

Kellogg School of Management

The War For The Talent In China

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WAR FOR TALENT INTRODUCTION

Reminiscent of the late 90's in Silicon Valley, China is currently experiencing growing pains. The need for experienced talent, especially as it relates to executive positions, has stymied most multinational corporations. It is somewhat ironic that the country with the biggest population is having such struggles identifying, attracting and hiring experienced executive candidates.

It is our intent to decipher the reasons why multinational companies are struggling to find talent, to understand the state of the labor pool, and the continuing need for "expats". We also explore what executive search firms are doing to help mitigate these issues. Finally, we will examine what local and multinational companies are doing to attract talent.

CURRENT LANDSCAPE IN CHINA

China has grown immensely and is positioned well for continued growth. It has a population of 1.3 billion people, China's GDP has grown at nearly 10 % for much of the last 2 decades and foreign investment in China was reported to be \$60 billion last year. These economic trends certainly bode well for an emerging economic power, yet one obstacle looms and could be detrimental to China's success: the development and use of its human capital. China continues to struggle to find national executive talent and that issue will continue unless they alter the development of the next generation of their workforce. "The United States is the biggest investor in China, yet many of its

companies are struggling to generate the growth they want because of people issues,” says Jonas Prising, president of Manpower North America. “Recruiting the right people, retaining the best staff and developing leaders of the future are difficult tasks in any market. For foreign companies operating in China, there is the added difficulty of understanding how to adapt talent management strategies to the country’s unique business culture and values.”

A white paper, titled “The China Talent Paradox,” reports that rapid economic and social change has spurred a skills shortage that is expected to escalate in the next few years. “The labor shortage in China is even more problematic than in other nations because it is most severe among managers”, Manpower says. Two in every five Multinational Corporations find it difficult to fill executive positions. Competition is stiff for this elite group of employees, and high turnover compounds the issue. Management-level attrition rates in China are more than 25 percent greater than the global average, and replacing a high-performing manager can cost 300 percent to 2,000 percent of that individual’s salary. All this information corroborates what the author of “Doing business in China for Dummies” sighted from his research: that China’s next generation of college graduates are not prepared for new ways of doing business. In fact, according to a recent McKinsey study, China has been graduating more than three million candidates a year from Chinese universities and colleges but still cannot keep up with the demand for human capital from their economy. This McKinsey report, titled "Addressing China's Looming Talent Shortage," said their surveys had shown that less than 10 percent of these graduates will have the requisite skills that multinational corporation’s need. One of the struggles for

the recent graduates is the language barrier. They graduate speaking little to no English thus unable to meet the demand of human capital. According to Ames Gross and Andrew Connor of the Executive Search Firm Pacific Bridge Inc., “In a country where many executives’ résumés proudly list the English language as a skill, there are very few individuals with a true understanding of Western business practices”.

Even when you get beyond these cultural differences, then there is the lack of leadership skills that are inherent in a communist country. A little over 10 years ago the government of China was telling candidates what profession they were going to pursue. This adds up to a lack of supply as it relates to executive talent in China.

It is no wonder that the number of expatriates working legally in China has doubled to 150,000 since 2003 according to the Ministry of Labor and Social Security of China. According to Tony Dickel, CEO of Management Recruiters International Worldwide of China, China needs 70,000 new corporate leaders for international operations in the next five years and currently only 20% of CEO’s in China are mainland Chinese. He also mentioned that over 50% of human resources professionals in China think their current leadership program is below average. This lack of talent supply has led to multinational and local companies basically stealing talent from each other to hire and hopefully retain executive talent.

HUMAN RESOURCES DEPARTMENTS IN CHINA

From our meetings and research we have found that every company puts hiring talent as their number one priority, which means they invest, or plan to invest, in a talent acquisition strategy. Yet most of these companies lack sophisticated models capable of building a large pool of quality executive candidates. Most multinational corporations are aware of this but still face challenges such as lack of resources, financial budgets and sophistication. The notion of proactively mapping out the market to determine the size of the talent pool and understanding the interest level of a company's employment brand is non-existent.

We met with General Mills in Shanghai, where we had discussions with Jason Grover, Director of HR and Kevin Nosbisch, VP of Finance. Their number one priority was succession planning for top person(s) and filling his executive staff. Their experiences have been like so many other multinational corporations and according to them "China is in the midst of a perfect storm: Double digit top-line growth coupled with a severe lack of talent, combined with the fact that China has about ¼ the executive labor talent the US possesses" is causing major headaches in staffing . That being said, most (ninety percent) of General Mills' executive positions are filled through search firms.

This seems to be the industry standard, as staffing divisions of human resource departments continue to struggle to keep up and position their companies to candidates at the right time. By western standards, there are no real "major job boards" like Career Builder or Monster to post job advertisements. Culturally, it is difficult and a slight

unknown on how an employee referral program would be accepted and administered. Local and multinational companies can advertise with the newspapers but those results produce the same results as they do here in the states, very poor. Given the massive growth in tier one and two cities, it is hard to ascertain the exact labor pool one has to draw upon. When candidates are identified, the staffing department has little to work with when evaluating a candidate. Even though Multinational Companies can bring with them behavioral based interview skills and questions in order to assess a candidates qualifications, there are no China specific real assessment tools, drug screening tests or background check services in China.

Given the lack of hurdles in the hiring process, as pointed out above, it might make one believe that the hiring process must move quickly, but that simply is not the case. Our research indicates that it takes 10 weeks to hire a candidate as compared to 8 weeks in the United States. We could only speculate that the interviewers carry with them a western philosophy that there should be a specific number of candidates interviewed before making a decision. We also found that it is common for candidates to say yes until the very end, as to not upset the person(s) who is interviewing them, and then turn down the opportunity.

Adding to the intensity and magnifying the issue is the fact that the Chinese economy continues to grow with the continued expansion of new companies to China. The executive candidates are starting to take advantage of this high demand and rapid expansion by holding themselves out as “free agents” and elongating the interview

process in order to identify more lucrative opportunities. It is evident that the candidates know they are in the driver seat and they are the ones that are becoming more sophisticated with each interview and job change.

We met with Management Recruiters International Worldwide Chief Executive Officer of the China Group, Mr. Tony Dickel and he said, “Over 85% of the sought after talent are Chinese nationals”, which highlights how much companies are willing to battle it out for the right people. The intensity in the market has caused base compensation rates to jump by 33% for total compensation in the top talent pool in 2006. While there is significant evidence that shows regular salary levels are increasing by around 8-9 percent annually, “a Management Recruiters International Worldwide study highlights the shortage of mid and senior level positions as they move from one multinational corporation to another,” said Dickel. Further, Mr. Dickel believes that multinational company’s human resource departments have become so distressed that they have become about 90% reliant on search firms to deliver candidates. A big reason is that multinational companies cannot keep up with compensation creep going on within all of the tier one and two cities within China. According to MRI Worldwide Country Manager for China, Mr. Michael Royston, 27% of individuals received an increase of over 50 percent in compensation when changing positions at multinational corporations.

“The multinational companies we talk to regularly are finding it difficult to adapt to rapidly changing trends. Human resource departments are struggling with compensation policies and salary bands that are already outdated despite being set within the same year.

Some companies have also indicated the growing gap with new talent being offered up to 50% more than existing staff if they can demonstrate they have the right skills”.

Now add to this mix that the average employee-turnover rate in China jumped from 9% in 2001 to about 14% in 2006. “In markets such as India and China that are seeing rapid growth, globalization, and expansion, attraction and retention pressures have become scary,” says Lindsay Oliver, a compensation specialist with the China practice at consulting company Hewitt Associates. Many companies have been increasing salaries to keep employees. According to 2006 figures from Hewitt, average salary rates rose by 7% to 9% in first-tier cities like Beijing, Shanghai, and Guangzhou, and by 7.5% to 10.6% in developing cities. Even though “localization” of talent will continue, it just cannot keep up and multinational and local companies will be forced to hire expensive expatriate talent to fill in the gaps.

A CANDIDATE DRIVEN MARKETPLACE

Candidates know they are in the driver’s seat as it relates to the process of an employer filling a position. Most candidates are savvy enough to realize there is a labor shortage for English speaking executives and they are not afraid to leverage that fact. Armed with that knowledge, executive candidates know there are little ramifications, if any, for acting like the technology candidates did in Silicon Valley companies in 1999. And just like those U.S. candidates, Chinese professionals do not think the bubble is going to burst for a long time. For example, in one case, we heard of an average executive candidate with a

marketing background changing jobs 3 or 4 times over the course of 3 years and tripling their salary. Multinational companies are left with few alternatives other than to continue to pay the high salaries that the marketplace is demanding.

Management Recruiters International Worldwide of China conducted a recent survey and in our meetings with them they shared some of their findings. They surveyed hundreds of executives that made job changes in 2006. The breakdown of candidates is approximately 85% Chinese nationals and 15% foreign nationals working at over 120 U.S. or European multinational corporations with operations in mainland China. The survey/study findings expose how these candidates are using the lack of talent supply to their advantage. Companies are continuing to focus on hiring Chinese nationals for the vast majority of their executive roles in China, thus candidates are hearing about more and more opportunities. Due to the fact that multinational companies in China are not bound by strict salary guidelines like many established firms in the U.S. (meaning they do not have the internal equity issues of hiring a candidate at 20 or 30 percent more than the staff they currently have) a candidate's salary demands can be met with little regard for other employee's salaries.

These candidates are becoming very well networked in their approach to job changes. In doing so they have a better idea of where they fit in the marketplace. Couple this phenomena with the Western philosophy that these multinational corporations want to only hire the top 20% of available talent places further compensation creep on the small talent pool. It also lends itself to most candidates receiving at least 2 offers during the interview cycle. Most hiring cycles take 10 – 12 weeks for many multinational

companies, during which time the candidate often interviews with multiple companies to evaluate multiple opportunities and then compares compensation. This has an inflationary affect at times and often forces companies to raise their offer to attract the candidate. It is as if these companies are doing it to themselves and there is nothing they can do about it. Even though China has the largest population in the world, the massive foreign investment has left them with an incredibly small group of executive candidates that meet the bilingual and western business philosophy demands.

According to Management Recruiters International Worldwide China Group's, Tony Dickel, the focus being given by headquarters of multinational corporations to their human resource departments in China is on attracting the top 20% of talent. According to Mr. Dickel, "In 2008 we see the rise in compensation trends continuing across China and across industries as firms continue to make bigger investments to attract and retain talent. As 2007 came to an end, we saw employee compensation packages continue to rise sharply and even above the annual average which signals there is no short term solution in sight. This will continue to have significant implications on the recruitment strategies for firms that have less flexibility to pay above certain bands that are set by their company".

Executive candidates are not only taking advantage of the current market conditions, but Management Recruiters International Worldwide of China has found the following alarming trends:

- resumes have become turgid and resume fraud is becoming more common in Greater China than in Europe or U.S.

- compensation is often exaggerated when providing current employment data to a prospective employer
- candidates have been caught with fake testimonials, falsifying education certificates and providing fictitious references
- candidates found to be running their own competing company on the side and using employer company resources for the benefit of their own private firm.
- employees accepting an offer to go and spy on a competitor for 3 to 6 months, then going back to the old firm and share their findings
- hiring family members without mentioning this to headquarters.

Of course there are stories like these in the U.S., but not to the extent multinational corporations are dealing with in greater China. China's inability to truly verify information and check backgrounds is fueling these behaviors.

Even when multinational companies make it through the hiring process gauntlet and hire an executive, they are not out of the woods yet. According to Mr. Dickel, in his 12 years of recruiting he has never seen such a high incidence of counter offers by current employers. Some local and multinational corporations understand what it takes to backfill positions and feel it is worth their time to just offer these executives more money, a better title, or career path as opposed to trying to go out recruit, identify, attract, screen and hire the replacement. Additionally, there is an underlying fear from hiring managers that there is a real risk that staff will leave you before they have had a chance to be effective. Therefore, it is worth it just to match or beat the compensation being offered. Over time, these desperate acts will certainly fuel inflationary salaries.

Because candidates are so closely networked, they alert each other that they can use counter offers to their advantage. Mr. Dickel has seen it numerous times where an executive candidate, that truly likes where and whom they work for but for some valid reason cannot get promoted or receive a raise, he or she will use an offer to force what they want from their current company.

WINNING THE WAR ON TALENT IN CHINA

We mentioned earlier that many multinational corporations lack sophisticated staffing departments. They are not set up to be able to identify, attract, screen, and hire these executive candidates. Given such a distressed environment, what do the staffing departments of multinational corporations need to do to improve their processes and what are executive search firms offering to help mitigate the rising cost of recruitment?

Attracting Talent

According to Erica Briody of Tal-os Asia Limited, one of the leading recruitment process outsourcing companies in China, “multinational corporations need to design and own an “employment brand” or recruitment brand. A recruitment brand is an employment value proposition. It's the essence of an organization, the sum of the parts of a company, it is who the company is, what you stand for, your culture and image as an employer. It's not just a tagline on your career site - it's an immensely powerful message that should be promoted both internally and externally”. She feels local and multinational corporations

need to develop and consistently communicate the company's unique selling points and vision, their recruitment brand. Candidates options are too numerous and to not differentiate yourself from the other companies that are competing for the same executive candidates puts your corporation at a disadvantage. "A crystal clear employment brand can give your organization a competitive advantage in the market place, help you attract, hire and retain candidates with the right fit and can even increase shareholder value and bottom-line profits."

It also appears to us that multinational corporations need to also change their approach when interviewing candidates. The engrained western business philosophy appears to be a systemic problem. Multinational corporations operating in China will need to focus more of their attention on the executive candidate's wants and desires. Looking at the interview process from the executive candidate's perspective allows the hiring managers to offer a better opportunity to each candidate. In talking with Management Recruiters International Worldwide of China we found from their survey that there are some clear and consistent desires by executive candidates. Typically, the executive candidates are looking for a growth opportunity. We found from everyone we met with that one of the biggest considerations given when looking for and accepting an opportunity is the career path that a multinational corporation can offer. In fact, this trumps money on many occasions. Along with a career path, executive candidates are very concerned about their direct supervisor. Most executives can become extremely loyal and like the continuity of a "work family" if they can identify with their direct supervisor. In the case of General Mills, they have experienced fewer turnovers than most multinational corporations and

they credit the managing director and his “work family” approach to managing the China operations.

Planning for turnover

In addition to creating an employment brand, multinational corporations in China need to plan for turnover. The notion of workforce planning seems surprisingly foreign to these multinational corporations. With an effective workforce plan, there is a continuous process that ensures a company has the right number of candidates interviewing at the right time. Ms. Briody feels if companies develop a “market map” of the talent for your key functions, you will have an ability to respond quickly to sudden management changes. Having a roadmap and perhaps a bench of candidates available when staffing needs arise is a competitive advantage but only if you can move quickly and make the process easy for potential executive candidates. If proper mapping has been ongoing these multinational companies have a reasonable idea of what the current labor pool looks like and can reach out to the executive candidates right away. If there are only a handful of executives in this city with this certain set of qualifications and the multinational company is armed with this data, they can react quickly and mitigate the “multiple offers syndrome”. This requires a reasonably sophisticated approach with dedicated resources and technology. Ms. Briody anecdotally mentioned that even the most advanced multinational corporations are not set up the way they are in the U.S. or Europe. As an example, she stated that typically one out about ten individual contributors in these corporations are set up with internet access, leading to staffing

departments not being able to find faster and easier ways to populate databases with a qualified talent pool.

Another credible finding in the Management Recruiters International survey was a candidate's need for respect. It is important to these executive candidates that they are not "just a body" and that their work is meaningful. Specifically, candidates want higher levels of involvement in the decision making process of the corporation. This implies that they are willing to be held accountable to those decisions and therefore they are willing to have performance-based compensation. While this behavior seems to transcend all cultures, it is important to note that status is extremely important to executive candidates in China and if recognition can elevate an employer's status, the folks at General Mills believe that can pay big dividends, and are leveraging it in their approach to retain employees.

Additionally, multinational corporations that are willing to develop long term financial incentives for executive employees (i.e. "golden hand cuffs"), make it more difficult for a team member to leave and are in a better position to attract more and better executive candidates. Some sort of stock option plan or an equity strategy can go a long way, according to Ms. Briody. Although this may seem to be obvious and in some cases extreme putting more money into to put a plan like this, but it could be a point of differentiation between various companies when seeking talent from a limited resource pool and when companies are seeking your employees.

“Localization” of talent will continue but multinational corporations need to realize that at least for now, they are going to be forced to hire expensive expatriate talent to fill in the gaps. Yet, we found that approximately 50% of expatriates are gone in the first year. Western foreigners get frustrated managing the Chinese Culture. The Chinese national executive’s inability to say no and unwillingness to tell their supervisors what is wrong can lead to a high level of dysfunction. Coupled with the fact that westerners are a long way from home and the language barrier is so great, it tends to wear on the expatriates and their families. According to Mr. Dickel if multinational corporations must hire expatriates, they will be more successful if expatriates are from an Asian country, such as Taiwan.

EXECUTIVE SEARCH FIRMS AND RPO’s IN CHINA

All the executive search firms in China appear to be aware of the stress being placed on multinational corporation human resource departments, but they also know what the executive candidates desires are to make a change. It is easy to see that this landscape is a recruiters dream comes true in that 90 percent of jobs are filled through search firms in China.

Albeit somewhat different way of recruiting in China as opposed to Europe and the U.S., search firms still are able find executive candidates. They gain access to targeted attraction channels, open internet boards and private talent portals. In fact, while we were in Shanghai a good portion of our group was approached by a recruiter that was milling around the lobby of our hotel. These different approaches are necessary for a

search firm to find expatriate and localized talent. Necessity has always been the mother of invention and these firms are finding ways to attract executive candidates to multinational corporations. Mr. Dickel mentioned that his firm has list of cell numbers and continues to build that database in order to be able to Text/SMS these executive candidates. He found that email is the most powerful way of communication around the rest of the world, but the Chinese executive candidates respond much better to a SMS/text than an email. In order to meet the demand, Mr. Dickel said, "Good firms reinvent themselves "from blue-jacking" (SMSing) to social networking..... these new solutions allow you to reach out and get the attention of talent". Good firms are also using "value based" or "goal based" screening and this has reduced the percentage of counter offers accepted and reduced the amount of "multiple offer syndromes" for his clients. Mr. Dickel instructs his recruiters that the first conversation with a prospective candidate is about the candidate NOT about the opportunity. He has his people understand what it is this executive candidate wants to do with his career professionally, as well as personally, and to have the recruiters put their focus on the candidates next 3 to 5 years as opposed to the opportunity they are recruiting on. Armed with this information, the recruiters spend more time trying to align opportunities with the candidate's goals and hopefully ensuring a better fit for both the candidate and the company.

Even though firms like Management Recruiters International Worldwide of China have done well implanting these tactical strategies, we feel they have only been treating the symptoms of the problem and not the root cause. The real issue for these corporations is

the managing the turnover inherent to multinational corporations in China while still addressing their growth initiatives. Staffing departments themselves suffer from a lack of human capital, but they also do not have the expertise or the technology to properly address these staffing issues. Executive search firms know this, but only a small portion of them have actually addressed the root cause.

In our meeting with Erica Briody Managing Director of, Tal-os Asia Limited, we found that there is a slow but growing trend with in these multinational corporations. We found that they are accepting to themselves that these issues are too complex and fluid and it is therefore difficult for them to keep up with the marketplace when they are not in the search business. As a result, the growing trend we identified is that multinational companies are starting to outsource the recruitment function or parts of it to a third party, a (RPO) Recruitment Process Outsourcing firm. Erica Briody believes that the potential for a RPO in Asia, particularly in China, is tremendous. “China’s massive growth, coupled with huge talent shortfalls in certain sectors are imposing tremendous pressure on organizations operating in China. These challenges are best met by outsourcing part of, or the entire hiring process, to a third-party to enjoy lower hiring costs, higher productivity and business efficiency.”

A RPO is a business service that allows multinational corporations to focus on their business goals while continuing to address all recruitment related issues at the same time. The definition of RPO service agreement from “[HRO Today](#)” states the typical services provided are:

- The RPO firm re-engineers or re-aligns the client's recruitment process to be more efficient.
- The RPO firm provides and takes full ownership of the full cycle of recruitment services-from sourcing to on boarding is handled. This includes handling such things as the client's recruitment brand and their workforce planning.
- Management of other vendors such as staffing and temp agencies is handled by the RPO firm.
- The provider has some ownership of the recruitment technology typically an applicant tracking system by either supplying it to the client or adapting the client's existing technology.
- Typical contractual relationship covers a minimum of three years with service level performance agreements tied in.

This trend has been growing in western corporation's human resources departments over the past several years. A good portion of multinational corporations in China have been outsourcing portions of human resource functions like payroll and benefits and are getting comfortable letting go more of it, such as talent management.

With the arrival of RPO in China, multinational companies can now be better equipped in the marketplace to identify, recruit, qualify and hire executive candidates. Ideally, the RPO firm builds and maintains a fluid number of candidates that multinational corporations can draw upon when needed. According to Ms. Briody "now these companies can focus in on the quality of the hires and with the comfort that they have a pulse on the marketplace".

SUMMARY

It has been quite an experience to see the different cultures, both from a personal and business perspective, during our trip to China. What was a preconceived notion was not always the case. Our meetings and learning about the challenges that multinational corporations face if they wish to continue to grow has been a great learning experience. It seems like the current market conditions bode well for candidates as well as for the search firms. Of greater interest to us was the evolution of the RPO from search firms. Since the needs in China are so great and the ability to deliver candidates is so difficult, we believe firms like Tal-os Asia Limited are poised for massive growth. This service will become invaluable to employers that want to get ahead of the competition.

The experience has been educationally rewarding to be able to identify what we think could change the landscape for search firms, executive candidates and human resource departments of multinational corporations.

APPENDIX - RESOURCES

Jim Kline, General Counsel, Cooper Tires

McKinsey Global Institute report “Addressing China's Looming Talent Shortage”

Pacific Bridge Executive Search Firm Report Report for China

Jason Grover (HR Director) & Kevin Nosbisch (VP of Finance), General Mills China

Tony Dickel, Management Recruiters International Worldwide of China, Hong Kong

Erica Briody Tal-os Managing Director Asia, Hong Kong

Lindsay Oliver, Compensation Specialist, Hewitt

Jonas Prising, President, Manpower North America’s White Paper [The China Talent](#)

[Paradox](#)