

CHINA FOCUS

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Achieving HR Growth in Unstable Times

Chinese New Year is a critical time for HR in China: employees expect salary increases and bonuses as rewards for their performance while fluctuation peaks. This Year of the Monkey kicks off with a big question mark about the Chinese economy. As a result, the challenge this year will be to manage slower growth while still providing an ideal work place for your employees. In this issue of China Focus, we cover

new trends in HR that are essential for your business in Greater China. Offering pragmatic advice, we bring you the best tips for employee recruitment and retention in 2016.



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There's No Holy Grail in HR - Stick to the Simple Things

China has entered the era of the 'New Normal': higher labour costs and slowing growth rates will have an impact on how we recruit and retain employees in 2016. China Focus interviews Bernard Vanhecke, HR Vice President, North & SE Asia and member of Bekaert Asia's Executive Committee, who manages the HR activities for over 9,000 employees in China, on what to expect for the Year of the Monkey.

Considering the current market climate, how do employees' salary expectations compare to the economic reality?

Especially in industries with a strong presence in manufacturing, the brutal reality is starting to sink in for everyone: things are changing. Previously, when China's economic growth was in double digits, salaries were increasing in line with this. While the general sentiment seems to be that everything is still growing according to target, the overcapacity in China is becoming very clear. As a result, most companies are shifting their focus to increasing efficiency and making maximum use of the resources that are available.

For 2016, I see two general trends: for one, people are expecting their increase in base salary to be in line with the "New Normal" in China, i.e. twice to three times the cost of living, which is still around 4 – 6% but not above 8%. This seems to be the accepted standard among international companies.

Secondly, people are working harder and more efficiently than before and companies have to find ways to reward people for doing a great job with high productivity. So people will be compensated but there is a new reality coming. Interestingly, now for the first time in my China career, I have interviewed good people with 10 – 12 years of experience who were out of a job. I have never seen that before, but it indicates that many big companies are restructuring by trying to do more with less people.

How have you increased efficiency in your HR processes?

We have done three things: firstly, we are now focusing on those HR activities that are really adding value to the business. To achieve this, we surveyed our employees and identified the top 5 initiatives to concentrate on in order to address the real needs of our business. The second change we made, was to streamline our HR processes. In certain instances, our procedures were too cumbersome, requiring numerous signatures and the involvement of too many people, making simple decisions a seemingly huge undertaking. We have managed to cut this down substantially. Lastly, doing this also led us to rethink our entire HR philosophy utilising the considerable advancements in technology. We have, for example, installed a world-wide online training management platform so our staff can manage their own development needs. The idea behind it is that you are responsible for your own career: if you shine, the whole company shines. This bottom-up approach is a complete break from the past.

What are your secrets to success in retaining people?

These days, the most important thing is that people feel they have a future in the company. That means you have to talk to people and listen to them, and also you have to open your eyes and ears. Spend time with your good people and give them a channel to develop their career and voice their concerns. This can be difficult in a big manufacturing company.

Congratulations!

Jan 2016

KraussMaffei Group

KraussMaffei Group, one of Germany's leading manufacturers of plastics and rubber machinery, was bought by a Chinese consortium on 7 Jan 2016 in the biggest investment of its kind to date.

From all of us at Fiducia Management Consultants, we wish the KraussMaffei team a prosperous start to this new chapter. We look forward to continuing our support, as we did during this important time. Congratulations!

"In the past, expats came to China because they had certain know-how... In the future, **expats will come to China to develop capabilities and competencies that they don't have...**"
- Bernard Vanhecke, Bekaert

In the end, people like to feel that they are contributing to something worthwhile, and this is usually a company that respects people and is developing technology to improve the everyday work flow.

Most importantly, the environment you provide should be fun – and fun can have many different faces. Having a solid team and an encouraging boss can make all the difference. Make sure you celebrate important occasions and show that you care. Everyone is looking for the 'holy grail' in HR, but sticking to these simple things usually works. Just remember, if you listen to your people, you have to act upon it as well!



What challenges have you encountered when recruiting in China's third and fourth tier cities?

Even today it is still quite difficult to find suitable talent in these places. Having an executive search partner such as Fiducia to support you really makes the task much easier. For our plants in third and fourth tier cities we bring in people from our other locations to support the team there for one or two years. But even in big cities such as Chongqing it is difficult to find suitable talent.

The problem is not the lack of good people, but more that these people tend to be attracted to cities that offer better education for their children and a higher standard of living overall. In my experience, Chinese people make very conscious decisions about where they want to live and raise their children and therefore, big cities like Shanghai are very attractive to them.

In comparison, what is the future of the 'Expat' in China?

Very different from before! In the past, expats came to China because they had certain know-how, skills, or capabilities that were not available in China. In the future, expats will come to China to develop capabilities and competencies that they don't have in the region where they come from. These are two extremes. While I think there will always be a good mix of local and foreign people, the *raison d'être* is different. Nonetheless, we still have expats in senior positions who are

managing the link to our HQ. However, these days, there are increasingly more foreign, young people who come here because they want to be part of this fast growing market. In addition, we are also encouraging our Chinese employees to become expats abroad, which is quite popular among our younger staff.

What HR trends do you foresee having an influence on foreign businesses in the Year of the Monkey?

Due to overcapacity, I foresee that there will be a shift in labour supply, especially in the manufacturing industry. The battlefield is in marketing and sales. The current China market is no longer about producing but about value management. Companies that are able to attract and develop people with go-to-market competencies will be the winners. For HR, this means getting your act together and focusing on these positions. Remember that it takes time and effort to build the best sales teams in the world!

The days when sales just meant pushing an envelope have come to an end. This market is changing so dramatically that employees will have to learn everything about branding, product management, marketing, and client relationship management to have an edge. Companies that can develop their teams with these skillsets will have an upper hand. ☘

How Fiducia Can Help

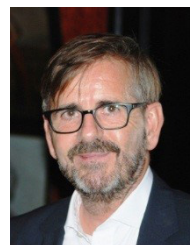


Fiducia offers a range of services to help with your HR needs in the APAC region:

- ▶ Executive Search: identifying and placing top talent
- ▶ 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 for more information.

Bernard Vanhecke is HR Vice President, North & SE Asia and a member of Asia Executive Committee at Bekaert. He joined the company 25 years ago as a recruitment and training manager and has taken up several internal HR management positions since then. In 2012, Bernard Vanhecke was appointed Vice President HR responsible for North & SE Asia Bekaert, and became a member of the Bekaert Asia Executive Committee. He is based in Shanghai China, Bekaert's Regional Headquarters for Asia.



Bekaert is a Belgian steel wire transformation & coating technologies company with 30,000 employees worldwide and €4 billion in annual revenue. With over €1.4 billion of accumulated investment in China, Bekaert China operates 20 sites in 10 locations, including manufacturing plants, an R&D centre (one of the only two worldwide), an engineering plant, a trading company and the Asia Regional Headquarters.

Staying Ahead: the Freudenberg Approach to Employee Satisfaction

Retaining talent is no longer just a salary and titles game in China. Local employees are increasingly looking for chances to develop their careers and grow professionally. While international companies have typically been at the forefront when it comes to training and advancement plans, their local counterparts are quickly catching up in order to attract and retain the best people. This makes the “war for talent” even more competitive, as companies are looking for innovative ways to remain attractive to their most promising team members.

This is exactly the reality that drove the top management of the Regional Corporate Center Asia of Freudenberg Group based in Shanghai, to rethink their approach on employee retention. They realised that while offering competitive remuneration packages is important, career and development opportunities are the ultimate key to long-term staff retention.

Besides different generic training programs, functional trainings, and professional networks, Freudenberg China has established long-term training programs for junior managers via the “Freudenberg Leadership Development Program” (FLDPA). This program focuses on high potentials, who have proven that they can take on more responsibility and want to grow. Over a time period of almost 2 years the participants pass different modules focusing on leadership skills, presentation techniques, project management, and personal development that help them to develop different management skills and competencies. They meet top executives and are constantly challenged during projects and team work. The FLDPA is an educational and learning platform that offers the chance to develop personally and functionally, while also establishing a network among young professionals within the company.

Now, Bettina Schoen, General Manager Regional Corporate Center Asia of Freudenberg China, is happy to report that they were able to lower the fluctuation rate among managers to a mere 2%. In addition, they have rolled out this program, which was launched in China, on a global scale due to its promisingly high success rate. “We

consider this a win-win situation: not only do our employees gain real job satisfaction, but they are also learning the essential skills for being top managers at our company in the future.” Over 100 Freudenberg employees in China have completed the program with many more applications coming through on a regular basis.

Considering that 53% of companies in China are looking to expand their headcount in 2016, it is essential that HR departments start thinking about long term strategies for keeping their employees engaged. As China’s economy is maturing and moving away from manufacturing, white-collar professionals with soft skills such as effective communication and critical thinking are in high demand. This, coupled with a general labour shortage, in big part due to China’s aging population, adds substantial competition for a limited pool of people.

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According to a recent major salary study, the most popular means to foster retention in China in 2015 was offering a structured career progression plan. In addition, the second

biggest reason for employee turnover was the desire for advanced learning and experience building. Because of this, it is crucial that international companies invest in their employees if they don’t want to lose them.

Here are some HR initiatives you can implement to stay ahead of the curve:

- ▶ **In-house development programs** such as the FLDPA will reassure your employees that you are committed to their growth.
- ▶ A **structured career path** will give your employees a long-term vision with your company and an impetus to perform. Impressive job titles are still sought after in China and an added incentive to stay with your company.
- ▶ **Mentoring sessions** with senior managers can build a close connection in the team and integrate more junior staff into the company culture.
- ▶ **Education subsidies** are increasingly important especially with Generation Y Chinese looking to complete a Masters Degree. In return, it is common place to require employees to stay with the company for a certain amount of years.
- ▶ **International exchange opportunities** foster the cultural awareness necessary for today’s global business environment and give your employees a chance to broaden their experience. ☘

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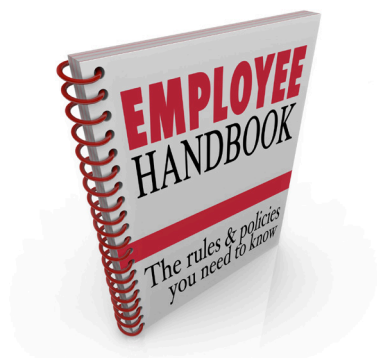
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HR in 2016: What You Need to Know

Tips for Your Employee Handbook



- ▶ Use clear, concise, and consistent language: there can be no room for interpretation.
- ▶ Refer to it in daily operations and performance reviews as often as possible.
- ▶ Each employee should sign a document confirming they have received, read, and understood the Employee Handbook.
- ▶ All policies must be in line with the Labour Law on a local and national level.
- ▶ In China you must be clear on what your staff *cannot* do.
- ▶ Have an expert review the document since it is legally binding for you as well!

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The Salary Reality

China is no longer a source of cheap labour, as it was in previous decades: double digit salary growth rates over the last ten years were commonplace, especially in urban centres. But the economy is slowing down, making this kind of growth no longer sustainable. Nonetheless, Chinese employees are addicted to these high increases they received in the last few years. The impact of this will be twofold: on the one hand, companies will have to figure out innovative ways to retain their employees while also managing expectations. This can include measures such as mentioned in the previous article. On the other hand, labour is becoming more expensive, placing more emphasis on efficiency and productivity. This could lead to a more widespread introduction of robots in manufacturing, especially as China is moving up the value chain, leading to a change in overall skill requirements.

The Importance of Going Digital

With 670 million internet users, digital recruiting strategies are essential in China. Here are a few helpful tips to follow: 1) **Know your channels!** You can't maximise your reach using Facebook. Instead, use local platforms, such as WeChat and Weibo to post your jobs. 2) **Be present!** Keep your profiles up-to-date and be reachable to make your company more attractive and approachable. 3) **Analyse!** These days, there are a number of tools available to track your campaigns so you can measure their successes and failures. 4) **Set expectations!** With the amount of people you will reach by posting online, the right one will be a diamond in the rough. 5) **Understand trends!** Hashtags? WeChat stickers? Mobile? The online world changes fast and so should you.

The Why of Generation Y

Born in the 80s and 90s, China's Generation Y consists of between 250 - 300 million people, or 3 - 4 times the entire population of Germany! Compared to their predecessors, this internet-savvy group of consumerism-driven "20 to 30 somethings" has a different outlook on life and work. With hard-working parents who experienced the opening-up of China and its rapid economic expansion in the context of the one child policy, Generation Y is privileged enough to have

received higher education, relative stability, and global exposure. As a result, they place more emphasis on their work-life balance and generally have a more entrepreneurial spirit. They want to travel, experience, and impress. Employers should keep this in mind when hiring GenYers, by, for example, offering work travel, cutting edge technology, and flexible working arrangements.

The "Local Plus"

The classic 'Expat' in China is slowly becoming extinct for various reasons: 1) China is now an alluring market, promising success and adventure for young Western professionals wanting to escape high unemployment rates and lack of opportunity back home. Comprehensive packages that offer housing, drivers, and more are no longer necessary for attracting foreign talent. 2) In addition, competition from local talent is on the rise: with more disposable income, a rapidly increasing number of Chinese choose to study abroad where they pick up foreign languages and ways of thinking. This, coupled with their existing knowledge of the home market, make Chinese employees desirable for foreign and local companies alike. 3) Lastly, it has become commonplace for companies to engage in knowledge transfer to build up the competencies of their local team and integrate their global operations. This includes sending their Chinese staff abroad and engaging in specific training programs. As a result, there is not much room for foreign employees without a very specific skill set.

The Termination Trap

Employees in China are highly protected by the country's Labour Laws. There are only a limited number of situations in which a company can legally dismiss an employee, including non-work-related medical problems, incompetence after having received training, and a change in job description after their contract has expired. And very few that allow immediate termination, including corruption, being employed by another company, or engaging in criminal activity. As this is the case, we advise to specify goals and responsibilities in as much details as possible in the employment contract. In addition, having a solid Employee Handbook is essential to avoid any messy disputes. ☹

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