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WORKING PAPER SERIES

How Can Multinational Corporations Retain Their Employees in China?

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Abstract

To address the headache encountered by many multinational companies in China retention of their Chinese employees, this study first examined the current Chinese labor market, identifying the unique characteristics of the market mainly comprised of university graduates and experienced white-collar employees; then tried to explain the reasons behind employees departures from a perspective of deep-rooted Chinese cultures; in the end, proposed effective and efficient solutions for retention purposes. All the proposed solutions aim to address key human resources management concerns, including compensation management, talent acquisition, performance management and communication. This study examined the best practices in employee retention adopted by a large number of successful multinational players in the Chinese market. Some of the names from the list are IBM, Motorola, Intel, HSBC, Shell and British Petroleum (BP).

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As a rapidly rising economic power in the world, China is always a hot topic to Western business. Nowadays, news coverage about this country has frequently been seen on the front pages of the Wall Street Journal, BusinessWeek and other leading business media. Best known for its low-cost investment environment and the vast potential of its consumer market, China has become a key component in the value chain of Western businesses and a significant part of their global strategies. Today, a popular saying among the Western business community is that if you miss the Chinese market you probably will miss everything. According to the 2005 work report of the State Council of China, the country attracted foreign direct investment (FDI) of 70 billion US dollars, which made China the second biggest FDI recipient country in the world next to only the U.S.[1] Another report published by China Ministry of Commerce indicates that China's economic growth in 2005 is 9.9% and the size of its economy of scale has surpassed that of Germany, Britain and France to become the third largest in the world after the U.S. and Japan.[2] Foreign companies are also reaping great benefits from this huge market. Of more than 400 US companies surveyed by the American Chamber of Commerce (China) in 2005, 68% said they are profitable and 70% said their China margins equal or exceed their global average.[3] For example, Motorola, the second biggest wireless communication equipment manufacture in the world, reported that China contributed 9% of its 31.3 billion dollars' sales in 2004. China is even a cash cow to the financially troubled auto-part giant Delphi Corp, whose China sales have been growing 30% annually for 11 years and hit 637 million dollars in 2004.[4]

The multinational corporations (MNCs) have also found managing their China operations has become even more complicated. According to a Boston Consulting Group (BCG) report, today's CEOs and other senior executives at MNCs in the U.S., Europe and Asia are focusing more of their time on their companies' operations in China. On the top of the agenda of these executives have always been people issues.[5] MNCs need to obtain and develop a talent pipeline big enough to support their breathtakingly growing businesses in China. However, this is not an easy task, given the fact that a big gap exists between the Western and Eastern cultures and China has just implemented its "reform and opening door to the outside world" policy for slightly more than twenty years.

When entering the China market, many MNCs would assume that in a country with population of 1.3 billion, there should be no concern about labor shortage. The fact is the reverse. Under the booming economy, the rising demand on Chinese labor has exceeded its supply. In 2004, the Chinese media reported for the first time the labor shortage in the Pearl Delta Area, a southern area which was the first to implement the reform and opening-door policy and has accommodated thousands of foreign-invested enterprises mainly from Taiwan and Hong Kong. The reasons behind this shortage are complicated. Among them, one apparent one is that the growing number of US- and Europe-invested companies in the northern areas of China provided more attractive compensation and development opportunities to lure the labor away.

For the talented employees – employees with both skills and experiences in business and management, the situation is even worse. MNCs in China need a specific type of talented employee – 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 found it extremely difficult to find these people. First, the supply of this type of employee is small in the market, since China just has a short history of only 20 years in market-oriented economy to foster them. Second, the market competition for such talent is fierce. With the hot wave of FDI influx, there is increasing number of newcomers to the market every day. Companies of different sizes, domestic or foreign, are sparing no efforts to attract their interested talent. Therefore, the fierce competition and limited supply of talent resulted in high turnover rate, which boils down to the core issue of retaining the talented employees. According to Hewitt Associates, one in ten executives changed job in the Chinese southern city of Shenzhen in 2004 and one in 12 in Beijing.[6] The same research indicated that a nationwide turnover rate was in 11.3% in 2004, up from 8.3% in 2001. Some smaller-sized companies' turnover rates are as high as 30% in 2004.[7] Another Hewitt Associate's study states that MNCs in China have annual turnover rates of 11.5% percent, two to three times the global average. In some sought-after specialists, such as marketing and finance, turnover may approach 25%.[8] Considering the Chinese employees have been traditionally loyal to their employers, the rising turnover rates have become a big concern for many MNCs in China.

In fact, many companies' success stories have proved that retention could be much cheaper than recruitment. When companies are committed to retaining and developing their talent pipeline from within, it could save them significant time and expenses versus recruiting from outside. So, one imperative task facing the human resources directors of the MNCs in China is how to retain their employees in China?

A Brief Review of the Current Chinese Labor Market for MNCs

According to Chinese law, MNCs can invest in China in three forms: wholly foreign-owned enterprise (WFOE), joint venture (JV) and representative office (RO). The first two forms enjoy independent legal person status. In other words, they can independently take legal responsibilities and enjoy certain lawful rights. JVs are limited to the industries tightly controlled by the State with a view to protecting the domestic business, such as automotives, telecommunication and banking. According to China's commitment under the WTO membership, China needs to lift these industry-specific barriers gradually in the next five to ten years. RO has no legal person status. They are equal to branch office of MNC in China. Typically, ROs have very limited scope of business, simply functioning as collecting local market information or liaison with the local business partners and customers.

Traditionally, RO has offered the highest compensation level, as the employees in it need to have a whole set of skills to deal with multifaceted business issues under different circumstances. JVs offer the lowest compensation because most of the Chinese partners are state-owned and they have to follow the traditionally low compensation structure.

MNCs typically recruit their employees through three sources. The major source is university students. The Chinese government made education reform one of the top priorities ever since implementing the reform and opening-up policy. Today, the number of Chinese students graduating from universities and colleges has jumped to 3.4 million in 2005, up from 2.8 million in 2004[9]. This large students' body provides a rich pool of applicants to MNCs. For some MNCs in China, like P&G, more than 90% percent of their new hires every year are university students. For the 1300 new hires recruited by IBM in 2005, this ratio is more than 80%. The second source is job fairs. The Chinese government at various levels organizes

regular job fairs, mainly targeting those with work experience. Today, an increasing number of university students who have failed in on-campus recruitment also swarm to such job fairs. Literature reveals that during the last 10 to 15 years, the growth in the size of China's labor force surpassed that of the overall Chinese population. The Fareast Economic Review reports that between 1990 and 2000, the overall population grew at a rate of 1.07% to 1.3 billion, as compared to the labor force, which grew at a rate of 1.5% to 760.8 million.[10]

Despite the growing labor supply, the MNCs in China may experience a labor shortage in the coming decades. Although the number of students admitted to universities and colleges increased from 2.8 million in 2004 to 3.8 million in 2005[11], it may not help to solve the labor shortage problem. The Chinese universities and colleges have traditionally focused too much on students' "academic skills", such as reading, writing and calculating, which motivated students to strive for high scores in exams. However, such education failed to cultivate students' creation, 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 every year, MNCs have not seen a corresponding increasing pool of qualified talent. In the meantime, the Chinese domestic companies and administrative institutions (including governments) have drawn away many top graduate students. Because these domestic organizations are less likely to fire people and thus provide a more secure work environment than MNCs, more and more students are considering working for domestic companies or governments as a priority in their job seeking efforts.

Together with the difficulty of employee attraction is an even harder task – employee retention. In contrast to hiring trends in the United States and Europe, many foreign-invested

enterprises and top-tier, domestic private and state-owned companies in China are facing a local labor market with double digit turnover rates and high salary increases.[12] The employees who have remarkable business skills and years of experience are the favorites of MNCs. Companies normally will go all out to get them. In 2005, Google successfully "stole" a Chinese Dr. Kai-fu Lee, who was once the President of Microsoft Research Asia and then the Global Vice President of Microsoft. Dr. Lee was appointed by Google as CEO to head the search engine giant's China business. He was reported to earn an annual income of 10 million US dollars from Google, which made this case the most expensive talent hunting effort of the year in China.[13] Today, many of the Chinese employees working in MNCs are taking advantage of the opportunities the competition provides. Watson Wyatt's *WorkChina* 2003 survey found that 38% of the Chinese employees surveyed believed they may leave their current job in the next several years.[14]

The Reasons Behind Employees' Departure

In general, employees who feel undervalued or unwanted are likely to leave. This is an especially important issue in China, where employees are possibly among the least satisfied in the world. While the number of dissatisfied employees is significantly greater in the Chinese state-owned enterprises, employee dissatisfaction in MNCs is a big issue as well.[15]

Of all the factors which lead to dissatisfaction among Chinese employees, of course, compensation and benefits packages always play an overarching role. In the *WorkChina* survey, Watson Wyatt asked respondents who said they might leave in the next several years to list the top three reasons for their planned departure. The results were consistent with popular perceptions: better pay was the number one reason employees wanted to leave their

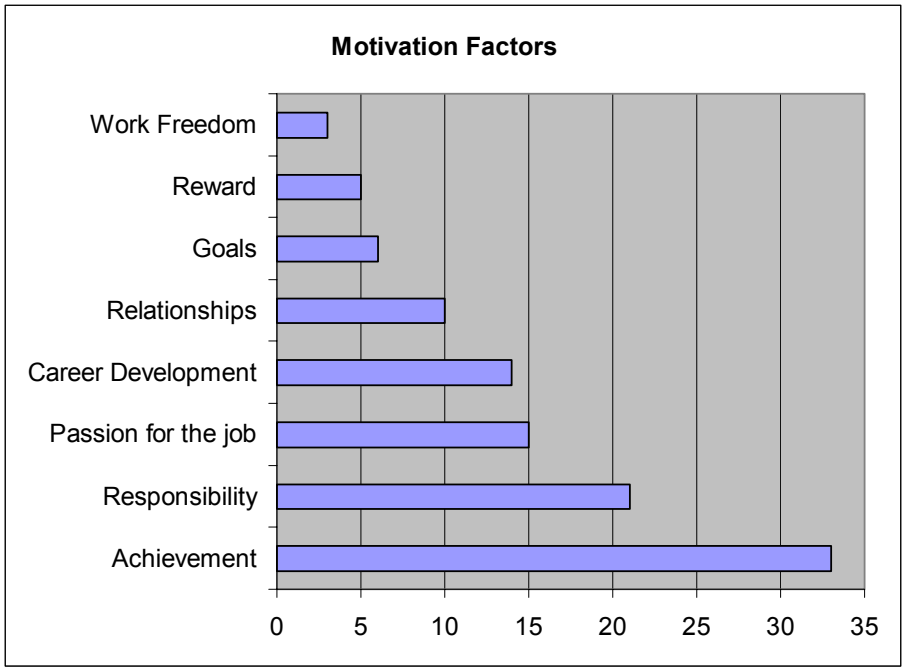
company, followed by better career opportunities, and training and development.[16] This heavy emphasis on compensation makes it essential for MNCs to have a clear compensation philosophy and to keep up to date the compensation trends in China.[17]

However, monetary rewards are not everything employees want. Once compensation has reached certain level, it is necessary to consider other critical factors. In dealing with Chinese employees, one of the most vital elements of employee "compensation" and retention is treating employees well. This means that companies in China must make real efforts to foster employee loyalty, feelings of belonging, and commitment to the company. In fact, even though spending time and money on such "touchy-feely" issues may seem expensive and "a waste of time and money" in the short term, paying attention to employee morale is quite beneficial and profitable in the long run. Not only will such efforts reduce turnover, but also happy, satisfied employees are more productive and profitable workers.[18]

Another Hewitt study attributes the turnover to the Chinese employees' high expectations which are beyond the scope of most companies' training and development programs are able to cover. Furthermore, this study analyzes that most professionals in China today are in a race for the best opportunities, the best jobs, the next promotion, and the highest pay. Such unrealistic expectations are stimulated by China's extraordinary growth over the last ten years.[19]

In a survey conducted by IBM China in the summer of 2005, employees were asked to identify the most effective motivation factors in their mind. Surprisingly, monetary or material reward was ranked in the end of a long list of factors. Most employees have attached much importance to the non-monetary means, such as work achievement, broader range of

work responsibilities and career development support from managers: (Figure 1, provided by IBM China HR).



For many MNCs, the Chinese meaning of "treating employees well" or "satisfying employees" can be far more complicated than what they have seen in their home countries.

For example, *Guanxi* plays a very important role in the Chinese social life. The *Guanxi* is very much like the networking in the West. The difference is that Chinese tend to put more emphasis on it. While Westerners put a premium on networking, information and institutions, the Chinese place a premium on individual's social capital within their group of friends, relatives, and close colleagues.[20] An important implication of *Guanxi* for HR is that Chinese employees care about establishing their personal connection at the workplace. It is important for Chinese employees to feel that they have a good relationship with their bosses and colleagues. Unlike the Western practice where employees prefer to separate their work and

personal lives, Chinese employees expect their bosses to be nice with them and care for them both personally and professionally. If employers take an interest in employees' personal lives in addition to caring for their career development, the employees are very likely to develop their loyalty to the employers. Thus, once employees are working under disconnected environment, or too complicated inter-personal relationship, where they cannot feel the expected personal connection, they will be very likely to quit no matter how nice they are paid.

Chinese also respect hierarchy more than Westerners do. It is hard for Chinese employees to imagine that their Western counterparts can directly call their bosses by their first names. The Chinese tradition is that you must demonstrate obedience with no argument to the orders from those who are superior in rank. Even if you do not agree with your boss, you should express your disagreement to him in an indirect way rather than directly arguing with him. One HR implication for *Guanxi* is that promotion or just a title change – even without essential power change – could means much more than a big pay raise to the Chinese employees.

Another component in social life that the Chinese have attached so much importance to is *Mianzi,* or "face" in English. In Chinese business culture, a person's reputation and social standing rest on saving face. If Westerners cause the Chinese embarrassment or loss of composure, even unintentionally, it can be disastrous for their interpersonal relations with the Chinese. *Mianzi* defines a person's place in his social network; it is the most important measure of social worth.[21] Therefore, although no one likes to be embarrassed, "saving face" and avoiding embarrassing situations are particularly important to Chinese. Reprimanding Chinese employees too harshly, especially in public, will be deemed as a big face loss by

them. Instead, managers should use "soft" criticism or other indirect method to get their points across. Chinese employees who are frequently put in awkward situations are much less likely to remain loyal to their employer.[22] Therefore, employers should make a special effort to avoid putting their Chinese employees in such uncomfortable situations.

Additionally, Chinese employees are even more concerned than their Western counterparts about career development, education and training.[23] The Chinese were educated when they were in school that China was decades behind the West in terms of education, technology, and of course, business development. For most Chinese employees, especially those top performers, they come to MNCs not only for a nice pay package but also for advanced training and development opportunities. They are clearly aware of the skill gap between them and their Western counterparts, so they are eager to improve their own knowledge and skills. Therefore, it is important that MNCs recognize the importance of training and development opportunities to their Chinese employees and demonstrate a commitment to training, development, mentoring, and career path development for them.

By taking into account of the unique Chinese characteristics in human resources management, MNCs can design a mix of efficient and effective strategies to retain their employees in China.

Strategies MNCs Can Use to Retain Their Employees in China

Identifying Retention Goals

Turnover is inevitable. MNCs need to concentrate their sources in retaining the core employees rather than spreading the resources across all the employees. Therefore, instead of keeping every employee equally happy, companies should target those employees who are most valuable to companies' current and future growth. While doing everything within

reason to retain targeted employees, companies should keep possible successors in the pipeline.[24] Molvin (2001) stated that it is also important that companies suffering from high turnover rates should not let the fear of having become training schools for other foreign invested enterprises limit development programs which could ultimately help retention. "Employees come and leave. Companies still have to train."[25]

Overall Compensation

China's dynamic business environment makes refining compensation systems more difficult than in most other places in the world. [26] A Watson Wyatt's 2003 Remuneration Data Service survey of local employees working for foreign companies, JVs and top-tier domestic companies in China shows the following major compensation trends[27]:

- **City-to-city salary differences are narrowing:** in the past, salary levels in the four largest Chinese cities differed widely. Beijing ranked the highest in compensation level, followed by Shanghai, Guangzhou and Shenzhen. Though this ranking is likely to stay the same because of where company headquarters and specific industries are based, the wage differences between cities will narrow. MNCs are expanding their investment into other second-tier cities and thus are affecting the salary levels and altering the industrial markups in the local areas.
- **Pay differs by entity:** salary levels in China have varied by entity, with representative offices offering the highest, followed by wholly foreign owned enterprises and then joint ventures. This trend is likely to continue.
- **Domestic competition is on the rise:** though working for foreign companies is still prestigious, domestic companies are offering highly competitive salaries along with their traditional advantages: more secure employment and a more familiar corporate

culture. Most important, Chinese employees in domestic companies do not face the glass ceiling issue as can be usually seen in foreign companies.

Aside from the above findings, a Corporate Leadership Council report in 2004 shows another compensation trend in China:[28] Variable pay is an important yet underutilized element of compensation in China due to communication and culture challenge. Organizations can combat these challenges with effective communication techniques and properly designed incentive plans.

- *Ineffective communication of an employee's day-to-day connection to company performance can lead to incentive plan resistance.*
- *Chinese managers tend to place greater emphasis on relationship with co-workers and the personal needs of employees rather than considering performance when making reward decisions.*

Therefore, companies should take into consideration of the compensation trends when they are trying to make the compensation packages attractive.

MNCs adopt a different mix of compensation policies to compete in the market. IBM China's compensation philosophy consists of three parts: pay for market, pay for talent and pay for performance. IBM regularly collects compensation information from HR consulting companies in order to keep a real-time watch on the compensation trend in the market and make corresponding adjustment to their own pay policies. As IBM boasts a top-rank image in the IT industry in China which is powerful enough to attract the potential talent, the company does not use compensation as a major tool to attract and retain employees. Therefore, it positions its overall compensation level at the 75th percentile in the market. In the meantime, IBM recognizes employees' skills and knowledge and rewards them accordingly. Furthermore, IBM establishes strong linkages between employees' performance and the

performance of the business units and the overall company. **British Petroleum** (BP) offers its employees in China base pay, several variable pay plans, and share programs. Base salary is determined by the role, responsibilities, individual contribution and competitive market factors. Share programs are designed to align management and shareholder rewards, thereby creating employee ownership in BP. Variable pay program is determined by each business unit. It consists of cash rewards that recognize company results, specific business stream results, or individual performance contributions.[29]

One issue MNCs must be aware of is the communication of compensation packages to their employees. Some MNCs' HR departments make the mistake of assuming that the Chinese employees understand the compensation policies and packages. In fact, many young Chinese people are so focused on cash and equivalent payment and they tend to overlook pension and other long-term benefits. Therefore, it is important for HR departments to educate their Chinese employees about the various aspects of compensation, clarifying to them how the employee can benefit from a total compensation package versus from a solely cash based package. HR departments also need to explain the company's compensation philosophies by making comparison to other competitors or companies in other industries, particularly considering the fact that salary and benefits information is widely shared in China.[30]

Salary

Due to the weak social security in China, Chinese employees tend to place more value on cash than their Western counterparts. So, salary is always their biggest concern in the pay package. Normally, compensation levels differ from place to place since the living cost varies significantly from a coastal city like Shanghai to an interior city like Chengdu of

Sichuan Province. For example, **Motorola** has two facilities in two major Chinese cities – Beijing and Tianjin, separated by just 80 miles. However, the Motorola employees in Beijing earned an average salary two to three times of what their co-workers earned in Tianjin.

Nowadays, MNCs' operations in China are mostly concentrated in certain areas, like industrial parks or economic zones. When companies are located side by side, job-hopping becomes very easy for employees as they can easily obtain the pay information of the neighboring companies and walk across street to get a new and higher-paid job. Therefore, it is necessary for MNCs to have a general idea about local compensation level before designing their own competitive packages. In most major cities, salary surveys are conducted regularly by management consulting, HR and other organizations. Some local labor authorities (governments) also publish guidance on the local salary level. However, most of the figures in such guidance are lower than the real level because the local governments need to use them to attract FDIs.

One salary trend worth noting is a move toward decentralized payment decisions that give individual business units more authority and flexibility in determining employee salaries. This more flexible approach is being applied to both direct and variable pay and can be seen as part of the move toward individualizing compensation package.[31]

Variable Pay

A movement is currently under way to tie many aspects of compensation to performance as an incentive for employees to meet certain goals. Getting employees to accept performance-based compensation has not been easy, since variable pay in China has long been viewed as entitlements rather than as true rewards for individual or company achievement.[32] A Hewitt Survey in 2003 found that MNCs in China offer different types of

variable pay, with individual performance plans representing the most popular and team performance plans representing the least popular type of variable pay[33]:

Type of Variable Pay	Percent of Companies Offering this Variable Pay
Individual performance plan	57.1
Special recognition award	31.7
Sales commission	28
Comprehensive performance plan	25.7
Cash profit sharing plan	16
Team performance plan	12.3

Agilent Technologies offers its Chinese employees performance-based compensation with variable pay options, including: Agilent Results Bonus, awarded to all employees based on the company's overall performance; Reward Bonus, based on individual achievement of business objectives, this program reinforces individual accountability; Spark Awards, rewards high performing individuals with stock options; and Stock Option Plan, designed to reward and retain high-performing employees, as well as promote employee ownership of the company. At **Intel Corporation**, all non-commissioned, regular employees in its Chinese offices participate in a variable pay program, called the Intel Employee Bonus. Employees receive an annual payout, which is determined based on an employee's bonus target, the financial performance of the corporation, and the performance of his/her business group against preset goals.[34]

Stock Options

Stock options have been far less utilized in China than in the West. There are various reasons behind the unattractiveness of stock options in China. First, unlike the mature Western stock market, which has experienced more than one hundred years' development,

the Chinese stock market, arising 20 years ago, has been well known for its irregularities. The inherent weakness of the Chinese stock market makes investors view the market as a highly risky place in comparison to other investment options such as real estate and state bonds. Unsurprisingly, the continuous decline during the past three years has decreased the value of stock options in employee retention as they do not believe stocks offer an appropriate risk and return ratio. The second reason is that Chinese government restricts Chinese citizens to own overseas stocks with a view to controlling the outflow of foreign exchange. Then, awarding Chinese employees stock options which are listed overseas could be very complicated. Finally, Chinese employees have traditionally placed much more value on cash or other short-term incentives than other long-term incentives. As a result, stock options in China are not as the same effective as they are in the West.

Still, some MNCs use stock options, mostly rewarding their senior employees with certain positions and certain length of work experiences. Published literature indicates an increase in the prevalence of stock as a form of reward. About 16.5 percent of companies report using some kind of stock plans in their rewards policy, with eight percent of companies revealing that they offer stock options.[35]

Despite the Chinese regulation restrictions, some companies have devised ways to issue stock options to Chinese employees. They call such plans “shadow” or “phantom” stock options which employees never actually take possession of and do not legally own. Instead, the company issues employees a letter confirming the number of shares and the prices at which they were issued. The stocks are held in the West, perhaps by a professional broker. After a specified vesting period, if employees should choose to cash in their options, the company or broker makes the transactions on their behalf and the company gives the

employees the sales profits in Chinese currency. Taxes are deducted before employees receive the money and paid to the local tax bureau at a rate negotiated by the company.[36]

Benefits

MNCs must follow Chinese laws and regulations to pay benefits for their employees. Typically, benefits are borne by both employers and employees. In most major Chinese cities, employees' benefits amount to around 70% of their income (including salary and bonus), of which around 50% is shared by employers and the remaining shared by employees. A typical structure of benefits in Tianjin, a major city in the north of China, is as follows:

Items	Paid by Employer	Paid by Employee
Pension	20% (of employees' actual income)	8%
Medical	10%	1%
Unemployment	2%	1%
Work Injury	0.05-0.9%	None
Child Birth	3%	None
Housing	13%-18%	9%
Total	48.05-53.9%	19%

Source: www.investteda.org, a major authoritative investment promotion website in Tianjin.

In the past, social benefits were not mandatory in most parts of China and thus employees were only concerned about their cash income. When social benefits were made mandatory in major Chinese cities, foreign investors tried to avoid making their investment in such areas to evade the additional benefits costs. However, with the rising costs of medicare

and housing in China, employees are increasingly aware of the importance of social benefits. Some MNCs are even willing to pay benefits of more than regulated ratios to retain their employees. For example, the regulated housing ratio in Tianjin varies from 13% to 18%. **Motorola** (Tianjin) chooses the highest ratio of 18% to make their pay package competitive.

Allowances

Allowances may sound strange to the Westerners but they are an essential portion of Chinese employees' overall pay package. Allowances mainly consist of three parts: transportation, housing, and meal. Unlike the Western employees who can drive to work, most Chinese employees do not own cars and have to take public transportation to commute between work and home. For the companies located in major metropolitans where the public transportation system is well developed, companies normally do not offer transportation allowances. For those manufacturing facilities located distant from cities, it is normal practice for employers to offer shuttle buses or reimburse certain amount of employees' transportation expenses. It is the same case with meal allowances. Most MNCs in China pay for employees' lunch. Some companies simply buy lunches from fast food service providers. Big-sized companies, especially those with manufacturing operation, run their own kitchens or outsource all the kitchen business to a food service provider and have all the lunch made onsite for employees.

Companies used to buy a piece of land, build dormitories or apartments on it, and sell them at very preferential rates to their employees. Today, the stock of housing available for purchase in major cities has increased considerably, and banks have begun to make mortgage loans to individual buyers. Companies are turning to multiple solutions to help employees solve housing issues through paying housing loan interest, setting up mortgage

assistance or housing saving plans, and offering one lump sum allowance to employees. **Motorola** offers the allowances & benefits that would have been highly unusual in the US – free multi-course lunches at the corporate cafeteria and free transportation to work in company-owned buses that pick up employees at their homes each morning.[37]

Education-aid program

Chinese employees are even more concerned than their Western counterparts about education. The Chinese, as well as most Asians place a high value on education, not only because a higher degree in education means a more prestigious social status but also because Chinese employees know they need more improvement than what they can obtain through training. In order to get a higher degree in education, the top Chinese performers are willing to quit their current highly-paid job. During the past five years, with the increase of the Chinese employees' income, especially for those working for MNCs, they have been to fund their study in the prestigious overseas universities at their own expenses. More and more Chinese top performers quit their jobs to pursue higher university degrees in the US and Europe. In response to this request, some MNCs have set up education-aid programs, in which employees are encouraged to pursue on-the-job education or full-time education and their tuition can be partly or fully reimbursed by the company once they return to work for the same company.

Training and Development

Monetary incentives are not everything employees want. Certainly, a company can make employees more satisfied by raising their pay, which possibly encourage the employees to stay longer. However, such monetary incentives can turn out to be a de-motivation factor. An employee who keeps receiving pay raises may easily develop

dissatisfaction once the pay is unchanged next time. Competitors also can easily steal your talent away by offering them more than what you pay.

Leininger stated that the heart of retention is long-term employee commitment. He proposed that when analyzing retention, it is important to distinguish between "satisfied" employees and "committed" employees. The "satisfied" employees can easily be retained by raising salaries while the "committed" ones tend to stay longer with companies even without monetary incentive (Leininger, 2003). Committed employees also bring positive impact on companies' bottom line. A Watson Wyatt's global research shows that companies with highly committed employees have a 200 percent greater return to shareholders over three years than those whose employees showed low commitment.

Training and development is the most commonly used strategy to foster employees' commitment to companies. Studies of the most successful and "most admired" MNCs in China indicate that those who provide training and development programs for their employees tend to financially outperform their competitors. Other studies focusing on employees in China have indicated that a company's commitment to providing continuous training and development opportunities is a factor in choice of employment, that it improves employee retention, and that it is also associated with higher job and company satisfaction (Zhang & Carter).[38]

Chinese employees may be the group who are the most eager to receive training in the world. The 2004 edition of Mercer's "Managing China's HR Environment" states that the majority of Chinese workers require or expect companies to provide training opportunities, everyday work should relate to their career plans and individual career is more important than the company.[39] Being driven by the desire to catch up with their Western counterparts,

Chinese employees are passionate to participate in training and development programs. Despite increased educational and training opportunities offered by the Chinese government, a Mercer report indicates that most Chinese workers expect their employers to provide additional training, development, and career planning, as there is a commonly held belief among Chinese employees that careers are more important than their company. As such, studies reveal that companies in China typically offer approximately 35 hours of training to 88% of employees, whereas US companies typically offer only 28 hours to 79% of employees.[40]

The following tables show the time and expense invested in Chinese manufacturing sector in comparison to that in America:[41]

Table 1
Annual Hours of Training per Employee

% of plants	State-owned	China private	JV or WFOE	All China Plants	US Plants
Less than 8 hours	14%	15%	10%	**13%**	**22%**
8-20 hours	35%	39%	29%	**34%**	**43%**
21-40 hours	24%	23%	29%	**26%**	**24%**
More than 40 hours	27%	23%	32%	**27%**	**11%**

Table 2
Training Investment as % of Labor Costs

Medians	State-owned	China private	JV or WFOE	All China Plants	US Plants
25th percentile	1.5%	2.0%	10%	**2.0%**	**1.0%**
Median	3.5%	5.0%	29%	**5.0%**	**2.0%**
75th percentile	6.0%	10.0%	29%	**10.0%**	**4.0%**
90th percentile	10.0%	20.0	32%	**17.9%**	**5.0%**

Recognizing the importance of training and development, many MNCs including Motorola, Ericsson, Siemens and Procter & Gamble operate their own corporate universities, business schools or management training centers in China to develop their employees skills in such areas as leadership, financial management and business strategy.

Motorola University in China offers employees training on such topics as company culture, engagement with business in other parts of the world, leadership standards, performance management and personal development opportunities. In the same university, Motorola also trains its managers in coaching skills. The China CEO encourages executives to maintain an open door policy so that the high potential talent can meet with upper management and maintain both upward and downward lines of communication. Developing clear career paths and frequently communicating with these high potential talents have increased the likelihood of retaining them. **Shell** maintains a strong training and development program for its employees in China. The components of its training and development program include: established recruitment programs with five top Chinese universities, guaranteed five weeks of training per year for all China-based employees, training for potential managers abroad, management training at Shanghai-based China Europe International Business School (CEIBS) for full-time or part-time MBA degrees or shorter executive training courses.[42] **HSBC** uses training as an effective retention tool. The training program includes 10 weeks of training in Britain for new Chinese managers, with follow-up training in Hong Kong over a three-year period. HSBC gives participants bonuses, spread out over a year, after they complete the program and return to China.

IBM China does not have a corporate university. Instead, it uploads all the training materials on the internet and employees can access them by their individual passwords for

real-time training. IBM's internal training website contains numerous training resources which cover all the required skills and knowledge for almost each position within the company. An employee in a certain function can receive the training from entry-level to executive-level from these resources once he or she completes all the training as required for his or her specific function.

But IBM China's real development tools are PBC and IDP. PBC is short for Personal Business Commitment and IDP for Individual Development Plan. PBC is a program through which each employee establishes clear-cut objectives that are directly aligned with the company's objectives for success at the corporate, business unit, and department level. Results are measured by the extent to which objectives are met, including all relevant factors. IDP is corresponding to PBC in which employee details his plans and expected training and development moves to realize the objectives in PBC. Both documents are prepared by employees and agreed by managers at the beginning of each year. During the course of that year, managers meet with employees regularly to review the execution of both documents and make necessary adjustments. In the meantime, managers also help employees with mentoring and coaching assistance. The employees' year-end compensation and promotion will be predominantly decided by how the goals in PBC and IDP are fulfilled.

One training and development tool most MNCs in China use is job rotation. It helps employees develop a comprehensive set of skills and offers opportunities to employees to develop their potentials to the greatest extent. While most rotations occur at the local level, higher-level employees can participate in rotations on a regional or global level. **IBM China**'s job transfer program is another form of job rotation. Any employees who have stayed with the company for at two years and met certain standards in their achievement of PBC and IDP can

apply to be transferred to any function within the company. When a qualified employee files a job transfer application, this employee's current manager must respect the employee's choice and should not use unjustified excuses to hold back the transfer.

Hiring

Literature reveals that most turnover happens during new hire's onboarding process, or within one year after the new hire is recruited by the company. When new hires enter their new companies, they are mostly unfamiliar with the companies' culture and do not have their own networking sources inside the company. On the other hand, the increasing work pressure will stimulate their nervousness and even fear towards their future assignments. Furthermore, the complicated interpersonal relationship at the workplace might worsen their feeling. As a result, some new hires leave companies just months after they are onboard. Therefore, it is critical to start the retention efforts from the very beginning of an employee's experience with the company. **IBM China** runs two programs to help new hires get integrated into the company culture and overcome the commonly seen problems they encounter at workplace. One program is called Fresh Blue. New hires establish their own organization – Fresh Blue Committee, which is responsible for organizing various networking activities for the more than 1,000 annual new hires in China. The activities serve both social and career purposes. They help new hires understand the company's culture, communicate with the experienced employees, and exchange useful information among new hires themselves. In particular, the Committee runs a Fresh Blue portal, which provides an ideal platform to facilitate such activities. Another program is called Value IBMer, in which new hires conduct one-on-one interviews with senior employees on such topics as career pathing and work-life balance. The interview articles are posted on an internal portal. Through the interviews, new

hires have an in-depth communication with experienced employees and thus develop deeper understanding of the company and other career-related issues as well. For the interviewed employees, they feel being honored and develop a sense of loyalty to the company.

Training of Managers & Communication

Due to the unique Chinese culture, managers could play a more important role in managing a company than the case in the West. A Chinese company may not be just a commercial organization. It could also be perceived as a social entity to the Chinese employees. Due to the traditional collective culture, Chinese employees tend to perceive an organization as their family once they start working for it. Naturally, they are very likely to expect the top leaders in the organization to act as their family members. They expect their leaders to take into account their social welfare in addition to their business welfare[43].

As a result, Chinese employees are more likely to develop a sense of loyalty to their direct managers than to the employers. A common scene in China is that when a manager leaves a company, a group of his subordinates will follow suit. Therefore, it is important that managers show their interest in and commitment to their employees. But if an employee loses trust in their supervisor, they may decide to leave the company. Therefore, if management can win the trust and confidence of the Chinese employees, they may work overtime for the managers without additional pay.[44]

Research has found that employees are more committed to their company when they feel their company communicates clearly and effectively with them about business goals, the steps to achieve those goals, performance criteria, compensation, etc (Leininger, 2003). Especially, big organizations have complicated internal reporting processes and management matrix, where teamwork is more valuable than individual work. As a result,

employees are likely to lose sight of their own contribution to the overall organization and perceive their own work as negligible. In **IBM China**'s employee survey in the summer of 2005, when asked what the de-motivation factors in work are, many stated the lack of communication between the management and employees on business strategies and goals. Because IBM has a very complicated management matrix system, each employee has multiple reporting lines. Besides, each function is very specific on a certain aspect of a business or product and inter-functional collaboration is very frequent. Then, many employees felt they were just some negligible components in the organization and thus gradually lost their passion at work. To reverse the situation, IBM China organized training attended by all the managers. Through the training, the China CEO articulated the company's ten-year development strategy and goal to the managers, and asked them to communicate the same message to their employees.

Performance Management

If required to assess performance on a numerical scale, Chinese managers are likely to select poor ratings for subordinates' performance; this may cause the poorly rated employee to lose face and disrupt the manager-subordinate relationship. To ensure more effective performance appraisals, companies may want to link the performance appraisal system to daily, informal coaching and formal training and development, thus placing the focus more on employee development and less on the evaluation of past performance. Additionally, in setting performance goals, supervisors typically set goals for their subordinates, reflecting the hierarchical nature of Chinese society.[45]

Talent Localization

Today, facing the cost pressure, MNCs are moving aggressively to localize their business, hiring Chinese talent to fill positions once held by expatriates. One remarkable advantage of talent localization is cost-effectiveness. A Chinese manager, on average, has a total compensation package that is only 20% to 25% of that of a hire from a Western country.[46] Another obvious advantage of hiring local talent is that compared to their Western counterparts they have better understanding of the local cultures and markets and can better communicate with the Chinese employees and customers. Talent localization also helps eliminate employees' fear of "glass ceiling" in companies. Today, many leading MNCs such as Motorola, Microsoft, IBM and Boeing have Chinese heading their China operations. At Siemens China, seven of nine regional managers are Chinese. Three out of four regional managers at Motorola China are local Chinese. The ratio of Chinese managers of the overall managers in Fedex China accounts to even 78%.[47]

In the course of talent localization, it is important to have the expatriate managers be willing to pass their knowledge along to the Chinese staff. **Motorola** stipulates in expatriate managers' contracts that they have to train a local successor within two to three years. The expatriate managers' localization efforts will be rewarded by being offered better job assignments or richer retirement benefits back in the US.[48]

Hiring the returned Chinese from Abroad

MNCs are increasingly recruiting Chinese individuals returning from universities and jobs in the US and other developed countries. A McKinsey report states that in 2003 there were 120,000 Chinese students studying abroad.[49] These candidates exhibit greater business skills and work experience than local Chinese employees. They can speak fluent

foreign languages, understand foreign cultures and are able to have effective communication with both their domestic and foreign counterparts. Most important, their hiring cost is way below the cost of hiring or assigning expatriates from the MNCs' home countries. Recently, the cost of hiring returned Chinese has decreased because localization trends have driven compensation levels down.

This specific category of people have different demands from the local Chinese employees. For example, for those who have worked abroad for certain years, in particular, most of them may have set up their families abroad. So, it is always their main concern to get the appropriate education back in China for their children. In addition, they may wish to avoid the stringent Chinese restrictions on international travels and thus a working visa or green card allowing them to freely travel in and out of China will be highly attractive to them.

Conclusion

In the huge Chinese market, retention practices vary from one place to another. There is not a fixed set of retention strategies perfect to all MNCs. It is important that MNCs take into account traditional Chinese values, local culture, local market competition and management practices to design a mix of solutions that will ensure talented employees to stay and to work productively. Typically, MNCs can implement their retention strategies from the following aspects:

1. **Compensation**:
   a) Salary: salary is Chinese employees' biggest concern in the overall compensation. It is important for MNCs to take into consideration of the local economies and consumption characteristics while bearing in mind the salary guidance issued by the local government.
   b) Variable Pay: Pay for performance has become an inevitable trend in China. It is a important task for MNCs to educate employees the rationale behind variable pay to ensure their buy-in.
   c) Stock Option: Stock option is not a common retention measure in China. It only applies to those senior management personnel. Although Chinese laws restrict Chinese citizens' ownership of overseas stock, some MNCs have devised ways to ensure employees have access to the companies' stock.
   d) Benefits: MNCs need to follow the Chinese laws and regulations to pay benefits for their employees. Benefits' rates vary from location to location. Some items have flexible rates and MNCs tend to choose the higher rates for employee retention purposes.
   e) Allowances: It is normal practice in China to provide meal and transpiration allowances for employees. Although allowance may not require a big amount, it plays an important role in influencing employees' perception towards their employers.

2. **Training and Development**: Training and development is the most commonly used strategy to foster employees' commitment to companies. Once MNCs cannot meet employees' training and development needs with sources within the company, they mostly use education-aid programs to retain their employees.

3. **Hiring**: While many employees leave companies while they are still in the onboarding process, it is important to build employees' commitment to the company starting from hiring.

4. **Managers' training and communication**: The Chinese attach much importance to interpersonal relationship at the workplace. As a result, they may have a higher level of loyalty to their managers than to their companies. Therefore, it is critical to ensure managers' commitment before attempting to retain employees.

5. **Performance Management**: MNCs should link the performance appraisal to daily, informal coaching and formal training and development, thus placing the focus more on employee development and less on the evaluation of past performance.

6. **Talent Localization**: In MNCs' talent localization efforts, it is important to have the expatriate managers be willing to pass their knowledge along to their Chinese colleagues.

7. **Returned Chinese from Overseas**: While being cost-competitive in comparison to the expatriates, those Chinese returning from overseas have different needs from the local Chinese employees and the expatriates.

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