

Hudson



The Hudson Report

Hiring and HR Trends

Hong Kong

July – September 2008

From great people to great performanceSM

Introduction



The Hudson Report is a quarterly survey of forward-looking employer hiring expectations. The Report in Asia covers Japan, Hong Kong, Shanghai and Singapore and now combines the expectations of over 2,600 key employment decision-makers in these four markets.

Participants in this survey are primarily executives at multi-national firms and were personally surveyed by Hudson consultants familiar with them and their industry sectors.

The Hudson Report receives extensive media coverage and acknowledgment from politicians, commentators and business leaders. In the years since its release in Asia in 1998, The Hudson Report has established a reputation as a key business and economic indicator, based on the premise that the expectation to increase or decrease staffing levels reflects employers' optimism about their markets.

From great people to great performanceSM

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Key Findings

“Although hiring expectations are levelling off after a buoyant 2007, there is a continuing shortage of talent. Employers are still faced with both rising salaries for new managerial hires and high staff turnover rates.”

Mark Carriban, Managing Director, Asia, Hudson

Hiring expectations have fallen this quarter. In this survey of 746 executives in key business sectors, 42% expect to increase hiring in Quarter Three (Q3) 2008, compared with 57% in Q2.

- Expectations are also levelling off year-on-year: the 42% anticipating headcount growth this quarter compares with 49% in Q3 2007;
- In the current economic climate, the salaries for new managerial hires are still rising, with just 13% of respondents saying they are able to negotiate lower salaries;
- The reductions in new hire salaries are limited – 77% of respondents report decreases of 10% or less;
- Across all sectors, 71% of respondents say they have not seen any fall in staff turnover rates over the past year;
- Respondents see performance related bonuses, substantial pay rises and training and development programmes as the most effective ways of retaining talented staff;
- Overall, 56% of respondents are looking to attract talent from overseas as a means of dealing with tight labour markets; employers in the Legal and IT&T sectors are the most likely to do so.

Permanent hiring expectations

More Cautious Approach To Hiring

Respondents in all sectors are more cautious about hiring expectations this quarter. Overall, 42% plan to grow headcount in Q3, compared with 57% the previous quarter. However, 57% expect hiring to remain steady. It is notable that only 1% of respondents are considering reducing staff, which has remained consistent over the last year.

Legal

Expectations are highest in the Legal sector, where 59% of respondents plan to grow headcount this quarter and none forecast a reduction. Lawyers with M&A and IPO experience are still in demand but fewer mainland companies are listing in Hong Kong and this is having some impact on law firms' business.

Banking & Financial Services

The Banking & Financial Services sector remains positive, with 47% forecasting headcount growth. The subprime crisis means that some global banks are subject to headcount freezes that have reduced high volume hiring. However, banks are still actively hiring for middle/back office and private equity roles.

IT & T

After the aggressive implementation of major IT infrastructure projects in all sectors, many companies are now putting systems upgrades on hold. The

IT&T sector is therefore currently experiencing a period of consolidation. However, 45% of respondents expect to boost hiring and demand is still strong for candidates with systems support skills.

Manufacturing

Among Manufacturing companies, 35% of respondents forecast increased hiring this quarter. Some are affected by softening demand in overseas markets, notably the USA. Companies are also having to deal with growing pay demands, quality concerns and rising commodity prices. Supply chain, compliance and quality control professionals are still being sought.

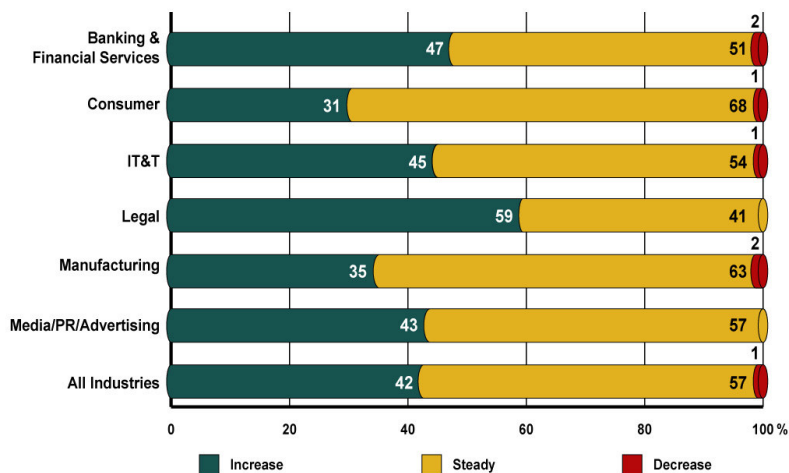
Media/PR/Advertising

After a sharp rise in Q2, expectations in the Media/PR/Advertising sector are now at the same level as Q1, with 43% of respondents forecasting headcount growth. Online advertising is still expanding and professionals with digital experience are in demand.

Consumer

The Consumer sector has experienced consistent growth over the past two years and many companies are now consolidating. There is also a trend towards localisation. Overall, 31% of respondents plan to hire more staff. FMCG companies are still recruiting for sales and marketing positions.

Permanent hiring expectations in Hong Kong



Permanent hiring expectations over time

Employers Becoming More Cautious About Hiring

Hiring expectations have declined since Q3 2007. The 42% of respondents across all sectors who forecast headcount growth this quarter compares with 49% a year earlier.

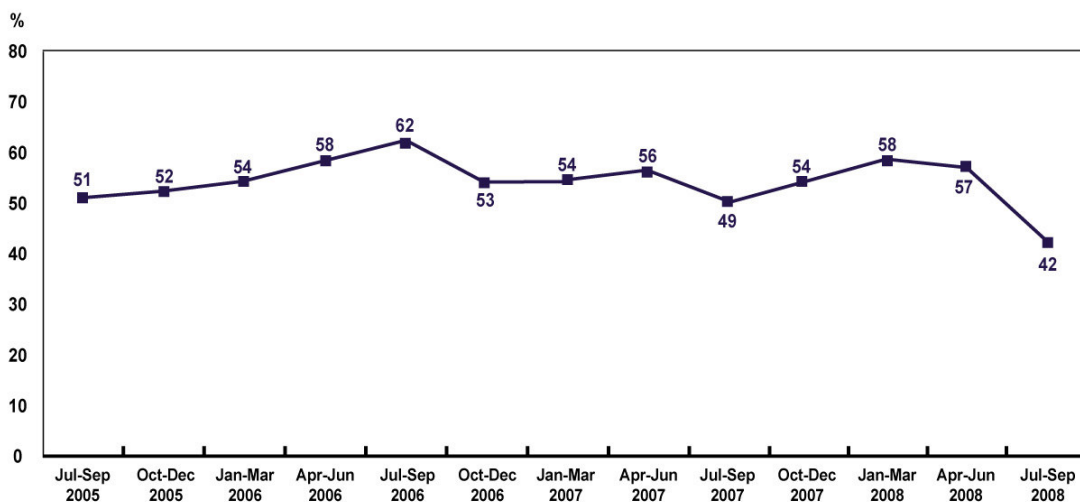
The IT&T sector reports the highest year-on-year growth in hiring expectations. Much of the recruitment in this sector is for financial IT professionals and there is continuing demand for systems support staff.

Media/PR/Advertising firms have also experienced

significant year-on-year growth: the 43% of respondents planning to increase hiring is up from 34% in Q3 2007. Most of the growth in recruitment is in the digital media area, though there is also strong demand for sales professionals.

Expectations in the Banking & Financial Services sector have fallen from their consistently high levels in 2007. The global credit crunch appears to be having some impact, though Hong Kong remains more resilient than other leading international financial centres and is attracting growing numbers of overseas professionals in this area.

Permanent increased hiring expectations over time in Hong Kong



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 the gap between salary expectations and offers for new managerial hires, staff turnover rates and retention measures.

Salaries for new managerial hires

Rising Salaries Still A Reality

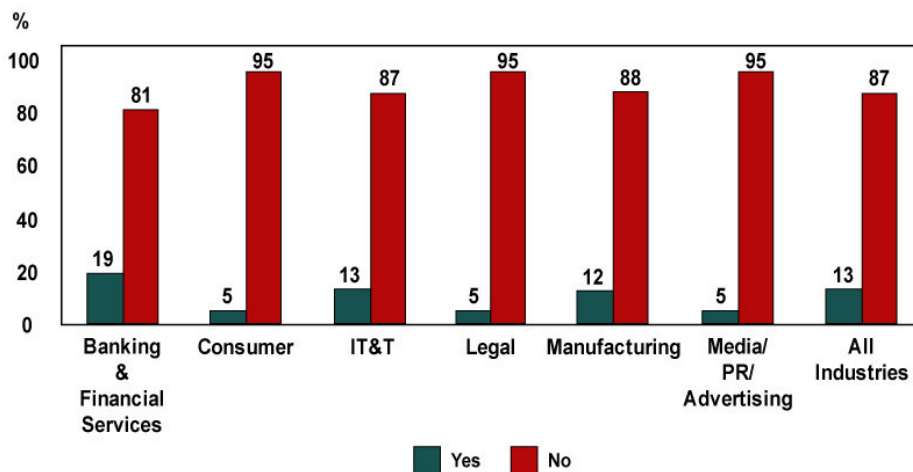
Respondents were asked if the prevailing economic climate allows them to negotiate lower salaries for new managerial hires. Across all sectors, 13% say they can do so. This is a higher figure than for any other market surveyed in Asia but is still very low. This response suggests that there is still a shortage of talent and that employers are willing to pay what is necessary to attract talented candidates.

Respondents in the Banking & Financial Services sector are the most confident that they can negotiate

lower salaries for new hires, with 19% citing yes. This is to be expected as the volume of deals has slowed down and some banks have frozen staff hiring.

The Media/PR/Advertising and Legal sectors have the lowest proportion of respondents who have been able to reduce new hire salaries – 5% in each case. Both sectors have a limited pool of professionals with the requisite skills and experience and are finding little room for negotiation.

Negotiating lower salaries for new hires



Extent of reduction in new managerial salaries

Salary Reductions Are Limited

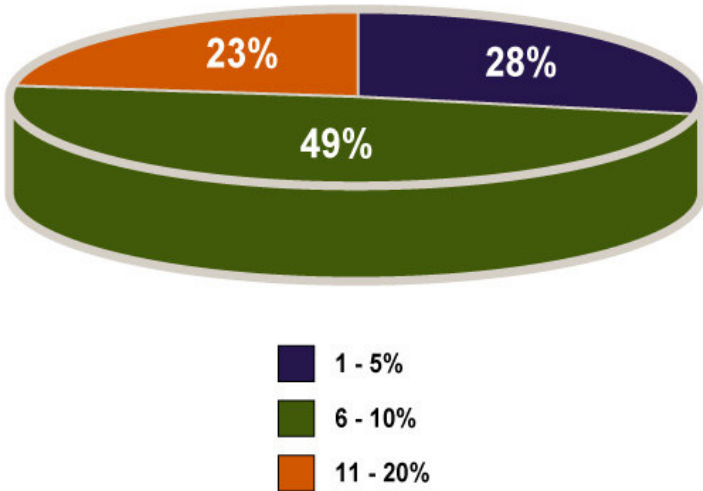
Respondents who say that prevailing economic conditions enable them to negotiate lower salaries for new managerial hires were also asked to comment on the extent of any decreases. The responses suggest that the scope for reductions is very limited. Overall, 28% of respondents are saying they can reduce salaries for new hires by 5% or less and a further 49% by 6-10%.

Respondents in the IT&T sector report the most significant reductions in negotiated salaries: 80% say

that salaries for new managerial hires have declined by 11% or more. This may reflect the focus on hiring candidates for support roles rather than for major IT projects.

Banking & Financial Services is the only other sector where respondents have been able to reduce salaries by more than 11%: the proportion giving this response is 17% and this can be attributed to the impact of the global credit crunch and the hiring freeze implemented by many international banks.

Gap between salary expectation and offer



Staff turnover rates

No Significant Fall In Staff Turnover

Respondents were asked whether or not staff turnover rates have fallen in the last year. Across all sectors, 71% say they have not seen any reduction in turnover. Together with China, this is the highest figure for the markets surveyed in Asia and suggests that candidates are keen to pursue new opportunities.

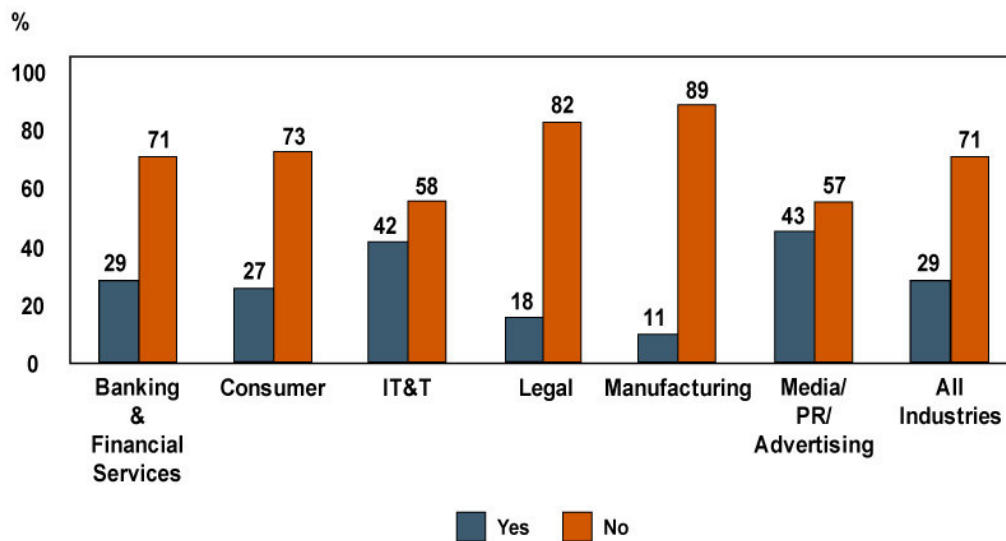
The Media/PR/Advertising and IT&T sectors are experiencing the most substantial falls in staff turnover, with 43% and 42% of respondents respectively saying that turnover rates are lower than a year ago. Both sectors are experiencing a decline in the number of major new projects and this appears

to be encouraging some employees to remain in their current positions.

In the Manufacturing sector just 11% of respondents report a decline in staff turnover rates. There are still acute skill shortages in specific areas within this sector, notably in merchandising, logistics and compliance, and candidates with these skills are highly sought after.

Respondents in the Legal sector also say that the decline in turnover rates is relatively small: only 18% report lower turnover. Much of the movement in this sector is caused by lawyers seeking in-house roles in investment banks and hedge funds.

Decrease in staff turnover rates



Talent retention strategies

Bonuses, Training And Pay Rises Are Principal Measures

Companies are taking various measures to retain talented employees. Performance-related bonuses are seen as the most important single measure, being mentioned by 29% of respondents across all sectors. Substantial pay increases and training and development programmes are also seen as useful retention tools: each is mentioned by 22%. Only 12% of employers mentioned using training as a retention tool last year.

This suggests that there is an increasing emphasis on non-financial measures as companies plan their retention strategies. There is a particularly strong focus on training in the Consumer and IT&T sectors,

with 26% and 24% respectively citing this measure as an important retention tool.

Bonuses are seen as a valuable measure in the Banking & Financial Services and IT&T sectors, where they are cited by 31% and 30% of respondents respectively. Discretionary pay can form a large part of the total remuneration of employees in both sectors.

Work/life balance strategies are also being increasingly widely used to retain staff. Overall, 11% of respondents cite this measure. This figure rises to 15% in the Legal sector, where flexibility is seen as a useful means of helping staff to cope with a high pressure work environment.

Measures taken to retain top talent

Industry	Bonuses	Pay increases	Training	More work/life balance	Other	More benefits
Banking & Financial Services	31%	20%	20%	12%	11%	6%
Consumer	27%	28%	26%	6%	9%	4%
IT&T	30%	18%	24%	16%	3%	9%
Legal	26%	19%	23%	15%	4%	13%
Manufacturing	27%	22%	19%	9%	13%	10%
Media/PR/Advertising	25%	28%	20%	9%	11%	7%
All Industries	29%	22%	22%	11%	9%	7%

Recruiting overseas talent

High Proportion of Employers Looking to Recruit Overseas Talent

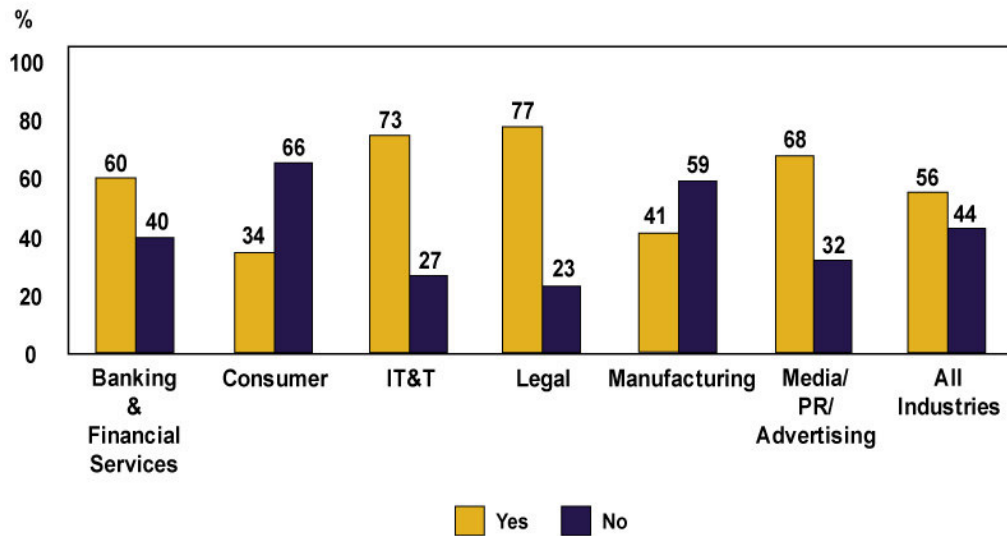
Respondents were asked if they are looking to attract talent from overseas, as a way of coping with tight employment markets. Overall, 56% of respondents are doing so, though there are substantial variations between the sectors.

Legal firms are the most likely to look overseas for talented candidates, with 77% giving a positive response. This is an increasingly global business where large law firms establish offices around the world so international experience is widely seen as a plus.

At 73%, the IT&T sector also has a high proportion of employers seeking talent overseas. This is particularly relevant in the area of financial services IT, where the impact of the credit crunch on European and American markets is boosting the availability of strong candidates.

Consumer companies are relatively unlikely to recruit overseas: just 34% of respondents say they are doing so. Companies in this sector generally look for candidates with local language skills and an understanding of local consumer behaviour and preferences.

Looking to attract talent from overseas



Overseas sources of talent

Talent Coming From Wide Range Of Countries

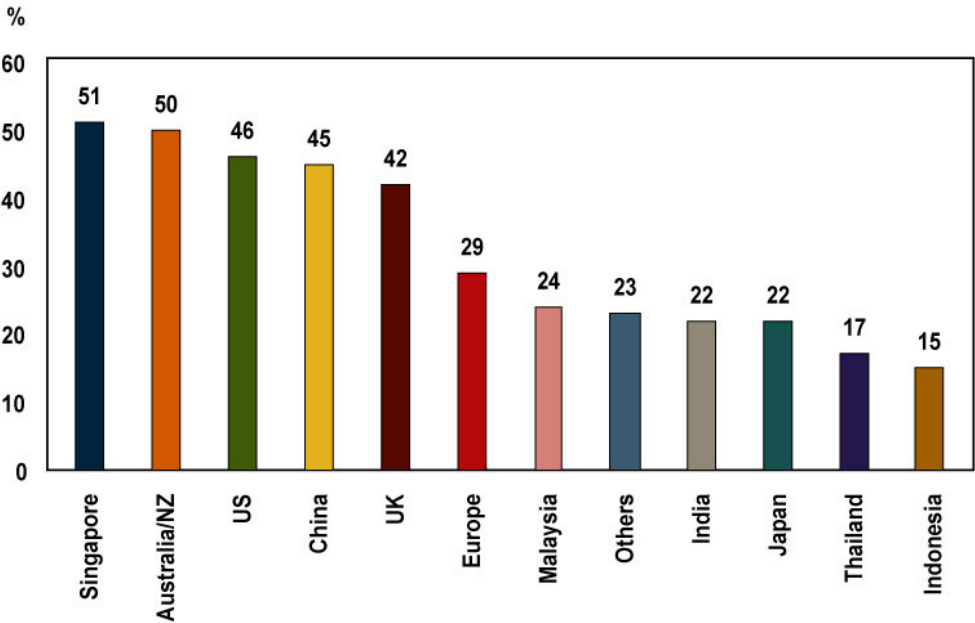
Respondents who seek to recruit talent overseas look to a wide range of countries. The top five are Singapore, Australia, the USA, China and the UK, mentioned by 51%, 50%, 46%, 45% and 42% respectively.

The principal sources of talent vary between the sectors. Legal firms tend to look to countries with similar common law legal systems, such as Australia

and the UK, while companies requiring language skills and local market knowledge, as in the Consumer and Media/PR/Advertising sectors, tend to recruit from China and Singapore.

The Banking & Financial Services sector is more mixed: the USA is chosen by 48% of respondents due to the high number of American banks operating in Hong Kong, while 42% mention China, as there is a strong demand for Putonghua-speaking finance professionals.

Countries where talent is coming from



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