



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

UNDERSTANDING HR DYNAMICS IN A MULTI-TIERED COUNTRY

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

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

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

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

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

Distinguishing premium segment and mid-tier segments

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

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

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

No approach can be shaped to fit every need

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

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

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

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