



**Mercer's
Asia HR Roundtable**

“The rise of HR in the new Asia”

13-14 April 2010

MERCER

Consulting. Outsourcing. Investments.



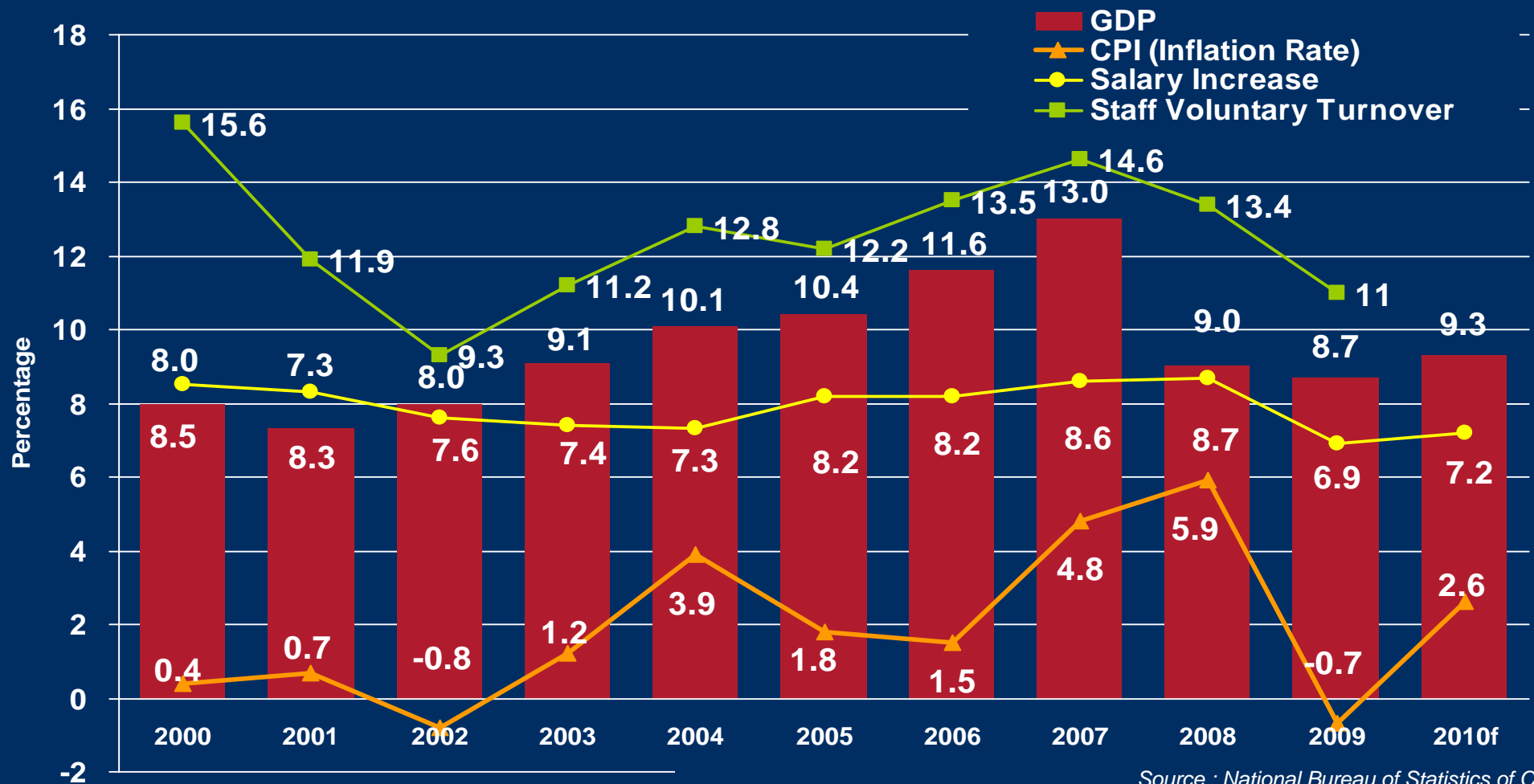
MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN



“Ask the Experts – Greater China”

Allen Wu and Garry Wang

China will replace Japan as Asia's biggest economy in 2010, which will also make it the world's second biggest country after the US

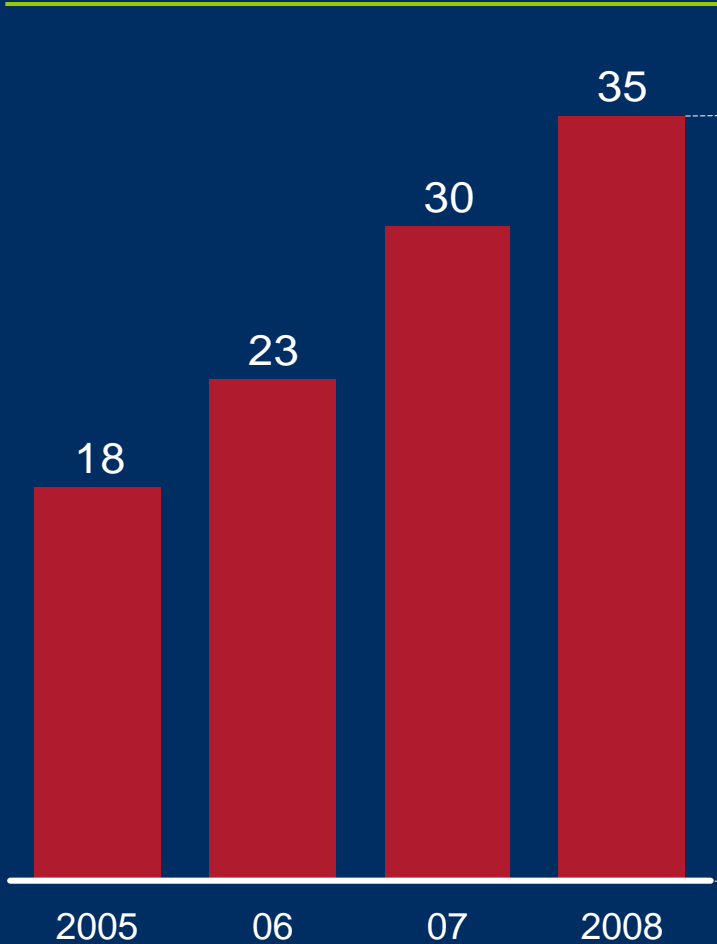


Source : National Bureau of Statistics of China
 Mercer Total Remuneration Surveys in China
 2010 Q1 China Monitor Survey
www.Economist.com (as of Jan 4th, 2010)

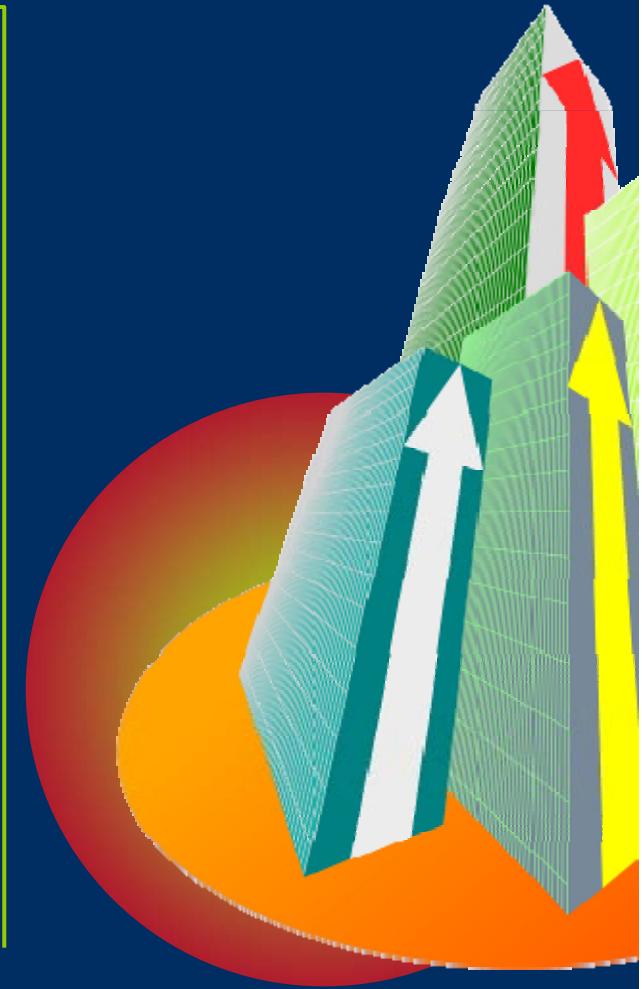
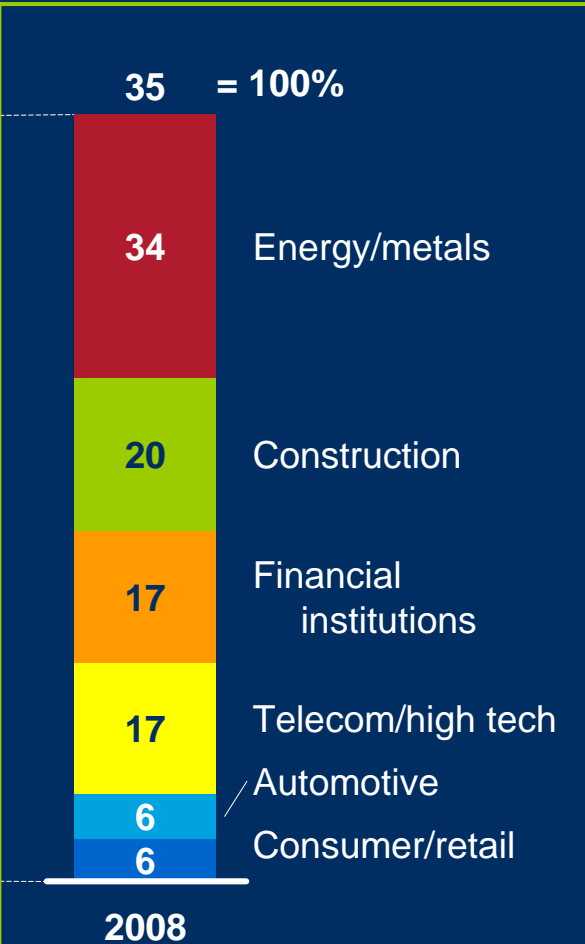
Underlying impact of global shift to Asia Pacific focus

Rise of Chinese companies on a global scale

Chinese companies listed in the Fortune 500



Sectors affiliation of Chinese Fortune 500 companies

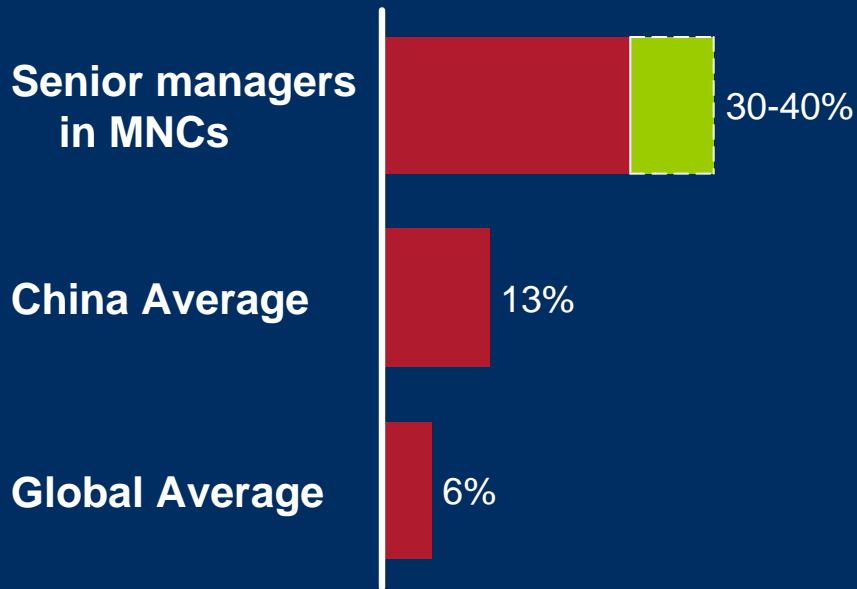


SOURCE: Fortune 500 2005-07; News search

The talent conundrum – the China example

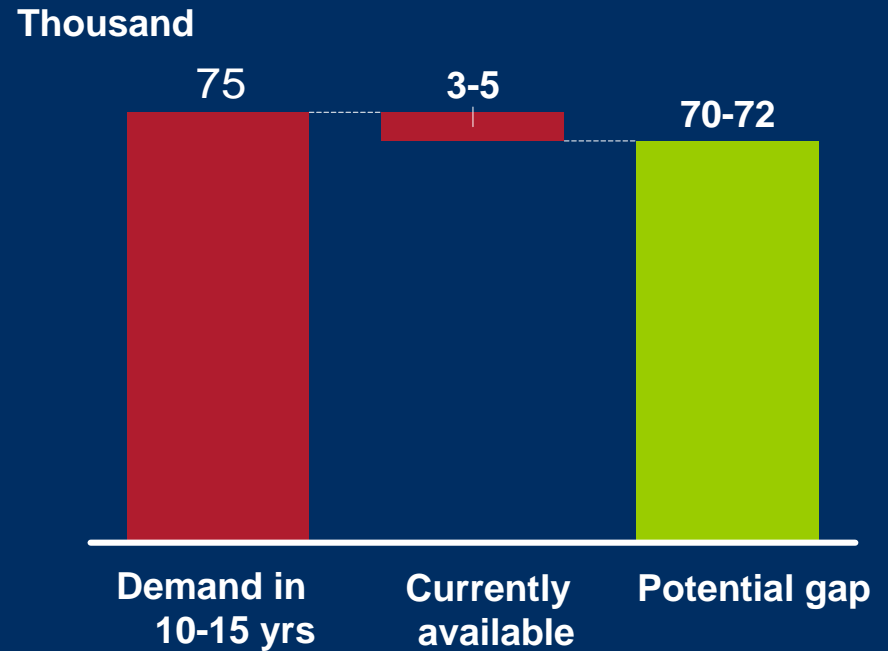
Senior executives with global experience are in great shortage

High turn-over rates



Large gap between supply and demand

Number of senior executives with global experience



SOURCE: 2005 China Talent Report, McKinsey Global Institute; China Statistical Yearbook; China University Headmaster Forum, Universum Employer Branding Report

The talent conundrum – the China example

Younger staff with changing goals/values



“TRAPS” – Troubled Residential Apartment Purchasing Slaves

Think about the Impact to your workforce...

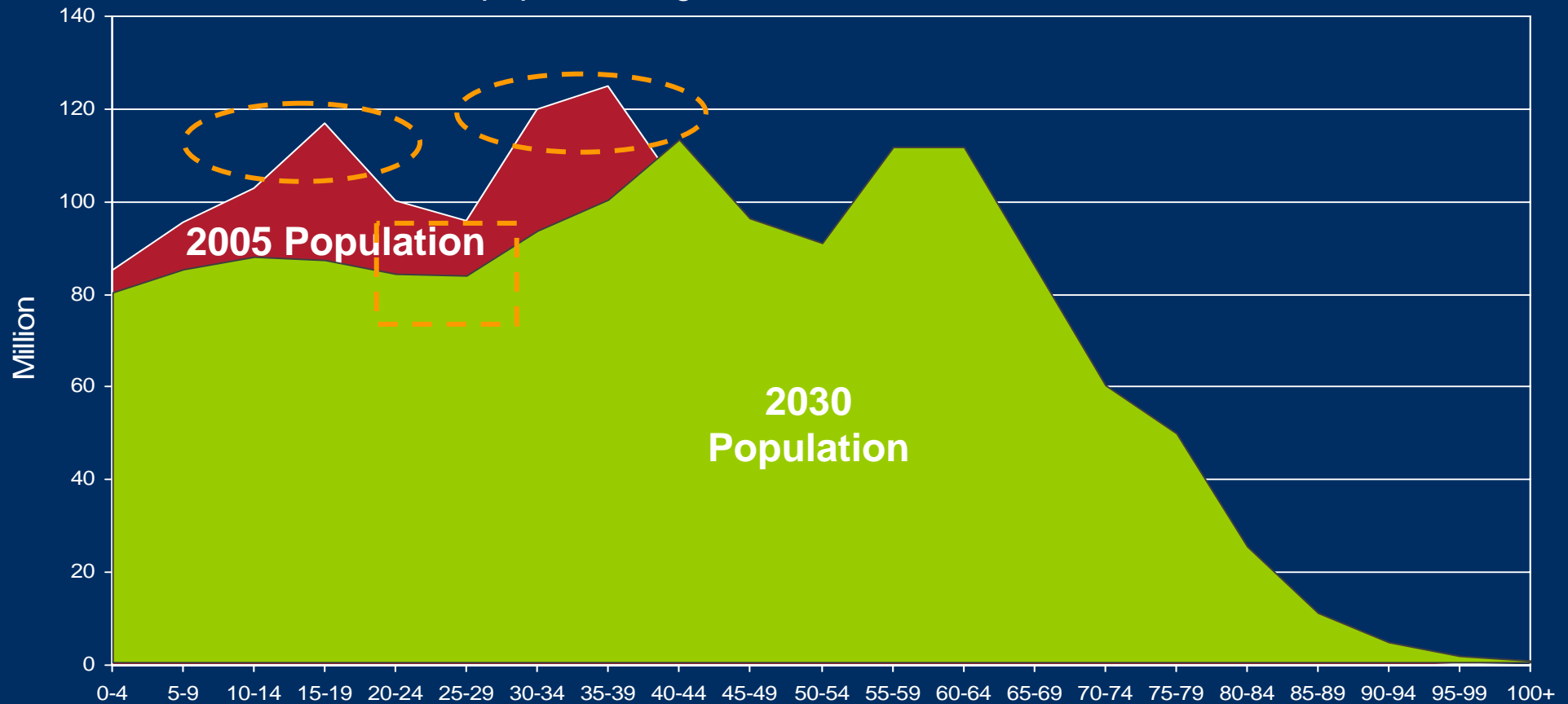
Marriage & Social Pressure on Generation Y Talent Pool

The talent conundrum – the China example

Labor supply in the long run is getting worse in China

In 2005, two age groups (15-19 years old and 35-39 years old) peaked and they will move to 20-24 years old and 40-44 years old groups in 2010; in another 20 years, the age groups (18-25) will be substantially smaller than today

China's population Age Structure in 2005 and in 2030



Data source: National Bureau of Statistics of China

The talent conundrum – the China example

It's not just about leaders/professionals...

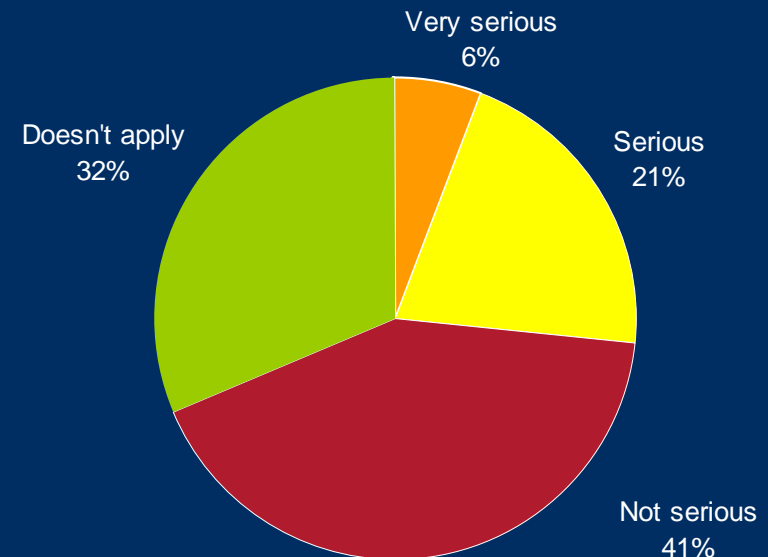
Reasons for shift

- Corporate performance has rebounded – rehire and expansion
- Local labour shortage in some geographies

How are companies solving issue? Majority of respondents indicated:

- Optimizing recruitment channels
- Increasing the base salaries

Blue-Collar Worker Shortage in the Second Half of 2009



Source: 2010 Q1 Asia China Monitor

HR issues on the horizon...

Business Themes

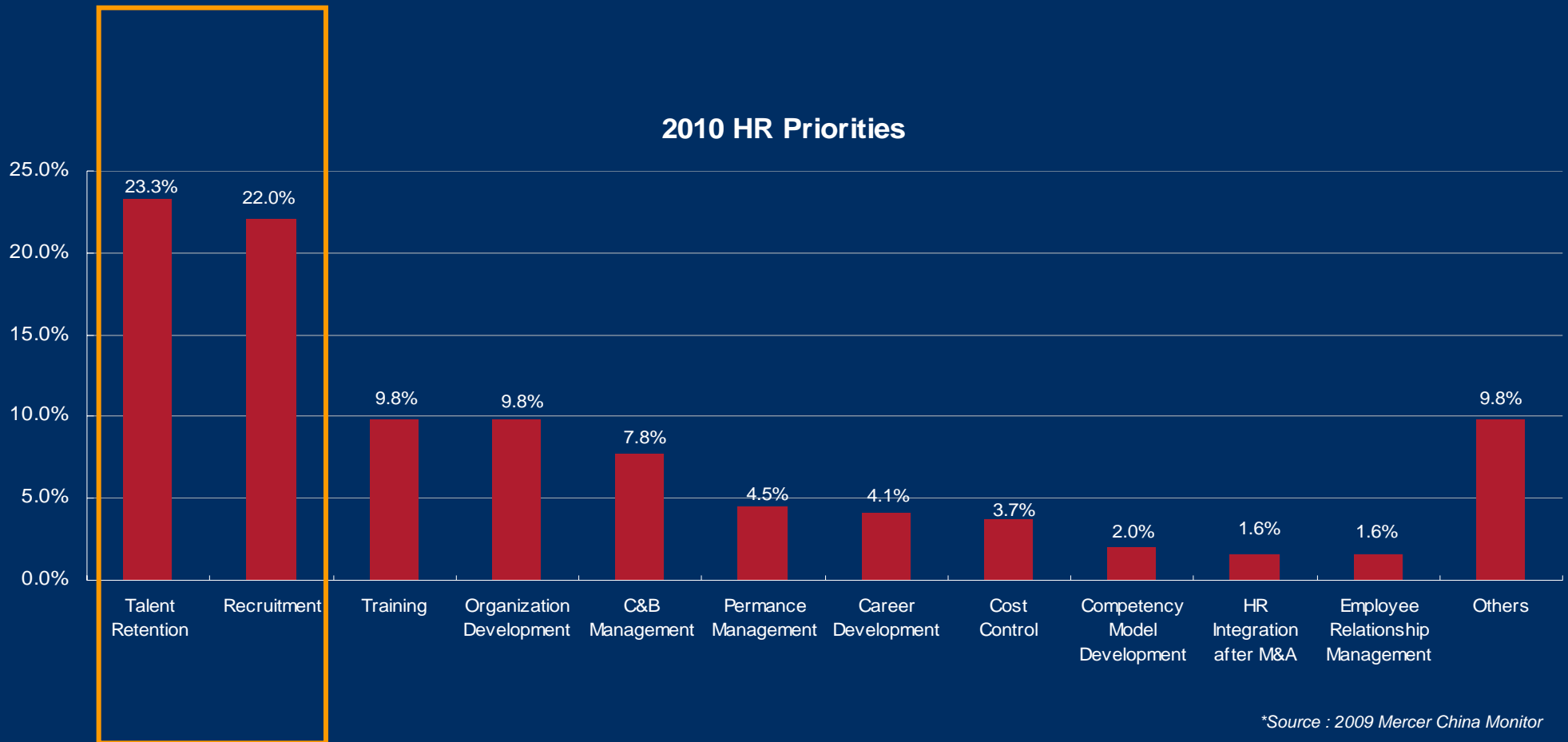
- Economic recovery progresses accelerates in Q1, 2009
- Business expansion cross country
 - Enter 2nd/3rd tier cities
- Surging competition
 - MNCs vs. Local
- Merger & Acquisition activities
- Employers are beginning to shift their focus from cutting labour costs to preserving talent and investing in key segments of their workforce.



HR Challenges

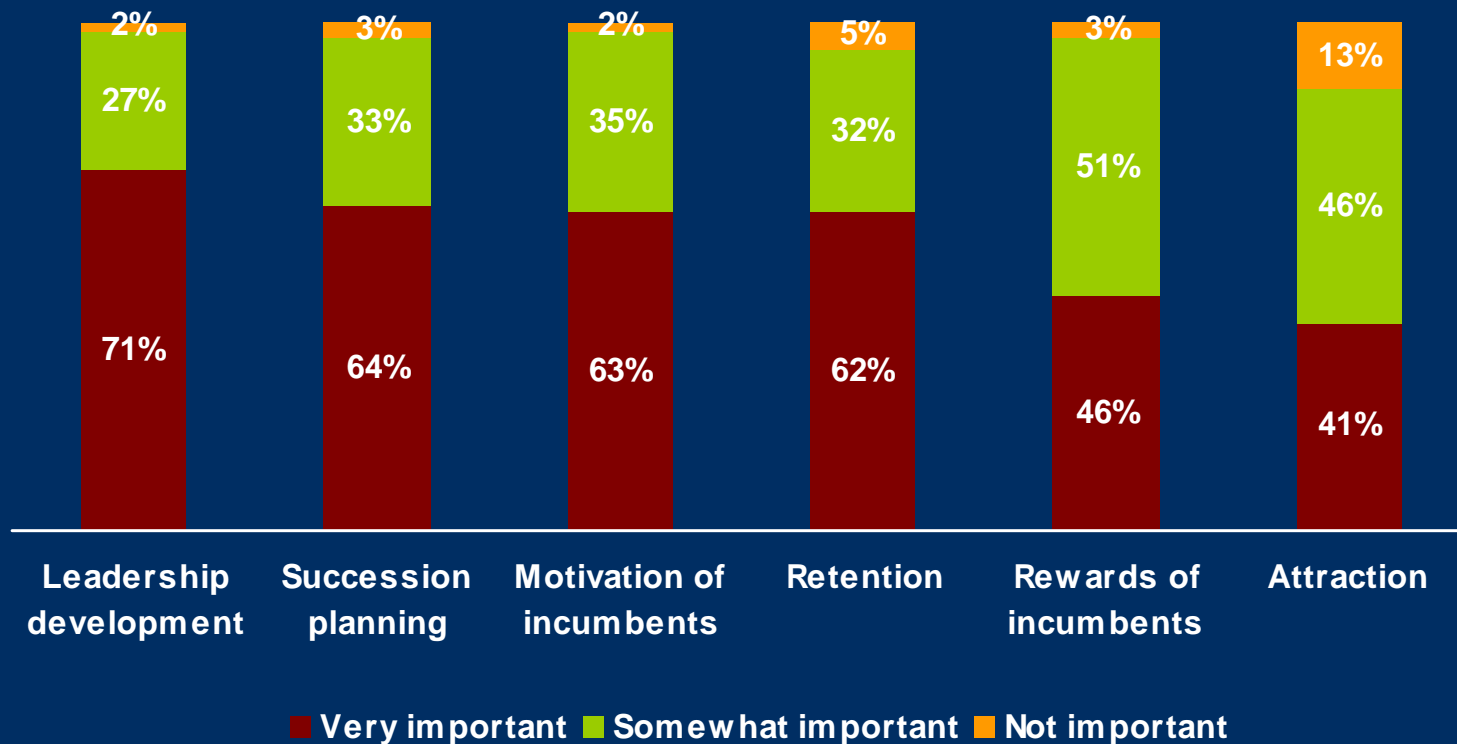
- Talent shortage, especially the blue-collar in manufacturing industry
- Talent competition with not only MNCs but local players
- Effective incentive scheme to motivate front-line sales force
- Market information required in wider range of locations
- Salary increases under cost control environment
- Human capital ROI

How to retain key talent in the post-crisis era is the most important question of 2010...



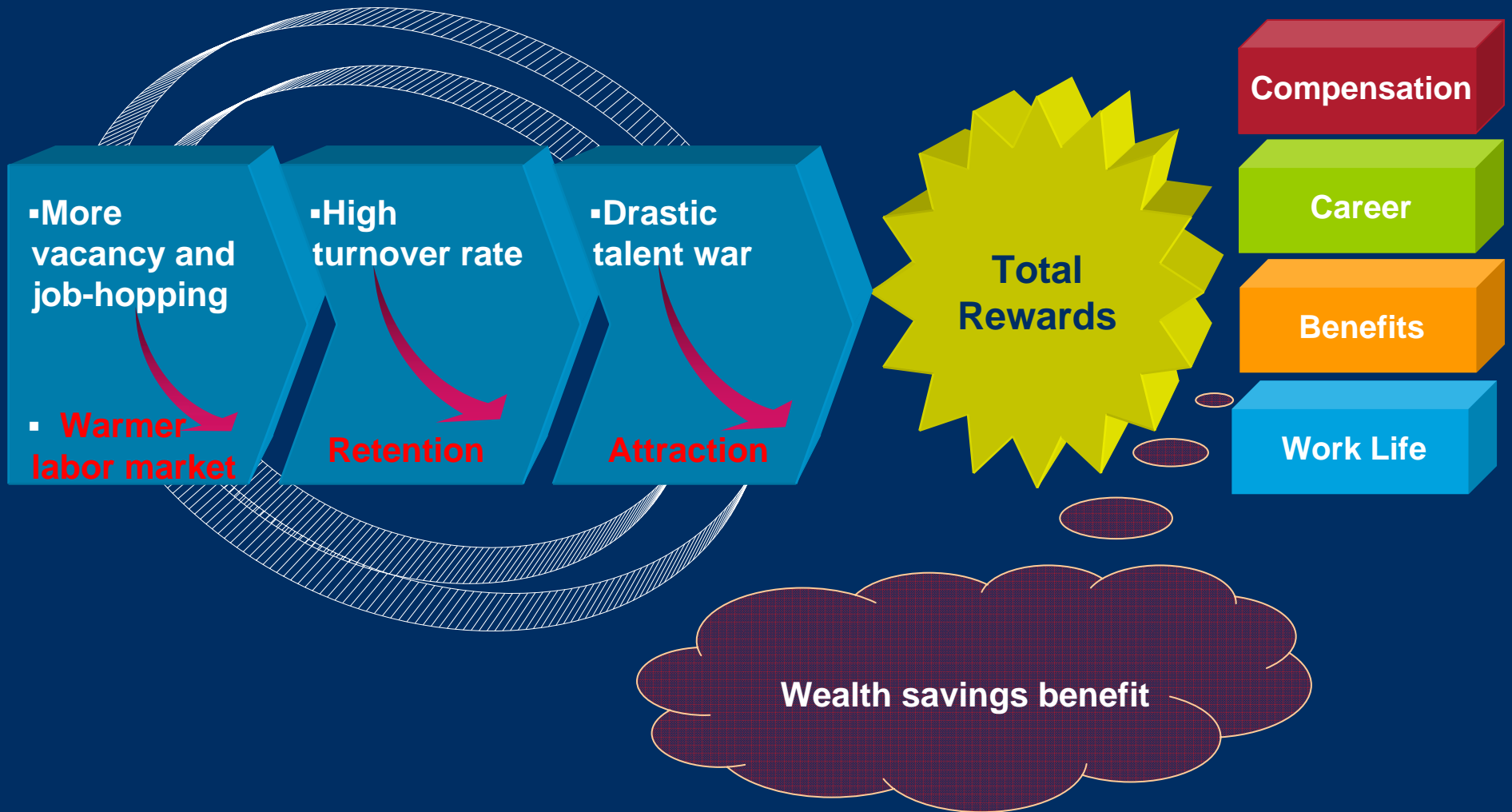
But, looming behind is also a need to accelerate executive skills...

Please rate the importance of the following executive talent challenges to your organization over the next 12 months (N=256~257)



Mercer's 2008-2009 Asia Executive Snapshot Survey

What might 2010 look like?



What might 2010 look like?

Managing tactical challenges...

- With upturn comes...
 - Expectations of salary increases
 - Increased turnover ... some will want a change
- Significant differences in timing of the recovery across the world/region
 - Related changes in the competition for talent
- Re-mix of total rewards
- Emerging importance of “intangibles” in retaining and attracting talent
 - Work environment and the “EVP
 - Work / life balance
 - Differentiators – i.e., wellness
- Leadership and communication
 - Compensation will be perceived by line managers as key issue
 - How do you manage expectations?

In summary

Connect cost, performance and employee engagement

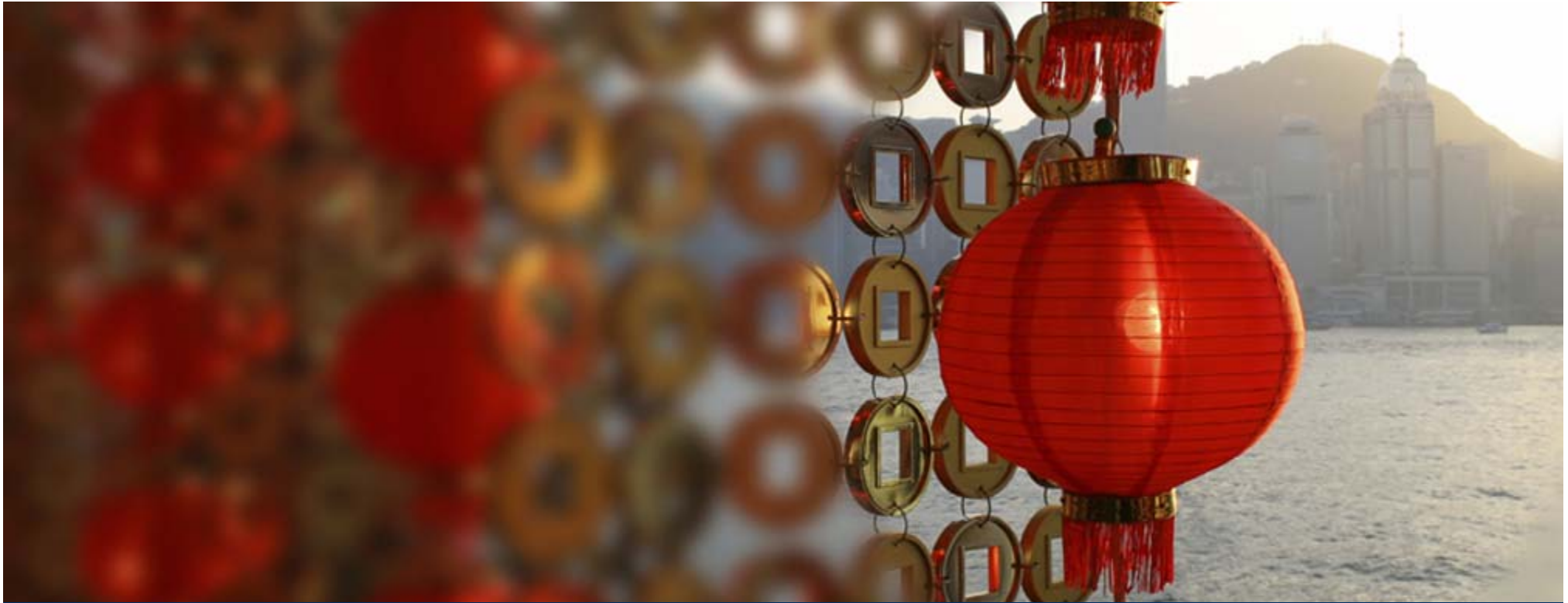
Financial restructuring and cost reductions have meant that the deal has been broken

Employers have a daunting task ahead of how to focus limited resources on re-engaging key talent and driving results

Designing and delivering value propositions (i.e., “the deal”) that balances cost, value to the employee and return to the business



- **Know your key talent segments and priorities**
- **Find out what they value**
- **Give attention to pay basics**
- **Tailor plan designs because one size won't fit most**
- **Pay special attention to career paths and learning opportunities**
- **Communicate with openness and transparency**
- **Prepare and leverage leaders**



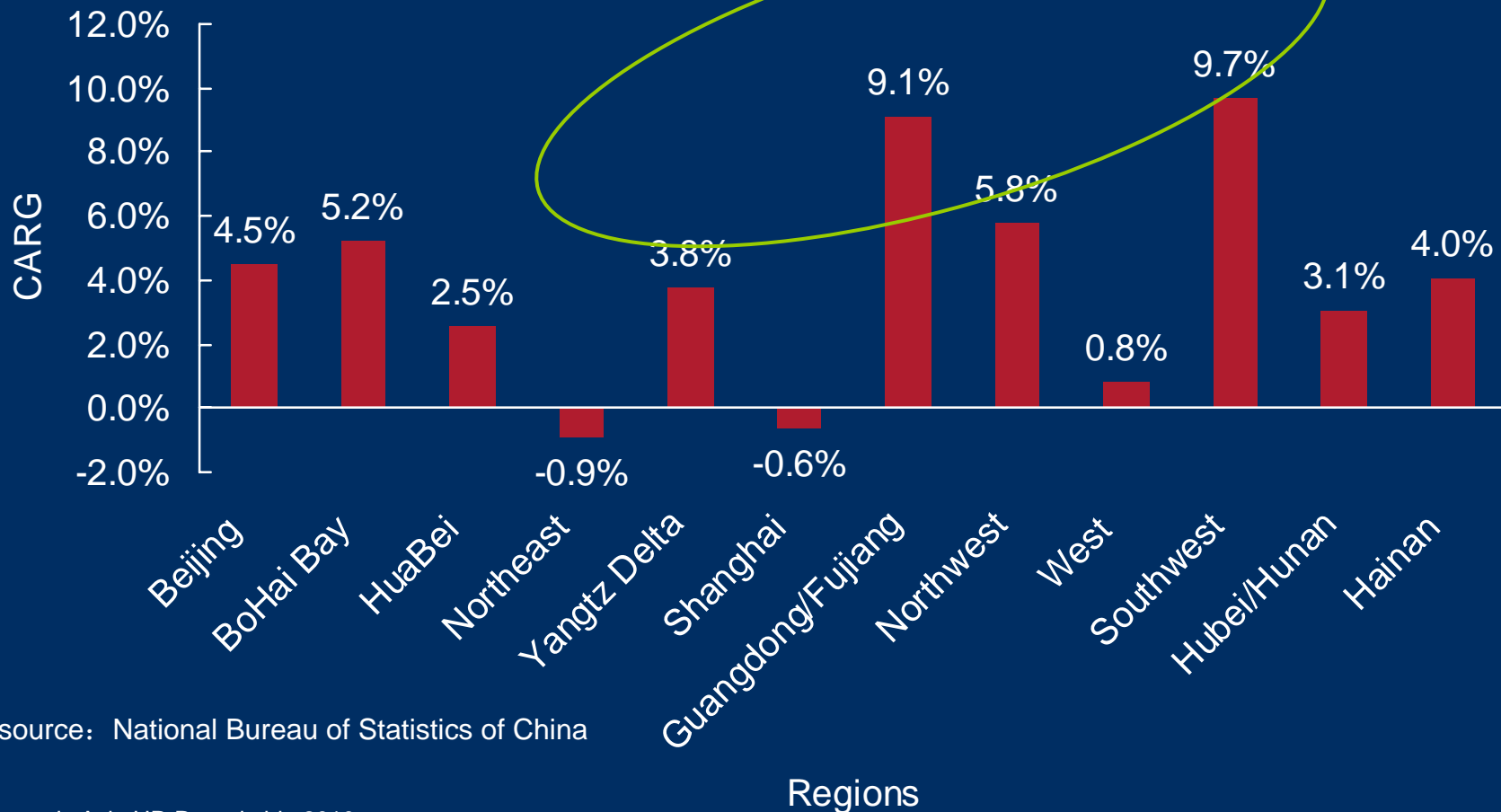
Section 1

Q1 trends in talent and compensation

Where to start:

Employment growth is uneven in China and it is critical to have a better understanding of employment trend over time

Employment growth by region from 2003 to 2008

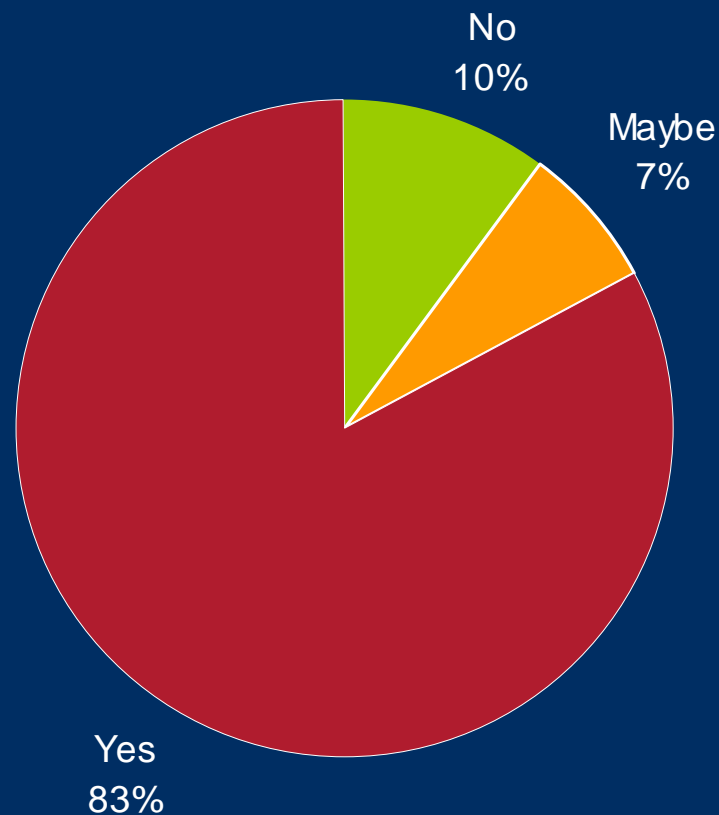


Data source: National Bureau of Statistics of China

Hiring on the rise @ Q1 2010

- 10%+ recruitment rates on average in 1st tier cities
- Highest recruitment planned for professional staff

New Hire Plan in 2010 Q1



Source: 2010 Q1 Asia China Monitor

Q1 2010 new hire rates

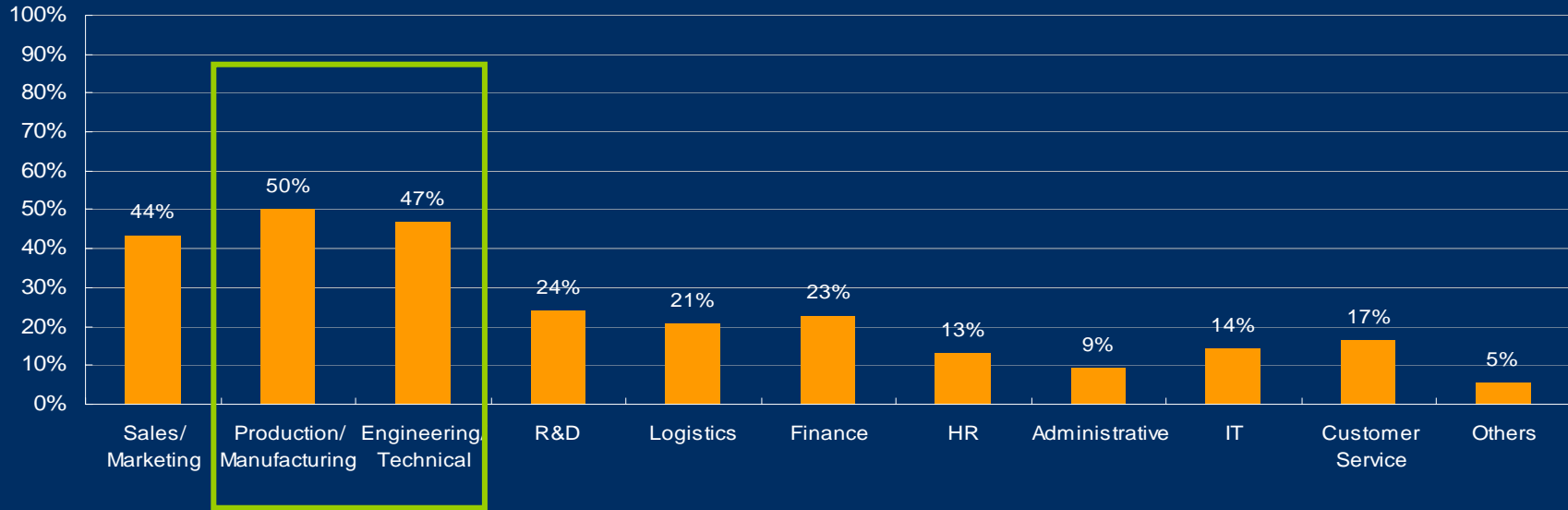
2010 Q1 New Hire Rate (By Industry)



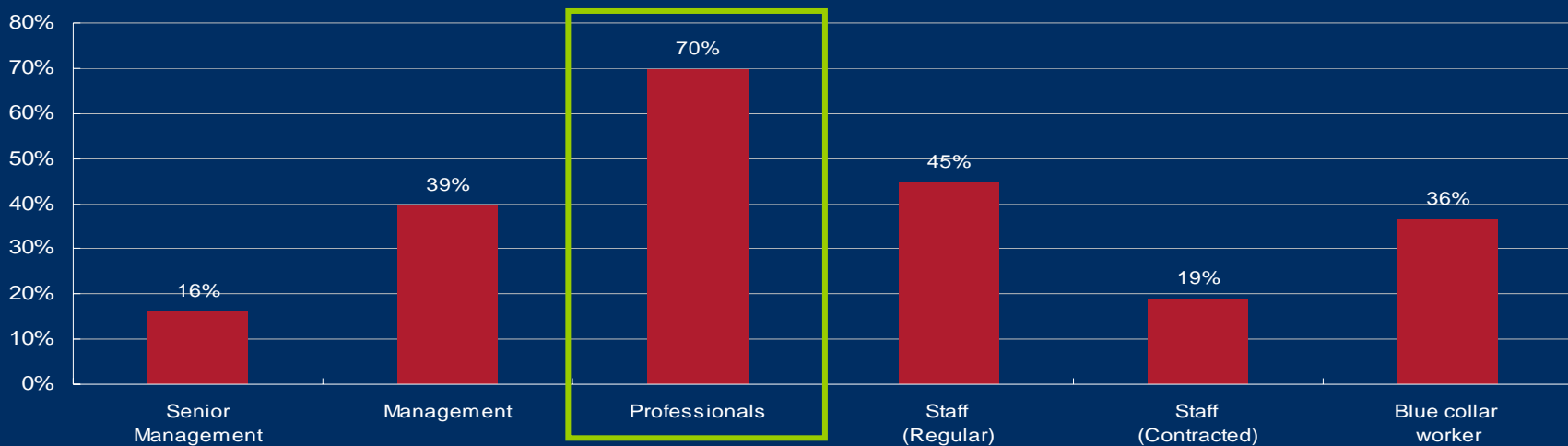
Source: 2010 Q1 Asia China Monitor

Q1 2010 new employee recruitment by department and function

New Hire Plan in 2010 Q1 (By Function)



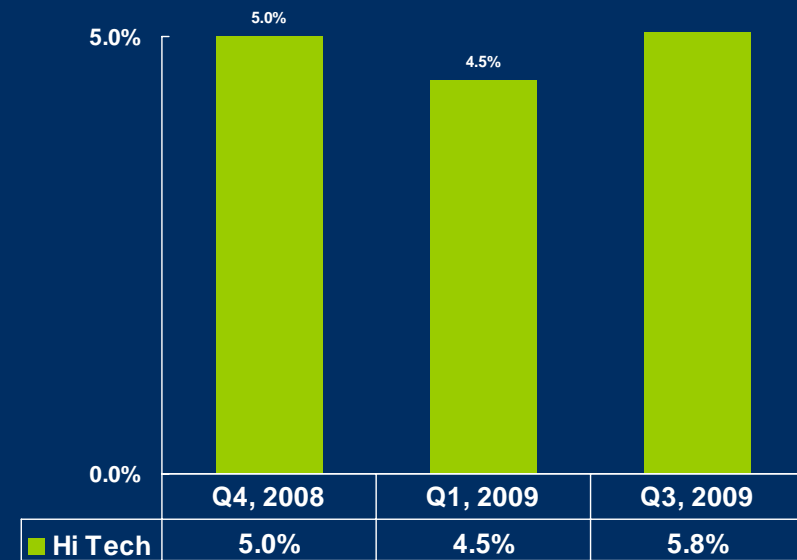
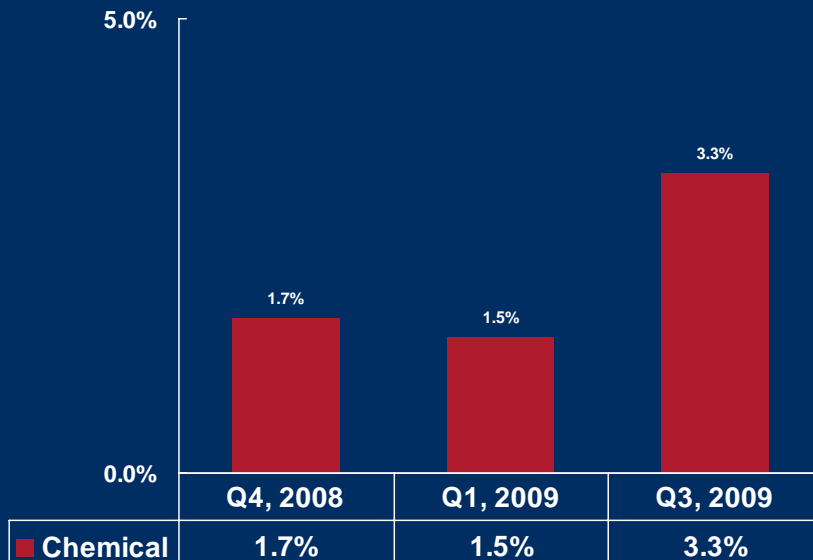
New Hire Plan in 2010 Q1



Source: 2010 Q1 Asia China Monitor

Voluntary turnover is on the rise

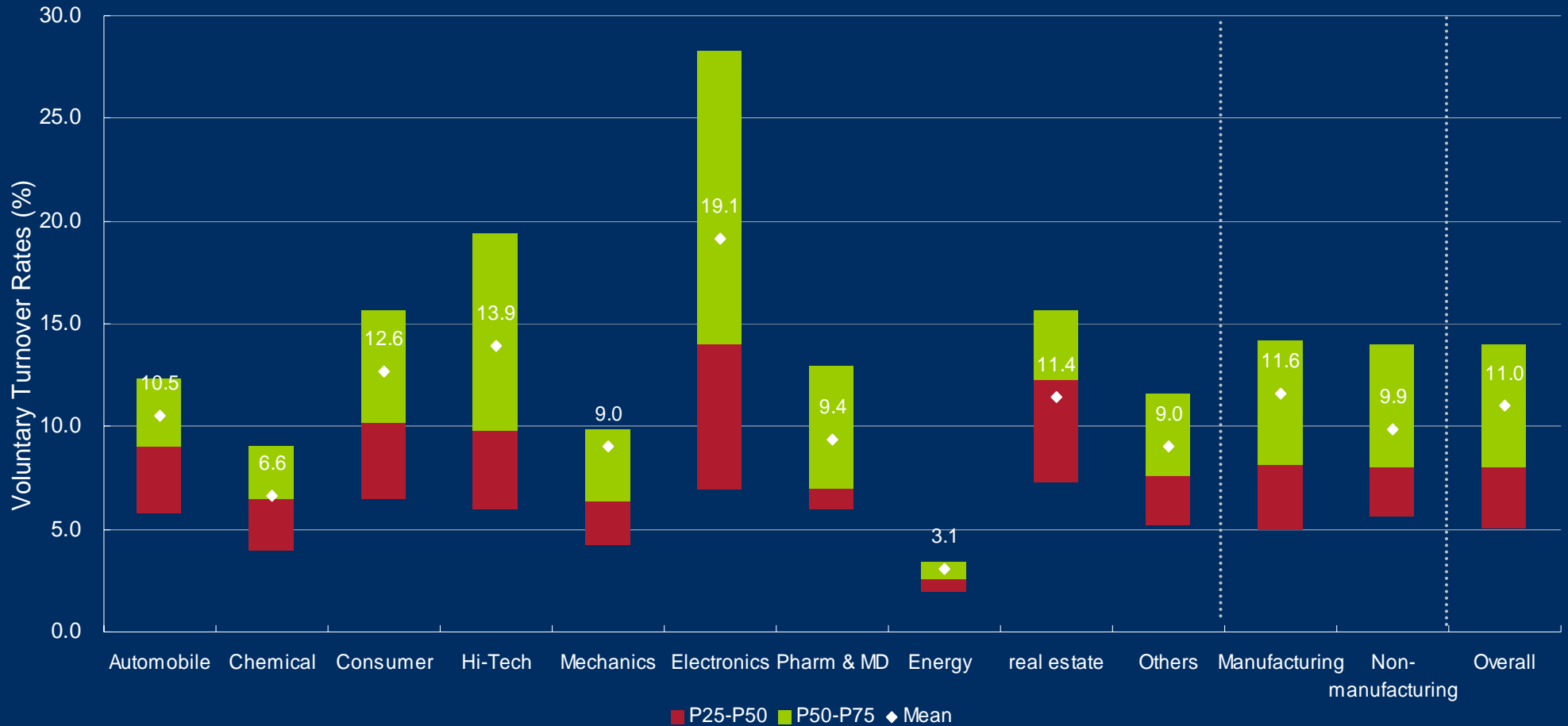
Quarterly changes in voluntary employee turnover rates



Source: 2009 Mercer China Monitor Survey Q1-Q4

Voluntary turnover is on the rise

2009 Voluntary Turnover Rates (By Industry)

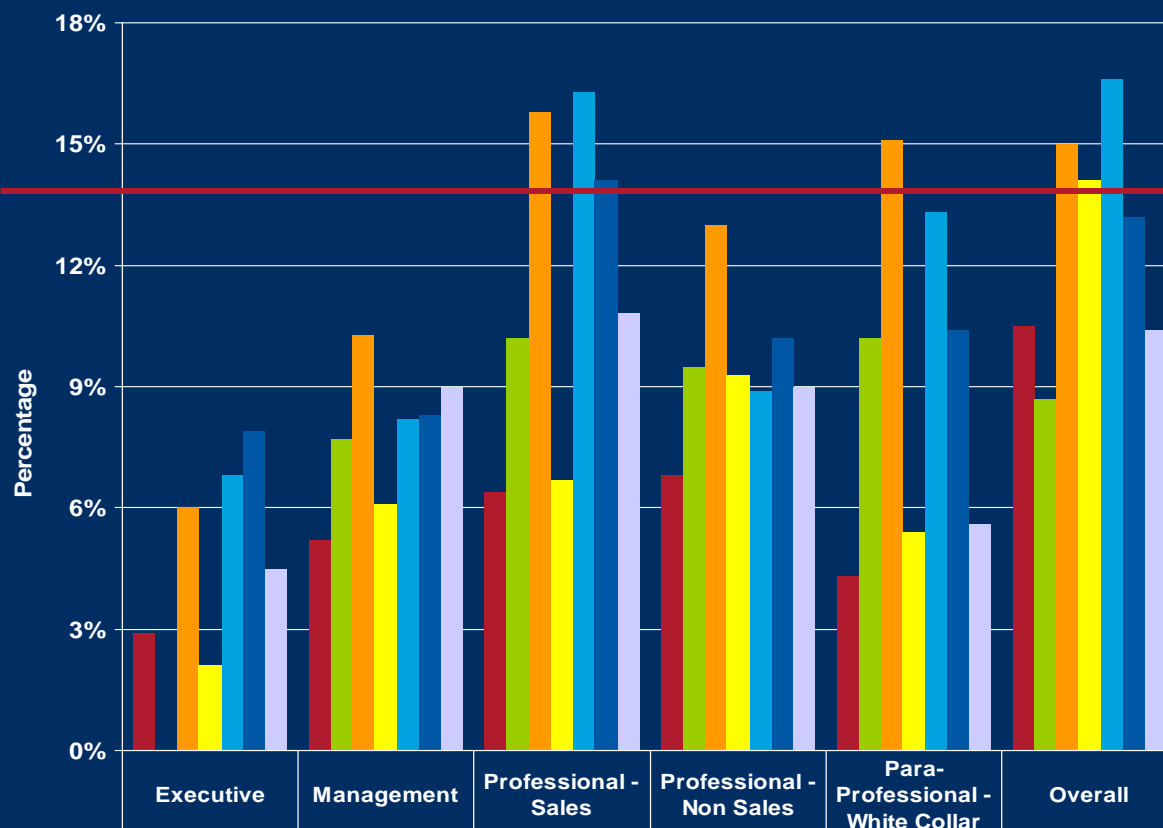


Note: The above data are average values

Source: 2010 Q1 Asia China Monitor

Voluntary turnover rate by industry (2008 actual)

China overall turnover is 13.4%

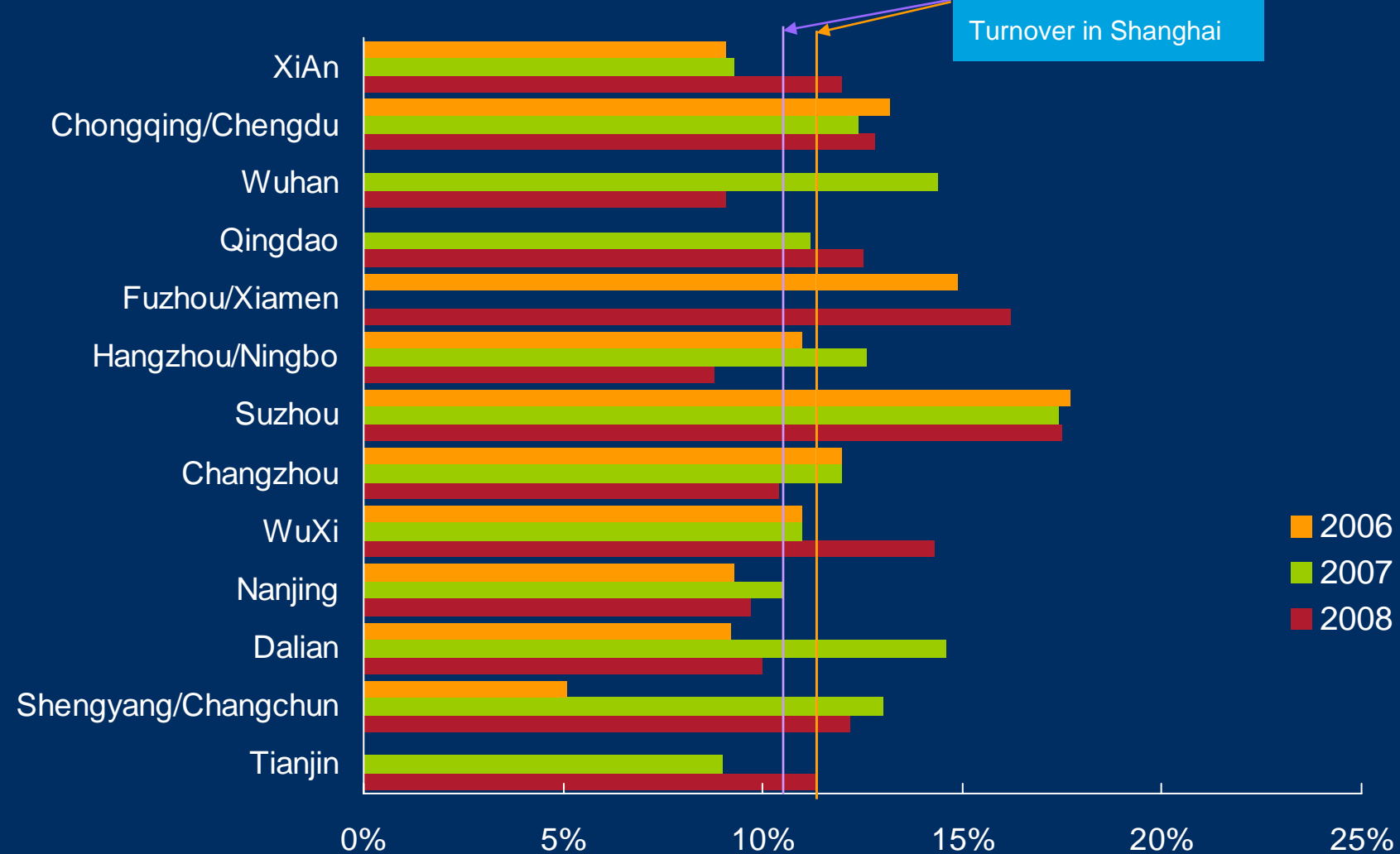


| Industry | Executive | Management | Professional - Sales | Professional - Non Sales | Para-Professional - White Collar | Overall |
|---------------------------------|-----------|------------|----------------------|--------------------------|----------------------------------|---------|
| Auto | 2.9% | 5.2% | 6.4% | 6.8% | 4.3% | 10.5% |
| Chemical | - | 7.7% | 10.2% | 9.5% | 10.2% | 8.7% |
| Consumer | 6.0% | 10.3% | 15.8% | 13.0% | 15.1% | 15.0% |
| Hi-Tech | 2.1% | 6.1% | 6.7% | 9.3% | 5.4% | 14.1% |
| Pharmaceutical & Medical Device | 6.8% | 8.2% | 16.3% | 8.9% | 13.3% | 16.6% |
| All Industries - Office | 7.9% | 8.3% | 14.1% | 10.2% | 10.4% | 13.2% |
| All Industries - Manufacturing | 4.5% | 9.0% | 10.8% | 9.0% | 5.6% | 10.4% |

Source: 2009 Mercer China Total Remuneration Survey

Voluntary turnover is on the rise

Voluntary turnover rates for overall employee population

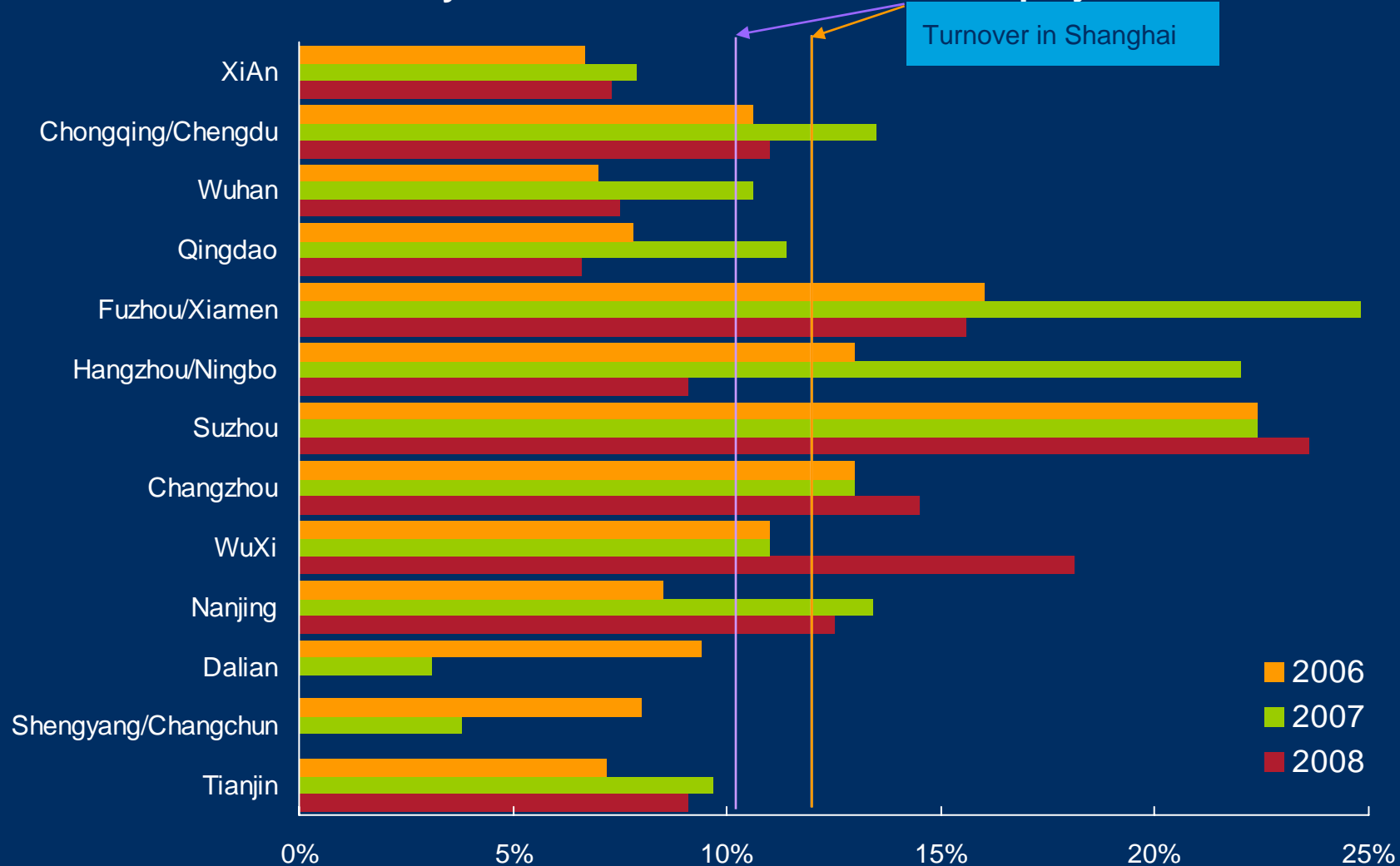


Data sources: Mercer Total Remuneration Surveys

Voluntary turnover is on the rise

... much higher turnover for blue-collar workers in some locations ...

Voluntary turnover rates for blue-collar employees



Data sources: Mercer Total Remuneration Surveys

Hottest positions

| Most difficult positions to fill | Most difficult positions to retain |
|--|--|
| Sales Representative - Technical Sales | Sales Representative - Technical Sales |
| Application Engineer | Technical Service Engineer |
| Sales Manager | Sales Manager |

Source: 2009 Mercer China Total Remuneration Survey

Turnover dynamics ... before the downturn

| | Description | % of company recognize the factor |
|-----------------------|--|-----------------------------------|
| • Professional | Employee group that the highest turnover exists in a company | 50% |
| • 1 to 2 years | The average tenure within a company | 43% |
| • Age of 25-29 | Year of age that most likely to leave a company | 64% |
| • Sales | Function that have the highest turnover in a company | 21% |

Source: Mercer 2008 China Attraction & Retention Survey

Considerations related to career development programs

Key attraction drivers - your employees' perspective

| 5 Most Important Factors to Employees when Considering a New Job | Ranking |
|---|----------------|
| Base Pay | 1 |
| Career Development Plan | 2 |
| Promotion | 3 |
| Bonus | 4 |
| Work / Life Balance | 5 |

Source: Mercer 2008 China Attraction & Retention Survey

Considerations related to career development programs

Key attraction drivers- your employees' perspective

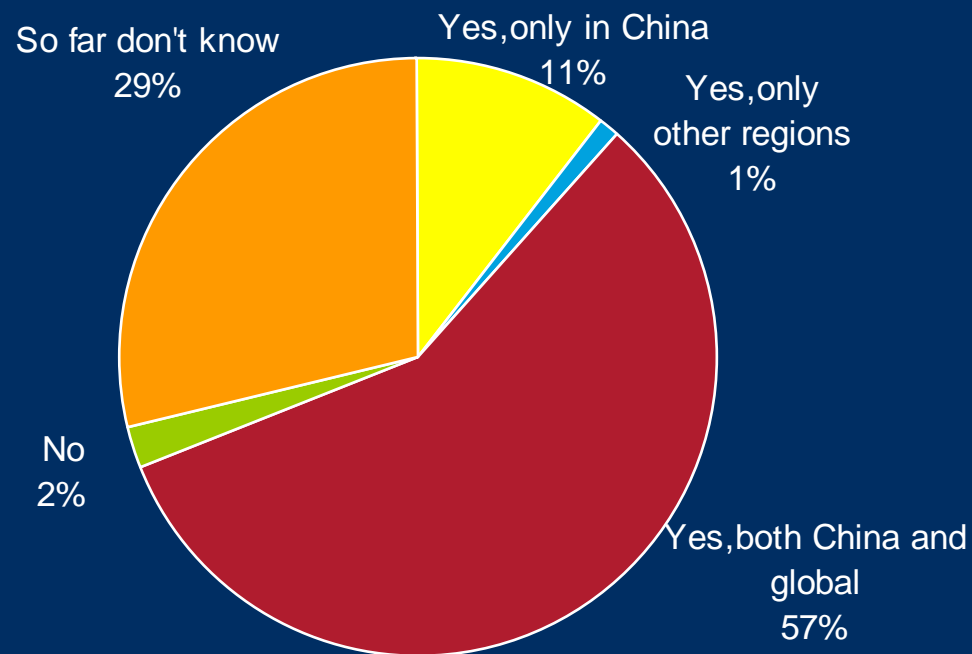
| | Driver of Retention |
|---------------------------|---|
| Career Development | I am provided with the information and assistance I require to manage my career |
| Career Development | Promotions are generally given to the most qualified employees in my organization |
| Compensation | I am paid fairly given my performance and contributions to my organization |
| Benefit | The benefits in my organization are as good as those offered by other organizations in our industry |
| Compensation | The pay in my organization is as good as or better than the pay offered by other organizations |
| Compensation | I am personally motivated by my organization's incentive compensation plan |

Source: Mercer 2008 China Attraction & Retention Survey

What about pay in 2010? Not surprisingly, pay is on the rise...

- Only 2% of companies surveyed clearly indicated that they will not adjust salary rates in 2010

2010 Year Salary Review



Source: 2010 Q1 Asia China Monitor

Average salary increase for 2010 across functions Shanghai All industries - office

Average Base Salary Increases % (excluding salary freeze)

| | 2008 (Actual) | 2009 (Actual/Estimate) | 2010 (Forecast) |
|----------------------------------|------------------|---------------------------|--------------------|
| Executive | 9.1% | 7.3% | 7.5% |
| Management | 9.2% | 7.4% | 7.5% |
| Professional - Sales | 8.8% | 6.9% | 7.4% |
| Professional - Non Sales | 9.1% | 7.2% | 7.6% |
| Para-Professional – White Collar | 8.7% | 6.9% | 7.4% |
| Overall | 8.9% | 7.0% | 7.4% |

Source: 2009 Mercer China TRS – Shanghai All Industries Office

Average salary increase for 2010 - by type, city, and national ownership

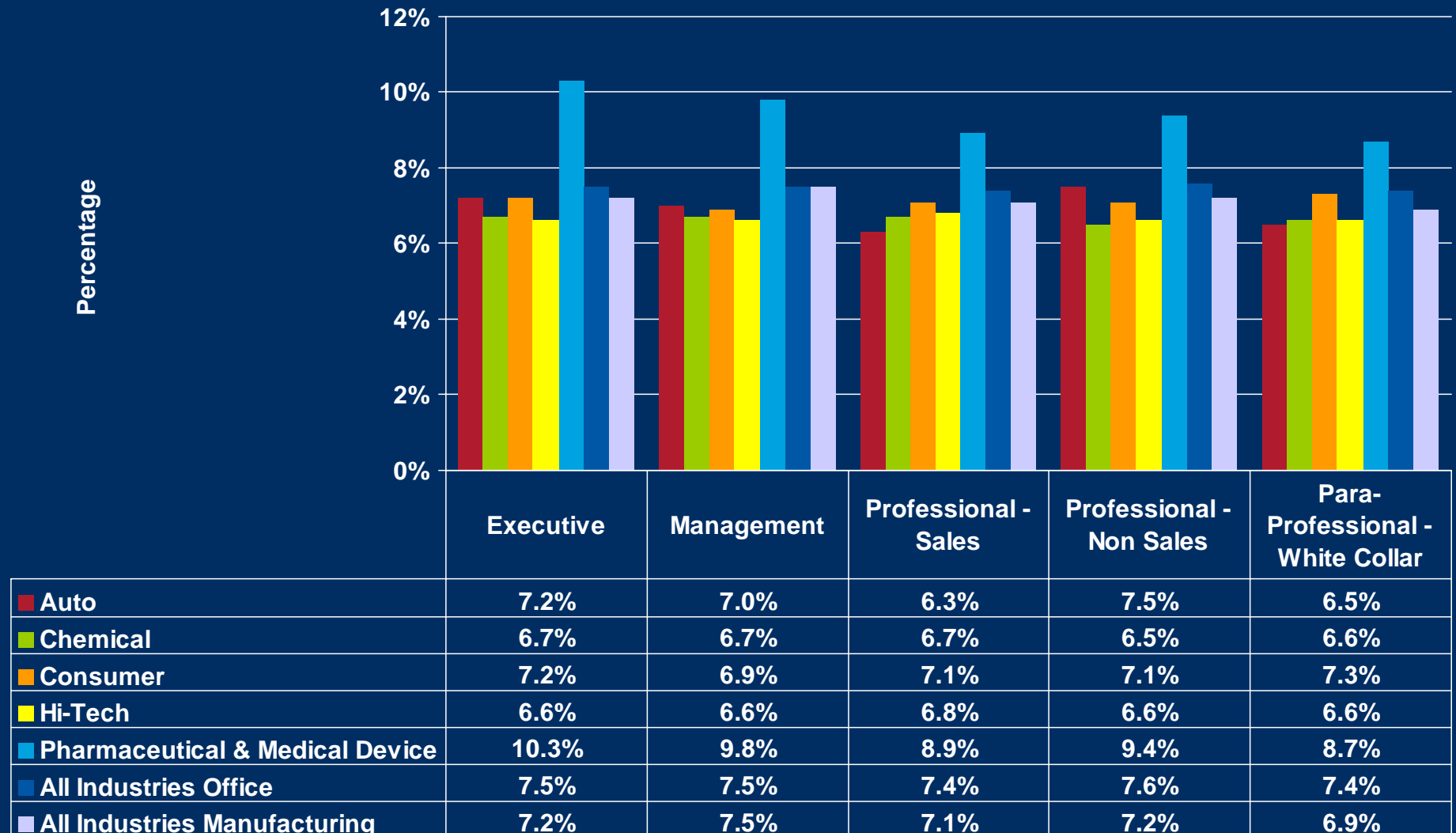
| 2010 Actual Salary Increase Rates (By Organization Type) | | | | | |
|--|------------|------------|------------|------------|------------|
| | P25 | Median | P75 | Mean | Org Count |
| Manufacturing | 6.5 | 7.5 | 8.0 | 7.4 | 69 |
| Non-manufacturing | 5.1 | 6.9 | 8.0 | 6.7 | 38 |
| 2010 Actual Salary Increase Rates (By Location) | | | | | |
| Shanghai | 6.0 | 7.0 | 8.0 | 7.1 | 56 |
| Beijing | 5.0 | 7.0 | 8.0 | 6.6 | 17 |
| Guangdong | 6.0 | 7.0 | 8.0 | 6.9 | 14 |
| Eastern China 2 nd Tier Cities | 6.5 | 8.0 | 10.0 | 8.2 | 13 |
| Northern China 2 nd Tier Cities | 5.9 | 7.5 | 8.0 | 7.3 | 6 |
| Southern China 2 nd Tier Cities (Excluding Guangdong) | - | - | - | - | 1 |
| 2010 Actual Salary Increase Rates (By National Ownership) | | | | | |
| American | 6.3 | 7.4 | 8.0 | 7.4 | 55 |
| European | 5.9 | 7.0 | 8.0 | 6.7 | 40 |
| Asian (Excluding China) | 6.5 | 8.0 | 8.5 | 7.7 | 7 |
| Chinese | 6.0 | 6.3 | 9.0 | 7.5 | 5 |
| Overall | 6.0 | 7.0 | 8.0 | 7.2 | 107 |

Note: The above data excludes salary freezes
Mercer's Asia HR Roundtable 2010

Source: 2010 Q1 Asia China Monitor
30

Average salary increases across industries

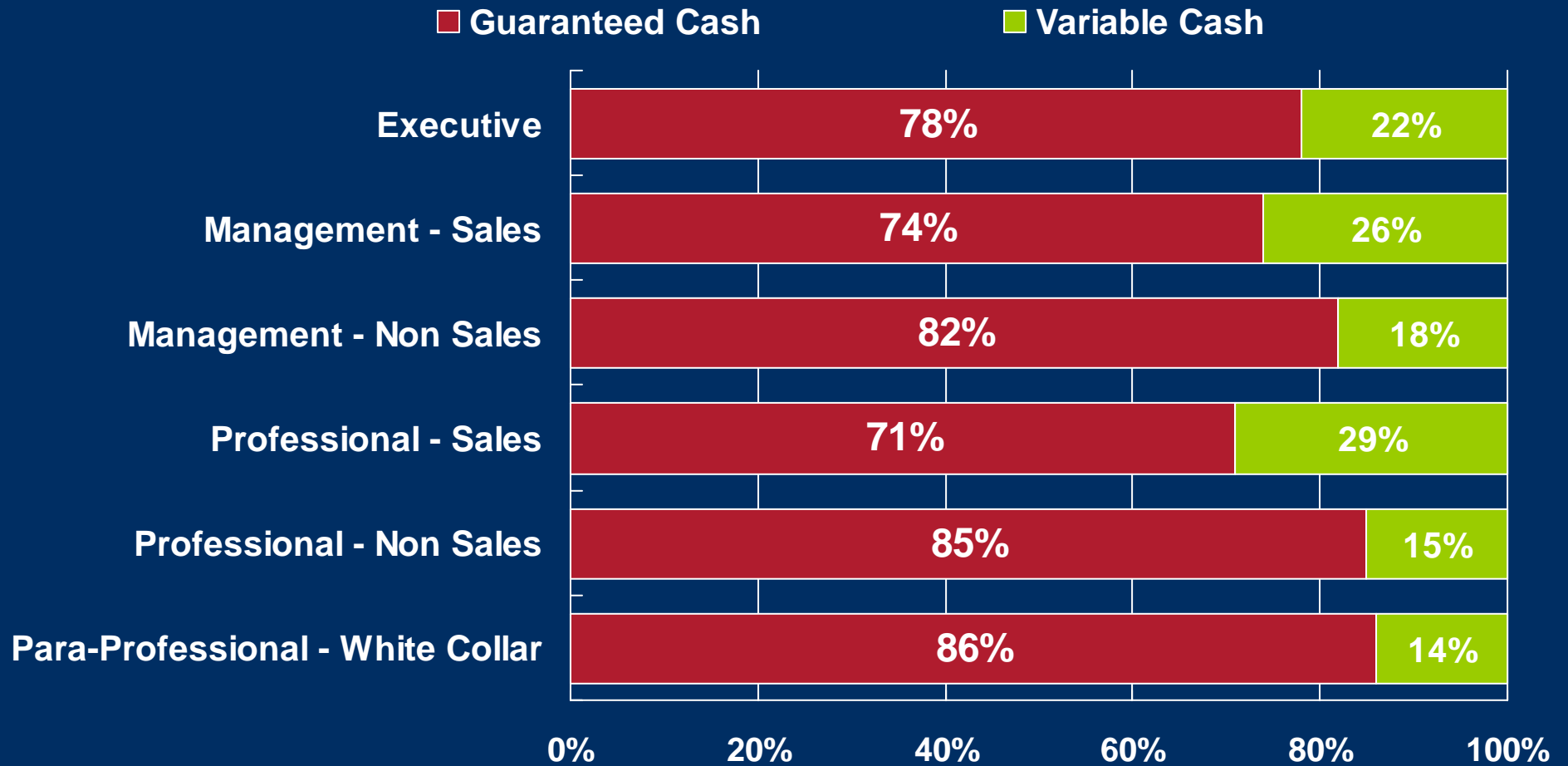
Forecast for 2010 (excluding salary freeze)



Source: 2009 Mercer China Total Remuneration Survey

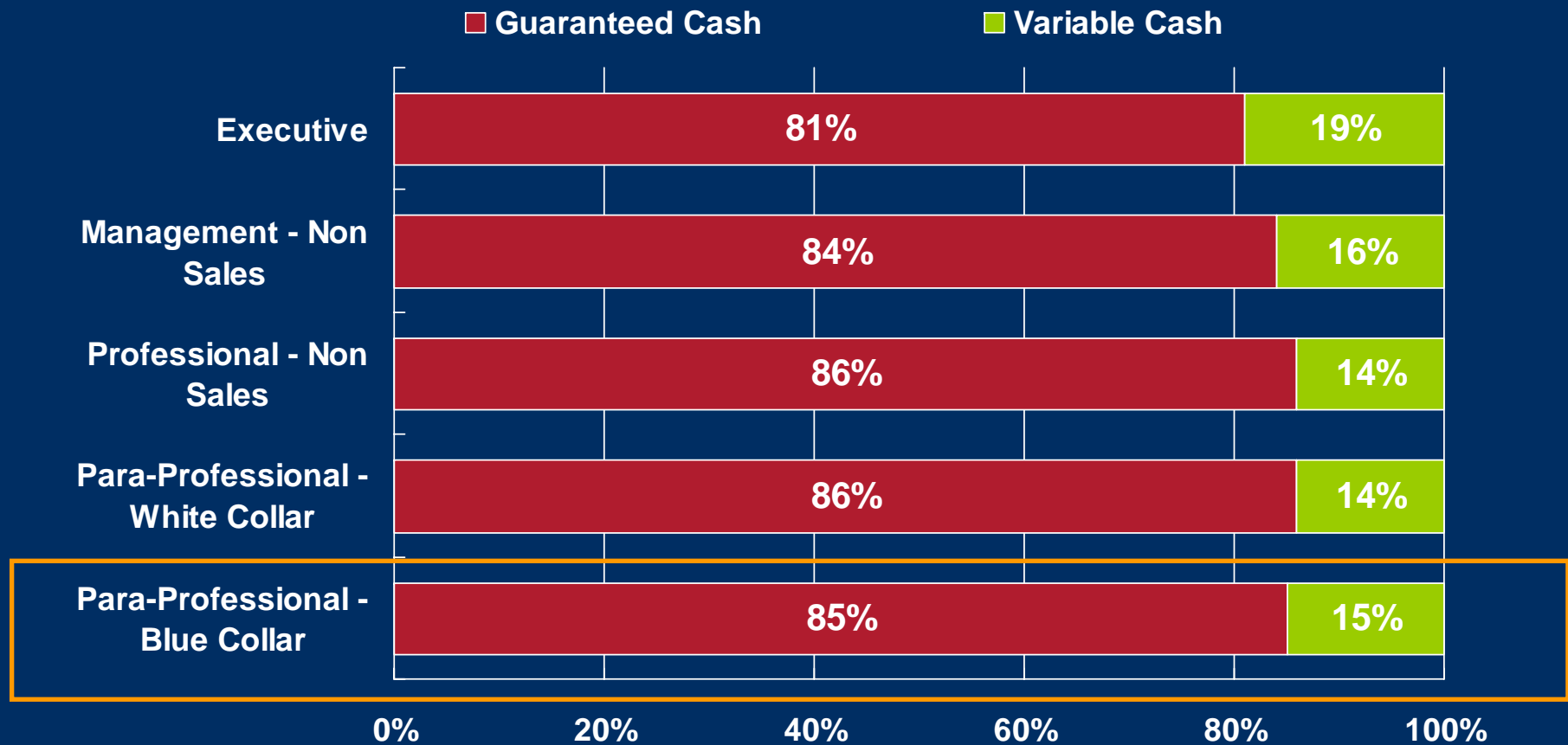
Compensation mix

Shanghai All industries - office



Source: 2009 Mercer China TRS – Shanghai All Industries Office

Compensation mix Shanghai All industries - manufacturing



Source: 2009 Mercer China TRS – Shanghai All Industries Manufacturing

Cross city comparison

Annual total cash

Overall

BJ vs. SH: **4.3%**

GZ vs. SH: **-11.5%**

Thousands

— Shanghai — Beijing — Guangzhou

Management & Above

BJ vs. SH: **-1.2%**

GZ vs. SH: **-13.3%**

Professional

BJ vs. SH: **5.0%**

GZ vs. SH: **-11.2%**

Staff

BJ vs. SH: **10.7%**

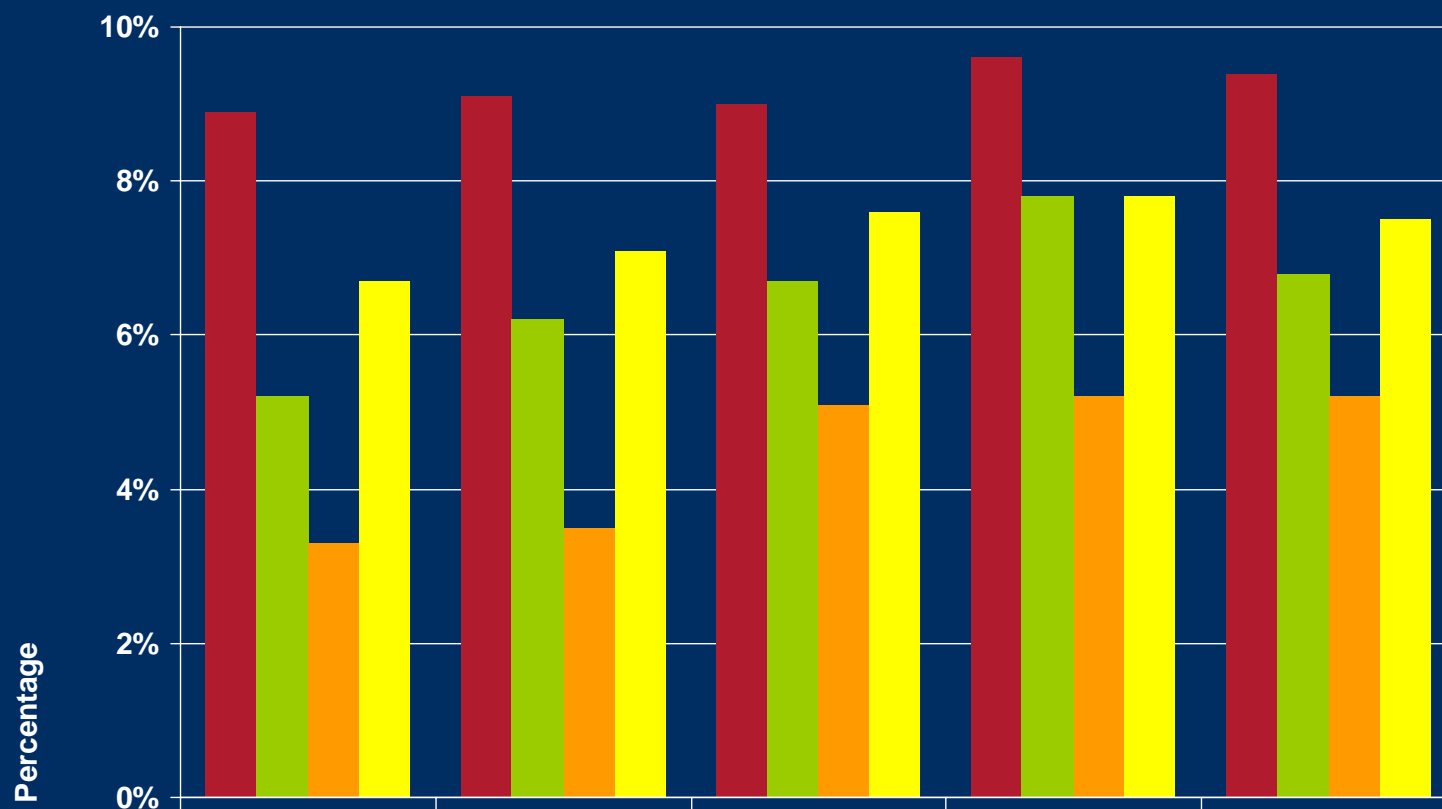
GZ vs. SH: **-9.3%**



Source: 2009 Mercer China Total Remuneration Survey

2nd tier city recovery

Salaries on the rise in 2010

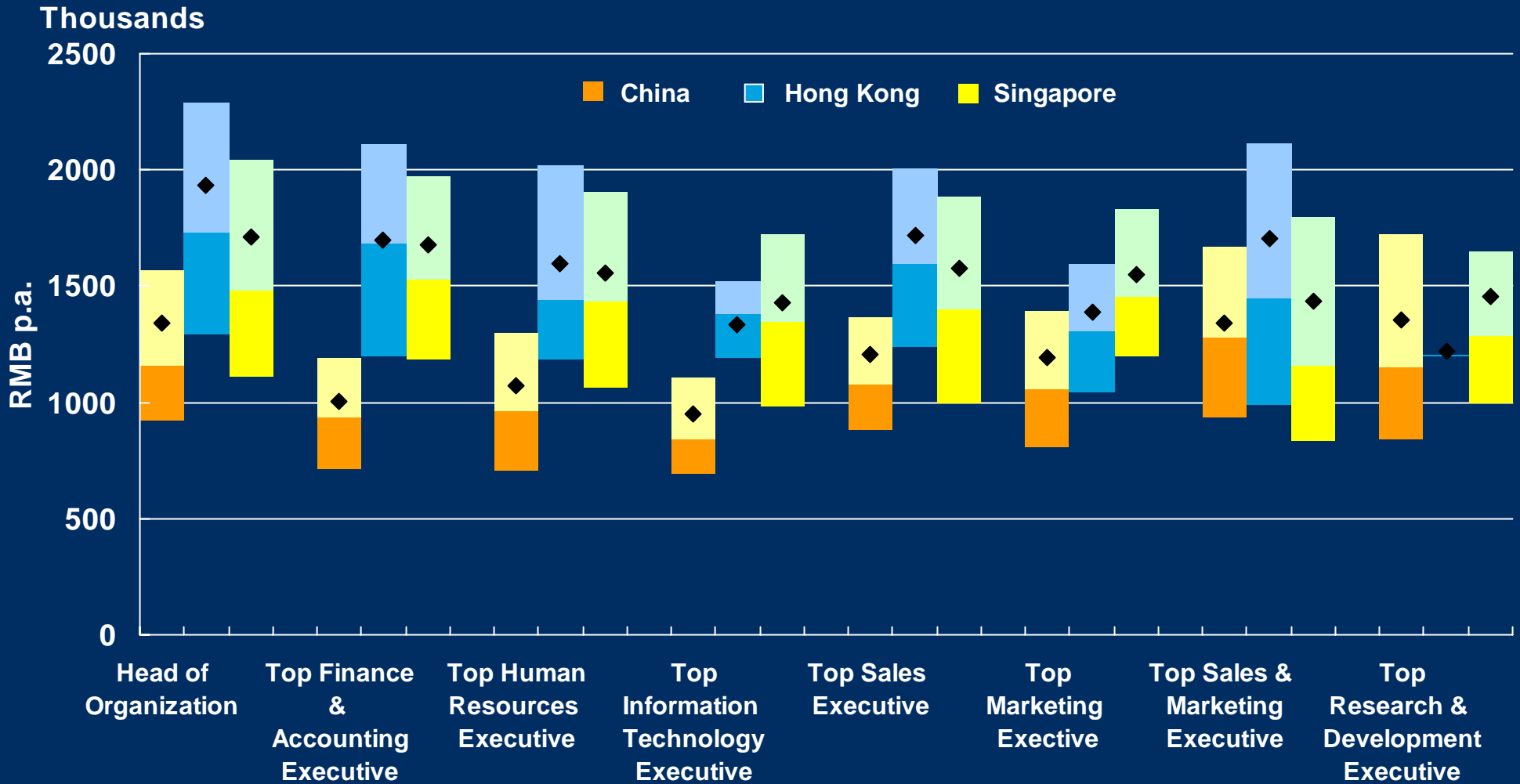
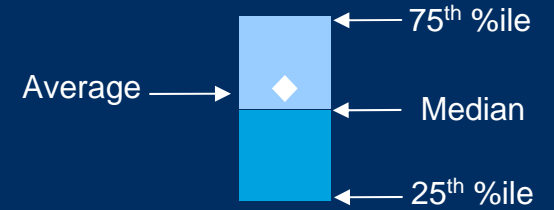


| | Suzhou | Wuxi | Nanjing | Qingdao | Tianjin |
|--|--------|------|---------|---------|---------|
| ■ 2008 (Actual) | 8.9% | 9.1% | 9.0% | 9.6% | 9.4% |
| ■ 2009 (Actual / Estimate) Exclude Freeze | 5.2% | 6.2% | 6.7% | 7.8% | 6.8% |
| ■ 2009 (Actual / Estimate) Include Freeze | 3.3% | 3.5% | 5.1% | 5.2% | 5.2% |
| ■ 2010 (Forecast) | 6.7% | 7.1% | 7.6% | 7.8% | 7.5% |

Source: 2009 Mercer China Total Remuneration Survey

Top executive compensation comparison

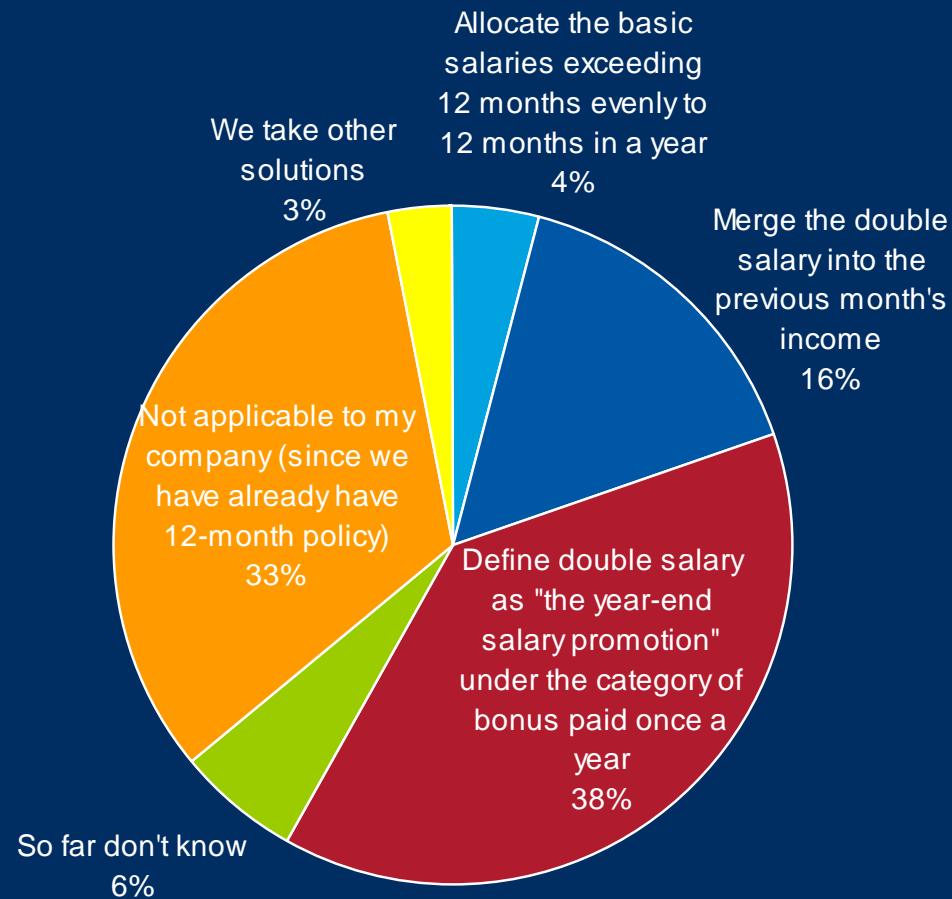
Annual total cash cross region



Source: 2009 Mercer China Executive Remuneration Survey

New “double salary scheme” policy

Responses to "Double Salary Scheme"



Where do benefits fit in?

Adding value to the total package...

- **Survey results show companies are typically in line with**
 - Legislative requirements, and
 - Local market practices

- **Why do something different with a targeted investment?**
 - Enhance employee value proposition – provide holistic rewards that better meet employee needs and differentiate your brand
 - Group buying power gives lower cost, accessing to better terms and conditions
 - Status (higher benefits entitlements for top management)
 - Impact on productivity (medical check-up)
 - Focus on specific employee needs (housing, car, etc.)

Social and supplemental benefits overview



Employee Benefits

Statutory Benefits (Mandatory)

- ✓ **Social security (including Pension Insurance, Medical Insurance, Maternity Insurance, Work-related Injury Insurance, Unemployment Insurance, Housing Fund)**
- ✓ **Public Holiday (11 days)**
- ✓ **Other legal leaves (e.g.: Medical Treatment Period, Marriage Leave, Maternity Leave, etc.)**
- ✓ **Severance and Termination Benefits**

Employer Sponsored Benefits (Optional)

- ✓ **Supplementary Pension Plan/ Enterprise Annuity**
- ✓ **Supplementary Medical Life Insurance**
- ✓ **AD&D Insurance**
- ✓ **Critical Illness Insurance**
- ✓ **Supplementary Housing Savings Plan**
- ✓ **Training and Education Assistance**
- ✓ **Work/Life Balance Plan**
- ✓ **Stock Plan**
- ✓ **Perquisites**

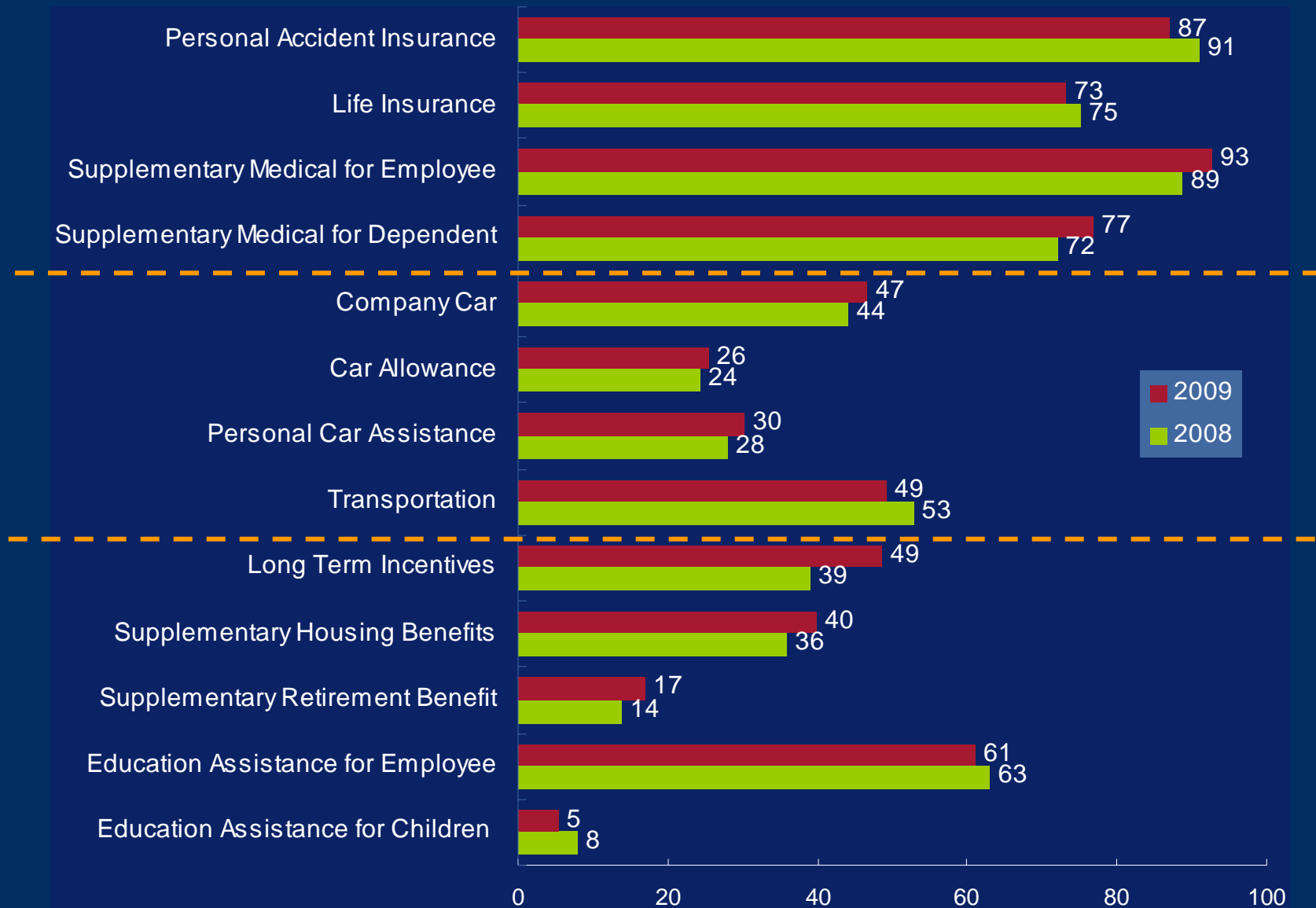
Statutory benefits requirements in Shanghai Contributions

As of Apr. 2009

| Social Benefits | Employer Contribution as % of wages | Employee Contribution as % of wages | Wage Base | Minimum Contribution Wage Base* | Maximum Contribution Wage Base* |
|---------------------|-------------------------------------|-------------------------------------|---|---------------------------------|---------------------------------|
| Pension | 22% | 8% | Employee's Last Year Average Monthly Salary | RMB1,975 | RMB9,876 |
| Medical | 12% | 2% | | RMB1,975 | RMB9,876 |
| Maternity | 0.5% | - | | RMB1,975 | RMB9,876 |
| Work-related Injury | 0.5% | - | | RMB1,975 | RMB9,876 |
| Unemployment | 2% | 1% | | RMB1,975 | RMB9,876 |
| Housing | 7% | 7% | | RMB1,975 | RMB9,876 |

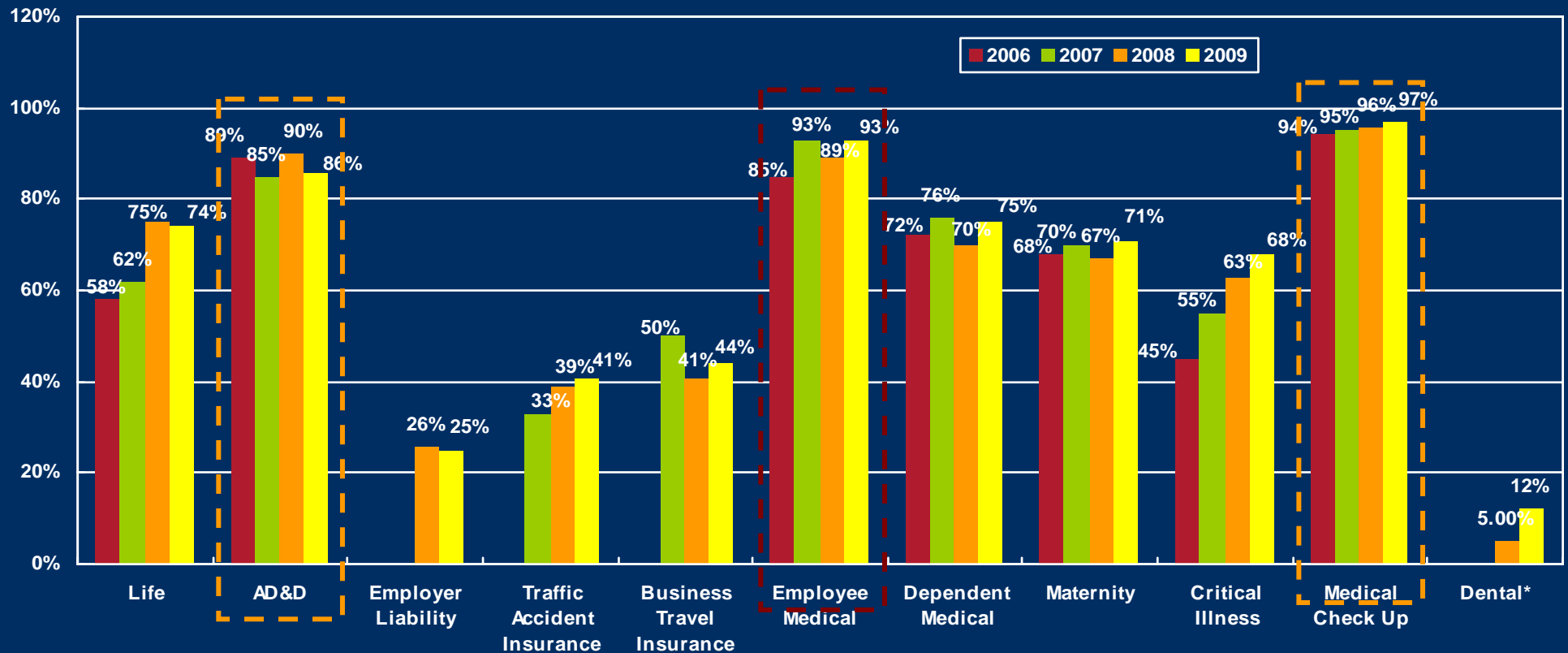
- Maximum Contribution Base is equal to three times of employee last year's average monthly salary.
- Minimum Contribution Base is equal to 60% of employee last year's average monthly salary

Year over year comparison 2008 vs. 2009 (1st tier cities)



Trend of market prevalence – insurance benefits 2006 to 2009

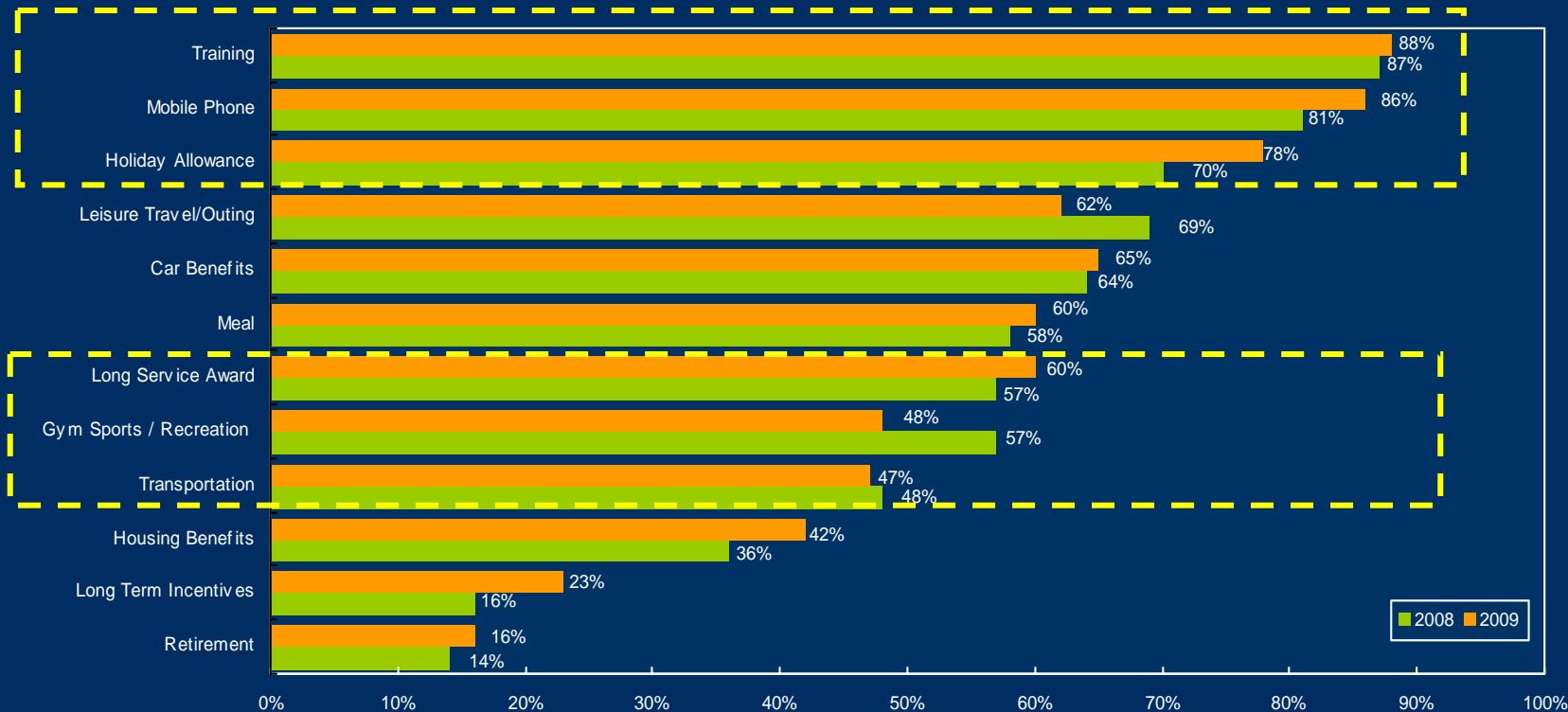
- **Supplementary Medical, Accident and Life Insurance** remain the three dominant insurance benefits offered by multinational companies in China
- **Critical Illness, Dental and Business Travel Insurance** are getting more popular



Source: Mercer all industry prevalence benefits survey - 1st tier cities, 2006-2009

Trend of market prevalence – non-insurance benefits 2008 to 2009

- **Training & Education Programs, Mobile Phone Subsidy, and Holiday Allowance** are the top three non-insurance benefits provided by surveyed companies, and their market prevalence keeps on increasing from 2008 to 2009
- In 2009, fewer surveyed companies provide **Leisure Travel, Sports & Recreation Activities and Transportation** benefits to employees



Source: Mercer all industry prevalence benefits survey – 1st tier cities, 2008-2009

Benefits trends for executives

Higher

Broader

Insured benefits

- Supplementary medical
 - reimbursement limit to 100%
- Insurance
 - insured amount

- Supplementary medical
 - dependents: spouse, children
 - covered items: critical illness, prescription drug, cosmetic
 - use of private hospitals, VIP ward
 - world wide coverage

Retention related

- Supplementary pension

- Long-term incentives

Status related

- Company car

- Club membership

Development related

- Training
 - leadership training/coaching

- Education assistance program

Business related

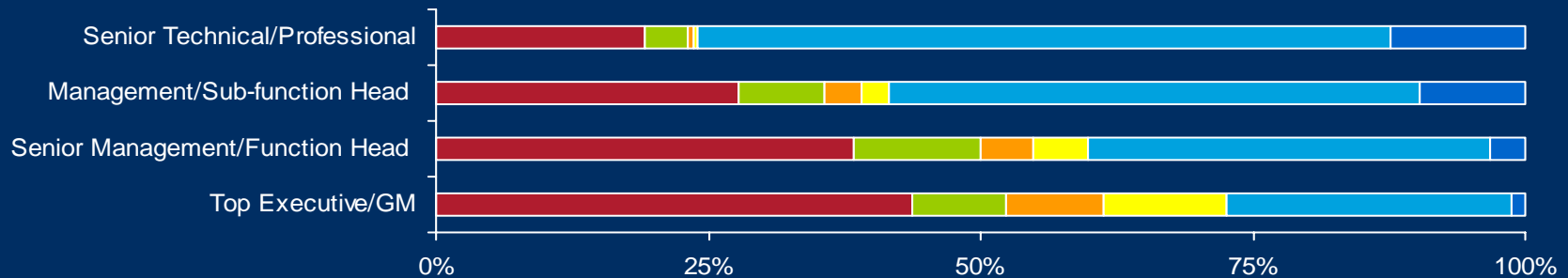
- Business travel
 - entitled to business class/ first class
 - entitled to 5-star hotel

- Relocation
 - spouse support
 - children's education
 - car benefits

Expatriates in China

- Top Executive mostly filled by expatriate from western countries
- Senior Management mostly filled by expatriate from western countries and locally hired foreigner
- Management and Professional are mostly filled by locally hired foreigner

Distribution of Expatriate, Locally Hired Foreigner and Locally Hired Returnee by Position Level



| | Top Executive/GM | Senior Management/Function Head | Management/Sub-function Head | Senior Technical/Professional |
|-----------------------------------|------------------|---------------------------------|------------------------------|-------------------------------|
| Locally Hired Returnee | 1.3% | 3.3% | 9.7% | 12.3% |
| Locally Hired Foreigner | 26.2% | 36.8% | 48.7% | 63.7% |
| Expatriate from Taiwan | 11.2% | 5.0% | 2.5% | 0.3% |
| Expatriate from Hong Kong | 9.0% | 4.8% | 3.4% | 0.6% |
| Expatriate from Asia Pacific | 8.6% | 11.7% | 7.9% | 4.0% |
| Expatriate from Western Countries | 43.8% | 38.3% | 27.7% | 19.1% |

Expatriate administration – actions taken for expatriates due to financial crisis

| Actions Taken Due to Financial Crisis | Expat from Western Countries | Expat from Asia Pacific | Expat from Hong Kong | Expat from Taiwan |
|---|------------------------------|-------------------------|----------------------|-------------------|
| Avoid policy exceptions | 24.0% | 26.7% | 25.8% | 24.0% |
| Introduce special expatriate program | 4.0% | 2.2% | 3.2% | 0.0% |
| Job replaced by local employees | 14.0% | 15.6% | 19.4% | 0.0% |
| Localize more expatriates | 20.0% | 20.0% | 16.1% | 20.0% |
| Outsource various components of expatriate management | 6.0% | 6.7% | 9.7% | 0.0% |
| Reduce number of international assignments | 28.0% | 31.1% | 32.3% | 20.0% |
| Review expatriate compensation and benefit package | 22.0% | 24.4% | 25.8% | 24.0% |
| Terminate international assignment earlier | 12.0% | 11.1% | 12.9% | 4.0% |

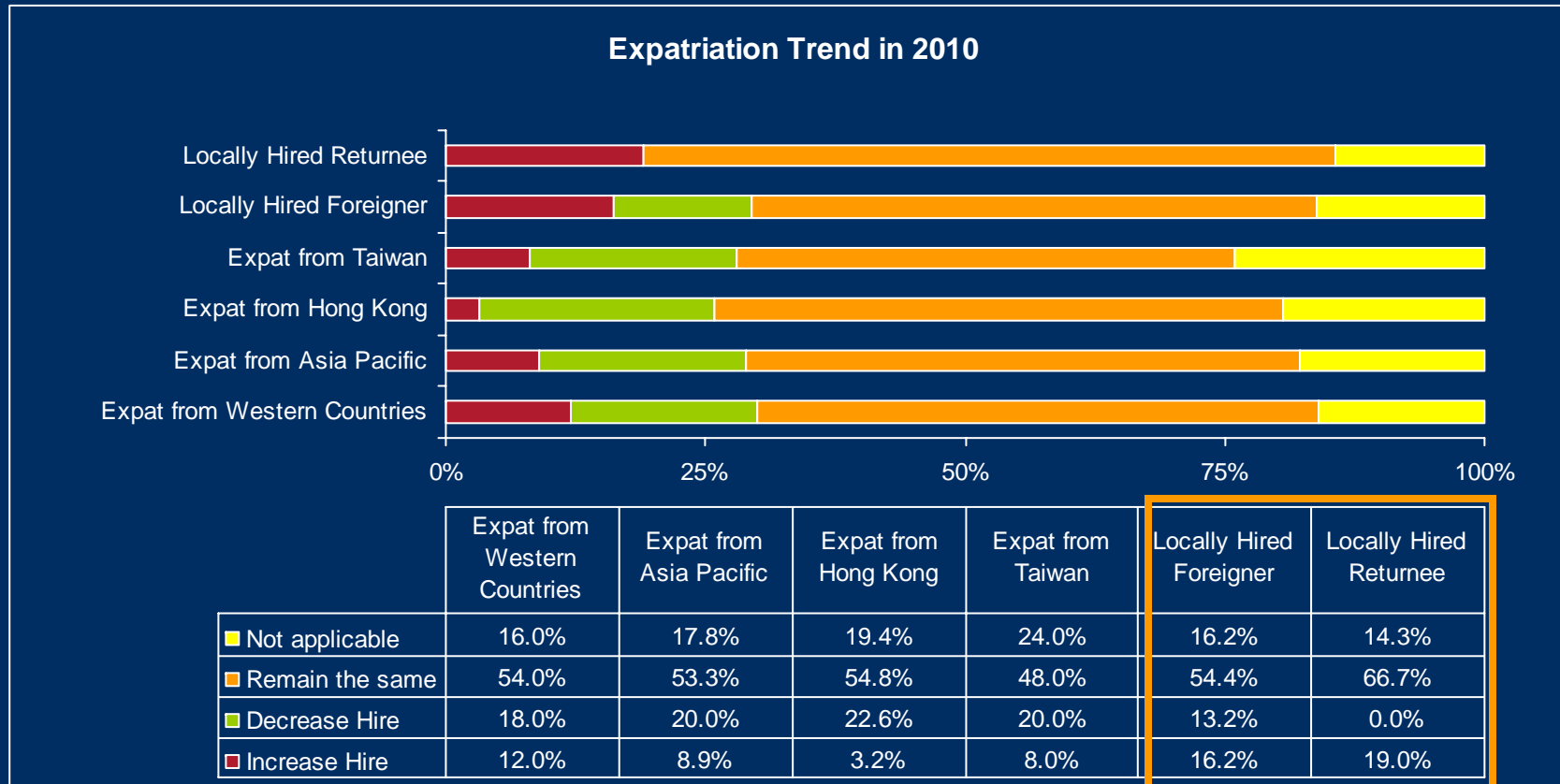
Expatriate administration – actions taken for expatriates due to financial crisis (continued)

- Components of concern by companies when compensation/benefits policies reviewed

| Ranking | Expat from Western Countries | Expat from Asia Pacific | Expat from Hong Kong | Expat from Taiwan |
|---------|---|-------------------------------------|---|---------------------------------|
| 1 | Housing 63.6% | Housing 72.7% | Housing 75.0% | Housing 66.7% |
| 2 | Cost of Living Allowance 27.3% | Mobility Premium Allowance 18.2% | Mobility Premium Allowance 25.0% | Car and Transportation 50.0% |
| 3 | Car and Transportation 27.3% | Medical Benefit 18.2% | Car and Transportation 25.0% | Medical Benefit 16.7% |
| 4 | Quality of Living Allowance/Hardship Allowance 27.3% | Car and Transportation 18.2% | Cost of Living Allowance 12.5% | Children Education 16.7% |
| 5 | Mobility Premium Allowance 18.2% | Cost of Living Allowance 9.1% | Quality of Living Allowance/Hardship Allowance 12.5% | Club Membership 16.7% |

Expatriate trends for 2010

- More than 50% of companies indicated to maintain the number of expatriates, locally hired foreigners and locally hired returnees in 2010

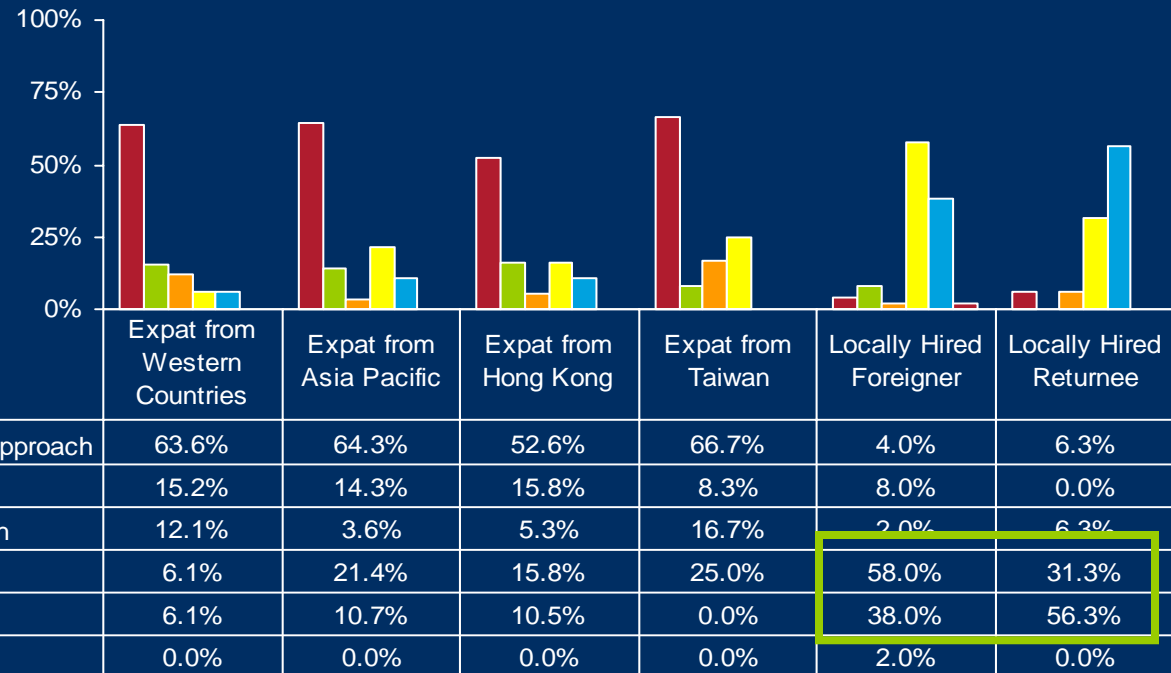


Expatriate trends for 2010

Compensation approach

- The most common compensation approach:
 - for *expatriates* is home country/balance sheet approach
 - for *locally hired foreigner* is local plus approach
 - for *locally hired returnee* is host country approach

Compensation Approach by Expat Type



Benefit prevalence for 2009

Locally Hired Foreigner

1. Medical
2. Insurance
3. Housing
4. Car
5. Children Education

Locally Hired Returnee

1. Medical
2. Insurance
3. Housing
4. Retirement
5. Moving/Relocation Assistance

Top five benefits Items

Expat from Western Countries

1. Housing (97.8%)
2. Medical (95.6%)
3. Home Visit Assistance (93.3%)
3. Moving/Relocation Assistance (93.3%)
4. Car (91.1%)

Expat from Asia Pacific

1. Housing (97.6%)
2. Moving/Relocation Assistance (95.1%)
2. Tax Assistance (95.1%)
3. Medical (92.7%)
4. Children Education (90.2%)

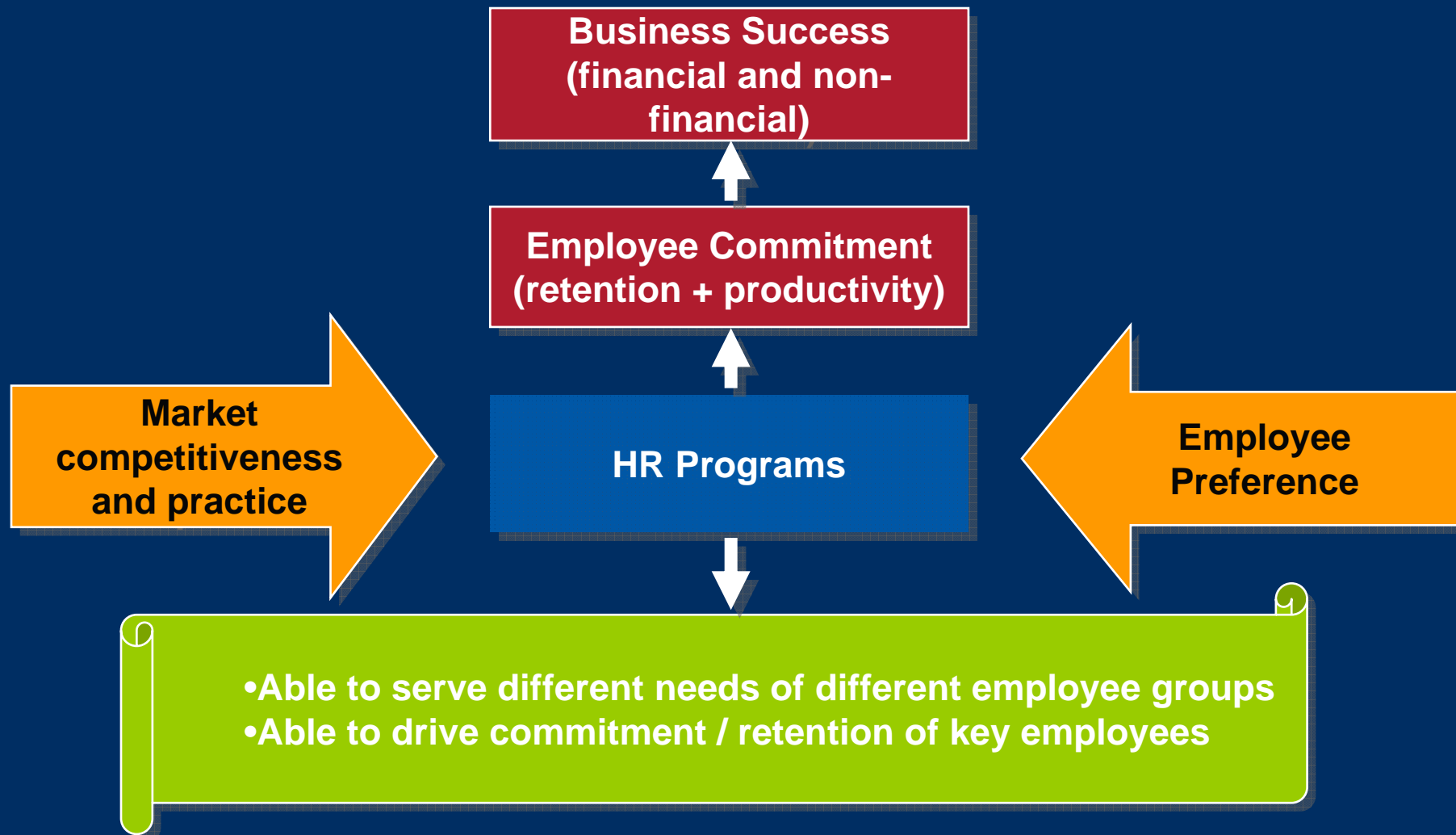
Expat from Hong Kong

1. Housing (100.0%)
2. Medical (96.2%)
2. Car (96.2%)
2. Home Visit Assistance (96.2%)
2. Moving/Relocation Assistance (96.2%)

Expat from Taiwan

1. Housing (100.0%)
2. Moving/Relocation Assistance (95.7%)
3. Children Education (91.3%)
3. Home Visit Assistance (91.3%)
4. Medical (87.0%)

Use well designed HR programs to drive business success via increased employee commitment



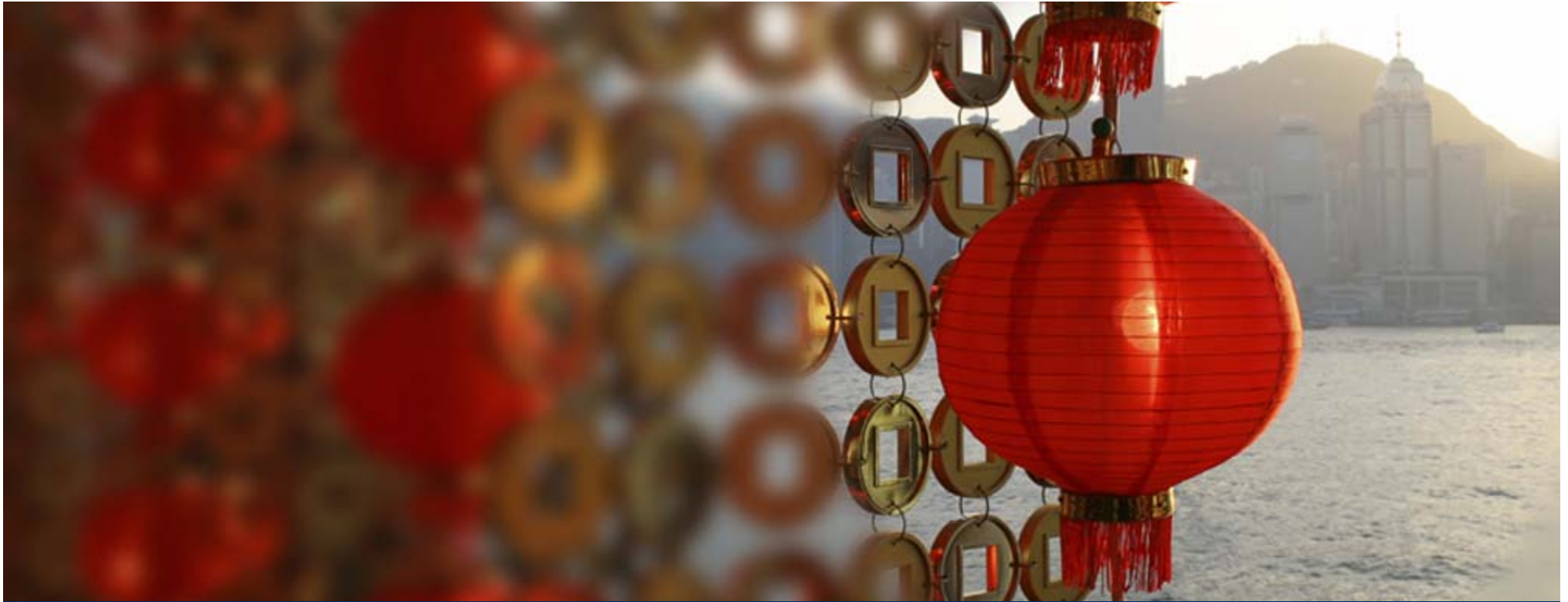
In summary...

1 Differentiate your stage
Proactively plan for the future knowing where you are in recovery

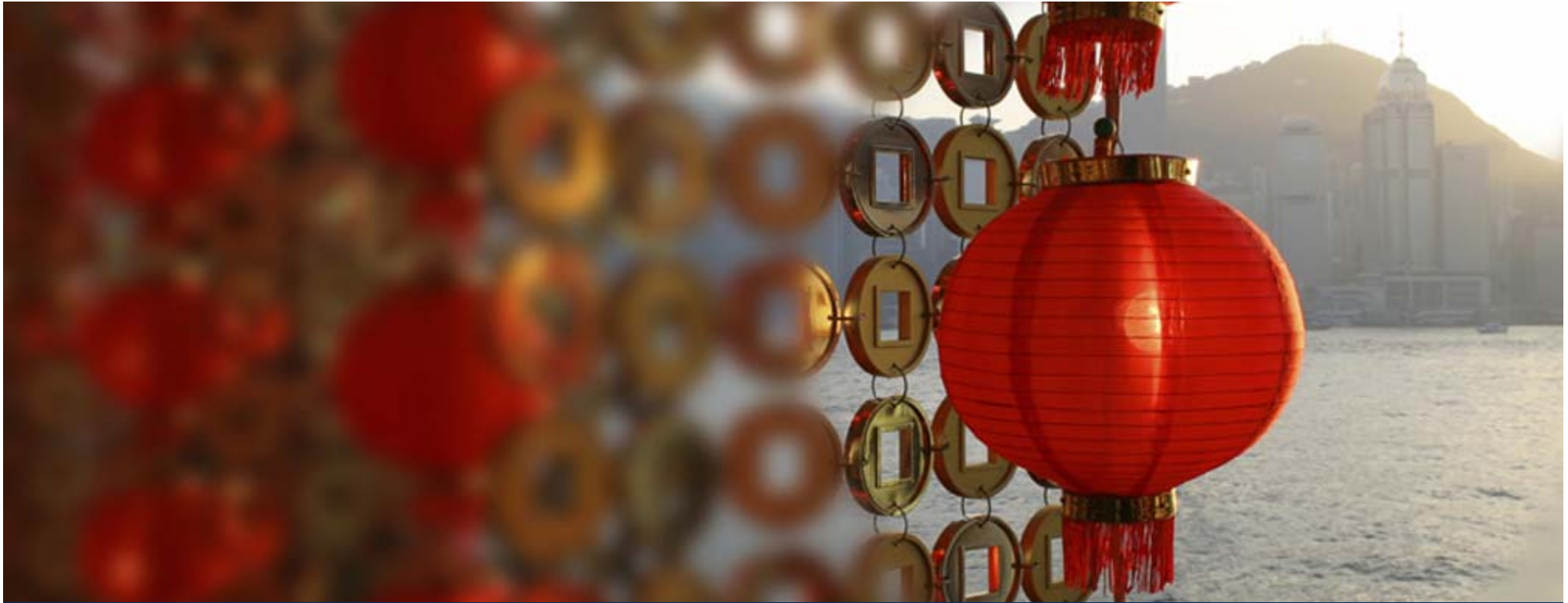
2 Differentiate your reward based on your talent
Segment your workforce

3 Differentiate your performance
Optimize rewards and build wealth

4 Differentiate your change
Communicate to win employee engagement



Questions



Thank you!

Allen Wu

allen.wu@mercer.com

Garry Wang

garry.wang@mercer.com

Copyright 2010 Mercer LLC. All rights reserved.

This document contains intellectual property of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity without Mercer's prior written permission.

The information contained in this document has been obtained from a range of sources. While this information is believed to be reliable, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in this document.

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN