

Aligned for success?

Strategy, talent management and the role of the CEO in Asia

The picture in South-east Asia



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Preface

Aligned for success? Strategy, talent management and the role of the CEO in Asia is an Economist Corporate Network (ECN) report. It is based on a survey of regional business heads and country CEOs in Asia who are part of the ECN. The report was sponsored on a regional basis by Hays and Telstra, and in South-east Asia by SilkRoad. The ECN performed the research and wrote the report independently. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsors.

The report was written by Andrew Staples, with assistance from Markus Winter and Pamela Qiu. Justin Wood wrote the section on South-east Asia and Mary Boyd and Ross O'Brien wrote the section on Greater China. Gaddi Tam was responsible for design.

We would like to thank all the respondents and focus group participants for their time and input.

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Strategy, talent management and the role of the CEO in Asia

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1. Introduction

Asia's business leaders share their thoughts on strategy and talent management in Asia

A combination of rapid economic growth, changing business imperatives and shifting demographic trends has resulted in severe competition for managerial talent in many Asian economies. With foreign firms in the region ramping-up their investments in pursuit of growth, and local firms increasingly going global themselves, securing and developing the right people with the right capabilities, skills and mindset is a key challenge for business leaders. The battle is especially intense for local talent, as global firms try to localise their workforces in the region.

Rather than relying on the highly competitive external talent market, many firms believe that developing leaders within their organisations is the best way to meet their talent needs. However, in a 2013 survey of HR executives in Asia, only 11% of respondents indicated that they were succeeding in this goal.¹

So how high is this issue of developing talent on the crowded agenda of regional CEOs, and to what extent is talent management aligned with their business strategies? How are firms attracting, developing and retaining future leaders and successors in the region? What role is the CEO playing in this process?

To examine these questions, the Economist Corporate Network conducted a survey of its 530 clients across Asia Pacific. A total of 133 executives completed the survey between July and September 2014. Focus group meetings were then held in Hong Kong, Shanghai, Singapore and Tokyo during October to discuss the findings further.

¹ "Fast track: Accelerating the leadership development of high potentials in Asia", The Conference Board, 2013



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2. Defining talent and talent management

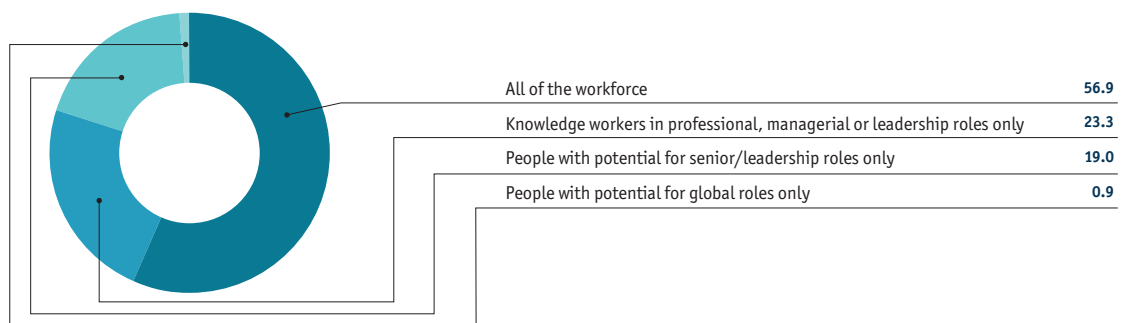
How do CEOs in Asia define “talent” and what do they regard as the most important aspects of “talent management”?

CEOs regularly claim that people are the number one priority at their firms. As organisations become more complex, globalised and knowledge-based this would seem to be a good maxim to follow. It is intuitively obvious that if companies put the right people in the right roles today, and build a strong talent pipeline for the future, then they stand a good chance of achieving their ambitions.

Yet all too often a gap exists between the rhetoric (we are all about the people) and the reality, exposing a disconnect between the CEO (the source of the strategic vision) and the head of HR (the provider of the people to deliver on the vision).

So how do CEOs in Asia define “talent” and what do they feel are the most important aspects of “talent management”? Unsurprisingly, the vast majority of CEO respondents to our survey indicated that they have a clear understanding of the term “talent”. This is a good starting point. But digging a little deeper we find that, while just over half define talent as referring to all of the workforce, sizable minorities are more discriminating. Some 23% of respondents define talent only as knowledge workers in professional, managerial or leadership roles, while 19% understand talent to refer only to people with potential for senior/leadership roles. (See chart 1.)

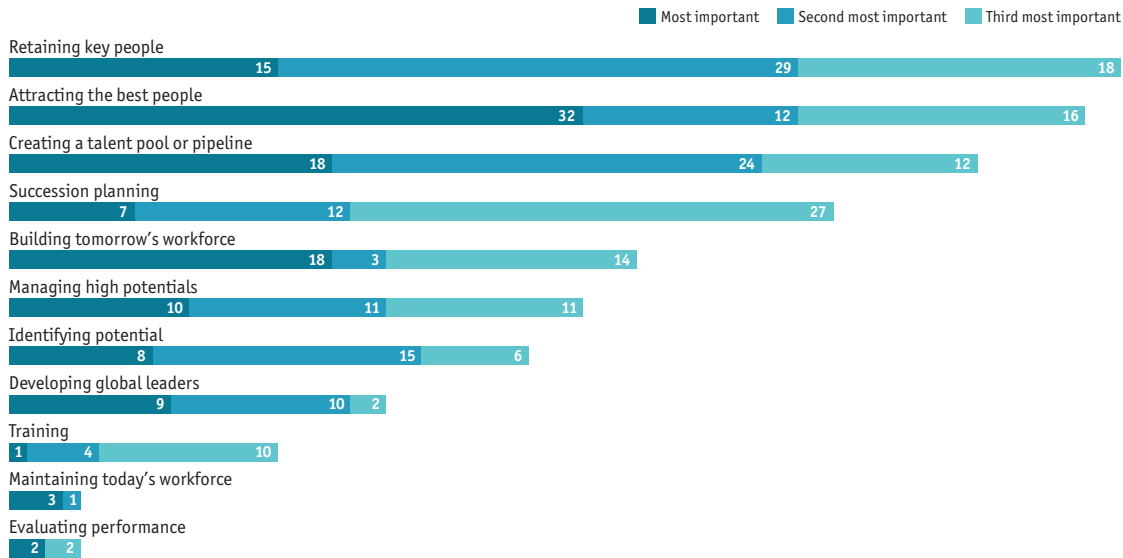
Chart 1: What do you understand the term “talent” to mean?
(% of respondents)



Going deeper still, our respondents were asked to identify what they considered to be the most crucial aspects of talent management. Respondents were asked to list their top three priorities. (See chart 2.)



Chart 2: What do you understand the term “talent management” to mean?
(number of respondents)



Interestingly, “training”, “maintaining today’s workforce”, and “evaluating performance” were given a low priority by the CEOs in the survey. These responses suggest that CEOs understand talent management and the role of HR in strategic rather than functional terms. CEOs also appear to be more focused on the talent issues of the future, rather than the talent issues of today.

Summary points:

- CEOs tend to view talent management as a strategic issue rather than in functional terms
- “Talent” is understood by different CEOs in different ways



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3. Developing talent in Asia

How are CEOs, and the companies they run, responding to the talent challenge in Asia?

The economic miracle that has seen Asia's share of the global economy rise from 19% in 1980 to 31% in 2013 has become something of a double-edged sword. While it creates exciting opportunities, it also intensifies competition for the talent needed to capture these opportunities.

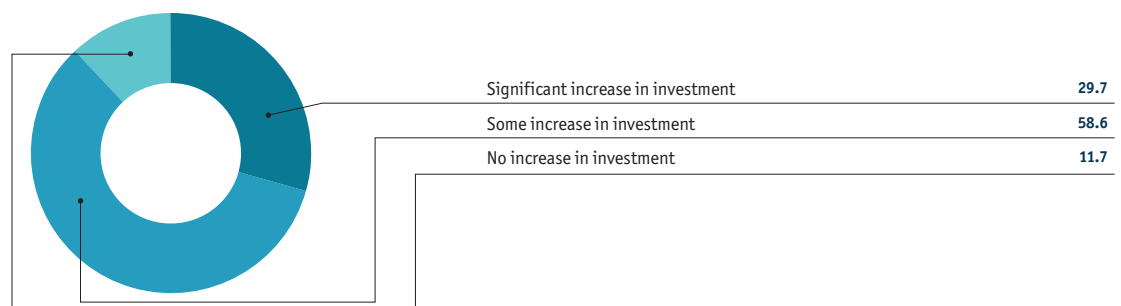
We asked CEOs how their companies are responding to this challenge. How does the depth and sophistication of the regional talent pool impact on the 'build or buy' debate? Should companies source their talent from the external market (ie, buy it) or should they develop it internally (build it themselves)? And if they seek to build it, are they investing at the right rate and do they have the right structures in place to identify talent and nurture it?

As a starting point, almost 90% of respondents indicated that they have local autonomy when it comes to decisions around talent management. This matters, as the Asian talent pool is hugely diverse and companies have to understand the nuances of local realities. What's more, in spite of the talent crunch reported in the region, confidence seems to be high among most respondents (71%) that they are currently investing at the right level to attract and retain the people they need in Asia.

But *how is this to be achieved?* The build/buy debate continues to underpin talent management in Asia. Broadly speaking, respondents reported a 70/30 split in favour of developing talent internally rather than relying on the external market.

Given the strong preference identified in this survey for building senior talent internally, it's no surprise to see that CEOs are raising the investment they devote to such activities. Indeed, some 90% of respondents to the survey said they are raising investment in internal talent development. (See chart 3.) Only 10% say they are not increasing such investment.

Chart 3: Are you increasing or decreasing your investment in internal talent development in Asia?
(% of respondents)





However, while “building” is preferred to “buying”, not all CEOs believe it is possible. In our survey, around a third of CEOs expressed concern that they lack the capabilities to develop their talent internally. (See chart 4.)

The desire for companies to build their talent internally, coupled with the fact that one third of CEOs felt they lacked the resources or capabilities to do so has implications for business schools and external trainers. Clearly, their services should be in strong demand, although in many cases this provision may need to take the form of more tailored solutions than historically offered through, for example, MBA programmes. (See chart 5.)

Chart 4: In Asia, can you develop most of the talent needed internally?
(% of respondents)

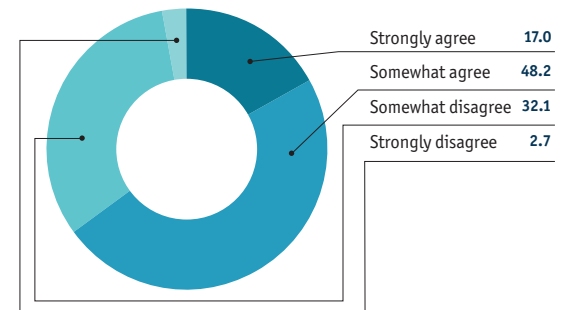
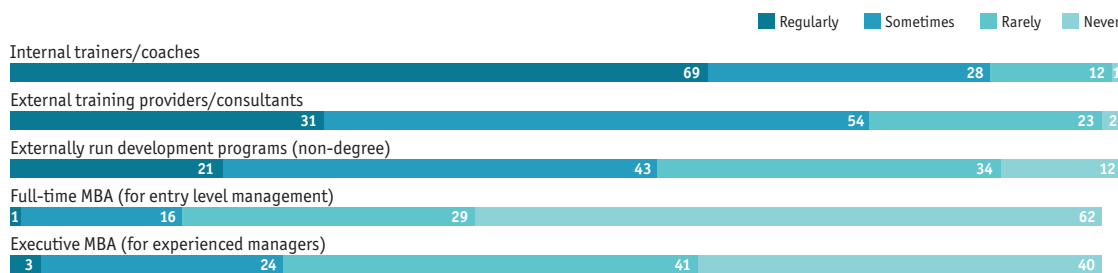


Chart 5: How do you deliver training and development?
(number of respondents)

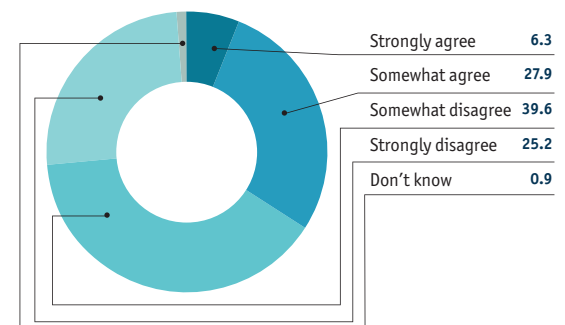


Somewhat alarmingly, 65% of respondents report that they do not have clear metrics in place to measure the benefit gained from training programmes. (See chart 6.) Naturally it can be hard to measure something as intangible as “improved knowledge” or “upgraded skills”. However, it seems unlikely that any other aspect of the business would be allowed to run on such a basis. If companies expect to develop the talent needed to achieve strategic aims, surely this is an area that warrants closer attention.

As CEOs go about building their talent internally, what areas are they focusing on? What skills and attributes do they feel are missing among their current management bench? We asked CEOs to identify the top three skills they feel are missing. The answers were broad, but three attributes stood out:

- **Leadership:** While the concept of “leadership” is hard to define in precise terms, CEOs clearly believe that much of the talent at their disposal lacks what it takes to inspire teams and drive those teams forward.
- **Strategic thinking:** CEOs require the next generation of leaders to move beyond functional expertise and local knowledge, and learn to think about strategy at the global level.

Chart 6: Do you have the metrics in place to measure the benefit gained from training programmes?
(% of respondents)





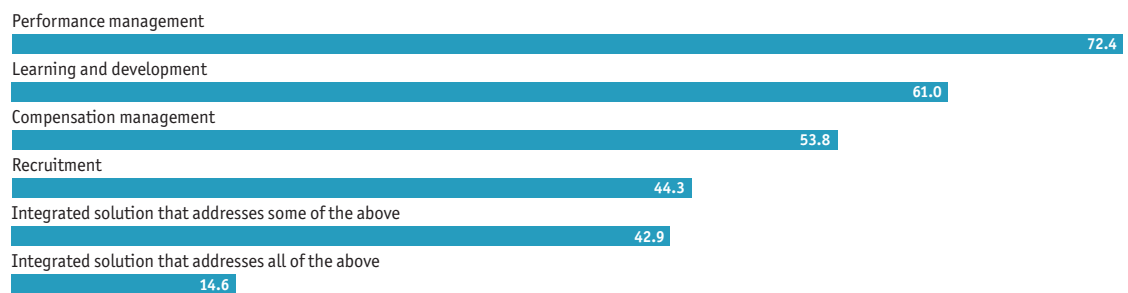
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- **An ability to manage across cultures:** CEOs are looking to develop talent capable of taking on global roles in big complex organisations that span numerous countries.

Another set of questions asked CEOs about their engagement with technology solutions. Chart 7 shows that, to the best of the CEO's knowledge, their HR departments use technology primarily for performance management (72%), learning and development (61%), and compensation management (54%). Only a minority (15%) use an integrated solution that addresses all aspects of talent management. Given the strategic importance of talent management to the organisation, CEOs might want to ask themselves if the company's use of technology is appropriate.

Chart 7: How do you use technology to help you manage your talent?
(% of respondents)



Summary points:

- Fierce competition for talent drives the focus on building internally
- Internal trainers/coaches are the preferred method for delivering learning and training
- Business schools may need to re-evaluate their offerings and focus more on tailored solutions
- Leadership, strategic thinking and an ability to manage across cultures are the areas requiring most attention in Asia
- The potential of talent management software may not have been fully realised



4. CEO involvement with talent management

How involved are CEOs with talent related issues? How involved should they be?

Fully 95% of respondents indicated that they are closely involved in talent management which is encouraging. A more important question, however, is the qualitative and quantitative extent of this involvement. To investigate further, we asked our CEOs to indicate the amount of time they spend on talent-related issues.

As chart 8 shows, a third of CEOs spend less than 10% of their working life on talent management and development, while another third spend between 10% and 20%. Many of the CEOs felt that they needed to devote more time to talent. Indeed, some 43% said they should be giving more time to developing talent in their companies. (See chart 9.)

Chart 8: What percentage of their working hours do CEOs spend on talent management?
(% of respondents)

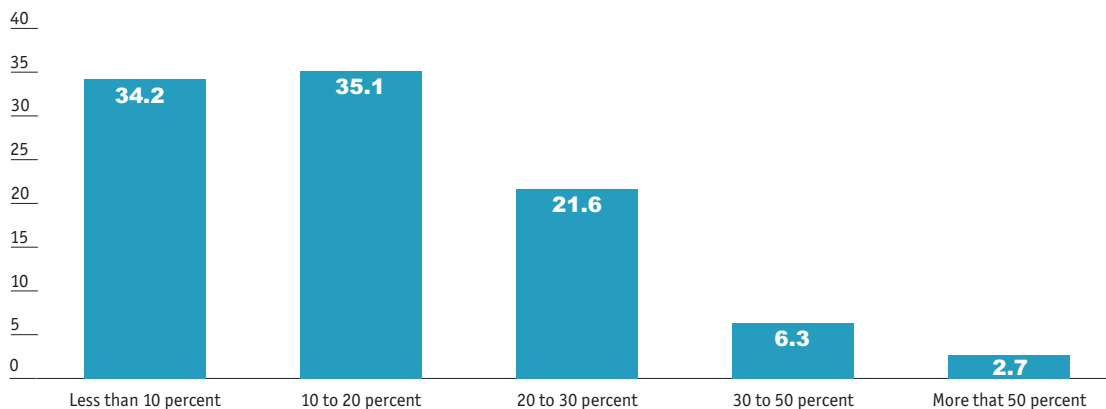
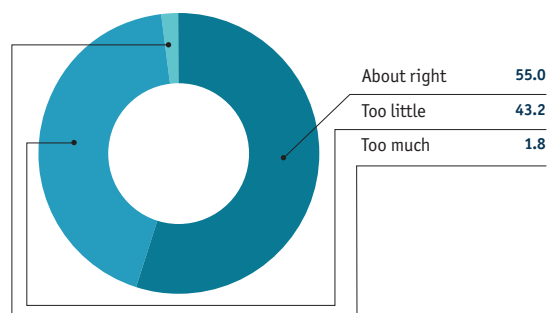


Chart 9: Do you feel you spend too much time on talent management or too little?
(% of respondents)



Of course, CEOs have huge demands on their time, and managing the firm's human capital is only one of many priorities. So how can CEOs use their time most profitably? One important idea is to become the leading voice or advocate for talent issues in the organisation. Being a visible and vocal talent champion is arguably more impactful than hands-on engagement. Employees would surely attach more value to talent initiatives if it was known that these were personally championed by the company's leader. Conversely, without his or her support they

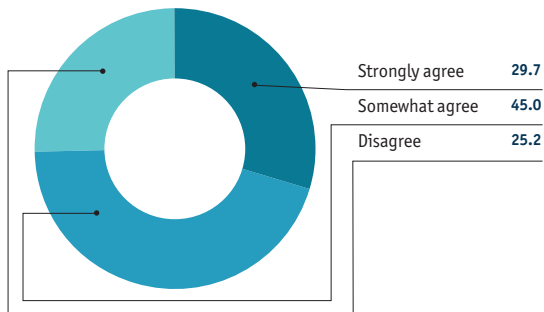


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Chart 10: Is the CEO the leading voice for talent in the organisation?

(% of respondents)



surely would be marginalised and support would be minimal. This message appears to be well received by our respondents. Fully 75% of CEOs say they are considered to be the leading voice for talent management in their organisations. (See chart 10.)

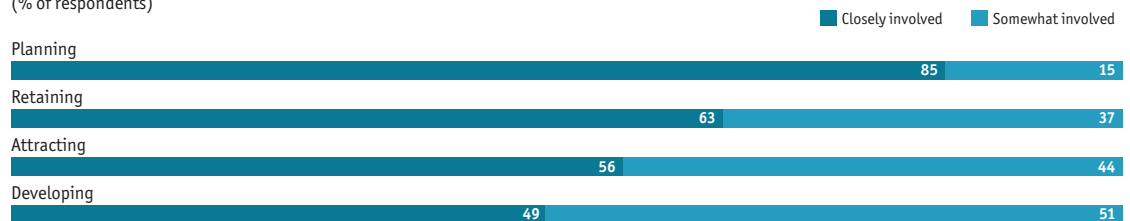
Aside from visible leadership and advocacy, how closely are CEOs involved in the different stages of talent management? Talent management can be thought of as having four broad areas:

- Planning (which may include thinking about the current and future needs of the workforce and organisational design);
- Attracting (which may include input on the benefits package, the selection process and onboarding);
- Developing (which may include involvement with learning and developing programmes, succession planning and leadership development);
- Retention (which may include involvement with mapping people with organisational goals, performance management, and career management).

Of these four broad areas of focus, CEOs are most deeply involved with planning activities, and least involved with talent development. (See chart 11.) Undoubtedly, planning activities are most closely associated with strategy, so it is no surprise that CEOs are heavily involved in this role. However, given that CEOs have much to offer in terms of sharing their experiences, mentoring future leaders, and nurturing key skills, their lower involvement in the development side of talent management is perhaps an oversight.

Chart 11: How involved is the CEO in talent management?

(% of respondents)





5. Aligned for success?

To what extent is talent strategy aligned with core business strategy? How involved is the head of HR in strategy formation?

According to a recent Economist Intelligence Unit survey, many CEOs question whether HR heads have a commercial understanding of the wider business that goes beyond functional ability.² The survey went on to report that, although only 55% of CEO respondents viewed their head of HR as a key player in the strategic planning of the organisation, 70% want them to be so. Does this suggest that talent management continues to be regarded as a function of HR rather than a strategic imperative?

The survey mentioned above was conducted at a global level. When we asked our Asia-based CEOs about the involvement of HR in strategy development, the results were much more positive. Indeed, 82% of CEOs said that their head of HR was deeply engaged in strategy formation. (See chart 12.) Why might HR leaders in Asia be more involved in strategy? Perhaps because of the character of Asia's economies. Given the shortages of staff, and especially leaders, any plans for the future must necessarily consider the implications for talent. Conversely, more developed markets in places such as Europe and the US are likely to be less talent-constrained, and so human capital considerations may not have quite such an important bearing on future strategy.

In a similar vein, CEOs overwhelmingly report that their HR strategy is aligned with their business strategy in Asia. (See chart 13.) Seeking to explore this in more depth, our survey sought to identify whether firms are proactive or reactive in terms of talent management strategy and business strategy. In the proactive organisation, the HR head has a seat at the strategic table and is actively engaged in strategy formation. The reactive organisation, on the other hand, is one where talent management remains a function of HR, fully subservient to corporate and business-level strategy. Asked whether the HR head is actively engaged in strategy formation, 81% of CEOs indicated that they were, suggesting that their organisations in Asia have adopted a proactive approach to talent management.

Chart 12: Is the HR head actively engaged in strategy formation?
(% of respondents)

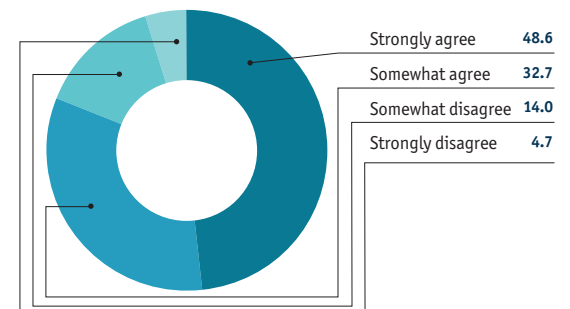
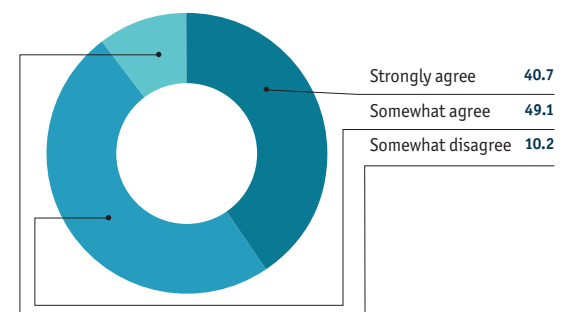


Chart 13: Is your talent management strategy informed by and aligned with your core business strategy?
(% of respondents)



² "CEO Perspectives: How HR can take on a bigger role in driving growth", The Economist Intelligence Unit, 2012



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6. The picture in South-east Asia

The Economist Corporate Network staged a focus group among seven CEOs with regional responsibility for South-east Asia to develop a more nuanced local perspective.

Among the group, there was strong recognition that the 10 economies of South-east Asia together represent a high-growth region. Foreign direct investment is pouring into the region (in 2013, the value of foreign direct investment inflows into ASEAN overtook China). This combination of high-growth and rising investment means that talent is a scarce resource, with a mismatch between demand from companies and supply in the market.

ASEAN has a large population of 625m people, and a young demographic profile, with the working-age population set to expand by 64m over the next 15 years. However, while finding workers is easy, finding them with the right skills and experience is hard. Of particular concern, retaining good staff once they have joined—and after they have been trained—is getting tougher.

Compared to other parts of Asia, such as India and China, ASEAN may be slightly easier. Executives say that staff turnover rates in South-east Asia—which among the focus group ranged between 5% and 15%—are better than other parts of the region. Nonetheless, while ASEAN may not be the hardest market in which to develop and retain staff, life is getting harder.

Build rather than buy

The CEOs at the focus group acknowledged that managing “talent” is a critical part of their roles. Most said they dedicated around 25% to 30% of their time to human capital issues. In managing junior staff, this involvement is more about setting company HR policies and general workforce planning issues. For more senior roles, the CEO involvement becomes much more hands-on. The ASEAN CEO of a European MNC says that he has 3,000 staff in the region, of which 200 are current leaders or earmarked as future leaders. He is personally involved in crafting the development paths and assessing the progress of all 200 of them. These development paths include, among other things, rotation across the company, exposure to different business units and countries, and time spent with global business heads and meetings with board members.

The CEOs expressed a strong preference at their firms for building and developing talent internally, rather than sourcing it in the external market. However, this bias varied depending on the type of company, and importantly on the cultural backdrop. The regional head of a Japanese MNC said the balance was closer to 50% internal development and 50% external sourcing for senior leaders.

By contrast, a German MNC said the balance was 90% in favour of internal development, with highly structured processes and paths for pushing talent up the organisation. “In ASEAN, and in Asia



as a whole, every one of the senior leadership team came up through the ranks,” he says. “We do hire externally, but only at a level one below senior leadership. They need to understand how we work, and find their sea-legs before they move up. It’s a fairly robust internal environment, so leaders need to know their way around.” That doesn’t mean that all the leadership team are German. Indeed, in ASEAN every one of the country-level MDs are local nationals, but all spent a number of years at the firm before becoming MD.

Falling labour mobility

All the CEOs expressed a commitment to localisation of their management teams in ASEAN. And many of them said they had achieved a high degree of success in this regard. However, this success is creating different headaches. Almost all the CEOs agreed that labour mobility for their senior leaders in ASEAN is declining. Local MDs working in places such as Thailand and Indonesia are increasingly reluctant to move to other countries. Family issues, such as the education of children or care of elderly parents, are factors here. But so too is the rise of dual-career families where both spouses have jobs, thereby making it harder to move internationally.

As mobility has decreased, this has meant that local MDs tend to stay in their roles for longer. And this blocks aspiring local managers beneath the MD from reaching the senior roles that they crave. They could move within the company to another country, but these more junior managers are also increasingly reluctant to travel. As such, to further their careers, they look for opportunities in rival companies in the local market. In this regard, local ASEAN companies have an advantage over foreign MNCs because they tend to be bigger in their local market and so can offer more opportunity for career progression.

The focus group had limited solutions to this problem. However, many have established formal alumni networks, run on Facebook and other platforms, whereby they keep in touch with former employees. They make it clear to these ex-managers that they are welcome back in future should appropriate openings materialise.

One interesting variation on the theme of localisation came from a large European bank in Malaysia. The bank realised that it had more Malaysians working for the bank outside Malaysia than inside Malaysia. As such, it devised a special programme to lure some of this international Malaysian talent back to their home country. The CEO was personally involved in this effort.

A further point raised on the issue of falling labour mobility was concern about the implications for the roll-out of the ASEAN Economic Community in 2015. The idea is to create a single market and integrated production platform that enables a free flow of goods, investment and skilled labour across South-east Asia’s 10 nations. However, if labour is increasingly unwilling to move, the AEC may struggle to achieve some of its potential. CEOs who are increasingly adopting a regional approach to managing ASEAN (as opposed to a country-by-country approach) may find it hard to move staff into the positions and places where they want them to be.



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The trouble with graduates

At the more junior end of talent development, CEOs expressed growing concern about the efficacy of graduate trainee programmes. All present at the focus group agreed that such schemes are becoming less effective at providing a pipeline of talent for their companies. The quality of students and the depth of their education were all fine. Instead, the issue centred on commitment.

As one CEO put it: “We take on graduate trainees straight out of university, we train them, and then after 18 months or two years, they decide to do something else. They go back to study again, or they decide they want to join a different industry. Their commitment to being at the same company for five to 10 years is declining rapidly. We’re even considering cancelling our graduate scheme because it costs a lot of money.”

Another CEO noted: “This is a big generational shift. Generation Y has very itchy feet. They don’t want to be in the same place for more than two years. It’s a big problem generally, and it’s especially a problem for banks in Singapore. Getting graduates in their 20s to stay after you’ve trained them is a nightmare. They’re bright kids, but they have incredibly itchy feet.”

Yet another CEO noted: “The expectations of graduates in many cases are extremely high. Some of them expect to be CEO after three years, and if they aren’t CEO then they move on. But this is harming their careers. If I see a job applicant who is 30 and he’s worked in five or six different companies, I won’t hire him.”

These problems apply mostly to general management roles. CEOs noted that specialist positions, such as engineers, tended to be more loyal and that graduate training for these positions offered much higher value.

Training and skills gaps

In terms of developing talent, most CEOs expressed a preference for internal training and development rather than programmes provided from outside their firms. Tools such as offering executive MBA programmes and the like were used as a retention tool, but not as a policy, and only in specific cases.

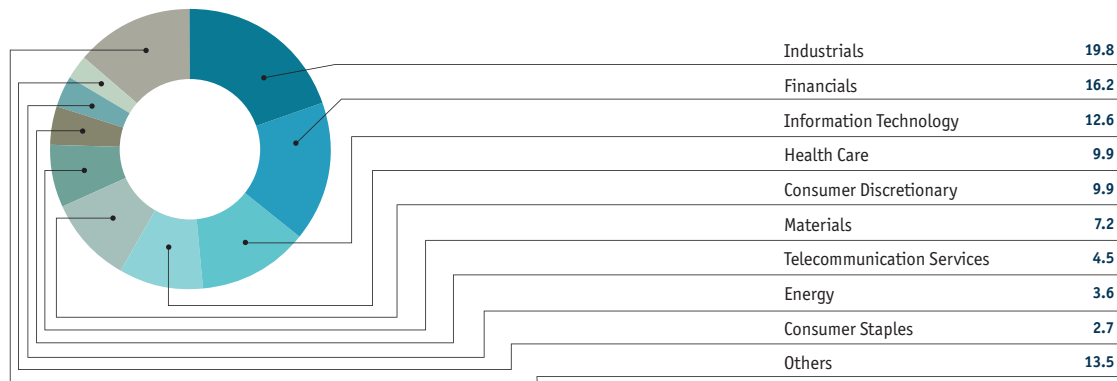
When asked which types of skill were most missing in their ASEAN leaders and management teams, the strong consensus was communication skills. Poor presentation skills were part of the problem, but more generally, the leaders expressed concern at a perceived inability to communicate well in general, be it explaining company strategy to workers, to simply sharing information.



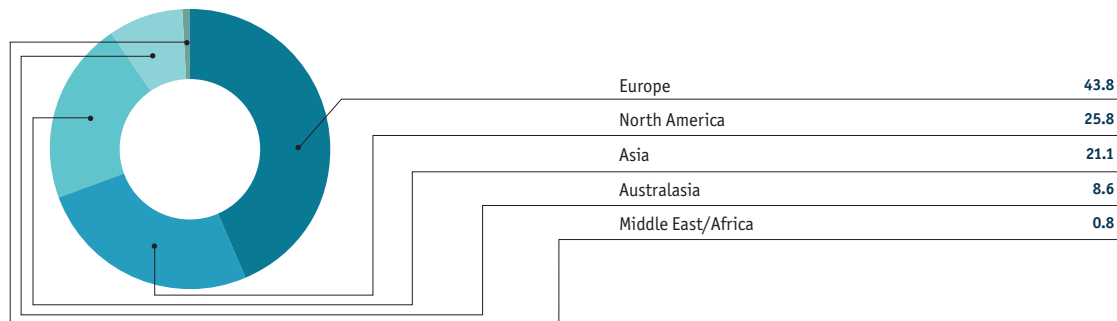
Appendix

Participant data

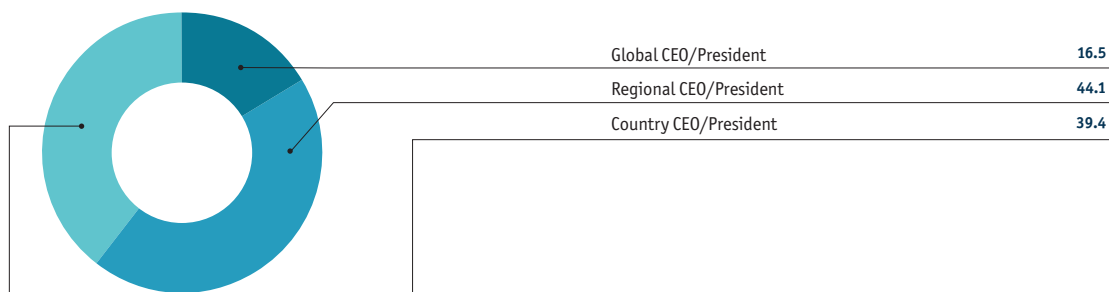
Survey respondents by sector
(% of respondents)



Survey respondents by location of global headquarters
(% of respondents)



Survey respondents by company role
(% of respondents)



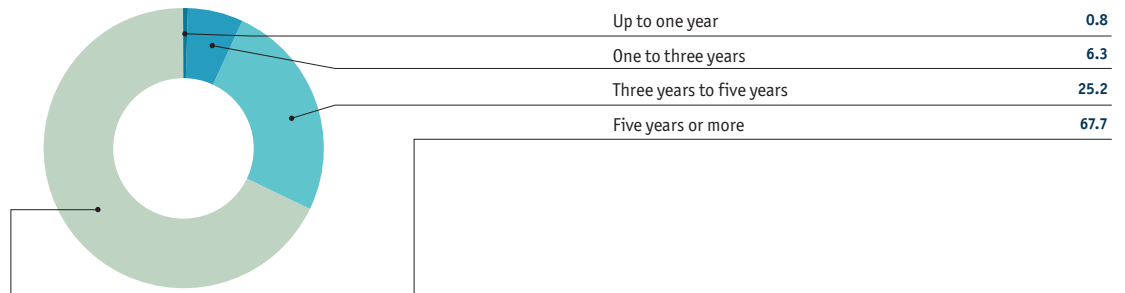


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Survey respondents by years of experience in an executive C-suite role

(% of respondents)



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