Labour

Perks and priorities

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In these times of low unemployment and a tough outlook, it's more important than ever for CFOs to achieve the right balance between costs, paying well and flexibility.

David Craig, CBA: We rotate people between roles so they can see their skills growing and their career developing. **Photo: Andrew Quilty**

How do you get the balance right between cost control and giving staff decent salaries, incentives and training? It's an old chestnut, but one that has particular relevance for chief financial officers given the ongoing skills shortage, low unemployment and more organised industrial action.

Part of the answer, say many CFOs, is getting non-financial incentives right. "We rotate people between roles so they can see their skills growing and their career developing," explains Commonwealth Bank CFO David Craig, who says the result is a low 7 per cent turnover rate in the finance team.

Craig says CBA's philosophy is to make sure expense growth is less than the rate of revenue growth.

"If revenue growth is slowing we cut non-staff related costs. We've been working this way for a prolonged period and we'll keep doing it," he says.

During the financial crisis, CBA put in place a salary freeze and Craig says "the senior team took a 12-month pay cut. But as it turned out the effect of the crisis wasn't as bad as we first thought and after six months we gave out a 2 per cent pay rise."

Craig says a reasonable chunk of the bank's compensation is bonus-related and linked to results, which means there is a level of flexibility [in terms of staffing costs]. "In other words, we remunerate people based on their contribution," he says.

Craig says during the GFC the business did not go through a significant round of redundancies to lower staffing costs.

But as Qantas recently demonstrated when it offered its 7000 cabin crew voluntary redundancies, many companies still use redundancies to slash staffing costs. However, as one CFO, who wished to remain unnamed, said: "This usually doesn't pay for itself in the first year and the indirect impact it has on morale leads to productivity losses."

Another business that uses non-financial incentives to manage its staffing costs and also increase productivity is logistics software business Cargowise. CFO Kate Malov says in the past it was 12 months before sales staff had enough product knowledge to be productive, but ramping up training means staff are now productive after just three months.

"Our 'lunch and learn' and Microsoft certification training helps to get them up to speed," she says. "We also manage costs by cutting out recruiters."

As a rapidly growing, international company – Malov says last year the business achieved 40 per cent revenue growth and has 200 employees in six offices in Australia, New Zealand, the United States and in Asia – it's critical for Cargowise to build and maintain a workforce that will help contribute to the organisation's growth.

"As a tech company, our greatest expense is our people costs – salaries and staffing expenses make up 80 per cent of our cost base," Malov says. "So our strategy is to attract the best people we can without blowing out our costs. Our approach is to attract the right people before the right time so that when we're ready to grow sales in a particular market, we've already recruited the right sales force."

"We use innovative ways to find our staff like LinkedIn and we pay at or above market rates. By paying someone a good salary we actually reduce our total staffing costs because people stay with us for a long time, which lowers our recruitment costs. We also use a lot of non-financial incentives like flexible working arrangements and staggered starting and finishing times. It doesn't cost much to do this and staff love it."

Indeed, reducing staff turnover is an important way to keep a lid on staffing costs. Lyle Holm, chief executive officer of Metis Consulting, which provides external CFOs to businesses, says in his experience the best way to do this is "by building a magnetic culture of high performance and aligning like-minded people who enjoy challenging and rewarding work and who value their career development as highly as the remuneration package they receive."

Holm says it's important to clearly communicate the vision and values of the business, have structured career development plans and performance management systems linked to company goals and flexible working arrangements.

"This approach incentivises creative, proactive minds, especially younger professionals who crave immediacy in their career expectations," he says.

"What's counterproductive is to retain underperformers and agitators who restrict productivity, increase costs and reduce remuneration and career growth of colleagues. In the eyes of high performers this limits their personal growth and job satisfaction.

"It's also important to recognise that people like flexible working arrangements – which doesn't necessarily mean they will work fewer hours.

"They just want the opportunity to do their work outside regular working hours."

Holm says to attract the best, most productive workforce it's also an idea to "pay above average salaries to clearly differentiate the business from competitor firms and make it attractive to the best and brightest people. Better pay arrangements are also a way of recognising above-average effort and are a means of supporting a high-performance culture."

Another external CFO, Laura Raymer from CFO Strategic, says it's also important to recognise people in different roles need different incentives.

"IT staff are motivated by feeling they're at the cutting edge, so offering training courses so they are at the forefront of technological change is a great idea," she says.

"I once worked with a business where the CFO decided to cut the cost of the company's car fleet by putting everyone into standard Commodores. But sales staff are driven by image and so they started leaving. Eighteen months later they bought back the flash cars, but weren't able to reduce salaries to accommodate the increased costs, so it turned out to be a false economy."

An increasingly popular strategy to help manage staffing costs is to use specialised contractors for special projects. "It's essential to have a core team, but businesses also need to call in skills as needed," says professional services firm Resources Global Professionals' managing director (Asia Pacific), Jacinta Whelan.

Resources Global Professionals recently surveyed a group of CFOs and found they are using contractors because they don't have the expertise in-house, because they want flexibility, for an instant staffing solution and for cost-effectiveness.

A related trend, says Rachel White, from chartered accounting firm Azure Group, is the rise of the virtual CFO. "A virtual CFO is usually a financial expert who works part-time for a business on a fast growth path to ensure it's on the right track, at a price point they can manage," she says. Virtual CFOs can either work in the client's offices or from home, as long as they can access the enterprise's systems remotely.

A good example of a business that used this model is online retailer Spreets. CEO Dean McEvoy hired Azure Group's managing director, Michael Derin, as a virtual CFO when the business was first being established to give it financial disciplines at a time when the company was experiencing incredible growth.

"Michael set up the company structure and prepared the business plan – he was more like a financial adviser, really; he also structured contracts and addressed complex GST issues," says McEvoy, who adds that Derin's support was invaluable at a time when Spreets went from having revenue of $4000 a month when it first started to turnover of $4 million a month by the time Yahoo!7 bought it in January this year. McEvoy says the financial discipline Derin built into the company was one of the reasons Spreets was able to attract a $40 million purchase price.

"Because of Michael, we were able to validate our accounts during due diligence and clearly explain the accounting system to the board," he says.

Ultimately, CFOs need to ask their staff what they need to stay motivated and engaged and do their best to respond to this feedback by putting in place incentive plans they will actually respond to. But incentives must be linked to performance to help manage costs and encourage staff to be as productive as possible.

Salary package is more than money

Recruitment firm Randstad's chief executive Fred van der Tang says it's important to recognise most people work for more than money.

Van der Tang says a recent research project the firm carried out among 7000 job seekers showed people firstly look for job security, followed by workplace culture, then career progression and finally remuneration when considering a job. "CFOs tend to just look at the numbers when they are working out their staffing strategy, but this is a limiting exercise," he says.

"The best way is to determine what the company is trying to achieve and link the recruitment strategy to the business's vision and mission.

"There's also a big difference between what the different groups such as men and women and senior and junior people want from a job. There's also variation between different industries and even across different states. So CFOs need to be very segmented in the way they approach staffing and incentives to get the balance between the business's HR strategy and the cost base right."

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