

Society for Knowledge Economics

“Closing the Workplace Performance to Potential Gap”

Steve Vamos, President of the Society for Knowledge Economics

Good afternoon everyone

The objectives of my remarks today are to reflect on the potential economic opportunity and social benefits that could be Australia’s if we are able to collectively embrace new aspirations for “fairness at work” that transcend the very important considerations of legal protections and contractual terms and conditions of employment to one that the Society for Knowledge Economics aspires; to make Australia the most innovative, productive, sustainable and fulfilling place to work in the world.

Fairness with this objective in mind is about ensuring that people are engaged, encouraged and enabled to contribute to their full potential every day at work.

Fairness with this objective in mind is an important nation building priority that serves to ensure the best possible return from investments in infrastructure, skills, and business investment incentives.

There are four points that I’d like to make today:

- 1. People today are not sufficiently engaged across Australian workplaces, resulting in a significant gap between their performance and potential contribution.**
- 2. A major contributor to this “performance to potential gap” is the leadership, culture and management practices of our workplaces.**
- 3. The key to addressing this problem is understood in practice, the benefits of doing so documented in research, and that other nations are increasingly taking action**
- 4. Finally, that Australia can take action to close the workplace performance to potential gap with strong collaboration between government, business, unions and academia and that a commitment to do so would have significant productivity and social benefit.**



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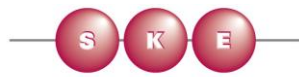


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There exists strong evidence to suggest that people at work today are not performing to their potential and that significant human potential is being wasted in the work place.

An example of such evidence is a recent report from Gallup Consulting suggests that around 80% of people in Australian workplaces are not “fully engaged at work”.

The study goes on to say that this has a substantial impact on national productivity, costing businesses and the economy \$billions a year.

A similar study in the USA concluded that a lack of employee engagement is costing organisations anywhere from 35% to 50% of their payroll.

The questions that Gallup asks survey responders’ are straight forward. Questions like do you know what’s expected of you at work? Does the mission or purpose of your company make you feel your job is important? Does your supervisor or someone at work seem to care about you as a person?

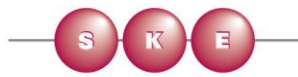
When I ask people how hard they are working, it is easy to see from their reaction that they are working hard. However when I ask the question regarding their performance at work, relative to their potential, they are quick to acknowledge that a gap, often large, exists. From my experience, a score of performance above 70% of potential is a very good score.

If tangible resources like cash and inventory were lost or wasted at a rate of 30% or more, in fact even at levels far less, our management and measurement systems would be quick to respond – the Manager would most likely be fired.

The lack of visibility and appropriate focus on this wastage of human potential is the big problem and opportunity we confront.

Also related is another issue, a serious skills issue that is reflected in Australian studies that find employees’ skills are not being fully utilised by their employers.





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Examining the extent to which workers make use of their existing skills at work, Watson (2008)¹ concludes that skills are underutilised in some sectors by up to 40%, with the average being around 10-15%. The fact that people at work are not given the opportunity to contribute to their full potential may well be the biggest “skills crisis” we face today.

There are other problems or challenges that have workplace implications; how to better commercialise our research and science? how to increase workplace innovation performance? how to make our economy more environmentally and financially sustainable, - and how to make it more competitive, more productive, more diverse and more socially responsible....and the list goes on.

In order to successfully address these challenges our organisational leadership, culture and management practices will need to be developed to better cope with the fast changing, highly connected, people and knowledge powered world we live in.

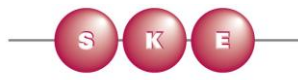
Knowledge and connection have always been the core sources of economic activity and development. There is nothing new today in this regard. However what is different today is the extent and speed with which knowledge can be accessed, shared, and converted into economic and social value as a result of advancements in information and communications technology.

There are significant consequences of this change; one being the increasing rate of change itself.

Another is that individual human economic potential is amplified because people can now access information and others of similar needs and interests much more freely and quickly than ever before. This notion was well represented when Time magazine, declared “YOU” as person of the year in 2007, reflecting the readers face in a mirror embedded in the image of a computer screen on the cover.

¹ Watson, I. (2008), *Skills in use: labour market and workplace trends in skills use in Australia*, Report for NSW Department of Education and Training (Skills Ecosystem Project, see www.skillecosystem.net for more details) August 2008





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This amplification of human potential is also visible in financial measures such as the market capitalisation of enterprises, where value today is largely intangible, compared with 20 years ago when the tangible assets on the balance sheet made up the bulk of market capitalisation.

Our economic and industrial structures are now operating in a highly networked and connected world, which differs greatly from the old industrial age of organisational silos and division and the association of knowledge with hierarchy.

In the book “Presence” by Senge and others, there is a quote from the physicist David Bohm that speaks to this issue.

“The basic problem is “fragmentation” a way of thinking that consists of false division, making division where there is tight connection and of seeing separateness where there is wholeness. This is “the hidden source of the social, political, and environmental crises facing the world.”

Baby boomers, who were brought up in an economy with structures of organisation and management that evolved during the industrial age, well before the internet and the highly connected, fast changing nature of our economy and society today, now rule a world that we have helped create but are not well enough equipped to lead.

The reason why I am so compelled to see us address and improve the leadership, culture and management practices in our workplaces is founded on my experiences during almost thirty years as a worker and manager in the fast changing and volatile Information Communications Industry.

An industry that has seen big companies rise and fall, for example the rise and demise of Wang and Digital in the eighties, Compaq’s demise and IBM and Apple’s near death experience in the nineties.

Most graphically, the correlation I observed and experienced between leadership, culture and management practices and workplace performance was during my time as CEO of ninemsn (the joint venture between Microsoft and PBL) during the five years from 1998 to 2003.



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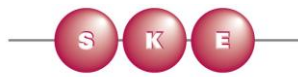


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Ninemsn was unlike most start ups at the time, in that it had plenty of cash (\$100 Million was invested at the peak of our accumulated losses), 100 smart, well skilled people, brands Australia knew, and plenty of technology at our disposal.

The only variable I had to worry about as CEO was the so called 'soft stuff', the intangibles that bind money, people and technology together to create a solid business offering. We had everything else. It was a profound experience for me because it gave me a heightened awareness of the importance of the good human resources practices I learnt in previous roles and experiences.

At about the twelfth month in ninemsn's existence, things were not good. With all our riches of resources, our business performance and workplace environment was not good.

Fortunately, I was able to bring the 100 people in the business together to ask them what they felt was wrong and what we could do better? This was on the back of a brief employee opinion survey that asked one simple question "how happy are you working at ninemsn?" the response to which was an employee satisfaction level of 40%.

As a group we discussed and explored the reason why the satisfaction level was so low and what could be done about it. The response all added up to one thing. "We don't know where we are heading" and "we don't know how we individually contribute to where we should be going".

All the good training I'd had about having a plan and aligning the objectives of people had never had the impact on me that this experience did. For the next twelve months we focused on having the conversations – often difficult ones – to get the best clarity we could – to make the hard tradeoffs and decisions we had to make. Easily the hardest decisions were to exit business activities where we lacked strength that resulted in the need to let people go. But we made those decisions, redeployed where we could, and treated those that left the business with honesty and respect.

The rewards however came quickly. As we achieved clarity of purpose and connected our staff objectives to that purpose, the quality of our product, the performance of our business and the morale of our staff improved. Our next staff survey, a year later, saw 80% of staff satisfied with working at ninemsn.



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I learnt that as leader of the business, my primary role was to drive for alignment and to enable the people of the organisation to do their best work. Over the five years that I spent as CEO of ninemsn I was consistently rewarded by this focus and the special workplace environment and culture that evolved over time.

There are other examples and experiences during that time that have lead me to believe that high performing workplaces rely on;

Leadership attributes that see that

- knowledge not as power, but something to be shared;
- the potential to lead is at all levels of the organisation, not just attached to hierarchy;
- mistakes (not repeated too often) are learning;
- the collective objective must shape individual concern; and
- great communication is two way, rather than a one way, transmission.

Sir Alan Jones, Chairman Emeritus of Toyota UK: *“Wherever you work, your job as a manager is to make your people be the best they can be – and usually they don’t know just how good they could be. It’s individuals that make the difference”.*

The many great leadership and management books that had been written, cover pretty much everything I learnt on the job at ninemsn, and have documented the characteristics of good management practice.

One of the best examples is the book *“Good to Great”* by Jim Collins, an excellent study of high performing organisations that identify the leadership, culture and management practices that result in better workplace performance.

Much of what is written in these texts is common sense, but too often not common practice.

In addition to the many books that exist, some very compelling research has also been conducted to underscore the extent to which leadership, culture and management practices define workplace effectiveness.





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- A London School of Economics / McKinsey (2007) study of *Managerial Practices and Productivity* across 16 countries found that “improving management practice is... associated with large increases in productivity and output. Across all the firms...a single point improvement in management practice score is associated with the same increase in output as a 25% increase in the labour force or a 65% increase in invested capital”.²
- A study on behalf of the Irish Government *National Centre for Partnership and Performance* by Prof Floyd (2008) found that adoption of high performance work systems (such as strategic human resource management and others) was associated with a 15% increase in labour productivity, or EUR 44,000 per employee, equivalent to EUR 12 million per median company (270 employees). Good management practices were also associated with an 8% reduction in employee turnover.

So why isn't common sense common practice? Ultimately, this is the question we must commit to answer and address.

Other countries have started to consider this question with initiatives and investment; initiatives, such as those in Ireland, Finland, Canada the UK and New Zealand, that look to create uplift in national productivity through practical programmes designed to improve standards of leadership, management practices and culture in participating organisations.

Examples include³:

- Ireland's National Workplace Strategy sponsored by the Prime Minister;
- Finland's Workplace Development Program
- UK's Department of Innovation, Universities and Sciences 'Train to Gain' programme.

² This study is currently being conducted in Australia, surveying approximately 436 Australian manufacturing companies and will afford a benchmark view of Australian performance against other countries. Research Title: Department of Innovation, Industry, Science and Research, Reference: ATM ID : EntCon-Research-1308, *Impact of Managerial Practices on Firm Performance*, \$460,035, Professor Roy Green, Professor John Mathews, Dr Christina Boedker, Dr Renu Agarwal, Associate Professor John Buchanan, Professor Danny Samson, Professor John Van Reenen, Professor Nick Bloom, Associate Professor Paul Gollan, Dr Phil Toner.

³ The examples given here have been gathered in a research projects by the SKE in collaboration with the Department of Education, Employment and Workplace Relations. It included a review of international policy initiatives and phone conversations with key agencies overseas. For more details, see Society for Knowledge Economics (2008), *Leading Australia to More Innovative, Productive and Fulfilling Workplaces, - The Role of Government*, prepared on behalf of the DEEWR, November 2008.





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These initiatives have received significant investment from Government.

In Australia, the need to develop high performing workplace leadership, culture and management practices was recognised by the Karpin report of 1995⁴, commissioned by the Hawke/Keating Government. The Karpin report provided comprehensive insights into the way Australia prepares its managers for work and presented policy recommendations and options based on the Task Force findings and research:

“As the business environment changes, so do the skills and characteristics required of those employees who are best positioned to interpret and influence future changes; namely managers”.

Today, programs like “Enterprise Connect”, managed by DIISR, recognise the importance of management capability to encouraging innovation, but much more needs to be done if we want to have wide scale impact, that we believe is possible and necessary.

Moving forward, if we choose to embrace the challenge of closing the performance to potential gap, we need to develop a common language and understanding, identify leading examples, disseminate knowledge and best practices and create broad awareness and governance structures that bring all the sectors represented here today to work together to make progress.

A starting point could be to undertake further consultations with this core group and others to develop a National Work Plan for Creating HPWP in Australia – to surface what is already done and to define what we can achieve going forward.

“Engaging for success” enhancing performance through employee engagement, the report prepared for the UK Government and published just this month, provides some great pointers. The authors recommend...

“...a concerted effort involving all the stakeholders in the employment field, to raise the profile of this topic, so more and more people ‘get it’. We propose a national awareness campaign, facilitated by the Department for Business, Innovation and Skills (BIS). We are delighted that so

⁴ Karpin (1995), *Renewing Australia's Managers to Meet the Challenges of the Asia-Pacific Century Industry Task Force on Leadership and Management Skills*, Canberra, 1995.



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many of the leading business figures we have spoken to in the course of this review have agreed to join a national high level sponsor group to promote a real discussion, should the Secretary of State accept our recommendations....”

The successful collaborations of the Society for Knowledge Economics, supported by Westpac, Microsoft, EDS – a HP Company, CPA Australia and PwC, the University of New South Wales, along with the Business Council of Australia, ACTU, AI Group, Victorian Government, DEEWR and many others are testament to the interest and spirit of cooperation and interest that exists to make progress towards lifting workplaces practices in Australia.

So, what goals could we aspire to? What do we need to do to make Australian workplaces the most productive, innovative, sustainable and fulfilling in the world? And to position Australia as the best connected economy in the world.

- To be the Nation with the most cross-sectoral, aligned and advanced dialogue regarding the development and uptake of high performing workplaces practices ;
- To establish appropriate benchmarks and research that clearly measure progress across a holistic set of workplace performance dimensions and accompanying evidence of the link between good practices, productivity and other social impacts (including social inclusion) of high performing workplaces:
- All our educational institutions have significantly increased the presence of leadership and human relations topics in course curriculum, – and that these are structured such that aspects of delivery can be provided by people from all walks of life;
- Stakeholders have much better insights into the performance of organisations (both private and public sector) intangibles including the skills of organisational leaders in managing and developing their human capital; –standardised employee opinion surveys that are made available to the public being one example;
- Organisational leaders make effective people management the number 1 priority of all their managers of people – and remove those who lack capability (following reasonable efforts to assist them develop)



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Conclusion

The drive to create high performing workplaces is essentially the drive to make truth of the much said but often not demonstrated belief that “people are our greatest asset”.

We should treat the waste of human potential as seriously we do as the waste of tangible resources, and do our best to address it.

Thank you.



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