

Attract / Retain

The China Talent Paradox

How there can be a talent shortage in a country of
1.3 billion people...and what to do about it

A Manpower China White Paper



CONTENTS

Executive summary	1
Introduction	3
Chinese dragon fires up	
Shortage amid plenty	
The cost for business	
Understanding Chinese employees	6
Finding a common language	
Explicit 'push and pull' factors for employees	
Key factors affecting employee attraction and retention	
Talent management insights for China	9
Create a learning organization	
Appoint competent leaders	
Establish an appropriate organization and culture for China	
Provide competitive compensation and benefits packages	
Select the right people	
Conclusion	15
References	16

Executive Summary

Despite a population of 1.3 billion, China is hampered by a critical talent shortage. For China to fuel its current levels of growth, it needs to develop internally the same level of talent in seven years that exists now in the UK and France.

“Until you get to China you can’t imagine what it’s like working in such a fast-moving environment – it’s chaos. The expectations are huge and there’s everything to play for, but if you can’t get the right people in place you’re left at the starting line.”

Chief Legal Counsel of U.S. corporation based in China, specializing in heavy industrial products

Talent shortages are particularly acute in managerial and executive roles, and the situation is set to get worse before it gets better. Older managers, who were already working age when the Cultural Revolution took place in China, lack the necessary education and training to serve as senior executives. The majority of Chinese employees have low levels of English language fluency and, coming from state-owned enterprises with traditional values, have not had insights into Western systems and culture. In addition, China’s Confucian values and relations-based way of doing business can be at odds with Western management practices, all of which create problems for managing international business relations.

This talent shortage at middle and senior manager level is proving a major problem for domestic and foreign-invested companies in China. Not finding and keeping the right people is putting a halt on growing their business.

Fortunately, there are actions that companies can take to help them attract and retain the talent they need to deliver business success, be it in China or any other developing country. Organizations should be aware of the important ‘push and pull’ factors which affect employee attraction and retention, and focus efforts on these areas. Organizations in China need to find new ways of understanding employees’ needs and expectations, taking into account Chinese values and culture, so that they can develop successful employee attraction and retention strategies.

This White Paper includes Manpower China’s proprietary Workforce Optimization Model, developed as a result of the local knowledge gained over 12 years operating in China. It provides an insight into the five linked areas that organizations should invest in to attract and retain talent. The model as a whole is greater than the sum of its parts and provides a holistic solution. The White Paper also provides an overview of Chinese employees’ needs and requirements, supported by recent in-depth Chinese research on employee retention and engagement. Together, they provide a guide to ensure that organizations have the people resources in place to take full advantage of China’s buoyant economy.

Making your business work

CULTURAL AND MARKET DRIVERS

Chinese traditional values and culture

- Harmonious relationships
- ‘Guanxi’ (personal relationships / connections)
- ‘Mianzi’ (face)
- Typically non risk-taking
- Natural respect and deference to those in positions of authority and elders

Traditional Chinese working practices

- Unfamiliar with Western working practices e.g. matrix reporting structures
- Higher expectations of leaders to keep promises
- Anxious to learn. Learning traditionally done through repetition

Chinese labor market

- Many Chinese graduates entering job market
- Growing pool of mid-level managers but demand still outstripping supply
- Severe shortages rife particularly among senior managers, driving high salaries

WORKFORCE OPTIMIZATION MODEL

ORGANIZATIONAL IMPROVEMENT

Attracted and assessed

- Candidates aligned to organizational culture, values, business goals and direction
- Competent leaders appointed
- Empowered employees who show initiative and take risks

Developed

- Powerful leadership communication and strong role models
- Succession plans in place
- Culture of rapid learning
- Timely resolution of business issues
- Employee career development and advancement opportunities

Engaged and aligned

- Employees have confidence in leadership
- Personal goals aligned with business strategy
- Employees have ongoing feedback
- Competitive compensation and benefits for employees

BUSINESS RETURN

Increased brand value

- Client prospects recognize brand's role and ability to adapt to local market conditions
- More attractive to potential employees

Higher productivity

- Intellectual capital is retained
- Attrition reduced
- Improved customer service, satisfaction and loyalty
- People in place to facilitate growth opportunities
- More engaged employees
- Increased revenue

Introduction

Chinese dragon fires up

China is a country characterized by rapid change and economic growth. Earnings and spending in cities are escalating along with the aspirations of white collar workers. The country's laws and institutions are being reshaped as the Chinese government seeks sustainable, long-term economic prosperity: labor contract laws are being re-written, fiscal rules are changing and state-owned enterprises are being privatized.

In 2004, China contributed one-third of global economic growth and the Chinese economy is expected to grow by 9.4 percent in 2006 and 9.5 percent in 2007.¹ By the year 2050, China will have outstripped the current G7 by around 75 percent when using purchasing power parity (PPP) exchange rates.²

This growth has been fuelled in part by the huge growth in foreign direct investment (FDI). Ninety percent of the world's top 500 multinationals have invested in China, according to People's Daily, China's state-run newspaper, and more than 30 of these now have regional headquarters in China.

But foreign investment is still dwarfed by exports. In 2005, the volume of Chinese exports ranked third in the world, behind only the United States and Germany.

China's growth as the 'world's factory' has been powered by a seemingly endless supply of low-cost labor. But this is changing: by 2020, China will need 1.1 billion workers to help it operate effectively.

Major Foreign Investors in China: 1979-2004
(\$ billions and % of total)

Country & Territory	Cumulative Utilized FDI: 1979-2004		Utilized FDI in 2004	
	Amount (\$billions)	% of Total	Amount (\$billions)	% of Total
Total	563.8	100	64	100
Hong Kong	241.6	42.9	19	29.7
United States	48	8.5	3.9	6.1
Japan	46.8	8.3	5.5	8.6
Taiwan	39.6	7	3.1	4.8
British Virgin Islands	36.9	6.5	6.7	10.5
South Korea	25.9	4.6	6.2	9.7

Source: Chinese government Statistics/Congressional Research Service 'China's Economic Conditions', 12th January 2006. Top six investors according to cumulative FDI from 1979 to 2004.

Shortage amid plenty

Keeping pace with the demand for skilled labor is already proving difficult.

At first glance, the statistics seem to portray a positive picture. The number of university graduates will increase by 22 percent in 2006 to 4.1 million;³ the national literacy rate in China is 91 percent among people aged 15 and over;⁴ and workers now entering the labor force will have had a minimum of nine years' compulsory schooling.

The number of Chinese graduates from all fields of study entering the job market is skyrocketing, and fierce competition for jobs has led to flat wage levels at entry-level. Although the prospects of graduates will differ widely based on the university they attended, their English fluency levels, and the quality of their work experience, the general trend is that this group has been growing, keeping wages flat and providing employers with a large pool of talent.

Yet despite a huge population and pool of potential

employees, Chinese and foreign-invested companies cannot find enough people with the right kinds of skills to fill their vacancies.

Shortages are most severe among senior managers; two in every five companies are finding it difficult to fill senior management positions.⁵ In the first instance, talent was sourced by many multinational employers from overseas, but companies are now trying to introduce local Chinese managers or encourage Chinese people from abroad to come back.

A wider take-up of higher education is creating a larger pool of mid-level managers, but demand is still outstripping supply. The need for talent at this level is growing as foreign companies enter and expand their operations in China. The most sought-after people are Chinese managers who can interact well with local workers. Six to eight years from now, the competition for mid-level managers may ease when current students will have gained work experience.

The Manpower Talent Shortage Survey⁶ findings highlight the marked need for managers and executives in China, much more so than in other countries.

Manpower's January 2006 Talent Shortage Survey

The survey was conducted among nearly 2,700 employers in China and globally of 33,000 employers across 23 countries and territories. The survey asked employers which positions they were having difficulty filling.

The Manpower Talent Shortage Survey findings (China/Global)

The top ten talent shortages in China are:

1. Production operators
2. Sales representatives
3. Technicians
4. Managers / Executives
5. Engineers
6. Machinists
7. Researchers (R&D)
8. Designers
9. Restaurant and hotel staff
10. Receptionists

The top ten talent shortages worldwide are:

1. Sales representatives
2. Engineers
3. Technicians
4. Production operators
5. Skilled manual trades
6. IT staff
7. Administrative assistants
8. Drivers
9. Accountants
10. Managers / Executives

Blue-collar workers are also in short supply, particularly on China's coast, which is pushing up prices for businesses and hampering production. Some organizations are relocating to inland regions where the shortages are less severe, or even to other countries in

South East Asia. According to *People's Daily*, China now has 88 vacancies for every experienced skilled blue-collar worker and 16 vacancies for every factory technician.

What's being done to plug the skills gap? The Chinese government and international organizations are increasingly joining forces to help employers overcome their recruitment problems. Manpower China, for example, has recently joined forces with the Chinese labor authorities to help governmental agencies,

state-owned enterprises and foreign companies to transform the effectiveness and efficiency of their employment systems and services.

Until the effect of these changes is felt, competition for talent will only get fiercer.

Manpower Inc. Public-Private Partnership with Chinese Labor Authorities

Manpower Inc. opened its first international partnership office in Shanghai in May 2005 and entered into a cooperative agreement with Shanghai's Ministry of Labor and Social Security to support China's rapidly evolving labor market. The partnership office has implemented various initiatives to assist governmental agencies, state-owned enterprises and foreign companies present in Shanghai, transforming the effectiveness and efficiency of employment systems and services.

Initial training and development projects designed and driven by Manpower include:

- The installation of Internet-based assessment systems. This includes the introduction of web-based assessment services for entrepreneurs seeking government support to start new businesses across the Municipality;
- The quantification of future vocational skills required in the 19 districts of Shanghai by comprehensively surveying nearly 3,000 companies collectively employing over 650,000 employees. Manpower is also sourcing and introducing global programs for vocational training in Shanghai;
- Working with the Shanghai Employers' Advisory Forum to facilitate better dialogue between employer groups; and
- Cooperating on the development of global exchange and delegation programs.

Manpower has engaged its subsidiaries, Right Management and Career Harmony, in the design and implementation of these projects. In addition, Caden Corporation, Manpower's global governmental advisory partner, has been involved throughout the development of this key initiative.

The cost for business

A shortage of skilled employees can make companies' growth assumptions in China look very challenging.

Rising labor costs are pinching the margins of overseas manufacturers on the mainland. Among members of the American Chamber of Commerce in China, 41 percent of companies and 48 percent of manufacturers report being negatively affected by increased salary and wage expenses.⁷

The attrition rate of existing employees is increasing as demand outstrips supply. At management-level, attrition rates are more than 25 percent greater than the global average.⁸

The talent shortage and high turnover of employees strikes a quadruple blow for companies. Organizations are:

- Not able to react quickly to growth opportunities because they can't source the talent they need to expand and take on new business
- Facing higher attrition rates as candidates defect to other companies
- Having to replace people who possess significant intellectual capital about the organization and its

products and services

- Distracted from their core business while they have to focus on training up new employees to replace the knowledge or intellectual capital lost with their predecessor.

Actual cost of replacement metrics show an average-performing staff member costs about 90 percent of their salary to replace, while high performers can cost anywhere from 300 percent to 2,000 percent.⁹ Clearly, retention is much more cost, time and business effective than recruitment.

So, it is not surprising that talent shortages are having an impact on salaries, but is pay and benefits the whole story? What other drivers are affecting employee attraction and retention?

"If you can't keep hold of your employees you can quickly get into a downward spiral of trying to recruit and train new people to replace the ones that have left, while trying to expand your business. You're running just to keep up."

Chief Operating Officer, a global pharmaceutical company in China

Understanding Chinese employees

Finding a common language

Working in China requires new HR techniques and practices, which take into account Chinese values and culture. HR professionals should collect and review employee data regularly in a culturally sensitive way to inform decision making (a theme which will be explored later in this document), which will help them develop successful employee attraction and retention strategies.

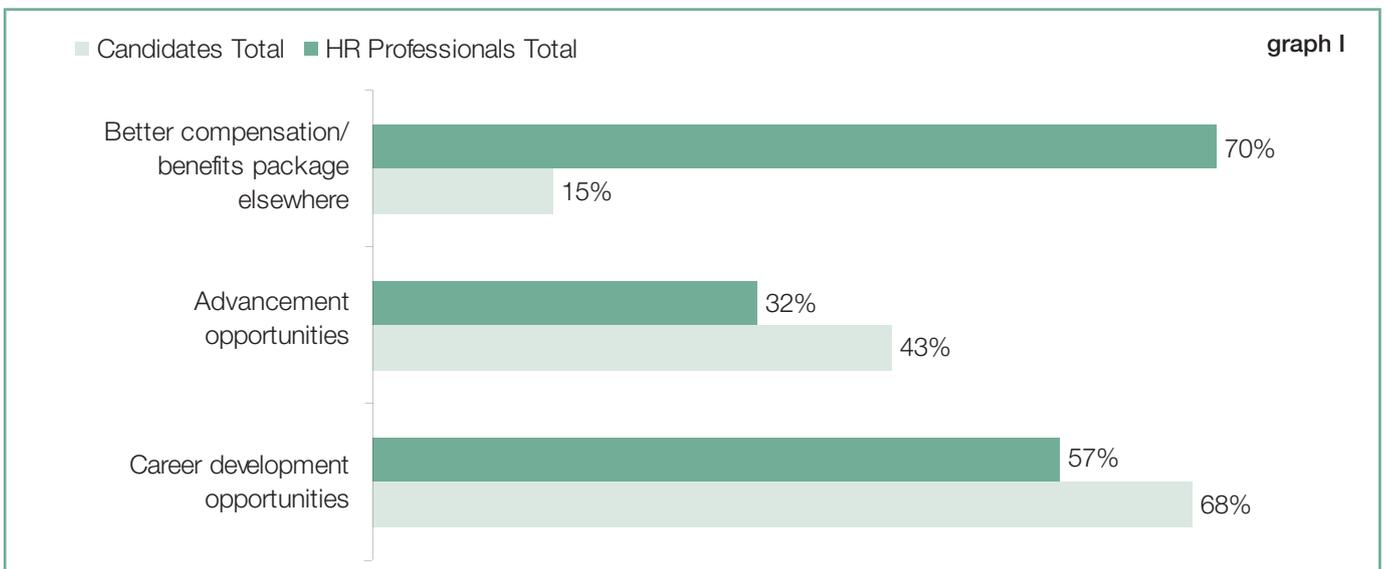
The importance of understanding candidates' views are confirmed by the results of a recent Employee Engagement and Retention Survey, commissioned by Manpower China and conducted by Right Management.

The survey sought the views of candidates that had left organizations and/or were actively seeking employment, and HR professionals' views on the same questions.

The survey showed that while HR professionals were able to predict the reasons why employees left organizations, they placed different emphasis to the employees themselves on the importance of each of these reasons. HR professionals also cited reasons which candidates did not say featured in their reasons for leaving. The main reason candidates gave for leaving is that they want career development opportunities, followed by advancement opportunities and then a better pay and benefits package (see graph I).

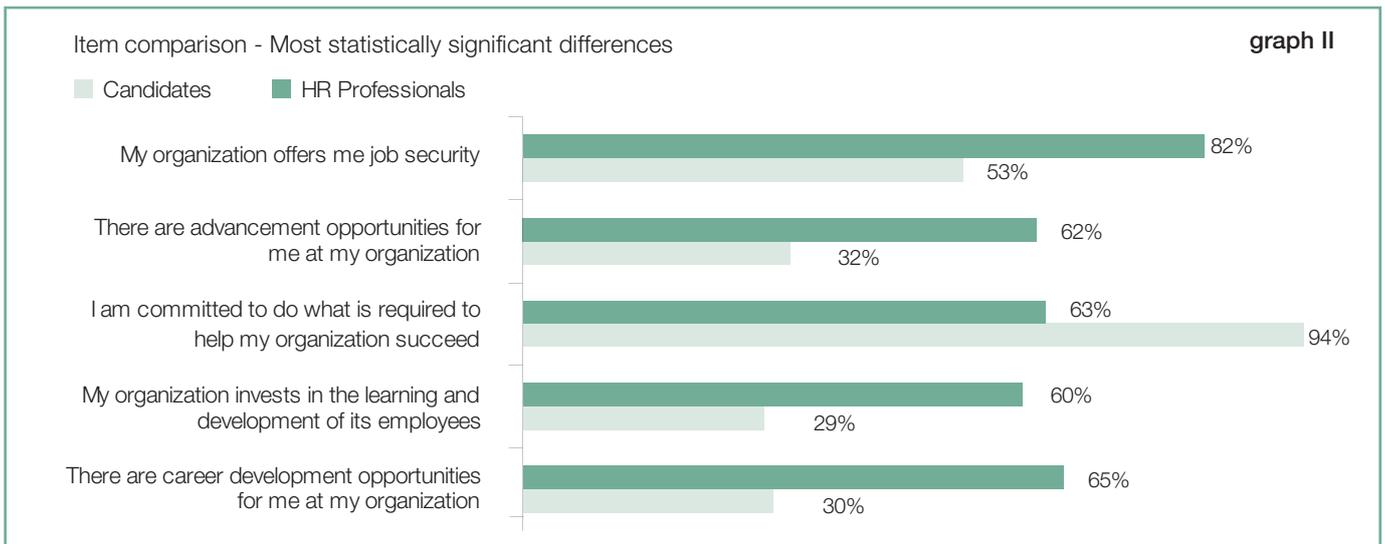
Employee Engagement and Retention Survey

Manpower China partnered with Right Management to conduct the survey in May 2006. The objective of the survey was to identify and understand factors important to employee engagement, attraction and retention. The candidate survey was conducted over a week using a sample of 312 people accessed via Manpower offices in Shanghai, Beijing and Guangzhou. The majority of the candidates (53 percent) were middle or senior managers. The phone-poll HR professionals survey was conducted in one week on a sample of 141 companies on the Manpower client database based primarily in Shanghai, Beijing and Guangzhou. Further demographic breakdowns of the candidate and HR professional sample are available. The survey can be downloaded from www.manpower.com.cn.



The relationship was explored between 30 work culture factors and employee retention and engagement in the survey. This revealed significant disparities between HR professionals' perceptions and the views expressed by candidates; the groups had different ratings for 23 out of 30 work culture statements. The greatest differences in

perceptions held by the two groups were associated with career development, learning and development, advancement opportunities, employment security and employee commitment. (see graph II)



Explicit 'push and pull' factors for employees

Organizations operating in China should be aware that there are a number of important 'push and pull' factors which affect employee attraction and retention and should be incorporated into HR strategies. Investment in these areas will retain employees as well as attract them.

In a country where demand for talent is outstripping supply, it is not surprising that senior and mid level manager salaries are escalating. But Chinese employees do not just want a large wage packet. They are also looking for opportunities to advance and develop their career, better compensation and benefits, and quality leadership and management.

When candidates were asked what they were looking for in a future employer, they said they wanted:

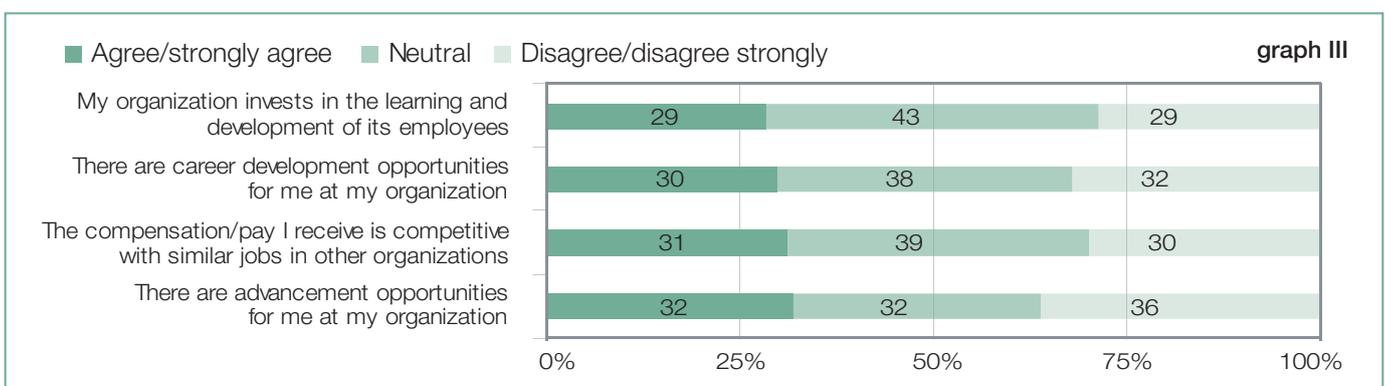
- Career development opportunities (64 percent)
- Better compensation/benefits package (48 percent)

- Advancement opportunities (40 percent)
- Quality leadership and management (37 percent).

One in five candidates said they would look for a match between their personal and organizational values and a match between the job, skills and their work style.

Unsurprisingly, the top three factors which would attract employees to future organizations correspond with the top three reasons why employees seek to leave their current organizations. Furthermore, candidates planning on leaving their organizations were asked to agree or disagree with cultural statements about their employer. Low numbers of candidates agreed with the following statements:

- My organization invests in the learning and development of its employees
- There are career development opportunities for me at my organization
- The compensation/pay I receive is competitive with similar jobs in other organizations
- There are advancement opportunities for me at my organization. (See graph III)



Nearly seventy five percent of candidates surveyed said they would prefer to work for a wholly foreign-owned company, which not only offers employees instant social kudos, but better wages, training and working

conditions. A joint venture company was the next best option but it received less than 10 percent of responses. Clearly this will make it even harder for China's domestic companies to attract talent.

Key factors affecting employee attraction and retention

To increase employee attraction and retention, HR professionals in China should focus on the key drivers of employee engagement. Employee engagement is a critical measure of the connection between the employee and the organization. It is defined as the employee's emotional and intellectual involvement in contributing to the organization and its success.

Engaged employees share a common set of attitudes and beliefs which, taken together, reflect a vital aspect of organizational health. Engaged employees work harder and are retained, satisfy customers, attract sales and employees, and contribute to long-term performance and growth. Therefore, achieving full employee engagement should be high on the list of business priorities for organizations.

In China, employees are more engaged than employees elsewhere and indicate high commitment levels. Cultural factors may explain this; traditionally, the Chinese have been loyal to their employers and emotionally still feel a sense of commitment, even though the days of a job for life, known as the 'iron rice bowl' in China, are long gone.

This provides an important insight for employers and HR professionals in China. They should be aware that asking employees about their commitment levels in an employee survey will probably not give them an accurate indication of how likely their employees are to leave the organization.

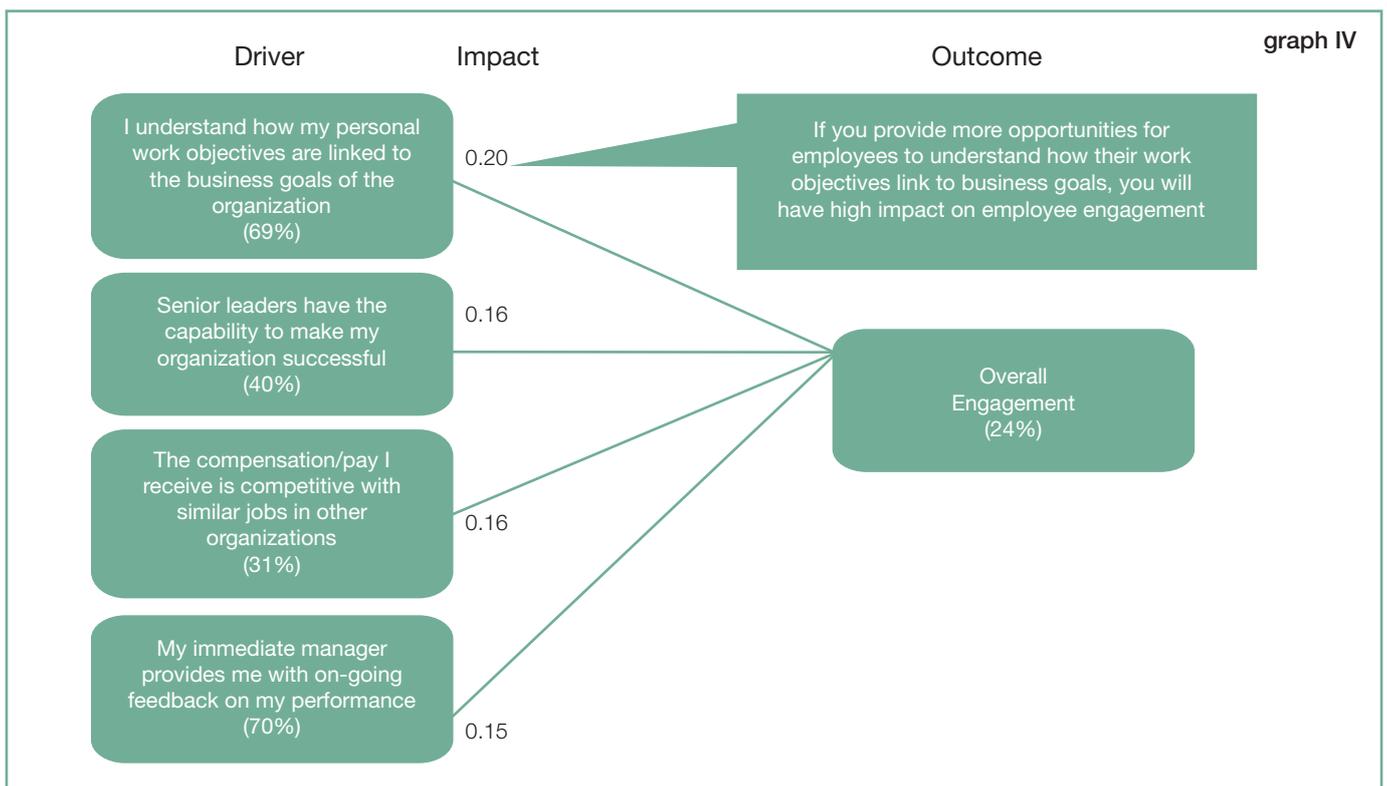
Right Management measured employee engagement levels as part of its survey and the results bear this out. Twenty four percent of the candidates surveyed were fully engaged (based on five key measures¹⁰). These engagement scores are more than double Right Management's global database average of 11 percent for employees planning to leave their organization in the next 12 months.

Therefore, HR professionals should still measure overall employee engagement, but have higher targets for engagement levels in China than they would have in other countries. Since demand for talent is outstripping supply, organizations in China need to aim for the highest possible levels of engagement to retain employees.

To increase employee attraction and retention, employers in China should also focus on the subconscious drivers that can also affect employee engagement. For example, understanding what would have increased the engagement of employees that have recently left the organization, or boost engagement among those intending to leave the organization.

The survey by Right Management proved that the following drivers have the most positive impact on employee engagement: (see graph IV)

- Linking employee work objectives to business goals
- Ensuring that employees have confidence in senior leaders' ability to make the organization successful
- Providing a competitive compensation/benefits package
- Ensuring employees receive ongoing performance feedback from immediate managers.



The survey demonstrated that there are multiple factors at play that affect employee attraction and retention. It is not as simple as asking employees why they leave or why they want to work for another employer, as this is only one piece of the puzzle. While this information may help organizations to attract and/or retain employees in

the short term, organizations must also make sure that employees are engaged to ensure that they are committed to the long-term success of their organization, and stay with the organization to honor this commitment.

Talent management insights for China

The secrets for attracting and retaining talent are not mysterious or complicated. They are within the grasp of all foreign-invested and domestic companies in China. Manpower China developed a Workforce Optimization Model (see graph V) to provide insights, based on over 12 years operating in China, which gives five practical steps for successful employee attraction and retention. It is vital that organizations view the five areas as a holistic, integrated solution; neglecting even one of the areas will weaken the solution considerably. The insights are listed below and will be individually explored further:

1. Create a learning organization
2. Appoint competent leaders
3. Establish an appropriate organization and culture for China
4. Provide competitive compensation and benefits packages
5. Select the right people.

Workforce Optimization Model **graph V**



Create a learning organization

Foreign investors and Chinese domestic companies need to invest heavily in creating a learning organization. Learning is a priority for employees because they are acutely aware of the limitations of their educational system and are keen to acquire marketable skills. They know that if they don't keep their skills updated in such a fast-growing economy, they will get left behind and have to settle for a second-class career.

To create a culture of learning, organizations must go beyond providing employees with classroom based training and workshops. Learning has to be embedded into employees' daily activities so that they learn new skills and gain new experience every single day. A culture of knowledge sharing can be developed by inviting outstanding performers to share successful techniques and experiences.

Foreign companies may have to develop management training courses, sometimes in collaboration with local business schools, to upgrade the skills of managers. Companies in China could also work with policy makers and university leaders to bring curricula more in line with the needs of industry. Microsoft, for example, is working with universities to help them incorporate Microsoft technologies into their curriculum to ensure that students are trained successfully and certified on Microsoft platforms.¹¹

Employer policies and training programs play a critical role in employee retention and engagement in China. Setting a clear career path for employees and identifying specific promotion criteria will inspire staff. Allowing employees to set their own development objectives will motivate them to take the initiative for their own development.

Manpower's Online Global Learning Center

Manpower's online Global Learning Center offers Manpower associates over 3,600 courses in a diverse range of subjects, such as leadership, communication and customer service, as well as a wide range of IT skills. The center keeps Manpower's workforce up to date with the changing world of work.

Organizations need to identify Chinese employees who have the right learning attitude and have the capability to change and adapt as fast as the organization requires. Organizations should nurture these people and increasingly promote from within, even when the employees' experience or skills don't fully match the requirements of the role. Organizations that enforce this through making people development an objective on senior leaders' performance appraisals, or by making skill improvement a task for senior leaders' team members, are likely to see the best results. Managers could also be tasked with ensuring a certain percentage of positions are filled with existing employees and that a minimum number of Chinese employees are always involved in special assignments. Motorola, for example, contractually requires expatriate managers to train a local successor within two to three years. As a result, 84 percent of Motorola's middle managers in China are now Chinese nationals, up from only 11 percent ten years ago.¹²

A leisurely approach to learning will leave Chinese employees dissatisfied; their hunger for knowledge is so great that they expect and want to learn at a much faster pace than is common in developed countries.

"At Rockwell Automation, it is the commitment of the leadership team to establish and foster a performance-driven and coaching-oriented culture. We use this culture to attract, retain and develop our talent. We have found that if we constantly promote, enhance and live this culture, we can increase our organizational effectiveness and capability to take us to the next level of excellence."

Eric Wang
HR Manager, Rockwell Automation, based in China

Creating a learning organization

Fast learning for high potential employees can be facilitated through the following channels:

- Give employees projects which go beyond their current job's responsibilities
- Participate in global tasks to learn western culture, business management and broaden employees' views
- Invite employees to present at next level local and global management meetings.

Appoint competent leaders

Employees in China and the West have different perspectives on what makes a good leader. Chinese employees expect their leaders to be modest and humble, whereas employees in the West expect their leaders to either retain strong, central control and be bold, risk-taking characters, or they expect them to empower their employees by decentralising control and delegating authority to their managers. Managers in China are seen as highly respected authority figures to whom employees traditionally assign parent-like attributes. It is not uncommon for workers in China to seek personal advice from their supervisor, and white-collar workers might expect to be coached by their boss.

In China, leaders require a distinct set of skills. They need to be strategic operators at a macro level, but also able to manage at a micro level. Chinese employees respond best to hands-on leadership and having a role model to demonstrate what is expected of them, so that they may replicate their actions. Generally speaking, direct reports expect specific directions and detailed explanations from their managers, not broad goals.

Key skills for leaders are therefore coaching and communication; they need to establish protocols for providing feedback to employees and ensure strong internal communication.

"To achieve employee engagement and manage talent retention, as well as providing competitive pay, companies need to design jobs purposefully, ensuring that employees' time is well used, recognize and value employees and their work, and provide opportunities for their advancement."

"Efficient communications could be the key to help creating such desirable work environments... improve employees' understanding of the work element and how the company invests in employees; enhance mutual communication by delivering company news/strategies, etc and provide a platform to let employees freely communicate opinions and ideas to executives. It is essential to always communicate openly and honestly..."

Katherine Deng
HR Manager, American Standard, based in China

The results of the survey by Right Management reinforce the point that companies which employ leaders whom employees believe are competent and who provide employees with immediate feedback are likely to strengthen employee engagement.

Chinese companies typically have many levels of management and are run in a hierarchical way. Employers will rarely hear an employee say: "I have a problem" or "I don't understand"; in fact the most typical response to a request is "no problem". Chinese culture dictates that a worker will never openly admit to a senior manager that they don't understand something. Chinese society places a high value on the concept of face, 'mianzi', or public reputation. To admit defeat is to lose face and means failure not just at work, but also socially. In business dealings, this means avoiding open disagreement and politely making alternative suggestions. Chinese employees are unlikely to refuse someone directly and will instead make polite excuses or express criticism or concern through an intermediary.

As highlighted in the survey undertaken by Right Management, organizations' leaders need to ensure that their employees understand how their personal work goals are linked to the business objectives of the organization. In China, most local employees are motivated to perform by social expectations and external factors, unlike in the West where a strong sense of individuality leads employees to set their own personal standards as guides for achievement. Therefore leaders

should ensure that individuals and groups have clear development goals and performance objectives. A three month performance review after an employee's appointment is the ideal opportunity to provide feedback to employees on their strengths and areas for improvement and to outline expectations of the employee. In delivering the results of performance reviews, foreign managers must recognise that communication in China is more indirect.

"Clearly setting out your expectations and specific performance criteria as well as giving feedback to employees is probably more critical in China than it is elsewhere, because of the way Chinese people work."

Senior Manager - Engineering, a global electronics company in China

Senior leaders should be encouraged to succession plan which is another tool to motivate employees to keep developing. Chinese people, influenced by traditional culture, may be unwilling to coach others because they perceive it as a threat to their own position.

Management teams need to be educated in succession planning concepts and can be motivated by having succession planning included as a performance criterion. Failure to develop successors may prevent them achieving higher career objectives themselves.

Appoint competent leaders

- Appoint hands-on leaders and provide role models
- Improve leaders' communication skills
- Explain company strategy and link personal goals to business objectives

Establish an appropriate organization and culture for China

It is critical for companies to appreciate and respect Chinese cultural norms and practices and to align certain characteristics with management practices and organizational behavior. Foreign-owned and multinational corporations will find that trying to impose Western business practices and management techniques in China, which are typically more decentralised, direct and consultative, could damage employee relations, and create stress and frustration.

Organizations will ultimately find it easier and more cost-effective to adapt to the local market.

"The worst thing you could do in China is to storm in and try to make your local employees work in the way that people do in the West. Most of them don't know how to do it and it conflicts with their culture and values. It's so much easier to adapt to the Chinese way of doing things in the first instance."

HR Director, an oil and petroleum company in China

Matrix reporting structures common in Western companies are unfamiliar to many Chinese employees. Many have only had experience of reporting to one person, so organizations should provide a simple structure that boosts knowledge transfer and the development of staff.

Even if they have good qualifications and English language skills, Chinese employees are often cautious about taking the initiative and can be risk averse. Some Chinese employees might choose not to take any action rather than risk making a mistake. HR professionals in China will need to articulate regularly the culture of the company to encourage open communication, allow employees to make mistakes and show initiative. This culture message should be repeated not only to candidates but also current employees.

A saying heard everywhere in China is: 'Do more, risk making more mistakes; do less, make fewer mistakes; do nothing, make no mistakes.'

China has an embedded relations-based culture, known as *guanxi*, which creates a distinctly Chinese business style based on 'who you know'. Relationships take time to develop and require input from both parties; it will only work if the relationship is of mutual benefit to both sides. This is in stark contrast to business relations in America, for example, which are more typically short-term and results orientated.

Developing *guanxi* (connections) is therefore important

for manager-employee relations as it will help foster employee loyalty and respect, and linking personal goals and business objectives is essential in this sense. It is not uncommon for employees in Chinese companies to be promoted on the basis of *guanxi*, rather than on their own merit or achievement. Employers should therefore create a culture that drives performance and results. To enhance the 'loyalty' built from *guanxi*, an open and fair performance review will earn the highest degree of support for the employer.

Most Chinese people want to work for an organization that has a distinct work culture and values, but it is the organization's responsibility to communicate those values clearly and simply. Developing a strong brand that describes a company's unique work culture will help attract and retain talent. Chinese employees enjoy talking about their employers in terms of these values and can become a powerful army of ambassadors for their company. Organizations can capitalise on this by developing internal referral programs.

But companies cannot just 'talk the talk'; they have to live and breathe those values. Leaders need to embody the values in their actions every day. Chinese employees will not stay loyal when they realise that there's little substance beneath the glossy façade.

Increasingly, organizations will have to make hard decisions about senior employees who do not embody the company's culture and values, even if they are top performers.

Establish an appropriate organization and culture for China

- Create a simple and 'flat' management structure
- Demonstrate the organization's values
- Repeatedly communicate the organization's values

Provide competitive compensation and benefits packages

Foreign-invested companies can easily struggle when it comes to setting pay and benefits packages for their middle to senior level employees, because of the mismatch between demand and supply. It is not uncommon for some managers to receive an annual two-digit percentage salary rise in some positions.

Organizations should disregard developed countries' global guidelines for salary reviews, which will be irrelevant in developing markets. Frequent salary reviews are essential to keep track of the market rate; employees themselves will be aware of what their market value is.

How often salaries should be reviewed will depend on how sought-after the employee is likely to be; for hard-to-fill positions it could be more than twice a year, or employees should be given a big annual increase in their salary package. Organizations that do not review salaries promptly will find employees defecting to more generous companies.

"When it comes to salaries, you can't just replicate what you do in the West with what you do in China. You have to review salaries much more frequently and keep on top of what your top people's market rate is."

HR Director, a multinational chemical company in China

But it is not just about money. Although it is important to junior staff, they may also be looking for tuition reimbursement, staff outings and fun activities that should be viewed as an opportunity to reinforce the company's values. Bonuses, incentives, meals and a company car are all becoming common perks. A housing allowance or fund can also be included in companies' benefit schemes, which is popular among mid-level employees who want to set up a home for their family.

Senior Chinese managers will expect their benefits to be the same as their associates in the company headquarters, including stock options and a retirement plan. So a long-term incentive plan can become part of the package. Supplemental insurance and medical programs are influential while China continues to reform its benefits system.

As talented employees in China become increasingly aware of their own value and the talent shortage gets worse, companies will have to be more generous and creative to retain their employees.

Provide competitive compensation and benefits packages

- Review salaries frequently
- Expect to give bigger salary increases than in developed countries
- Develop comprehensive packages with multiple benefits

Select the right people

Careful attention to job placement increases retention by ensuring an optimal fit between the applicant and the skills and aptitude required for the job. It can also help a company identify the top performers.

But how can employers determine whether a job candidate is a top performer and will suit the role? The answer begins with defining success and top performance in the specific job. For example, top performance in a sales role in the next two years may look very different than that of the last five years. Employers need to anticipate what their expectations will be of employees in the future to ensure that they create a realistic job description.

Some FDIs have had their fingers burnt in China and a common concern among candidates is how secure their job will be. Chinese candidates expect that many companies will have to metamorphosize as the economy evolves, so organizations expecting to go through significant changes should be honest and say if employees will need to demonstrate adaptability and flexibility to thrive in the workplace. In a rapidly expanding business environment which may well be quite chaotic, these soft skills and high levels of self-motivation will be as critical for the business as employees' work experience, and are not learned in the same way.

Suitable candidates can be found through company and job profiling by the recruitment specialist for each position before a candidate is taken for interview. If he or she understands the organization's culture, business

plan and a possible career path, the candidate is more likely to find a job that suits them and the organization will benefit from having a more stable employee. Candidates should also be given an in-depth interview to allow the recruitment specialist to build a complete picture of their employment expectations. Giving candidates a profile of possible future employers and briefing them on the organizations' cultures and values will prove whether they are aligned with the organizations' views. It is critical that the company is presented realistically. Employees will leave if the organization does not live up to the expectations set during the interview. Employers need to be circumspect and look beyond perfect English or American accents and well written résumés; employers need to understand candidates' values and motivation. It is not unusual for a Chinese employee to leave a company because his or her values are not aligned with those of their employer.

"We are open with candidates about the type of organization we are, our purpose as a pharmaceutical company, our long-term contribution to society and how passionate we are to have business growth in China. The worst thing in hiring is attracting people without a good understanding of their motivation for joining the company (of course sometimes money is one of the motivations), or without a good understanding of the culture and values of the organization they are going to join."

Jennifer Jin
HR Director, Novartis, based in China

Secondly, candidates need to be given competency-based and behaviorally-structured interviews, which provide a good indication of a candidate's suitability for a role and their potential for future growth. A first interview should be undertaken with the recruitment specialist and then a joint interview undertaken by the line manager and specialist, so that the specialist can observe what the line manager wants from the candidate and ensure a good fit. The interviewer should take into account Confucian values and be patient to get a real insight into the candidates. Since most Chinese people express their feelings indirectly and try to avoid direct confrontation, harsh interviewing techniques will be counter-productive. Conducting interviews with both Western and Chinese managers will ensure a balance of Western and Chinese interviewing styles.

A number of research studies have reported that the multiple assessment approach is significantly better than

interviews alone in predicting job success – 45 percent better according to a recent study.¹³

Assessments and aptitude tests will help ensure that employees are placed in jobs that are aligned with their interests and help them feel that they are undertaking meaningful work.

Trainee programs are an effective way for organizations to increase their talent pool. Assessments for young Chinese trainees born after 1980 are particularly beneficial as they are typically the only child in the family. Growing up in this environment, they have greater demands and expectations on their careers, and may not have a clear and objective judgement of their own competency. Providing assessments and regular performance reviews will help them better understand themselves, their development path and give them reasonable career objectives.

10 steps for effective hiring in China

1. Develop a resourcing plan with contingency plan, milestones, timelines and review dates all defined at the start, which will drive urgency.
2. Produce a Candidate Engagement Brief on the sector, company (global), company (China) today and in the future.
3. Ensure internal alignment to define job responsibilities, career opportunities and 180 day Induction Plan, with owner (or buddy).
4. Develop a candidate profile of competencies and qualifications – essential and desired – all competencies that can be taught easily go into the desired column to widen the candidate pool.
5. Understand the talent market and be prepared to review the proposed terms and conditions, based on 2-4 above.
6. Get local people to interview local candidates.
7. Communicate openly and honestly with candidates about the company's situation and its future potential.
8. Speed up the recruitment process by providing feedback to candidates within one day.
9. Compare candidates using the following criteria in this order of importance: (i) essential competencies & qualifications; (ii) right culture, attitude and development potential match to company; (iii) desirable competencies & qualifications.
10. Always do due diligence – check references and qualifications carefully.

Select the right people

- Be open and honest to candidates in interviews
- Look for soft skills such as flexibility and adaptability
- Find candidates who have the capacity to grow quickly

Conclusion

China lacks a well-established talent pool of mid and top-level leadership which is hampering the economic growth of Chinese and foreign-invested businesses. A priority for organizations is therefore to develop tailored HR policies and practices which help them attract, retain and expand their talent pool in China.

As the Chinese economy grows and moves into more value-added work, the challenge of attracting and retaining staff is rising with skill levels, as demand outstrips supply.

Despite these considerable challenges, the solutions are relatively simple.

Foreign-invested companies based in China need to adapt to the local environment and change their viewpoint to look from inside China out, rather than outside in. They need to rethink their working practices, taking Chinese culture into account, and resist the urge to impose Western management processes and thinking on their Chinese employees.

Chinese small and medium-sized enterprises also have tough challenges; they will have to work even harder at retaining managers who would rather work for foreign-invested companies. Chinese domestic companies need to create a working culture and environment which is more attractive than that offered by competitors.

All organizations need to take into account the multiple factors at play that affect employee attraction and retention, highlighted in the research commissioned by Manpower China. They need to be more thoughtful and go beyond simply asking employees why they leave, or why they want to work for another employer, as this is unlikely to give the insights they need.

Organizations must also focus on employee engagement to ensure that their workforce is committed to the long-term success of their organization and want to stay with the organization to honor this commitment. Engaged employees will also act as ambassadors and produce better results.

Companies operating in China need to develop an integrated, strategic approach to attracting and retaining talent and ensuring their employees are fully engaged. The HR goals in China are the same as those elsewhere in the world; for the organizations that can develop new approaches for the same ends, and turn cultural differences into a help rather than hindrance, there is virtually no limit to the growth they can enjoy.

References

1. Organization for Economic Co-operation and Development (OECD)
2. "The World in 2050", PricewaterhouseCoopers, March 2006
3. Jonathan Watts, "Despite economic boom, Chinese graduates face struggle for jobs", The Guardian (UK), May 9, 2006
4. CIA World Fact Book, China, August 2006
5. 2004 survey by the American Chamber of Commerce in Shanghai, along with six other Chambers of Commerce
6. The Manpower Talent Shortage Survey is available to download from the Research Center at www.manpower.com, along with a White Paper 'Confronting the coming talent crunch: What's next?'
7. American Corporate Experience in a Changing China is based on seven years of surveys of the American Chamber of Commerce-China (1999-2005) and American Chamber of Commerce - Shanghai (2003-2005) members
8. Society for Human Resource Management, "2005 Human Resources Trends in China"
9. Grant Burley, "Battling Retention Deficit Disorder," *Managing Information Strategies Asia*, 1 August 2005
10. To measure employee engagement levels in China, Right Management looked at the responses to five questions which have been shown to reflect how positively an employee feels about their organization – and which, when combined, give a powerful indicator of engagement to the organization. Right Management then identified how many respondents agreed or agreed strongly with statements relating to their commitment, support for their company's products and/or services, pride, satisfaction and support for their organization. To be truly engaged, a respondent must answer favorably to each of the five measures
11. www.microsoft.com
12. Corporate Leadership Council, "Developing Asian Leaders", December 2005
13. I.T. Robertson and M. Smith, *Journal of Occupational and Organizational Psychology*, 2001, 74, 441-472

About Manpower Inc.

Manpower Inc. (NYSE: MAN) is a world leader in the employment services industry; creating and delivering services that enable its clients to win in the changing world of work. The \$16 billion company offers employers a range of services for the entire employment and business cycle including permanent, temporary and contract recruitment; employee assessment and selection; training; outplacement; outsourcing and consulting. Manpower's worldwide network of 4,400 offices in 72 countries and territories enables the company to meet the needs of its 400,000 clients per year, including small and medium size enterprises in all industry sectors, as well as the world's largest multinational corporations. The focus of Manpower's work is on raising productivity through improved quality, efficiency and cost-reduction across their total workforce, enabling clients to concentrate on their core business activities. Manpower Inc. operates under five brands: Manpower, Manpower Professional, Elan, Jefferson Wells and Right Management. More information on Manpower Inc. is available at www.manpower.com

About Manpower Inc. in Greater China

Manpower Inc. first entered the Greater China market in 1964 and has more than 12 years experience in Mainland China. Today, the company has 58 offices across Greater China and 37 in Mainland China.

Manpower China has more than 350 recruiters operating nationally in nine cities across the Mainland. It provides a wide array of services to both foreign-based multinationals and local companies, including more than 80 percent of the world's top 50 companies. Manpower China provides professional and executive staffing under the Manpower Professional brand, offering clients middle management to C-suite executives in the Information Technology, Telecommunications, Industrial, Consumer Goods, Pharmaceutical, Services, Finance & Banking sectors. It also provides a recruitment offering of both permanent and contingent staff, HR and managed business services under the Manpower brand.

Manpower Inc. provides organizational consulting services through its Right Management subsidiary, which established offices in Mainland China in 1996.

In addition, Manpower Inc. is working with the Chinese government to support the country's rapidly evolving labor market. Manpower and the Chinese government formed this partnership in 2005 to better forecast skills shortages, find vocational training solutions and redefine the country's employment laws. The partnership is led by Manpower-Caden, a joint-venture initiative between Manpower Inc. and Caden Corporation SA, a leading consulting and advisory group that specializes in governmental and international policy issues.

For more information on Manpower Inc. operations in China, please visit www.manpower.com.cn and www.right.com/cn.

Manpower China, Head Office: Room 2808 - 2811, Information Tower,
No. 211, Century Avenue, Pudong, Shanghai, China 200120
Tel: + 86 21 5878 2618 Fax: + 86 21 5878 2661
www.manpower.com.cn

© 2006 Manpower China. All rights reserved.