

The rules of business are changing

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Asia's skills shortage

Capturing talent

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Despite its booming economies and huge numbers of people, Asia is suffering a big shortage of skills. And it is about to get worse

Imaginechina



IT SEEMS odd. In the world's most populous region the biggest problem facing employers is a shortage of people. Asia has more than half the planet's inhabitants and is home to many of the world's fastest-growing economies. But some businesses are being forced to reconsider just how quickly they will be able to grow, because they cannot find enough people with the skills they need.

In a recent survey, 600 chief executives of multinational companies with businesses across Asia said a shortage of qualified staff ranked as their biggest concern in China (see chart 1) and South-East Asia. It was their second-biggest headache in Japan (after cultural differences) and the fourth-biggest in India (after problems with infrastructure, bureaucracy and wage inflation). Across almost every industry and sector it was the same.

Old Asia-hands may find it easy to understand why there is such concern. The region's rapid economic growth has fished out the pool of available talent, they would say. But there is also a failure of education. Recent growth in many parts of Asia has been so great that it has rapidly transformed the type of skills needed by businesses. Schools and universities have been unable to keep up.

Taking wing

This is especially true for professional staff. Airlines are one example. With increasing deregulation, many new carriers are setting up and airlines are offering more services to meet demand. But there is a dreadful shortage of pilots. According to Alton Training, the commercial-pilot training arm of Boeing, India has fewer than 3,000 pilots today but will need more than 12,000 by 2025. China will need to find an average of 2,200 new pilots a year just to keep up with the growth in air travel, which means it will need more than 40,000 pilots by 2025. In the meantime, with big international airlines training only a few hundred pilots a year, Asian airlines have taken to poaching them, often from each other. Philippine Airlines, for instance, lost 75 pilots to overseas airlines during the past three years. China has been trying to lure pilots from Brazil, among other places.

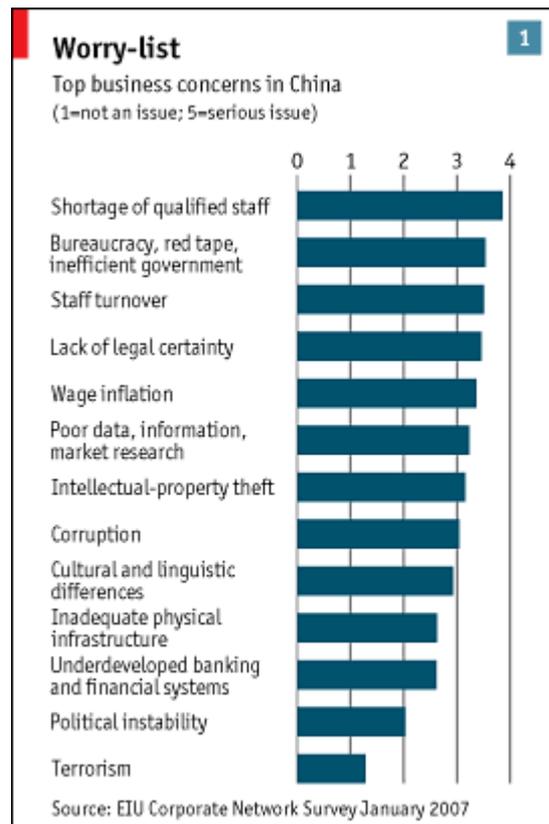
Similar problems are bedeviling the legal profession, which is suffering from a grave shortage of lawyers and judges. This can cause a long backlog of cases and other complications in what are sometimes rudimentary legal systems. It can damage the way business is done, for instance in dealing with intellectual property or settling contract disputes. According to the All-China Lawyers Association, the country has only 122,000 lawyers. That is 70,000 fewer than California where the population is only 37m (against China's 1.3 billion). Many business people might argue that California is overlawyered, but there are parts of China without any lawyers at all.

A report presented at the Chinese Party Congress in March by the Jiu San Society, a group of progressive Chinese intellectuals, stressed the shortage of doctors. There are only 4,000 general practitioners in China. But if the government is to achieve its ambition of establishing community hospitals for the country's 500m urban residents, it will need 160,000 doctors to staff them. There is a huge shortage of nursing staff as well.

The scarcity of accountants is already having a regional impact. In order to list their shares in Hong Kong or Shanghai, many Chinese companies are busy preparing internationally acceptable accounts and statutory reports. With the country's own bean-counters trained in Communist-era systems—which never paid heed to capitalist ideas like profits or assets—accountants are being lured to the mainland from Hong Kong and the rest of the region. A senior manager at one of the big audit firms recently arrived in Hong Kong after a long stint in Russia, took one look at his firm's ambitious growth plans and asked: "How are we going to do this without enough staff?"

Technical skills, particularly in information technology, are lacking in many parts of the region, even India. One of the main concerns is that there are not enough skilled graduates to fill all the jobs being created in a vibrant sector. Nasscom, which represents India's software companies, has estimated that there could be a shortfall of 500,000 IT professionals by 2010. This means companies recruiting at job fairs in India are having to make lucrative offers to capture the most promising students. Even a junior software-engineer can expect to take home \$45,000 a year.

There is also a severe shortage of good managers. A study by the McKinsey Global Institute predicts that 75,000 business leaders will be needed in China in the next ten years. It estimates the current stock at just 3,000 to 5,000. And that assessment could prove optimistic. The study, which covered a broad spectrum of businesses and surveyed more than



80 human-resources managers, found that less than "10% of Chinese job candidates, on average, were suitable for work in a foreign company." In engineering, for example, graduates were criticised for being too immersed in theory and not enough in practice. It concluded that the available pool of engineering talent in China was no larger than that in Britain, which now has a mostly service economy.

China is even suffering from something of a brain drain. In recent years the Chinese have been able to travel abroad more freely to study and acquire skills. But many do not return. A recent report by the Chinese Academy of Social Sciences found that between 1978 and 2006, just over 1m Chinese went to study overseas and some 70% of them did not go back. The brightest are often tempted to stay abroad by local employers, because the competition for jobs has become global.

The skills shortage comes in two forms: higher staff turnover and rising wage costs. Pay rates for senior staff in many parts of Asia already exceed those for similar staff in much of Europe. The going rate for a human-resources director working for a medium-to-large multinational in Shanghai is now \$250,000 a year, and that is for "someone who has probably never even left China," says Vanessa Moriel, the managing partner of Human Capital Partners, a Shanghai-based consulting firm. The chief executive of an international business based in India can expect to earn \$400,000-500,000, with many earning well over \$750,000, according to Korn/Ferry, a consultancy. For a chief finance officer the average pay is now \$194,000 in China, \$159,000 in Thailand, \$157,000 in Malaysia and \$73,000 in India. Wages for lower-level staff are also rising quickly, increasing by 14% in Indonesia last year, 11% in India and 8% in China—well above the rates of inflation in each country.

Another year, another job

A high staff-turnover rate helps to force up wage costs, and turnover-rates can exceed 30% a year in some places in Asia. Fiducia, a Hong Kong-based consultancy, reckons that the additional hiring and training costs of operating in Asia add a further 15% to the basic costs of employing someone. Factories in southern China now plan for a 4% loss of staff just in the week immediately after Chinese New Year, because people seem to like to start the new year with a new job. In middle management, the average retention period of an employee in Shanghai is just 1.8 years, with human-resources managers among the most difficult to keep. Some job applicants are known as "jumpers" because of their tendency to switch jobs every two years.

Struggling with high staff-turnover is harder still when many firms are also trying to expand. Last year Flextronics, a big electronics manufacturer, wanted to increase staff numbers in Shenzhen from 27,000 to 43,000. But to get a net increase of 16,000 people, it had to hire more than 20,000 because over the same period it had 4,000 employees leave.

As well as excessive wage inflation there is also "title inflation" and "responsibility inflation". Relatively inexperienced local managers are sometimes given ever-grander titles—much to the chagrin of their counterparts from Europe and America, who can find themselves sitting beside much less able and more junior colleagues described as "Senior Executive Vice President" or "Regional Chairman". But these honours are handed out for a reason: many employers in Asia have found that awarding new titles to employees every 18 months or so can be a good way to keep them.

Giving greater responsibility to staff is more troublesome. Yet many inexperienced managers in China are being given powerful regional roles or are promoted to positions where they lack sufficient knowledge or ability. Even though they may not seem ready for the job, it is often seen as the only way to keep them on the payroll.

A problem for years to come

As if all this were not bad enough, the Asian talent shortage is set to get worse. The predicted inflow of investment, together with the growth of local companies and the rising expectations of foreign investors—especially as other markets are slowing—mean that the pressure to find and keep staff is mounting.

Demography will also play a big role, especially as labour forces in both China and Japan shrink over the next two decades. This means, for instance, that the already difficult job of finding creative software-engineers will become ever harder in northern Asia, which in turn will increase demand for staff in India and other markets where demographic problems do not exist.

But that only points to an even bigger threat which may take a generation to fix: education. In much of South-East Asia most people are educated only to the age of 12. More than half of the women in India are illiterate. Nearly two-thirds of the children in government primary schools in India cannot read a simple story. Half cannot solve simple numerical problems.

China's educational difficulties are different—and often linked to the country's history. Universities were closed during the Cultural Revolution and few well-educated people entered the workforce for over a decade. This has resulted in a lost generation of business people between the ages of 50 and 60, exactly the age group from where many of China's corporate leaders should be drawn today.

Those who were children (and typically without siblings because of China's one-child policy) after the Cultural Revolution have other things to deal with. Their parents had often been sent for re-education in the fields and many were brought up far away from home by strangers. Perhaps in response to this harshness, they have brought up their own children rather indulgently. What is known as the "little emperor syndrome" is a particular weakness in boys. Many older Chinese believe this younger generation, doted on by grandparents and parents, lacks a work ethic. It has even become a bit of a slur to say of someone that "they were born in the 1980s".

Girls born after the Cultural Revolution are much less likely to have been spoilt, which means some employers see them as good hires. Liam Casey, the boss of PCH China Solutions, a contract-manufacturer in southern China, says he once noticed in a shopping mall that there were typically groups of seven people or groups of three. The groups of seven consisted of two sets of grandparents, parents and a boy. Those of three comprised parents and a daughter. He says he realised then that girls were valued less by society and that if he hired them and showed them loyalty, they would be more loyal in return. This is one reason, he says, that his business has much lower rates of staff turnover than his rivals' businesses do.

But even hiring women is getting harder. In Zhuhai another foreign manufacturer which hires staff from all over China says it prefers to recruit women too. The managers believe that women are generally harder-working and tend to stay longer. But schools and universities have cottoned on to this now and set quotas on the number of women that firms can recruit. The company says that for every group of women it selects, it now has to hire a share of men too.

Team building

In the face of so many problems, what can employers do? Building a skilled workforce is as much about a company's general attitude as its tactics, says Michael Bekins, the managing director of Korn/Ferry in Hong Kong. The first part of that mindset is realising that retention is more important than recruitment, he says. He thinks all managers in Asia should be explicitly measured on their ability to keep a team together.

Some ways of doing that are more obvious than others. Paying higher wages to employees, say most managers and recruitment specialists, is certainly not enough. Pay should be seen as

only part of any package. Delaying bonus payments with a reward at the end of say, three years, can work well, but increases costs. Offering career planning, training, "personal-development road maps", mentoring and the rest of the modern HR kitbag seems to go down well (see chart 2), though managing expectations is critical. One company in South-East Asia has a "welcome the boomerangers" policy, making it easy for anyone who has left to come back. The big accounting firms have programmes to keep in touch with people who leave.

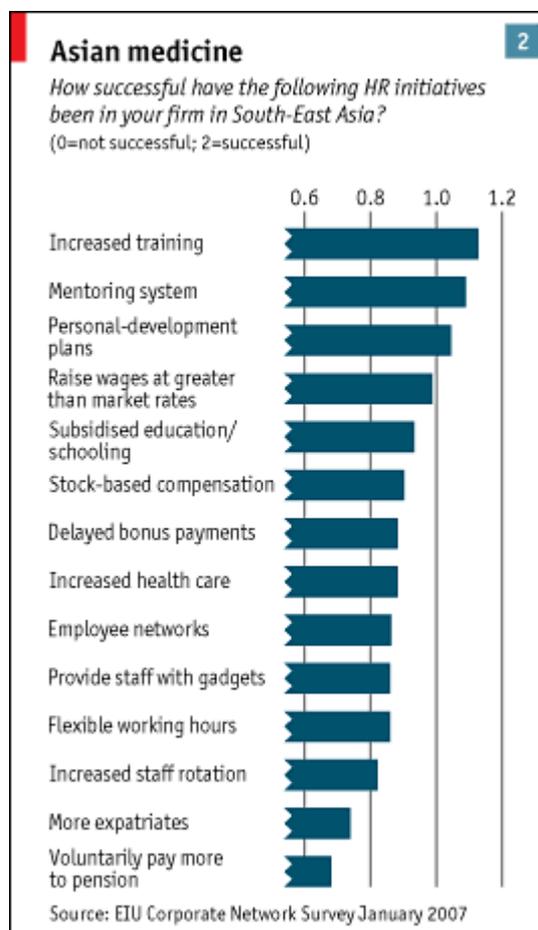
Some employers argue that you should focus on the family not just the employee. Offering support for children's education and helping the families of staff resettle can build loyalty. With expatriates, this is crucial. According to one consultant, 85% of expatriates in China leave because their families do not like living there. Life can be especially hard in smaller cities, where there are few other foreigners, international schools or decent restaurants and little to do in your time off. Many spouses complain of feeling like prisoners in their gated communities while their partners are away, heady with the thrill of running the firm's fastest-growing division.

There are less obvious ways to keep people too. A prestigious brand can be valuable in more ways than one; Asians seem attracted to the idea of working for well-known firms. Having a fashionable office can be a big help. And providing courses in stress management or etiquette can be attractive. So is giving staff club memberships. Even providing staff with the latest PDAs and mobile phones can work wonders (see chart 2). And, if a company has a canteen, it should make sure it hires a good chef.

One of the more creative options for employers is to offer flexible working hours and sabbaticals. Although these are unusual in Asia, they can help staff who have young children or elderly parents to care for. But there are some dangers. It is common, especially in China, for employees to run private businesses on the side. Giving them more time for outside activities may not be in a company's best interests. It could also be counterproductive in some parts of Asia, were workers want a job in order to make as much money as fast as they can.

Hiring Asians who have been educated overseas and bringing them back does not always work. They often expect to be paid a lot. Some demand expatriate packages with paid flights back to America or Europe. They may also be out of touch with local developments. But the biggest difficulty is that their colleagues frequently resent them. This is especially so in China, where one of the politer names for returning people is *hai gui* or sea turtles. A similar attitude sometimes turns up in India too. Companies find that the turtles tend to fit in best in the finance industry or in privately owned businesses.

With such a mismatch between supply and demand in Asia's labour markets, companies will have to become better at hiring good staff and keeping them. But as some companies will always be better at this than others, the job-hopping and poaching are set to continue for many years, until education and training catch up. The consequences of that are stark. "It will limit the growth. It has to," says Korn/Ferry's Mr Bekins. Which means that without talented recruiting policies, some firms may end up scaling back their bold Asian growth-plans.



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