

Growing Pains

As companies expand across China, can the HR industry help organisations to cope with the challenges associated with rapid growth?

By Hunter Braithwaite

DURING THE RECESSION, when many firms stumbled, Chinese firms continued aggressively hiring new talent, with the expectation that the downturn would correct itself soon. They were right, and now MNCs are struggling to keep up. According to a report issued by recruitment consultancy Michael Page, 53 per cent of firms based in China predicted that they would expand in the second quarter, compared to 47 per cent in Hong Kong, 36 per cent in Singapore, and 34 per cent in Australia.

However, growth brings a series of problems. Already, there is even fiercer competition in the first-tier cities, which in turn has led to rapidly rising salaries and retention difficulties. In response, many firms are moving to cheaper locations—China’s fast-developing interior cities. These three issues, rising salaries, questions of retention, and westward expansion, are the chief concerns of HR firms today.

Rising Costs

Cost is the main reason that industries are leaving Shanghai for second- and third-tier cities. The most visible aspect of this increase is salary level. In China, 68 per cent of employers surveyed for the Hays 2011 Salary Guide recently raised their salaries by 3-10 per cent, and 22 per cent by more than 10 per cent.

Laura Shen, Director of Hudson RPO and talent management in China, says that some of their clients are seeing a 25 per cent increase in salary benchmarks. There are many reasons for this. “The higher expectation of candidates, their families (due to the rising cost of living), as well as fierce competition” all

contribute to this upward trend.

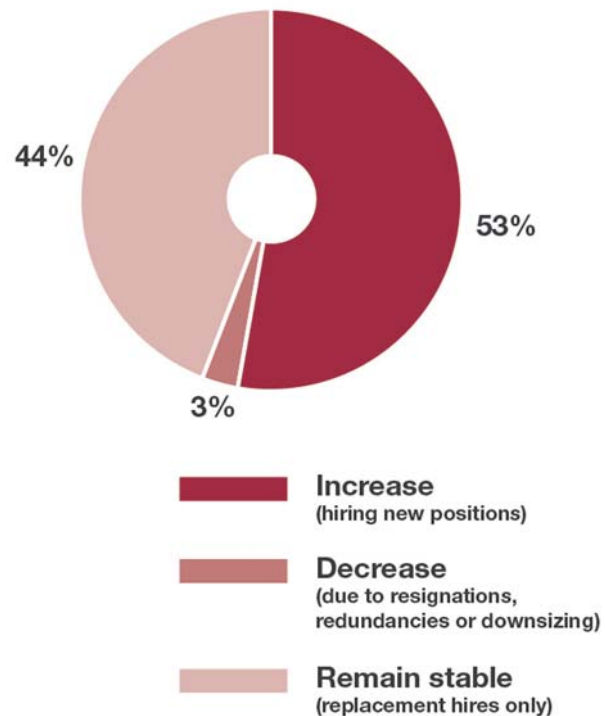
The problem could also worsen. Many salaries have not yet risen with inflation, creating additional pressure. Michael Page notes that in China, only 44 per cent of wage growth is in line with the inflation rate. 29 per cent is below it, second in the region only to Singapore, with 31 per cent.

But it might not be a financially viable option to continue raising salaries against the cost of living benchmark, increasing the overall cost of business. In the

HR department, the challenge lies in “justifying the high salary expectations, getting a sufficient budget to attract new talent while at the same time maintaining parity for the existing employees,” says Shen.

Christian Groeger, client relationship manager at Fiducia, a management consultancy firm, explains why new hires can command such high salaries. “The ability is there because the market is there. In many industries there is a substantial pay inequality, so you can

Predicted staff numbers for Q2



China’s employers want to grow, and they need people to drive growth.

Source: Michael Page

often get a 20 per cent salary jump just by switching companies." Shanghai offers the best and the worst for those trying to retain employees.

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"You find the best talent pool, but also the most competition," says Groeger

"You find the best talent pool, but also the most competition," says Groeger, who realises that while most firms pay the higher costs, some cannot afford to. "That's a predicament for many firms.

An alternative is to look to other talent pools. For instance, it might be easier to get a foreigner who has come to China for work to do a job for the same money." Flexpats, as they are sometimes called, are usually in junior positions without much experience. These people bring an international skill set that is hard to find with Chinese employees.

Laura Shen also recommends creative solutions for firms that cannot afford to simply pay the highest price. "When sourcing and attracting talents, in addition to ensuring a reasonably competitive remuneration package, companies should also review and demonstrate their unique employer brand and selling points through all possible platforms such as campus recruitment, social networking, exhibitions, and media and

press conferences." It's an integrated world, and the firms that utilise this will be the most successful.

Westward Expansion

All industries are quickly expanding, but operating costs in first-tier cities have become prohibitively high. The answer seemed too simple: move west. "Many big businesses are now tapping into these 'smaller' cities, 120 of which have populations over one million. Production is cheaper, real estate has more potential for appreciation, consumers have increasing disposable incomes and overall economic growth rates are climbing rapidly," says Emma Charnock, regional director of Hays in Hong Kong and China. There are many examples of this. Microsoft went to Jinan, in Shandong province. Morgan Stanley has set up an office in Zhuhai. IT and high tech companies have moved to Chongqing and Chengdu.

However, endless expansion isn't possible, especially given the pervasive ►►

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GAINING MOMENTUM

People Momentum Management Consulting helps organisations grow through the strategic development of their people. The company offers practical guidance and a scientific approach to leadership recruitment, development, retention and succession planning. Managing Partner May Lam explains how People Momentum's tools, and their team, helping them to create momentum in organisations.



The localisation of leadership continues to develop in China. People Momentum has focussed on identifying and developing individuals who could be future leaders.

What do you see companies doing that is less effective in sourcing leadership talent? What is more effective in your experience?

Many companies have experimented with different methods: Using headhunting firms; recruiting high-potential MBA

candidates; or running potential leaders through elaborate training. Top companies think beyond a job description and improve the total recruiting and development process. At People Momentum we work carefully to see **what the job demands**, and then we use that to **understand the profile** of a superior candidate for that role. Next, you must examine the candidates in order to get a feel for their potential performance and **how well it will fit the demands** of the leadership role you have scoped out.

This evaluation must be accurate, rigorous and systematic. Our profiling methods centre around TriMetrix (psychological) tests that highlight a candidate's potential for performance by looking at their behaviour, their motivation, and their ways of thinking.

When this information is applied, it allows us to find out how the candidate is likely to perform, and what kind of gap exists between their current potential and the demands of the post. If they are the best candidate, those gaps will also be important, because they allow us to use targeted development to better prepare them for a leadership role.

Besides leadership, teamwork and collaboration are critical competencies for global companies to master. What are the challenges that MNC's and Chinese companies face in building diverse teams internally?

People Momentum is working with both MNCs and Chinese companies to help them to build diverse, international teams. Chinese businesses are starting to compete on the global stage, but they still face challenges in improving their management practices and also accommodating non-Chinese employees. Chinese companies can be

quite different from MNCs, since their people management practices are often not clearly defined and require much cultural background in order to work effectively within them. MNC's also face challenges in terms of their headquarters' interaction with these local leaders.

Progressively clients have asked us to design systems, processes and even facilitate the change of mindset that goes with high-performance teamwork and collaboration. The biggest challenge we encounter is sustaining a commitment to building this kind of culture, which requires hard work.

How do you support organisations in working towards an effective blend of western and eastern business cultures and practices?

We work as partners with our clients, so that we can fully understand what they need as an organisation, and how that translates at an individual level. **Cultural change and improved management practices** are strategic issues, and we help our clients to design and implement more effective people management solutions.

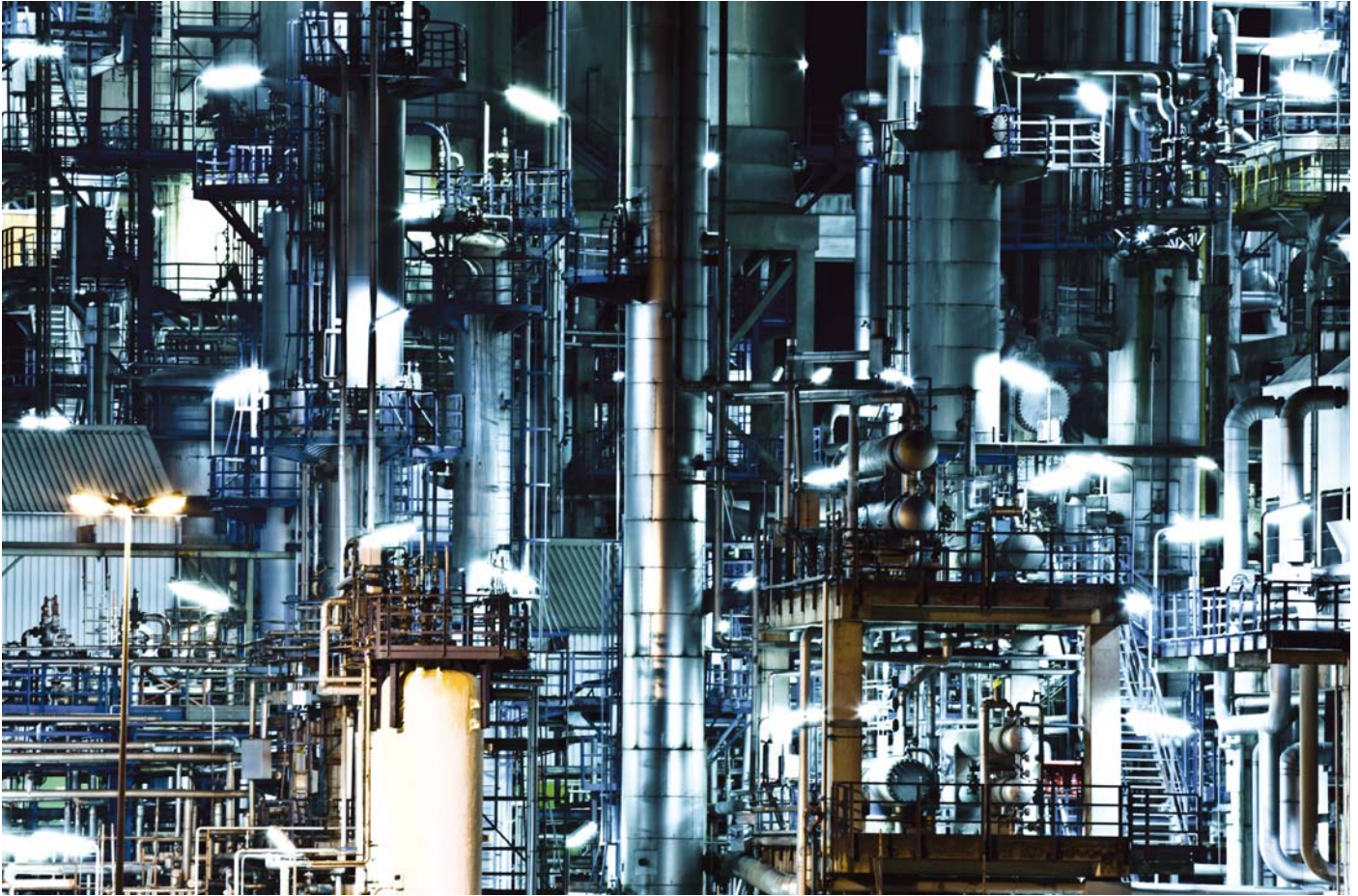
The consultants here are our greatest asset when we work with clients in this way. We're all from international business background – we have talent from across China who've worked in western and Asian organisations and environments, as well as talent from beyond China. So, on a personal level as well as in the workplace, they've already met many of the challenges that our clients are now facing, and demonstrate **deep understanding and empathy**.

We're also passionate learners – that's quite essential for consultants in China, where things can change quickly – and the range of clients with whom we're working gives us plenty of opportunity to benefit from their experiences, **cross-fertilize** and then apply this knowledge and experience to help other clients similar challenges.



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Where is everybody? Industry is expanding into more remote regions – but can companies find the manpower and the managers to people their new operations?

talent shortage. “There’s a shortage of those with relevant experience. The skills are out there, but they just don’t match the pace of growth,” says Andy Bentote, managing director at Michael Page.

There’s also a knock-on effect. Expansion requires appropriate support at the regional HQ – but as yet there are few managers with deep experience in some of the areas into which MNCs are now expanding in China. “The biggest candidate shortage occurs in companies with their regional, or Asia Pacific, headquarters in China,” says Bentote. “They want local candidates with regional exposure. These are often difficult to find.”

A major factor is education. While there are innumerable degree-granting programmes in China, the vast majority of recent graduates do not have the experience required for even entry-level positions.

Moreover, the recruitment HR firms are facing problems similar to those affecting their clients. “The support networks aren’t in place,” says Bentote. “There are very few recruitment companies who have an established office in Chengdu, or other second-tier cities. We have to find people to staff these; we’re in the same position as these companies. However, it will catch up within 18 months.”

Hugo Zhang and Pierre-Yves Gerard, managing directors of Bo Le Associates, Ltd., have seen a sharp increase in managers and executives located outside of first-tier cities. Between the first quarters of 2010 and 2011, the firm saw an increase of 175 per cent in second-tier cities. This is compared to an increase of 59 per cent in first-tier cities. At 49 per cent of new hires, middle management is the most highly-sought employee group in developing cities. “Today, we see a strong demand for a start-up minded

sales manager or director as still many international companies are coming to China or want to transfer new products to the Chinese market to follow evolution of demand. HR directors with higher management vision are also in strong demand,” say Zhang and Gerard.

There are many reasons why a middle management employee would abandon the first-tier world. “People are disappointed by the quality of life in Shanghai. They want something more relaxing. In smaller cities, the commutes are less,” says Gerard. The benefits are further reaching than less traffic. Taking a position in a remote location translates into responsibility and commitment, and can mean quick advancement for the employee. A successful firm would highlight the career potential for taking such a position.

Christian Groeger, however, remains ►►

Money, Money, Money

Three major salary surveys for 2011 agree that the rise of salaries is a critical issue for MNCs

Additional research by Susie Gordon

As businesses grow and develop across China, figures released by major recruitment and Human Resources firms highlight rising salaries as a key concern in H1 2011 – and beyond; surveyed employers suggested that the rise could continue into H2 2011, and 2012.

The trend was set against a backdrop of increasing competition for the right talent, especially during a period of growth.

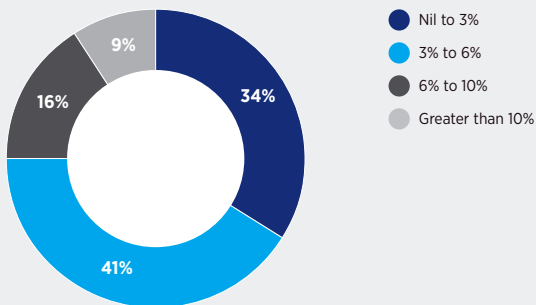
Of the employers surveyed for the

Michael Page Q2 2011 Employment Index, 94 per cent predict that business conditions will remain stable or improve through the second quarter of 2011, and 53 per cent plan to increase the headcount of their workforce. This figure puts China firmly at the forefront of growth by headcount in the region; corresponding figures from Hong Kong and Singapore were 45 per cent and 36 per cent respectively. Despite this healthy growth, respondents acknowledged the challenges they faced, and 57 per cent of

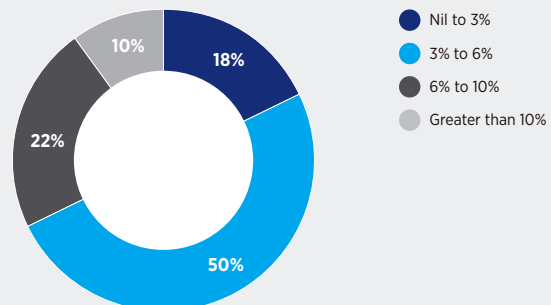
those surveyed saw wage increases as the major challenge in HR.

The Hays 2011 Salary Guide draws attention to the same problem. The Hays report also found that skill shortages are an ongoing problem, especially in the financial services, IT and finance technology. China suffers from a shortage of candidates with high-level English skills. With this supply and demand in the background, China saw the highest increase in salaries in the Asia-Pacific region.

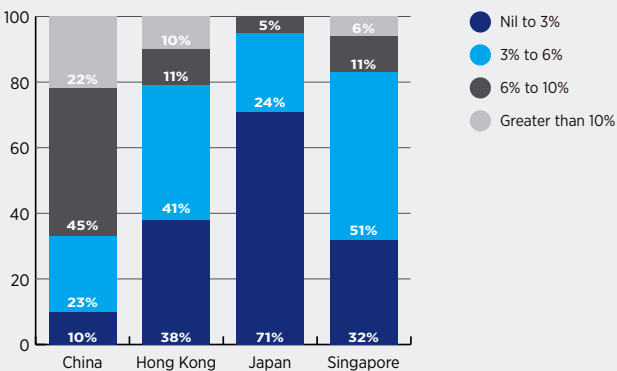
On average, by what percentage did you increase salaries in your last review?



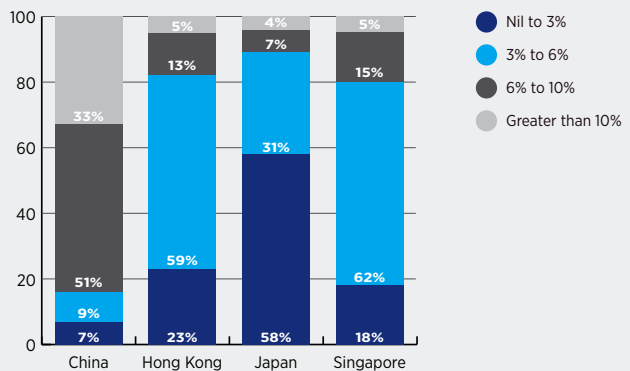
When you next review, by what percentage do you intend to increase salaries?



By country:



By country:



Source: Hays



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The report found that 68 per cent of employers were putting salaries up between 3 and 10 per cent, while 22 per cent of employers were increasing pay by more than 10 per cent. Further increases are expected in 2012, with 51 per cent of respondents planning to increase salaries by 6-10 per cent, and 33 per cent by more than 10 per cent.

Benefits are an important benchmark of a company's performance. The Hays report found that 59 per cent of Chinese firms surveyed offer health benefits. Forty-nine per cent offer housing allowances, while 47 provide life assurance. Around 33 per cent run pension schemes.

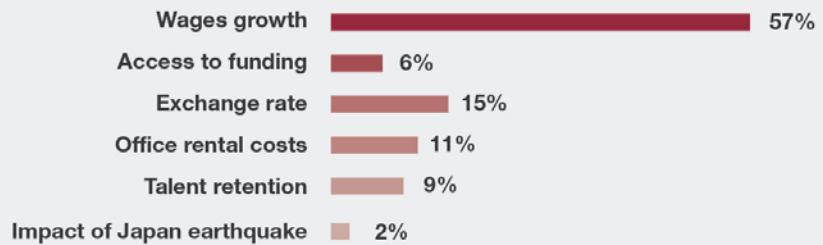
The Hudson Report for Q2 2011 revealed similar trends. Hiring is on the increase, with 77 per cent of respondents expecting to recruit more staff in Q2 up

61 per cent said that candidates' demands for higher salaries were making it harder to recruit top talent

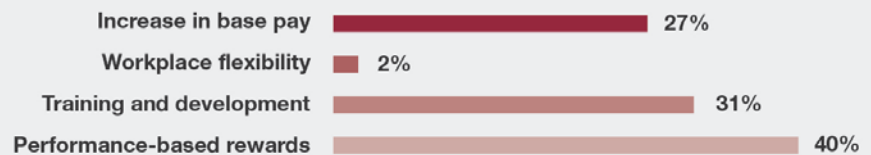
from 64 per cent this time last year. The demand is strong in all areas, but sales professionals are particularly sought after, with 60 per cent of employers intending to increase headcount in this field.

Indeed, 73 per cent of respondents across all sectors said that recruiting top talent has proven more difficult during the past 12 months. The main challenge as reported by 37 per cent of companies surveyed is finding the right staff. With this pressure, their other concerns included skill shortages – and increasing salary demands. While 20 per cent of respondents cited rising wages as their key concern for the second half of 2011, 61 per cent said that candidates' demands for higher salaries were making it harder to recruit top talent.

Key business concerns for Q2

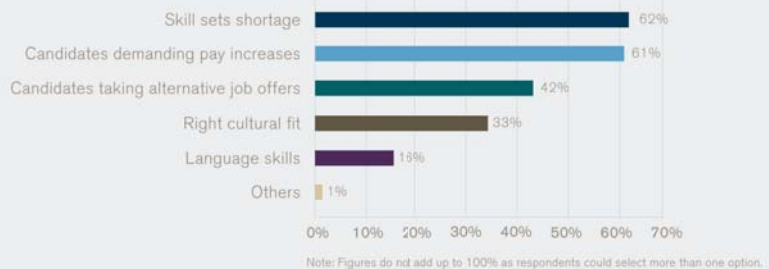


Key retention strategies for Q2



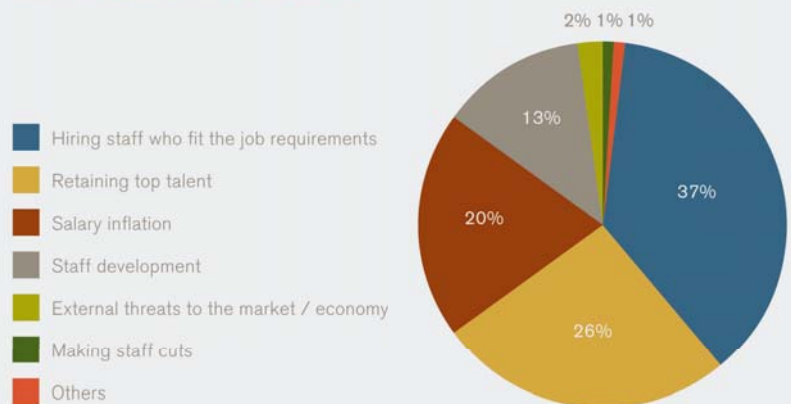
Source: Michael Page

Reasons for difficulties in recruiting top talent
Source: The Hudson Report, China - Q2 2011



Critical HR challenge in the next six months

Source: The Hudson Report, China - Q2 2011



Source: Hudson



Employers need to convince employees that emerging business hubs, such as Chengdu, pictured, offer genuine career opportunities.

Source: © Hupeng | Dreamstime.com

for quality out-of-town candidates.”

Maeder recommends a multi-pronged approach. There needs to be a financial incentive, but the relationship between the employee and the management, and the overall company culture, are becoming increasingly important. The employer needs to create an environment that welcomes newcomers, to implement “reachable but challenging goals,” and to foster mentorship between new and established employees. Aspects of the job such as flexible working hours and workplace design should not be overlooked.

Generation Y has often been accused of hopping between jobs. This can be discouraged through deferred compensation plans and counseling to “moderate unrealistic expectations for fast development,” says Maeder.

It is also important to offer coaching. According to Michael Page, companies in China attempt to retain their staff with coaching and training, and 31 per cent offer extensive training and development

as incentives.

“A study recently came out. If you only use training, productivity will increase 20 per cent. But if you use a combination of training and coaching, it will increase 88 per cent,” says Peter Karlsson, a former Olympic athlete and coach who now works for Conchius.

“Managers need more training and more coaching. China has a tradition of holding back on training. They’re scared that people will leave. You can’t just train; you have to coach, to create synergy. Then they’ll stay. It’s even more important in remote areas. You have to be self-sustained. You can’t fly it in all the time. You have to create your own success,” says Karlsson.

“Candidates want to get a good salary, says Bentote, “but there’s now also a lot of thought about where the position will get them.” For this reason, the importance of coaching and training cannot be overstated.

Quick Change

The place where these changes are

most visible is the quiet factory floor after Chinese New Year. The holiday has traditionally been a time of high turnover, as workers travel to their hometown and return, often to a different position. Usually, it took factories in Shanghai and Guangzhou about two weeks to return to full capacity. Now it takes as long as two months. “Now, many migrant workers are staying in their home provinces. They prefer to be closer to their families, and although they are earning less they may be able to save more of their income,” says Fiducia’s Christian Groeger.

This shift is creating a vast leveling in China, and it is speeding up, rather than slowing down. “Over the next ten years, a significant number of new cities in China will become the top cities in the world,” says Andy Bentote of Michael Page. “This is based on population, GDP, and other factors. If we fast-forward a decade, it’s won’t be just the Chengdus and Chongqings.” With HR departments tasked with managing the human element, the immediate future of doing business in China is largely their responsibility. **SBR**



More creative incentives, including a mix of rewards and professional development, could be attractive for companies that need to avoid the financial burden of rising salaries.

Source: © Adamgregor | Dreamstime.com

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