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China and Hong Kong Compensation Trends and Outlook

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The Asia Pacific context

Taking a quick scan of the globe as we begin 2013, the economic recession in the West is still on and the debt crisis has yet to be resolved in the Euro zone, China is showing signs of an economic slowdown in exports. Though there recently have been encouraging employment figures in the US, the fiscal debt situation and other knotty issues are far from resolved.

Zooming in on Asia Pacific, economic growth in this area slightly decelerated in 2012 compared to 2011. In 2012, Asia Pacific markets enjoyed mostly stable GDP growth and healthy inflation rates (with the notable exception of Vietnam), which contributed to the overall moderate growth. China's GDP remained close to double-digit (9.2% in 2011) fueled by ever growing domestic consumption. However, India's growth slowed significantly from 9.6% in 2010 to 6.9% in 2011, mostly due to political instability and lower investor sentiment.

According to Aon Hewitt's recently released 2012-2013 Total Compensation Measurement Survey™ employers in Asia Pacific have kept a close watch on both the inflation and growth rates, and were cautiously optimistic in determining salary increases in 2012 and projections for 2013. In Hong Kong and Singapore, two of Asia Pacific's most mature markets and financial hubs, employees have enjoyed average salary increases of 4.8% and 4.6%, respectively. In other Southeast Asian countries, increases hovered around 6% (6.2% in Malaysia, 6% in Thailand, and 6.7% in the Philippines). However, in Indonesia, the average salary increase reached 8.3%, due to its unprecedented and stable economic growth.

The overall outlook for Asia Pacific in 2013 is again cautiously optimistic, although infrastructural and financial investment will be limited, in view of continuing global economic uncertainty. Firms are still expected to grow revenues in spite of budget constraints, thus merit-based salary increases and variable pay will become more important than ever in attracting and retaining top performers, given the widespread "talent crunch".

China Outlook

Aon Hewitt recently released its annual 2012 China Human Capital Intelligence Report encompassing remuneration trends and the latest HR developments in more than 10 key industries, including real estate, financial, pharmaceutical and medical equipment, high technology, automobile, consumer products, retail, chemical products, logistics and manufacturing. The research included over 4,000 foreign-invested and leading local enterprises in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, as well as other major second and third-tier cities.

Upward trends in China's salaries and staff turnover

Our research showed upward trends in both China's national average salary increase and its staff turnover rate for 2012. The 2012 national average salary increase was 9.1% was accompanied by a turnover rate of 18.9%. In the four first-tier cities, the average salary increase in the manufacturing sector was 10.1% in Guangzhou, 9.8% in Shanghai, 9.8% in Beijing and 8.9% in Shenzhen. The average salary increases for the non-manufacturing sector were 9.5% in Beijing, 9.3% in Shanghai, 9.1% in Guangzhou, and 8.9%in Shenzhen. In second and third-tier cities, both the average annual salary increase and turnover rate were higher than the national average.

The gap between the inland and the coastal areas, where most investments are concentrated, is gradually narrowing amid a hotly contested talent market. For example, salary differentials between second and third-tier inland cities' and second-tier coastal cities' front-line workers were less than five percent.

The real estate industry experienced an overall salary increase of 7.9 percent, which was slightly lower than in 2009 and 2010. Salary increases in this industry are expected to slow down in 2013. In 2012, the job category that witnessed the greatest expansion was "sales and business development", which has increased by up to 42% in Shanghai. This is mostly due to the new regulations that pushed residential real estate companies to transform into commercial real estate businesses. Demand for these jobs is expected to remain high in 2013.

Talent availability in second-tier cities tighten

Higher salary increases and rising staff turnover rates have increased the risks for employers in second and third-tier Chinese cities. For example, in Chongqing and Nanjing, the voluntary turnover rate in 2012 was 22.3 percent and 19.4 percent respectively (up from 9.6 percent and 7.3 percent, respectively in 2006). Another key industrial city, Wuhan, is highly coveted by investors due to the availability of abundant educated workforce. However, with the war for talent intensifying, the turnover rate has climbed from 9.4 percent in 2004 to 14.2 percent in 2012. Such high turnover will lead to higher recruitment and training costs for employers and stagnation in the talent supply chain. This, in turn, will surface new labor and business issues for enterprises invested in Wuhan.

According to Peter Zhang, Global Partner and Vice President of Aon Hewitt Greater China,

"High salary levels, pushed up by high cost of living in coastal cities, have resulted in the relocation of a large number of manufacturing research & development units inland, causing a shortage of talent supply in these second-tier cities. The ensuing intense war for talent has led to escalation in compensation and employee turnover. Consequently, new concerns related to hiring local talent for mid-level management positions in second-tier cities (as opposed to importing them from coastal cities) have increased the risk and cost of moving inland."

High staff turnover impacts retail sectors

Aon Hewitt's research shows that the high turnover rate in China have particularly impacted industries geared toward domestic consumption, such as the retail and fast-moving consumer goods sectors. Staff turnover rates in 2012 were 31% in retail, 26.6% in high-tech/manufacturing, 19.5% in fast moving consumer goods, and 19.2% in the health care industry. High staff turnover rates have contributed to high salary increases. Salary increases in these four industries reached 9.1%, 9.6%, 9.65% and 9.5%, respectively, in 2012.

Peter Zhang said, "Salary increases and staff turnover rates are together an excellent barometer of changes in a sector. Our figures clearly demonstrate that these four industries are bearing the brunt of talent shortages caused by industrial expansion."

Hong Kong Outlook

While the inflation rate in Hong Kong is slightly easing since the 10-year high experienced in 2011, domestic consumption displayed some strength and contributed to the overall moderate growth.

According to Aon Hewitt's 2012 Salary Increase Survey, employers in Hong Kong exercised caution in budgeting salary increases for 2013. The salary increase projected for 2013 in Hong Kong remains stable and cautiously optimistic at 4.8%. This keeps increases in the same league as in 2011 and 2012, but higher than back in 2010 (when Hong Kong was coming out of the global financial crisis and actual salary increases were lower across the board at 3.1%).

Tzeitel Fernandes, Head of Aon Hewitt's Broad Based Rewards and Executive Compensation Consulting practice in Hong Kong, commented: "Firms across Asia Pacific are beginning to accept that they can no longer rely purely on pay to attract and retain key talent. Budgets will remain tight; those who are able to achieve more with less are the ones who will emerge victorious in the war for talent".

Comparing sectors, our survey reveals that the insurance sector is projecting the highest increase for 2013 at 6.1%, followed by consumer products, health care & medical services, and life science, all at 5.2%. Fund management and high-tech sectors, at 4% and 4.6% respectively, are expected to experience the lowest increases in salaries.

One expression of the overall cautiousness exercised by organizations surveyed is that 2.9% of them actually froze salaries in 2012 (more than the forecast of 2.1%), and 2.1% are also planning to freeze them in 2013.

David Leung, Compensation Practice Lead with Aon Hewitt, remarked: “Companies are cautious when it comes to budgeting pay rises. Economic uncertainties are still impacting their businesses, yet they are competing for talent and having to manage shortages in many job categories. The unemployment rate has been low in Hong Kong over the past 12 months, making this situation all the more challenging.”

According to the survey, although economic activities slowed down slightly in the first half of 2012, the labor market saw a slight increase in employee voluntary turnover. The average voluntary turnover rate rose from 12.9% in 2011 to 14.4% in 2012, with the highest overall turnover in the health care industry (25.2%), closely followed by the retail sector (24.8%). The primary reason for voluntary attrition, cited by 83.3% of the respondents, remains “better external opportunities”. In response to rising staff turnover, companies are instituting such measures as “accelerated career development opportunities” (55.4% of respondents), “pay above market” via off-cycle market adjustments or merit increases (49.4%), and “timely and meaningful feedback from managers” (39.8%).

This year, we also measured “key attraction” factors for new joiners. Unsurprisingly, “competitive fixed compensation” came first (68.5%), followed by “work environment, including leadership, culture, flexible work arrangements” (65.2%), and “career development opportunities” (53.3%). Interestingly, the reasons why employees join an organization often differ from the reasons why they remain with an organization, except when it comes to the all-important career development driver.

On the variable pay and incentive front, the vast majority of respondents indicated that there will be no significant changes in bonus plan design this year. In an environment of stiff competition for talent, organizations are increasingly linking pay and performance to ensure alignment between their rewards policy and business development strategy. In 2012, as in 2011, their primary focal points remained regular communication/training on the rewards plans and enhancing the linkage to individual performance.

Maximizing rewards value in an era of cost control

The key takeaway of the 2012-2013 Total Compensation Measurement Survey™ is how critical it is for employers to maximize their rewards policies and communications to cater to the various demographics in their workforce – top performers and high potentials, genders, age groups - thus fostering high performance and enhancing employees’ engagement and productivity.

Rick Payne, Aon Hewitt’s Practice Leader for Talent & Rewards in Asia Pacific, concluded: “In times of economic uncertainty, where there is greater competition for the best talent, organizations must be more innovative in the way they package their rewards programs. With a finite salary increase budget, they must define their priorities in terms of talent profile, and shape their rewards practices to give greater emphasis to career development, performance, and engagement. In that sense, they need to understand what makes their talent groups “tick”, and adapt their rewards strategy to precisely support those drivers”.

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