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The Challenge of Managerial Staff Shortage on the Chinese Labor Market

The Development of HRM in China

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Introduction

One of the major challenges today is the global shortage of managerial staff. Globalization and opening up of new markets lead to a steadily rising demand, but the supply of Western talent is decreasing. Now enterprises tend to seek skilled personnel in rapidly developing economies such as China.

China as a fast growing economy is usually assumed to have a vast number of low-cost workers and a bountiful supply of talent. This perception is likely to turn out to be a miscalculation endangering efficiency, growth or even the existence of enterprises that are willing to enter the Chinese market. However, not only foreign enterprises located in China suffer from talent shortage. State enterprises are also affected by competition for managerial staff. The remains of the socialist era are not yet completely overcome, especially with respect to human resource management (HRM *renli ziyuan guanli* 人力资源管理).

Combined with the demographic shift towards an ageing society caused by the Cultural Revolution, the One-Child Policy and a higher life expectancy, the upcoming shortage could impede economic growth. It is the cause of an increase in wages and competition, as well as rapidly changing enterprise and HRM strategies.

This thesis basically concentrates on the development of the HRM sector with regard to recruitment, retention, motivation and performance appraisal of managerial staff. The current situation of staff shortage also requires a closer look on the recruitment strategies for the future generation of leaders, which are today's young graduates.

The thesis will not deal with the shortage of chief executive officers (CEO) as their turnover is closely related to shareholders and enterprise performance. Explaining this aspect would go beyond the scope of this thesis.

Consequently, this thesis focuses on the central aspects of HRM under three main angles. First, HRM practice in China originated in the Mao era and in the shift from state control to reform and market liberalization. The Party planned every aspect of HRM and created a soft budget constraint. These factors prevented the development of efficient and profitable HRM strategies. Market liberalization and the state's retreat from labor market control led to the initiation of competition. In order to adapt to these changing conditions, enterprises had to rationalize production, financing and human resources. The responsibility was gradually handed over to the enterprises, which now have to cope with market mechanisms and emerging challenges.

Then, the current challenge to HRM is subject to the second part of this thesis. Managerial staff shortage is influenced by policies adopted a long time ago, but also by long distances immobility of staff. This narrows down the number of suitable personnel despite the national supply and leads to

a high competition between enterprises. Competition related problems are increasing wages, which trigger a high turnover rate. Companies in China need to find a solution to all these problems as to not endanger their economic achievements.

Finally, the third part analyzes the development and new approaches of the HRM sector towards recruitment, retention, motivation and assessment. The future developments are uncertain and depend on the pace of adaptation to new challenges. In spite of that, the fourth part not only summarizes the main aspects of this thesis, but also tries to give an outlook.

Concerning actuality and reliability of sources it has to be stressed, that the Chinese labor market has not been subject to studies on HRM for many years. Therefore, most of the references used in this thesis are newspaper articles and internet sources. They are most suitable to represent the current conditions on the labor market. In this respect the Hudson Reports and the study by Diana Farrell were important, as they are reliable sources for numerical data. The interview with Madelaine Pfau was essential for this thesis, since her experiences with the Chinese market offered insight into the subject. Several of her ideas and opinions were the basis for further research, such as the suggestion to take a look at the HRM of Haier. The minutes of this interview are attached to my thesis.

The Chinese sources consist of two research studies, an internet newspaper article and a publication from BriTay. One of the research studies deals with the adaptation of the Behavioral Event Interview to the Chinese HRM. The other gives an introduction to the HRM strategies of Haier. The newspaper article covers the use of competency models in China and tries to give further suggestions to the topic in form of an interview. The last suitable Chinese source is also an internet source from BriTay. BriTay is a consulting and management service company that was acquired by the international consultancy MRI worldwide in 2002. Therefore, BriTay was considered to be another reliable source for this thesis.

1. History of Personnel Management

The current situation of HRM (*renli ziyuan guanli* 人力资源管理) and of high-level staff shortage on the Chinese labor market can be understood as a result of historical developments starting in the Mao era. For years the state treated employment as a problem of social welfare rather than of productivity or efficiency. Full-employment of urban laborers became the ultimate goal of Chinese socialism during the Mao era. The understanding of HRM was consequently solely based on its function as an administrative part within the organization of social welfare.

1.1. Personnel Management before the Reform Era

Before 1978 the basis of every enterprise structure in China was public ownership combined with central planning. The same applies for HRM. The Party organized it through unified allocation (*tongbao tongbei* 同胞同辈)¹ specified in five-year plans, which were devised in line with overall national development goals and strategies. These five-year plans comprised directives on labor recruitment quotas and wages, as well as general regulations concerning the recruitment process, such as the percentage of females and the political requirements for certain types of jobs. In accordance with national and international circumstances, labor development priorities changed each year or each five years.²

At the central government level the ministries involved in the labor deployment process were the State Labor Ministry (*laogongbu* 劳工部), the Ministry of Personnel (*renshibu* 人事部) and the Ministry of Education (*jiayoyubu* 教育部). The Ministry of Personnel was responsible for the deployment of high-level managerial staff such as leadership cadres (*lingdao ganbu* 领导干部).³

With the state planning every aspect of the enterprise system, covering all losses and guarantying full supply by the three old irons (*jiusantie* 旧三铁)⁴, cadres as well as workers were bereft of any economic incentive for efficient or profitable work. The enterprise was seen as a social unit and the role of managerial staff was clearly defined as an administrative one and was bound to distribution of welfare. The basis of legitimacy of a leadership cadre was, from a worker's point of view, his

¹ Zhu Cherrie Jiu Hua, *Human Resource Management in China: Past, Current and Future HR Practices in the Industrial Sector*. London: Routledge 2005, p. 47.

² Meng Xin, *Labor Market Reform in China*. Cambridge: Cambridge University Press 2000, p. 67.

³ Meng Xin (2001), p. 68.

⁴ The three old irons consisted of the iron rice bowl (铁饭碗), the iron wages (铁工资) and the iron chair (铁交椅). Main characteristics of the iron rice bowl were the unified job allocation, life-time employment and cradle-to-grave welfare system. The iron wages stood for an inflexible, state-administered reward system and low-wages. Basic traits of the iron chair were the absence of punishment for poor business performance and factory directors were regarded as state cadres. (Quoted from: Daniel Ding, "China's Labor-Management System Reforms: Breaking the 'Three Old Irons' (1978-1999)," in *Asia Pacific Journal of Management*, 18, 2001, pp. 316-318.

achievements in the wage and benefit sector. As for the cadre's own superiors and the government, the indicators of good management were target fulfillment and the maintenance of harmony between employers and subordinates.⁵

After the founding of the People's Republic, the slogan "red and expert" (*you hong you zhuan* 又红又专) found its way into the Chinese Communist Party. The term "red" promulgated cadre leadership through political loyalty, whereas "expert" meant a managerial style of leadership and technical skills.

In 1964, Chairman Mao 毛泽东 (1893 - 1976) formulated another five conditions in order to clarify the requirements for leadership cadres: They had to be real Marxist-Leninists, revolutionaries, proletarian politicians who could be one with the majority of the people, act as models in practicing the Party's democratic centralism, and were at the same time modest, aware of the dangers of being arrogant, and they had to be good at self-criticism.⁶

These requirements were not designed for certain types of jobs, but rather part of overall national recruitment plans. Not the enterprises themselves, but ministries were responsible for recruitment. In the beginning of the People's Republic of China, the Party distinguished between "absorption" (*xishou* 吸收) and „recruitment“ (*luyong* 录用). Absorption meant those who were automatically qualified for higher cadre positions, such as graduates of colleges and high schools and demobilized soldiers. Recruitment of cadres referred to the selection from larger groups of people, such as workers, peasant activists or unemployed people. The absorbed number of graduates did not contribute much to the total cadre pool, as there were only 40,000 in 1950. For the period from 1923 to 1949 only 210,000 people graduated from high educational institutions in China.⁷ Those who graduated abroad, had to attend a special people's revolutionary university or at least an ideological training. This example stressed the importance of political loyalty and reliability, thus being "red" outranked the requirement of being an "expert". It became even less important after the Anti-Rightist Movement (*fan youpai yundong* 反右派运动) in 1957.

Even if there did exist a distinction between cadres in terms of the type of work unit the cadre belonged to (*fengong* 分工), the level in bureaucratic hierarchy they occupied (*fenceng* 分层) and the type of work they performed (*fenlei* 分类), this division into categories had no direct impact on cadre recruitment or management. The question, how to classify cadres according to their performance and how to manage different categories of cadres using different criteria, was not

⁵ Huang Chuanjie, *Alltagsstrukturen im Management – betrachtet aus wirtschaftssoziologischer und sozioanthropologischer Perspektive*. Frankfurt: Peter Lang 1994, pp. 1-6.

⁶ Andreas Lauffs, *Das Arbeitsrecht der Volksrepublik China – Entwicklung und Schwerpunkte*. Hamburg: Weihert-Druck 1990, p. 150.

⁷ Lee Hong Yung, *From Revolutionary Cadres to Party Technocrats in Socialist China*. Berkeley: University of California Press 1991, pp. 48-49.

raised until 1982.⁸ It can be assumed that the generations chosen according to these regulations lack in professional expertise and market-oriented competition, simply because it was not yet required.

Wages and Job Mobility

Before 1978, wages and bonuses were managed by the Ministry of Finance (*caizhengbu* 财政部) corresponding to the principle of “each according to his ability, each according to his work” (*gejin suoneng, anlao fenpei* 各尽所能, 按劳分配). As the Party also propagated a low-wage policy for any kind of position, wages of managers and workers didn’t differ much from each other.

As the Party was in command of personnel management authority and the state managed the job assignments, there was little space for unscheduled job change. Within the frame of permitted job mobility, the criteria mentioned above also effected job reassignment. Job change was also uniformly managed by the state, therefore, the basis for transfer was the position within a cadre-ranking system and the personnel dossier.

Recruitment, assignment, promotion and transfer were based on the personnel dossiers held by party units. Cadres had only one dossier, which included all information about them, such as personal data, party activities, education and career background, data on salary and benefits the persons received. The personnel dossier system was a measure not only to exercise political control over cadres, but also to impede job mobility as the personnel dossier had to be transferred with the cadre. An individual had no access to his own dossier and had to persuade the former unit to transfer the dossier to the new unit. This monopoly and prerogative over personnel was justified by the phrase “the Party manages the cadres” (*dangguan ganbu* 党管干部), which meant that all cadres were supposed to be managed in accordance to the CCP directives, policies and the principle of unified management.⁹

With the passage of the „Regulations of the Central Party Committee on systematic and gradual rotation of leading cadres at all levels in Party and Government“ (*zhonggong zhongyang guanyu youjihua youbuzhou de jiaoliu geji dang zheng zhuyao lingdao ganbu jueding* 中共中央关于有计划有步骤地交流各级党政主要领导干部决定) in 1962, the People’s Republic of China applied a system of scheduled job change to prevent the emergence of “little kingdoms” (*xiaowangguo* 小王国). Little kingdoms were understood as a domain under influence of one single cadre, thus devolving the power of the Party.

⁸ Lee Hong Yung (1991), pp. 355-356.

⁹ Andreas Lauffs (1990), p. 151. Lee Hongyuan (1991), pp. 329-352.

According to these regulations, leading cadres at various levels had to undergo a job transfer every 5 to 10 years. During the Cultural Revolution the rotational system was barely used and could only be partially re-established in the 1980s.¹⁰ Based on the adoption of these regulations it can be assumed that leadership cadres were excluded from the common hukou (户口) and danwei (单位) system all other members of society were subjects to.

Lifetime employment, ensured by the system of the “iron rice bowl” was a major obstacle to economic efficiency. The unified job allocation led to a recruitment plan with specific numbers of workers that were to be hired, while the “iron rice bowl” and the socialist ideology considering unemployment as a capitalist concept, prohibited dismissals.¹¹ This means due to missing incentives for managers and workers, various vague recruitment and performance appraisal criteria, disputes within the Party and other problems of domestic policy and command relationships, leading cadres were often incapable to complete their tasks on a satisfactory level. This practice led to low motivation and productivity, poor workplace discipline, chronic overstaffing and underemployment. By the end of the 1970s the CCP, the main authority over human resource management, also acknowledged these deficiencies.

1.2. HRM from 1978 to the 1980s

After the initiation of the Reform and Opening-up Policy (*gaige kaifang* 改革开放) and of the cadre reform in 1979 by Deng Xiaoping 邓小平 (1904 - 1997), cadres had to adapt to the Four Modernizations (*sige xiandaihua* 四个现代化). The ranks of cadres should become more revolutionary, younger in average age, better educated and professionally more competent (*ganbu duiwu geminghua, nianqinghua, zhishihua, zhuanyehua* 干部队伍革命化、年轻化、知识化、专业化). To reach this aim, 1.4 million senior cadres recruited before 1949 had to retire and more than 469,000 college educated younger cadres were assigned to leadership positions above county level until 1987.¹² As these new managers were in many respects unqualified and inexperienced, this major reform had serious impact on professional management in the industrial as well as in other sectors.

About the same time, the Party gradually decentralized the personnel authority by transferring some cadres from central to local jurisdiction. In 1983, the “Regulation Regarding Reform of the Cadre Management System” formalized the division of authority in cadre management between the centre, which still managed “the first-class leadership”, and other Party committees at various levels.

¹⁰ Andreas Lauffs (1990), p.157.

¹¹ Daniel Ding (2001), p. 318.

¹² Zang Xiaowei, „Elite transformation and recruitment in post-Mao China,“ in *Journal of Political and Military Sociology*, Summer 1998, p. 3.

Despite the efforts of this new regulation, there appeared several problems, which impeded effective cadre management as they resulted in overlapping competence.¹³

Another source of frictions was the Party authorizing party committees to supervise government and enterprise units by implementing official decisions. This led to a controversy between Party secretaries and managers about the possibilities of guaranteeing high performance in work without the necessary authority. This problem manifests in the emergence of the system of functional leadership called tiaotiao (条条) and the kind of leadership the local party committee exercises over the enterprises and business, kuaikuai (块块). In 1985, the managers were usually better educated than party secretaries. This is in line with the fact that most managers and deputy managers were promoted from technical, functional or lower-level managerial positions, whereas secretaries and deputy secretaries were recruited from administrative ranks or amongst demobilized soldiers. However, at that time their career background was already changing, as they became aware of their own shortcomings in technical expertise.¹⁴

To increase productivity the state needed to guarantee the effective use of scarce technicians and other specialized cadres, thus allowing the emergence of a limited labor market. For this purpose, some units used a recruitment system in which each hiring unit and the individual applicant negotiated and placed a contract that contained, among other regulations, the specific terms of tenure.¹⁵ One of the results of this new contract experiment was the appearance of two different kinds of employment relationships. Earlier recruited employees belonged to a group still enjoying the benefits of the iron rice bowl, whereas new recruits were covered by the new labor conditions. The latter were more motivated to achieve high performance in order to keep their jobs.¹⁶ This experiment of a labor contract system can be regarded as part of the decentralization tendency of the mid-1980s.

Reforming HRM strategies

Since 1984, appointment and dismissal of managerial cadres was under the jurisdiction of the factory director. But this change in recruiting personnel according to economical aspects was barely called upon, as the factory director was used to the Party committee making all decisions.

In turn, parallel to the Enterprise Law of 1988, a new recruitment approach was formulated. A factory director was no longer assigned, but appointed through one of the following methods:

¹³ Lee Hong Yung (1991), p. 358.

¹⁴ Lee Hong Yung (1991), pp. 380-381.

¹⁵ Lee Hong Yung (1991), p. 362.

¹⁶ Daniel Ding (2001), p. 320.

- “Appointment by the department overseeing the enterprise of the cadre administrative organ through the power vested in it.
- Election or recommendation by the 'worker and staff' sub-congress based on the plans of the department overseeing the enterprise, after which the said department or the cadre administrative organ shall give its approval thereon or make an appointment through the power vested in it.
- Subject to the consent of the staff sub-congress, the department overseeing the enterprise shall shortlist and recruit a factory director who will then be appointed by the said authority or the cadre administrative organ through the power vested in it.”¹⁷

Lower ranks of cadres could also be recruited by using public job advertisement.¹⁸

In the beginning of the Reform Era the basis of recruitment in joint ventures were work plans. Unlike state-owned enterprises, joint ventures could devise a plan on their own. The plan had to be in line with the labor administration regulations of the Joint Venture Law and local labor-law provisions. Later, this plan was included in the state plan and joint ventures could recruit personnel according to the declared personnel requirement.

Permitted measures of recruitment included:

- Recommendation (*tuijian* 推荐) by the department overseeing the enterprise, local administrative organs, labor service companies or the Chinese contracting party.
- Direct recruitment of qualified personnel, if the permission was granted according to the declared personnel requirement
- Appointment through the Chinese contracting party, with the foreign contracting party having no right of co-determination.¹⁹

The state also had to adopt a strict system of work discipline, promotion of personnel with higher-level education or technical training. Most importantly, new incentives, other than ideology, were called for. In 1984, Deng Xiaoping stressed the need to specify tasks, people, quantity, quality and time needed, to ensure high performance. Therefore, a responsibility-system and a merit-based personnel management system were introduced.

Despite this development, the personnel management authority still belonged to the Party, which bereft managers of a basic tool of efficient management, since managing persons was separated from recruitment and from managing tools. In the mid 1980s, authority over personnel matters was finally given to the enterprise units. Between 1984 and 1985 methods of forming a cabinet were

¹⁷ Daniel Ding (2001), pp. 326-327.

¹⁸ Andreas Lauffs (1990), p.156.

¹⁹ Andreas Lauffs (1990), pp. 105-110.

practiced. The manager, the party secretary and the chairman of the relevant labor union discussed the matter and methods of forming a cabinet, then they formulated the criteria for cadre selection and at last, it was planned to obtain comments from various sectors, including ordinary workers. This system would have marked the beginning of enterprises responsibility for personnel management, since the director made the final decision. It also would have meant a retreat from the principle the “Party manages the cadres”, which the conservatives in the Party considered a serious threat to the Party’s authority. In the end of this debate, the managers gained the authority to manage middle-level cadres and jurisdiction over party committees in enterprises was transferred to territorial committees. This can be seen as a drift towards the tiaotiao-system mentioned before.²⁰

This drift could not solve the problem of overlapping spheres of authority between the Party and enterprises. But managers did find a way to meet the demands of the Party and of the enterprise by combining the position of the manager with that of the party secretary or by taking over ideological and political works within the enterprise.²¹ Concerning the recruitment of managerial staff, these measures must have caused serious difficulties, since tasks of secretaries and managers diverge, but the required skills, competencies and experience had to be found in one person.

Since 1979, the Party tried to draw guidelines to assess performance of cadres. Cadres were assessed in four areas: virtue (*de* 德), ability (*neng* 能), diligence (*qin* 勤) and achievement (*xu* 继). In 1988, these terms were divided into subcategories and several indicators. Some of these followed socialist principles, such as “political-theoretical standards”, while others were practice-oriented, for instance “abilities in the candidates own field” or “verbal and written communication skills”. Neither of these indicators nor the criteria or methods of assessment (like behavioral anchors) have been standardized.²² This posed problems to the merit-based personnel management system when they tried to assess performance in a universally valid way. In the end, some enterprises used performance appraisal systems to select cadres, whereas others simply judged by age, education and the impression the candidate made.

In turn, the problem of the responsibility system was the general encouragement of each unit to set up its own appraisal system on the basis of concrete decisions. For leading cadres whose jobs involved many different kinds of duties, status as well as responsibility and tasks were taken into account during assessment. At that time, a work record was designed for each cadre as basis for assessment. Contracts specified economic indicators for managers and other cadres were rewarded in accordance with their contractual obligations.²³

²⁰ Lee Hong Yung (1991), pp. 372-376.

²¹ Lee Hong Yung (1991), p. 379.

²² Andreas Lauffs (1990), p. 158.

²³ Lee Hong Yung (1991), pp. 363-366.

Wages and Job Mobility

After the implementation of the responsibility system, managerial and technical staff received their bonuses depending on a performance-oriented system. In the beginning the bonuses could not exceed 12% of the standard wage, but they increased over the Reform period. In 1984, the bonus-system was reformed to a bonus-tax scheme, which levied a tax on enterprises whose distributed bonuses exceeded one-third of the annual wage bill. About the same time, not only bonuses but the total wage was linked to enterprise performance. This system of linking wages to economic efficiency (*gongxiao guagou* 工效挂钩) also meant the abolition of the unified wages.²⁴

In 1986, the state eliminated the pay ceiling in order to allow more flexibility for enterprises that wanted to encourage productivity through higher wages, though it was reintroduced by the Ministry of Labor in 1990 and required approval from the supervising department.²⁵

The official explanation for the difference in wages paid to workers in Joint ventures and to state employees is that the former were expected to be more qualified and productive than the latter. The fact that the total value of subsidies available for workers of state-owned companies rose, added to the basic time rate. It can be suggested that the Chinese government wanted joint ventures and foreign firms to pay at least the social cost of a state employee.²⁶

After the mid-1980s, the state gradually allowed the development of a free labor market. By 1987 the government of the People's Republic also encouraged job mobility by lessening impediments to job transfer.²⁷ Job change of skilled personnel was labeled as "fluctuation" in order to give them greater latitude than "normal" personnel working under the term "transfer". But on the other hand this fluctuation also meant job change without dismissal and was subject to authorization to prevent unreasonable leave.

Criteria for a reasonable job change were:

- Dispensability or assignment of personnel in a position under their educational level
- Demand of the absorbing unit
- Job change must point into the right direction, which means from the city to rural areas, from coastal to central/western regions or from state-owned enterprises into enterprises with collective ownership.

One of the biggest concerns of the Party granting job mobility in certain professions was the fear of anarchic fluctuation and weakening of the state sector. To prevent human capital flight to the private

²⁴ Daniel Ding (2001), p. 322.

²⁵ Zhu Cherrie Jiu Hua; Peter J. Dowling, "Practices in China managing people during economic transition: The Development of HR," in *Asia Pacific Journal of Human Resources*, 38, 2000, p. 94.

²⁶ Carl Riskin, *China's Political Economy – The Quest for Development since 1949*. New York: Oxford University Press 1987. pp. 325-338.

²⁷ Zhu Cherri Jiu Hua (2005), p. 18.

sector, the state enacted a ban in 1984 on luring skilled personnel away by higher salaries or other material benefits. However, in general this instruction was not obeyed to.²⁸ This shows a first noticeable change towards requesting more freedom of decision by the now emerging private sector.

Restrictions on dismissals were partially revised. Dismissal in joint ventures was allowed, but shortly after the Reform it rarely happened. It was even sanctioned when rationalization left workers redundant. In an effort to transform state-owned enterprises into business corporations responsible for their own profits and losses, the state-owned enterprise was given the authority to reduce its workforce to a reasonable level by dismissing unqualified personnel.

Developments in the Service Sector

By the end of the 80s the so-called “lost generation” of the Cultural Revolution returned to the cities. The unified job allocation system could not solve the problem of 15 million unemployed (1979) young people. Therefore, enterprises and residential districts were encouraged to set up labor service companies (*laodong fuwu gongsi* 劳动服务公司) to provide skill training and job placement services. In this case labor service companies can be seen as the prequel of today’s human resource agencies in China. These companies were mainly established in Special Economic Zones (经济特区), where they provided their services for joint ventures. In addition, wages of employees in joint ventures were generally not paid directly to the worker but to a labor service company, which deducted a varying proportion to cover labor insurance and welfare fund contributions and forwarded the rest to the worker. Besides the cost of labor and the right to dismiss workers, the recruitment constraint on joint ventures were crucial points of discussion between the foreign corporations and Chinese hosts.

The government also encouraged the emergence of labor service companies and employment agencies.²⁹ The main purpose of these centers was the collection of information for the placement of technical staff. Clients of these agencies were on the one hand companies, which needed technical staff, but were incapable of recruiting them through other sources, on the other hand technical and managerial staff, which could also employ their services when they wanted to change jobs. If both parties, the new employer and the new employee, agreed on the job change, it needed the approval of the former employer. Did the former employer oppose, the personnel service center could submit its objection or even confirm the application itself. The job change was only approved if it met the conditions of a “reasonable” job change, as mentioned earlier.

²⁸ Andreas Lauffs (1990), pp. 147-148.

²⁹ Wang Qi, *Job Change in Urban China – An Assessment of Socialist Employment Relationship*, Frankfurt am Main: Peter Lang 1996, p. 70.

Cadre Management Reform

In 1987 at the 13th Chinese Communist Party Congress, the Party announced structural reform of the cadre management system. The main point of criticism was that the power over cadre management and administrative responsibility were vested in different hands (管人与管事的脱节).³⁰ According to the plans of Zhao Ziyang 赵紫阳 (1919 - 2005), cadres employed in government agencies should be separated from cadres working in all other fields, such as enterprises, the Party or in judicial branches, by calling them civil servants. This system also introduced new requirements for leading positions in civil service, including a higher educational level and up to fifteen years of work experience. The new regulations also included a compulsory training in administration prior to the commencement of employment. The Party agreed to experiment with this system in several single government units. By the year 1986, the Party did not consent to bestow the government authority over personnel decisions and didn't take into consideration the possibility of granting political neutrality. That can be seen by the appointment of a party core group in the Ministry of Personnel. On the other hand, the cadre management reform assures that civil servants cannot be made responsible for the implementation of "wrong" policies. They are not as influenced by leadership changes as they were before the reform. In order to make the mess about jurisdiction over personnel complete the Party still held the personnel dossiers of Party cadres with material on party membership as well as his work relations.³¹ This situation led to a superficial separation of the Party from government and civil personnel questions. It can be explained by the crisis of the legitimacy of the Party's prerogatives at the end of the 1980s, when a new Ministry of Personnel was formed to implement the new civil service system.³² This institution formulated a set of civil service regulations and prepared pilot schemes. But after the Tiananmen incident of 1989 (天安门事件), Zhao Ziyang was criticized for weakening the CCP and the reform was partially revoked. Nevertheless, this reform can be regarded as an attempt to formulate different personnel management procedures for different kinds of professions, even if the Party withdrew its power to a certain degree.

The separation of enterprises from the Party's authority took place in 1988. With the implementation of the first Enterprise Law the role of enterprises changed to independent legal entities that were responsible for their own profits and losses.³³ As a result more competition was introduced to the personnel management system of state enterprises.

³⁰ Lam Tao-chui (1996), p. 775.

³¹ Lee Hong Yung (1991), pp. 377-378.

³² Lam Tao-chui, "Reforming China's Cadre Management System: Two Views of a Civil Service", in *Asian Survey*, 36; 8, Aug 1996, p. 773.

³³ Daniel Ding (2001), p. 326.

1.3. HRM in the 1990s

The reforms of 1987 were revised and reintroduced in 1993. The Party's main concern was the effect that the new civil service reform might have had on the unified cadre management system, especially on the control over transfer and recruitment processes. To solve this issue, recruitment examinations were proposed to regulate and standardize the transfer to the civil sector. A distinction was made between entrants to the basic level and entrants with technical and professional qualifications. This system was not adopted for all positions, because it would have undermined the personnel management system of the CCP. As a reaction to this threat, the Party restrained the recruitment authority of the civil service sector to non-leading positions. All leading positions and senior leading positions fell under the category of transfer, because this category was not subject to any institutionalized restriction aside from the personnel management system of the Chinese Communist Party.³⁴

The distinction between "normal" cadres and those with higher qualifications fits into the increasing emphasis of the Party on educational and technical qualifications in recruiting future leaders, which resulted in the emergence of technocrats. With regard to the phrase "red and expert" there still existed the requirement of being "red", but the priority was now set on being "expert".

The assessment of leadership qualification was difficult, as there were no adequate HRM models to evaluate leaders. Career advancement in government hierarchy demanded technical competence, whereas an upward mobility in the Communist Party still relied upon political loyalty. This led to a system with different basic requirements for leadership positions. Therefore, in 1993 a performance appraisal committee was formed to assess civil servants. In theory the appraisal should have been compiled through polls and later be reconfirmed by the heads of the departments and the appraisal committee. State-owned enterprises on the other hand enjoyed total managerial autonomy since 1992. The wages enterprises determined were on the basis of labor skills, job responsibilities, labor intensity and working conditions. By the end of the 1990s, this system was generally implemented in almost all enterprises in China, initiating the next important step towards competitive enterprise structures.³⁵

Recruitment and Performance Appraisal after the Triple Reform 三改革

The year 1992 can be regarded as a milestone in establishing a modern enterprise system. Shareholding companies and solely state-owned corporations were considered the major forms of companies in the modern enterprise system. This led to the institutionalization of property rights and corporate governance structures. In 1992, the Ministry of Labor and other government

³⁴ Lam Tao-chui (1996), p. 781.

³⁵ Daniel Ding (2001), p. 324.

authorities also promulgated “Opinions Concerning Deepening the Reform of Labor/Personnel, Wage Distribution and Social Insurance Systems in Enterprises”. The new regulations included the advice to employ managerial and technical staff on a contractual basis. They supported open performance appraisal.

Instead of direct appointments, a variety of new methods of recruiting, selecting, evaluating and promoting managers were developed. The new criteria for evaluating cadres were based on professional experience, managerial skills, work-performance and efficiency as well as a sound political view.³⁶ Within the evaluation process, competencies and performance appraisal gained increasing importance.

Today’s highly market oriented system of personnel management in state-owned enterprises reacts similar to changes of the labor market as foreign invested, private or wholly foreign-funded enterprises in China do. This fact applies even with some state enterprises being reluctant to adopt modern human resource practices. Nevertheless, a modernization in the personnel management sector took place and influences state and private sector alike.

2. The Human Resource Paradox

The common picture of China as a fast growing economy with a vast number of low-cost workers and a huge talent pool is likely to turn out as a miscalculation endangering efficiency, growth or even the existence of enterprises that are willing to or already did enter the Chinese market.

In the last few years HRM had to face various challenges that appeared on the labor market. By the end of the 1980s the state-owned enterprises dismissed dozens of workers in order to increase profitability, which led to high unemployment rates, sharp job competition and lowered wages for unqualified personnel. Foreign invested and emerging private enterprises could easily exploit these low-skilled workers, as they were replaceable in a system lacking in social and legal security. The state tried to change this situation by enacting labor law in 1994. It included the regulation that regardless of the ownership type of the employer, employees shall be placed on contracts³⁷ and regulations on social security to improve working conditions. The establishment of labor service companies and education programs can also be seen in this context.

In the mid-1990s, the Chinese labor market could not provide enough skilled technical experts to meet the demand of the growing Chinese economy. The government tried to counteract the further

³⁶ Daniel Ding (2001), p. 328.

³⁷ Daniel Ding (2001), p. 321.

extension of this shortage by reforming vocational training. However, a massive obstacle to this reform was the lack of qualified teaching staff and inadequate teaching methods.³⁸

Since the beginning of the new millennium the problem of staff shortage has appeared on even higher ranks of enterprises. Regardless of their ownership status enterprises are now trying to find the right strategy to solve this problem. China is, as frequently mentioned throughout all references, a country of diversity, which is of crucial importance especially in HRM. In this context, the importance of law cannot be overrated. According to Kerstin Reden human resource management strategies are vastly influenced by the amount of resoluteness with which legal regulations are enforced. She also claims that the level of enforcement is highly different throughout many Chinese regions. Therefore, HRM develops under different legal conditions evolving different characteristics.³⁹

2.1. The Role of the Chinese Manager

Starting from the mid-1990s the role of the Chinese manager was criticized as a person responsible for profit maximization rather than innovation. A survey on managers in state enterprises shows that Chinese managers consider financial objectives such as enterprise profit and the maximization of employees' salaries as their ultimate goal. Encouragement of vocational training, enhancement of product quality and innovation management was not mentioned as part of effective management.⁴⁰

Issued in the managerial practice before the Reform Era, managers especially in state-owned enterprises could not achieve a clear distinction between management and administration, neither could they abolish the strategy of conflict avoidance. Today, they still tend to expand enterprise culture and control on their employees, thus acting as a small society within the company environment. In this context, state-owned enterprises have been labeled "social welfare office",⁴¹ while private enterprises on the other hand emphasize profit orientation and expansion strategy.

However, the status of managerial staff within the enterprise structure was subject to a fundamental change. Management in socialist society was only seen as a sub function of administration, its major task was to execute predefined measures and plans.⁴² Today it is acknowledged as a core area of corporate governance.

³⁸ Felix Rauner; Herbert Tilch, *Berufsbildung in China – Analysen und Reformtendenzen*. Baden-Baden: Nomos Verlagsgesellschaft 1994, p. 11.

³⁹ Kerstin Reden, *Personalpolitik ausländischer Investoren in China*. München: Rainer Hampp 2002, p. 55.

⁴⁰ Felix Rauner; Herbert Tilch, (1994).

⁴¹ Huang Chuanjie (1994), p. 8.

⁴² Huang Chuanjie, (1994) p. 5.

2.2. Reasons for the Shortage of Managerial Staff

With an average age of 37 the Chinese manager in private enterprises is far younger than the managers in European or American companies with an average age of 49-50. This phenomenon derives from the Cultural Revolution and the fact that personnel selected via the “old” criteria simply was unable to cope with the requirements of modern enterprises. This so-called “lost generation” lacks in technical skills, knowledge and experience to take over leadership roles. As a result a younger generation of managers emerges that often lacks maturity and the professional experience that is needed to assume top managerial roles.⁴³ The exodus of skilled personnel during the 1990s also thinned the group of acceptable candidates to fill management positions.

The criticism of management education in China is based on the statement that existing management schools lack in classes in HRM, marketing and sales. Additionally the educational system of the People’s Republic is still based on theory and not on practice, which leads to a lack of creativity, risk taking as well as entrepreneurialism. The private sector is particularly affected by this situation, as self-reliant business activity needs higher education and practical experience.

Despite the increasing number of graduates and the founding of foreign invested business schools, many articles can be found complaining about the lack of leadership ability and execution of management concepts. Even if every graduate was suitable for a mid-level position, the demand would still outstrip the supply. As the McKinsey Report shows, the general supply of young graduates is not the problem, but the quality of their education and skills. In 2003 over 15 million students graduated from Chinese universities, but 14.5 million of them were considered not being suitable to work in multinational companies.⁴⁴

When foreign companies enter the Chinese market and expand their operations, their demand for mid-level managers that run their offices and factories is growing. Because of the high level of direct interaction with the local workers, local mid-level managers are preferred. In the long run, this also implies that even with a growing pool of young professionals, enterprises still have to make every effort to find qualified managerial staff.

This situation can be described as a paradox on the field of HRM. The solution of simply hiring expatriates is usually rejected, because of the cultural differences and the incompatibility especially of Western and Chinese work habits as well as their different mode of social intercourse.

⁴³ Michael Taylor, “China’s talent gap not something money can solve,” in *China Staff* (March 2007), p. 1.

⁴⁴ Diana Farrell; Andrew Grant, “Addressing China’s Looming Talent Shortage”, in *McKinsey Global Institute*, October 2005.

2.3. Further Aspects

Locality

As Florian Alexander Hunger aptly notes, the point of personal attachment to locality increases the problem of talent shortage. Referring to the distance of migration he points out that moving “from Chengdu to Beijing equals moving from Scandinavia to Sicily in Europe”.⁴⁵ This seems to be a problem not only for graduates, but also for more mature managers.

One-quarter of all Chinese graduates in 2003 lived in cities or regions where most of the multinational enterprises had set their facilities. In addition only one third of all graduates move to another province out of work reasons. As a result companies have difficulties in reaching half of the total pool of graduates.⁴⁶ A research conducted by McKinsey&Company supports this thesis. Only 29.6 % of all graduates, grouped by city, live in the ten examined cities.⁴⁷

Most of the managers have settled in a certain region. They established a network, which is bound to locality. A job change, that implies migration can lead to many disadvantages and risks. In the new job the manager has to cope with a completely new work environment, new stakeholders and changes in his personal life. As personal bonds in China are more important in many aspects than for example in Germany, the disadvantages mentioned before are obstacles to long distance job changes.

Increasing Wages

The basic principle of supply and demand can also be applied to the labor market. A low supply of talented personnel, whether caused by low quality of the educational system or by traditional mismanagement, and a constantly rising demand contribute to a price increase.

As already stated, the demand neither of state, private, foreign-invested enterprises or multinationals cannot be accommodated. It leads increasing competition for employees with long experience in business as well as for talented graduates.

A survey conducted by Mercer Human Resources Consulting on 1,800 domestic and foreign-invested enterprises showed that in 2006 the average wages in Shanghai increased about 7.7%, while the salaries of mid-managerial staff climbed 8.7%.⁴⁸ In 2007 the most affected occupation group was the middle management with a salary increase of 8.4%, followed by top management

⁴⁵ Florian Alexander Hunger, *HR Study – Current Issues with Examples from the Automotive Industry*. Ingolstadt University of Applied Sciences: 2004, p. 53. (unpublished)

⁴⁶ Swathi Lodh Kundu, “China’s impending talent shortage”, in *China Business*, 2006.

⁴⁷ Beijing, Shanghai, Wuhan, Guangzhou, Xi’an, Tianjin, Changsha, Nanjing, Zhengzhou and Chongqing.

⁴⁸ “Talent shortage driving up Chinese salaries,” in *China Business*, 2007.

and supervisory positions (8.3%).⁴⁹ For 2008 the Hay Group forecasts an increase of 9.6% for its mid management and 9.7% for its senior management respectively.⁵⁰

Increasing wages have an even worse effect on employee flight from state enterprises that still have to deal with the deadbeat welfare system. These companies are still held responsible for pensions and other social services, which causes immense costs and determines the capacity to act. As their management generation is more likely to be staffed in accordance with the principle of seniority, managers in SOE tend to use outdated management strategies. These companies would urgently need a reform in enterprise and personnel management strategy, but the financial circumstances, the principle of seniority and the guideline of low dismissal rates disable them to retain or attract younger talents.

Employee Turnover

A phenomenon influencing the talent shortage is the turnover rate in China's business sector. The business consultancy Heidrick & Struggles alludes to a turnover rate of managerial staff in China of at least 20%, which is likely to threaten "the effectiveness of all business plans".⁵¹

By comparison, a survey on 2,500 publicly traded companies in North America showed a turnover rate of 11.7%. The turnover rates in Europe rose to 16.8 percent and for the Asia-Pacific regions excluding Japan to 17.5 percent in 2005.⁵² Another survey conducted by Takao Kato and Cheryl Long during the period of 1998 to 2002 indicates an even higher turnover rate of 24% for Chinese chief executives.⁵³ The 36-year-old CEO of Zhaopin, a Chinese Headhunting company, based this phenomenon on the still immature Chinese labor market that hasn't developed principles of professional ethics and employee loyalty.⁵⁴

The Hudson Report for the first Quarter of 2008 also shows a high staff turnover rate. Across all sectors 47% of those surveyed say that the turnover rate in 2007 was over 10%. 13% even specify a turnover rate of more than 20%. The Media/PR/Advertising sector is experiencing the highest turnover. In this sector 56% of those surveyed mentioned a turnover rate of over 10%. In addition 27% even quote a rate over 20%. The turnover rate appears to be rising significantly as competition for talented and experienced professionals increases.⁵⁵ According to this survey the turnover rate in

⁴⁹ "Salary increase trends for 2007," in *China Staff*, 2006.

⁵⁰ "Salary Expectations Continue to be Optimistic in China," in *HayGroup.com*, 2007.

⁵¹ Madelaine Pfau; Joy Chen, "Let the War for Talent Begin – in China," in *Heidrick&Struggles*, 2003, p. 2.

⁵² Eric Dash; Heather Timmons, "U.S. Chief Executives Fare Well in Job Security, Survey Finds," in *nytimes.com*, 2005.

⁵³ Takao Kato; Cheryl Long, "Executive Turnover and Firm Performance in China," in *American Economic Review*, 96; 2, May 2006, pp. 363-367.

⁵⁴ "China's Recruiters Speeding Up", in *Business Source Premier*, 2006, p. 2.

⁵⁵ "The Hudson Report - Hiring and HR Trends – China – January-March 2008", in *www.hudson.com*, 2008, p. 8.

the Banking sector is rising more slowly than in most other areas. This indicates that many banks must implement efficient retention strategies or other initiatives to keep their staff.

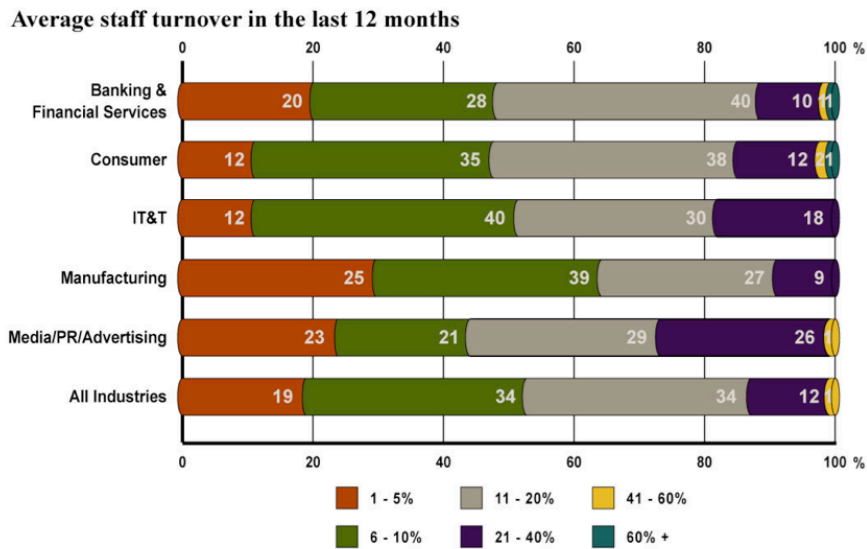


Table 1: "The Hudson Report - Hiring and HR Trends – China – January-March 2008", in *www.hudson.com*, 2008, p. 8.

The high turnover rates cannot simply be explained by the psychological effects of economical growth, as mentioned by Kato and Long. The retreat of the state from economy and personnel management also plays an important role. The state's control over employees failed along with the danwei system that was aligning private life with the enterprise. Employees were laid-off and the social welfare system and security that was formerly provided could not stand the economical pressure. This led to a change towards a legally and socially uncommitted relationship with the enterprise. Furthermore the hukou-system collapsed and thus lost its function as barrier to 'job hopping'.

Another factor within the scope of government control is the legal system. The current labor law does not support the employer when it comes to dismissals. The period of cancellation only amounts to 30 days, which is hardly enough time to find and train new executives.⁵⁶ However, the Articles 13 and 15 of the "law on employment contracts" (*laodong hetong fa* 劳动合同法) provide the employer with a certain planning security. They mention two types of labor contracts of a temporary nature.⁵⁷ Article 13 describes the fixed-term employment contract (*guding qixian laodong hetong* 固定期限劳动合同) and Article 15 the employment contract with a term to expire upon

⁵⁶ Günter Schucher, "Das neue Arbeitsvertragsgesetz – Stärkung der Schwachen oder nur Beruhigungspille?", in *China aktuell*, 4, 2006, p. 61.

⁵⁷ "Law of the People's Republic of China on employment contracts", in *chinacaselaw.com*, 2007.

completion of a certain job (*yiwancheng yiding gongzuo renwu qixian de laodong hetong* 以完成一定工作任务为期限的劳动合同).⁵⁸

Whether coming from the state sector or not, employees who want to become effective managers have to undergo vocational training. To provide this sort of training, enterprises must either create in-house programs, hire independent agencies or send the respective employee to other institutions or facilities. Granting an expensive training to an employee who might just leave the company afterwards, is a losing deal. Article 22 of the current labor law tries to prevent job change soon after the completion of training by giving the employer the possibility to set up a contract specifying the term in which the employee has to stay. If the Employee breaches the agreement on the term of service, he is to pay liquidated damages to the Employer as agreed. But the amount of this payment cannot be higher than the training expenses. As a result, companies have to be careful in choosing their managers-to-be or simply do not train them at all. At this stage, the educational sector cannot provide enough training to meet the demand, neither in quality nor quantity.

Apart from the states retreat from the labor market control that led to high staff turnover, there are other factors shown in the Hudson Report for the 1st Quarter of 2008. In 22% of all cases the perception of a limited career progression was the main reason for a job change. Especially the IT and manufacturing sector mention this argument as a crucial point by 27% and 26% respectively. In second place throughout all sectors 18% of the job changers are dissatisfied with salaries or bonuses. The most affected field here is the manufacturing sector.⁵⁹

Compared to the first Quarter of 2007 this figure changed. The main reason for turnover was the perception of a limited career progression (25%), but the most affected was the Healthcare/Life Science and Media/PR/Advertising sector. In 2007 the second place throughout all sectors 23% of the job changers are poached by other companies. The most affected field here was the Media/PR/Advertisement sector.⁶⁰ These two different sets of data show that employee turnover with its various causes poses a problem to all sectors of the economy.

Underdeveloped HRM Sector

A problem influencing today's Chinese HRM is the fact that there existed nothing comparable to Western practices in China before. Therefore, it is unsurprising that the quality of education in the HRM sector is low and HR managers are inexperienced with measures apart from administration

⁵⁸ (The Ministry of Labor and Social Security, PRC) 中华人民共和国劳动和社会保障部, “中华人民共和国劳动合同法”, in *中国政府网*, 2007.

⁵⁹ “The Hudson Report - Hiring and HR Trends – China – January-March 2008”, in *www.hudson.com*, 2008, p. 9.

⁶⁰ “The Hudson Report - Hiring and HR Trends – China – January-March 2007”, in *www.hudson.com*, 2007, p. 11.

and compensation management. Madelaine Pfau explains that in general technology and technical skills are developed faster than soft skills, which are often related to HRM. As already mentioned in 2.2., despite the founding of various schools during the last decade, there is still a lack of classes in HRM.

A crucial point in effective HRM is the performance appraisal. In many Western enterprises performance appraisal and assessment is based on competency models. These models try to measure soft skills as well as leadership skills and development potentialities. Western style competency models are not yet integrated in Chinese performance appraisals. The main categories included are educational background, work experience and leadership abilities. Cultural or social competence are neither observed nor assessed.

Appropriate competency models can help to choose reliable and adequate staff for certain positions. In companies, which rely on competency models, managerial staff is more likely to fulfill their tasks to a higher degree than managerial staff in companies without competency models. Competency models for high-level management positions include various requirements, such as teamwork skills, leadership ability, analytical thinking, self-confidence and capacity in developing others.⁶¹ However, in Chinese enterprises educational background and grades still are the most important criteria for the selection of personnel. Additionally assessment methods in China still lack in efficiency. An example for this is the use of questionnaires. This method is highly inefficient in terms assessing teamwork ability or flexibility. The Behavioral Event Interview (BEI) proposed by Wang Jicheng 王继承 is a considerable method to measure skills and abilities. However, one must admit that some competencies, such as teamwork and capacity of developing others, are difficult to measure during a BEI.⁶²

3. Human Resource Management

3.1. Old Tasks

Due to different goals, the responsibilities of personnel management in plan economy and HRM in market economy differ from each other. As analyzed before, personnel management in plan economy is aimed towards distribution of welfare and full employment. On the contrary modern HRM is defined as measure of performance improvement of the individual employee within the enterprise. Its basic task is to identify, train, and develop employees' potential for the maximum

⁶¹ Wang Jicheng 王继承; Li Chaoping 李超平, [*Qiyegaochengguanlizheshengrentezhengmoxing pingjia de yanjiu*]“企业高层管理者胜任特征模型评价的研究” [Research on the evaluation of managers by competency models], in *心理学报 (Acta Psychologica Sinica)*, 34, 2002, p. 308.

⁶² Guo Bingpeng 郭炳朋, [*HRguanlixin gongju competency moxing*]“HR管理新工具competency模型” [Competency model as new tool for HRM], in *XINHUANET.com*, 2005.

benefit of the enterprise. The success of HRM depends on the adaptation to new circumstances and competition.

Foreign invested and foreign funded enterprises usually have expertise in HRM and are able to adapt much quicker to challenges a growing economy bears, as they are already familiar with HRM strategies and suitable performance assessment methods. On the other hand, especially multinational enterprises seem to suffer from the shortage on the Chinese labor market, as their requirements are higher in respect to intercultural competence as well as language and practical skills. The total pool of qualified personnel for them is even smaller than for companies of other ownership types, resulting in an even harsher competition for talents. Therefore, multinationals have to invest more in managerial staff recruitment and retention in terms of salary as well as in training and employer branding.

In contrast, state-owned enterprises still have difficulties to adapt to modern HRM practices. As the states influence on labor market shrinks, enterprises must adapt to this situation. However, even after the accession to the WTO HRM in state-owned enterprises is still not striving for innovation, but following the maxim of conflict and loss prevention. One reason for this might be that human resource managers are not yet able to deal with the changing demands on them.⁶³ Today, state-owned enterprises suffer from the flight of human resources to the private sector. Not only HRM is underdeveloped, but also the still existing system of seniority hinders young professionals to climb up the corporate ladder according to their abilities. Moreover, state-owned enterprises provide lower wages than the private sector. This structure detracts from job satisfaction, discourages and, ultimately, leads to job changes. Companies of other ownership forms range between these two extremes.

Regardless of the ownership form recruitment and retention of employees pose a problem to the HRM sector. According to the Hudson Report for the second Quarter of 2008, the most critical HR challenges are still hiring the right staff and retaining talent. "Across all sectors, 48% of respondents say that recruitment is the greatest challenge, while 27% select retention."⁶⁴

Recruitment and Retention

Recruitment includes job advertisements, job interviews, screening and selection procedures. Responsible for these steps is the Recruiter (*zhaopin zhuanyuan* 招聘专员). Usually recruiters are human resources experts or, in case of state-owned enterprises, also staff members of the Ministry

⁶³ [Rushi dui gouyou qiye de yingxiang] "入世对国有企业人力资源管理的影响" [The influence of the WTO accession on the human resource management of state-owned enterprises], in *www.britay.com*, 2002.

⁶⁴ "The Hudson Report - Hiring and HR Trends – China – April-June 2008", in *www.hudson.com*, 2008, p. 9.

of Personnel. The employer makes the final decision, choosing among the candidates and concluding the labor contract with the employee to be.

Basically four types of recruitment methods can be applied on the Chinese market.

- In-house recruiters advertise job vacancies on their own websites and coordinate employee referral schemes.
- Online recruitment websites and newspapers in which job offers as well as job requests can be posted.
- Job Fairs
- Traditional recruitment through HR agencies
- Headhunting

These methods can be divided into two groups. The employing company itself can use in-house recruitment and advertisement via media, while HR agencies and Headhunter services usually count as a third party. The possibility of hiring staff by internal promotion of employees is a rather unusual method in China. Internal development and training programs are not yet established or not efficient and sustainable enough, and employees usually do not stay in one company long enough. As a result the majority of managerial staff has to be recruited from outside the company and thus has no personal connection to the new employer.

The primary incentive Chinese companies set, are increasing wages and benefit prospects. According to the Hudson Report for the 1st Quarter of 2008, 32% of the respondents expect to attract new talents by raising salaries by over 20%. The IT&T sector offers the highest increases with 83% paying over 10% more and 48% expecting a pay increase of over 20%. Similarly 76% of the respondents from the Banking & Financial services expect to increase their salaries by over 10% and 36% more than 20% respectively.⁶⁵ The fact that salaries in the media sector are increasing less than in other sectors seem to be one explanation for the high turnover rate in this sector as seen in chapter 2.3.

⁶⁵ "The Hudson Report - Hiring and HR Trends – China – January-March 2008", in *www.hudson.com*, 2008, p. 6.

Pay increase to attract managerial staff

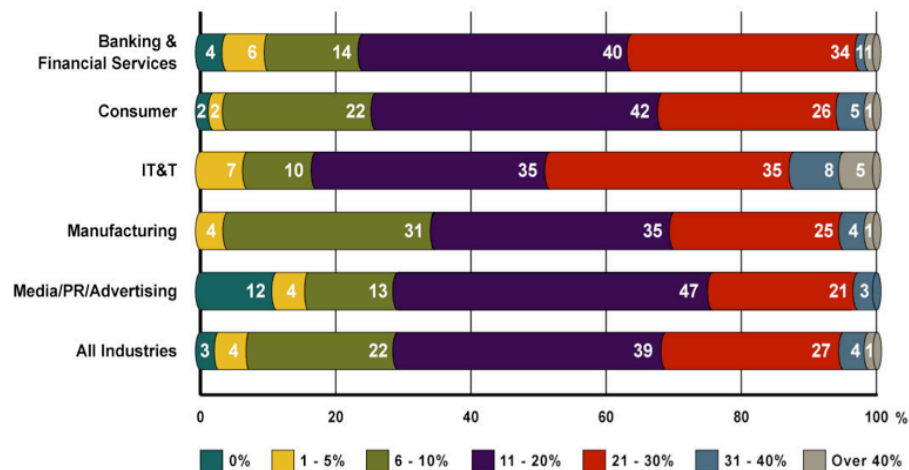


Table 2: "The Hudson Report - Hiring and HR Trends – China – January-March 2008", in *www.hudson.com*, 2008, p. 6.

After the adoption of performance related payments, salaries consisted mainly of basic wages and bonuses. Throughout the 1980s until today, not only wages rose, but also the bonuses.

	Average nominal wage p.a. (yuan)	Percent of bonus	Average bonus p.a. (yuan)
1980	803	9.7	77.9
1985	1,213	14.5	175.9
1990	2,284	19.1	436.2
1995	5,625	16.8	945
2007	24,932	17-20	4,238 – 4,986

Table 3: table composed from figures of Meng Xin, *Labor Market Reform in China*. Cambridge: Cambridge University Press 2000, p. 84. [07 *Quanguo zhigong pingjun gongzi 24932 yuan wangyou renwei bu keneng*] "07全国职工平均工资24932元网友认为不可能" [An internet acquaintance thinks that a nationwide average per capita income of 24932 yuan is impossible], in *Sohu.com*, 2008-04-02. "Salary Survey 07/08", in *Michael Page International*, 2008.

Performance related bonuses will continue to increase. According to the Hudson Report, across all sectors 66% of respondents say that they plan to pay bonuses of more than 10%. 24% even intend to increase their bonuses by more than 20%.

In general, there is a trend in using performance-based bonuses to attract and retain staff. This measure can be understood as a reaction to the Chinese mentality as surveyed by Hewitt in 2005. According to this survey the top reason for job change is a higher salary.⁶⁶ This result corresponds with the Hudson Report mentioned earlier. But still turnover rates rise and hiring expectations fall,⁶⁷ hence particularly for the retention of middle and high-level managerial staff other measures are

⁶⁶ Warwick John Fahy, "Show me the money – Why does money motivate so much?," in *sinomedia.net*, February 2007.

⁶⁷ "The Hudson Report - Hiring and HR Trends – China – April-June 2008," in *www.hudson.com*, 2008, p. 9.

required to assure employee retention. Whether an employee stays in a certain company or not depends on his job satisfaction.

Job Satisfaction and Motivation

In the mid 1900's the published theories of Abraham Maslow (1908 – 1970) and Frederick Herzberg (1923 – 2000) vastly influenced the Western way of thinking about career satisfaction. According to Maslow's theory needs influence all aspects of human behavior including the search for job satisfac-

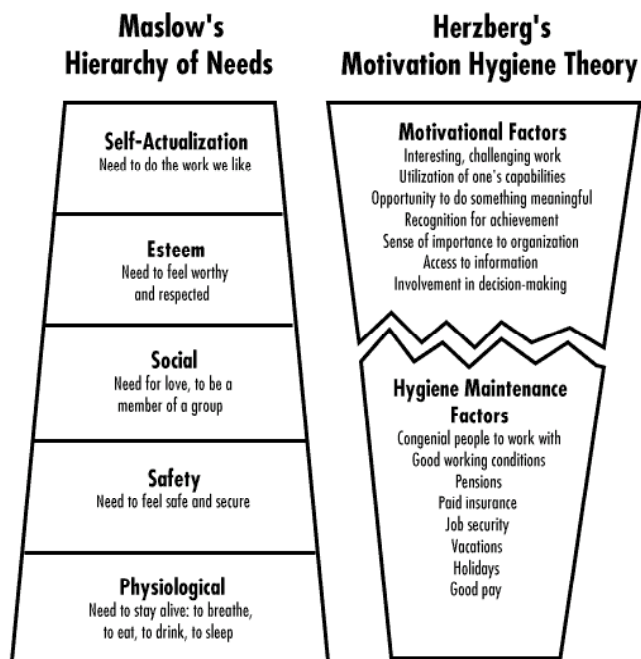


Figure 1: "Maslow and Herzberg", in *Vcharkam.Com*, 2007.

tion. These needs can be assorted in a "hierarchy of needs". Once people satisfy a need at one level of the hierarchy, the next level up in hierarchy gains more importance.⁶⁸

Herzberg in turn grouped these needs into two factors. He concluded that such factors as company policy, supervision, interpersonal relations, working conditions, and salary are "hygiene factors" rather than motivators. According to this theory, the absence of hygiene factors can create job dissatisfaction, but their presence does not

motivate or create satisfaction. In contrast motivators give positive satisfac-

tion, arising from conditions of the job itself, such as recognition, achievement, or personal growth.

From these theories can be concluded that employees, who are already high up in enterprise hierarchy can only be motivated by meeting self-actualization and esteem needs, such as recognition of their achievements and involvement in decision-making. A reward system can be conducive to employee satisfaction. Rewards can be distributed in form of bonuses, which is a common practice in China.

However, constantly increasing salaries and bonuses can also produce a human resource bubble, due to the fact that the price for talent is not based on their potential but on the shortage of supply. This situation can be compared to the appearance of the housing bubble or any other phenomenon of overvaluation. Furthermore, according to Herzberg's theory frequent pay increases belong to hygiene maintenance factors, which can only prevent dissatisfaction. Thus, this is not a sustainable

⁶⁸ Wang Qi , (1996) , p. 20.

retention measure, nor does it provide unique features to make an enterprise competitive in the “war for talent”.

3.2. New Paths

During the research and the interview with Mrs. Madelaine Pfau it became quite obvious that endlessly increasing wages are neither sustainable measures of employee recruitment nor of retention. If companies cannot develop other solutions, this one-way street will sooner or later lead to bankruptcy. Chinas human resource departments and agencies are still looking for the “silver bullet”, the strategy that retains people beyond compensation.⁶⁹

Chinese companies offer various other material incentives to attract high-qualified staff. For those already high up in company hierarchy high pensions and other investments are considered as effective recruitment measures. Flexible loans and mortgage subsidies are benefits effective for recruitment and retention of both categories. Other incentives on material basis, used to show appreciation of the employee’s work and status, are housing subsidies, company cars, and mobile phones.

In the long run, material incentives are not sustainable enough to retain employees. Using these strategy during recruitment may have the effect that the total pool of new employees consist mainly of people whose main concern is material profit. These employees will react stronger to higher wages other companies offer than employees concerned about career and development prospects.

Career Planning

When considering a long-term employment in a company, it is important to receive information about career perspectives. There the HR departments are of crucial importance. They can assist and support the employee by revealing possibilities.

Frequent promotion in short periods of time, as it is practiced in some Chinese companies today are no real solution. Such measures belong to the same category as increasing salary, but in addition it complicates the enterprise structure by adding various new titles to the hierarchical order. Sooner or later, if carried too far, responsibilities become indistinct, overlap and spoil workflow and efficiency. Furthermore, for potential employees this lack of transparency can pose an obstacle to contracting with the company, because such a system creates a thick management hierarchy, confusion about opportunities and, as everybody gets promoted, it lacks individual challenges. The

⁶⁹ Appendix, Interview with Madelaine Pfau, Managing Partner at Heidrick & Struggles, on Monday, 09. June 2008.

latter is a very serious obstacle to recruiting managerial staff. They usually are willing to have more individual responsibility.

Clear and attainable career steps, support from the HR department and also frequent personal development talks with the superior, subsequent formation and personalized career steps are the most preferable methods of retention through career planning. To achieve this, some Chinese companies adapted the “Management by Objectives” (MbO).⁷⁰ Managers and employees get strong input to identify their objectives and time lines for completion. MbO includes a joint agreement on targets, ongoing tracking and feedback in the process to reach objectives. Targeted goals should always be “SMART” or even “SMARTER”, which means specific, measurable, achievable, relevant, and time-specific and also extendable and recorded. The reward system is usually adjusted to the fulfillment of these concrete goals, which makes it easier for the employee to understand decisions on bonuses and promotion. One of the biggest obstacles to MbO in China is the lack of suitable appraisal models to assess the achievements and development of personnel. At that point experienced western companies or expatriates could fast take remedial action.

An individual career plan does not only include promotions and higher wages. Managerial staff is already mature in career and their priorities are different from very young potentials. They place value on training and personal development possibilities. As Madelaine Pfau explained, they usually settle for security, rather than risk.⁷¹ This situation can provide superiors and human resource departments with new perspectives on retention measures. China’s companies already discovered training and development as a possible approach to find strategies of support and retention high-level employees. Strong training and development is the latest way to retain talents without paying the highest wages, even if the attention that Chinese companies pay to additional training does not seem profound.⁷²

Attainable career goals, a thin hierarchy and development opportunities are sustainable measures of employee retention. In order to make the promotion process and possibilities more transparent, the Haier Group defined career steps for different kinds of employment relations. The career ladder for managerial staff for example consists of four types of section chiefs (*kehang* 科长, *chuzhang* 处长, *buzhang* 部长, *benbuzhang* 本部长) and the position of the vice-president.⁷³

⁷⁰ Florian Alexander Hunger, *HR Study – Current Issues with Examples from the Automotive Industry*. Ingolstadt University of Applied Sciences: 2004, p. 52.

⁷¹ Appendix, Interview with Madelaine Pfau, 2008.

⁷² Warwick John Fahy, “Show me the money – Why does money motivate so much?,” in *sinomedia.net*, February 2007, p. 2.

⁷³ Li, Ning 李宁, *[jiyu haier de renliyibenguanli yanjiu]*, “基于海尔集团的人力资本管理研究“ [Research on the human capital management of the Haier Group], in *[Anhui nongye kexue]*安徽农业科学, 2006, p. 2235.

Employer Branding

Career planning also helps to set a favorable employer brand. Employer branding signifies the image of the organization as a 'great place to work' in the minds of current employees as well as candidates, clients, customers and other key stakeholders. Strong employer brand communicate enterprise strategy and culture by efficient marketing. All targeted groups are informed about the company's employee value proposition (EVP), which denotes the balance of giving and taking between employer and employee. The part of 'getting something in return' is especially important for recruitment strategies, as the employee to-be is focused on compensation and other benefits. A strong employer brand can draw his attention away from material benefits to work environment and development perspectives. Therefore, Many companies in China have e developed a corporate culture. The mp3 producer Aigo, for instance, established his own chess team. With regard to Maslow's theory, managers already reached the fourth level, which means that self-actualization becomes the next goal. The prospective fulfillment of this need turns into an effective instrument of retention and motivation.

Employer branding and corporate culture are also of crucial importance to attract talents. It is often forgotten that Recruitment has two sides. Not only can the employer choose the employee, this also works the other way around. Recruiting by giving the priority to the external perception of the enterprise as good employer, whether than as company with extremely high wages, attracts those who are interested in more than compensation and are therefore easier to retain.

The Haier Group for example established a strong employer brand by propagating “人人是人才，赛马不相吗” (*renren shi rencai, saima bu xiangma*, everybody is a talent, we're not judging before the race). This means that Haier is in favor of equal opportunities by giving everybody a chance without prejudices. Other Slogans define the company as a place where to find individual chances, innovation and above all fair competition.⁷⁴

Cooperation with the Educational Sector

One possibility to propagate an employer brand image, especially among young potentials, is the cooperation with the educational sector. By providing scholarships, sponsorships and internships for students the company can ensure a dominating position in the future employees' perception, as well as on university related job fairs or other recruitment events.

This kind of cooperation can be used to check upon the quality and contents of vocational education as well. Such a strategy creates personal bonds between the company and students or teaching staff. Some companies even set up training programs with universities or even establish

⁷⁴ Li, Ning 李宁 (2006).

their own training centers. SAP for example is not willing to rely on Chinese universities, as their education lacks practical relevance. Therefore, it founded a university of cooperative education in Shanghai. Students graduating from the enterprises' own schools are more likely to have the required abilities.⁷⁵

Companies that do not have the necessary financial background to organize trainings or build up their own schools must rely on the development of more efficient and precise methods of performance appraisal. The adaptation of Western style competency models is only a structural improvement, as requirements need to be further specified for each position and cultural differences also lead to different behavioral anchors. These anchors are essential and need to be studied over a period of several years. Not only the basis of assessment has to be reformed but also the methods used to measure skills. Behavioral Event Interviews, as explained before, are not completely suitable to get a sufficient picture of a person's skill. Assessment Centers, as they are used in Western countries have several disadvantages too, such as the enormous amount of time and money needed for their maintenance. Nevertheless, in an assessment center the candidates can be observed in different situations. Consequentially the observers can measure a candidate's talent according to their reactions, when confronted with different problems. Additionally the tasks set in assessment centers can be designed especially to measure specific competencies, which simplifies the evaluation of the observed and enhances accuracy.

3.3. A 'New' Service Sector

The shortage of managerial staff and the resulting competition is not only responsible for the rise of turnover rates and wages, but also led to the establishment of new ideas concerning HRM. In this context China follows an international trend where "human capital" (*rencai ziben* 人力资本) is considered the most valuable variable in gaining competitiveness and high enterprise performance. Nevertheless HRM is not yet the first business priority on the agenda of Chinese enterprises.

As a result of this particular labor market situation a whole service sector has emerged providing human resource concepts and solutions. In general two kinds of service agencies are important in China today. The first important service companies are those providing enterprises and private persons with technical training, language courses, soft skill workshops and other kinds of advanced vocational training. The second kind of service companies are the placement services, which basically deal with recruitment, selection of personnel and supporting corporate culture and organizational development. The human resource departments of enterprises would be able to also provide either of these services, but on the Chinese labor market a general trend towards outsourcing human resource matters can be observed.

⁷⁵ Sebastian Balzer, „Für einen Sack voll Dollar“, in *Frankfurter Allgemeine Zeitung*, 28, 2008-02-02/03, p. C4.

Training Services

A vast number of service companies identified the lack of vocational training as a market niche and try constantly to improve the quality and the range of education they provide. In the late 1990s these service companies concentrated on qualifying in hard skills, such as technical training, but as a lot of enterprises mention the lack of soft skills, offerings were readjusted to the new market situation. Other institutions also established advanced vocational training programs and offer soft skill seminars.

An example for this is the Cuban Organization, International Air Transport Association (IATA *guoji hangkong yunshu xiehui* 国际航空运输协会) that founded the ATDI (Aviation Training and Development Institute). The ATDI provides Chinese customers with over 300 different courses. In 2007 classes like “Managing People Performance“ (*yuangong jixiao guanli* 员工绩效管理) or „International Negotiation Skills“ (*guoji tanpan jiqiao* 国际谈判技巧) were offered at a price of 5400 to 7500 元.⁷⁶ The company 影响力 (*yingxiangli*) is an example for this kind of service provider founded in China, which offers team building seminars and leadership workshops lasting several days.

The former state-owned enterprise Haier 海尔 established a very strong link between training and career planning. Without specific training for promotion (*gangqian peixun* 岗前培训) and the required amount of credits, collected during trainings and through work performance, promotion is not permitted. All trainings Haier provides are entitled to meet the demands of the International Organization for Standardization or to be exact the ISO10015. This standard regulates quality management and sets guidelines for trainings.

HRM Services

The founding of the latter kind of service enterprises can be considered as a further development of the Personnel Exchange Service Centers or as new input from the west. Multinational enterprises still depend on Chinese human resource companies to exploit the local job market. As local talents are preferred over expatriates in mid-management positions this sector tries to meet the demands of nearly every company entering the Chinese Market. State-owned enterprises and private owned enterprises are following this trend. Multinationals started earlier to realize the importance of effective HRM and its impact on enterprise performance.⁷⁷ Their high standards were guidelines for Chinese HRM. Nevertheless these service companies not merely adopted western ideas, but rather tried to develop an own Chinese concept of talent management. Given the low educational back-

⁷⁶ [Peixun] “培训 — Training”, in *AvBuyer.com.cn* (2005).

⁷⁷ Michael Taylor, “HR Outsourcing takes shape,” in *China Staff*, October 2007.

ground of Chinese HRM personnel and the short history of HRM, the cultivation of a human resource management concept with Chinese characteristics is very difficult.

Concerning the shortage of managerial staff the recruitment services are of utmost importance. Some of these placement services do not only advertise employment possibilities, but also provide a communication platform or match incoming job offers with applications. These companies are considered highly aggressive. Their business depends on the successful placement of talents. The adjustment to the growing need on managerial staff, led to the integration of headhunting as part of their service package. A headhunter can be understood as a special recruitment agency, whose profession it is to find executives to fill open positions in enterprises. Usually these headhunters are contacted and hired by the company for whom they shall 'hunt' executives. Potential candidates are personally contacted and enticed away. Usually this kind of procedure is not understood as real recruitment, but as poaching.

On the one hand outsourcing the human resource department can be very expensive in case of failure and is difficult to reverse. If the authority over personnel matters has been transferred to an outside provider but the contract is to be cancelled after several years of close cooperation, within the enterprise itself no department can fulfill HRM tasks. Enterprises have either the possibility to contract a new service company or to rebuild an entire department and hire new employees. Both options can be quite costly and could cause a serious economic threat to the company by decreasing the enterprise's competitive capacity.⁷⁸

Another disadvantage in hiring a recruitment company is the information asymmetry, which occurs when the seller knows more about a product than the buyer. This means, even if recruitment or headhunting agencies appear to provide services of reasonable quality and have reasonable guarantees of certainty, there will always be a distinct advantage for some service providers to offer low-quality services and low quality employees to the less-informed enterprises.⁷⁹

On the other hand modern HRM is relatively new to the Chinese market and inexperienced enterprises can easily profit from existing service providers instead of choosing the more time-consuming building up or restructuring of an own department. In this context, headhunters are of particular importance with regard to their experience and professionalism concerning high-level managerial staff. For the recruitment of other employees as well as mid-managerial staff the best solution would be to involve experienced service providers to rearrange human resource departments. But this solution is detrimental to the exterior service company, because the fulfillment of the task leads to its own redundancy. Another solution to the problem is partial outsourcing of human resource functions. In many Western countries human resource departments contract exterior partners for the

⁷⁸ Ebs, "HR Outsourcing Success and Failures," in *ebstrategy.com*, 2008.

⁷⁹ George A. Akerlof, "The Market for "Lemons": Quality Uncertainty and the Market Mechanism," in *The Quarterly Journal of Economics*, 84; 3, August 1970, pp. 488-500,

recruitment process and especially for the poaching of managers.⁸⁰ This would also be a commendable approach for Chinese enterprises.

4. Conclusion

The development of HRM in the People's Republic of China can be described as movement towards decentralization and professionalization starting in 1978 as any kind of management strategy was aimed at the maximization of profit.

During the Mao era, the central planning and the unified job allocation system only distinguished between two groups of employees, workers and cadres. The requirements for the latter were not specified according to different managerial tasks, because the most important aspect was political reliability and achievements in the Party. This orientation to ideological needs was to the detriment of enterprise efficiency and productivity. Additionally, the soft budget constraint and the state plans prevented the development of innovations through competition and led to low motivation. As unscheduled job change was forbidden and other employment relationships simply didn't exist, leadership cadres had neither possibility nor incentive to enhance their performance. The lack of appraisal procedures also contributed to this situation.

Slowly, material incentives were introduced by the state through the responsibility system to increase motivation and efficiency. By the beginning of the Reform era, the Party tried to adjust the appraisal procedures to the new requirements of a market economy. The same applies to recruitment, as different positions could be staffed through different hiring procedures. Due to this differentiation between the types of professions, the state enhanced the efficiency of personnel management by sharing competence first with lower level committees, later on with the enterprises themselves. In the middle of the 1980s, the state tried to overcome the first shortcomings of skilled personnel by granting a certain degree of job mobility. The necessity of enacting a ban on luring employees through higher wages shows that already in 1984 shortage of skilled personnel and increasing turnover posed a problem to enterprises. Thus, it can be concluded that enterprises already rearranged their objectives towards productivity and efficiency, while HRM, as a less important part within the enterprise, was still bound to administrative tasks.

Even though progress was ordered by the state, the Enterprise Law of 1992 increased competition, managerial autonomy and the need for innovation in the HRM sector. Since the end of the 1990s, enterprises have full authority over personnel matters.

Despite these steps, today's demand for managerial staff is rising faster than the labor market is able to supply the need. Neither the educational sector nor managerial practice had the chance to

⁸⁰ Appendix, Interview with Madelaine Pfau, 2008.

adapt to the new circumstances too fast envisaged for a state only used to centralized decisions over centuries. Additionally, the generations educated during the Mao era and the 'lost generation' of the Cultural Revolution narrow the supply base. As a result companies face harsh competition for talent. Therefore, the role of HRM must be redefined.

Especially retention and recruitment pose a problem to many enterprises and human resource departments. In young market economies working moral is not well developed and the main criteria for employees to contract or to leave a company are the amount of salary and bonuses. This especially applies to managerial staff as their salary growth rate and turnover rate are higher than those of other employees. Simply paying higher wages is not a sustainable measure and hence retention strategies must be improved.

Individual career planning should then be one part of effective retention and recruitment. Thin hierarchies and distinct career steps are also effective motivators and thereby providing the employer with the possibility of establishing an employer brand. The same holds true for training and development possibilities.

As many enterprises in China are still inexperienced in HRM, service companies were founded to accommodate the demand for HRM solutions. With respect to managerial staff, especially head-hunting companies, whether from China or other countries are now of crucial importance.

The HR sector is still in an early development stage, where measures from the West have to be tested for their relevance on the Chinese labor market. Western models cannot be adopted without any modification. Cultural characteristics and the current situation of the economy, society as well as education must be taken into consideration when adjusting strategies to the Chinese market. This is of particular importance, as managerial staff shortage will again increase in approximately 15 years.⁸¹ The crack in the population curve caused by the One-Child Policy narrows the base of supply with young executives. As a result there will be much harsher competition for managerial staff, which could at that time lead to the emergence of an even younger or an overage management generation. In order to broaden the supply base, it is likely that younger employees will be promoted more frequently with or without fulfilling the requirements and the retirement age could be raised in order to keep experienced staff.

The general number of graduates will not rise as fast as the supply needs. Therefore, a crucial point in relying on a younger management generation is their educational background followed by a mixture of quality oriented selection and lifelong enhancement of professional and managerial skills. First of all universities have to focus on practice-oriented education. The state could contribute by reforming the educational system. The success depends on the speed with which the Chinese

⁸¹ "Adecco Institute White Paper - China's future labor market and the impact of new (globally inspired) labor laws", in www.adecco.com, December 2007, p. 38.

economy will grow in the next years. If it continues as fast as it does today economical growth will absorb the supply of talents and further increase competition.

Additionally, a solution to the staff shortage of managerial staff on the Chinese labor market depends on the development of the HRM sector and the spread of efficient management education. Returnees from foreign universities are a great chance for companies. These are familiar with Western management practices as well as the local culture, which makes them even more valuable than expatriates. They could also help to adjust Western HRM to the Chinese cultural environment developing a “Chinese way” adapted to the overall political and the economical challenges. This particularly applies to performance appraisal methods, such as competency models.

Especially competency models in China are underdeveloped and assess less relevant skills with respect to the actual needs of companies. The remedy of this error is of utmost importance concerning the huge number of not suitable graduates and their strategy of applying regardless of the requirements.

Nevertheless, in the long-term-perspective the problem of staff shortage today seems to be a generational issue. The Cultural Revolution left a generation, which is mainly not suitable for management position. Additionally the One-Child Policy reduced the number of talents, which are more likely to deal with the challenges of a market economy. The situation for the next generation will be different. They grew up in a market economy and profited from relatively modern management education. Even though their total number will not rise to a great extent, the percentage of suitable candidates will. Constantly improving HRM practices will contribute to recruit and place them according to their abilities.

The challenge now is, to progress enough to enhance managerial efficiency during the next 10 to 20 years without becoming too “western”. This accounts for all management strategies, but especially for HRM.

Appendix: Interview with Madelaine Pfau

Held on Monday, 09. June 2008.

Madelaine Pfau is a Partner Emeritus with Heidrick & Struggles, one of the major international retained executive search firms. During her tenure with the firm, she has held numerous management roles including Managing Partner of Client Services (major global client relationships), Managing Partner of Germany, Managing Partner of the Global Professional Services Practice, and global head of both quality and professional development. Madelaine has spent much time working with clients and staff across Asia. Earlier she was a consultant with McKinsey & Co and Price Waterhouse.

Interview minutes:

Concerning your own experience is there a sector who suffers extremely from the lack of talented managerial staff in China?

In China there has been a high influx of western management talents especially in those industries that went early to a free market environment. Those that remained most regulated by the state for longer periods of time, like financial services, and only recently have begun to update the talent. An advantage from high influx has been in the technology sector, there had been pretty good strides around technology and consumer goods. In Classic industrial space it's also been somewhat slower. Pharmaceutical, that's a global business that would be moving along quickly. But I think industry...the Chinese have been operating and it was difficult getting an influx of western talent. Mid-sized companies that have had less exposure to western business practices have generally had the same problem.

Do you think that there are difficulties in reciprocal exception of western managers and Chinese employees?

Expatriates have been sought out to bring in skills. However, What often happens is that people underneath them, look up and see that they're blocked, so they can't get promoted and if that is the case there is resistance. Now, most of the expatriates that come in are only there for a defined amount of time, in which case and if that's made clear to the people that work with that individual there is a lot to learn from that person and that job will be vacated over time, because that person will go back to his or her home country. So a lot of this has to do with: Is the person going to be gone and is that made clear. The second thing I think is important around this is the attitude, that the expatriate brings coming in. It's always good to have a lot of experience in other countries, but any time you go in a new country there are

elements of local customs and culture that are unique. To be successful as an expatriate in any country you have to adapt what you bring in to the local cultural.

Is there a basic difference in HR management strategy between China and the West?

Yes, this counts for the whole spectrum of management practices, but here is a good example: In consumer goods. How you sell, that's one of the most sensitive sectors to local culture, how you sell Coca Cola or Hamburger in Germany is going to be different than how you position it to sell it in China, or even sub-pieces of China for example in Shanghai or in Wuhan could be very different. And if you don't adapt, the skills and the techniques, it isn't going to work. That's why everything has to be redefined. If managers don't do that well.....that is a real problem and it has been a problem historically in the consumer space. People brought in their experience from other countries but didn't adapt and it took a longer time to adapt it to the local culture.

In an article about building up Chinese subsidiaries in other countries, the author wrote about companies usually sending their best talent. What do you think about this strategy?

India has been doing that for a long time. There is one company that I know, a gaming company in the US. They are building up a big operation in China. They wanted to recruit people who know the language and customs, so they settle them at the corporate headquarters in the US for two years to learn the local culture and then send them back. That's one way to deal with it.

The other thing that is going on is that Chinese companies that sells their prod abroad, they want to go to other countries and send good staff to represent the culture, the product and the knowledge of the business to the local market.

So it's going to be flowing in both directions. There's not as much from the latter yet, but that will come.

Especially young graduates are willing to go abroad, but the problem is that they tend to quit their job after several years in which they have gained experience. What kinds of retention measures are used there?

Well, it's a real problem right now, because not only that you have just a demographic shortfall of people who have the qualified skills, what happens now is that with a market as fast growing as it is, the demand for talent is way exceeding the supply and often young people fall pray to this. And often they only stay for a couple of month or a year if you're lucky. So you often see people who have been out of school for maybe five years and they already had 3 different jobs.

Now, what do you do about it? Well, how you deal with kids and how you deal with more mature adults is like two different market segments, but I think one of the things you can do is, if you're putting them on foreign assignments that's about sure that they change jobs, now if they hate when being on foreign assignment they are going to quit anyway, but I think for me the best way to do this is create personal links. So that the people that come in are not treated just like cattle and each one of them is individual and they got a personal mentor or mentors, personal sponsors, which is kind of like glue. And it's way harder when you going to quit to tell a personal mentor or a friend that you're about to leave.

Do you know a Chinese company that already adopted such a system of personal bonds between new employees and people, who already worked there for a lot of years?

People who worked there a lot of years, well there's not a lot of examples for that, but companies that have had adopted the western skills...you might take a look at Haier. That's a pretty well run company; they make white goods. I would also look at some computer companies and see what they're doing. Oh, and look at Alibaba, that's an internet company.

In China, there is a trend toward retain personnel by increasing wages, but companies usually cannot stand this if they always have to increase their salaries and bonuses. Are there any other retention measures in China adapted to the local culture?

Your comment about compensation is a really good one. It's not a sustainable game. You raise the pay and your costs and sooner or later you will be out of the market. That's not going to work.

I think, there will be retention strategies...there are some things...For example in Germany, there are the laws about how people are treated vis-à-vis their company and the same thing in France, in many respects those are written very much from the employees perspective to ensure longevity.

By contrast, China is quite the Wild West and they don't have this kind of things yet. I think a lot of companies are still looking for the „silver bullet“, so to speak, which is the retention strategy that's going to keep people... beyond compensation. And the only thing that I personally observed is the notion of making it a personal connection and that makes it very difficult. The young people don't seem to value as much the learning, they see a lot of money in a poor country and that what is all about. That's what is leading to these job changes.

Concerning the topic of personal connections, how important are they for the recruitment of managerial staff?

Basically it's the same thing. I think, as people mature in their careers a couple of things change. As they get older they often get married and start having family, so the need for stability grows.

It's important to realize, where you are in your life influences how you make your decisions. As people start to settle their personal life, they become more risk-averse. Though I must say that's all relative, because there is a massive demand and there isn't that much risk of having no job at all, but still I think if people mature in their career there a little more pensive, about „what if something goes wrong“. Which is a good thing from a management perspective.

They also start to value learning, so the experience that people get, the opportunities, they have to have an impact on the company and are managed by somebody that personally cares, with whom they are personally connected.

So the best thing to do would be, building up a connection to the whole family of the manager.

Yes, absolutely and when we recruit in China we have found that this is an enormously important element. Ironically that is important all over the world, but most people don't understand it.

Are there any legal restrictions to „job hopping“ of managers, like, for instance, the hukou-system that pose difficulties to job change?

We haven't experienced that.

What is the position of the Chinese government? Are there any reactions?

We haven't seen any. I think they are aware of it, but...interestingly enough they have started to alter their One-Child philosophy, well it's not for this reason, but I'm starting to hear about loosening that up a little bit. But that's more about creating a sustainable pension program. If you don't have the next generation growing, you got to many old people being supported by too few workers, like in Western Europe, that's a real big problem in Japan and it's also starting to be a real problem in the US. If you only have a One-Child reproductive policy, the population is not growing and since the old people as they retire are being supported by fewer and fewer people down below. Well that's what's driving it, but it also has a by-product implication the problem is that's probably 20 years away, when you will see it, the effect is that it will provide more people in the market so that the supply of talent goes up. That's a generational issue, not something you will see in the near term.

Now I do think the one thing that can help is, China is such a neat place right now, a lot of people from western countries like to go there, that's why I went there because it was so interesting and you learn so much, so you can find people that are willing to go there at least on a temporary basis and I think companies are taking advantage of people that are

interested. A Guy whom I managed at our the company here in Dallas, is now over in Shanghai living there with his family for three years running a couple of pieces of our business there. His kids are young and it's a great opportunity, a lot of people are out there that look like that.

What was the best thing for you in China?

The vibrancy, the speed with which it is changing. The first time I went to China in 1999, to Pudong, and then I went back a couple of years later and took a picture at the same place and the difference is just striking from a building perspective.

And then you look at the economy, the speed with which it's growing and the amount of English people are speaking, the value those people place on education. I think it's the most exiting place in the world.

And then I went to Vietnam and Vietnam is looking like China did 15 years ago and its sort of the next place.

How important is human resource Outsourcing? Would you recommend such a measure?

In hiring process I would, but not concerning the whole human resource function.

But outsourcing everything...I think that's difficult.

There's not a lot of local skill around human resources in China that's been developed today. The education that developed first was around technology and technical skills. And the soft stuff, which is typically associated with human resources, is more slowly developing.

I'm sure that there are a lot of people offering that kind of services, but I'm not sure about the degree to which...and I think things like benefits and payroll processing, I'm sure they can do fine, that's not the problem, it's the softer, the organizational development, the succession planning, the career management, the things that make a difference in whether people stay or not are not things that you can just toss over, you know, flip over a wall and hand to somebody else to create and execute.

I think this problem also appears when it comes to competency models, which can be used in assessment Centers. Do you know if Chinese recruiters do use competency models? I only read about the Analytical Hierarchy Process, and it was about judging whether a candidate is suitable or not. It was based on technical skills and education, but not on soft skills.

Right.

Do you know if there is something based on soft skills used in China?

Well, regarded firms that do recruiting at the more senior level usually use competency models but that is hard to do effectively if your processing lots and lots of lower level

applicants. Now, I know we use competency models in all our recruiting, but that doesn't mean that it's about things like leadership, it's about developing people and how you measure these in each culture is a bit different. It's basic skill, but how it manifests itself, how it can be identified in behaviors, which makes it relative what good looks like in different places that has to be reset in the local culture. But I don't think you can judge whether someone will be good in a management job, when you can't judge their capabilities around leadership and people's skills and things like that. Which you can't just get from just things like grades and technology.

So basically because of this lack in HR experience, there is also a lack of capability in assessing management skills.

The softer stuff, yeah.

Are Assessment Centers held in China?

I don't know. We don't use them, because we don't use the mass scale stuff. We work at the higher levels.

How do you recruit in China?

Well, just like everywhere else in the world. We identify perspective candidates, call'em up, sit down with them face to face, interview them, introduce them to the clients, go through the interview process, the screening process and the candidate and the clients meet...go through the mating dance and then we help with the negotiation of the final job and the compensation, so just like everywhere else in the world. The judgment is based around competency modeling.

What competencies do managers in China need more than in the West?

What matters in one country is different of what matters in another country. What matters in China are good leadership skills and personal skills, because in China you have to deal with a very, very rapidly growing economy and how you deal with a growth economy may not look like with what you deal with in a slow growth environment, maybe like in some places in western Europe. So what you do to manage a growth economy and how you manage a recessionary kind of an environment is different, you need different kind of skills. It's a lot about motivating people, in the case of rapid growth the tension becomes a big deal and building a leadership skill running large companies is still something that's being cultivated and needs to be further cultivated in China.

Are there any Chinese companies whose HR strategy is extraordinarily good or bad? For example you mentioned Haier.

I don't know the company-specific programs too well, but the companies that are most international are likely to do a better job than those that are just local. The key to private enterprises is the speed with which they have moved private. In the old days, the state entities didn't have a need, they didn't care about operating for a profit and hence productivity didn't matter, quality didn't matter, certainly people didn't matter. Once you introduce a market-based economy and competition everything starts changing and I think there are fewer and fewer of these state-owned enterprises that stay under state control. The reason that they are falling away is that they are not competitive in product technology, in working skill, in leadership skill or in people retention. What often happens is just the free market operating, the good people will go to where they can earn more and more money and that can't happen in state enterprises. Talent working for the government, those tend to be the weaker people.

Did the government or state-owned enterprises develop special retention or recruitment methods?

No, not that I know of. Well, you get what you pay for.

So they just stick to the market.

Yes.

Before you mentioned that human resource experts are missing in China. Do they have another perception of what HR is about, compared to western people?

Well, if you don't know what good looks like.

Are there any special schools developing to teach good HR?

They are starting in business schools like in the West. You get some part of it just as part of the program. I'm not familiar any that are dedicated only around the HR function, because I'm a real believer that development of people is the responsibility of the line organization, not a staff function, the HR function is to be a facilitator, but the people management and development needs to be something coming from the line.

So how good managers are at managing people, keeping and motivating them that's...they only will learn it by seeing it and you only can see it by westerners coming in or you see it in schools, that are being implied by the new techniques and joint programs with eastern and western companies.

So good recruitment and retention is about developing an enterprise strategy that is saying: „we care about our people“?

It's not just saying it, because what you say and what you do may not be the same. It's important that you live it and make it clear and then people will be drawn to it.

It's like the free market has emerged. At first they saw it, were reluctant, but then people began to make money and have freedom and all of a sudden light went on and people on mass started to saying „hey this is a good deal!“ because they were living it. They found value.

As there are people flowing back and forth from east to west there is going to be more exposure to it, you have a generation of people that have a generation of people that have come up and have learned it and this generational problem will go away.

So the problem of managerial staff shortage is a generational issue?

Think back on what happened to the education system in China. People who are now in the 50s didn't get a business education because it did not exist.

It has only been today's young generation who has been exposed to education, to learn English or other western European languages, to go out, compete and make money.

How fast this problem goes away also depends on how fast the economy grows. If it keeps growing as fast as it is it will be hard to expand the supply of managers fast enough to satisfy demand for a while. As more people get education and on the job experience in business, the supply of managers will grow in relation to demand overtime and this problem will lessen.

Are people studying abroad and foreign Chinese are highly valued?

Yes, sure. Take a look at India. In India you can get a very good education and they come to the US, to UK or Australia and get the work experience. And now India has become a very good place for these people to return, take their skills, they know the culture and now they got the western business skills, that's perfect. And that's also going on in China, although on a smaller scale right now.

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