

# CHINA FOCUS

Issue II / 2014

## Beyond Hiring: HR Topics in China

In the months following Chinese New Year, many China Focus readers are busy hiring new employees and have asked us to give insight into HR topics in China - finding, hiring, retaining and terminating - to facilitate the process. HR has changed from predictable movement patterns and salary demands to the desire to work for a company that offers opportunities for growth and a future. In this issue of China Focus, we discuss

the challenges our clients, readers and even we have faced when looking for new employees. We will explain some of the pitfalls of China's Labour Laws to watch out for. Lastly, we provide an overview of the current HR trends in China so you can adjust your recruitment strategies accordingly.



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### The Importance of Growth Opportunities

*An interview with Stefanie Xia-Bramekamp of Lenze Drive Systems (Shanghai)*

For many foreign companies in China, hiring and retaining staff is a challenging task. China Focus speaks to HR expert Stefanie Xia-Bramekamp of Lenze Drive Systems in Shanghai. Stefanie has been overseeing the HR activities at Lenze in China for over 9 years and gives us her insight into what it is like to manage the HR operations of 15 offices nationwide.

#### What cultural differences have you observed between Germany and China? How do you overcome them?

The biggest cultural difference is how people communicate, which is also the answer to the question of how to overcome it. At Lenze, we believe it is crucial that people who work together on the same international team meet each other in person, so they can put a face to the voice they speak to frequently. We have found that this improves every day communication dramatically and makes a team stronger. Our staff understand each other better, resulting in an overall productivity increase.

In terms of HR management, the biggest difference is flexibility. China is a fast-changing country and it is much easier to try and implement new strategies and approaches. In Europe, rules and regulations are long established and certain outside

factors, such as laws and habits, are ingrained in this mature market. This makes China both challenging and exciting when you work in the HR field.

#### What are the differences in recruiting new talent in both countries?

Actually, I have to say that some of the challenges are quite similar between the two. For example, we are facing a shortage of technical talent in both. The difference is that in China, this has always been the case, while in Europe, this is a relatively new phenomenon. Historically, finding staff in Europe was easy and more focus was placed on retention. But now, there is also a talent shortage in Europe and it is not easy to find the right people. Especially for jobs with very specific know-how requirements, it is difficult to fill these positions.

#### Speaking of finding the right people, we are often asked about the current hiring trends. Are you increasingly localising your staff or still bringing in expatriates?

We have definitely started localising more although we will continue hiring expatriates, especially in the technical sector. Even after intensive training, experience is something that cannot be taught. A large amount of the key technical knowledge comes from our Headquarter in Germany, so it is essential that we keep bringing expatriates over to China to train local staff. We also like to bring our Chinese staff to Germany to train them so that they can bring back the necessary know-how and pass it on to their colleagues. Overall we have seen a great increase in the talent that

China has to offer and of course we want to harness this as much as possible.

#### With several sales offices and a big production facility in Shanghai, is it challenging to recruit staff?

Yes, this is indeed a challenge especially in the more remote areas. We have relatively high requirements for both technical and sales people because everyone needs to have a technical background, so we are talking about a very narrow pool of possible candidates. Sometimes we ask our current staff to take on new assignments for a certain period of time because they bring knowledge and experience. When we need someone new, we use a number of tools to find the right people, such as our website, job sites, and industry websites. For active searches and high level positions, we prefer to use a recruiting specialist with international reach, such as Fiducia.

#### After recruiting, staff retention seems to be the next challenge. What is your secret formula to retain your staff?

We believe that an employee should have the opportunity to grow with the company.



## How Fiducia Can Help

Fiducia offers a range of service to help with your HR needs in China and Hong Kong:

- ▶ Executive Search: finding and retaining top talents
- ▶ Salary surveys and benchmarks
- ▶ Payroll processing and individual income tax planning
- ▶ Effecting changes of directors, board members, and legal representatives according to local law
- ▶ Providing templates for labour contracts and Employee Handbooks
- ▶ Obtaining work visas and residence permits

Email us at [contact@fiducia-china.com](mailto:contact@fiducia-china.com) for more information.



This starts from when they are first hired with newcomer training in Shanghai and continues throughout their employment at Lenze. We offer training and development, as well as team building so that our staff feel comfortable at the work place. We see it as positive reinforcement: when our staff grow and develop, the company will perform better, and in turn offer more opportunity for further growth. We want to help people see their future with us, as early as during the interview process.

However, in China this can be challenging because there is a kind of obsession with becoming a manager. Of course, some people are suitable and others are not and for this reason we have implemented what we call a dual-ladder approach. For us, a specialist has the same importance as a manager. We try to provide different options in terms of career paths for management, as well as specialists. All too often we have encountered technical engineers wanting to develop into sales management for no other reason other than wanting to be a manager. This technical engineer is very valuable to us, but without sales experience and expertise, this value is lost. For this reason, we have developed a similar hierarchy for the sales team, as well as the technical team, to provide a clear career path to all.

### What are typical pitfalls of hiring in China?

When we first started in China, we used to hire an entire team from the same province for our shop floor. Soon we found out that they were all friends, relatives and acquaintances and that brought with it a number of challenges, as people took their private lives to work. Throughout the years, we have overcome this by hiring a mix of people on the shop floor level from different provinces, as well as genders. We try to staff more women to keep the balance in check. With this mix, our employees focus on work and work flow and don't bring their personal lives to work.

We have also found that background checks

are becoming increasingly important. Actually, when I first started at Lenze, we only did background checks for high level positions. But now it is essential to hear the views of different people, especially in a narrow industry such as ours. Having said that, we also need to be careful about who we talk to. Confidentiality and discretion is key in a small circle industry.

### What trends and challenges can we expect in the coming years?

The so-called "war on talent" will become fiercer over the next years. I would advise companies to change their strategies and offer attractive packages to their prospective employees. We have seen a shift: of course people are looking for an appropriate salary but increasingly we have seen more emphasis placed on career development. When hiring, it is essential to present these options. For example, we have found that a long term assignment to a foreign country is attractive to prospective employees.

The work-life balance is becoming more important, as well. A few years ago, it was quite normal to work in Shanghai with your family being 3 hours away. Now, this is not the case anymore. Most people request to have their family transferred. As China continues to develop, more opportunities are arising in Central and Western China, which will undoubtedly bring about change. We have already seen skilled people leaving Eastern China to return to their home provinces. Due to this, it is important to monitor your staff closely to know exactly what their demands are, especially if they are far away from their family. The people are very flexible in China and companies have to learn to adjust as well.

On the other hand, for senior positions in China salaries have come closer and closer to their German counterparts over the years. But all in all, hiring is no longer just naming a salary. As an employer, we must focus on adjusting to the times and offering a complete package with room for growth to create a long-lasting and positive working relationship with our employees. ☺

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Stefanie Xia-Bramekamp is the Vice President – HR at Lenze Drive Systems in Shanghai. She has lived in China for over 11 years.

Lenze Drive Systems (Shanghai) Co., Ltd. is the local representation of the Lenze group in China, producing and selling drive solutions and technology.

## Understanding China's Labour Laws

You have found the perfect employee, but what next? We will help you navigate through the Chinese Labour Laws to make the process easier for you.

### Hiring

According to the Chinese Labour Laws, a foreign firm without a registered entity in China cannot employ staff, whether local or foreign. They can only do so through a WFOE. Representative Offices can outsource hiring their staff through HR service providers, such as FESCO or CIIC, which, of course, will come at a price.

If you do not have a registered business in China, you can hire through your HQ or regional office, such as a subsidiary in Hong Kong but only on a contractual consulting basis. The upside in this case is that the arrangement would not be under Chinese Labour Law and thus not subject to restrictions on probation, notice periods, jurisdiction, etc. A clear disadvantage to the employee is, however, that he or she would have a complicated tax situation and will not be part of the social security system. For this reason, a consulting contract is only a temporary solution. Please note that if you hire a non-Chinese national under a consulting agreement, China will not provide a working permit to him.

### The Paperwork

In China, it is common practice for employees to sign an offer letter, which acts as a binding agreement, before the official contract. The employment contract is often times only signed on the first day of work but no later than one month after the on-boarding.

We recommend having two variants of the contract, one for senior level positions and one for the rest. This is necessary so you can implement stricter measures on non-competition and non-disclosure clauses, overtime, rights and obligations depending on the job title. Obligations of a senior level employee may include being the beneficiary of a company bank account or handling the company stamp, a task that comes with great legal responsibility. Never underestimate the power of the company stamp: with it, a person can open and close bank accounts and sign off on contracts and agreements even when he or she is not a major decision maker, a loophole that is easily abused.

Non-competition clauses, on the other hand, should be used only in specific cases and in critical industries. Compensation must be paid on a monthly basis, even if the former

employee has found a new job. In Shanghai, this amount is at 30% of the monthly salary. These clauses are limited to a maximum of 2 years after contract termination. Non-disclosure and confidentiality terms in employment contracts, on the other hand, are highly recommended and should come with a high penalty.

### Why the Employee Handbook is Important

In general, China's Labour Laws are employee-friendly, meaning the employer needs to make sure there is no room for interpretation in his or her terms of employment. This can be achieved through the Employee Handbook, which carries substantial meaning, especially when an employee is terminated (more info below). For example, if you fail to clearly state your rules on overtime in the Handbook, your employee could claim payment from you. Don't forget to cover the following in your Handbook: working hours, leave policies, travel expenses, chop & signature rules, bank account access, compliance guidelines, IT policies, and contract termination.

### Termination

China's Labour Law only provides a limited number of scenarios that allow an employer to legally dismiss his or her staff. While some situations allow for immediate termination of employment without severance, others require a 30-day notice period or 1 month's salary and severance. Be aware that in China, if a former employee contests a decision for dismissal, it is the employer's responsibility to provide evidence to justify the decision. Some reasons for dismissal without severance include: unsatisfactory performance during probation, criminal activities, or not complying with company rules (Employee Handbook!). Reasons for dismissal with severance can be: sickness renders the employee incapable of fulfilling his tasks, or the company is undergoing verifiable difficulties and must lay off staff.

If there is no sufficient proof, a settlement can be expensive: the employer must either rehire the person or pay him double his average monthly salary from the last year before dismissal, including bonuses and commissions, multiplied by the number of years he was employed at the company, limited to 12 years. Severance is capped at three times the monthly average income determined for his or her city of employment. Considering this, most employers chose to offer a preemptive severance package to the employee to avoid disagreements. ☹

## Investing in Employer Branding



The perfect candidates are not waiting outside your door; they are providing their talents elsewhere - maybe even to your competitors. Are you, as an employer, appealing enough for them to make the switch? By investing in your Employer Brand early, you will be acknowledged as an attractive company in the minds of your future leaders and high-quality staff. The following first steps will create long-lasting value for your team:

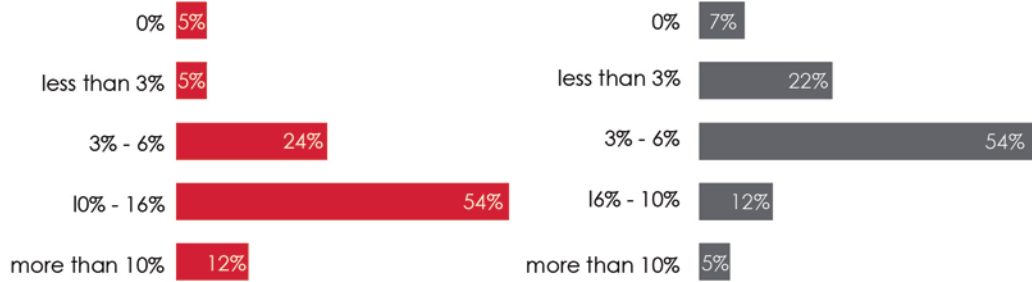
- ▶ Analyse your internal and external situation
- ▶ Set attainable goals/performance measures
- ▶ Implement the concept with regular reviews

We can help you to take your Employer Branding to the next level. Email us at [contact@fiducia-china.com](mailto:contact@fiducia-china.com)

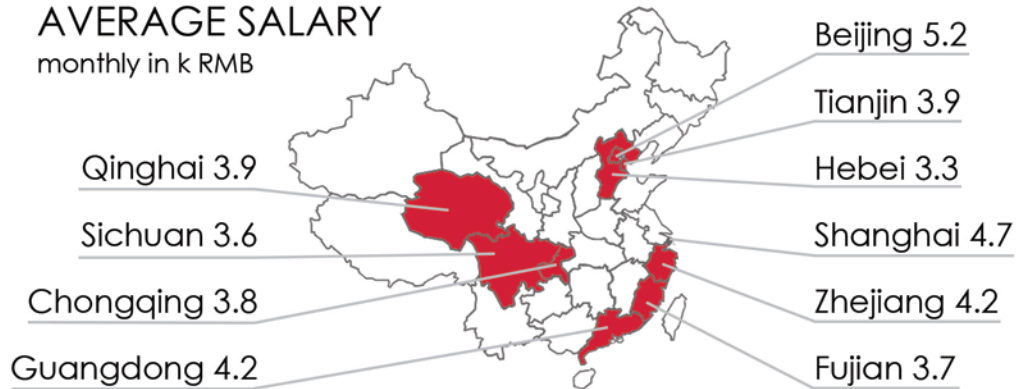
Is your HR strategy in line with current trends in China? Here is what you can expect this year:



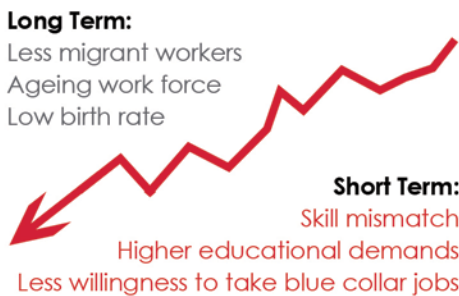
## SALARY INCREASE since last annual review



## AVERAGE SALARY monthly in k RMB



## TIGHT LABOUR SUPPLY due to



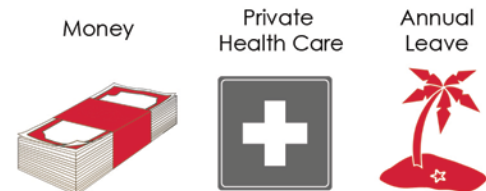
## TURNOVER



## GIVING A RAISE top 5 reasons

- 87% Retention
- 46% Salary Matching
- 43% High Performance
- 41% More Responsibility
- 38% Inflation

## PREFERRED BENEFITS by employees



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