Human resources and talent management
Observations

1. The talent market has become increasingly competitive.
2. Local employees are increasingly choosing to work for state-owned enterprises over foreign multinationals.
3. Mid-to-senior-level managers in China are relatively young, compared with their Western counterparts, while turnover is high.

Recommendations

1. Family-focused benefits and perks can help retain workers with aging parents or children.
2. Begin succession planning early. Identify promising staff and devote sufficient resources to their development, while integrating them into global mobility programmes.
3. When selecting managers to send to second and third tier cities within China, consider staff with local roots in those regions.

4. Training programmes must be culturally sensitive for locals and expatriates, as well as returnees.
5. Make sure there’s a clear path for career development and advancement, as well as sufficient opportunities.

4. Market realities may require that expatriates and Chinese returnees fill talent gaps in the short term.
5. Chinese workers value career advancement opportunities over salary considerations.
Designated as one of China’s Special Economic Zones, an area with a free market-oriented economy, Shenzhen attracts a large amount of foreign investments, as well as economic migrants, hailing from every region in the country. Today, the average age of the population in Shenzhen is less than 30, mostly comprising migrant workers whose families do not live there.

A telecommunications equipment company based in Shenzhen maintains a fleet of Mercedes-Benzes in their stock of company cars as a form of transport for their clients, dignitaries and other VIPs, including parents of staff workers. When a parent of one of their staff members comes to Shenzhen to visit, administration sends a car from their Mercedes-Benz fleet to pick them up and take them to company headquarters. This gives the workers a sense of pride.

Greeting their parents in an expensive car is a sign of how well their company treats them. Their parents, in turn, feel assured that their children are in good hands with a family-focused firm. This policy has become one of the defining planks of the firm’s strategy in engaging its employees. The measure, sensitive to and reflective of the socioeconomic and geographical realities of China, has become very effective.

An innovative strategy like this can make a key difference in competing for talent. In China, where there’s a significant talent shortage, you’ll need to be creative to attract talented workers and to keep them.

Foreign firms dealing in China should realise that culturally sensitive human resource policies are fundamental to the success of their talent strategies. Besides considering prevailing labour conditions, wage increase policies and social security, investors need to look at the shortage of skilled workers, who tend to value social benefits and job security over money.

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**Figure 1. Chinese CEOs are finding it more difficult to hire workers**

In general, has it become more difficult or less difficult to hire workers in your industry, or is it unchanged?

![Graph showing the difficulty of hiring workers](source: PwC 15th Global CEO Survey 2012)
The difficulty in finding talent is not due to a shortage in numbers. In fact, there are more and more Chinese university graduates. Yet many Chinese graduates are finding it challenging to find work.

In one survey, 83 human resources professionals who hire local graduates commented on the suitability of Chinese candidates. According to HR professionals, less than 10% of Chinese candidates are suited to work in a foreign company in nine selected occupations: engineers, finance workers, accountants, quantitative analysts, generalists, life science researchers, doctors, nurses and support staff. One reason cited is that Chinese education focuses more on theory than practical experience, and graduates have little experience working on projects or teams. Another hurdle is poor English skills, considered a must for foreign multinationals.

Some foreign firms believe that candidates are unsuitable for the job market because they don’t have the critical thinking or soft skills to complement their technical capabilities. While it’s relatively easy to develop a supply of talent in certain fields such as information technology, cultivating commercial and management talent is decidedly more difficult. CEOs based in China and Hong Kong have identified high-potential middle managers as their greatest challenge for recruitment and retention, according to PwC’s 15th Annual Global CEO Survey. (See Figure 2.)

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**Figure 2. Finding middle managers poses the biggest challenge**

With which of the following groups do you currently face the greatest challenges with regard to recruitment and retention?

<table>
<thead>
<tr>
<th>Group</th>
<th>Global (1,258)</th>
<th>China &amp; Hong Kong (160)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overseas unit heads</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Senior management team</td>
<td>28</td>
<td>43</td>
</tr>
<tr>
<td>Younger workers</td>
<td>31</td>
<td>45</td>
</tr>
<tr>
<td>Skilled production workers</td>
<td>33</td>
<td>49</td>
</tr>
<tr>
<td>High-potential middle managers</td>
<td>53</td>
<td>59</td>
</tr>
</tbody>
</table>

Source: PwC 15th Global CEO Survey 2012
As the China market continues to gain speed, it is increasingly difficult for local talent to keep up. The Chinese education system needs to prepare new graduates to compete in such an aggressive and mature market. Uneven funding is the other problem – Beijing has a lopsided edge over Tier 2 cities, and even over Shanghai. In short, the supply of talent is not adequately matching demand at present.

Hiring has become more challenging for multinationals, who need to regain their previous sheen of attractiveness to new graduates. Locals are gravitating towards state-owned organisations and domestic companies that can provide either more security, benefits, or beat Western compensation packages. In 2007, 41% of highly skilled Chinese professionals preferred working for a Western multinational, compared with 9% who would rather have a job at a domestic firm, according to the Corporate Executive Board. Preference for multinational employments rose to 44% by the second quarter of 2010, but preference for Chinese employers also jumped to 28%.

Ambitious growth plans have resulted in talent constraints in China, and every company has limited resources. It’s therefore important for companies to link business strategy to talent development needs. In this way, companies are able to focus its resources on developing the competencies that will enable effective execution of its key strategic objectives.

Yongling Sun, PwC China People & Change Partner

Companies who can’t find the talent they need within China often import it from other places. For many multinationals, expatriates offer the key skill sets that they need to fill gaps in their business and management strategies. The number of expatriates coming to China from places such as Hong Kong, Taiwan and Singapore is increasing every year. Global exchange programmes and secondments are also common ways for multinationals to bring in talent from their networks.

Although expat wages can be much higher than local packages, the investment can be worthwhile. Note that the traditional in-and-out approach of sending mid-level expatriates to China on short-period rotations may not help in building long-term sustainability though. Leading companies send their best people, and keep them there for the long term.

With cultural and language differences, foreigners tend to have distinct disadvantages to their local counterparts, who have an innate understanding of the local business practices and work culture. This also means that the Chinese employees in the firm will have to spend an inordinate amount of time translating the language and explaining the market situation to their foreign colleagues.

Incorporating local talent should be the focal point of your corporate succession plans. At Newegg, American employees focus on imparting skills and knowledge to the local Chinese, who in turn have the opportunity to work at the US headquarters on specific projects. Newegg’s Executive Vice-President S.C. Lee, feels strongly about developing their local managers: “We employ several Americans who speak Chinese, and we send them to China both as expats and for short-term projects,” he says. “But we are very clear that we are sending expertise to China because we believe that general management responsibility resides locally.”

Another growing segment of workers are Chinese returnees and sojourners who have studied and worked abroad but have later returned to their own country. Known as “sea turtles,” Chinese returnees offer a unique skills set and an understanding of both Chinese and Western working cultures. Multinationals looking for this combination of skills find value in “sea turtles” and employ them to fill managerial posts. Returnees already speak and read Chinese and are also more likely to accept a local salary package.

Although they might not have to adjust to cultural differences, they are faced with their own readjustment concerns. “Reverse culture shock” can be common, as returnees try to familiarise themselves with the Chinese workplace, after spending their formative years abroad. Companies that understand the needs of their staff offer specialised training or orientation programmes for returnees to help them reintegrate into the Chinese work setting.

What does the talent gap mean for you?

The issue of talent in China can be a significant stumbling block in the growth of your business in China. As we’ll discuss in the Finance and treasury chapter, without good treasury managers, you may encounter cash flow challenges. Without managers to handle joint ventures and M&As, your interests may not be adequately represented. Without administrative and technical proficiency in implementing systems and optimising processes, you may face gaps in integration.

In reality, Chinese CEOs have found that talent constraints have restricted their growth far more than their counterparts abroad (see Figure 3).
Multinationals need to design training programmes appropriate for a Chinese work setting. Strategies that may work abroad might not be appropriate in a Chinese cultural environment. Chinese managers, for example, tend to be more comfortable in a hierarchical company with clearly delineated chains of command. Managers may be less comfortable dealing with subordinates who challenge authority or boldly express opinions.

To mitigate this problem, an increasingly popular option is to source external training support from third party training consulting firms that provide coaching programmes for executives. Such programmes have been well received by young and relatively inexperienced managers. There is a catch though: these consultants charge hefty fees, and many of them are of questionable quality. Make sure proper due diligence is conducted in choosing the right training firm.

**Figure 3. China and Hong Kong CEOs are more adversely impacted by talent constraints**

Have talent constraints impacted your company’s growth and profitability over the past 12 months in the following ways?

<table>
<thead>
<tr>
<th>Impact</th>
<th>Global (1,258)</th>
<th>China &amp; Hong Kong (160)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our talent-related expenses rose/will rise more than expected</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Our production and/or service delivery quality standards fell/will fall</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We couldn’t/won’t achieve growth forecasts in the country where we are based</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We couldn’t/won’t achieve growth forecasts in overseas markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We weren’t/won’t be able to innovate effectively</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We were/will be unable to pursue a market opportunity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We cancelled or delayed/will cancel or delay a key strategic initiative</td>
<td></td>
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</tr>
</tbody>
</table>

Source: PwC 15th Global CEO Survey 2012
Once you have the talents you need, the next and arguably most important challenge is keeping them. Some multinationals, especially those with strong international brands well recognised in China, have a clear edge over local companies when attracting new graduates. They often can’t retain them though – many locals leave for careers with state-owned enterprises and local firms offering better compensation packages. As a result, larger foreign firms end up as little more than “training camps” for talented young Chinese, who work for a couple of years, pick up valuable experience and training, and move on.

Multinationals competing to retain staff should think of innovative strategies. Offering a higher salary helps, but it isn’t the only, or even the best way, to motivate and retain talent. In a climate where the talent supply does not match market demands, those who are truly in demand can receive offers that can double their current salaries. Hence, multinationals trying to compete merely on salary will lose out to those who can simply outbid them.

I’m always asked why young employees are no longer loyal. I have the urge to respond by saying: ‘They’re still loyal, just not to any particular job or organisation. They’re loyal to their own career goals and objectives.’ If employers can align company objectives with individual employee goals, the young employees of this generation will work as hard, if not harder, than that of previous generations.

Johnny Yu, PwC China People & Change Partner
Multinationals need to be aware that succession planning in China has to start early: recognising promising local staff and devote resources to developing their potential before others can get to them. Keep in mind that domestic companies in China often promote faster than most companies outside the country. Even senior managers lack the experience compared with their peers in other parts of the world. The average age of a Chinese CEO is just over 47 years, almost ten years younger than CEOs in Europe and the US.4 This also means that newly promoted managers lack the guidance of experienced senior management, so they’re often faced with a lot of pressure. Many of them end up leaving, as higher salaries and job titles are easy to find elsewhere. But this becomes a cycle, as the problem is not solved. A 2010 survey of over 2,200 mid-to senior-level managers in mainland China found that two-thirds had received at least one competing job offer in the last 18 months, and that nearly half (46%) had moved to a new role with a more than 30% rise in compensation.5 Wages are going up overall, and salaries in China are predicted to rise to US$16,300 by 2021, from US$3,828 in 2011.6 Career paths in China also tend to be linear, which means that people who are good at what they do are promoted quickly. But this means technically proficient workers, who may be recognised for their practical skills, may be thrust into managerial roles, even when they are not ready or able to manage people. This is also an inefficient use of talent within the company. China managers can consider introducing multiple career paths to corporate HR strategies.

“As recently as 10 years ago, we were intent on recruiting the best talent from around the entire country. But we experienced some setbacks. We hired experienced, talented people and gave them large salaries. But did we retain them? No. Even if some stayed, they never reached their full potential. We spent a lot of time trying to figure out what went wrong… And, I think, becoming a leading national brewer is not primarily measured by the number of your plants, or your market penetration, or the amount of beer you sell. Rather, the standard by which a national company should be measured is whether or not its corporate culture can welcome and accommodate talent from anywhere in the country and all the diversity of experience and background that implies.”

Ming Bo Sun,
President and Executive Director, Tsingtao Brewery Co. Ltd.

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5. PwC. “Millenials at work: Shaping the workplace.” 2011
In many surveys, Chinese employees often list career development opportunities as the single most important factor in choosing a career (after job security, compensation and benefits). Some leading companies have developed employment value propositions to help employees understand what it means for the new recruit to work for their company. These propositions list the expectations of the employer, and what the employee should expect from working with the hiring company. This includes monetary and non-monetary rewards, details of work environment and benefits.

Such talent retention principles might be similar to that of other markets, but should be tailored for China and its local talent environment. Dave Whan, John Deer’s Director of Talent Management Strategy and Policy design, says, “In developing the employee value proposition in China – whether it’s compensation, recognition, or the intrinsic value of the work itself – where we place emphasis can vary region by region. To become an employer of choice in every region, our approach will be similar, but we’ll have to customise it based on feedback we receive from both current employees and the markets.”

Appointing a human resources manager who has an understanding of local culture and conditions can go a long way in offering the right combination of non-monetary rewards to encourage higher retention.

Such managers should listen carefully to employee feedback – it’s the small things that matter. Many employees want more personal engagement from their company. For example, one China-based employee at a multinational investment bank complained that their annual bonus was delivered as mail to their internal mailbox: “We get this letter, informing us about our raise for the coming year,” said the respondent. “But there’s no human or personal touch to it. It would have been much better if the manager could call us to their office and tell us what our raise would be for that year.”

A new strategy is to shift the focus of compensation and benefits from the individual to the entire family. In China, many employees lack proper social safety nets and families have to take care of more than one generation of dependents. Showing cultural sensitivity to the socioeconomic situation of employees in China is crucial to employee engagement.

Let’s go back to the example of the Shenzhen firm at the start of this chapter. Putting a focus on the family helps to build a community around your employers and their families, while encouraging a more nurturing work environment. Another company in the chemical industry offers regular community classes such as yoga and cooking for employees’ kids and parents. This is an intangible benefit for family-oriented employees and this also works as an effective retention strategy. By building a deep sense of community with employees’ family members and building ties that go outside the workplace, employees have much more incentive to stay.

Other companies follow similar family-friendly policies that are of negligible cost to the company, but are of great symbolic and emotional value to staff. In China, all employees are required to undergo health checks before entering employment. Some companies have chosen to offer the same health checks to their children, spouse and parents. During the Mid-Autumn Festival, mooncakes and thank-you letters may be sent to parents of staff, as a show of appreciation for the hard work that their children have contributed.

In major cities, one benefit that can raise your competitiveness is a private health package (comparable with that of expats’) for senior management. Compared with local hospitals, the added privacy, better sanitation and higher service standards of private international hospitals can make a distinct difference to local employees.
Is your talent strategy fit for growth?

Only half of recruitment activity in the Asia Pacific is growth driven. The other half is to replace leavers in existing roles. The costs of new-hire leavers are significant, and our analysis shows they can be up to 100% of annual salary for managerial and professional staff and up to 150% for senior management.7

Cost-focused measurements around talent strategy need to give way to measurements around returns on investment, as leaders in China look for new approaches to solve the talent problem. For example, we’ve found that returns on investment for human capital in the Asia Pacific is higher than that of the West, due to a combination of impressive top-line growth and lower employee costs.

But increased competition and high levels of turnover in China have organisations wrestling with rising costs and declining productivity. PwC has therefore highlighted five priorities for businesses to help you break out of this cycle.

Attracting talent

1. Upgrade hiring and on-boarding processes. Ensure new hires become productive members quickly, to safeguard your investment in recruiting. Best practice organisations assign a mentor/buddy to new hires and engage them beyond their first day of work.

Retaining and rewarding employees

2. Pay attention to internal talent. Building talent within the company improves engagement and retention. Create internal job markets and lateral career paths, and focus efforts and investment on top talent.

3. Look beyond financial incentives. One study found that, for tasks that required even basic cognitive skills, higher bonuses actually led to poor performance.8

People, processes and systems

4. Take a systematic and analytical approach to talent management. Improve your understanding of how talent affects your bottom line, and adopt a systematic approach to measuring the effectiveness of your talent strategies.

5. Make targeted investments in strategic HR processes: Up-skill your HR functions to the role of strategic business partner; a purely functional and reactive HR cannot drive growth.

Another issue that might pose an even larger challenge is the supply of experienced talents in second and third tier cities and the interior regions of China, where many companies may wish to expand their operations. In such cities, the home-grown talent pool does not match industry needs for a market growing at such a rapid pace.

Relocation programmes will require a robust raft of incentives and benefits to attract managers to locations that are far from family and where standards of living might be comparatively low. Such incentives could be in the form of a hefty salary increase or promotion.

However, those incentives may not be enough, given family obligations and 
*hukou* (household registration) restrictions. It’s estimated that only a third of all Chinese graduates move to other provinces for work.

What firms have found effective is the provision of relocation packages to managers who are from the target cities or regions. These employees would have increased motivation to return to their hometown, given the package is attractive enough, as it allows them the opportunity to be closer to family.

Finally, reverse transfers, or moving top performers from China to developed markets for a short period of time to become “credentialised” have become a very popular retention and development measure. However, it’s important too that these transfers are done with cultural sensitivity. Some Chinese employees might develop homesickness or a fear that they are missing out on developing the right relationships in China. A programme to send local staff to work in the headquarters and other regions must be systematic, with proper support structures in place to ensure there is room to grow within the company.

**Talent mobility**

**Growing talent locally**

Although many multinationals still pay premiums to bring expatriate talent to China, such a move can cause local staff to lose confidence in their abilities and prospects for promotion. In China, 44% of CEOs said they would prefer that their regional management teams are native to the markets they are managing. And because Chinese workers tend to value opportunities to advance in their current position over higher salaries, firms should make sure that there’s a clear and defined path of career advancement, a challenging environment, as well as opportunities to develop their skills and abilities.

“We like to cultivate our own human resources, with the belief that talent can only be discovered when given the opportunity,” says Cheung Yan, Chairlady of Nine Dragons Paper (Holding) Ltd. “If not, you cannot retain good people. Such a human resources management philosophy must be supported by an ever-innovating management system....As [middle managers] become decision makers in their own operations, they make their best efforts to learn and improve continually, think proactively and innovatively, and maintain a high level of energy in their work.”

Developing talent in China and addressing the talent shortage must be factored in a company’s long-term growth plans. In the long run, ensuring that local hires take over management from expatriates must be part of a long-term strategy. This is because winning the local talent war in China remains the key to success in this market.