



WHY ONE-SIZE-FITS-ALL DOESN'T WORK IN CHINA – PART 1

UNDERSTANDING HR DYNAMICS IN A MULTI-TIERED COUNTRY

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China's rapid evolution to global financial powerhouse is creating a heightened demand for talented Chinese executive candidates and white-collar administrative staff. Gone are the days when multinationals looked to China only for low cost labor to manufacture goods primarily for western countries.

Today, international HR executives, along with Chinese companies such as Huawei and Haier, are searching for talent, and are all competing in the same pool. Hence, the expression "war for talent" is getting popular.

While job openings in China often attract thousands of applicants, finding the right person can be both difficult and time-consuming. Keeping the right person in the right job is even more of a challenge. For example, in 2010 at least 50 new foreign law firms opened offices in China and began looking for qualified personnel. For these firms and many others, the quickest way to get experienced people was to find candidates in other similar roles. As a result, many multinationals report a turnover among their Chinese employees of 25% a year, and in some cases 30% or higher. Even employees who are satisfied with their work environment regularly face temptation.

One executive reported getting several telephone calls a week from headhunters offering more and more enticing incentives to switch companies. "It is hard to remain loyal and when you experience that kind of pressure," he confessed.

Such significant shortages are commonplace. The astonishing growth of China's middle class and the enormous purchasing potential of millions of recently empowered consumers are drawing new attention to China's premium and mid-tier markets. Increasing the attention on these markets is a growing challenge and has big implications for human resources.

Distinguishing premium segment and mid-tier segments

As competition for skilled employees increases, demands on human resource functions are more intense and complex. Only a few years ago, most multinationals could attract the best candidates from the best universities. Foreign companies were considered solid career choices. They enjoyed prestige, offered foreign travel and other valuable international experience. Nowadays holding on to valuable staff in a competitive market is made much harder because the multinational HR departments face additional challenges. The rapidly expanding purchasing power of China's new middle class means most future growth for companies in China is likely to take place in the previously neglected mid-tier markets. The criteria for succeeding in these markets can be radically different from those required for the premium market segment traditionally targeted by the multinationals.

The premium market demands well-educated, multilingual employees who have a certain level of international sophistication and are able to function in two cultures: China's and that of the company. While brand, technology, product quality and services matter in the premium segment, it is price sensitivity that defines the mid-tier segment. Competing in the mid-tier markets puts the emphasis on understanding the local market in the 3rd and 4th-tier cities and the low cost structure. In this context, foreign language capability may come across as an unnecessary additional expense. Hiring less sophisticated candidates from second and third tier cities may make more sense since they are likely to be less demanding and at the same time they may have a better understanding of the market that the company is trying to penetrate into. On the same score, a candidate who has graduated from a prestigious university is not only likely to demand a higher salary, but he may also have a harder time identifying with and understanding the likes and dislikes of the average mid-tier consumer in the 3rd-tier and 4th-tier cities. At the present time, the 1st-tier and 2nd-tier cities in China are still perceived to be more exciting places and offer better opportunities and better living for most people. Asking experienced executives to relocate to 3rd-tier and 4th-tier cities is a big challenge by itself.

A leading multinational company that recently launched its own start-up targeting the mid-tier market decided to pick new hires for their entrepreneurial spirits rather than based on prestigious credentials. The criteria for selecting people and remuneration package for the mid-tier segment are drastically different from the ones they used for the premium segment, which is consistent globally. Penetrating the mid-tier markets, the company concluded, requires a radically different approach.

No approach can be shaped to fit every need

It's also important to keep in mind that China is extremely big and diverse in terms of geography and economy. Regional differences with different levels of economic developments (inland vs coastal regions, northern versus southern regions) all call for nuanced approaches to talent management.

I have read some conclusions on talent management in China based on survey results that can be misleading mainly because they treat the country as a homogenous unit. Adding further complexity to recruitment, it's also important to remember that people at different stages of their lives aspire to different goals. One Chinese executive working for a Swiss pharmaceutical company was asked to relocate to Switzerland five years ago and turned down the opportunity because her daughter was still in middle school. Now she is actively seeking similar opportunities since her daughter is now in college and independent. Thus generalizations that Chinese executives do not want to work outside of China are not entirely accurate. While statistics tell us general trends, they do not necessarily explain why and offer little help in understanding the actual situation. A nuanced approach may be more appropriate. The best strategy is to ask why and under what circumstances things might be valid—supplementing data with insights, observations and intimate knowledge of real people. When it comes to China, it is not one-size-fits-all.

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Part 2 of this article will address understanding China's cultural and generational gaps and the dynamics they present to HR professionals.



WHY ONE-SIZE-FITS-ALL DOESN'T WORK IN CHINA – PART 2

UNDERSTANDING HR DYNAMICS AMONG CULTURAL AND GENERATIONAL GAPS

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Over a relatively short period of time, no other country has ever achieved as much economic growth as has China. But progressing at lightning speed has implications in dividing people that once lived on a land that was relatively free of skyscrapers.

Economic growth has created various divisions throughout China and as more and more multinational corporations try to expand into a newly sought-after mid-tier segment (thanks to the new middle class buying power), they are faced with a complex environment for finding and retaining talent.

Not only is the equilibrium of demand and supply for experienced executives not yet reached, the type of candidates companies need to succeed are limited. Companies need employees who can understand China's market and who know its business environment. At the same time, they also need individuals who are culturally savvy and diplomatic enough to bridge gaps between the local subsidiaries and headquarters as well as between China and the rest of the world.

In order to best understand the situation, which is being popularized with the term "war for talent," one must understand the background of how certain gaps in China have developed.

The roots of frustration: cultural and generational

Recent surveys show that communications tend to breakdown when a global company's headquarters and its regional office have different ideas about what to expect from a manager. Often the two are unaware that their expectations have been subtly shaped by cultural differences.

China has a traditional respect for hierarchy, and it is often taken for granted that decisions flow downward from the top. A junior executive may decide not to act on his own, because he is afraid that whatever he does might interfere with his boss' master plan, the details of which he may not have been told about. In the West, individual initiative is expected. Lower ranking executives are encouraged to take charge, act independently, and be creative. When the expectations are not verbally communicated, this can lead managers at the company's headquarters to conclude that certain regional executives are not proactive and have to be told what to do. On the other hand, Chinese executives in the regional office may conclude that their superiors are not clear on what they want and avoid responsibility. The result is frustration at both ends of the command chain.

The answer, of course, is that companies need to rise above these issues by paying more attention to culturally different perspectives. Above all, HR and supervisors need to make a special effort to educate new hires as to exactly what the corporation expects and also to examine the underlying logic that shapes the company's approach to management. This takes time, and it is one reason that companies try to hire staff who already have considerable experience.

The situation is further complicated today by the fact that China is going through rapid social changes. Private enterprise was only legally allowed in China in late 1979, and it has taken years to fully adapt to an open market economy. As a result, older managers who grew up in the 1960s and experienced the fallout from a planned economy tend to see things with a viewpoint that can be quite different from today's youth who grew up in the 1980s and 90s. Young people have experienced much more economic wealth than those born before the 1980s, and thus their attitudes towards life, work and balancing the two are quite different between these age groups.

This generation gap, which some headquarters may not even be aware of, can lead to younger staff becoming frustrated with what they see as an inflexible, old fashioned approach. At the same time, senior managers may be frustrated with a perceived general lack of discipline from their underlings. "Eating bitterness" (吃苦) is a quintessential Chinese expression to describe a person's willingness and ability to endure hardship. People growing up in the 60s and 70s were indoctrinated with eating bitterness to the point that their entire generation believes that if they do not eat bitterness, they will never be successful. For the younger generation, especially the ones living in 1st and 2nd-tier cities, they did not have much experience with "bitterness" and they are more in tune with "to be rich is glorious!"

These generational and cultural differences with different expectations mandate that companies must have a deep understanding of employees and people dynamics. And one must proceed with caution when making a generalization about the characteristics of Chinese employees and customers as much depends on each person's age and background.

Solutions will only come from awareness and a greater understanding of different points of view. Recent surveys show that senior executives value recognition and respect nearly twice as much as they do salary. On the other hand, junior executives tend to base their employment decisions on total rewards, future career opportunities and establishing a balance that allows for quality of life.

To truly understand and appreciate the magnitude and speed of change, and how they affect HR philosophies and practices, we all need to learn to be adaptive when it comes to China. What worked yesterday may not work today and what works today may not work tomorrow. This is the China that I know.

Winter Nie is a Professor of Operations and Service Management at IMD. She teaches in IMD's [Orchestrating Winning Performance program](#).

Part 1 of this article addresses the multi-tier layers in China and the dynamics they present to HR professionals.

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