

Michał Chmielecki
Społeczna Akademia Nauk

HR challenges in China

Abstract *The fast pace of growth and change in China brings with it unique challenges among others for the Human Resources (HR) function. To keep up with rising business demands, the HR function in China has begun undergoing a transformation of its own. The aim of the article is to identify and analyze the main challenges for the Human Resources function faced by foreign companies operating in China.*

Keywords: *HR in China, management in China, TNCs in China, Cross-cultural management in China*

Introduction

Fueled by a period of explosive growth, China has successfully transformed its role in the global economy. Today, China has expanded beyond manufacturing and emerged as an important player in the information age, adding software, hardware and service solutions to its well-honed manufacturing capabilities. It is hard to pick a country that has successfully undergone such a radical transformation in such a short period of time. However, the fast pace of growth and change brings with it unique challenges among others for the Human Resources (HR) function. To keep up with rising business demands, the HR function in China has begun undergoing a transformation of its own.

Human Resources

“Technology, a global economy and a shrinking work force are among factors that have converged to push HR managers to the forefront. And while no one really knows what lies ahead for business in the 21st century, futurists say one thing is certain – human resource executives will play a vital role in helping companies compete.” (Calandra, 2000). HR executives are asked to look ahead

and project what things need to be taken care of to enable their company to compete effectively. They will be making suggestions regarding compensation planning, recruiting and retention strategies, training programs and a number of other strategies and programs in an attempt to beat competition. To enable them to do it effectively, it is critical that information regarding current trends be immediately available for analysis and forecasting.

Human resources are one of the most important factors in economic and social development, and are playing an increasingly important role in China's modernization. Nevertheless, one of the main problems is certainly the experience within the HR industry. Relatively new to China and it makes it difficult to find qualified, experienced and professional people suitable to full fill the roles of HR professionals. MNCs by selection and evaluation of candidates within the field can certainly improve the quality business on that matter. In the new century, China has made a major decision to rejuvenate the nation through human resources development, aiming to train millions of high-quality workers, millions of professionals and a large group of top-notch innovative personnel.

Management Style

It is recognised that the recruitment, development, and retention of competent and high-performing Chinese professionals and managers is a challenge and a problem for foreign firms operating in China (Child, 1991, 1994; Osland & Cavusgil, 1996). Surveys indicate that the management of human resources tends to be quite a big challenge for Western companies in China (Southworth, 1996). One of the essential questions facing multinational corporations in China is whether they should implement their global human resource management policies or, whether they should rather adapt the management of their human resources to the Chinese culture and local HRM practices. In China, modern management has been understood more as a body of quantitative techniques than as a way of thinking and acting. (Borgonjon & Vanhonacker, 1992; Nyaw, 1995)

Another perspective worth considering is the staff - their needs may be quite different from that of the management group wants. Even if the HR manager can act like a business/strategic partner, does it meet employees needs? Thus, another challenge HR faces is to serve as the interpretor and 'bridge' between local staff and regional/global HQ and to be able to move swiftly and adeptly between these 2 roles.

The Western and Chinese HRM models differ in several ways. The modern Western notion of HRM views employees as a valuable resource to be effectively

managed. It attaches great importance to systematic recruitment and selection, training and development, close attention to motivation through personal involvement and participation in work and its organizations, appraisal and progression procedures and incentive schemes. (Child, 1994: 157). This concept is seldom found in Chinese companies (Warner, 1993, 1995; Child, 1994). Furthermore, whereas the main role of the HRM function in Western companies is to provide service to the management, in Chinese organizations it tends to be geared towards maintenance of control (Child, 1994)“.

Trade Unions

Trade unions, and the governing party play an important part in how employers interact with their staff. Employers are legally obliged to consult with unions whenever large-scale changes are being considered. The formulation and amendment of certain policies, retrenchments, and changes to standard working hours all require union-level talks.

Talent shortage

The biggest Challenge faced by MNCs operating in China is still finding and hiring highly professional people, particularly in middle management level. Jonathon Taylor, HR Director for Coca Cola China, says finding good professional-level talents is a constant pressure. “The war for talent is consistent across all industries”. “We’re still looking for five to ten years’ international experience (for senior positions) - that’s the biggest derailleur.” (www.hrmasia.com/country-reports/still-burning-bright-hr-challenges-in-china/36462/)

“Multinationals are clearly emphasizing the significance of localizing their organizations in China, but the talent management challenges are formidable. Top local talent is scarce but critical. Chinese companies, rather than multinationals, are becoming more attractive places to work. In addition, China’s “cultural distance” from the home countries of many multinationals operating in the country is great. Several multinationals have left China because they could not navigate these issues successfully. For the multinationals that remain, talent management -- specifically recruiting, developing and retaining top local talent in China’s large, complex and rapidly growing economy -- has been over the past decade, and will undoubtedly continue to be, a major focus for success.” (Nie, Xin, 2009, p. 113)

Compensation costs for leader have been soaring recently but the quality of managers and leaders are not enhanced responsively. The reason is that in the last years Chinese economy has been growing so fast; there was no way

to find enough qualified leaders. Many of them, because the lack of a better option, were promoted less prepared. Now those leaders are now in their 40s, with not much business acumen, customer focus and people development awareness. True talents who are professional, visionary, people and customer oriented are scarce.

MNCs in China need a specific type of talented employee. The profile looks as follows the young, upwardly mobile Chinese professional with advanced technical skills and a solid understanding of international management techniques. They are also expected to possess strong foreign language skills, initiatives, and strategic mindset. However, MNCs have extreme difficulties in finding these people. The supply of this type of employee is small in the market, since China just has a short history of market-oriented economy to foster them. Second, the market competition for such talent is fierce.

The Chinese universities and colleges have traditionally focused too much on students' "academic skills which motivated students mostly to strive for high scores in exams. However, such education failed to cultivate students' creativity, willingness to risk-taking, leadership, teamwork and other "soft" qualities and skills that most MNCs would require in the real business world. As a result, although the number of graduate students rises consecutively every year, MNCs have not seen a corresponding increasing pool of qualified talent.

Studies indicate that managerial training programmes are rarely given to locals. The particular shortages mentioned most often are lack of creativity, aptitude for risk-taking, and of an ability to manage other people. Most severe talent shortages include:

- Leadership/ Profit & Loss Experience
- Project management skills
- Marketing
- Sales
- Specialized technical skills

Staff retention

Another important factor worth mentioning is the high-turnover rates. Economic growth and new government policies provided more options and for that reason, some companies have to pay more and offer better conditions to recruit and retain workers. The lack of employee culture has an impact on them leaving their employer, even for a small increase in salary, and working for another company. Promoting from within the company, setting clear and achievable goals for employees at all levels, and having a mentor programme are all initiatives that can increase the levels of employee's morale and motivation.

Retention is much cheaper than recruitment. Finding a way to retain staff would lead to higher levels of service as employees become more knowledgeable and experienced over time. MNCs are battling to provide effective retention packages including diverse health related insurance types and housing support. Table 1 illustrates effective retention tools for Chinese workers.

Table 1 Effective retention tools.

Effective Retention Tools	Year of Service
Training, Education Reimbursement, Career Development, Housing Benefits	Up to 5 years
Exposure to Senior Management, Training, Career Development, Housing Benefits	5 – 10 years
Retirement Benefits, Medical Benefits, Work/Life Balance, Long term incentives, External Recognition	Over 10 years

Source: Hewitt Associates, <http://www.aon.com/human-capital-consulting/default.jsp> (06.09.2012)

Law

In China, nothing is certain. The law is constantly changing, not to mention the changes in the local environment, business and administration. Many local authorities have a policy of openly discriminating visitors to protect their labour market from the competitors. Short-lived legal institutions connected to the supremacy of the party results in a clear weakness of the law and lack of respect in society.

Performance appraisal

In Western companies, performance appraisals are typically focused around an annual interview between the individual and his or her superior, sometimes with HRM people taking part (Sparrow & Hiltrop, 1994). In Chinese enterprises, the person in question usually does an annual written self-assessment. The opinions of colleagues, subordinates, and the superior are seen as important. One-to-one interviews with the boss are quite uncommon (Easterby-Smith et al., 1995).

Communication

Taking into consideration the fact that Chinese culture is influenced by two philosophies namely Confucianism and Buddhism it indicates that the Chinese are calm people that value the harmony and the family life. In Chinese society interpersonal behaviour pattern is based on hierarchically structured network of social relations - guanxi. They are created by doing and repaying favours within social connections and used to influence people and benefit from established relationships. Guanxi may also be of importance within organizations in the sense that good personal relationships can promote a more open and frank communication between managers and their subordinate and colleagues. Another important factor is the fact that Chinese workers seldom ask for any favours and if they do, it is done quite indirectly. By doing so they narrow managers' knowledge of what they may want or need. It is also hard to motivate them as they don't accept complements or commendations. They also do not talk much about their emotions and feelings and they aren't always allowed to have their say. Depending on the position occupied in the organisation Chinese employees can only express opinions that positions they hold. Chinese style of communicating and making conversations is different from how other countries do that. Chinese hardly ever use expressions that may seem offensive or unpleasant for the person they talk to as it could lead to conflicts. They almost never show their dissatisfaction and always avoid saying negative words by speaking indirectly. The concept of saving one's face is deeply embedded in Chinese culture and for many MNCs it's not fully understood. Being modest and constant apologising makes it easy to keep face, in a way it makes up for all the personal imperfections. Their everyday and business communication often involves mentioning their partner's accomplishments, treating them with the appropriate etiquettes such as gifts giving as well as frequent apologizing.

Summary

The growth of China as one of the world's most powerful nations presents very unique opportunities for MNCs. Role of culture in management gains in importance (Sułkowski, 2002). Companies that understand cultural nuances, hire the appropriate professionals, are flexible and can create a sort of a cultural fusion without changing the core values will be successful. The specificity of Chinese labour market poses key challenge for the success of the MNCs business operations in China. Main of them are the shortage of top talents with an international experience, the current labour and legal restrictions for

recruitment and retention policy implementation. MNCs have to face those challenges to attract, recruit and retain their talents, adapt the related policies to the local institutional environment.

Bibliography

- Borgonjon, J., & Vanhonacker, W. R. (1992)., Modernizing China's managers. *China, Business Review*, 19(5): 12–18.
- Calandra B., "Looking Ahead", *Human Resource Executive*, March 16, 2000
- Child, J. (1991). A foreign perspective on the management of people in China. *International Journal of Human Resource Management*, 2: 93–107.
- Child, J. (1994). *Management in China during the Age of Reform*. Cambridge: Cambridge, University Press.
- Child, J. (1995). Changes in the structure and prediction of earnings in Chinese state, enterprises during the economic reform. *International Journal of Human Resource Management*, 6: 1–30.
- Child, J., Boisot, M., Ireland, J., Li, Z., & Watts, J. (1990). *The management of equity joint ventures in China*. Beijing: China-Europe, Management Institute.
- Easterby-Smith, M., Malina, D., & Lu, Y. (1995). How culture-sensitive is HRM?, *International Journal of Human Resource, Management*, 6: 31–59.
- W.Nie & K.Xin, *Made in China, Secrets of China's dynamic entrepreneurs*, John Wiley & Sons(Asia)Pte.Ltd. 2009
- Nyaw, M.-K. (1995). Human resource management in the People's Republic of China. In L. F. Moore & P. D. Jennings (Eds.) *Human resource management on the Pacific Rim*. Berlin: Walter de Gruyter.
- Osland, G. E., & Cavusgil, S. T. (1996). Performance issues in U.S.-China joint ventures. *California Management Review*, 38(2): 106–130.
- Southworth, D. B. (1996). FIEs in China: Finding Qualified Personnel in China. *GBAktuell*, March: 15–21.
- Sparrow, P., & Hiltrop, J. -M. (1994). *European human resource management in transition.*, New York: Prentice Hall.
- Sułkowski, Ł. 2002. *Procesy kulturowe w organizacjach. Koncepcja, badania i typologia kultur organizacyjnych*, Toruń-Łódź, Towarzystwo Nauk Organizacji i Kierowania – Dom Organizatora.
- Warner, M. (1996). Managing China's enterprise reforms: A new agenda for the, 1990s. *Journal of General Management*, 21(3): 1–18.
- www.hrmasia.com
- www.knowledge.wharton.upenn.edu