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Recruitment Challenges For International Expansion of Property Agencies

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Introduction

The objective of this report is analyzing the challenges in human resource management when property agencies expand their business internationally. Real Estate agency industry is always one of the most competitive sectors, in terms of real estate business and talent acquisition, in Hong Kong and Mainland China for last decades. A strong sales force with extensive knowledge and experience of local market is the key to success for a real estate agency to enter a new market and, not only build up but also grow and sustain such team is challenging for a local HR to transform into a multi-national HR.

This report will study a Hong Kong local property agency, Centaline Property agency Ltd and a Shenzhen-based online property listing platform, Qfang.com to illustrate the challenges, focusing on Staff Recruitment and Compensation and Benefits in Human Resources Management(HRM) during their expansion to a new market. It would also provides recommendations to overcome those challenges.

Background of Centaline Property Agency Hong Kong

Centaline Property Agency was founded in 1978 by Shih Wing-ching. It was a small scale company with only a few branches on Hong Kong Island. After decades of development, it is a well-established property agency brand with about 40,000 employees and 2,000 branches in HK and China. While It focused on residential property segment initially, Centaline expanded to different sectors including commercial and industrial, retail, car-parking spaces, bank-owned real estate properties and government quarters. Moreover, they also provided professional services such as surveying, valuation and property mergers and acquisitions. Centaline is one of the earliest agencies expanded the business to mainland China back to 1992. As the Framework Agreement on Deepening Guangdong-Hong Kong-Macao

Cooperation in the Development of the Greater Bay Area signed in 2017, Centaline adjusted the development strategic focus on Greater Bay Area with near 1,200 branches.

Background of Qfang.com

Qfang.com is an operator of online real estate leasing and agency platform founded in 2012. It has 12 subsidiaries and 19 branch offices all over the China with annual sales turnover over 220 billion RMB and hiring 22 millions brokers. Qfang provides online and offline (O2O) all ranges of solution for real estate internet platform and brokerage business for real estate. It had expanded operations in Hong Kong since June 2015 with planing to hire 7,000 agents and opening 200 branches before 2018. Qfang is well-known for its O2O model who aimed to reform the property brokerage sector of HK which is relatively slow to introduce digital technology to other industries.

Scope

This report would analyze the HRM challenges encountered by a local HK property agency and a mainland China O2O real estate agency platform when they expanded to another international market. The challenges will be identified and analyzed in different aspects.

A. Staff Recruitment

One of the major task of HR is sourcing and hiring candidates fit for the company's development strategies which should be determined by different departments or functions in terms of Job Description (JD) and Role & Responsibility (R&R). Especially for the sale division in property agency industry, attracting talents with enormous market intelligence, experience and consistent performance is exceptional challenging with keen competition from other market players. And HR is required to achieve the target in a short period of time so that

the agency could gain a significant market share swiftly at a new market. In this study, one is a well-established traditional agency for 40 years in HK while another is a new digital era O2O platform founded just around 5 years. They are adopting totally different approaches to conduct business in the same industry, the traditional way to conduct business with physical setting and real interactions between people and, the modern digital way to connect buyers and sellers online. Among the most common reasons a company fails to attract top talent, one is the company does not know what exact they are looking for. According to Forbes (2019), the job descriptions used by the HR are usually copied from a generic template online or another company in same industry as they are always required to meet the target urgently. The problem is there are no companies are totally identical in the world. The job description adopted by another company, which it may also copy from another competitor, may not fit the need of your company. For example, HR of Qfang.com uses a JD copied from Centaline HK as they are new to the HK market so does not possess adequate market intelligence of the property agency talent market. As result, they may attract many candidates with extensive experience and long track record of high sales performance. However, as the JD did not mention any requirements on IT knowledge or technique to conduct business via a digital platform which are not required by traditional agency, those candidates may fit for the JD but not for Qfang as a O2O platform.

Understanding the organizational cultural difference is another key element for a successful IHRM. Therefore, evaluate the cultural differences among the existing employees in the parent country and the potential recruits is essential (Dickmann, Brewster & Sparow, 2016). A local company transforms into multinational company must work out a structure to manage such cultural differences to sure the performance of employees is maintained. The differences,

if being managed properly, could inject a new mind set or practice which could raise the performance of the company as a whole.

The talent pool, reliable source for background check and legal environment in certain country are the major challenges for a company who is new to the market in recruiting. When Centaline Property penetrate the China market back to 1992, mainland China was still carrying out the second stage of market reforms. By 1993, foreign investment reached USD314 billion and foreign-invested, no matter by joint ventures, corporations or solely owned by foreign firms was up to 168,000. This brought lot of employment opportunities and a high demand for talents with higher education and competence. However, China is still undergoing different stages of education policy reform that the direction “to develop education is the first priority to the realization of the four modernization” was just confirmed in 1992. The competition for qualified talent was one of the biggest challenges faced by Centaline when they got into the China market. The low average education level and “Iron Rice Bowl” concept dominated the labour market. It is almost impossible to hire enough candidates that Centaline could implant the same business and management models from HK. It is also extremely difficult and not the mainstream practice to acquire any reference from the candidate’s previous employers and very time-consuming to validate the academic background. Incomplete background check would lead the company to hire someone is not actually qualified for the job. Hire unqualified employees cost the company extra time and money on training and re-hire the replacement. Another critical challenge in recruitment for IHRM is the legal environment. For foreign companies, especially in 1990’s China, the employment law in China is complicated and vary among other countries or even vary by locale. Foreign company needs to fulfil some strict regulations and rules on employment relationship. Fail to comply would incur a significant fine and other financial responsibilities

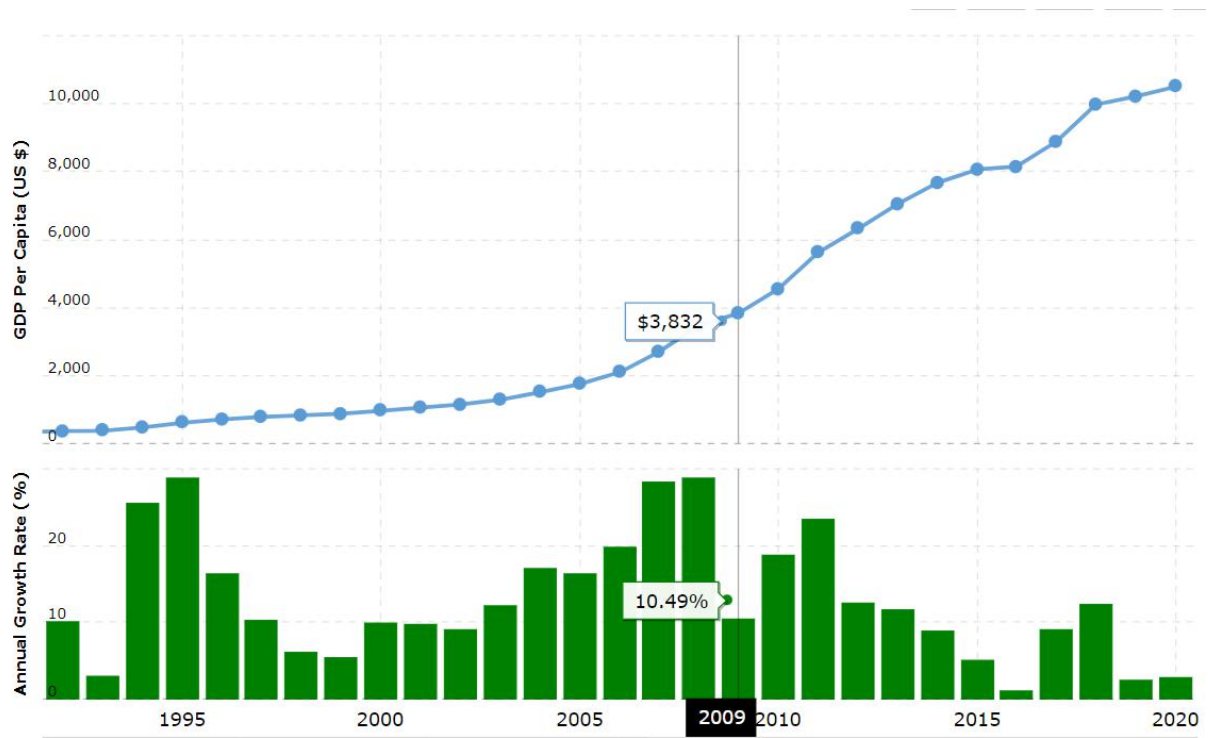
if any conflict in employment relationships. Moreover, the property agent licenses in China and HK were not able to interchange until the Memorandum signed between both sides in 2009. So when Centaline expanded to the mainland China market, they could only find the qualified candidates locally.

B. Compensation and Benefit

An competitive compensation and benefit package is always one of most, if not the most, direct and effective way to attract and retain talents for a company. Especially when you enter a new market and aim to capture a target market share from the existing market players, hunting those high and consistent performers, especially those mid to high executives from the competitors could weaken the opposite and strengthen yourself at the same time. When Qfang entered HK market in 2015, they adopted a no basic salary but high commission (30% to 50% during 2015 to 2018, 45% to 50% since 2018 while it is 10% to 30% in other agency in HK) according to wenweipo (2021) strategy to attract those talents seeking for high commission and flexibility. Mr. Vincent Chan, the former Managing Director of Qfang HK who also came from Midland Holdings Limited (one of the four largest property agencies in HK) said, “Talent is the most important asset in property agency industry but everyone has different expectation of working environment and job structure, Traditional agency offer basic salary but the commission per every deal is low, just 10% to 30% normally. But Qfang would offer a platform with support for those agents, the no basic high commission structure let those high performers enjoy higher total income and relatively high flexibility of work”. Qfang would even accept agents to join as part-time or self-employed which allow those from other industries could work as agent with flexible working hours. However, these two structures have their drawback too. No basic high commission could only attract those have already worked in the industry long enough and established a well network that they could

earn a higher total income at Qfang immediately. For those are new to the industry like fresh graduates from university or talent switching from other industries, they may not consider to join Qfang as they do not even have the basic income for living when they are trying to establish themselves in the industry. That means Qfang would always need to fight head to head for those established talent in the markets with other agencies instead of growing their own talents. Part time or self-employed mode would bring a doubt on the productivity and commitment level of those agents. It could be just making up the number of agents but management could not evaluate how many productive agents they actually have. That would be a big issue when they are negotiating some exclusive agency agreements with real estate developers as the number of agents is not reflecting the actual capacity to achieve the agreement terms.

In 1992, the China GDP per Capita is only USD366 while it is USD17,976 in HK (macrotrends, 2021). Even nowadays, there is still 440% difference (USD46,324 GDP per Capita in HK versus USD10,500 in China) between two regions. It was a big challenge for Centaline HR to determine the compensation and benefit package for those new hires of branches in China. The differences of living standard, market standard, cultures and even legal requirements are big that it is not possible for HR to apply same compensation and benefit structure in 2 different regions. Equal does not mean fair and best return ratio of investment. IHRM need to formulate a competitive structure considering all local factors that the company can attract talents, balance the differences among branches but enable the company stay competitive by maintain the cost of manpower within a health level.



China GDP Per Capita (Marcotrends, 2021)

Recommendations

a. The selection of recruitment channels is the key for HR to reach out the target candidates at the new market. First, the department head of sales division need to provide a specific, tailor-made job description so HR could know what exactly the talent they are searching for. Every company, even close competitors in same industry, is at unique position of business cycle that makes they require talents fit for the stage. When Qfang was boarding to HK and introducing a totally new model of property agency which requirement talents with high acceptability of digital working platform and environment. Those existing top performers in the market, who are usually reluctant to change, may not be the right target. Social medias and online searching engines could be ideal channels to connect Qfang with their target groups of candidates. The algorithms of those online platform would let Qfang to pop their recruitment advertising only to certain groups of users with particular attributes.

Providing an online application channel would also ensure the candidates with basic knowledge and skills to operate e-platform instead of traditional resume submission.

b. To hire an experienced HR manager with intensive local market intelligence, policy and regulations knowledge is one of the most essential preparation for a company's planning to expand to a new market. Especially for a market like China with substantial different labour regulations and laws with other countries, starting up a new branch without such experienced HR manager would bring a high compliance and legal risk. However, the top management must brief the HR manager well with the objective and mission of the company, the philosophy and corporate culture. The HR manager should observe at the parent company physically for long enough to internalize the corporate value which enable the hiring process would onboard candidates fit for the role and company culture.

c. Outsourcing recruitment process and payroll to professional HR agency could be an option when an experienced HR manager is not available to set up an IHRM for the new branch. The agency could offer advice on the recruitment practices, ensure the whole process would comply with the local regulations. The well established talent pool and network could provide a ready solution for the company before they could set up own recruitment ability. Foreign companies without legal entity are prohibited to hire employees directly in China. Therefore outsourcing the HR function could be even the only option when a company newly enter China market. Considering the startup scale would be small, the high administrative cost on all hiring, dismissal, compensation and income tax processes per staff would not be justified to handled by the new branch itself. That would also make outsourcing a more cost effective option.

d. To enter a new market by merge and acquisition(M&A) or joint venture could be an effective way for HK property agency to enter the China market. It would solve the legal entity issue and in general, the regulations are more strict for foreign direct invested company. Merging with a local agency or joint venture allow the company to enjoy more relax regulations. This would also provide an existing HR function and staffs in different departments for the company as start. Although those existing staffs may not all fulfill the requirements in terms of corporate culture and competence and it would take time to modify and the turnover rate would be high if existing employees are not able to meet the standard or adopt to the new culture and value. And, most of the time, there would be a premium on top of the valuation of the local company being acquired through M&A. It would mean a higher risk, cost and commitment for a company to enter a new market in such way and only ideal for those larger scale companies with a long term strategic expansion plan.

Conclusion

Talent acquisition is critical for property agency's international expansion. The recruitment planning would determine if the company would be able to establish at the new market. The management should evaluate the challenges including the talent pool at the target expansion market and determine the compensation and benefit structure that would allow them to attract enough target talents but still justify the return on investment in terms of the cost of human resources. Based on the case studies of Centaline and Qfang which expanded to international markets in 20years apart, they was encountering totally different environment and challenges demonstrated there is no a golden rule to be success in expansion. On September 2021, Qfang announced they will cease the operation of HK head office on October 2021. Unless the existing employees would continue the branch as franchise, all branches will be closed. When they entered the HK market in 2015, they targeted to open 200 branches and hire 7,000

agents in 2 years. A company was successfully at their home region but once they brought the fight to a new territory, there is no guarantee of success.

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