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# Doing Business in CHINA: MYTHS and REALITY

The most efficient HR strategy is to recruit in a better way, outsourcing at least part of this process to specialists who assess technical aptitude as well as propensity to be a stable employee. The idea is to recruit the most suitable person for the job and the company, for today and tomorrow.

Candidates are also looking at the future package and opportunities; this is what encourages staff to stay at a company.

Everyone is talking about China. Statistics, figures, new projects; all are truly impressive. Many foreign companies are investing in China every day. Labour costs such as the minimum hourly wage (6RMB=€0.60 in Shanghai) and working conditions as regulated by the Chinese authorities cannot be compared to those in Europe and are highly attractive for many production relocation projects.

Not all companies succeed in their endeavours, however. One of the main reasons for failure lies in mistakes in management, errors in recruitment and a poorly-adapted Human Resources strategy. Cheap labour can turn out to be very expensive when managed in an inappropriate way.

Reasons for failure lies in mistakes in HR strategy

When deciding to start a company in China, key aspects to take into account are numerous: the heavy financial burden of expatriates who cannot yet be replaced; high staff turnover and shortages in the talent pool;

communication problems and major cultural differences in management; minimum pay and benefits levels rising faster than elsewhere.

## RECRUITMENT IN CHINA: THE WAR FOR TALENT

China faces a shortage of qualified high- and mid-level executives. This is despite a workforce estimated at 750 million and the return of Peoples Republic of China nationals from abroad every year.

Recruiting in China is still one of the greater challenges for all HR professionals. Failing to do this right prevents companies from growing. The available talent knows it, and they are not shy to explore other opportunities as a consequence, driving turnover rates higher. While the average in China is around 11%, rates vary across industries - some are as high as 20%. Some companies even experience turnover of 30%.

In addition to hiring enough of the right people to achieve projected growth, companies also must hire enough of the right

people to fill the gaps left by those who leave to pursue other opportunities. With this in mind, companies not only need to work harder to retain the people they need; they must also be much smarter about recruitment.

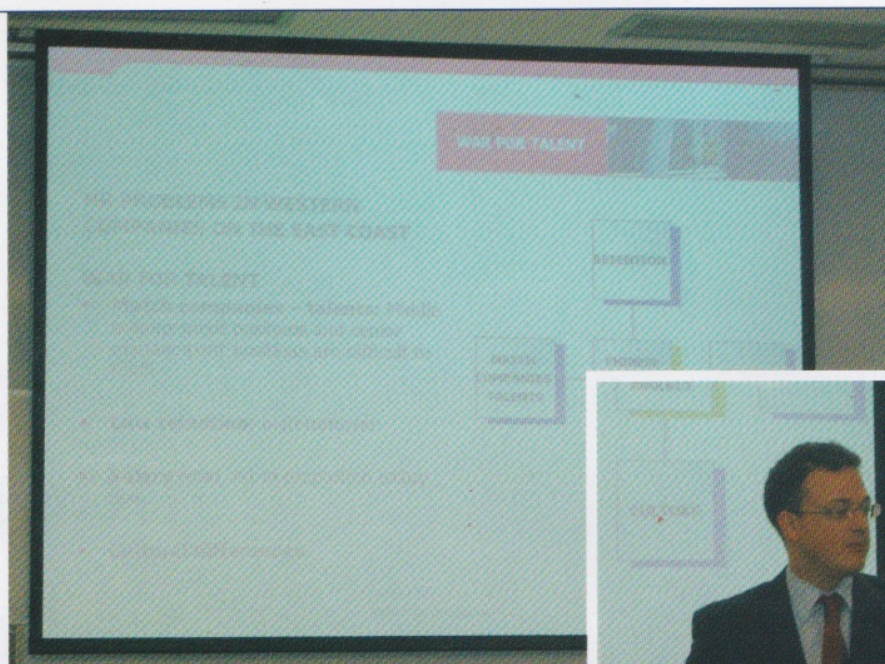
Some companies even experience turnover of 30%

Companies will have the upper hand if they can easily explain and convince potential candidates why their company is a great place to work. The battle is not won on compensation packages alone, companies must also have the right mix of pay, leadership/management opportunities, training, career development and long-term career growth opportunities.

## THE TURNOVER FACTOR AND THE KEY FACTOR OF RETENTION

The high level of turnover among staff in China, and especially in Shanghai, is a major obstacle encountered by companies. Employment costs and productivity rates are severely affected by this phenomenon.





The market's demand for candidates with technical skills is growing stronger and stronger. In the banking industry, turnover ranges from 14.8% to 19.1%. Even for lower qualification levels, demand has recently risen in some specific industries. As an example, the automobile industry as a whole last year faced a turnover level of 29.6% for low-qualification staff. The main reasons to explain this phenomenon are:

- Wages underestimated compared to workload
- Management style not adapted
- Lack of promotion and career development opportunities
- Travel time judged too long to get to and from work
- Absence from home and relatives

Therein lies a key issue for management today in China. In fact, when staff decide to remain at a company they do this most often not because of today's

conditions but tomorrow's package and opportunities.

#### Lack of promotion and career development?

The most efficient strategy is certainly to recruit in a better way, outsourcing part or all of this process to specialists with various tools and techniques, able not only to assess hard skills (technical aptitude for the job) but also soft skills (personality and important factors such as propensity to be a stable employee). The idea is not necessarily to recruit the person with the best CV but rather the most suitable candidate for the job and the company, for today and tomorrow.

#### LOCALIZATION

Replacing expensive expatriates who are partly integrated, partly at ease with local communication values and on fixed-time missions with cheaper, well-trained, fully-adapted foreigners is the dream all Human Resources directors of foreign companies share.

The reality is different, however. Government measures, reforms and the emergence of a young, talented and willing-to-be-trained generation is not yet filling the gap. Top management jobs will remain difficult to fill with these profiles for another five years at least. In addition, the higher the investment influx and growth, the more companies are fighting to attract this small pool of suitable executives.

Management in China requires time, patience, flexibility, adaptability

#### CONCLUSION

While foreigners can influence human resources practices in China, they cannot impose their companies' rules and regulations on local partners. Everything you are trying to build here takes time, requires a great deal of patience, flexibility and adaptability. To set up an efficient HR strategy in China, it is advised to consult a specialist or to outsource HR issues to specialised providers.