

CAHRS Working Group—Human Capital Challenges for the Emerging Market

February 5, 2013 — Singapore
Hosted by American Express

Author's Note: Given the disparate nature of the items discussed during this session, the notes are organized along the lines of "Topical Areas" rather than the chronological order of what was said in the meeting.

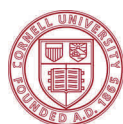
Opening Comments

The group was welcomed by Steve Miranda of Cornell and Aveenash Tewari of American Express (AMEX). After introductions, Steve shared that for the purposes of this Working Group (WG), both India and China would be excluded from the discussions. This was to allow the group to focus on issues unique to markets that are growing very quickly but that do not often get the focus and attention as an India or China.

On February 5th, 2013, CAHRS Managing Director Steve Miranda facilitated a day-long Working Group (WG) on the Human Capital Challenges for Emerging Markets (EMs). The session focused on challenges unique to Asian EMs and how companies are dealing with these issues. The WG was held in the Singapore office of American Express and attended by 23 individuals from 17 CAHRS partner and guest companies. These included Abbott Labs, Alcatel-Lucent, American Express, Caterpillar, Chevron, Cigna, Cisco, Corning, DBS Bank, DuPont, Ericsson, Hewlett Packard, Ingersoll Rand, Lubrizol, Merck, Procter & Gamble, and Singtel.

What Should you Consider Doing Prior to Entering an EM?

1. Make sure you do a pre-assessment of the overall talent landscape in the country. Companies are often surprised at the widely varying range of capabilities (both skills and behaviors) available in differing EMs.
2. Don't rely too much on consultants. There was uniform agreement that while consultants may be able to add value on a *specific* issue, study or analysis, they were not very helpful when trying to get a handle on the broader issues. It was agreed that the best way to get a broad set of learning from people who have actually "done the work" was to participate in forums with fellow HR practitioners who are also responsible for HR in EMs.
3. One participant company spent a year assessing the broader talent landscape in the ASEAN region after deciding to make a major push into a new business area. Following this analysis, it was concluded that rather than acquire human capital on a one-by-one basis, a broader ASEAN-based acquisition would be more effective. This enabled the company to get an instant legal, financial and employee presence in each of the markets it was considering entering.
4. Another partner company was contemplating a major JV alliance. Prior to moving on it, the company engaged a firm to evaluate both the overall business and political climate in the country as well as the potential partner. The firm felt that this was both extremely valuable and would recommend that this be done by any organization contemplating setting up a manufacturing/production joint venture, especially where concerns about both local labor laws and intellectual property infringement might come into play.



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5. Some of the specific questions to evaluate prior to deciding to enter into an EM joint venture might include:
 - How easy is it to file and attain a patent?
 - Are there any particularly onerous legal constraints we will operate under?
 - What is the political landscape and is it likely to change significantly in the near future?
 - How easy is it to procure licenses?
 - How skilled is the local workforce?
 - How strong is the local (not national) economy and will this work to our advantage or disadvantage?

6. Another set of questions from a labor relations perspective might be:
 - How flexible are the local labor employment laws?
 - How strong are the local unions? Do they have national ties to the government?
 - What is the local unemployment level?
 - How robust are the neighboring educational institutions which we will look to for our junior hires?
 - What is the general education level of the surrounding population?

One of the partner companies shared that one of its units used this sort of “disciplined approach” when looking into a specific site location in a country and decided to actually change the city in which to do the JV. Simultaneously, another unit within the same company did not use this approach and wound up starting, shutting down and ultimately relocating the manufacturing JV – all within a year.

7. Make sure your employees are educated on the legal requirements your corporation must act under. This is especially true if you are a UK (Anti-Bribery Act) or US (Foreign Corrupt Practices Act) headquartered company. Some companies indicated that they are making a discussion of ethics part of the recruitment process rather than wait until the employee are on-board.

What are the Unique Human Capital Challenges to EMs in Asia?

1. Have a clearly thought out strategy when it comes to selecting employees for future global roles vs. employees you wish to develop to be either country or regional leaders. One of the participants shared that his/her company requires individuals to have at least managed at a country or regional level prior to assigning them any sort of global responsibility.

2. Make sure a discussion of talent acquisition and retention is included as a core part of your EM entry strategy. Companies repeatedly do not appreciate how difficult this will be and do almost no preparation prior to their business entering a new EM. Because of unique technical requirements, some industries (e.g., telecom, high tech, etc....) do not have large pools of available candidates. This means that poaching from competitors is often the primary recruitment method used.

3. If you find yourself in one of these industries in an EM, a good strategy is to target a “neighbor” industry which may have talent which is a “close enough” of a fit for what you’re looking for. An approach that one of the participants used was to contract with an executive search firm to go into a given EM and complete a talent inventory of the “movers and shakers” in the targeted market. The search firm was also tasked to look for “talent magnets” or individuals who had a proven track-record of attracting other key players to their company.

4. For individuals in EMs whom you are not able to attract to your company, top leaders need to understand the critical importance of bringing them into your personal network. Even competi-

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tors are often eager to discuss challenges they are facing with each other as long as sensitive or proprietary information is not being divulged.

- Do not be surprised by what you may consider to be “unrealistic” employee expectations relating to titles, career advancement and compensation increases. Because EMs are so “hot,” employee turnover is and will most likely continue to be quite high in the years ahead. In addition, employees in EMs are much more demanding about career progression in that they are not only asking about the current role but about what opportunities the company will provide over the next three to five years.

What’s Going on in Terms of Recruitment and Retention in the Asian EMs?

The group spent time discussing the difficulty of sourcing talent in various Asian EMs as well as the current levels of employee turnover being experienced by the various companies represented at the Working Group. Their conclusions are shown below:

| Country | Difficulty of Sourcing Talent | Current Employee Turnover Rate Experienced by WG Participants |
|-------------|-------------------------------|---|
| Cambodia | 3 | 15-25% |
| Indonesia | 2 | 20-30% |
| Laos | 3 | Too Soon to Tell |
| Malaysia | 1 | 15-20% |
| Myanmar | 3 | Too Soon to Tell |
| Philippines | 1 | 10-15% |
| Thailand | 1 | 10-15% |
| Vietnam | 1 | 15-25% |

Key: 1 = Quality of talent good, relatively easy to source
 2 = Quality of talent OK, some difficulty sourcing
 3 = Quality of talent highly variable, very challenging to source

Facilitator’s note: Shortly following the session, two compensation consulting groups released their latest forecasts for 2013 salary increases in various Asian markets. The Hay Group forecasts: Vietnam 12.8%, Indonesia 10.6%, India 10.5%, China 9.5%, Philippines 8%, Malaysia 6.2 %, Thailand 6%, Korea 5.3%, Australia and Singapore both 4% and New Zealand 3%. The Aon-Hewitt forecasts: India 10.3%, China 9.3%, Philippines 7.2%, Malaysia 6%, Hong Kong 4.8%, Australia 4.2% and Singapore 4.7%.

What EM Areas are Most Different When Compared to More “Stable” Markets?

- Accept the fact that wage rates move very quickly in EMs and that while an annual 2 to 3% salary increase may be the norm in your corporation’s developed markets, double-digit increases – sometimes two to three times per year – are not unusual in some of the hotter markets.

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2. One partner shared that after concluding a long search for an executive, he/she found out the individual was in the process of negotiating an even richer deal with a competitor company during his/her new hire orientation session.
3. Even though China was not part of this WG's focus, one partner shared that in-wage structures changed three times in that market in 2012. While many MNCs were *not* able to move quickly enough to respond, Chinese State Owned Enterprises (SOEs) and large publicly traded Chinese companies did, grabbing much needed talent from a variety of competitors. There was a belief that this same phenomenon would occur once stronger Asian EM corporations developed.
4. It's critical that any C&B package be positioned and explained within the local context as opposed to whatever global framework you have in place. While a global framework is useful for the development of an overall strategy, local hires must have the package communicated and marketed to them in a form and manner they understand. Specific examples include tax incentives for housing and car allowances, mandatory vs. optional retirement schemes, etc...
5. While a global C&B strategy is useful, it is not a good idea to stick to it too rigidly. This is because your company needs to recognize that the very things that allow them to pay "at market" wage rates back in their home country (e.g., company reputation, employment brand, etc...) may have zero value in an EM. As such, you will most likely have to pay a premium in order to attract the level of talent your organization requires.
6. Understand that in some jurisdictions, any decrement to the benefits package must be negotiated with the employee. Specific countries in which this is true are Thailand, Indonesia, Malaysia and Vietnam. In other countries, this also holds true when dealing with changes to the Sales Compensation scheme.
7. Compensation confidentiality agreements are not culturally relevant in many of the EMs. So be prepared for employees to know what other employees are making, non-disclosure agreements notwithstanding.
8. Long-term incentives (e.g., restricted stock, options, etc...) are not as valued in EMs as cash. This is because many EM employees don't plan to be with the same employer for three to four years and prefer to have the cash up-front. Putting too much faith in your long-term plan as a solid retention device is often a mistake because employees are most likely planning to move twice in the next three to four years, each time targeting an increase of 20 to 40% in their cash compensation.
9. Do not underestimate the high levels of bureaucracy present at all levels within many EM governments. Procedures that may take one to two months to finalize in one country may take up to a year in certain EMs. Help to educate Corporate that regulated industries (e.g., banking, finance, telecom, etc...) may face especially onerous legal and employment hurdles. All of the participants believed that certain EMs make these processes harder for non-domestic companies in order to slow down the ability of non-local competitors to proceed more quickly.
10. Be aware that some EMs may require either a certain position or a certain percent of overall management positions to be staffed by locals. Changes to both local and national labor laws (e.g., Vietnam's recent ruling on labor unions, Indonesia no longer allowing certain types of outsourcing, etc...) come at varying frequencies within EMs and companies need to be sure to stay on top of this.

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11. Many of the participants also felt that western MNC's legal teams usually take a more conservative approach to any new legal ruling and as such, often put their own company at a disadvantage to a local firm who may "...not be moving as quickly..." to implement the new change. There was also agreement that EM governments often enforce these new rules more quickly and strictly when non-local companies are involved.

What are Some Key Areas You've Had to Deal With That are out of the Ordinary?

1. Do the appropriate homework to understand your company's perceived value proposition and brand image by the given EM's national culture. Some companies can play this to their immediate advantage as particular industries may be viewed "less critically" as an employer in Asia than might be the case in "the west" (e.g., tobacco, alcohol, etc...).
2. Don't underestimate the impact of societal expectations and family ties when asking individuals to move to non-local assignments (both in-country and out-of-country).
3. Be aware that just as in Western countries, certain cities or locations within a given EM may be viewed as much less desirable than others. This is often related to concerns around security, pollution, the lack of local infrastructure and general quality of life.
4. Participants also felt that organizations often under-leverage their government and local business development organizations (e.g., Embassy and Chamber of Commerce) and that these orgs can provide a treasure chest of insight as it regards what has and has not worked in the past.
5. With the fundamental question from employees being, "How much are you going to invest in *me* to ensure my skills are always up-to-date?" all of the partner companies agreed that L&D programs have a much greater impact in Asian EMs than in more stable western markets. As such, there was uniform agreement that use of formal education and training programs are great ways to meet employees' development demands.
6. Do not underestimate the power of the local HR network to provide you with answers to tricky problems. It's especially critical to develop these networks in order to help you evaluate which local HR practices are legitimate and valuable vs. those which have simply been carried forward and never questioned. This is especially true when dealing with non-mandated benefits.
7. In some countries, a growing sense of nationalism has resulted in a rebirth of pride in the national language. Malaysia was cited as one country where this is happening. The group concluded that it will be interesting to see, in markets such as these, how the government will attempt to balance a need for national self-esteem against the market realities of English as an almost mandatory required global skill.
8. There was uniform agreement that everyone wishing to rise to an Executive level within the organization would have to have strong written and verbal English skills. This was not because lack of English skills made them less qualified from a technical or managerial perspective but because of the key roles of Executives to actively promote and sell ideas within the organization. The challenge with this is that local companies who are also looking for great talent have no such constraint in terms of only wanting good English speakers at the top. As such, they often provide a more "welcoming" environment for local mid-level talent.

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9. Corporate Social Responsibility (CSR) is viewed as important to many EM employees. Some participants indicated that their organizations are trying to get multiple benefits from their CSR investments by contributing to efforts which have the added benefit of simultaneously improving infrastructure (e.g., roads, hospitals, communication, etc...)

What Specific Steps Have you Taken That Have Helped in EMs?

1. One partner shared that its company had created a program to build the brand image of the company in the eyes of the employee's family. Unlike most western countries where this would be viewed as an inappropriate intrusion, family influence is extremely strong in all of the Asian EM cultures. This is especially true in markets such as India, Indonesia and Thailand. As such, appropriately engaging with the parents and grandparents of an employee can potentially help with retention. One way to do this is to hold various events during the course of the year where the entire family is invited as well as planning various CSR initiatives to both include and be advertised to family members.
2. Another approach was to allow employees whose work prevented them from taking advantage of educational benefits to "transfer" that education benefit to his/her spouse. So far, this program has proven to be enormously popular.
3. Put in place both short- and long-term initiatives to deal with the widely varying level of English capability (both spoken and written) at levels below the top economic strata of the population. Almost all of the participants agreed that for the top one to two levels within your organization, the ability to speak and write English well was a must. However, at lower levels and for certain mid-level roles, this requirement was less stringently enforced. Partners unanimously agreed that the general quality of English has been getting much better over the past 10 years but that Japan continues to be problematic.
4. Find a reputable labor lawyer who can keep you updated on any changes to employment law. This can be done by either engaging a global law firm or using a recommended local attorney who specializes in labor law. Note that this was one area where the group agreed that a highly specialized consultant could be of great value to your organization.
5. Have labor lawyers inform you about both mandatory and traditional employee separation/downsizing/redundancy costs prior to entering into a new market. The group generally agreed that the most problematic emerging markets in which to separate employees were Korea, the Philippines, Malaysia and Vietnam. In addition, the group cautioned that separation amounts are often influenced by different "umbrella" unions which may have greater or less say on the outcome depending upon the particular industry you are in.
6. One partner company shared that prior to going into a set of markets, it had hired a firm specializing in demographic data and surveys to go into the relevant markets and research both the quality of capabilities available in the market as well as the key employment motivators. The goal was to determine whether the programs it had in place in other EMs would work in the new market or whether significant changes would need to be made to the value proposition. The company was surprised to learn that what was working for them in their current EMs would, for the most part, *not* work for the new emerging market they were targeting. This upfront research avoided a major mistake in where to locate a proposed manufacturing facility.
7. Do not ignore planning for potential personal/personnel security issues (e.g., political unrest, religious unrest, fomented nationalism, etc...). Ensure your policies and procedures are implement-

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ed in a way that your local employees do not feel that they are viewed as “second class citizens” to expats.

8. Employee referrals are a good way to source low- to mid-level employees, especially if you make it clear that a particular level of English proficiency is required. However, in EMs where strong family connections, religious affiliations or school networks are the norm, it’s important to be aware of how many of any particular “group” of people your organization is bringing in.
9. Employee Sourcing of top-level positions is best done using a search firm.
10. For markets in which they have both a long-term interest as well as high levels of employee turnover, one participant company has established a university scholarship program consisting of full tuition, internships and a job offer after graduation. The goal is to lock up talent early while simultaneously developing a strong local employment brand. The company is also seen as helping to “nation build” and as a result has improved its relations with government officials at both the country and local level.
11. When interviewing EM locals for managerial positions, make sure to ask about who else they know in their particular field as well as whom they might be able to convince to join the company.
12. Include a realistic evaluation of how the lack of dependable infrastructure (roads, communications, medical facilities, etc...) will affect both your business and HR operations/policies.

What’s Different About Managing Leadership Development in EMs?

1. Accept the fact that any programs you develop must accommodate the need to develop leaders for local initiatives against the desires of top-performing employees for an out-of-country assignment. One partner company shared that when it asks top talent in the emerging Asian markets to rank order which countries they would be able to move to, two always came to the top of the list: Australia (because it’s close by) and whichever city in the USA the company’s HQ was located.
2. Participants shared that they have had much less luck in getting high potential employees interested in “less glamorous” markets. Various partner companies also shared that when employees move from one country to another, the new norm is to have them move from one local package to another local package, with formal expat packages becoming more and more rare.
3. While specific skillsets are sometimes hard to find, many organizations have been pleasantly surprised by the learning agility they have found in newly hired employees in EMs. One partner shared that its corporate culture is one where those who wish to rise to an executive level must have spent time in one or more of the “less attractive” markets in order to gain a full appreciation of how their industry really operates.
4. Your development programs should also provide attractive career opportunities for employees who declare themselves “not mobile.” One participant shared that the way its company approaches the issue of personal growth is to cluster countries together. This provides greater opportunity for employees to increase their levels of responsibility while not necessarily having to relocate to another country. It was also viewed that this approach provided for far better teamwork across the region as individuals very quickly started to think more broadly in their expanded roles. One major challenge with this solution is to clearly define what value the role of the Country Manager provides when compared to these cross-regional leaders.

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5. Be aware that many citizens of EMs have a long-term “target country” in mind for where they eventually want to move. While the USA, Canada and Australia continue to top this list, other intra-Asia countries are increasing in popularity. This must be taken into account when working with high potential employees who you wish to develop and keep as long-term assets.
6. Be wary of the employee who moves from his/her home country to the HQ country and then wants to return to the home country as an Expat. Doing this will cause all sorts of issues with other local employees.
7. Do not underestimate the impact of your employment brand on your ability to source future leaders. One under-leveraged facet of employment brand in EMs is Work-Life balance. In general, work-life integration is becoming as important for younger workers in EMs as for workers in developed nations. One technique that has also worked very well in EMs is to *not* brand the company but to put people into a development program and then brand the program (e.g., “The XYZ Company’s Future Myanmar Business Leaders Program”).

Tips for Dealing with the Corporate Office

1. Prepare Corporate to understand the fact that while the GDP per capita in a given EM may be very low, associated salary levels for qualified individuals are not commensurately “cheap” (i.e., many companies confuse the GDP level with what you actually have to pay in order to attract and retain an appropriately qualified individual).
2. All of the partners who had gone into EMs in search of reduced labor costs (vs. going in for the purpose of opening new sales territories) stated that every proposal to do so should include a full-stream cost analysis of what your total expenses will really be. This was especially true for R&D operations where the cheaper initial cost of producing a piece of software or manufacturing a specific device might be overwhelmed by the later need to spend lots of money fixing errors and/or dealing with upset customers.
3. Do your homework to understand your “exit” costs if you decide to either exit the market completely or undergo major retrenchment or downsizing initiatives. This is especially true if someone from Corporate is pushing for entry into a given market because “we just have to be there!” Many of the participants shared that their HQ colleagues were quite shocked at some of the EM legal requirements when it came to employee dismissals.
4. Take steps to ensure that Corporate does not view Asia as a part of the world that is “...just one natural disaster after another.” The negative press associated with recent events caused some of the participants in the room to feel that their corporate colleagues are less willing to commit to Asia because of this highly irrational concern.
5. The most critical thing to get Corporate to understand is that it is very difficult, if not impossible, to construct an “Asia strategy.” Rather, given the widely disparate nature of both markets and employees, an overall framework is required that allows for the creation of multiple integrated country-focused strategies. This applies both to business and human capital.
6. Educate corporate to understand that any organizational design for an EM must be relevant and productive (e.g., what corporate may have in place in countries where more employees are present may not make any sense at all in an EM with a significantly smaller employee base).

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Connecting HR and the Business

In addition to discussing the topic at hand, the group had the opportunity to hear from American Express' Vice-President and General Manager for Global Corporate Payments, Jennifer Berthold. Jennifer provided the group an overview of AMEX's work in the region as well as an update on a series of key AMEX business/human capital initiatives. While AMEX has several programs currently in play, they have recently focused efforts on five key themes:

1. **Culture:** Building local leadership in Asia as well as the creation of a “culturally intelligent” workplace.
2. **Gender:** How to address the lack of women in senior leadership roles in Asia.
3. **Generation:** How to effectively combine the skills of the new, younger workplace generations with those of more experienced workers.
4. **Work/Life integration:** How to best balance cultural norms against employee needs.
5. **Disability:** How to best embrace people with disabilities in the workplace.

During closing comments, the group agreed that the topics covered can serve as very effective “checklists” for corporations to think through either prior to or after launching business operations in a given EM. The participants also agreed that the insights collected during the day do not necessarily apply to all EMs but taken as a whole, accurately reflect the key issues. They also strongly agreed that while the recommendations may seem obvious, every one of them had either stumbled or not been aware of several of them as they moved from strategy to implementation in various Asian emerging markets.



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