

Aligned for success?

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

The picture in Japan



Regional sponsor



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.

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

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November 2014

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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

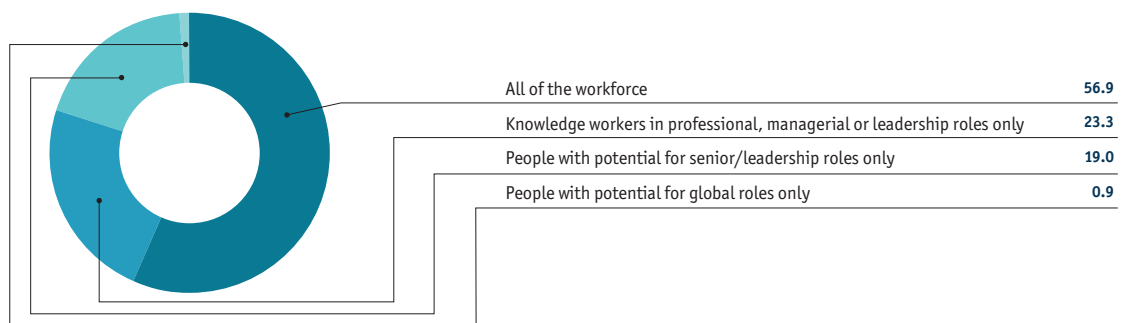
How do CEOs in Asia define “talent” and what do they regard as the most important aspects of “talent management”?

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.)

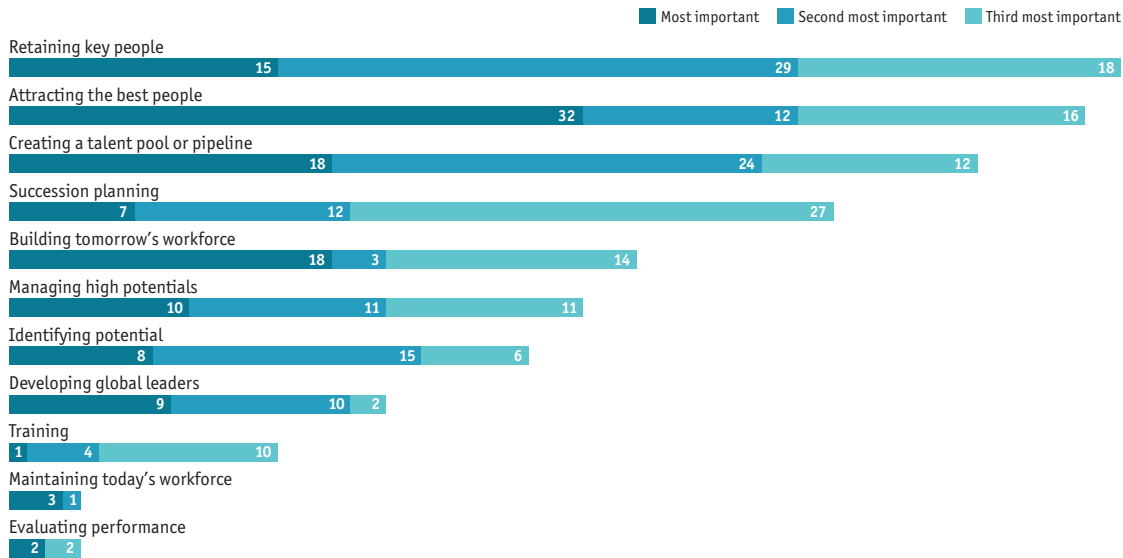
Chart 1: What do you understand the term “talent” to mean?
(% of respondents)



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.

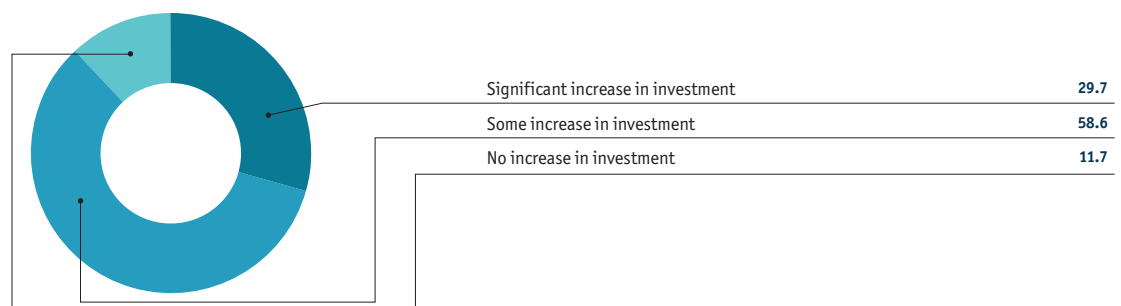
We asked CEOs how their companies are responding to this challenge. How does the depth and sophistication of the regional talent pool impact on the 'build or buy' debate? Should companies source their talent from the external market (ie, buy it) or should they develop it internally (build it themselves)? 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)

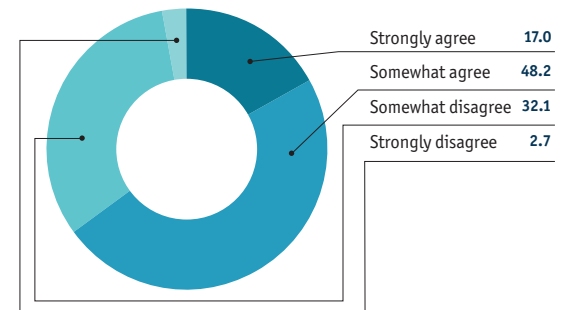
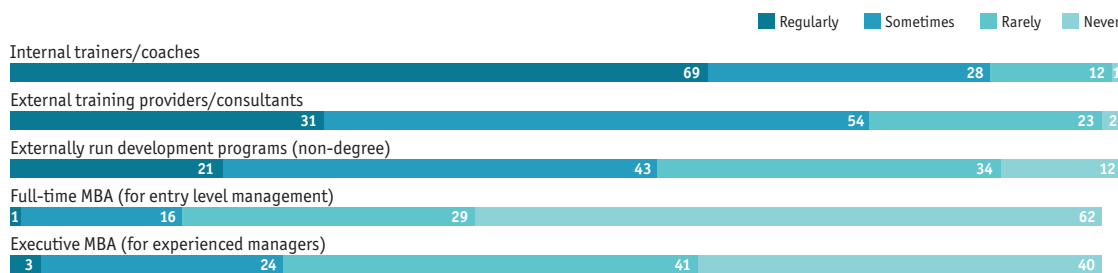


Chart 5: How do you deliver training and development?
(number of respondents)

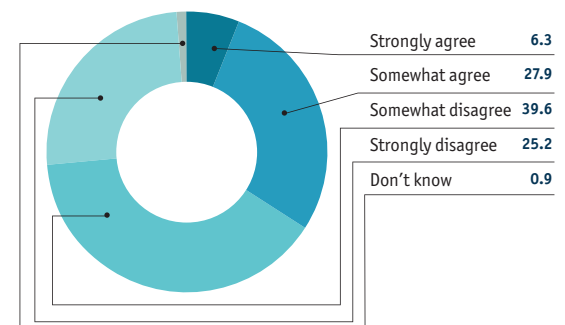


Somewhat alarmingly, 65% of respondents report that they do not have clear metrics in place to measure the benefit gained from training programmes. (See chart 6.) Naturally it can be hard to measure something as intangible as “improved knowledge” or “upgraded skills”. However, it seems unlikely that 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)





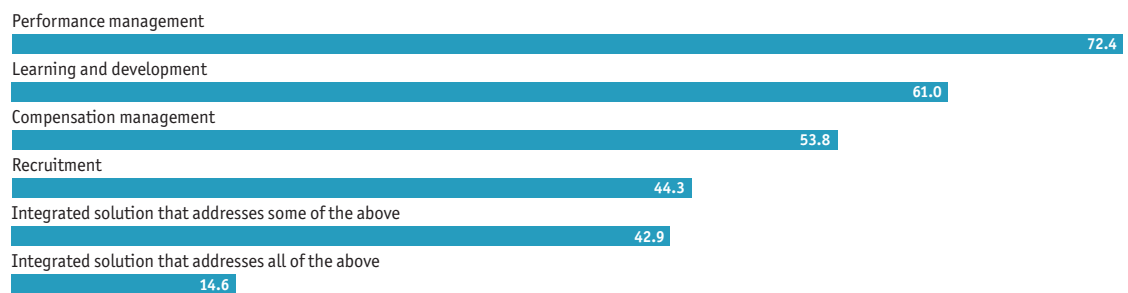
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- **An ability to manage across cultures:** CEOs are looking to develop talent capable of taking on global roles in big complex organisations that span numerous countries.

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)

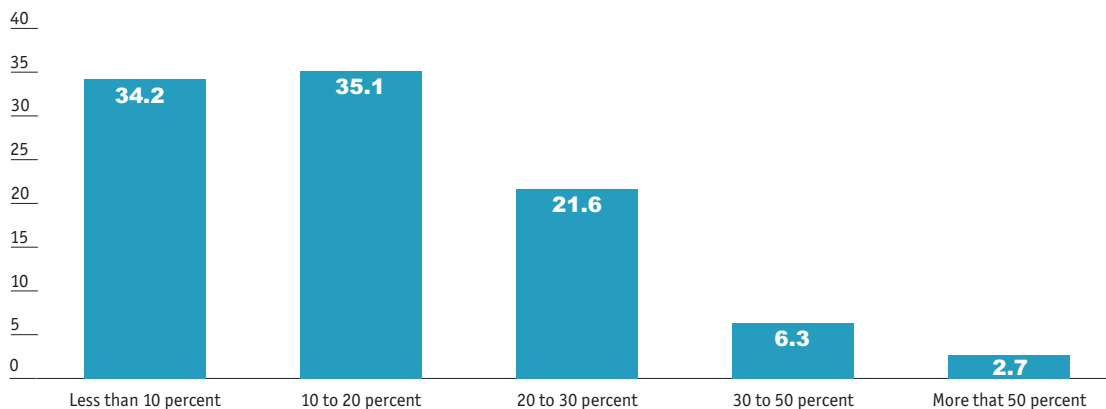
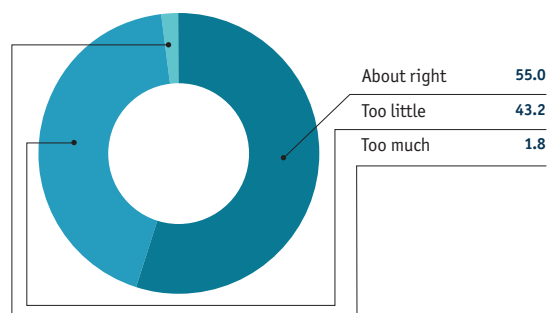


Chart 9: Do you feel you spend too much time on talent management or too little?
(% of respondents)



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

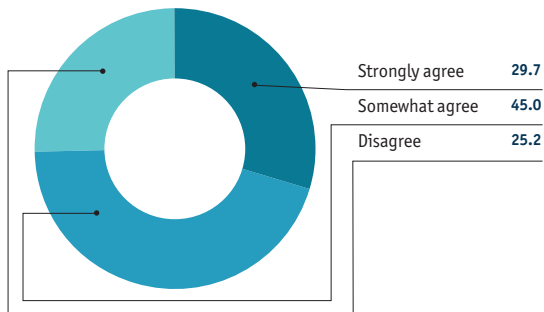


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Chart 10: Is the CEO the leading voice for talent in the organisation?

(% 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.)

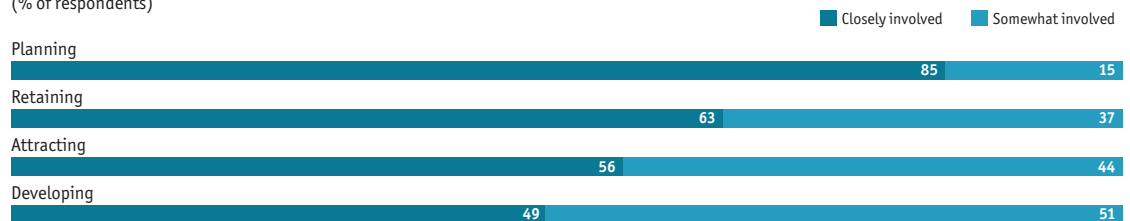
Aside from visible leadership and advocacy, how closely are CEOs involved in the different stages of talent management? Talent management can be thought of as having four broad areas:

- 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)

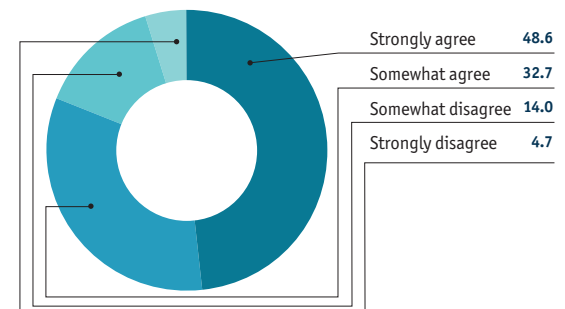
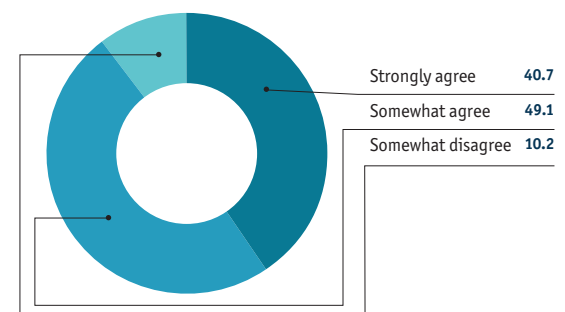


Chart 13: Is your talent management strategy informed by and aligned with your core business strategy?
(% of respondents)



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 Japan

The Economist Corporate Network in Japan staged a focus group among six CEOs and senior executives with country or regional responsibilities to discuss how the findings of the regional survey relate to the Japanese context.

Key findings

- Foreign affiliated firms face increasing competition for global talent from Japanese firms that are “going global”
- Japan-based CEOs are more “hands-on” with talent management than regional peers
- Identify talent early on – and foster a global mindset
- Identify need to shift perceptions of the HR function to strategic partner

Going global

It was not too long ago that foreign affiliated firms were shunned by graduates—or more likely their university fee paying parents—in favour of a safe and steady career at one of Japan’s corporate titans or in the civil service. However, as Japan integrated more closely with the global economy, and some of the shine came off traditional employers and their employment practices, the option of working for a foreign multinational became increasingly attractive. This was particularly the case for Japanese women who saw in foreign multinationals the promise of better career advancement opportunities, a better work-life balance, and less of the gender specific roles that continue to hamper corporate Japan.

More recently, the past few years have witnessed record outbound foreign direct investment (FDI) from Japan which reached \$135bn in 2013, with M&A activity accounting for just under \$70bn of this total. Foreign firms in Japan are thus facing increasing competition from local firms for “global talent” as they continue to pursue growth opportunities overseas. Disco, a job fair organiser specialising in international recruitment in Japan, reported this year that “48% of the 800 mid-size to large Japanese companies they surveyed say that they plan to recruit non-Japan college graduates, up from around 20% just a few years back”.³

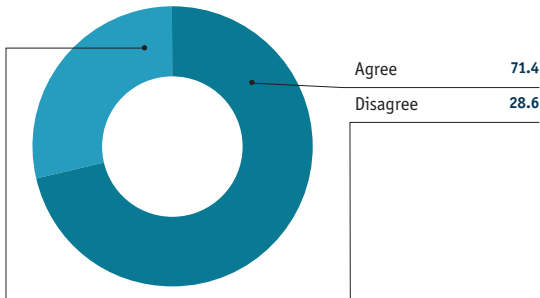
Additionally, as one CEO noted, unemployment currently stands at just 3.6% and the labour market is tight with shortages reported in some sectors, notably construction and services. Taken together, these factors explain why CEOs in Japan are far more concerned than regional peers about their current levels of investment to attract and retain the talent they need. (See chart 14.)

³ *Corporate Japan out to recruit more global talent*, Today Online, August 26, 2014

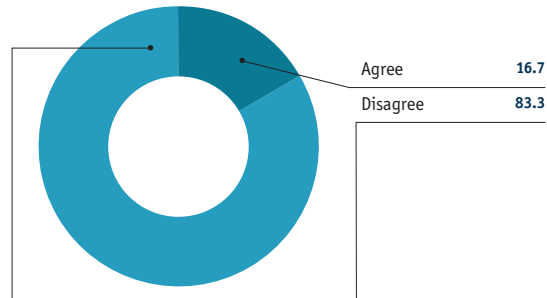


Chart 14: I am confident that we are investing at the right level to attract and retain the talent we need in Asia.
(% of respondents)

Regional responses



Japan responses

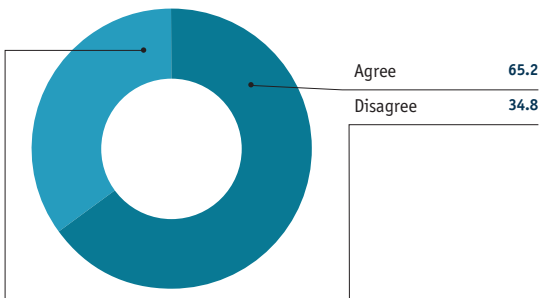


Part of the concern around this under-investment in human capital may be attributable to competition for resources elsewhere in the region, notably China. Although Japan has returned to international radar screens over the past two years as a result of Abenomics, the country is often regarded as something of a “cash cow”, and Japan-based business leaders still face an uphill battle in persuading head offices in Europe or North America that their operations deserve greater investment in people, training and development.

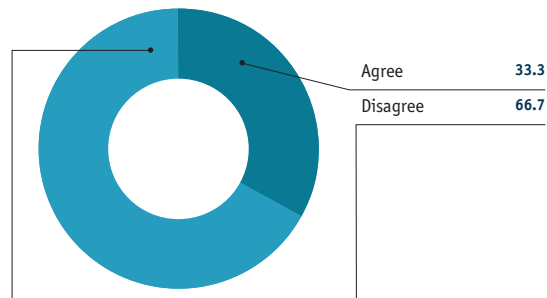
Compared to their regional peers, Japan-based CEOs are less confident that they will be able to develop the people they do recruit. Furthermore, half of Japan-based respondents feel that they are not able to secure the people they need through the external market, compared to less than a third of regional respondents. (See chart 15.)

Chart 15: I am confident that in Asia we can develop most of the talent that we need internally.
(% of respondents)

Regional responses



Japan responses



Preparing for what?

The CEOs at our focus group discussed at some length the need to identify exactly what roles to prepare people for. Although developing global leaders is arguably the ideal, and to some degree an expectation from head offices, the reality is that many Japanese executives face considerable hurdles—such as language and cultural barriers—when looking to develop careers in second or third countries; and much more so than those in the cosmopolitan hubs of Singapore and Hong Kong.



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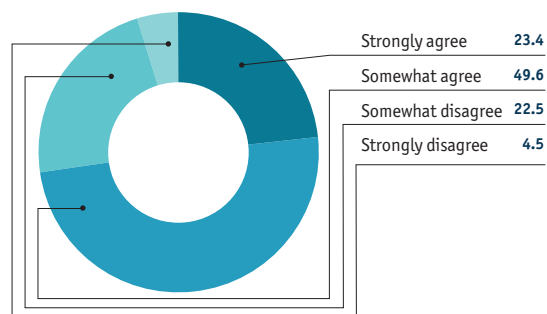
Therefore, identifying potential for global roles early on, and implementing the right mix of training and development (including overseas exposure), is a must.

At the regional level, CEOs report that “leadership”, “strategic thinking” and “managing across borders” are the three key attributes that require the most attention. In contrast, Japan-based CEOs are most concerned about “leadership”, “team development” and “personal development”. One CEO commented that, in his experience, there is a greater need for personal development given a lack of exposure to global practices and competition. Again, this may reflect traditional employment practices that have been slow to change. For instance, the idea that it is an individual’s responsibility to develop a transferable (rather than company specific) portfolio of skills and experiences is relatively new in Japan. This theme led to a broader discussion on the talent mismatch in Japan and the changing role of higher education.

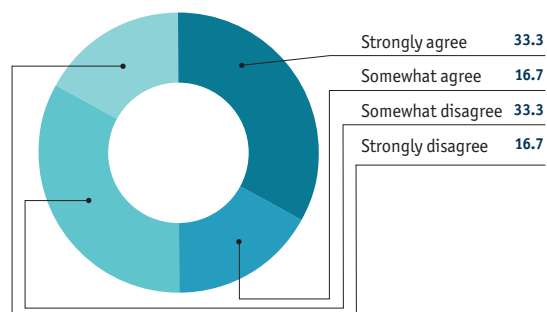
Structural reforms have the potential to significantly impact the labour market in Japan. However, our focus group was not holding its breath that such changes will take place anytime soon. Having said that, the efforts to keep more women in the workforce and get more women into senior positions is welcome, as is a better understanding of the strategic value of building diversity in the workforce. On these issues, the CEOs in our focus group expressed confidence they are well ahead of the curve and will be able to maintain some competitive advantage for the foreseeable future.

Chart 16: My senior management team could all be described as “talent advocates”.
(% of respondents)

Regional responses



Japan responses



Leading from the front?

Turning to the question of how talent management is understood and communicated within the organisation, all Japan-based respondents agreed that they are closely involved in talent management, which is slightly higher than the regional score. More Japan-based business leaders also identify themselves as the “leading voice” for talent management than their regional peers, and half of them report allocating up to 20% of their working week to talent issues which is higher than the 35% at the regional level. This could well be because of the country-specific challenges noted above. Indeed, one CEO said that he has to be more involved in Japan than in previous roles elsewhere, although this is also in part due to a desire to understand local working practices more clearly.

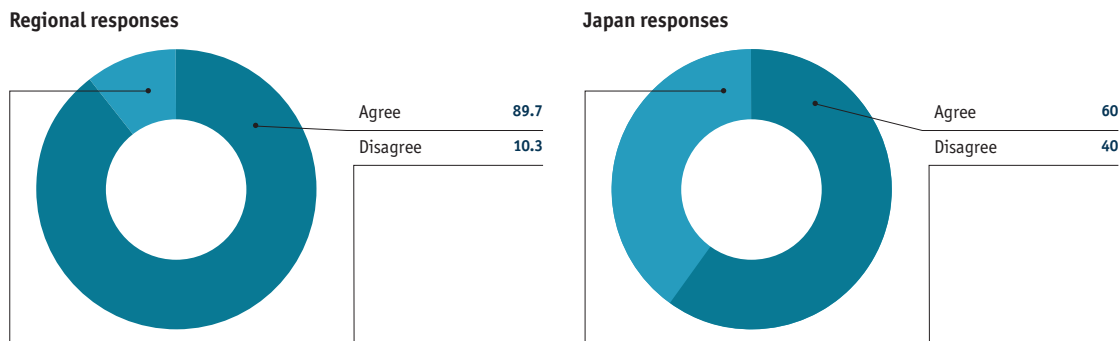
At the same time, CEOs in Japan are less likely to describe their senior management teams as “talent advocates”—perhaps because 50% of respondents report that their leadership teams have not received adequate training on talent strategy, management and development, compared to around just a third of regional respondents. As one focus group participant suggested, this may reflect the legacy of more traditional understandings of “personal management” as opposed to “strategic human resource management” found among some senior local employees.



Aligned for success?

As reported above (see page 11), nearly 90% of regional respondents indicated that their talent management strategy is informed by and aligned with their core business strategy. However, business leaders in Japan seem less sanguine on this issue. (See chart 17.) Why is this? As participants in our focus group suggested, this could reflect the positioning of the HR department in Japan, whereby it is understood as less of a strategic partner and more of a functional operator. This, of course, goes to the heart of the matter and highlights the challenge that Japan-based business leaders have in fostering a more strategic approach to HR and adopting global best practices. This in turn underscores the need to develop a global mindset throughout the organisation.

Chart 17: Our talent management strategy is informed by and aligned with our core business strategy.
(% of respondents)





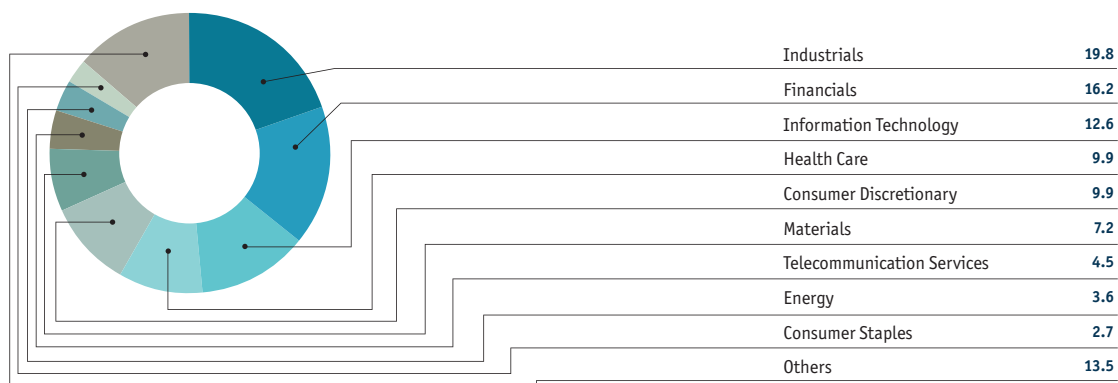
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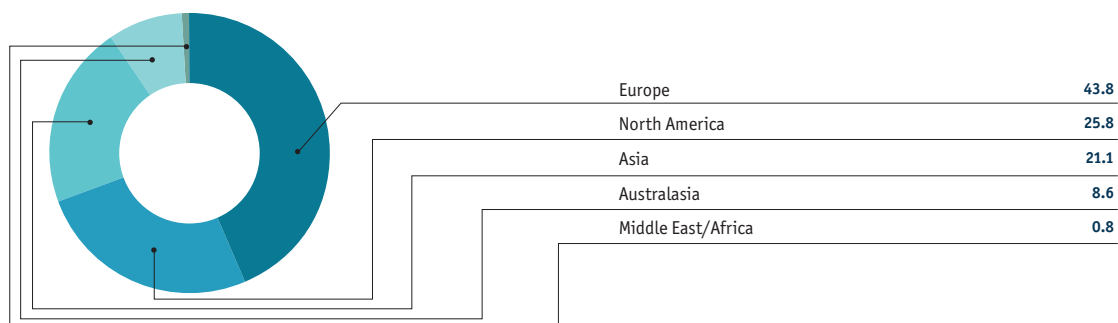
Appendix

Participant data

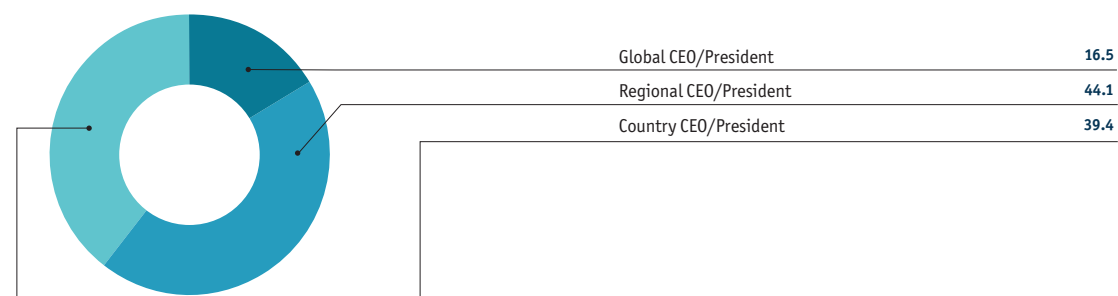
Survey respondents by sector
(% of respondents)



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

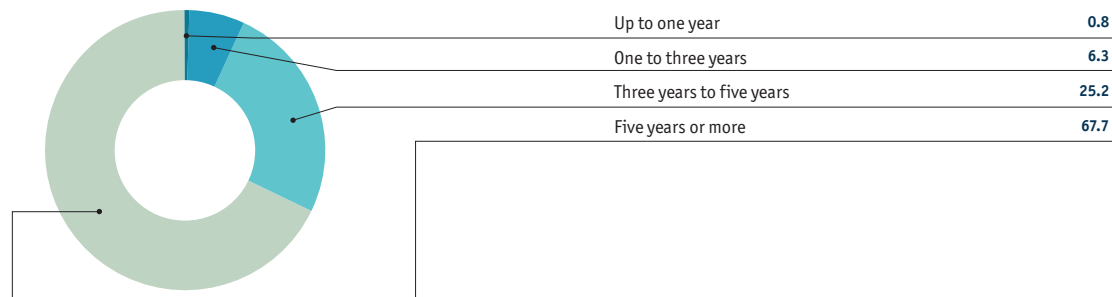


Survey respondents by company role
(% of respondents)





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



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