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People Challenges  
in China

*Business Strategy and  
Its Implications for  
Talent Policy*



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## EXECUTIVE SUMMARY

*As stand-alone China strategies are increasingly replaced by global strategies that have China at their core, multinational companies (MNCs) have to upgrade the size and quality of their China leadership teams. This would be difficult at the best of times—making it still harder today is both a shortage of talent and the intense competition for that talent.*

*To succeed, MNCs need to rework their talent strategies. They must find new ways of identifying and recruiting top talents, discover how best to localize key posts and invest in development. Retaining the best staff will prove expensive, with heavy spending needed both to keep benefit packages competitive and on staff development programs. The upside, however, will be improved loyalty and better company performance.*

## INTRODUCTION— THE NEW TALENT CHALLENGES

Driven by the twin forces of market liberalization and global integration, China has made itself a key part of the global economy in the last two decades. Its momentum looks highly probable to continue. By some forecasts, it will overtake the US and become the world's biggest economy within the next couple of decades.

Already, China's economic rise has led to some major shifts in centers of business gravity. Since 2009, it has been the world's largest automotive maker and its largest auto market. Year by year, ever more Chinese companies are gaining global prominence. Less visibly, it has become a breeding ground for innovation, particularly in areas driven by market demand and fierce domestic competition, such as consumer products.

These changes are requiring MNCs to rethink both their China and global strategies. No longer can they think of China only as a market they should enter and penetrate or as a sourcing center for low-cost goods to be sold elsewhere. Instead, they must find ways of rethinking their China strategies in ways that can place them at the core of their global strategies.

And with these changes come ever greater demands for new and greater talent capabilities. Senior management must be able to manage both in-country and global demands. The range of functions keeps on expanding—local R&D has become essential, as increasingly are high-level planning, marketing and finance functions.

With China's markets changing at breathtaking speed, and with competition from both local companies and MNCs growing ever more intense, business strategies are becoming both more complex and need more rapid execution.

To cope with all this, MNCs need to tackle a range of talent challenges. The most pressing of these is the limited supply of talent—particularly of people with proven track records of high-level achievements. The short supply of such figures has created a hugely volatile job market. For example, a study on talents in China, conducted by the Katzenbach Center at Booz & Company, found that in China, 80 percent of MBAs who worked for MNCs intended to leave their current job within two years. They have good reason—China's scarcity of qualified staff means that any move will almost certainly result in both a higher position and a multiple increase in salary.

In such circumstances, it is not a surprise that companies find the hunt for qualified and talented C-level and senior Chinese management particularly tough. Rising living costs—especially for housing—are further motivating staff to job hop. Moreover, no longer are MNCs necessarily the most attractive business to work for. With more than 50 Chinese companies now in the Fortune 500, many domestic companies have the ambition and the financial power to hire the country's best staff—and are aggressively trying to do so.

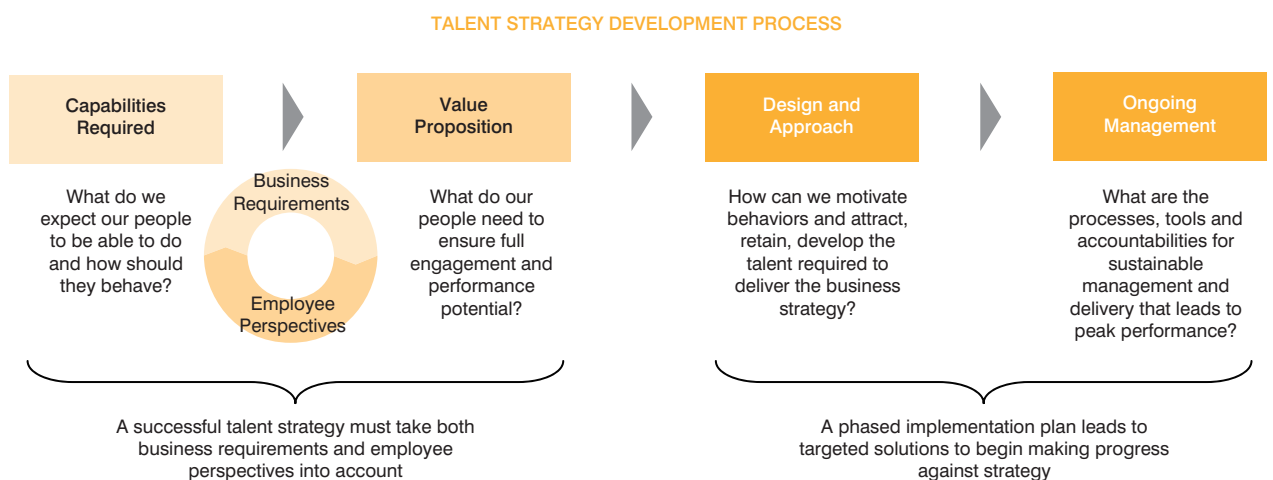
## A FRAMEWORK FOR THE FUTURE

To cope with the simultaneous assault of these business challenges, companies have to develop human resource strategies that allow each of them to carve out their own unique set of competitive advantages. Booz & Company has developed a straightforward four-phased approach, which places employee experience at its heart, and has been battle-tested through numerous client engagements. Realizing this calls for “stepping into the loop”—considering how people experience and make sense of their work environment,

and then how that experience and understanding shapes the actions they then take.

At the heart of this framework is a four-stage process (*see Exhibit 1*). The first step is identifying what capabilities are required—what does a company expect its staff to be able to do, and how should they behave. The next step is to link these desired capabilities and behaviors with its value propositions so that it can set its talent objectives.

*Exhibit 1*  
Booz Has Developed an Approach for Building a Talent Strategy that Meets Today’s Needs



Source: Booz & Company

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With this groundwork completed, the company can then move on to design action plans that can motivate and engage staff. The final step is implementing and fine tuning the processes, tools and accountabilities identified by these plans in ways that delivery peak and sustainable performance.

As companies move through this framework, new patterns emerge that highlight country-specific demands. In China, this is often a need for greater linkage between the aspirations of individuals on the one hand and the opportunities that companies are

finding themselves presented with on the other. To retain and nurture staff in such an environment, talent strategies must take the implications of the need to link these two sets of interests into account throughout their human resources management processes—recruitment, retention, localization and development.

**1) Recruitment.** Recruitment must both start early and have directly connections with a company's longer-term China goals. Hiring from universities requires systematic screening and selection procedures. Summer internships are popular

with most leading MNCs, while GE, Philips, Honeywell and Motorola all offer long-term part-time positions for outstanding college students. But better still than just starting early is also investing in education-related recruitment. Carefully prepared campus support and events can familiarize undergraduates with a company's activities. Some companies provide support to courses related to their needs. IBM, for example, works with various technical universities supplying both hardware and class development resources. Citi Group likewise offers sponsorship to Shanghai University of Finance and

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Economics with the goal of both shaping what students learn and raising its own profile.

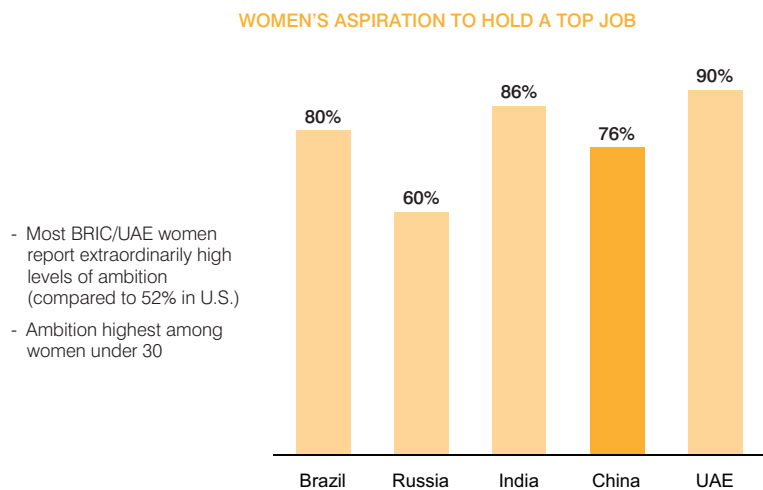
Companies foreseeing high growth and with a rapid expansion of employee numbers may have to look even further ahead. Pharmaceutical and automotive companies are heavily over-recruiting various categories of staff, especially sales people. Others are attempting to build large pools of talent from which they hope to draw future managers. Many foreign banks, for example, run management trainee programs aimed at building a reserve for future management candidates.

Talented women are another resource that companies should explore. A study from the Center for Work-Life Policy, co-sponsored by Booz & Company, finds that part of the China's talent crunch is hiding in plain sight—educated Chinese women. According to the study, nearly 3 million women graduate from Chinese universities annually. These women are ambitious and determined. Some 76 percent of the women surveyed for the study aspire to a top job, compared to 52 percent in the United States (interestingly, women in other emerging economies, especially India and Brazil, are also hugely ambitious—see *Exhibit 2*).

Companies can also look to hire Chinese graduates from business schools overseas, first giving them work at in their home country or other markets around the world, and only later transferring them to a management role in China. Johnson & Johnson operates such a scheme, hiring U.S. business school graduates, putting them to work at headquarters for one or two years, mainly on China-related functions tasks, before moving them back home in a leadership role.

**2) Retention.** For retention, the starting point must be realism—and so ensuring compensation packages

*Exhibit 2*  
**Women's Aspirations for Top Jobs**



Source: Center for Work-Life Policy

are competitive is crucial. For the best people, companies will have to offer world class benefit packages. Already, senior management compensation levels match global standards. For other key jobs, differentiated compensation will be necessary, with generous rewards for high performers. The best international corporations are working on this. Procter & Gamble, for example, offers salary increases of up to 30 percent for top performers. Packages are likely to include items such as housing, company cars and family education costs.

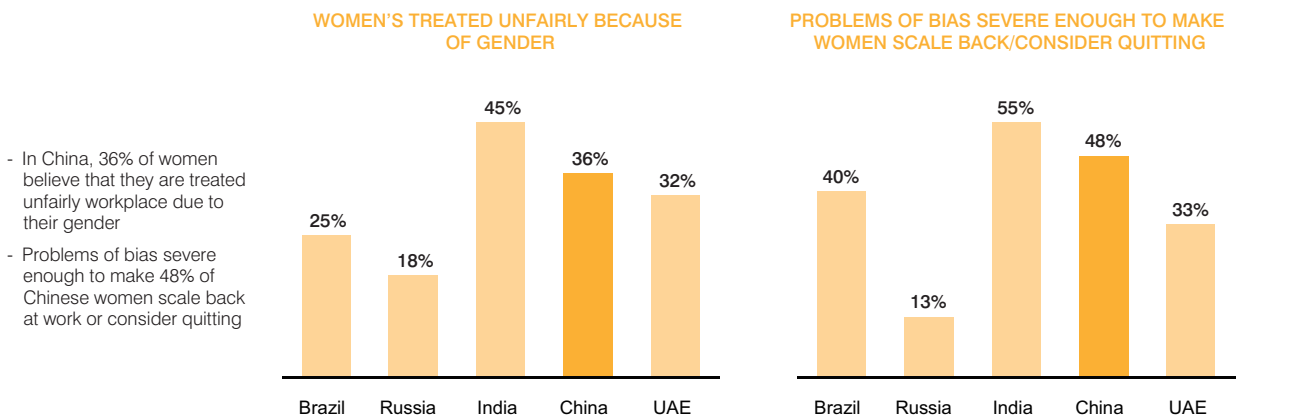
Money, however, is only part of the answer. Companies who can get inside the minds of their staff and

understand their motivations will almost inevitably fare better in the long run. Nowhere is this truer than in the case of female staff. As was noted above, women in China are hugely ambitious, and with good reason—in Forbes magazine’s 2010 list of global billionaires, half of the 14 self-made female billionaires were from China. But at the same time, gender bias continues to limit women’s careers. Over one-third of men and women surveyed said that women were treated unfairly because of their gender, and nearly half of educated Chinese women said they had encountered bias severe enough to make them consider scaling back their career ambitions or leaving the workforce entirely (see Exhibit 3).

Companies that can grasp the complicated career dynamics of women, especially their ambitions, and then remove the obstacles that prevent them from doing so, will find themselves able to tap an enormously rich talent segment. Indeed, it is likely that those which successfully can acquire a deeper understanding of the professional needs and aspirations of educated women will find the surest route to continued growth in China, now and in the future.

3) **Localization.** China staff localization strategies must be aimed at converting current expatriate positions into ones occupied by local staff—not simply, or even primarily, because local staff are cheaper than ones brought in from

**Exhibit 3**  
**Office Bias**



- In China, 36% of women believe that they are treated unfairly workplace due to their gender
- Problems of bias severe enough to make 48% of Chinese women scale back at work or consider quitting

Source: Center for Work-Life Policy

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overseas, but because in the long run key positions will have to be filled with people who understand China's complexities from the inside.

A key first step for all companies is assessing their current localization status across all entities and functions. The data from this process can then be used to establish where localization needs are greatest and what harmonization policies need to be put in place. Then targets and priorities can be set and measures put in place to reach them.

Companies should also look for ways of transfer best practices from other operations within China. If one arm of an MNC's China business has found a successful route to localizing a key position it must be given the tools to share its experiences with other units in the country.

**4) Development.** To thrive in the long term, they will have to make the effort and take the risks necessary to nurture local talent—even if the cost of doing ends up being higher than using expatriates.

Making a new employee welcome can play an important role in

ensuring corporate longevity, as do clearly mapped career development paths, especially ones that can show integration between a company's China and global operations. The best programs combine practices tailored to China's specific needs with schemes that can help Chinese staff understand how their company's China operations are integrated into its global business.

Ingersoll Rand has developed such a system. Aimed at offering a fast-track path to leadership, it begins with an annual planning session to identify key capabilities needed in China. It then puts key talented staff—many of them master graduates from China's top universities—into an accelerated two-year development program. This includes spells at the company's "China Ingersoll Rand University"—an adaptation of its global training program tailored to Chinese conditions—plus spells at two different business units for on-the-job training and placements in local or regional offices.

Advanced training is usefully supplemented with mentor systems that allow senior leaders to share their experiences and best practice knowledge. Overseas rotation

opportunities offer another option for integrated Chinese talent into a company's global networks. Global joint-project teams can promote cross-border collaborations and encourage managers to look for ways to take expertise developed in other markets and apply it in China—and vice versa. Nokia has applied such an approach for product development, forming a design team that included both Chinese and global talent to develop together a mobile phone interface friendly for Chinese consumer use.

Building a consistent corporate culture can strengthen ties between a company and its employees. It is crucial that leaders believe in and actively promote the company's core values. Procter & Gamble, before sending any expatriate staff to China, considers not only their business and management skills, but also whether they can act as company ambassadors, and able to share its core values with local staff. The company runs mandatory training programs on its core values, and follows these up with regular employee surveys to gauge its success in ensuring they are consistently maintained in different offices and areas.

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### **BASF'S Onboarding Program**

BASF has developed a special on-boarding program to welcome new staff. Pre-arrival, HR staff call new hires to welcome them into the BASF "family" and tell them about the logistics of their induction. They are then greeted with a welcome package introducing the company, a card signed by members of their new team, a dinner with senior managers, and if needed help finding a place to live. The next three months include biweekly follow-up meetings, thank you cards from fellow staff, a cake at the 100-day mark and a company gift from HQ once probation is passed. Orientation is completed in the following six months with a visit to another of BASF's major worldwide sites.

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## CONCLUSION

As more and more companies are discovering, China is more than “just another market”. Not only is it a place where success on a domestic level may be crucial for continuing success at a global level, but it is also a place where commercial success can only be achieved by an alignment of corporate interests with those of China’s broader social and economic development.

As China continues its rise in economic importance, it will be even more critical than it has been up to now that MNCs pay special attention to the China context. Companies with a long-term commitment to the country via contributions to its social and economic development are likely to enjoy higher engagement levels from staff. Support for such commitment must come from the highest levels, such as from CEO and board visits.

Pfizer and other leading MNC pharmaceutical companies are actively supporting health care development across the county. Other companies have benefited from reacting quickly to more immediate needs—such as supporting Sichuan’s recovery from its devastating earthquake of 2008. Doing so will not only bring a company greater support from officials, but also can lead to recognition from the population at large via China’s enormous online community.

Many successful MNCs have already started to react proactively to meet the talent challenges in China. To ensure their China teams are filled with A++ Chinese talent, what they must now do is take their actions to a higher level. Headquarters must become engaged in executive nurturing, ensuring that the best people are brought on board in the first place, that they are compensated appropriately, and that they are inducted into the global workings of their company. Together, these steps will allow the company to attract, localize, retain and develop the talent required to deliver on its business strategy.

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### *About the Authors*

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Booz & Company’s senior partner and chairman for Greater China, specializing in definition and implementation of business strategies, organizational effectiveness, and corporate transformation. He has assisted several hundred companies—headquartered both within and outside China—on all aspects of business related to China and its integration with the rest of the world.

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