

THE HUDSON REPORT

EMPLOYMENT AND HR TRENDS
OCTOBER - DECEMBER 2011

HONG KONG

FROM GREAT PEOPLE TO GREAT PERFORMANCE®



INTRODUCTION

The Hudson Report is an established and highly respected publication, based on in-depth research. Released quarterly, the report uncovers and analyses the hiring expectations of Asian employers in China (Beijing and Shanghai), Hong Kong and Singapore over the coming quarter and provides insights into a range of human resource issues currently impacting business and the broader Asian economy.

Combining robust data on employment expectations with commentary and extensive market knowledge from Hudson's conversations with employers in Asia, *The Hudson Report* is the leading source for business leaders on the relevant trends and issues in the Asian labour market.

METHODOLOGY

The Hudson Report has established a reputation as a key socio-economic indicator in the Asian market. It captures employers' hiring expectations for permanent workforces over the coming three months. *The Hudson Report's* quarterly findings on permanent employment expectations are built on the premise that the expectation to increase or decrease permanent staffing levels represents a significant indication of employers' optimism for the growth of their organisation.

The Hudson Report combines the expectations of key employment decision makers from all major industries across small (<20 employees), medium (20–200 employees) and large (>200 employees) organisations.

For the October - December 2011 period, nearly 1,700 employers were personally surveyed by Hudson recruitment and consulting professionals across Asia in September 2011. Participants in Hong Kong were surveyed from the following six core industry groups:

- └ Banking & Financial Services
- └ Consumer
- └ IT&T
- └ Legal
- └ Manufacturing & Industrial
- └ Media / PR / Advertising



“After a long period of record highs, employment expectations are now falling sharply. However, employers remain optimistic about their company’s performance, with more than three-quarters forecasting excellent or good performance in the next six months.”

Mark Carriban, Managing Director, Asia, Hudson

KEY FINDINGS

Hiring expectations show a significant fall this quarter. In this survey of over 560 executives across key business sectors, 38% expect to hire more staff in Quarter Four (Q4) 2011, compared with 61% in Q3.

Respondents were also asked about how they expect their company to perform in the next six months and about the challenges of managing Gen Y employees (those aged 30 and under) and how to meet those challenges.

HIGHLIGHTS

- └ Despite the fall in hiring expectations, most respondents are still confident about their company’s performance, with 76% saying it will be excellent or good in the next six months;
- └ Across all sectors, 59% say that Gen Y employees present specific management challenges;
- └ Respondents in the Media / PR / Advertising sector find Gen Y employees the most challenging, while those in the Manufacturing & Industrial sector generally experience the fewest problems;
- └ A lack of loyalty and unrealistic job expectations are attributes that make Gen Y employees difficult to manage;
- └ Companies are taking a number of initiatives to make the workplace attractive to Gen Y employees, with coaching programmes and encouraging independent thinking being the most popular;
- └ Employers are implementing a range of measures to develop Gen Y talents, of which cross-functional job progression is the most widely used.

PERMANENT HIRING EXPECTATIONS

FALLING EXPECTATIONS THIS QUARTER

Nearly all sectors report a fall in hiring expectations this quarter, with 38% of respondents across all sectors expecting to increase headcount in Q4 2011. This compares with 61% in Q3. It should be noted that the rapid recovery from the 2008 downturn led to an unbroken rise in hiring expectations for the two years from Q3 2009, with expectations reaching their highest levels since the launch of the Hudson Report in 1998. A correction was inevitable given the current economic environment.

MEDIA / PR / ADVERTISING

Media / PR / Advertising has the highest expectations this quarter and is also the only sector with rising expectations. Fifty percent of respondents say they will hire more staff, up from 47% in Q3. Much of the new hiring is for junior staff in support roles but demand for candidates with digital experience remains strong.

LEGAL

Nearly half (48%) of the Legal firms surveyed expect to grow headcount in Q4 and none say they will shed staff. Most employers are currently taking a cautious approach to hiring. Demand for corporate finance lawyers is falling but candidates for in-house roles in China are sought after.

CONSUMER

Expectations are at a similar level in the Consumer sector, where 47% forecast increased hiring, compared with Q3's high level of 68%. A further 52% say they will keep hiring steady. Current hiring is mostly for replacement roles, specifically for sales directors, retail directors and retail

operations managers. Demand for CRM managers is particularly strong.

MANUFACTURING & INDUSTRIAL

The Manufacturing & Industrial sector reports a fairly small decline in expectations, from 50% in Q3 to 38% this quarter. This sector is feeling the impact of the economic downturn in Europe as many factories in China are making products for export markets. Most companies are taking a more cautious approach to hiring and are delaying decisions about recruitment plans.

IT&T

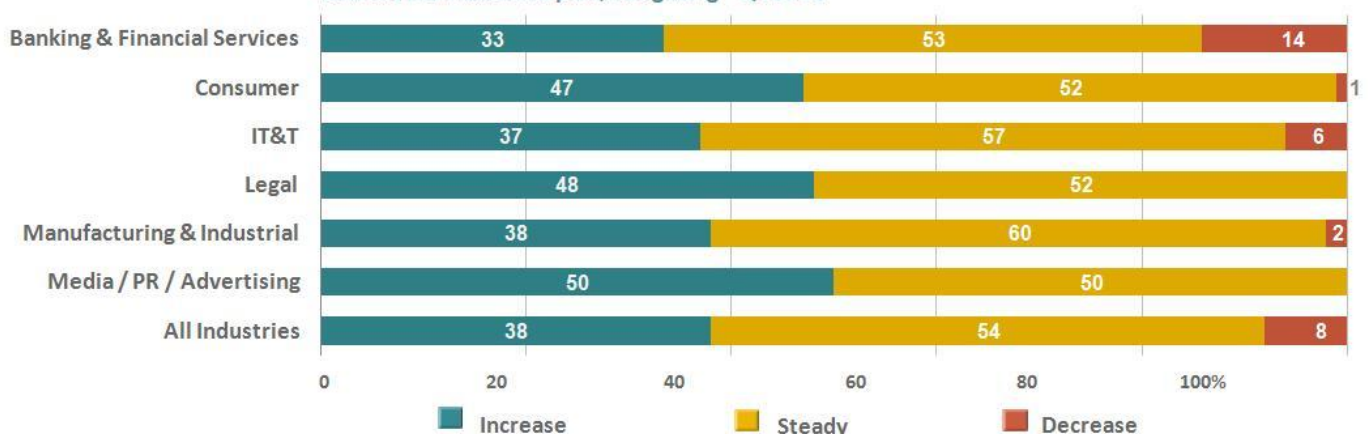
In the IT&T sector, 37% of respondents expect to grow headcount in Q4, compared with 52% the previous quarter. Many employers in this sector in Hong Kong specialise in financial IT and the fall in demand from investment and corporate banking institutions is having a significant impact on their hiring needs. Within the vendor area, there is a noticeable shift to more functional roles: little hiring is taking place at senior levels but candidates for sales or operations manager roles are still sought after.

BANKING & FINANCIAL SERVICES

Unsurprisingly in the light of the turbulence currently affecting financial markets, the Banking & Financial Services sector reports the lowest expectations: 33% of respondents forecast increased hiring, down from Q3's 62%. A reduction in headcount is anticipated by 14%, a much higher proportion than for any other sector. There is no urgency to hire and banks know there is a substantial talent pool available. Candidates are still being sought for revenue generating roles in sales and private banking.

PERMANENT HIRING EXPECTATIONS IN HONG KONG

Source: The Hudson Report, Hong Kong - Q4 2011



PERMANENT HIRING EXPECTATIONS OVER TIME

EXPECTATIONS ALSO FALLING YEAR-ON-YEAR

Most of the sectors surveyed report a significant decline in hiring expectations compared with the same quarter last year. The 38% of respondents expecting to grow headcount this quarter compares with 65% in Q4 2010. The proportion of respondents saying they will reduce staff numbers has risen from zero to 8%. Expectations were rising rapidly in 2010 as employers in most sectors continued to make a strong recovery from the earlier economic downturn.

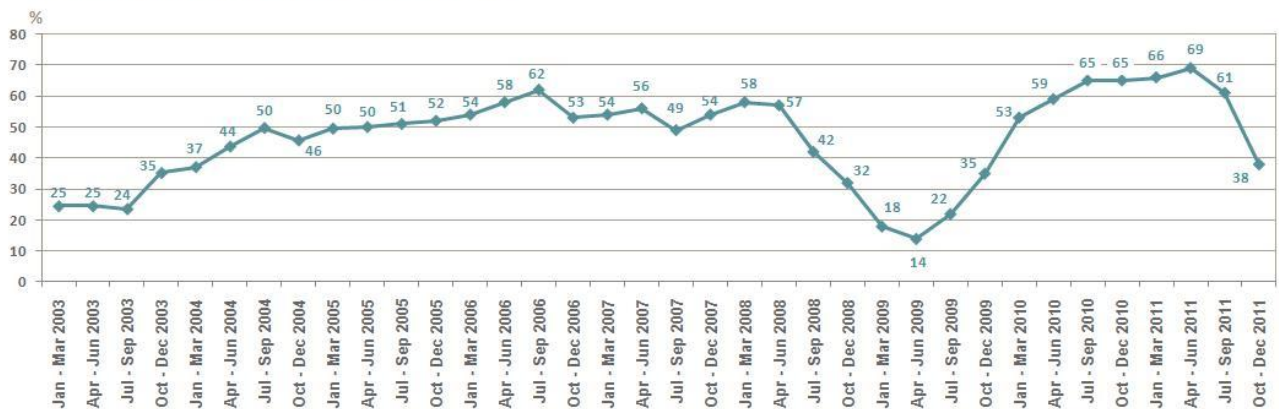
The Banking & Financial Services sector reports the steepest fall in expectations over the past year, from 68% in Q4 2010 to 33% this quarter. 2010 was a particularly good year as banks recovered to pre-downturn levels, in sharp contrast to the current uncertain market environment.

Expectations in the Manufacturing & Industrial sector have fallen from 60% to 38% year-on-year. As noted, this decline is partially caused by reduced demand in export markets for goods from Chinese factories. However, there is also a continuing trend for manufacturing companies to move headcount to the Mainland, notably to Shanghai and other locations in northern China. This is having a significant impact on recruitment for senior roles in Hong Kong.

Media / PR / Advertising is the only sector in which expectations have risen over the past year. This quarter's figure of 50% compares with just 31% in Q4 2010. This sector's client companies often delay increases in marketing and advertising expenditure until they are confident that they are operating in a strong economy. This means that hiring among PR and advertising firms often lags behind that in other sectors. Expectations were therefore lower at the end of 2010 than they were in other sectors.

EXPECTATIONS TO HIRE OVER TIME - HONG KONG

Source: The Hudson Report, Hong Kong - Q4 2011



EACH QUARTER, APART FROM ASKING ABOUT HIRING EXPECTATIONS, WE SELECT SURVEY TOPICS THAT INDICATE HOW BUSINESSES EXPECT TO COPE WITH THEIR ENVIRONMENT. THIS QUARTER WE ASKED ABOUT ANTICIPATED COMPANY PERFORMANCE AND A NUMBER OF QUESTIONS ABOUT GEN Y EMPLOYEES (THOSE AGED 30 AND UNDER) : THE CHALLENGES OF MANAGING THEM, HOW TO MAKE THEIR WORKPLACE ATTRACTIVE AND HOW TO DEVELOP THEM.

COMPANY PERFORMANCE

LARGE MAJORITY OPTIMISTIC ABOUT FUTURE

Despite this quarter's decline in hiring expectations, most respondents remain optimistic about their company's performance. Across all sectors, 76% forecast excellent or good performance in the next six months and just 1% expect their company to perform poorly. Although the level of optimism is lower than in Q4 2010, when 89% forecast excellent or good performance, these figures suggest a strong degree of confidence about the future.

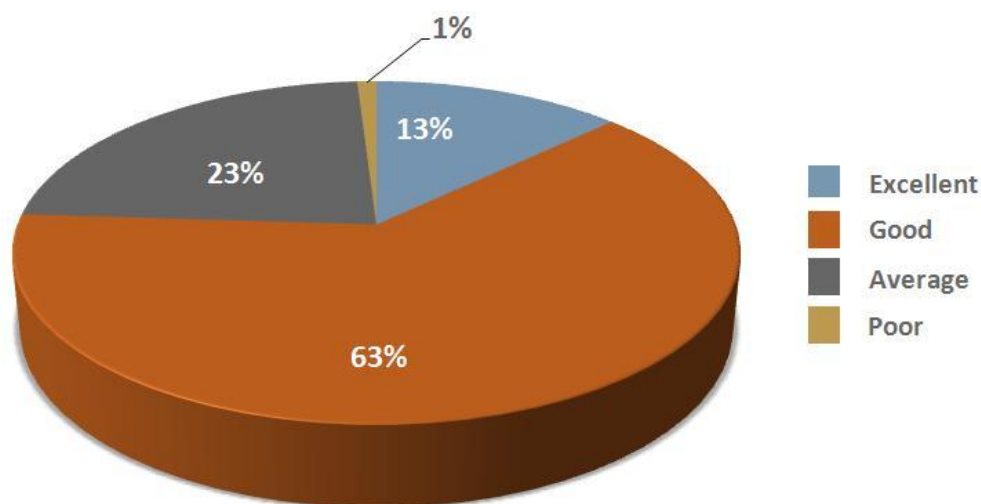
Respondents in the Consumer sector are particularly confident about their company's performance, with 28% saying it will be excellent and a further 62% forecasting good performance. The 28% anticipating excellent performance represents a steep rise from 16% a year ago. Many parts of the retail sector are still buoyant, with visitors from the Mainland accounting for a large proportion of sales.

The Media / PR / Advertising sector also reports a high level of optimism. Excellent and good performance forecasts are made by 17% and 83% respectively and none of the respondents think that performance will be average or poor. Many companies in this sector remain confident that they can achieve their budget targets, with most having a strong business pipeline already in place for the next six months.

The lowest level of confidence about future performance is expressed by respondents in the Banking & Financial Services sector: 8% expect it to be excellent and 60% think it will be good. Most institutions are feeling the effects of the uncertain economic environment, in which investors are seeking to reduce their exposure to risk and are making fewer transactions. However, it should be noted that the overall picture is still positive, with more than two-thirds anticipating excellent or good performance.

ANTICIPATED COMPANY PERFORMANCE IN THE NEXT 6 MONTHS

Source: The Hudson Report, Hong Kong - Q4 2011



MANAGING GEN Y EMPLOYEES

EMPLOYERS FIND GEN Y CHALLENGING

Respondents were asked if they find that Gen Y employees (those aged 30 and under) present specific management challenges. Across all sectors, 59% say that they experience challenges in managing Gen Y staff. This figure is lower than those for China and Singapore. Employers in the Media / PR / Advertising sector are the most likely to have problems with Gen Y employees: 67% say they do so. This is an industry where firms tend to employ large numbers of young people. At the other end of the scale, fewer than half (47%) of respondents in the Manufacturing & Industrial sector are experiencing challenges in managing Gen Y employees.

Respondents say that various attributes make Gen Y employees especially challenging to manage. The most significant, by a substantial margin, is their lack of loyalty; this response is given by 67% across all sectors. Other challenging attributes include unrealistic job expectations and impatience, which are mentioned by 50% and 43% respectively.

Gen Y employees' lack of loyalty is seen as a particularly significant issue in the Banking & Financial Services sector, where it is cited by 73% of respondents. This cohort of

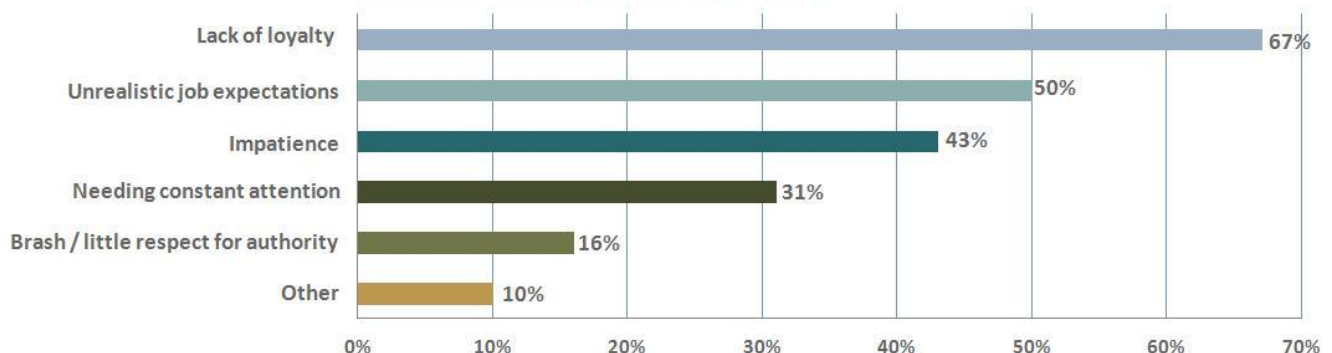
employees is both comparatively wealthy and unlikely to have accumulated major financial burdens, so they are in a position to job-hop if they choose. Moreover, some banks were seen as demonstrating very little loyalty when they made severe staff cuts during the downturn and this has affected young staff members' sense of loyalty to their employers.

Respondents in the Consumer and Legal sectors also regard a lack of loyalty as the leading cause of management challenges with Gen Y: 72% and 69% respectively mention this factor. Talented young professionals in both sectors are likely to have ample opportunities to switch jobs and therefore tend not to see loyalty as important. Legal firms in particular subject candidates to a rigorous interview process but Gen Y employees can still afford to be disloyal because they are unlikely to be burdened with financial responsibilities.

At 58%, the Media / PR / Advertising sector has the highest proportion of respondents mentioning Gen Y employees' unrealistic job expectations. Growing demand for candidates, especially those with digital marketing experience, tends to inflate young employees' egos, reducing their willingness to do menial tasks and leading them to expect rapid advancement.

CHALLENGING ATTRIBUTES IN MANAGING GEN Y EMPLOYEES

Source: The Hudson Report, Hong Kong - Q4 2011



Note: Figures do not add up to 100% as respondents could select more than one option.

MAKING WORK ATTRACTIVE TO GEN Y

ENCOURAGING INDEPENDENT THINKING IS KEY

Despite the challenges of managing Gen Y employees, they are an important cohort of the workforce and many companies are focusing on making the workplace attractive to this group. Of a wide range of measures taken by companies, mentorship or coaching programmes and encouraging staffers' own initiative and independent thinking are seen as by far the most important. They are mentioned by 48% and 47% of respondents respectively, much higher figures than for the other initiatives covered by the survey.

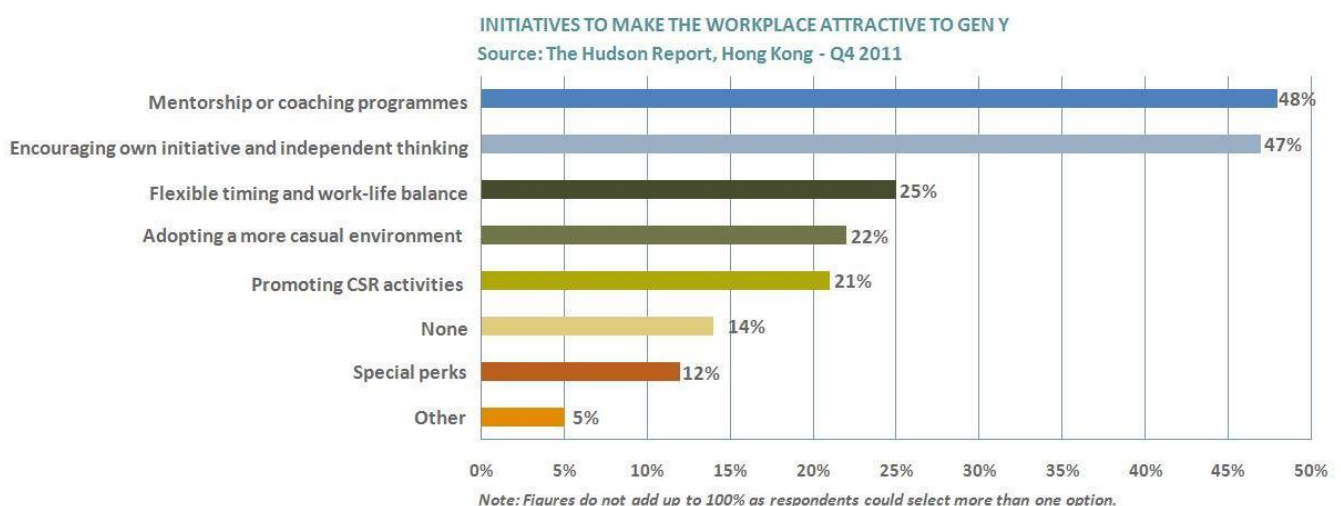
Mentorship and coaching are seen as particularly important by respondents in the Media / PR / Advertising sector, with 67% giving this response. As noted, many Gen Y staffers in this business expect early promotion, often before they are really ready for the responsibility. Mentorship and coaching can help resolve this issue.

Both mentorship and coaching and encouraging independent thinking are mentioned by a high proportion of

respondents in the Banking & Financial Services sector – 55% and 52% respectively. Although hiring expectations are down this quarter, due to the economic uncertainty, banks face a continuous battle to recruit and retain talented candidates and they want to show Gen Y employees that their ideas are important to the business.

More than one-third (35%) of respondents in the Consumer sector see a more casual work environment as a key initiative, a far higher proportion than the other sectors. Many luxury goods retailers are successfully introducing a more informal atmosphere, which is also attractive to younger customers.

At 38%, the Manufacturing & Industrial sector has the highest proportion of respondents who say their company does nothing to make the workplace attractive to Gen Y employees. The figures for the various initiatives covered are generally much lower than for the other sectors surveyed. Fewer respondents say they experience challenges in managing Gen Y staffers than in any other sector, so it is understandable that companies are less likely to make an effort with this age group.



DEVELOPING GEN Y TALENTS

CROSS-FUNCTIONAL JOB PROGRESSION IS TOP DEVELOPMENT MEASURE

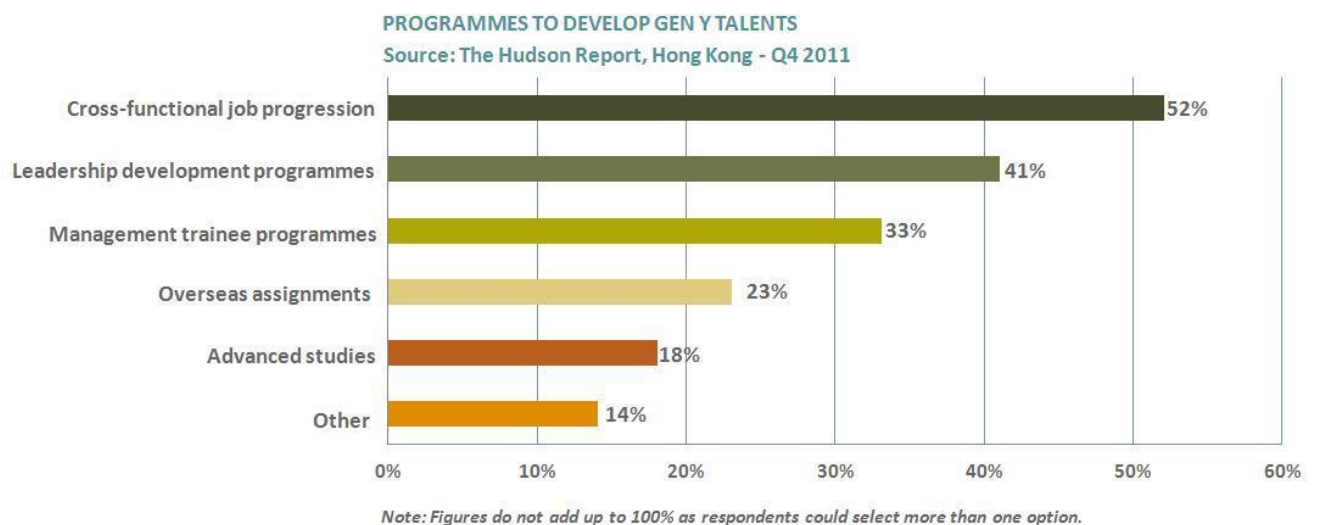
In addition to seeking to make the workplace more attractive to their Gen Y employees, many companies are implementing measures to develop this cohort's talents. Overall, 52% of respondents report that their company offers cross-functional job progression, a higher figure than for the other measures covered. Leadership development programmes and management trainee programmes are also widely used, being mentioned by 41% and 33% respectively.

Cross-functional job progression is seen as particularly important in the Banking & Financial Services and Consumer sectors, where 59% and 56% of respondents respectively mention this initiative. Leading international companies in both sectors leverage their size and range of

activities to enhance employees' experience. This is used as an effective tool for motivation and retention.

The Legal sector has the highest proportion of respondents mentioning both overseas assignments and advanced studies for higher qualifications – 52% and 40% respectively. Many major law firms are now global operations and secondments to overseas offices are increasingly common. In terms of advanced studies, there is a strong trend for firms to encourage and support paralegal staff working for higher qualifications.

Respondents in the Media / PR / Advertising sector emphasise the value of leadership development programmes, which are mentioned by 44% of respondents. This is consistent with the focus on mentoring and coaching in this sector. Many Gen Y staffers in this business have an individualistic approach to work and these programmes help them to lead teams more effectively.





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