

Asia During Crisis:

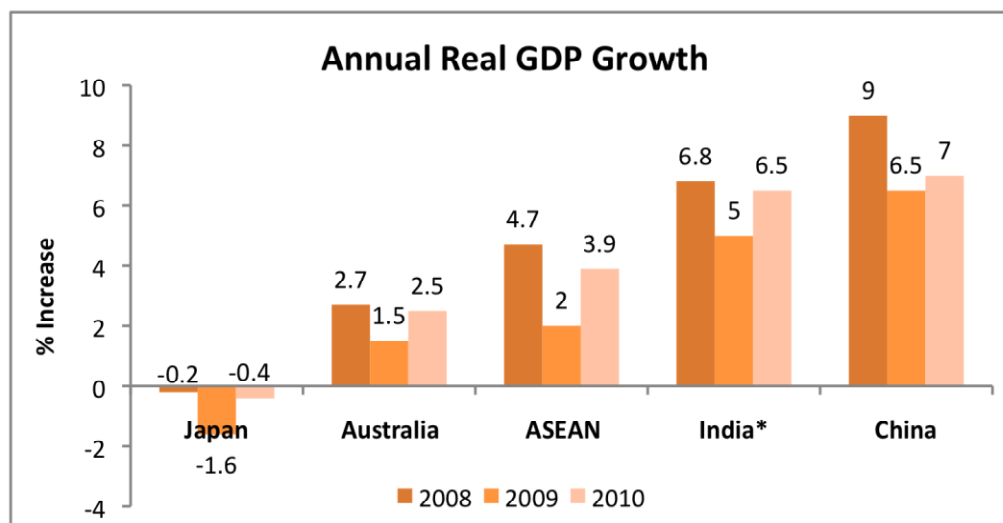
How HR Can Cope With Asia's Economic Downturn

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Asia During Crisis: How HR Can Cope With Asia's Economic Downturn

The economic slide has gather speed with Japan, South Korea and China reporting sharply reduced exports and GDP growth. Recession has taken hold of the export-dependent economies of Hong Kong, Singapore and Taiwan. Singapore is expecting as much as 5% decline in GDP in 2009 despite sharply increased government spending. While India and Indonesia appear more resilient, they too will not escape the ill winds brought on by the global financial crisis.

With deteriorating business conditions across much of Asia almost certain this year, HR professionals need to be ready for the worst. At the same time, they must not over-react and should be alert to opportunities. The impact of the downturn is not consistent across industries or countries. Unlike in the US or UK, balance sheets for households, corporates, financial institutions, and governments are in good shape in much of Asia. Consumer credit is modest, bank failures are unlikely and government debt is manageable. Remember: risk indicators for the region have steadily improved over the last five years just as those in advanced economies have deteriorated.



*Data for India is in fiscal year April – March

Source: *Asia Forecast Book, January 2009*, International Market Assessment Asia Pty Ltd

Business prospects depend on your company's industry, business profile, and global integration. Reduced fixed investment and the reluctance of banks to loan will hurt those selling capital equipment or consumer durables. Curtailed consumer credit and spending in the US will hit exporters of consumer products hard. Headquarters of globally integrated firms are likely to demand cutbacks in Asian operations regardless of local market demand.

Not all companies face a depressing forecast for 2009. Those focused on infrastructure improvements may see new opportunities from much higher government spending, especially in China. Those focused on sales in Asia's domestic markets will experience slower growth but may not see the sharp decline in sales suffered by those that rely primarily on exports to North America and Europe.

HR Scenarios For The Downturn

With Asia's economic forecast as background, HR practitioners must prepare for the challenges of the coming year. Thoughtful preparation for positioning HR policies and practices in Asia in 2009 requires a systematic four-step process.

1. Build best, likely and worst-case business scenarios.
2. Identify the areas of HR risk in each scenario.
3. Find ways you can reduce your exposure to risk.
4. Pinpoint ways in which you can gain long-term advantage.

Three Business Scenarios

The first step is to build likely scenarios based on your current business prospects. Among the many issues that the scenarios should consider are the nature of your industry, the role of credit, and the geographic spread of your operations in Asia. While the scenarios must be specific to your own company's business profile, the table below provides an example of what the scenario might look like.

Worst Case	Likely Case	Best Case
Economy declines for two years or more leading to severe recession across the region.	GDP growth is negative for 2009 in export-dependent economies but up turn begins in 2010.	Economic growth remains sluggish for the first half of 2009 but begins to pick up in the second half across the region.
Investment sharply declines and commodity prices fail to recover; governments unable to fill the gap with increased spending.	Orders are postponed while investments put on back burner; government slowly steps in with increased spending.	Government spending succeeds in "pump-priming" economy; sales recover as business becomes more confident.
Export industries collapse across Asia due to sharply reduced demand in the US and Europe. Demand in local Asian markets follows suit as frightened consumers cut back all discretionary spending.	Lower consumer and private commercial demand hurts business across the region; however, increased government spending ameliorates the impact on GDP growth and corporate profits.	Reduced exports lead to lower consumer spending in export-dependent economies (e.g. Singapore, Hong Kong). However, demand remains resilient in larger markets less dependent on foreign sales (e.g. China, India, Indonesia).

Three HR Scenarios

Once you have outlined the possible business scenarios, the next step is to determine the corresponding HR scenarios. These scenarios should be based on the types of actions that your company is likely to take should they be faced with each of the three business scenarios. The scenarios should include actions that your company is likely to take; not necessarily the actions that it should take. Your company's culture, leadership and decision-making processes should be considered when creating these scenarios. By constructing the scenarios in this manner, you will maintain a practical and realistic approach to your HR planning. An example of three HR scenarios appears below.

Worst Case	Likely Case	Best Case
Freeze headcount while organizing a reduction in force.	Slow hiring to only replacement of essential staff.	Monitor recruitment and control new hires to stay in line with business forecasts.
Freeze salaries and look for cost savings in benefits.	Grant minimal or no broad-based salary increases and differentiate on performance.	Grant modest salary raises and shift toward higher proportion of pay at risk.
Cut training costs and programs down to only essential programs needed to maintain current business.	Continue only those training & development programs that have a direct and measurable return on investment.	Review training programs in light of current conditions to ensure they are delivering the desired impact and value.

HR Risk – The Worst Case

Under the current economic climate, every organization is faced with the same basic priorities:

- Monitor and control costs;
- Link cost to value creation; and
- Keep staff focused and motivated.

Focusing on these priorities alone can create their own risks; however, the greatest risk of all is *uncoordinated, ad hoc and impulsive decisions and actions*. Responding to the financial crisis too quickly can cause serious long-term damage if not properly thought out. It is important to be conscious of the possible long-term fall-out from decisions made as a result of the economic downturn. In some cases, decisions should be reconsidered or actions taken to ameliorate the consequences of the decision.

The risks associated with the financial crisis are far ranging and could be critical to current and future operations. Below are some of the risks associated with four areas of human resources management.

Recruitment

- Reputation damaged due to publicity engendered by layoffs.
- Prospective recruits become wary because layoffs mishandled.

- Failure to recruit creates long-term gaps in talent ranks.

Morale

- Insecurity and uncertainty lead to passivity and reduced commitment.
- Inconsistent and ad hoc communications create a lack of trust and negative attitudes, even bitterness, toward management.
- Staff lose sight of company mission and values.

Retention

- Best performers leave at a time when they are most critical.
- Staff turnover increases sharply as business improves.
- Low performers are reluctant to move even under severest of circumstances.

Talent Development

- Employees become cynical about training and the continued use of expatriates as a consequence of reduced spending on training and development.
- Learning gaps develop among recent hires due to reduced training.
- Staff are unprepared when business returns to high growth.
- Prior investment in training is compromised.
- Training costs rise significantly when business turns up as staff need to make up for lost time.

Long-Term HR Trends Also Present Risks

Surveys prior to the advent of the global financial crisis reveal that during the long period of high growth in Asia, the nature of employee concerns have changed. In addition, the needs of organizations shifted, as they have had to come to grips with shortages of technical and management talent and leadership experience. The importance of these underlying trends may fade temporarily as companies cope with the immediate crisis; however, when the upturn begins, it is likely that these needs and concerns will reemerge with a vengeance.

Surveys conducted prior to the global financial crisis by Manpower China and AC Nielsen point to similar long-term trends in China¹. “Career development opportunities” has replaced Compensation as the principal driver in selecting a new employer according to Manpower China’s survey. In addition, “Advancement opportunities” and “Quality of management” were also among the top five determinants for selecting an employer. Concern over work/life balance is more of concern to employees across Asia than any other region, according to AC Nielsen. In fact, seven out of the top 10 countries worldwide that ranked work/life balance as their most important concern were in Asia.

Clearly, people are looking for more than just a job and a salary. Sensitivity to employee concerns will be important as companies address immediate demands for cost reduction and a shift in business strategy.

Reducing Your Exposure To HR Risk

Identifying the most critical and potentially damaging HR risks to your organization will help you determine the best course of action to reduce or eliminate the risk. The steps that an organization can take to reduce HR risk are based on the best practices in HR regardless of the economic climate. A business downturn simply

¹ *China Employee Engagement and Retention Survey*, Manpower China Research Report, July, 2006; and *Consumer Confidence, Concerns, Spending and Attitudes to Recession, A global Nielsen consumer report*, AC Nielsen, June 2008

accentuates the need to adopt and follow best practices. Failure to follow these best practices in the current environment will have a much more damaging impact than when growth is high, optimism is pervasive and businesses as well as employees' own prospects are rosy.

Reducing your exposure to HR risk entails taking action in many areas simultaneously. Outlined below are some best practices that most likely will take on an added importance during a downturn.

Employee relations

Maintain open communication channels and explain decisions. Younger employees throughout most of Asia have never gone through a downturn before and may not understand what is happening. Even those who have experienced cutbacks may be skeptical of management motives. Open communications can help overcome latent wariness and skepticism.

Understand concerns, demonstrate empathy and build confidence. Loss of income by family members or the fear of losing one's own job can put added pressure on employees. Finding out the true nature of employees' concerns and taking appropriate action to address those concerns can help develop trust and loyalty that can pay off in the long-term. The way in which tough decisions are made and communicated will have a major influence on future employee morale and the company's public image in the market.

Decision-making and Management

Continue to follow HR policies and procedures during the downturn. Continuity helps overcome insecurity. Good performance management and talent development policies will help support the business during a recession. Moreover, organizations need to maintain their HR processes (e.g. performance management, competency development, etc) in order to demonstrate continuity and underline the fact that the downturn will not last indefinitely.

Ensure decision-making remains aligned with corporate values. When an organization is in crisis mode, corporate values can easily be cast aside as managers rush to address immediate problems. However, it is precisely at this time that alignment of decision-making to corporate values takes on the greatest importance. "Walking the talk" is usually easy when times are good but maintaining the same values under duress is what differentiates the best employers.

Human Resource Planning

*Consider the short-term **and** long-term impact of decisions relating to compensation, training and manpower planning.* Whether it be staff retrenchment, compensation review, organization restructuring or job redesign, the "law of unintended consequences" should always be considered. Seemingly straightforward and simple steps to address immediate concerns may sometimes cause huge damage in the long-term. Step back and thoughtfully anticipate the consequences of your actions.

Set priorities by looking beyond the current year. Current year plans should also consider the impact that decisions made this year have on business in subsequent years. This holds true whether it is manpower planning, compensation or training. Certainly, addressing pressing needs must be the first priority, but long-term projects and plans should not be abandoned without careful consideration.

Make strategic hires for long-term growth. Highly talented individuals may become available as a result of the economic downturn. Now could be the best time to look for the ideal candidate for strategic positions, as opportunities are fewer, even for the most sought-after.

Develop capabilities to integrate staff from newly acquired firms. The global financial crisis already has resulted in Barclay Capital's takeover Lehman Brothers, the sale of Wachovia Bank to Wells Fargo Bank and the planned selloff of Citigroup's Nikko Cordial Securities. More takeovers, mergers and selloffs will

undoubtedly occur in the coming months as companies in distress look for ways to survive. The success or failure of many of these mergers and acquisitions will depend on the ability of the acquiring organization to rapidly bring together the disparate staff of the two firms into a unified, coherent operating unit. HR practitioners have a critical role in this process. They will need to be prepared to deal with issues that will arise in compensation, organization restructuring, job design, communications, and leadership development.

Training and Development

Maintain training and development programs that deliver the most value. Each training program should have a clear goal and desired outcome. When cost cutbacks are required, those programs with the lowest value relative to cost should be the ones to cut, not those that simply have the highest cost.

Look for new ways to achieve training goals and deliver desired training outcomes at the lowest cost. Greater use of technology and more creative training solutions may deliver the necessary cost savings while still enabling employees to achieve most or all of the desired training outcomes.

Gain Long-Term Advantage

The last step in HR scenario planning is looking for ways in which your organization can gain a long-term advantage from the economic downturn. Gaining long-term advantage most often means looking beyond the current crisis to see what the organization will need in the future. Perhaps the biggest opportunity may lie in forging a strong commitment between the organization and its employees. Commitment is absolutely critical during a downturn, but also will contribute to higher performance once the business returns to high growth.

By adopting many of the best practices mentioned above, the company is making a commitment to its employees. The company commits to the individual through:

- Maintaining a supportive environment that encourages and rewards performance and personal development.
- Showing concern for the individual as a person.
- Demonstrating trust and respect through open communication.
- Leading through clarity of values, strategy, roles, objectives and rewards.

In return, the organization should explicitly require that individual employees make a corresponding commitment to the company. The employee commitment should include:

- Delivering the highest performance possible;
- Aligning behavior with the values of the organization; and
- Continuously developing oneself personally and professionally.

In Conclusion

The global financial crisis has quickly changed the HR environment across Asia. Demands for headcount reduction, salary freezes and cost cutbacks have replaced concerns about high staff turnover, rapidly increasing employee costs and shortages of leadership talent as the most pressing issues facing HR professionals.

A knee-jerk reaction that focuses on today's demands without considering tomorrow's consequences is not the answer. Rather, HR professionals should thoughtfully consider the four steps of HR scenario planning:

1. Understand the environment.
2. Identify the HR risks.

3. Reduce the organization's exposure to risk.
4. Gain long-term advantage.

The current economic crisis should not be confronted solely in terms of the risk that it presents, but also in terms of the opportunities. By properly preparing their organization through careful scenario planning, HR professionals can reduce their organization's exposure to HR risk and help it gain long-term advantage.

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