

Transformational HRM Practices for Hong Kong

Edited by Anna P. Y. Tsui and Wilfred K. P. Wong

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Contributors

Josh BERSIN is an independent research and technology analyst. He is the founder of Bersin by Deloitte, provider of global research in human resources. He spent much of his career in technology, sales, marketing, and business leadership and is actively writing about major global trends in HR and talent management. He now runs joshbersin.com and studies all aspects of HR, including business leadership, corporate learning and development, recruiting, and HR technology. He is also a keynote speaker advising HR teams and vendors in the HR space and also serves as an educator, thought leader, and personal coach to HR and business leaders around the world.

Eliza C. P. CHAN started her career in training and development with a British conglomerate, which gave her strong foundation not only in the training and development profession but also exposure to a diverse business environment. She continued progression in learning and development and later joined a global bank. Eliza spent much of her career life in the banking industry, focusing on consumer banking and institutional banking. She left banking for some time, joined a telecommunications organization, and then rejoined banking, moving her career to talent management and development. Unusual for a learning and development practitioner, Eliza coupled her responsibilities in a human resource business partnership role. She reckons that this role has equipped her with a wealth of down-to-earth experience and understanding from multiple perspectives of the organization, managers and employees. After over twenty years in the banking industry, she has recently made a move to a publishing company, in the role of organization development and employee communication.

Gloria W. Y. CHAN is the research consultant of Human Scope Limited. She is a registered psychologist with the Australian Health Practitioner Regulation Agency (AHPRA), having obtained a master's degree in psychology (organizational and human factors) from the University of Adelaide in Australia. She supports the design and delivery of assessment and development centres, and the design and application of psychometric tests. She also plays a lead role in Human Scope's talent development research. Before joining Human Scope, Gloria gained experience working in various industries in Australia, ranging from the Australia public health sector to the defence industry.

Derek K. H. CHENG served previously in various multinational corporations and sizeable firms in Hong Kong and mainland China. He has substantial experience in human resource management at both operational and strategic levels. Since retirement in 2008, he has been very active as a part-time lecturer teaching human resource management subjects at various tertiary educational institutions in Hong Kong. More recently, he has developed intense interests in academic research, particularly in the areas of leadership, high performance work practices, and change management. He holds two MSc degrees, an MBA degree, and a DBA degree.

Neil COWIESON is the founder and executive director of Human Scope Limited. He has been a chartered organizational psychologist for thirty years. He has been based in Hong Kong for over twenty years. In 2005 Neil founded Human Scope, focusing on leadership assessment and development, talent identification, 360-degree feedback, psychometric testing, assessment and development centres, and executive coaching. Before forming Human Scope, Neil was head of HR Development, Asia Pacific for HSBC. He also held positions in SHL as managing director of Greater China and in the Business Psychology Group at BT UK.

Neil co-founded the Division of Industrial and Organizational Psychology of the Hong Kong Psychological Society, serving as president.

Francis HON has degrees in philosophy, law, and social and cultural theory, and is a member of the Society of Trust and Estate Practitioners. He started his career in the HKSAR government's Labour Department and was a conciliation officer of labour disputes. Later, he was the accreditation manager of the Hong Kong Institute of Human Resource Management (HKIHRM) and was responsible for designing the certificate programme in employment law and employee engagement. He also taught employment law at HKIHRM and HKU SPACE. Francis now works as an administrative staff member in the Hong Kong campus of a US university.

Emily Guohua HUANG is an associate professor at Hong Kong Baptist University. Her research interests are in the area of organizational behaviour and human resource management, including workplace uncertainties, job insecurity, emotional intelligence, and counterproductive work behaviours at the individual and group levels. Her work has been published in leading international journals such as the *Journal of Applied Psychology*, *Journal of Management*, and *Human Resource Management*.

Jenny W. LAM is an experienced HR professional in Hong Kong who specializes in recruitment and staffing. A graduate from the Chinese University of Hong Kong with a bachelor's degree in business administration and a master's degree of arts in English studies from the University of Hong Kong, Jenny has worked in various business sectors including banking, search firms, FMCG and luxury retail for years. Her main roles are as a recruiter and an HR business partner to help support line managers with human resource management solutions. Her multifaceted experiences in various industries have provided her a bird's eye view on different industrial hiring trends.

Kit K. W. LAM is the managing director of Human Scope Limited. She is a chartered organizational psychologist, specializing in talent management, leadership assessment and development, and coaching. Since 2006, Kit has supported individuals to achieve their full potential and has focused on nurturing talents and leaders. She has coached and supported over 1,500 individuals globally in their development journeys, including functional leaders and general managers across industries.

Kit previously worked in employee engagement consulting in Hong Kong and China, serving blue-chip global corporations. She actively supports the development of aspiring occupational psychologists. She has been a reviewer for BPS DOP annual conferences and has lectured at the University of Macau.

Victor M. T. NG is a veteran banker with over thirty years of experience in retail, commercial, and corporate banking business management. He worked for Bank of America (Asia) from 1992 to 2006 and assumed senior management positions in diverse capacities. Between fall 2006 and 2007 he spearheaded the acquisition and integration of Bank of America (Asia) by a state-owned bank. He then oversaw the bank's strategic mergers and acquisitions, integrations, and expansion initiatives from 2008 to 2017. Besides being a professional banker, he fulfilled his aspiration to become a scholastic practitioner when he obtained his doctor of business administration in 2013. Soon after his DBA graduation, he began teaching graduate and undergraduate courses in Hong Kong and China. He has been an adjunct associate professor at Hong Kong Baptist University and Hang Seng University of Hong Kong since 2014. His research interests involve employee reactions to corporate mergers and acquisitions, as well as organizational changes.

Anna P. Y. TSUI received her PhD degree from the University of Hong Kong's Faculty of Business and Economics. She is now a senior lecturer in the Department of Management at the Chinese University of Hong Kong and has been in the academic sector for over a decade. She has immense teaching interests in management, business strategy, and human resource management with specialism in general HRM, staffing, and employment practices. In addition, she engages research in the HRM areas of employment law and industrial relations, corporate social responsibility, higher education issues, and other current business topics. She has published a few books, business cases, newspaper articles, and a number of scholarly papers in several journals. Before this book, she had worked with many veteran HR professionals in producing another practical HRM book in 2009, *Professional Practices of Human Resource Management: Linking HRM to Organizational Success*.

From time to time, she also conducts training for organizations on various topics of interest. Before working as an academic, she was a veteran HR professional in different business sectors such as electronics manufacturing, public utility, and hospital organizations. She was mainly a generalist responsible for a wide spectrum of HR activities.

Norris Y. W. WONG is an independent total rewards consultant based in Hong Kong. She obtained a master's degree in business administration from the University of Durham, UK. She is also a certified global remuneration professional with the WorldatWork organization in the US.

Before becoming an independent consultant, Norris was in leadership positions in total rewards function of various global companies, including BP Plc., Prudential Corporation Asia, AIA Group, and State Street Asia.

Wilfred K. P. WONG, JP, is the founder and managing director of RESOLUTIONS HR & Business Consultancy Company. Before founding his consultancy company, he was a senior human resource executive at Cathay Pacific Airways and DFS Group. He obtained a bachelor's degree and a master's degree in business administration from the Chinese University of Hong Kong. And he is a fellow member of the Hong Kong Institute of Human Resource Management and was its council member in the last two decades. He was elected as its president from 2008 to 2010 and is also a full member of the Hong Kong Computer Society. He is an experienced business leader with professional experience in managing business and HR functions.

In recent years, he has been appointed by the HKSAR government as either the chair or a member of many government committees with important responsibilities concerning the local community. For instance, he is the chair of the Pay Trend Survey Committee, a council member of the HKICPA (HK Institute of Certified Public Accountants) and the HKCAAVQ (HK Council for Accreditation of Academic and Vocational Qualifications), and an executive committee member of the Hong Kong Housing Society. With his invaluable community service to society, Mr. Wong has been appointed by the HKSAR government as a Justice of the Peace since 2015.

Michael N. YOUNG is an associate professor at Appalachian State University. Before joining App State, he worked as an academic in Hong Kong for nineteen years. His research interests involve corporate governance, management of Asian firms, state-owned enterprise reforms in China, and financial and organizational economics. He has over a hundred peer-reviewed cases, conference presentations, and journal publications, and over 2,600 citations on Google Scholar. He is an active member of the Academy of Management and has served for seven years as the Hong Kong regional representative for the Business Policy and Strategy Division. He is on the editorial board of *The Journal of Management Studies*, *Management and Organization Review*, and *Journal of World Business*.

1

Introduction

Anna P. Y. Tsui and Wilfred K. P. Wong

LEARNING OUTCOMES

By the end of this chapter, readers should be able to

- understand the concepts and developments in the field of human resource management;
- describe the development of HRM in Hong Kong;
- understand the roles and competencies of HR professionals; and
- identify the elements and professional standards of HRM in Hong Kong.

Some Background of HRM Development

The role of human resource management (HRM) has been evolving for some time in the West, mainly led by the Anglo-American countries. For example, the shift from 'personnel management' to 'human resource management' was part of the movement to acknowledge the value of employees as an organizational resource, and was an attempt to remove some of the stigma associated with the slow, bureaucratic personnel department. The concept of HRM is able to be more proactive, descriptive, and executive by implying that employees are *resources* of the employer.¹ On the other hand, the behavioural science movement in the 1960s had paid attention to the 'value' aspect of human resource in organizations and a better quality of life for workers. Then, the 'human resource accounting' theory was an outcome of a series of developments in the field of HRM. This view, emphasizing human resource as assets for organizations, began to gain support in the 1980s. Since then, the field of HRM has developed rapidly owing to various factors, such as growing competitions, especially by the Japanese firms; slowing economic growth in some developed economies; research findings of HRM's contributions to firm performance; development of professional organizations

and creation of HR specific positions in industry; and introduction of HR curricula in the undergraduate and postgraduate programmes.²

At the same time, many scholars have helped set the directions for transformation of HRM through various high-impact HR operating models and concepts, including ‘strategic human resource management’ that contributes to effective management of human resource, improvement in organizational performance, and the success of a business;³ ‘high performance work system’ where organizations would have the best possible fit between their social system (people and how they interact) and technical system (equipment and processes);⁴ HRM as means to achieve sustainable competitive advantage owing to its qualities of being valuable, rare, inimitable, and non-substitutable;⁵ ‘human capital management’;⁶ and ‘talent management’.⁷ Studies have also moved on to examine the devolution of HRM to line managers when some assert that line managers with HRM responsibilities can positively influence employee commitment and ultimately the business performance.⁸ As a result, definitions of human resource management can vary.⁹ The debate about the nature of HRM continues today. But to sum up, HRM involves ‘people management functions and practices’.

In parallel, the roles and competencies of HR professionals are transformed. Various typologies and models have been developed in the world. For example, Storey devises a two-dimensional model that highlights the HR tactical versus strategic role and what he describes as ‘interventionary’ versus ‘non-interventionary’ HR activities.¹⁰ Other examples come from Lawson and Limbrick, as well as Schoonover.¹¹ Ulrich, in his early discussion, depicted four roles of HR professionals (i.e. strategic partner, change agent, administrative expert and employee champion) that highlighted a strategic versus an operational focus in addition to HR’s propensity to engage with people as opposed to processes.¹² Later, he revisited the framework to reflect changes. The ‘employee champion’ role is replaced by two distinct roles, ‘employee advocate’ and ‘human capital developer’. The ‘administrative expert’ has become the ‘functional expert’, and a new role is added, ‘HR leader’. The ‘change agent’ role is absorbed into the ‘strategic partner’ concept. In 2017 Ulrich and his team further proposed nine HR competency domains with three core drivers.¹³ And the Society of Human Resource Management (SHRM) of the US also defines a set of behaviours and skills associated with success, named as HR success competencies.¹⁴

Meanwhile, we also note some major transformations in various HR functions in the world. The following highlights some of these features.

Radical changes in talent acquisition and assessment

As jobs and skills are changing, we need to use different strategies and channels to source and recruit talent. Talent acquisition is a very important challenge companies are now facing. They are using HR technologies, social networking, analytics and various cognitive tools (such as artificial intelligence, machine-to-machine learning, robotic process automation, and natural language processing and predictive algorithms) to find people in different new ways. They also attract talents through a distinct brand and determine who will best fit the job, team, and the company. Additionally, candidate experience in the recruitment process is emphasized so as to engage them. Employer branding, applicant tracking system, chatbots, psychometric testing, assessment

centre, videos, games, and simulations are adopted as well to attract the candidates while assessing them.

Revamping the performance management and rewards systems

In recent years, companies have been criticized for doing traditional performance management system with infrequent meetings between supervisors and subordinates. The ratings and the forced distribution system are blamed. Instead of motivating their employees and improving performance, both the managers and employees feel unhappy. Some companies are now experimenting with new performance management approaches that emphasize continuous feedback while reducing the focus on appraisal and the associated ratings system. We observe more regular discussions about capabilities and skills, with coaching of the employees using a more forward-looking approach. The focus has shifted from talking *about* people to talking *with* people in open conversations.¹⁵ The development of rewards strategies is also facing changes. We find the importance of total rewards in the workplace and an increasing use of pay for performance and different forms of rewards. Also, the compensation data are more transparent and pay decisions may not be made annually, especially for highly competitive jobs.

Innovations in learning and development

The structure, operations, and mission of 'learning and development' (commonly known as 'training and development') are facing significant changes as well.¹⁶ Today, learning ability has become the most essential competency in our fast-changing environment. And most of the learning can be self-directed. With the development of new technologies and tools, we see the learning function as a highly strategic business area that focuses on innovation and leadership development by delivering a superb learning experience, promoting lifetime learning and bringing multifunctional teams together. There is also a new focus on convergence bringing multi-disciplines of sales, marketing, design, finance, and IT onto cross-functional teams when building products and solutions. Moreover, we notice that no training is offered unless there are data to support that the programme has a positive and measurable impact on employee as well as organizational performance. Learning analytics are important to organizations.

Disruptive HR technology and analytics

HR technology is also a key focus area for HR transformation. We now live in a world flooded with apps, mobile and cloud-based technology, artificial intelligence, cognitive bots, analytics software, as well as virtual reality and augmented reality. These tools have brought new functionalities to the world of HR. Organizations have traditionally used them to automate processes and drive operational efficiencies. But now we can use these enabling technologies to revamp our HR processes (such as in performance management, recruiting, learning and development, succession planning, and important personnel decisions like promotion), enhance our HR roles (i.e. to be more strategic), improve the overall customer experience and foster a more engaged and connected workforce. Besides, we notice that analytics are moving into the mainstream.

Companies that can ‘datafy’ their HR systems and processes are seeing better results in their quality of hire, leadership pipelines and employee turnover.¹⁷ As a result, HR departments are shifting towards analytics solutions to drive evidence-based decision-making while adding value.

Corporate culture and employee engagement

As younger and more diverse workers enter the workforce, a growing number of business leaders understand that the success of a company or department depends heavily on the people within them and their level of engagement and job satisfaction. Culture is one of the top factors conducive to employee satisfaction. The stronger a culture is, the more likely a staff member is to be satisfied. We must now compete for the best talent based on corporate culture, instead of an organization’s profitability. When employee engagement and company culture become a key focus for business, it is often the role of HR to take on these new missions. Its role as ‘employee advocate’ is therefore to be reinforced.

Strengthening the legal environment

As society progresses, problems are observed in many developed societies—for instance, poverty and inequality. There is a growing pressure to regulate the labour scene with more employment laws assuming that such action can protect the workers and maintain justice. Together with other issues such as ageing, demands for democracy and work-life balance, the governments have introduced more laws in different areas of employment. But some may have received resistance from employers due to extra costs and losing business competitiveness arguments. While we have to strike a nimble balance between the need for protecting workers’ rights and business performance, there are important implications for HR professionals to understand when implementing these changes in their organizations.

HRM Development in Hong Kong

Hong Kong’s HRM has also evolved tremendously. In particular, it has undergone drastic changes in the light of changing contexts and environments in the last few decades. Businesses are facing issues such as the force of globalization, fluctuating economy, workforce diversity, fierce competition but escalating labour costs, disruptive technology, and political and legislative changes. Hong Kong has transformed from a manufacturing to a service or knowledge-based economy. This new economy is characterized by a decline in manufacturing and a growth in service or knowledge as the core of the economic base. To meet the human capital needs in such a knowledge economy, organizations have to attract, develop, and engage their knowledge workers. But there is a shortage of talent. HR departments have to help business develop effective strategies in order to win the ‘war for talent’.

Moreover, organizations are now staffed by members of multiple generations and a diverse workforce, which may differ in terms of their work values, attitudes, and behaviours. HR practices have to be modified so as to allow members of all groups to work together and to achieve workplace diversity and inclusion. In addition, we

envisage Hong Kong's change of sovereignty to China for over twenty years. While many Chinese-based companies are set up in Hong Kong which are making significant contributions to the local economy, some HR professionals have closer relationship with their business and HR counterparts in mainland China. They need to know the differences in legal environment, behaviour of people and style of management. All these changes demand a new model for HRM.

In consequence, there is a pertinent need for a business partnership role for HR to support and drive a range of business initiatives in order to make a greater impact on the business activities. A consultancy company has echoed our view by revealing the top five HR jobs in Hong Kong as the workplace environments are changing (Table 1.1). HR as a business partner has topped the list, which is followed by a need for HR in talent acquisition. Expertise in human resource information system and HR technologies is also gaining importance. In reality, we observe major shift of HR role in partnership with other managers (see Box 1.1) and representation on the company board (Box 1.2). HR professionals are seen to support organizational strategies.

Table 1.1: Top 5 HR jobs in Hong Kong

-
1. HR Business Partner
 2. Regional Talent Acquisition
 3. Regional Compensation and Benefits
 4. HR Shared Services
 5. Human Resource Information System
-

Source: Hudson. (2016). *Human resources Hong Kong market trends*.

Retrieved from <https://hudson.hk/insights/infographics/market-trends/human-resources>

HRM in Action—Box 1.1

Sukie as a HR Business Partner

HR business partners are HR professionals who work closely with senior leaders to develop an HR agenda that closely supports the overall purpose of the organization. The process of alignment is known as HR business partnering and may involve the HR business partner in strategic activities such as sitting on the board of directors, working closely with the board of directors and senior managers on daily basis, and being close to their customers (i.e. managers and employees, as 'account managers'). The idea of HR business partners is popularized by Professor Dave Ulrich, who sees HR business partners as part of a successful modern HR function, along with shared services and centres of excellence. It is common now as organizations become more people-focused and see the value in aligning HR agendas towards a common business goal. It helps break down the traditional silos and encourages collaboration between departments. And the role of HR is now an adviser to managers to expand the business and achieve work goals through people strategy.

Sukie has worked in the HR field for ten years. She has just joined a famous multinational retail fashion company as an HR business partner. She is required to work closely with the product teams with an overall responsibility for all HR policies and practices within her section. She visits the retail shops every week and

works closely with the shop leaders. While listening to their concerns and providing employee relations advice to managers and employees on site efficiently, she offers relevant HR solutions more effectively, in line with the needs of the business. Sukie understands that it is a challenging job. It requires knowledge and experience of retail business and an ability to communicate in business terms so as to gain long-term trusting relationships with her clients and HR colleagues. She has to be flexible, adaptable and solve ad hoc problems satisfactorily.

Source: Interview information; Ulrich, D. (2017, Feb. 14). 7 lessons learned from the HR business partner model. Retrieved from <https://www.linkedin.com/pulse/7-lessons-learned-from-hr-business-partner-model-dave-ulrich>

HRM in Action—Box 1.2

HR Executive on a Company Board

Company boards are usually composed of experienced senior executives who focus on business or high-level issues such as finance, marketing, and sales and believe that their functions are the foremost way to protect the interests of shareholders. As a result, many company boards do not deal with HR matters—not to mention the presence of an HR representative.

Company A (the Company) was founded in 2000 by the chief executive officer (CEO) with key businesses in trading of commodities and sourcing hard goods for clients. Headquartered in Hong Kong, it had established branch offices in Guangdong, Taipei, and Singapore. More than 200 people were employed, with a majority of them based in Hong Kong.

About six years ago, Peter Wong joined the Company as the head of HR when it decided to establish the branch offices outside Hong Kong. Together with a few senior partners, the CEO formed an executive committee (similar to the board of directors) with a purpose of overseeing the company business direction, strategies, expenditure, and budget, as well as HR issues. The committee met at least once a month. Peter was invited to join the executive committee as the secretary. He was delighted that the profile of the HR profession could be raised as human capital issues would be discussed on the board. He expected the board to grab hold of key strategic HR issues such as succession planning, talent management, and compensation and benefits. He might have opportunities to explain HR policies, programmes, and reports, and would be able to speak his mind. Also, he could offer counsel on employee engagement and human capital development issues that a change of organizational culture would eventually bring about.

Unfortunately, after six months, Peter found that at least 90 per cent of the meeting time in the executive committee was spent on business or operational matters. And he said no more than ten words in the last three meetings. Given the agenda items were initiated by the assistant of the CEO, HR issues were seldom included. In the meetings he could hardly join the partners' discussion. Nobody paid attention to his presence. As the committee secretary, he was always busy with taking minutes of the meetings.

At the end of 2017 the Company noticed that the business results did not meet the target. A negative growth was recorded. In the executive committee meeting, the CEO urged everyone to put forward plans to contain costs and improve sales

and profitability. He also asked Peter to freeze hiring for the attrition, and look into the possibility of workforce reduction, particularly those in Hong Kong with less than two years of service. The CEO decided that no extra expense would be incurred on settling the severance payment. On the contrary, Peter made a counterproposal to review the employee performance appraisal records so that underperforming people would be asked to leave. The managing director insisted on his decision, and other members made no objection. Eventually, Peter was instructed to carry out the CEO's directive accordingly.

While contemplating how he should handle the above workforce reduction issue, Peter now pondered how long he could bear the situation (i.e. his role and presence on the company board). Should he stay on the board? If so, how could he join the members' discussion and educate the CEO and members about the importance of HR management? What value could HR add to the board functions? And how could the CEO and board members develop a good understanding of HR and human capital issues?

Indeed, we have seen a rapid and professional development of HRM in Hong Kong in the past decade. Outstanding human resource management practices by the organizations are increasingly recognized. And the number of HR professionals, HRM programmes, and courses is on the rise. For example, it is estimated that the current number of individuals in the HRM sector is more than 133,000.¹⁸ Professional organizations are found, such as the leading Hong Kong Institute of Human Resource Management (HKIHRM) (www.hkihrm.org; see also the previous book),¹⁹ Hong Kong People Management Association (HKPMA) (www.hkpma.net), Hong Kong Management Association (HKMA) (www.hkma.org.hk) as well as HR Magazine (hrmagazine.com.hk). HKIHRM has seen its membership increase from more than 100 to over 5,300 (including 600 corporations) from the 1980s to 2017. HR surveys (such as the Pay Trend and Pay Level Survey, Hong Kong Manpower Statistics Survey, and the Training and Development Needs Survey), forums, reports, and publications have been issued, and a number of HR conferences and seminars have been organized. Recognitions and awards are being given to organizations exhibiting outstanding human resource management practices.²⁰ Collaborations and partnerships with overseas professional bodies are also being forged. For instance, HKIHRM is a member of the Asia Pacific Federation of Human Resource Management (APFHRM), one of the continental federations under the World Federation of People Management Associations. Their former presidents have served as presidents of APFHRM. HKIHRM has also partnered with HR People and Strategy from the US and signed a memorandum of understanding with the Chartered Institute of Personnel and Development (CIPD) from the UK to strengthen collaboration in training, research, and other HR activities. There is also a reciprocal professional membership recognition arrangement between HKIHRM's professional members (MIHRM (HK)) designation and the Canada-based Human Resource Management Association's certified human resource professional (CHRP) designation.

To enhance the professional status of HRM and prepare students to work as future managers or specialists in the field of HRM, HKIHRM has created an HR Professional Standards Model in 2010. It made references to academic models, competency

frameworks, and other HR organizations, as well as the competency requirements of major local companies. Three perspectives have been identified that demonstrate the standards for HR practitioners in the aspects of the Core Professional HR Knowledge; the Work Experience in terms of their roles and responsibilities; and the Capability in terms of competencies demonstrated at work. And five competencies (professional knowledge, business partnership, ethics, customer/user focus, and communication/influence) are distinguished.²¹ As of February 2018, a total of twenty-three programmes from seventeen higher education institutions have been endorsed by HKIHRM. This is good news for universities, since it advances the development of their HR curricula for the needs of society and organizations. Students looking for HRM programmes will have a comprehensive source of information.

In August 2014 a Cross-Industry Training Advisory Committee (CITAC) on Human Resource Management was also established by the HKSAR Government Qualification Framework to draw up competency standards (referred to as the Specification of Competency Standards, or SCS) in respect of key functional areas of Hong Kong's HRM.²² HKIHRM has also identified a HR Career Ladder consisting of associate member, professional member, and fellow member, with descriptions of their respective characteristics and contributions.²³ With these benchmarks, both junior and experienced HR professionals can use this platform to integrate their academic qualifications and work experience in the pursuit of continuing education and development. Organizations can also recruit their HR staff with the right competencies and experiences.²⁴

The Rationale and Objectives of the Book

It has been ten years since the first author published a book with other HR practitioners about professional HRM practices in Hong Kong organizations.²⁵ At that time, we received favourable comments and encouragements from various stakeholders (for example, filling up the gap in the market, meeting the local needs with a practitioner-oriented focus). And the book was adopted as a text for the Executive MBA students in an HRM course in one of the local universities. But in the light of the recent changes in the field, there is an urgent need to update our stakeholders of the current trend, strategies, practices, and various tools in relation to HRM in Hong Kong. We could not find any new publications about the situation of HRM in Hong Kong published in the past decade. Most of the present books about HRM are still dominated by those of Western or Anglo-American origins emphasizing theoretical issues or their cultures. But 'replications' may just oversimplify the managerial realities across different cultures. We therefore decided to pursue this book project. The main focus of this new book is to provide both theory and practice, with a stronger focus on the latter in the context of Hong Kong. Such an approach can communicate hands-on knowledge and ways of practical implementation to local readers. We therefore invited seasoned and experienced human resource professionals in the field as contributors for various book chapters. The HR professionals, line managers involved in HRM, and students taking human resource management courses or programmes in Hong Kong could be a suitable audience. Also, HR professionals and managers who have cross-border business activities in mainland China would find the book useful. Additionally, mainland Chinese managers in Hong Kong would find the contents instructive. They may

learn different (both successful and unsuccessful) experiences to deal with the more demanding and challenging work environments they are facing outside mainland China. The book also sets agenda for future directions and implications for HRM professionals in Hong Kong. In sum, the major objectives of this book are:

- to develop a showcase opportunity for HR to drive sustainable business impact and to co-create value to businesses operating in Hong Kong;
- to delineate the underlying factors affecting the implementation of various HR strategies and practices with a view to narrow the gaps between HRM theory and practice;
- to help stakeholders and students of HRM understand the current challenging Hong Kong environment and their implications to HR professionals in organizations;
- to identify the changing roles and functions of HRM;
- to provide up-to-date knowledge and skills with practical guidelines to HR stakeholders on how to implement effective HRM practices in organizations; and
- to identify challenges and future directions and implications of HRM in Hong Kong.

Organization of the Book

We identify the following essential elements of HRM in this book. And in the light of different contexts and environments, we include a chapter about the contextual environments affecting HRM in Hong Kong:

- (1) Contexts and environments of HRM in Hong Kong
- (2) Acquiring potential employees (talent acquisition strategies)
- (3) Assessing candidates and employees (talent assessment strategies)
- (4) Learning and development strategies
- (5) Performance management system
- (6) Managing total rewards strategies
- (7) Employment-related laws and employee relations
- (8) Digital transformation of HRM due to HR technology
- (9) Role of HRM in change management
- (10) Challenges and future for HRM in Hong Kong

This book is thus organized into 11 chapters. Chapter 1, the introduction, provides a snapshot with the concepts of human resource management and the present state of HRM development in Hong Kong. We note that professional HRM practices are becoming more prevalent because of changing environment and business needs. There is an increasing number of HR specialists who demonstrate strategic roles and competencies. Especially, some HR executives are on the company boards who help senior managers to make business decisions. We also witness the emergence of HR business partners in organizations. At the same time, there is a membership expansion in professional HR associations, a strong demand for formal HRM education, and establishment of professional HR standards.

Chapter 2 is about the contexts and environments of HRM in Hong Kong. Researchers have argued for the importance of studying HRM in contexts. We therefore need to have an overview of major environmental forces on the HRM practices first. They include the sociocultural, economic, technological and political-legal aspects. We find a more diverse force with a rise of knowledge workers, aged workers, female employees, and the younger generation. In addition, we understand the economic forces arising from globalization and the emergence of different types of organizations. The chapter then gives a glimpse of HR technology and analytics that are currently affecting the ways to carry out HRM activities in organizations. Finally, we discuss the political environment and the change of employment laws and relationships in the increasingly turbulent society of Hong Kong.

In Chapters 3 and 4 we discuss current talent acquisition and assessment strategies in Hong Kong. Chapter 3, 'Talent Acquisition Strategies in the New HR Era', highlights the imbalance between job demand and supply leading to a 'war for talent'. Consequently, there is a need to review current HRM strategies when recruiting the best candidates. Companies are innovating their recruitment process using automation, data analytics, and other advanced tools. The adaptations of new methodologies and mindsets in response to the new HR era are also examined. Chapter 4, 'Talent Assessment Strategies in Hong Kong', highlights the importance of objective, reliable, and fair selection methods to business and ways to implement them. Use of traditional assessment tools such as psychometric tests, assessment centres, leadership assessment, and feedback and coaching are discussed. Then, innovations in the areas of gamification and digital/video interviewing are examined. Organizations would find them useful in the current workplace while exercising judgment and observing professional guidelines when using these tools.

Chapter 5 is about learning and development strategies in Hong Kong. We explain a concept change from 'training and development' (T&D) to 'learning and development' (L&D) in the workplace. This change has underlined a more proactive approach to gaining knowledge nowadays. It expands the scope of this HR function from just a job to support a continuous process of gaining knowledge and growth of workforce. And it adopts a multidimensional approach stressing a link between the learning experience and work performance. It also reflects a stronger emphasis on the responsibility of a learner. For L&D professionals, it then requires different sets of skills and competencies when adopting different learning contents, delivery methods, and technology-supported tools.

Chapters 6 and 7 are about changes of performance management system and rewards management practices. Both discuss the concepts and practices of performance and rewards management in Hong Kong. In particular, Chapter 6, 'Development of the Performance Management System: Evolution or Revolution?', highlights the current debate on the trend of performance management and performance appraisal systems brought about by leading companies in the world. While companies observe the benefits of using performance appraisal as the foundation to motivate employees to work harder, some others comment on its perils leading to poor employee morale and a wastage of time and efforts to managers. But despite the dilemma, we find that organizations would not do away with their performance management system. Instead, companies need to revamp their performance management system to fit into the current business needs. Chapter 7, 'Managing Total Rewards Strategies in Hong

Kong’, discusses current rewards management strategies in Hong Kong, including the definitions and strategies of total rewards, recent development, and implementation in the work place. In addition, there is a trend of enhancing employee benefits in areas such as leave entitlements, flexible work arrangement, and employee wellness. We also look at these issues before drawing implications to HR and rewards management professionals.

In Chapter 8, ‘Employment-Related Laws and Employee Relations in Hong Kong’, we discuss employment-related law and the employment relations scene in Hong Kong. As the society advances, notions of civic pride and demands for rule of law, rights and fairness, as well as democracy are instilled in the minds of many Hong Kong people. They would demand better working conditions such as employment rights protection in terms of minimum wage and maximum working hours, equal employment opportunities, more leave entitlements and holidays, and statutory retirement benefits. Indeed, in recent years, the Hong Kong government has introduced more regulatory and protective employment laws. These issues are covered in this chapter. On the other hand, like their counterparts elsewhere, the role of trade unions in Hong Kong has diminished. Most labour disputes are settled by official channels satisfactorily. In this chapter, we also highlight the concept of employee engagement and its importance of maintaining harmonious employee relations in Hong Kong.

Chapter 9, ‘Digital Transformation of Human Resource Management in the Era of Disruptive Technology’, covers a hot topic on current HR technology development. Over the years, we have seen an explosion of new technologies and innovations disrupting our business systems and HR processes. Traditional HR functions such as talent acquisition and recruitment, performance management and compensation, and training and development can be transformed. HR activities should be more forward-looking and strategic that they can help organizations make better decisions. However, when we examine the status and extent of adopting HR technology in Hong Kong companies, we find that Hong Kong’s HR is still at the early stage of digital maturity—they may be just exploring digital possibility (automating) or extending the current capability of their human resource information system with ‘reactive and procedural’ or ‘functional and fragmented’ HR activities. Major objective of using technology is to enhance operational efficiency only. And our HR people are not ‘disruptors’ yet.

Chapter 10 covers a special topic, ‘Managing Organizational Change in Hong Kong: The Role of Human Resource Management for Success’. We discuss an acquisition in the banking industry in Hong Kong. A wholly owned subsidiary licensed bank (Bank B) of a foreign-funded international financial institution was acquired by a Chinese state-owned regional bank (Bank A) in the mid-2000s. Despite the pronouncement by Bank A that Bank B had a well-developed platform, business model and talents for Bank A’s future business expansion, abrupt changes had taken place shortly after the acquisition. The performance of the resulting bank, Bank A (Asia), soon deteriorated. And within three years of the acquisition, it recorded an exceptionally high employee turnover rate. The bank subsequently employed consultants to interview the leavers and make important change management initiatives. Essentially, they cover issues in talent retention, a sense of continuity, communication, and the involvement of HRM. The chapter argues that omission of HRM strategically or operationally would undermine an organization’s effectiveness in managing change.

Finally, Chapter 11 presents the challenges and future for human resource management in Hong Kong in view of the forthcoming change drivers to business. They provoke changes of business strategies. As a consequence, new HR implications also cause transformation of their HR strategies and practices. New HR skills and competencies are required. An overview of these characteristics is examined at the end of the chapter.

Notes

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3. Budhwar, P., and Aryee, S. (2008). An introduction to strategic human resource management. In The Aston Centre for Human Resource (Ed.), *Strategic human resource management: Building research-based perspective* (pp. 9–89). London: CIPD. There may be three perspectives to describe the contribution of HRM in improving a firm's performance: 'universalistic' perspective (emphasizing the best of HR practices and that business strategies and HRM policies are mutually independent); 'contingency' perspective (the fit between the business strategy and HRM strategies that business strategies establish the pattern of HRM policies); and the 'configurational' perspective (a simultaneous internal and external fit between a firm's external environment, business strategies and HR strategies). We may also have the 'hard' variant (highlighting the 'resource' aspect of HRM) and the 'soft' variant (discussing the 'human' aspect of HRM).
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6

Development of the Performance Management System

Evolution or Revolution?

Wilfred K. P. Wong

LEARNING OUTCOMES

By the end of this chapter, readers should be able to

- understand the concepts of performance management system and performance appraisal;
- identify the benefits and concerns of performance management system and performance appraisal in organizations;
- understand and evaluate the trends of performance management practices in organizations; and
- identify the roles of HR professionals in performance management.

Introduction

Performance management is not something new to people. It has existed and been debated in the human resource management arena for years. While some applaud the benefits of using it as the foundation of performance excellence to motivate employees to work harder and achieve better results, others argue that it could demotivate employees, costing valuable time and money and becoming nuisance to both the managers and employees. It may also fail to deliver value originally aimed at.¹ Often, it is a major HR controversy. But despite the challenges with performance management, we envisage that organizations would not do away with it in the near future. Instead, companies have to revamp the system to fit into the current business needs and environment.

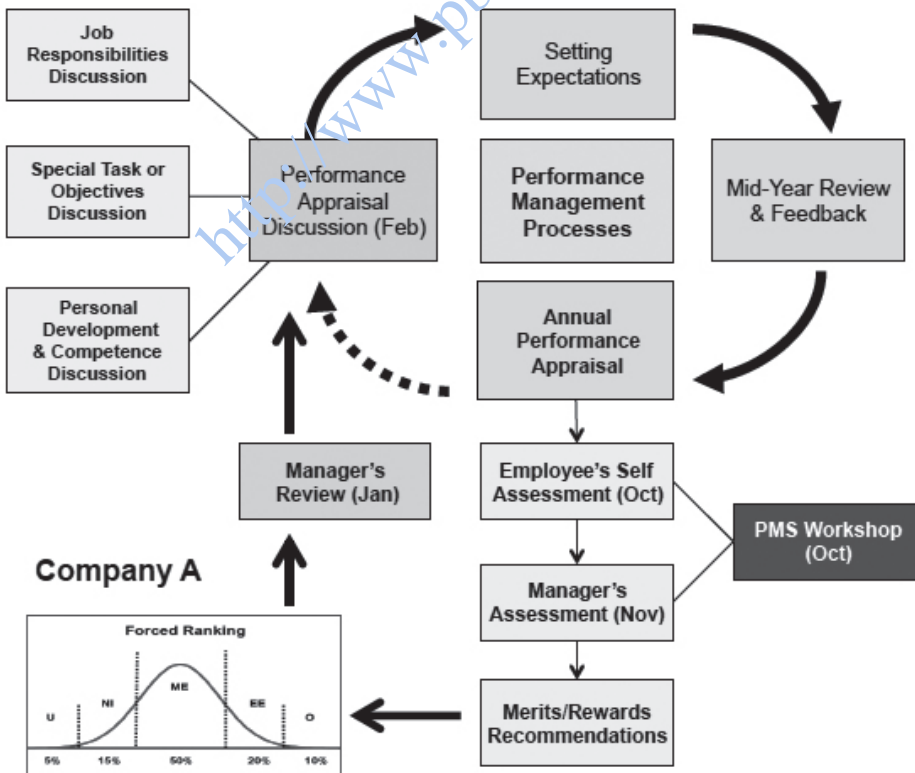
This chapter begins with the fundamentals of the performance management cycle and the performance appraisal process. Examples are presented to illustrate them in practice. In particular, we examine the issues, problems, and common errors associated with them. We then discuss how the performance management system has changed and where it is at today. The latest trends of development and examples will be highlighted.

We offer opinions and insights for HR professionals, managers, academicians, and students and anticipate the future of performance management: Should the trend be evolutionary or revolutionary? Could we delink rewards from performance management? How can performance management be implemented smoothly in organizations? Readers should be able to review and implement their own performance management system more effectively in the workplace. We conclude the chapter with a summary of the factors affecting performance management system success in Hong Kong.

Some Fundamentals of the Performance Management System

In general, the term *performance management system* (PMS) refers to managing the entire performance cycle in the organization. It is a broad collection of activities designed to maximize individuals, which will be eventually extended to improve organizational performance. It includes setting expectations, measuring employee behaviours and results, providing coaching and feedback, and evaluating performance over time to use in decision-making. Its purpose is to align individual efforts to achieve organizational goals. For performance appraisal, it is part of the PMS process that involves the assessment of past performance within a given time frame. The purpose is to judge how well employees have performed with respect to the expectations set. Information will be used to make a variety of HR and organizational decisions.

Figure 6.1: A typical performance management cycle



The performance management cycle

Figure 6.1 is a typical performance management cycle, starting with ‘Setting Expectations’. It defines the standards and objectives of the forthcoming performance appraisal exercise that involves discussion between the supervisor/manager and his or her subordinate based on the organizational goals cascaded down to each functional, departmental, or individual level. The contents and extent of the dialogue/discussion should also make reference to the subordinate’s own job responsibilities. At times, it may go beyond to stretch someone’s potential. It would also be advantageous to understand a subordinate’s personal development needs, and to utilize his or her skills and competencies. Some or all of the agreed expectations can become the special tasks or objectives, as shown on the left, which the subordinate will have to deliver within the agreed time frame.

After setting and agreeing on the expectations, the performance management cycle moves on to regular reviews and feedback. Most companies have an interim review and a feedback process. Some companies require a formal documentation of the discussion, whereas some merely arrange a sit-down conversation. It could facilitate a review of the agreed expectation, the changing courses of action, revision of the deliverables or timeline, where necessary. It encourages communication and understanding between supervisor/manager and his/her subordinates besides day-to-day business transactions.

The aforementioned PMS process is implemented based on the corporate directives or objectives set up by the top management. For HR professionals, they should encourage managers and subordinates to fully utilize the PMS to set agreeable key performance indicators and deliverables, foster regular dialogue, and manage their performance accordingly.

Problems of PMS

In a typical PMS, there can be multiple purposes of performance management (Table 6.1) that require different measures, assessments, and systems. But in reality organizations have often attempted to make use of PMS to achieve too many objectives using a single approach. They relate performance results to salary increase, rewards management, development, and training needs and thus distract from its prime focus on managing performance. For example, if the performance management system is used for personnel decision-making (like promotion or salary increase) and employee development, these two opposing objectives are rarely supported equally well by a single system or process. When a performance management system is used for development purposes, managers’ ratings would tend to be more accurate. The ratings could somewhat reflect the truth, showing the employee’s strengths and development needs. However, when a performance management system is used for personnel decisions, the ratings would tend to be more inflated. Unsurprisingly, top management or HR department may believe that managers could play favouritism in performance appraisal and therefore warrant a cumbersome written documentation system for close monitoring and control. It can result in mistrust between different parties (see Box 6.1).

Table 6.1: Typical purposes of performance management system

Administrative Purpose	Developmental Purpose
Help make compensation decisions (e.g. pay increases and bonuses)	Identify training and development needs
Identify individuals ready for new opportunities (e.g. promotions and assignments)	Provide career guidance and developmental opportunities
Provide documentation to defend against legal challenges	Enhance communication and relationships between managers and employees
Hold poor performers accountable for improving	Ensure employees receive effective feedback
Provide data for adverse impact analyses	Increase employee engagement and empower employees to take ownership of performance goals

Source: Society for Human Resource Management (SHRM). (2017). *Performance management that makes a difference: An evidence-based approach*. Alexandria: SHRM.

HRM in Action – Box 6.1

An Enhanced Performance Management System Cycle or Otherwise

Company A is a multinational company headquartered in Hong Kong. It had adopted a typical performance management system for years. Over the last decade, the company had introduced a forced-ranking system in the performance appraisal to put employee performance into different categories in order to grant their merit pay, incentive or bonus payout, as well as to decide on career advancement of the employees. The typical process was similar to the one illustrated in Figure 6.1.

At the beginning of the year, the organizational business goals and targets were cascaded down with details to each function or department. They became the basis for setting the expectations or KPIs of the individual employees each year. By fall of each year, formal notice was sent out by the HR department to all employees requiring them to take the formal annual performance appraisal. For new employees, supervisors, managers or general staff, or someone who would like to take refresher training, performance appraisal workshops were conducted prior to the appraisal process.

Employees were given opportunity to complete a self-assessment to gauge their own performance and accomplishments. It was an opportunity for them to review development needs and career aspirations with their supervisor.

After the manager's assessment of the subordinates' performance, the appraisal results were gathered by the HR department. The appraisal dialogue was arranged between the managers and subordinates to seek out clarification and feedback. However, in Company A, this kind of dialogue was put on hold because the company wanted to find out whether the appraisal results had fallen within the forced-ranking distribution requirements. If not, the HR department would advise the supervisor/manager to adjust the subordinates' assessments to fit the forced-ranking distribution.

The relevant supervisors/managers were unhappy especially when they were asked to downgrade their subordinates' ratings. They blamed the HR department and did not take accountability. Only on very rare occasions were subordinates' ratings adjusted upward. Usually employees were not aware of such downward adjustment unless their supervisors/managers told them. In this case, the employees would complain that their supervisors/managers could not do anything. As a consequence, all parties were unhappy and denied the ownership of the performance results.

Furthermore, Company A took the adjusted appraisal results and made reference to the compa-ratio* of each employee to determine the final merit pay. Since most employees did not understand the compa-ratio system, the performance appraisal and merit pay adjustment outcomes could be a total illusion to the employees. Eventually, most people took the entire performance management and appraisal as a ritual rather than a strategic tool in managing the organization and people performance. The worst is that most people lost trust in the performance management system.

* Compa-ratio is calculated as the employee's current salary divided by the current market rate as defined by the company's pay policy. It is position specific, with a salary range including a minimum, a midpoint, and a maximum. A compa-ratio of 1.00 or 100 per cent means that the employee is paid the industry average and is at the midpoint for the salary range. A ratio of 0.75 means that the employee is paid 25 per cent below the industry average and is at the risk of seeking employment with competitors at a higher pay that is perceived equitable.

As observed in most organizations, PMS is often accompanied with a sophisticated system of procedures and rules to follow, forms to complete, and criteria and ratings to comply with. These factors, which have little impact on actual performance, can be adopted at the expense of investing in good communications, feedback, and relationships among employees, managers, and even HR people. As a consequence, they result in a lack of buy-in from managers and employees that PMS is implemented poorly.

Additionally, the problems of PMS can be exacerbated by the faulty assumptions that candid performance ratings can motivate employees to achieve higher performance. However, we have to admit that most employees believe that they are above-average performers. They have no desire to hear the opposite. Even superior performers find their PMS demotivating.³

Problems of performance appraisal

Performance appraisal can be traced back to the US military merit rating system created during World War I to identify poor performers for discharge or transfer. The system continued after the World War II until the 1960s when 90 per cent of the US companies were using the performance appraisal system. Hitherto, strong merit results represented good advancement opportunities and rewards for people, and improving performance was only an afterthought. Until recently, managers allocated rewards and determined employee career progression according to the results of the performance appraisal. But again, performance appraisal ratings have long been controversial owing to their negative effects on employee morale and potential for bias and discrimination.

For example, when Jack Welch became the CEO of General Electric in the 1980s, he introduced a famous forced-ranking (or ‘stack-ranking’ system with a ‘vitality curve’). While the top 20 per cent of the workforce was the most productive, the other 70 per cent (the ‘vital 70’) performed adequately. But the bottom 10 per cent people were classified as non-productive and had to be dismissed. This stack ranking was later copied by most large organizations in the world. Managers were compelled to use forced ranking in appraising their employees—usually assuming a normal distribution curve with most people being classified as ‘average’ performers. It has drawn many criticisms, such as compelling managers to sacrifice otherwise good employees, causing unhealthy competitions between employees, and assuming extrinsic motivation only.⁴

Another major drawback of the appraisal process is the lack of consistency of assessment results by different assessors. There could be inconsistent observations, personal bias, prejudice, or unfairly harsh ratings. Interestingly, the *Journal of Applied Psychology* has revealed that 62 per cent of the variance in ratings could be accounted for by the individual raters’ peculiarities of perception. Actual performance only accounted for 21 per cent of the variance!⁵ Other studies echo that ratings often reflect rater goals, organizational norms, and political realities.⁶ An interesting example showing rater and ratee dynamics is illustrated in Box 6.2.

HRM in Action—Box 6.2

Is It a Justifiable Performance Appraisal Decision for Mark?

Allan, a senior manager of ABC Advertising Agency heading a production team based in Hong Kong, reported to Charles, the regional head of advertising and production in Singapore. Over the years, the company adopted a typical PMS system—for instance, setting the annual KPIs at the beginning of the year, conducting a mid-year review and year-end appraisal. The overall performance rating system was a five-point scale, a score of three being a satisfactory level of meeting the KPIs and five being the exceptional performance. Attainment of a two would result in no merit increase and bonus payout; a rating of one would lead to PIP (performance improvement plan) or a subsequent dismissal.

Allan’s subordinate Mark, who had been with the company for about ten years, had consistently achieved outstanding performance. Mark was promoted to the team head with a team of five people two years ago. Allan had been very pleased with Mark’s performance and was prepared to promote him to be an assistant manager in the coming year. However, in November, Mark seemed to be losing his edge. He had missed deadlines and upset an important client. Subsequently, Allan talked to Mark and found out that his wife had been ill and hospitalized; at that time Mark had to take care of his wife and find someone to look after his young son. At the year-end appraisal in December, despite Mark’s drop in performance, Allan gave a rating of three to Mark—meeting the standard (in the previous two years, Mark received a four and a five).

Despite Allan’s intervention, the client had escalated his complaint to Charles. At the performance review meeting, Charles disagreed with Allan’s rating on Mark, and insisted on adjusting it downward to two. Allan reckoned that a rating of two would hurt Mark’s merit increase and bonus. He understood that Mark was in need of the bonus money to settle for the heavy medical expenses incurred from his wife’s illness; and furthermore, it would jeopardize his promotion in the coming year.

We discussed PMS in Hong Kong in a previous book by highlighting a number of potential errors in the areas of setting desirable performance standards, informing employees on the performance standards, and appraising employees' performance, as well as feedback on performance. Factors stemming from Chinese culture, values, and rater biases are explained.⁷ We reckon that Hong Kong society depicted in Hofstede's cross-cultural studies has high scores on 'power distance'. The superior must always be accorded face while the subordinate tends to accommodate to the wishes of the superior. And many Chinese managers culturally tend to be moderate and are taught not to make extreme decisions, either on the positive or negative sides, but to be in a state of equilibrium. In addition, the maintenance of harmony governs a great deal of the manager-subordinate relationship in Chinese business settings. In the organization, these managers tend to avoid giving extreme or harsh ratings (i.e. with central tendency).⁸ On the other hand, some other managers would inflate the performance ratings for some political reasons as they want to protect a worker whose performance is temporarily suffering because of personal problems (see Box 6.2). Otherwise, some managers may deflate the performance ratings to jolt a worker to rise to his or her performance level. Also, Chinese managers who have a personality trait view of performance would not see there is a need to give performance feedback to the employees. Since being a good worker comes from having a 'good personality', then, being a bad worker comes from having a 'bad personality'.⁹ As a result, appraisal results are not useful. Interested readers can understand more about various rating errors and psychological factors (such as central tendency, leniency/strictness, halo/horn effect, recency effect, bias, and favouritism) from available textbooks or reference works, including the previous chapter on performance management in Hong Kong.¹⁰

We now highlight one of the appraisal errors here. The following exercise was tried in several performance appraisal workshops conducted by the author with managers. The results were all similar. The exercise: a short movie clip extracted from the British comedy movie *Notting Hill* was shown to the participants. In the movie three different ladies were separately invited by Hugh Grant's family members to have dinner with Hugh Grant at his home. Each lady presented different personality traits and characteristics.

In each performance appraisal training workshop, individual participants were first asked to evaluate the three ladies' characteristics according to the participant's own perceptions. Participants were asked to mark their assessments on an enlarged chart posted on the wall. The collective ratings shown were interesting.

A sample of the collective assessments was shown in Figure 6.2. Despite the distinctive differences among the three ladies, the collective ratings showed some convergence. The participants of the performance appraisal workshop collectively considered the third lady the best among the three.

Challenges and Future for Human Resource Management in Hong Kong

Anna P. Y. Tsui

LEARNING OUTCOMES

By the end of this chapter, readers should be able to

- understand the change drivers in Hong Kong business;
- identify the challenges to HRM in Hong Kong;
- understand the future implications to HR professionals in Hong Kong; and
- develop the future skills and competencies of HR professionals in Hong Kong.

Introduction

In this concluding chapter, we look at the challenges to HRM and their future implications in Hong Kong. Challenges arise from globalization and economic forces, socio-cultural changes in the society, political-legal impacts, and new technologies. They provoke change to the business strategies in terms of use of technology, organizational structure, work force changes, and HR process. As a consequence, HR strategies and activities also need to undergo transformations in order to support these business changes. This requires transformation of HR in terms of its basic skills and competencies.¹ An overview of these new skills is examined at the end of the chapter.

HR Challenges and Future Implications

Challenge from economic factors

The emergence of a knowledge economy has placed new demands on Hong Kong organizations. The old assumptions underlying traditional HR processes could not be effective with the new service economy. For instance, old HR practices suppose that jobs should be narrowly defined, supervisors should control workers, and efficiency

should be emphasized. Short-term results are to be achieved.² In contrast, knowledge organizations stress that employees' knowledge and skills have a major impact on organizational success. Jobs should be designed more broadly so as to encourage innovation, autonomy, continuous improvement, and participation in decision-making. Therefore, broad-based recruiting is required in the near future in order to uncover skilled applicants, and job designs should emphasize autonomy and participation. Team-based structures are also encouraged while learning, and development for new skill development should cater with new business needs.³ In addition, employee retention is important as the skills of knowledge workers are not substitutable.⁴ To manage knowledge workers effectively, management's challenge is to unleash their professional knowledge and creativity. They need to emphasize responsibility rather than controlling their efforts. But many Hong Kong companies are now run like the stereotypical Chinese family businesses. Such a hierarchically authoritarian management style could hamper the development towards a knowledge-based economy.⁵

Regarding Hong Kong's economic structure, for many years, it has been dominated by four pillar industries—namely, the financial services, trading and logistics, producer and professional services, and the tourism sector. Their combined GDP contribution was once at a peak of 60.3 per cent in 2007. But since then, it has dropped to less than 56.6 per cent in 2016. Currently, the four pillar industries together employ over 1.7 million people, or almost half (46.9 per cent in 2016) of the total labour force. As an initiative to diversify the local industry structure, the then chief executive identified 'Six Industries' as top priorities for further development: cultural and creative industries, medical services, education services, innovation and technology, testing and certification services, and environmental industries. In 2016, the six industries together contributed 8.9 per cent of the GDP and 12.7 per cent of total employment, which slightly rose from 8.0 per cent of GDP and 11.3 per cent of total employment in 2009.⁶ Nevertheless, the four pillar industries are still the key driving force of economic growth. We reckon that Hong Kong's economic prosperity is strongly connected to its manpower growth. But according to government statistics, Hong Kong is projected to undergo a continuing labour shortage if the local economy expanding at a rate of 4 per cent. On the other hand, Hong Kong may record a labour surplus if the local economy slows down owing to fluctuations of the outside economies.⁷

Meanwhile, Hong Kong is also facing other economic concerns. The costs of business operation, mainly office rental and staff expenses, in Hong Kong remain high, with the shortage in office supply, skilled, and front-line workers. Hong Kong has been continuously ranked as one of the most expensive cities in the world. This factor may drive business away from Hong Kong. Quite a number of Asia-Pacific regional offices have moved out of Hong Kong to Shanghai and Singapore, for a number of reasons. One is the relatively high costs of operation mainly incurred by office rental and staff costs.⁸ This remains a constant struggle for businesses operating in Hong Kong where they are consciously working to save costs while striving to maintain high standards.

The China factor

The economic (and political) development of Hong Kong is closely linked to China. As we pointed out in Chapter 2, Hong Kong's economy has benefited from its motherland

in terms of labour supply. And the China factor has attracted many multinationals to Hong Kong in order to tap the huge China market for their products. They also have a significant impact on local HRM.⁹ Now, China's economy has been growing steadily and has become the number-one consumer market and manufacturer globally. Mainland Chinese is the top customer source in Hong Kong's retail segment. And Chinese companies form the majority in the Hong Kong stock market. In recent years, Chinese firms set up their headquarters or companies in the territory to pursue their international expansion plans. In Chapter 2 we recognize that they expand quickly and serve the engine of growth in the economy. They offer attractive compensation packages to their employees. But their HR practices are yet to be strategic. The management style could be directive and hierarchical. Some Hong Kong employees may find difficulties working in the Chinese companies. Employee turnover rate is high.¹⁰ As a result of the above economic changes, we draw some future implications for HR professionals in Hong Kong:

- HR department should have a thorough review of their processes and practices in organizations so as to match with the shifted requirements of a knowledge organization.
- HR professionals should continue to train and retrain their employees for different skills in order to reflect changing business needs, competition, and increasing globalization.
- HR professionals have to drive the process of continuous review of functional efficiency and effectiveness with appropriate prioritization, standardization, or outsourcing to different countries.
- Increased specialization may reduce the exposure of HR professionals to a wider spectrum of HRM functions. And some HR activities can be outsourced. But HR professionals have to become strategic business partners. They have to learn to speak the right language with business, build trustworthy relationships with their business partners, and further develop their business acumen.
- HR should help their employees adapt to different business and management styles, including those of mainland Chinese origins.
- HR also plays a coordinating and facilitation role in the cross-border activities. They may help establish Chinese HR offices and oversee or coordinate their operations through centralized or decentralized HR policies and systems.

Challenge of sociocultural factors

Despite the transformation of Hong Kong to a service economy, the current government policies on education, youth, economic, immigration, and manpower planning are not aligned. There is a general lack of front-line and skilled workers in many industries. Indeed, skill mismatch is one of the major causes of talent shortage in Hong Kong. For instance, the tertiary education in Hong Kong is viewed as academic and theoretical. There is a large gap between the graduate competencies and those required by the employers. Many industries experience skill mismatch, like the construction and private banking industries. A lack of employability skills at school, insufficient workplace training, and a lack of graduates' long term job commitment are the major reasons leading to skill mismatch. The gap between academic education and business

competencies has resulted in significantly higher training costs for industries.¹¹ In effect, the shortage of skilled labour and experienced managers has discouraged business development plans. Many organizations have now become aware of the growing importance of maintaining good relationship with former employees of all ages. This is because they may rejoin the company or engage again in another form of business partnership after departing from the companies.

Thus, as the current recruitment sources become saturated, organizations are forced to be more open-minded and creative in adopting various platforms for recruiting. As one of the strategies adopted to unleash the potential workforce, Hong Kong's HR professionals in general welcome the government to extend the retirement age of newly hired civil servants from 60 to 65, as people live longer and medical costs may not be affordable for retirees. Some organizations also encounter challenges to building a succession pipeline for middle managers because of the manpower shortage. In accordance with a recent research on retirement age, nearly 80 per cent of HR professionals in Hong Kong believe that raising retirement age is an effective measure to alleviate pressure in Hong Kong's manpower shortage.¹²

But the above groups of people have posed challenges for HRM in Hong Kong. Organizations are now staffed by members of multiple generations of different work values, attitudes, and behaviours. We note from Chapter 2 that the young generations in Hong Kong are more individualistic and look for work-life balance. While employment loyalty is not their priority, fast-track success, achievement or higher salary often could be. For HR, employee engagement has therefore become more critical than retention of the young workforce. They need to increase flexible work arrangements, allow part-time work, and provide a more supportive environment. HR is also confronted with more complex reward and compensation systems towards multiple generations and workforce of different backgrounds.

In parallel, we note that Hong Kong organizations are faced with major shifts in the composition of the workforce. The population will be older and more ethnically diverse. Research studies, however, consistently show that diversity increases innovation and creativity.¹³ And changes in generational and ethnic diversity create opportunities for Hong Kong's HR to utilize the many talents and skills. Hong Kong's HR professionals thus need to expand their labour resource pool including the younger ethnic minorities for employment. Apart from providing on-the-job or language skills training, they should nurture emotional connections of these minorities with their Hong Kong employee counterparts and help develop a sense of loyalty in the workplace. Successful diversity management is critical for companies to compete in the global markets. Thanks to the recent government promotional efforts and introduction of anti-discrimination laws, Hong Kong has lived up to its reputation as Asia's world city. It has topped the list in Asia for workplace inclusion and diversity.¹⁴

The following implications are drawn for HR professionals in the near future:

- HR professionals have to think beyond the traditional recruitment and retention, succession planning, and learning and development strategies. There should be a stronger emphasis on positive engagement experience. The succession-planning cycle needs to be shortened and split into a few more stages in view of the high staff turnover.

- Employee engagement is more challenging with the multiple generations, ethnic backgrounds, and qualifications among the same workforce.
- HR should have more sophisticated talent acquisition strategies, such as the use of employment branding and enhancing candidate and employee experience. The HRM cycle should also start earlier during pre-graduation and extend to post-retirement.
- HR departments should develop a workplace diversity policy with measures to hire people based on ability rather than unfair discriminatory factors.

Challenge from political and legal factors

As discussed before, since its handover to China in 1997, Hong Kong's development in most areas has been tied to China's, for better and for worse. Though the general public of Hong Kong is glad to see China's improvement in economic development and political stability, the general societal atmosphere in Hong Kong has been somewhat mixed. While some industry sectors (such as tourism and retail industries) are welcoming mainland tourists as their key customers, some Hong Kong residents consider the mainland immigrants and visitors as intruders to the quality of their daily living. And many Hong Kong people have made demonstrations on the street to voice their dissatisfaction over various contentious issues. Many Hong Kong people identify themselves as Hong Kongers rather than Chinese citizens. Someone has argued that 'Hong Kong has returned in name, but not in substance'.¹⁵ Another prominent person warned of the threat to the city as China's top financial centre since the tensions over electoral reform.¹⁶ It is apparent that Hong Kong is facing a critical juncture in its political development.

In fact, Hong Kong's human resource arena is not immune to political issues. To address the challenges as a result of demographic changes, the chief executive proposed a number of measures to unleash the potential of the local labour force and recruit overseas talent and professionals. But in response, four police associations expressed their disagreement about extending the retirement ages of new recruits, though the suggestion does not apply to the existing civil servants.¹⁷ At the same time, there have been prolonged debates among professional associations and political parties on imported labour, statutory minimum wage and standard working hours, maternity/paternity leave, elimination of the offset mechanism of Mandatory Provident Fund against the long-service and severance payments, collective bargaining rights, definition of 'continuous contract of employment' (the so-called 418 working hours requirement), to name a few. Also, the legal status of the 'gig workers' could be uncertain.¹⁸ We also note that strikes and labour actions nowadays are increasingly backed by trade unions in a more organized fashion.

Therefore, Hong Kong's labour scene is not entirely free from problems and unrest. It is prone to social protests by different interest and pressure groups. While progressing towards advanced capitalism, Hong Kong has an imbalanced economic growth, skewing towards certain economic sectors like property development and finance. This problem is exacerbated by inflation and the high property and rental prices in the city. Wealth is now concentrated in the hands of a few privileged groups. Low pay, however, persists among a sizeable portion of the working class, and there are many people who live below the poverty line. Hong Kong's Gini coefficient, a

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