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HR Trends in China

According to the Chinese Academy of Social Sciences an estimated 25 million urban Chinese will be competing for ten million available positions in China in 2007. In other words: 15 million people will be unable to find work this year. Ironically, many companies are complaining of labour shortage. The reason: not enough qualified candidates.

Key problems: qualification and experience

McKinsey & Co. stated in a November 2006 report that less than 10% of Chinese job hunters are qualified for in-demand positions in accounting, finance and engineering at overseas companies. As a response, the Chinese Government has prepared an ambitious education road map aiming to boost university enrolment from 13% today, to 20% in 2010 and even 40% in 2020. Yet, this approach will only start taking effect three to four years from now and doesn't tackle a problem that many candidates, especially graduates, have. Despite their mostly outstanding formal qualifications they often lack the ability to apply this theoretical knowledge to real projects. This is why about 60% of graduates are expected not to get a job directly after leaving university. One third of all new graduates in China have an engineering degree but fail to present complex decision-making skills. Without experience in team-work or project handling most are unfit for working in international firms.

But the shortage of skilled staff is not just seen at entry level. Due to little or no practical knowledge and the inconsistency that comes with frequent job-changing, lack of experience appears at the management level as well. The disruption of the whole education system caused by the Cultural Revolution (1966-76) resulted in the fact that many people cur-

rently in their late 30's and early 40's never developed the leadership or interpersonal skills necessary to head a department or manage a company.

High pay for high-flyers

The rare cases possessing both formal qualifications and the often-quoted invaluable soft skills are desperately sought after. Stories abound in the Chinese media of people doubling or tripling their salaries in a couple of years just by frequently switching jobs. Hewitt's projected salary increases for 2007 indicate that this trend will continue with an expected rise of more than 8%.

In some fields such as accounting, salary increases are already much higher. According to Mercer Human Resources Consulting, wages paid by the Big Four accounting firms rose 30% to an average annual surplus of about US\$9,000. A look at the figures shows why: presently there are around 69,000 licensed accountants in China facing a demand for over 300,000. This dramatic disparity is quite likely rooted in the fact that Chinese Universities didn't start offering Certified Public Accounting as a major until 1994. "Staff draught" can get so extreme that even the industry's big players have to turn clients down.

Quick fix: hiring "local expats"

With staff turnover figures sky-rocketing and aggressively "poaching" competitors, it is hard to counter these problems even with good retention management (see other article in this issue). In the short run, companies are therefore turning to expatriates to fill the gap. They increasingly address a non-traditional and growing segment within China's foreign population (48%) – expats who are already working in China. These professionals often have sufficient language skills and business experience to do well in the China market as well as the abilities and cultural knowledge required to work with head offices in Europe or North America.

This solution also tends to be cost-effective: many China-hired expats only get reduced benefit packages (if at all) and at the same time their Chinese counterparts are demanding more and more of the perks traditionally reserved for expats. This way the expense discrepancy between local Chinese and "local expats" will diminish rapidly. Yet the need for a long-term remedy still persists.

A bumpy road ahead

Eventually the lack of a qualified, experienced and in-

ternationally fit workforce will lead to a slow-down in industrial development which is already felt by a number of small and medium sized enterprises (SMEs) in the regions of high industrial agglomeration, such as greater Shanghai and Dongguan. Considering that SMEs account for 75% of China's new jobs annually, this could be the beginning of a vicious circle unless the educational system is adapted to today's requirements. Companies, and especially SMEs, should follow the example set by many Multinational Corporations (MNCs) to undertake major staff training efforts in order to improve internal development possibilities.

Employee Retention: How to keep your staff

With China's economy soaring, many companies face the challenge of both attracting and retaining skilled labour. As one of the biggest growth inhibitors in many emerging markets today, this problem originates from the universities' inability to generate sufficient supply of qualified staff. The staff shortage has created a wage boost resulting in an all-industry staff turnover of 15% in China last year. Employees change jobs frequently to benefit from increasing wages, thus bringing the average employee retention period for qualified managers down to as little as 15 months. For many employers this means losing money (invested in staff training), know-how and sensitive information to the competition. Therefore, the key question must be: how can you retain qualified staff? A recent survey conducted by the Economist Intelligence Unit in close co-operation with Fiducia reveals some very interesting ideas and measures:

Money or mentoring?

Unsurprisingly, the first measure for higher staff retention is raising wages above market rates. Using pecuniary incentives is a straightforward and promising instrument. Yet it can bear the risk of establishing a solely compensation-based relationship between employers and their staff. What if an employer with bigger pockets turns up or company funds become tight?

Another successful approach is to establish or increase training opportunities. Options range from basic language or software training to all-expenses-paid MBA programmes at internationally renowned business schools. The key to this is to match training investment, development potential and seniority level of the employee. Having MBA graduates from IMD or INSEAD in lower management positions may look impressive, but will most certainly be too costly. Instead, the training should support employees in their personal and professional career plans. Only then will they appreciate these measures as supporting means to reach higher management positions in the same organisation.



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A solution taking the same line are mentoring programmes. They give high-potential local employees the chance to take on leadership roles on important assignments and develop the skills necessary to become qualified managers. However, even the best training and mentoring will not retain staff if wages are 20% below market rates. Thus, both methods are best to be combined in a well-balanced way.

My iPod, my car, ... my chef!

The conducted survey also revealed some less obvious methods of curbing staff turnover. As many Chinese attach high importance to a company's public exposure, it turned out that a well-designed company website or a prestigious office address can prove helpful in status discussions among peers.

Supplying employees with the latest IT gadgetry is supposedly another successful staff retainer in Southeast Asia and is also highly regarded in China. Your brand-new PDA or laptop will most likely attract attention and envy of both your colleagues and competitors. This up-to-date alternative to the classic status symbol "company car" requires less investment with a potentially higher impact.

The next possible staff retainer comes across as rather unconventional: food. Especially manufacturing companies are usually located in city outskirts missing out on basic infrastructure such as restaurants or shops. Employing a good chef who runs the staff canteen has proved to be beneficial as employees appreciate this simple opportunity of getting a decent meal. According to a manager in the manufacturing business, there is a strong correlation between the perceived quality of the company chef and worker retention rates.

Feel-good factor

Employees want to feel important to the company and want to be rewarded for staying. A comprehensive compensation package including competitive wages, insurance benefits or housing allowance is one of the most successful methods for staff retention. The same applies to sufficient training and mentoring programmes whereas IT gadgets, company image and high-standard in-house lunch facilities are often shrugged off as unnecessary expenses. However, showing that you "go the extra mile" for your staff might just as well be the key to keeping them happy - and on board.

Home, Sweet Home?

When considering the employment of an overseas or returning Chinese manager, companies usually look into a lot of aspects - compensation, language skills, work experience - but the reaction of the company's

local workforce usually isn't one of them. Yet, according to Michael Cronin of Hewitt Associates, it should be.

“Rootless snobs”

Local employees can hold resentment towards overseas or returning Chinese, who tend to have fluent abilities in English and Chinese, high-standard qualification and training as well as international exposure. Existing staff might deem these managers “snobs” or Chinese people who have lost their roots. They often don't see why the returnees should make more money than they do. The situation can be the similar when hiring an executive from first-tier cities such as Shanghai or Beijing to work in second-tier cities such as Wuhan or Chengdu.

Another problem could be cultural issues. Returnee managers might speak Chinese fluently, but this doesn't necessarily mean they understand Chinese business culture or the mindset of Chinese workers. Their language abilities may help them to establish the first contact with a client, but chances are high that they are just as inexperienced in negotiating “the Chinese way” as the ordinary overseas expat would be.

Local workers' treatment of returnee or overseas Chinese managers might create a very negative atmosphere for the latter. Without any family bonds or other social networks in the area to rely on, it is possible that the managers soon feel out of place in their own country. This can lead to excess stress and eventually even result in leaving a well-paid or otherwise much liked job.

Opposites attract?

Cronin says that mainland workers are likely to react most positively towards people who are either very similar to them or are so different that they have nothing in common. In other words: local managers or expats. He suggests hiring local managers who naturally tend to have stronger links in the area such as family and friends. This may make them more loyal to the companies they work for and therefore easier to retain. Local managers are also likely to have a good understanding of the market and can bring added value to the business.

So next time you plan on hiring a manager look at the situation carefully: even though they have many assets, overseas Chinese are not always the better choice.

Seen and Heard

Managers across China saw a lot of empty desks and received a pile of resignations after the Chinese New Year holiday. According to HR website ChinaHR.com 38% of white collar workers were expected to switch jobs after the holiday. This has led some firms to hiring interns for as much as RMB200 per day to fill the gap created by the loss of employees.

But why did so many employees quit (or plan on quitting) at once? Some new job seekers said they were driven by the desire for a higher salary. Recently many Chinese web portals such as Sohu.com have created a special section for people to reveal their salaries. This has caused people in many industries to feel dissatisfaction about their income. But more than 20 % of respondents stated that their resignation was simply triggered by the opportunity to think about their career prospects over the Spring Festival. In another survey by Zhaopin.com 37% of respondents wanted to find better jobs after getting their traditional Chinese New Year bonuses. This has caused some companies, especially those involved in sales, to postpone payment of bonuses to as late as April in order to avoid losing their sales staff.

Fiducia Staff Profile

This month, China Focus profiles Hans W. Stremme. He speaks to CF about his experiences and the challenges of Human Resources in China.



Hans W. Stremme
Head of Personnel Management Consultancy

China Focus: Hans, how long have you been with Fiducia and what is your position in the company?

Hans: I am managing Fiducia's Personnel Management Consultancy Department since September 2004. Our main focus lies on executive search for senior management positions.

CF: What is your educational background?

H: I have a diploma in business administration from the University of Hamburg.

CF: How long have you been working in HR?

H: I've been working in commercial businesses for about 25 years, but I have never worked in a pure HR function before joining Fiducia. My work in trading and consulting companies included dealing with equipment for cement and other related industries plus project management in terms of setting up new companies in developing countries.

CF: What attracted you to working in developing countries?

H: In my first job I worked for an export company in Hamburg dealing with countries in the Middle East and I found the exposure to the international world fascinating. The success of a project depended of course on its economics but in developing countries you also needed the skills to really get things going because the existing processes in those countries are normally not very defined or refined. As such you also had to be fully engaged on a personal level in order to convince the investor(s) of the commercial merits of your project.

CF: What is the biggest difference between working in China and other countries you have worked in?

H: China – without any doubt - is the most dynamic country I have ever worked in. And what makes life so interesting here is that you can achieve a lot because of the booming economy. The country is opening up and offering tremendous career opportunities to people who dare to leave their home country and build up a career or business in China. Due to the many foreign companies - especially in the Shanghai region - the language barrier is also not as significant as one would expect.

CF: Do you find that your previous experience in project management and other industries plays an important role in your job?

H: Yes. I have seen many companies and their production facilities. So one knows the processes and develops a certain technical understanding of manufacturing. Almost all our clients are in manufacturing and mostly in engineering and machinery and equipment manufacturing so my previous experience helps a lot to understand these clients' requirements.

CF: What do you like the most about your job?

H: So far we have successfully concluded all our assignments and having so many repeat clients gives a strong job-satisfaction. What also makes it attractive is that we sometimes have to advise clients on the special market conditions in China. There are cases when they have to change their planned organisational structure e.g. when candidates with a certain



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required profile simply don't exist in China. Then this previously defined function would have to be split into two positions instead of one.

CF: Is that what you would see as one of the biggest challenges of working in executive search in China?

H: The biggest challenge is that there is an absolute shortage of qualified candidates and therefore a real "war for talent" is going on in the labour market. This means you very rarely find the "ideal" candidate fully complying with the given profile. Then you have to get the priorities right for the hard-skills but try not to compromise on the soft-skill side in order to have room for developing the latent talent at a later stage. Nowadays internal and external training are on the top of the HR departments' agenda to mitigate the shortage of talent.

Where I see my experience coming in is looking at a candidate's overall skill set to see who fits best into a certain organisation with its existing culture.

CF: What current projects are you working on?

H: We are presently searching candidates for the positions of CEO, CFO and COO for some European manufacturing companies in China. So far this year we have already successfully placed a number of ex-pat General Managers and CFOs/ Finance Managers apart from the numerous placements of Chinese candidates in positions from Managing Director down to middle management positions in purchasing, production, quality control, sales and administration.

CF: Good luck!

If you are interested in speaking to Mr. Stremme about your company's specific HR needs or any of the positions mentioned above, please contact him at hwhstremme@fiducia-china.com.

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Publisher:
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Editor & contact for press and article reprints: Yuki Kobler; contact@fiducia-china.com

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Beijing Rep. Office

Unit 0603, Landmark Tower2, 8 North Dongsanhuan Road
Chaoyang District, 100004, Beijing, P.R.China
Tel: +86-10-6590-6108 Fax: +86-10-6590-6109

Hong Kong Office

12/F Fortis Bank Tower, 77 Gloucester Road, Hong Kong
Tel: +852-2523-2171 Fax: +852-2810-4494

Shanghai Office

Suite 1908, Ciro's Plaza, No. 388 Nanjing Road (W)
Shanghai, P.R. China 200003
Tel: +86-21-6327-9118 Fax: +86-21-6327-9228

Shenzhen Rep. Office

Room 909, 9/F, International Culture Building
3039 Shennan Road (Central), Shenzhen, P.R. China 518033
Tel: +86-755-8329-2303 Fax: +86-755-8329-0821

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