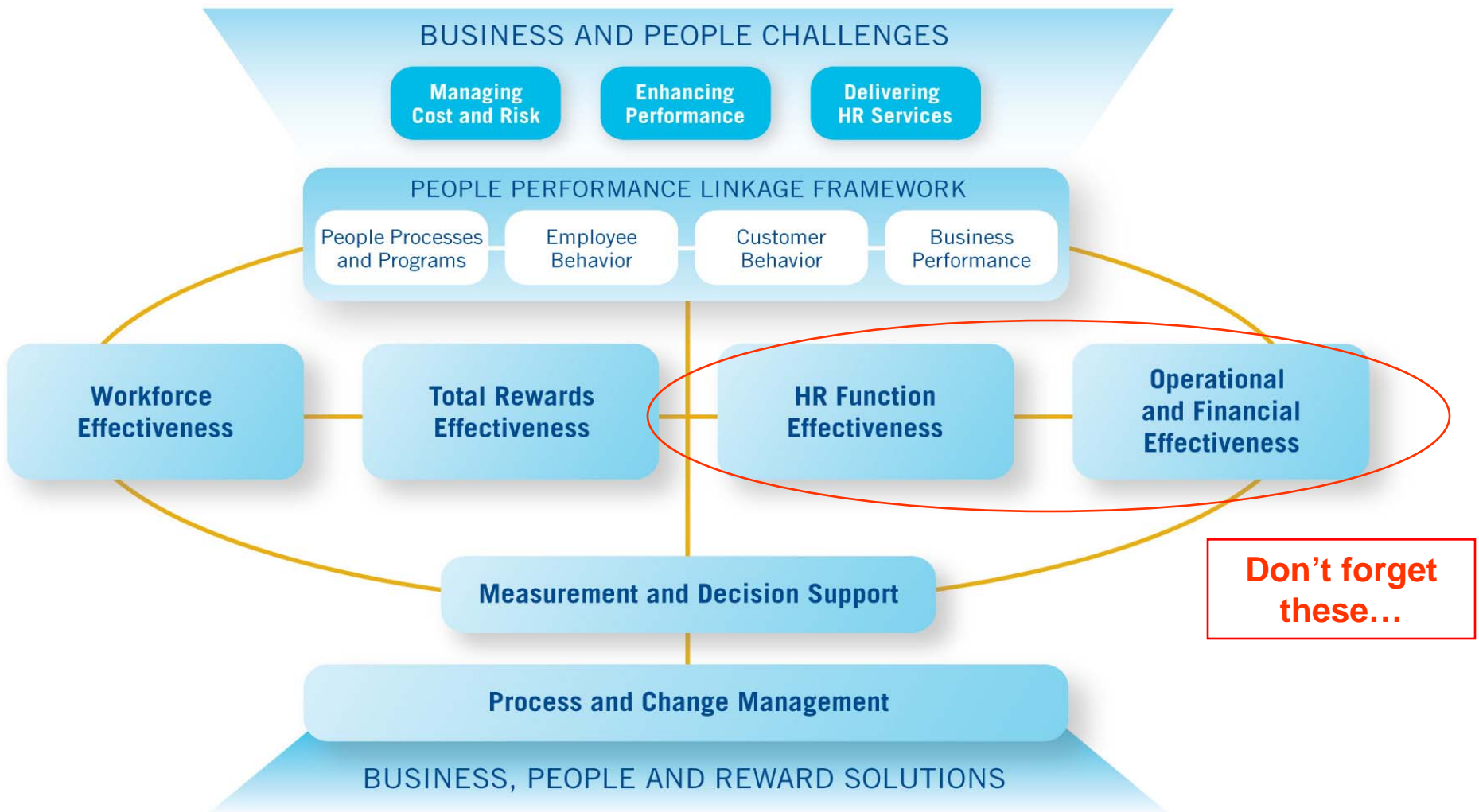
| | | | |
|---|---|---|---|
| 4 | 3 | 3 | 3 |
| 4 | 2 | 2 | 2 |
| 4 | 3 | 2 | 2 |

| | | | |
|----|----|----|----|
| 56 | 45 | 39 | 43 |
| 58 | 50 | 45 | 46 |
| 40 | 45 | 39 | 45 |
| 50 | 55 | 48 | 53 |
| 70 | 75 | 65 | 74 |

Conclusion and Q&A



HR Framework



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Q:_internal\General\Watkins\Sara\SARA – Conference slides (Shorter Version)

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Questions & Answers

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