SPECIAL REPORT

Surviving the Talent War in China: How Companies Can Escape the Closing Cost Gap

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China continues to serve as an attractive market for foreign direct investment and multinational corporations. Many organizations are faced with the challenge of recruiting and attracting talent in a region where senior leaders are in scarce supply. Building a strong team in this highly competitive and dynamic environment requires looking beyond the ideal candidate profile and tapping into the local pool of up-and-coming leaders.

China has emerged as a major power on the world stage, serving as a growth engine for both established and developing economies. Many foreign multinational corporations (MNCs) have already expanded operations into the region in hopes of capitalizing on its rising population of middle-class consumers and projected future growth. Despite a promising economic outlook, an obstacle for MNCs in the region remains: the pool of indigenous People's Republic of China (PRC) senior executives is incredibly shallow, posing talent acquisition and retention challenges for MNCs and Chinese organizations alike. Understanding the talent shortage and its causes is critical to developing sound strategies for attracting, developing and retaining executives in a highly competitive environment.

Limited Supply

In 1966, Mao Zedong initiated the Cultural Revolution with the stated objective of enforcing socialism, removing capitalism, and imposing Maoist orthodoxy within the Party. During this time, almost 17 million urban students from schools and universities were "sent down" to rural areas to be re-educated in subjects of farming and agriculture.[1] This mass-migration, called the "send-down movement," deprived the urbanized youth of the formal education necessary to succeed in today's labor market.[2]

Although entrance exams for universities and schools were reinstated in 1977, many leading intellectuals, including professors within the university system, were persecuted or otherwise displaced from their teaching positions.[3] The few educators who remained were forced to abandon the standard curriculum in favor of Maoist theories and lessons on farming and agriculture. As a result, schools and universities did not reach pre-revolution capacity, staffing and curriculum standards until many years later, thereby limiting the educational opportunities for the millions of rusticated youth.[4] There was also a huge backlog of students who were unable to attend school during the years of closure and a sizeable incoming class of post-revolution students who were negatively affected by the interruptions and delays in education. As a result, many individuals born between the years 1948 and 1971, labeled the "lost generation," were denied of years of intellectual development and workforce preparation and are now largely absent from today's pool of viable leaders.

Additionally, the Chinese government instituted a "one child policy" in 1979 aimed at limiting the growth of what was then a quarter of the world's population. The reform decreased the country-wide fertility rate from 2.9 in 1979, to 1.7 in 2004 preventing approximately 250 to 300 million births.[5] From the time the policy was instated in 1979 up until the year 2005, the working-age population (15 to 64 years old) in China peaked in size with a growth of over 55%.[6] However, the vast majority of this "peaked" population of working-age professionals is over 50 years old. In fact, the number of workers between the ages 50 and 64 is expected to increase by 67% between the years 2005 and 2030.[7] More staggeringly, the population of senior citizens (ages 65 and over) is projected to double in size to 235 million by 2030.[8] With China graying at an exceedingly fast pace, more workers are retiring and the population of working-age professionals is shrinking. The one child policy stunted the number of births in 1979, reducing the number of today's young individuals available to supplement the dwindling workforce. The highly unbalanced ratio of working-age individuals to senior citizens and labor shortage is likely to continue.

The years following the Cultural Revolution were a time of economic stagnation and reform as China began to rebuild its economy. China did not start to realize its potential as an export manufacturer until the late 1980s. Additionally, the

Chinese market didn't develop into a domestic, consumer-driven economy until the mid to late 1990s. As a result, there were few local professional or educational opportunities for recent graduates and young executives. Many of China's most promising college graduates consequently emigrated abroad to pursue advanced degrees and career opportunities in more stable economies. The United States was a particular country of interest for young PRC students, with a reported 39,225 Chinese student immigrants in the year 1996 alone. More broadly, an estimated 412,437 PRC citizens immigrated to the United States in the period between 1986 and 1996.[9] Approximately 90 percent of the students who immigrated to the United States stayed to pursue careers after graduation, thus further reducing the pool of high-potential leaders in China.

The educational ramifications from the Cultural Revolution, the one child policy, and the emigration of Chinese academics contributed to the "brain drain" phenomenon that has left China with a shallow pool of qualified leaders.

Rising Demand

Despite the social upheaval that resulted from the Cultural Revolution (1966-1976), China restructured to become an attractive market for foreign direct investment and MNCs by the mid-1980s. The demand for indigenous senior executives rose dramatically as foreign companies entered the Chinese market. Today, the investment community, Chinese companies, and foreign MNCs continue to recruit executives from this shallow pool of leaders, creating a highly unbalanced supply and demand situation. Organizations are working tirelessly to attract and retain promising executives to prepare for what is likely only the beginning of a lengthy talent war.

Managing Expectations

With such a small pool of qualified local leaders, it is important for Western companies to understand the limitations of China's talent landscape in order to manage expectations of native PRC executives' skills and capabilities. Senior Chinese professionals with formal education and Western experience are largely in their late 30's or younger; however, MNCs typically seek local executives with 15 or more years of experience. To draw PRC professionals into the talent pipeline, companies are forced to relax certain expectations around age and experience. Companies that do not adjust selection criteria to reflect the current state of China's talent pool will likely experience a revolving door of costly expatriate talent on short-term assignments, a weak company culture, a lack of management continuity, and a rudimentary understanding of Chinese market nuances and business norms.

Considering the extreme shortage of local executives, companies have looked to Chinese-speaking expatriates from both neighboring Asian countries (Taiwan, Hong Kong, Singapore and Malaysia among others) and Western nations (including Chinese returnees or "sea turtles") to lead operations in China. When MNCs first entered the Chinese market, the cost of expatriate staff was disproportionately high; companies had to offer salaries that were not only competitive for China, but also for the candidate's home country. Hardship allowances and home leave benefits were often necessary to entice executives to take on what were considered very challenging, short-term (typically two years) assignments in China. Add to that the monetary cost of relocation and private schools for children, and the total expense incurred by companies was far greater than that of local Chinese managers. However, many organizations felt that hiring expatriates in the short term was the only way to build leadership teams with the experience and language skills required to be successful in the booming Chinese market. This talent solution ultimately produced a high cost structure that continues to serve as the baseline for executive compensation in China.

Although expatriates were seen as the only option to mitigate the talent crisis in China, many MNCs have realized that local professionals' insight into the unique nuances of the Chinese culture and business practices are essential for sustained success in this complex foreign market. MNCs have therefore shifted focus toward recruiting local PRC executives into entry level and middle management roles to then train and develop them into senior leaders. Given the high demand for local Chinese executives and compensation market distorted by a

high proportion of expatriate packages, the cost of local PRC executives is rising at an incredibly fast rate. We recommend that companies create human capital budgets and long-term retention plans to develop more realistic talent acquisition strategies and better manage the talent war.

MNCs with operations in China often build leadership teams around the same competencies necessary to be successful in their home country. However, the skills emphasized in Chinese organizations often don't align with the core business practices and requirements stressed in foreign companies. For example, a U.S.-based MNC might build a corporate culture around transparency, directness and honest communication. Business culture in China, however, revolves around subtlety and avoidance of confrontation or direct problem-solving. As a result, certain behaviors of local employees may be misinterpreted by expatriates or leaders at the MNC's headquarters as rude or weak, creating discord between the interacting parties. MNCs should enter China with a basic understanding of the local culture and business practices to better evaluate and appreciate the value-add of local professionals, rather than basing performance indicators solely on Western standards.

MNCs also tend to seek local executives with perfect, unaccented English language skills. While most Chinese students take extensive language courses, few can match the fluency of native English speakers. By understanding what one can realistically expect in terms of English language skills, organizations can greatly increase the pool of qualified local candidates.

China is a highly complex and fast changing market with unique cultural elements. As a result, it is incredibly difficult to find an executive, either foreign or local, who can manage and adapt to all of the inputs and influences of an organization. MNCs with operations in China require leaders who excel in three distinct areas:

1. Managing and leading a local Chinese work force within a highly competitive and dynamic market
2. Managing China's complex government and regulatory environment
3. Interfacing, managing and liaising between Chinese operations and headquarters

Leadership Requirements of Executives in China

Local Leader

- Comprehensive understanding of local cultural and business norms
- Strong ability to lead and communicate up, down and across the organization
- Insight on the complexities of the Chinese market

Regulatory Manager

- Understanding of local regulatory environment
- Power to coordinate local and headquarter-country regulatory standards
- Firm grasp on the impact of regulatory mandates on revenues, product life cycles, and growth
- Ability to predict future regulations and implications

Cross-Country Liaison

- Clear comprehension of the company's mission, goals and strategies
- Ability to translate and implement specific company-wide goals with Chinese market nuances in mind
- Ability to communicate clearly between headquarters and local executive suite

Given the dynamics of the local talent market and complex set of requirements for leaders, we encourage companies to think about designing diverse leadership teams around a set of functional requirements above, as opposed to trying to find an individual who satisfies all three criteria.

To better understand how executives currently operating and leading in China build local teams in a challenging talent market, we asked the Executive Vice President, Chief Human Resources Officer at an $18B+ electronic manufacturing services provider for insight on the best approach to recruiting talent in China. He explained: "In China, it's particularly hard to find the perfect, fully-rounded CEO who can do everything: government relations, leading employees, building the organization's credibility, delighting customers, and managing the expectations back at corporate. Just as you need different positions on the basketball team, designing organizations at the leadership team level is crucial in China. Expatriates will often be a crucial part of that mix." By directing recruitment efforts to building efficient teams, rather than only seeking top-tier executives to manage all aspects of leadership in the Chinese market, MNCs can expand their search criteria to include more potential leaders and recruit from a larger pool of candidates. This will in turn allow MNCs to hire both local employees and expatriates to create bench strength in each critical leadership category and get the most capability possible within the constraints of their talent budgets.

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>
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Attracting Qualified Leaders

There is a tendency for expatriates of the same cultural background to gravitate towards each other and form close working relationships. This close cultural connection at the senior-most organizational levels can leave locals with the notion that the management structure at an MNC is not conducive to career development and advancement. European companies have a particular reputation for only placing expatriate executives into senior management positions, thereby giving the impression that top jobs will never be offered to local employees. This reduces the number of opportunities for Chinese rising stars to demonstrate their potential to add value to the organization and perpetuates an expatriate-centered management model. This "expatriate glass ceiling" ultimately encourages local executives to pursue opportunities at Chinese corporations because they feel their opinions and local business acumen will be better appreciated and well-received by other Chinese executives. MNCs should make a concerted effort to explain with great transparency their management selection strategy to current local and expatriate employees to provide a clear outline of the skills and competencies required of senior leaders.

Companies should also consider allocating resources toward building a strong employment brand and public image. A strong corporate responsibility policy, employee recognition and reward program, and company culture strengthen organizations' employer message and identity and allows it to compete for talent on more than just compensation. Partnering with local universities allows MNCs to build a strong employer reputation and ultimately tap directly into the source of up-and-coming professionals. Shell Lubricants Technology, for example, recently joined with prestigious Tsinghua University in Beijing to share technologies and work directly with best-in-class Chinese scientists.[10]

No less important is the organization's ability to consistently execute the policies and programs proposed in their branding efforts. According to the Executive Vice President, Chief Human Resources Officer at the $18B+ electronic manufacturing services provider, "It is very important what people in your industry and in your company say about you. When trying to recruit executive-level leaders, how your organization is perceived in executive circles in the marketplace can have a huge impact on your ability to attract the best. Many Chinese executives share working histories with colleagues in the same industry that predate the relationship with their current employer. As such, current perceptions of your core values, how you treat people and partners, and how decisions are made can be strong, difficult to change, and contribute to the perceived risk of joining your firm, if they are not positive and/or aligned with your current messaging."

Should an organization decide to create or alter policies to enhance its employer brand in the China market, it should first carefully consider the resources required to support the program over time. Robust, sustainable corporate policies will likely result in positive sentiments from current employees, and ultimately influence both senior and high-potential prospects of the companies.

The extremely competitive nature of the talent market in China also affects the recruitment process, which must take place at a far more accelerated pace to be successful than it

would in a more stable talent market. It is important to plan with care and embrace timing patterns so that candidates don't lose interest due to slow internal processes and decision-making.

Engaging and Developing New Talent

In a 2010 survey conducted by BlessingWhite, Inc., approximately 29% of Chinese employees feel disengaged at their current company, meaning they have little commitment to the organization and are likely on the hunt for their next opportunity. Additionally, 32% of respondents reported that career developments and opportunities would most improve job satisfaction. With these statistics in mind, it is important for organizations to create strong training and mentoring programs to keep employees engaged and motivated to become senior-level executives at their current company.

China-based companies should consider investing in bright, entry-level PRC candidates who have a strong desire to learn and grow to build bench strength across functions and ultimately develop deep talent pools for internal promotions and transfers. Many successful MNCs with operations in China have created training and development universities through which they train employees on topics such as "company culture, engagement with business in other parts of the world, leadership standards, performance management and personal development opportunities."[11]

IBM China created development tools—Personal Business Commitment (PBC) and Individual Development Plans (IDP)—to train and develop talent for operations in China. PBC is a plan through which each employee creates objectives that are strategically aligned with IBM's business model at the department, business unit and corporate levels. The IDP program allows employees to identify the training, skills and experiences necessary to fulfill the objectives set forth in their individualized PBC. Carefully designed training and development strategies will not only help to guide high-potential employees into future leadership positions, but also inculcate company culture and build employee loyalty before executives are targeted and poached by competitors.

Many of our clients encourage senior executives to interact with young talent to identify promising leaders early in their careers. Organizations can then create clear career tracks and timelines for these individuals to better guide their functional and international growth. International assignments help give local PRC executives an opportunity to develop language skills and insight on the business models, regulatory concerns, cultural nuances and growth opportunities of foreign countries, which consequently develops a broader skill set necessary to progress up the corporate ranks. International assignments can be costly for the organization and must be woven into the career trajectories of promising local talent early so as to not exceed talent budgets. Comprehensive development plans with concrete objectives, cross-functional duties and international assignments help employees visualize their future accomplishments and roles and encourage them to dedicate more time and energy to the company.

To help expedite the advancement of future leaders, companies should consider pairing experienced expatriates with promising local talent. This "shadowing" strategy fosters the cross-fertilization of ideas, culture, and expertise, thereby exposing expatriates to the Chinese culture and local leaders to global dynamics. Expatriate leaders in China are often required by contract to spend time training local talent as a key performance indicator (KPI), allowing them to identify potential successors and proactively guide future leaders through the talent pipeline.[12] We recommend that organizations encourage frequent interactions between expatriates and local employees through shared assignments and detailed mentoring programs to both increase expatriates' exposure to the Chinese culture and language, and to facilitate positive relationships between executives in different layers of the organization.

Retaining Key Leaders

Aggressive retention policies and "stay-on bonuses" have proven successful for our clients who face executive leadership challenges in China. Many competing companies offer attractive perks when luring professionals away from current employers, such as high compensation packages, automobile privileges and housing accommodations. Companies should therefore consider giving key, highly sought-after leaders bonuses to demonstrate their commitment to the individual and to lessen the employee's receptiveness to competing offers.

Stay-on bonuses also help to keep the overall salary scale of the company in line with market realities. By compensating highly-targeted individuals on a discretionary basis, organizations are able to boost retention efforts without driving up salary scales and benchmarks for future leaders. We recommend that organizations take these bonuses into account when creating human capital budgets in order to realistically forecast the cost of senior executives. Companies that are unable to offer stay-on bonuses in the short-term will ultimately spend more money executing future recruiting efforts. It is estimated that replacing a high-performing manager could cost an organization upwards of 300 to 2,000 percent of that individual's salary, making careful planning and budgeting critical to successful talent acquisition, development, retention, and succession strategies. [13]

Non-financial incentives are also key components for executive retention. Simple acts by management, such as asking for input, recognizing successes and achievements and providing feedback, all contribute to feelings of employee engagement and loyalty. Organizations should consider offering leadership skills development classes for senior executives, as their ability to manage effectively has a direct impact on retention and employee satisfaction.

Full Summary

The rapidly changing landscape of China's economy requires executives who are attuned to local market dynamics and cultural nuances in order to be successful in the region. They must also be able to create and implement programs to grow business initiatives in the face of impending government regulations and change. Finally, organizations require executives who can manage between local operations and corporate headquarters. With so many vastly different talent requirements, organizations struggle to attract and retain executives who meet this incredibly high bar. Companies should therefore refocus talent acquisition strategies around building diverse teams of promising young PRC talent and experienced expatriates to address each critical component for operating in China.

Multinational companies should keep the following key points in mind when executing talent acquisition and retention strategies in China:

Key Points for Attracting and Retaining Executive Talent in China

- *Create talent budgets and manage expectations effectively:* Create a comprehensive human capital budget and fully understand the organization's needs before beginning recruiting initiatives.
- *Build a powerful employment brand:* Learn about cultural nuances and business models, implement meaningful reward programs and development strategies, cooperate with local universities, and create corporate social responsibility policies to gain competitive advantage with local professionals.
- *Promote from within:* Create a strong talent pipeline of local high-potential leaders and assess functional gaps often.
- *Build a culture of learning:* Recruit bright, high-potential Chinese executives and communicate road maps with well-planned international development assignments early in their careers.
- *Use expatriate staff intelligently:* Hire expatriate leaders to identify and nurture future leaders.
- *Create meaningful retention plans:* Design bonus plans and non-financial incentives to retain high-potential executives.

A company's opportunity for growth in China depends in large part on its ability to tap into the local talent pool. To address the talent crisis and sustain growth in this burgeoning market, organizations will ultimately need to develop local Chinese talent instead of focusing almost exclusively on recruiting expatriate talent.

ENDNOTES

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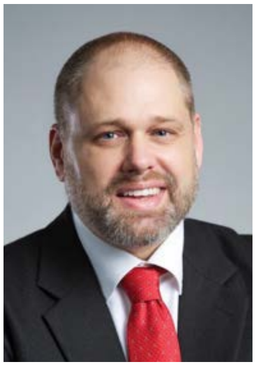

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