

# Compensation at a time of

Managing Salary, Turnover and Talent to uphold a competitive edge

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## 危机

A widely promoted concept amongst Western management gurus is that the Chinese word for CRISIS (危机) is composed of elements that signify DANGER and OPPORTUNITY. So widespread that it has become part of executive management education folklore, it is used to illustrate that in times of crisis, one can find advantages and benefits.

In June, this formula of CRISIS = DANGER + OPPORTUNITY seemed like a fitting theme for an article on Pay Trends 2008 and 2009. In October, it is not, for two reasons.

Firstly, it appears that this widespread Western interpretation of the Chinese symbols is incorrect, and secondly, this theme no longer describes business sentiments in Hong Kong in October 2008.

According to Victor Mair, a professor of Chinese language and literature\*, the Chinese expression for crisis comprises two characters 'wei' (危) and 'ji' (机). While 'wei' does indeed mean 'danger', the 'ji' means something like a crucial point. Weiji most certainly does not mean 'danger' + 'opportunity' any more than the English word 'mankind' means 'adult male' (man) + 'considerate' (kind). A weiji is an extremely dangerous moment, when things start to go wrong, a perilous situation, when one should be especially cautious. Not a point at which one looks for advantages and benefits.

At the time of this article, the true meaning of weiji (危机) perhaps most accurately captures the sentiment of Hong Kong's economic and labor markets.

What started as a US sub-prime mortgage crisis has spread to a broader global financial crisis, which is now

# Uncertainty



threatening the 'real' economies of the world. These are uncertain, turbulent, wild, rough, random, raging and seething times. The phrase 'financial tsunami' has become common usage. It is increasingly acknowledged that the market is not merely experiencing 'volatility' or 'facing headwinds', nor are we waiting for things to revert back to the 'mean'.

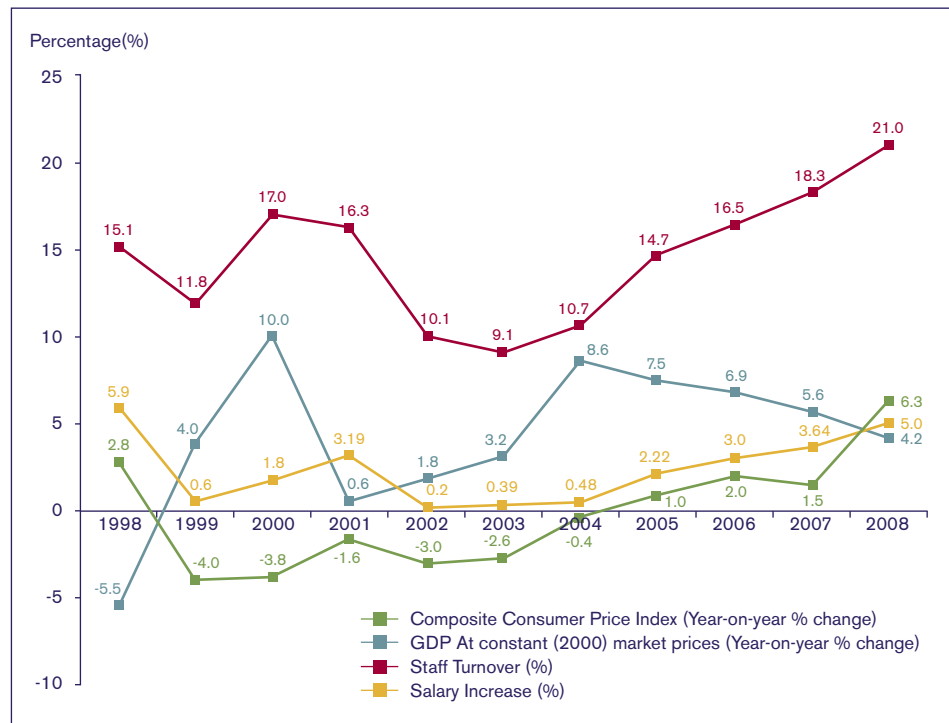
At the welcoming banquet for foreign dignitaries to mark the opening of the Olympic Games in August, Chinese President Hu JinTao (胡锦涛) commented that "There has never been a greater need for people in the world to understand, accommodate and cooperate with each other, as the world faces both unprecedented development opportunities and grave challenges." What a prophetic statement in the current circumstances – more than he could have known at the time.

The purpose of this article is to report Hong Kong's labour and salary market trends and forecasts, based on findings from Watson Wyatt's annual Total Rewards and Banking Surveys, published in September. However these usually reliable predictors are now subject to the daily volatility of the global financial markets, which have created widespread uncertainty for labour and salary markets. Therefore this report covers the world as we knew it until September, with related updates as at the time of writing.

Irrespective of the most recent global crisis, Hong Kong has experienced a turbulent year. A year of great highs and

*\* Professor V. H. Mair, Department of East Asian Languages and Civilizations, University of Pennsylvania, Philadelphia, USA. Essay written with contributions from Denis Mair and Zhang Liqing. Visit <http://www.pinyin.info/chinese/crisis.html> for the full article.*

Figure 1: Economic & Labour Market Indicators 1998-2008



lows. On one hand Hong Kong has basked in the glory of the Beijing Olympic games – the friendly games, from which China emerged on the world stage with its reputation enhanced and its progress celebrated.

On the other hand, the sweet success of a near faultless Olympic games close on the heels of the closing ceremony has already been soured by a tainted milk scandal affecting China and Hong Kong. More particularly, throughout the year Hong Kong has wrestled with economic and labour market challenges that have tested the government, employers and employees alike.

The consumer price index escalated rapidly to 5.3% in August, an 11 year high and more than triple that of the same period in 2007, driven largely by high food and oil prices and the increase in private rentals, compounded by the weakness in the US dollar. Followed by 6.4% growth in 2007, the first quarter Gross Domestic Product (GDP) reached 7.1% before slowing markedly to 4.2% in the 2nd quarter of 2008 (see Figure 1 above).

Against this backdrop, the labour and salary market movements continued their upward march (Figure 1). Salary increases rose from an average 3.64% in 2007 to an average 5.03% increase in 2008, according to Watson Wyatt's 2008 Total Rewards Survey. In the same period, turnover reached a dramatic 21%, the highest in Asia Pacific, over-

taking countries such as China with their notoriously fickle workforces.

Such dramatic statistics invariably have serious consequences in the work place. High employee stress, declining employee engagement, loss of organizational knowledge – all ultimately impacting workplace productivity, have been characteristic of the Hong Kong work environment for the past 12 months.

### Labour Market

To the end of the first half of 2008, we saw a robust demand for labour; Hong Kong's seasonally adjusted unemployment rate fell to 3.2% for the period May-July, a new low for the past decade. The total employment in the private sector surveyed increased by 2.1% in June while the total number of vacancies rose by 12% over the previous year. September saw a reversal of

the trend, with unemployment jumping to 3.4%.

Employment cost also rose, with the nominal wage index rising by 3.9% in June 2008 and the nominal payroll index increasing by 4.6% in the second quarter over a year earlier according to the Census and Statistics Department of the Hong Kong SAR.

### 2008 Turnover Rate

Continuing an upward trend since 2003, Watson Wyatt's Total Rewards and Banking Surveys reported that the 2008 all-industry average turnover rate reached a new high of 21.03%, the highest for the past ten years. Industry sectors such as engineering, life insurance, consumer products, property management and development and telecommunications all rated above average (see Figure 2, p.8).

The engineering consulting sector suffered most in terms of voluntary resignation with turnover rate of 39.49%, due in part to the project-based nature of work and to the increasing globalization of employment opportunities, particularly in the Middle East and China. The life insurance industry, although not ranked number one like last year, still ranked number two at 28.26% average turnover rate. Masked by the average rate of turnover, turnover in individual companies ranged from 11% to 70%. Sales roles appear to have been particularly vulnerable, with job hopping the norm rather than the exception. There

were only five industries with a lower turnover rate than last year, among which manufacturing was the only one reduced by more than five percent.

### 2008 Salary Increase

According to Watson Wyatt's Total Rewards and Banking Surveys, the 2008 all-industry salary increase rate average of 5.03% was higher than the forecast salary increase of 4.3% made in 2007 and the second highest increase rate since the 1998 average of 5.9%. The salary increases of the banking and insurance sectors were the two highest industries, at 5.7% and 5.6% respectively, while the manufacturing industry had the lowest salary increase rate among all industries, and was also the only one reporting a lower rate of increase than 2007 (see Figure 3, right).

Civil servants were also the beneficiaries of significant pay increases this year. Effective from April, senior civil servants received 6.3% increase while those in the middle and lower ranks received 5.29% increases. Unions in some high profile companies also pressed their wage claims, resulting in increases of base pay or commission of between 3.5% and 8.1% being awarded.

### 2008 Variable Pay

Short-term incentive pay is intended to reward the performance of the previous year. The proportions of short term incentive pay in the 2008 survey pay mix do reflect the strong economy in 2007, specifically for higher job levels, which typically have more direct impact on companies' financial performance. The proportions of short term

Figure 2: Staff Turnover by Business Sector 2006 to 2008

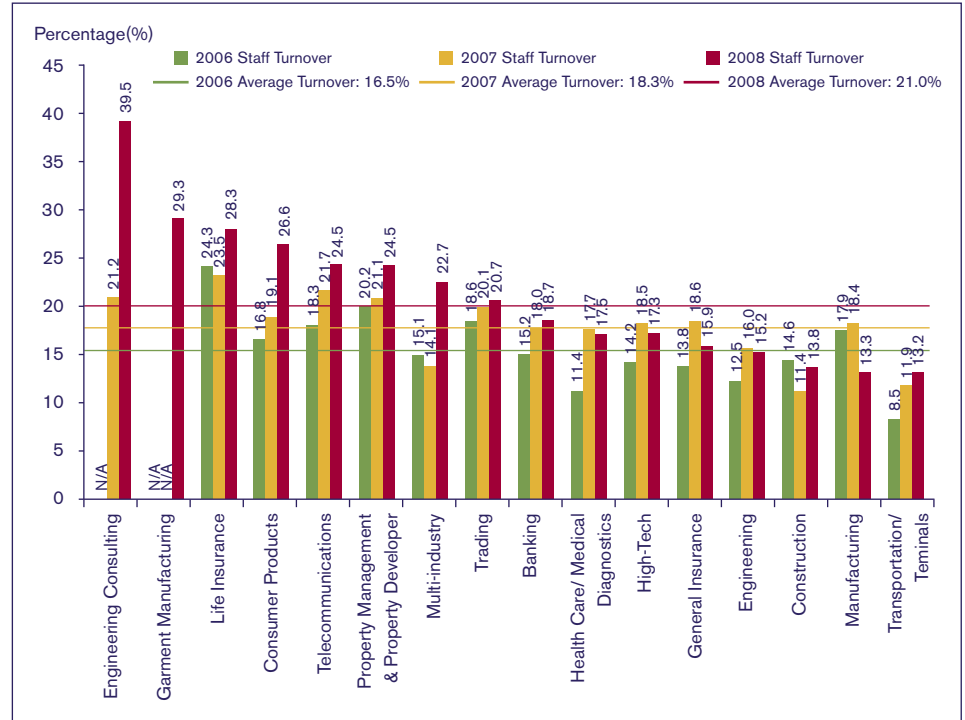
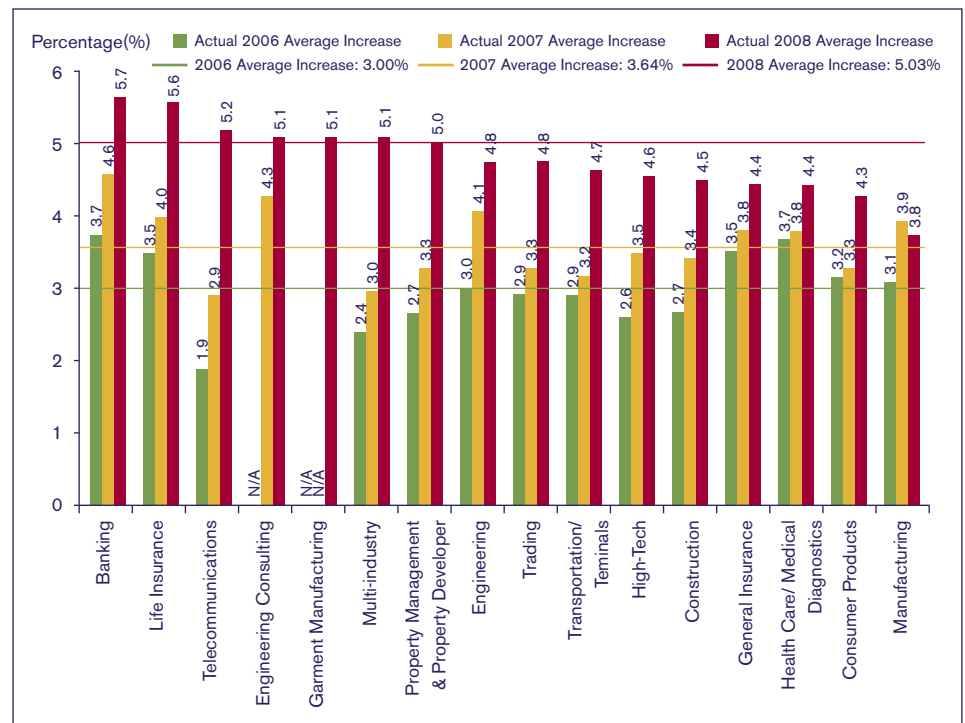


Figure 3: Salary Increase by Business Sector 2006 to 2008



incentive pay for top management and senior management have increased 5% and 4% respectively comparing to 2007, while those for professional/supervisor and general staff remained the same as 2007.

### 2009 Salary Increase Forecast

Watson Wyatt's 2008 surveys report that the forecast 2009 all-industry salary increase rate average is 5.0%, close to the 2008 all-industry salary average increase rate. This is led by the engineering consulting sector with expectation of 6.36% salary increase rate in 2009, with healthcare, trading, consumer products, and construction all forecasting above the average all industry increase rate (see Figure 4, right).

Figure 4: Forecast 2009 Salary Increase

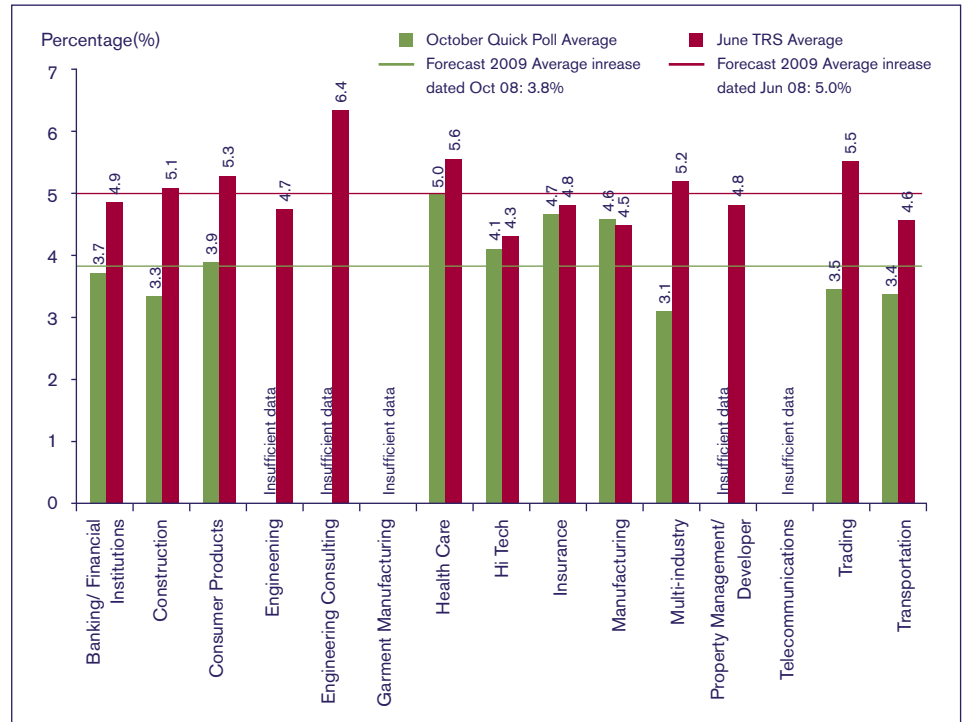
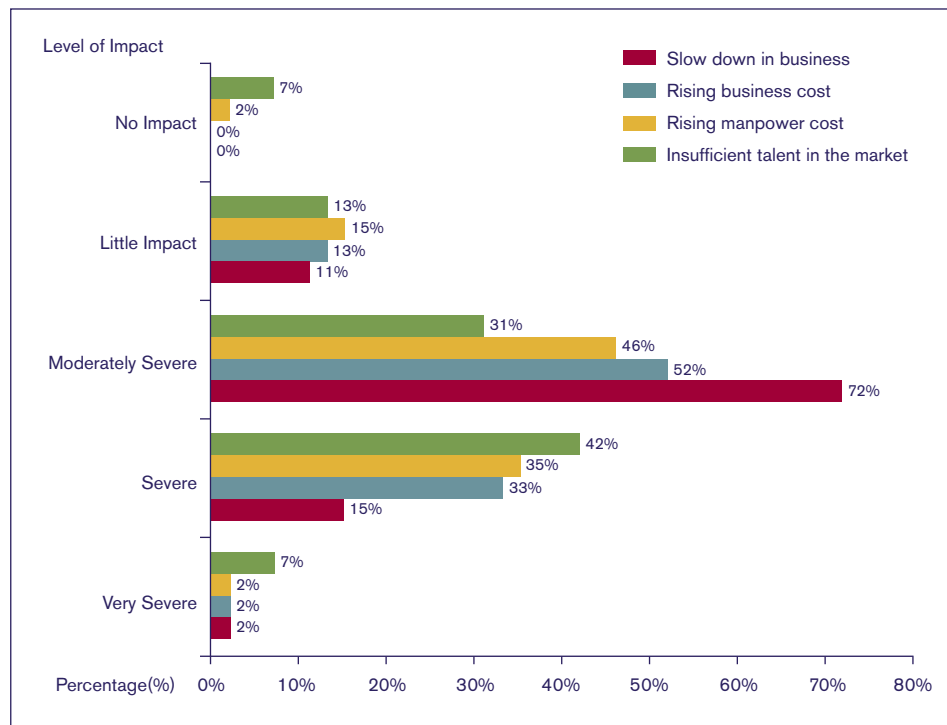


Figure 5: Impact of Business Challenges



### Latest Update — Preparing for a Downturn

However, since the release of the June data, Watson Wyatt has continued to poll clients throughout October to gain the latest company thinking about the year ahead. The results show a growing pessimism in the Hong Kong market, with the majority of companies polled expecting the impact of the downturn to be severe or moderately severe. As Figure 5 shows, over 70% of companies are forecasting a moderate slowdown in growth.

Forecast salary increases have dropped from 5.0% to between 3.8% and 4.4%, with a number of companies anticipating a salary freeze. The counterbalancing factor is the continuous reference to talent shortage as a key business challenge, relative to



## The Power of Integrated Reward and Talent Management – 2008/2009 Global Strategic Rewards Report findings

The 2008/2009 Global Strategic Rewards survey was fielded in May 2008, before the financial crisis took hold. Companies reported difficulties attracting and retaining employees, particularly critical-skill and high-performing talent. While the changes in the economy and fears of a global recession make it easier for companies to keep workers in the short term, when the cycle of the economy turns upward again, these problems are likely to return to the forefront. We present the findings.

As representative of what employers were facing before the crisis, and what we expect them to continue to face in the future.

Economic volatility, new technologies and globalization are accelerating the pace of change in talent markets across industries and geographies. In the context of continual change, managing talent and rewards effectively is vital to developing and sustaining a competitive edge.

### Key Findings

The main findings show that organizations applying an integrated approach to reward and talent management across all stages of the employment life cycle have an advantage in attracting, engaging and retaining

the talent they need to succeed in their markets – and financially outperform their peers. This report identifies the best practices of high-performing companies.

Companies that take an integrated approach to reward and talent management are:

- Less likely to experience problems attracting critical-skill employees (20 percent less likely) and top-performing employees (25 percent less likely)
- Less likely to report having trouble retaining critical-skill employees (33 percent less likely) and top-performing employees (18 percent less likely)
- Eighteen percent more likely to be high-performing organizations.

Companies that effectively utilize a majority of the following human resources best practices are considered to have an integrated approach to reward and talent management:

- Define an organization-wide employee value proposition (EVP) for attraction, retention, pay and talent management.
- Manage and design programs according to an organization-wide total rewards philosophy.
- Perform formal workforce planning

activities that optimize the supply of talent versus demand.

- Leverage competency models across recruiting, career management and pay activities.
- Facilitate healthy work/life balance and take measures to moderate employees' levels of work-related stress.
- Link employee performance goals to the business, and effectively communicate performance expectations and results to employees.
- Leverage total cash rewards through differentiation of merit increases and annual incentive awards.
- Link individual and organization results to rewards.
- Effectively deploy recognition programs.

### About the Study

The 2008/2009 GSR Survey represents a total of 1,389 organizations across 24 countries spanning all industries and with a minimum of 250 employees each.

Asia-Pacific represents 33% of participation from Hong Kong, India, Indonesia, Japan, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand (Europe 22%, USA 20%, Latin America 17%, Canada 9%).

rising manpower costs (see Figure 5, p.9). In addition, when asked about their top HR priorities, HR managers report attracting high performing, high potential and skilled employees as a much higher priority than controlling compensation and benefits costs.

## Conclusion

There is no doubt we can expect the current global instability to have deep and long lasting implications for the overall economy and the expectations of employers as well as employees. Achieving the balance between developing the talent base of the organization and managing operating costs will be a process of continuous re-assessment and adjustment unique to each organization and business sector. **W**



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