

Window of Opportunity in a Slower Economy

Taking a long-term view to People and Business

By Bob Charles and Russell Huntington

WARREN BUFFET believes that he can profit by careful investment in the current financial crisis. Employers in Asia Pacific can do the same, making use of tough times to acquire and motivate top talent.

Asia Pacific has seen a booming market for talent in recent years. A slower economy presents a “buying opportunity” for companies who have the resources and foresight to take a long-term view of where their business is headed and which people they need to get there.

Slowdown, not Meltdown, in Asia Pacific

Asia Pacific's stock markets have been badly hit, and economies will slow as demand for Asia's exports in Europe and the U.S. tapers off – but Asia Pacific will remain the growth engine for the world economy.

Asian growth will lead the global economy both this year and next. According to EIU's September forecast GDP in Asia, ex Japan, will grow by 6.5% in 2008 and 5.7% in 2009. The US economy in contrast, will grow just 1.8% in 2008 and 0.6% in 2009.

This is not going to be a replay of the 1997 Asian financial crisis. Banks in the region are generally strong. Most Asia Pacific governments have high levels of foreign exchange reserves. In several countries, notably China, there is scope for tax cuts if consumers or companies need to be encouraged to keep spending.

Most employers in Asia expect their businesses to keep growing. Indeed, some multinationals now place an even higher priority on Asia-Pacific expansion plans, as business opportunities wane elsewhere. Asia will get another boost as multinationals step up plans to offshore work to lower-cost locations.

Even in the midst of the financial crisis, a pulse survey of Asia Pacific HR Directors conducted by Watson Wyatt in September 2008 shows that nearly half of





employers expect to keep hiring over the next 3 years. (see Figure 1, p.13)

Watson Wyatt believes that a slowdown is not going to reverse the long term imbalance between the supply and demand for talented employees in Asia Pacific's growth markets. Our research data shows the average annual employee turnover rate was above 15% in Australia, China, India, the Philippines and Singapore in 2008. Skilled employees will continue to have many career options. Employers cannot afford to relax their focus on attracting and retaining key employees.

Our September 2008 pulse survey shows that 77% of employers believe that a shortage of talent will remain an impediment to their growth plans in Asia Pacific. China is the most bullish market in the region: 88% of multinationals operating on China still believes this to be their most challenging business issue. (see Figure 2, p.14)

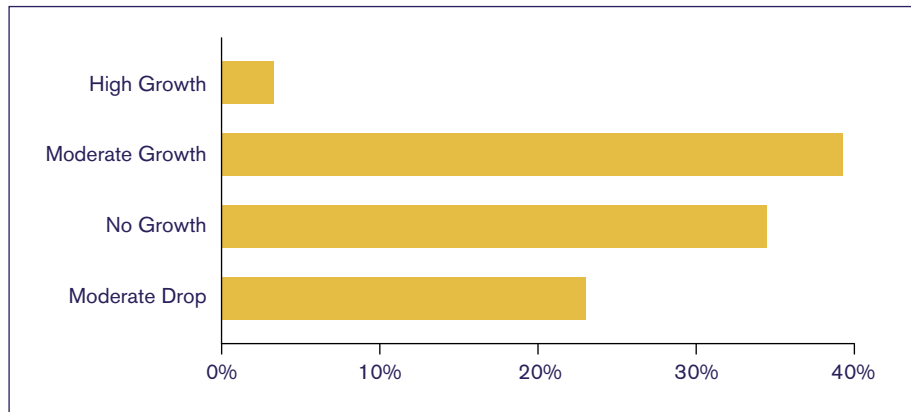
Balancing Cost Control Versus Long Term Opportunity

It would be naive to think that business can blithely ignore short term realities. The 1997 Asian Financial Crisis is still fresh in the minds of many managers in Asia Pacific, and they are more prepared than their counterparts in other parts of the world for a slowdown. Watson Wyatt's Global Total Rewards Study 2008/09 shows that 84% of employers in Asia Pacific have established contingency plans for an economic downturn, compared to just 67% in the US.

Contingency plans in Asia Pacific need to be highly targeted as the extent of the slowdown will vary markedly between different countries in the region. Our Study shows that the top 3 potential actions being considered by Asia Pacific managers are:

- organizational restructuring
- hiring freezes
- lower salary increase budgets in 2009.

Figure 1: Most employers plan to keep hiring in the next 3 years



Contingency plans in Asia Pacific are generally less severe than those of US employers. In the same global study, US employers most frequently mentioned layoffs, followed by organization restructuring and a hiring freeze when outlining their contingency plans.

Managing in a Slowdown

Leaving staff in the dark as uncertainty mounts will undermine morale and motivation. It's also crucial to communicate regularly within the senior management team so that regional and head offices understand in real time which locations and business lines are



“ A global hiring freeze could damage parts of the business that are still doing well ”

most exposed. This will avoid one-size-fits-all solutions, such as a global hiring freeze, that could damage parts of the business that are still doing well.

In a period of high uncertainty, HR managers need to review where key talent would be most productively employed around the Asia Pacific region. Now is the time to reassign employees to locations and business lines where there is the greatest need. This can be a real opportunity to expand the roles of high-potential employees.

Bonuses should go to the employees who are really driving the business. Some employers will increase performance-based bonuses whilst freezing base salaries. Sales targets may need to be recalibrated so that frontline sales staff are motivated by achievable targets in more difficult market conditions.

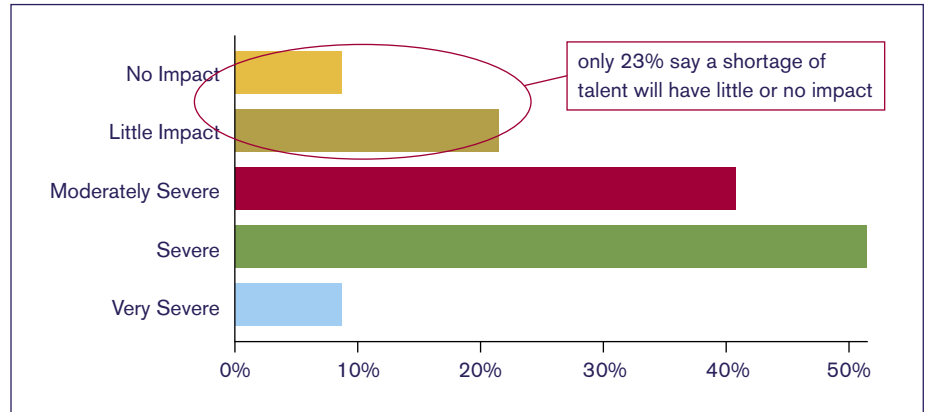
Falling stock prices have devalued stock options and other stock-based incentives, but repricing these would raise highly sensitive governance issues. Mindful of the downfall of some major financial institutions, Boards of Directors will now be cautious about incentives that might encourage executives to take excessive risks. This is an appropriate response to recent events but should not be taken to extremes: business will never be a risk free activity. Executives should be rewarded for financial performance provided that both the risks and rewards of the decisions that generate that performance are fully understood and well managed.

“Engageable Moments”

An engaged workforce is a highly valuable asset, yet economic uncertainty can easily undermine the value of that asset. Watson Wyatt’s WorkAsia study of employee engagement levels in 12 countries in Asia Pacific has already measured a decline in engagement over the last year. In Hong Kong, for example, in 2007 only 11% of employees said they would consider a new job if offered a 10% increase in pay. In 2008, as signs of an economic slowdown appeared, 37% of Hong Kong employees said they would consider it.

Companies that have invested heavily and publicly in talent management in recent years need to be especially careful about communicating the impact of a slowdown. The value created by years of investment will be undone very quickly if employees sense that their bosses’ “commitment to people” evaporates at

Figure 2: Impact of talent shortage on growth plans in Asia Pacific



the first sign of trouble. Employees will have long memories.

If a restructuring, merger or round of layoffs becomes a business necessity, the manner in which such major changes are managed will be a defining how employees view their company for many years to come. Paradoxically, difficult times can provide what Watson Wyatt calls “engageable moments”, when organizations form a stronger shared culture as employees band together to address a crisis.

Emerging Stronger from a Slowdown

HR Directors in Asia Pacific find themselves caught in a tug of war. As business slows down, there’s heavy pressure from global HQ to cut costs. Yet this is also a window of opportunity to acquire businesses, hire people and build long-term loyalty among existing employees. Every employer in the region needs to find its own balance between short-term imperatives and longer-term opportunities.

Watson Wyatt believes that those companies which can manage through an economic slowdown, whilst remaining visibly committed to the future of their key people, will be the long term winners in the region. **W**



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