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PEOPLE & ORGANIZATIONS

Building Great Teams: Lessons From China

OVERVIEW

With growth averaging ten percent a year for much of the last three decades, China has been a key driver of global economic progress in recent years. Today, however, there are growing concerns about China's future growth. The country's recent economic uncertainties, and falling demand for commodities have already demonstrated how a Chinese slowdown could have significant implications for trade and the global economy.

China has been a key driver of global economic growth in recent years – averaging growth of ten percent a year for much of the last three decades. During this period, its heavy investment in infrastructure and industry led to high demand for both raw materials and labor. Today, there are growing concerns about China’s future growth. The country’s economic uncertainties of mid-late 2015, and its falling demand for commodities, have already demonstrated how a Chinese slowdown could have significant implications for trade and the global economy.

Does China have the business expertise it needs to overcome its current slowdown and transition to a more sustainable model for economic growth? The country is in the middle of a planned transition from a high-investment, industrial and export-led growth model to a more sustainable one based on services and domestic consumption. To succeed, the country will need new sets of skills and experience – from visionary business leaders to workers with more technical, digital and adaptable skillsets.

This is not a challenge unique to China. Globally, business leaders rank “failure to attract and retain talent” as their fifth biggest concern. In the Asia Pacific region, however, it ranked third, behind “increasing competition” in second and “damage to reputation and brand” in third. All three are interlinked – growing competition means more competition for talent as well as customers, while a strong employer brand is increasingly vital to win the loyalty of the best employees.

What are the specific challenges facing organizations operating in China – and what can they teach us about the factors businesses need to consider when seeking the right talent to help in strategic transitions?



IN DEPTH

Organizations worldwide are talking of a shortage of key skills – and combinations of skills – needed to drive long-term growth. Yet the challenges facing businesses and recruiters are not uniform around the globe. While there are some similarities, developed markets and developing markets face different business challenges, and so have different talent needs.

As the world’s biggest emerging economy, China is a valuable example of some of the challenges other emerging and developing markets may soon be facing. What are the talent challenges facing the country, and what are its prospects for addressing them?

Shifting Demographics

Similar to western nations, demographics are a force at play within China. Peter Zhang, Partner, Head of Performance & Reward Practice, Aon Hewitt China notes that China’s “aging population poses a great challenge to the workforce market.”

China’s population more than doubled in the fifty years from 1950, from 600 million to 1.3 billion. This created a late 20th century surplus of young workers that drove down wages and helped fuel the country’s rapid development from the 1970s onwards. The population boom became so acute that the country implemented the controversial “One Child Policy” to keep it under control.

Today, as in the West, China's Baby Boomers are nearing retirement, while population growth in younger generations has tailed off. What's more, China's education and training systems are struggling to provide necessary training. According to a Stanford University study, just 24 percent of China's workforce have attended at least some upper secondary school, compared to an Organization for Economic Co-operation and Development average of 74 percent.

Even those who receive a higher education may not always meet the needs of employers, says John Chan, Talent Program Manager, Asia Pacific, Middle East and Africa, Aon Hewitt. "While China has been graduating a large number of students through its universities, many would argue that they are not as prepared to transition into a professional environment," he says. "This means it will take more time and supervision for them to grow into a key talent role."

Increased Competition

Organizations around the world are faced with addressing the brain-drain of retiring senior workers, increased demand for new skills, and younger talent not yet having the needed experience to lead evolving business strategies. This alone is enough to drive an increase in competition for top talent. This challenge is compounded in China – and the broader Asia-Pacific region, by the rise of new players competing for talent.

"Local companies are booming in China," says Zhang. Today, 98 of the world's 500 biggest companies are Chinese, up from 46 in 2010, and just ten in 2000. At the same time, the opening up of the Chinese market has meant that more non-Chinese multinationals have established presences in the country, which means, increased competition for top local talent.

At the same time, China's transition from a manufacturing-based economy to one based more on services and the knowledge economy means that, "as this is a relatively new direction, the supply and pipeline of talent is not nearly as strong as other countries more mature in this transition," says Chan. While China has plenty of experienced construction and factory workers, it has fewer with digital knowledge, or experience of customer services.

"This means that both multinationals and local companies in China are struggling to achieve growth goals due to the twin challenges of insufficient supply and increased demand for critical talent," says Peter Sanborne, Managing Director, Human Capital Advisory, Aon. In Asia, where multinationals and fast-growing regional companies are competing for experienced leaders and top new graduates, talent shortages are more acute, Aon's Global Risk Management Survey found.

The Need To Attract

Worries about "damage to reputation/brand," the top risk for the Asia-Pacific region, and is a growing concern for recruiters in the region. With more competition for talent, maintaining a positive brand image can be a powerful pull-factor for the most in-demand workers. China's relatively high turnover rates mean that building an attractive employer brand is an increasingly urgent priority for businesses operating in the country, as well as the wider region.

In China, a concerted effort to build a positive employer brand reputation to attract the best candidates and retain the most promising staff is beginning to become a priority for local companies. "Prior to the Global Financial Crisis many western firms were the preferred employers in China," Chan says, "but within the last decade, a lot has changed in where employees are going. There are more choices between state owned enterprises, private enterprises, multinationals and the ever growing start-ups."

This is part of the reason why local Chinese companies are increasingly offering more competitive compensation and career development opportunities. “In China, salary increase remains around seven percent, taking a higher proportion of sales revenue, while margin growth is falling,” says Zhang. Those in middle and senior management in China also tend to have higher salaries than their counterparts in the west, making it even more expensive to attract them – and to keep them from moving to a competitor.

How To Attract And Retain The Best Talent

While the compound causes of China’s talent challenges may be unique, there are a number of things that organizations in the region should consider to effectively compete for tomorrow’s talent, advise Zhang and Chan:

- **Develop strong leadership** – especially true for junior to middle-level management, leaders should continue to encourage professional growth and a focus on the long-term goals of the individual as well as the business
- **Define a compelling employee value proposition** – consider the growing employee demand for strong Corporate Social Responsibility and support for a diverse workforce
- **Address the needs of a younger workforce** – with rising talent so key to long-term success, look to demand trends among younger workers, such as those who aspire to work for an organization with a purpose
- **Revisit performance review systems and processes** – these should aim to encourage career and skills development, and ensure a clear link between performance and reward
- **Encourage a high-performance culture** – this can be achieved through incentive programs, especially HR programs that work in holistically with employees’ day-to-day working lives
- **Build a robust talent pipeline** – from the selection process to the identification and development of key talent, think of employees as potential future leaders, not just for what they can offer today

While China’s talent challenges may be unique, the solutions to them can be applicable globally, says Sanborn. “Throughout the world, we’re seeing that organizations are focusing on attracting and developing the talent and capabilities needed to achieve their business objectives.” Regardless of geography, talent shouldn’t be considered in isolation. “Leading organizations develop human capital strategies that ensure that their leadership, workforce design, talent acquisition and development, total rewards and culture align with achieving long-term business goals,” he says.

Just as China needs different skillsets to transition to a new growth model, so do businesses worldwide. Whether you are a country or a company, “growing” talent internally can help you adapt and evolve, and prove much more beneficial to your culture and strategy in the long-term than simply “buying” skills from outside to meet short-term needs.



TALKING POINTS

“Reform of state-owned enterprises is difficult because it is directly linked to the employment issue... Reforms will involve social risks, but it is also true that it is becoming increasingly difficult to carry out reforms when downward pressure on the economy is strong.” – Shao Ning, Vice-Chair, Financial and Economic Affairs Committee, People’s Republic of China National People’s Congress

“Young labor resources between the ages of 20 and 34 will plunge year by year from 2021. The drop could amount to 11 million each year from 2022 to 2025. By 2030, the youth labor force at this rate will drop to 221 million, 32 percent, or 104 million fewer than 2010.” – Yao Meixiong, Deputy Head, Fujian Provincial Bureau of Statistics Center for Population Census

“In China, despite a slowing economy, a severe shortage of skilled candidates in certain industries is resulting in fierce competition and wage pressures, with employers doing their utmost to retain and hire qualified talent.” – Christine Wright, Managing Director, Asia, Hays

“There’s recently been an uptick in manufacturing and industrial output in developed economies, while companies in the services sector are increasingly looking at investing in emerging markets like China. Clients need to get in front of these trends by identifying the key talent and skills they will need in the future – including where to locate and how to grow that talent. It is critical for these organizations to develop talent strategies to help them be a ‘top employer’ for talent in that market.” – Peter Sanborn, Managing Director Human Capital Advisory at Aon Hewitt



FURTHER READING

- China’s Shrinking Workforce Raises Concerns – CRI English, May 30, 2016
- China’s Graduates Face Rapidly Changing Jobs Scene – Bloomberg, June 14, 2016
- China’s Real Unemployment Rate Might Be 3 Times The Official Figure – Fortune, June 6, 2016
- Are Fears Of Mass Unemployment In China Overblown? – Reuters, June 23, 2016
- Best Employers Asia – 2015 Country Report – Aon report

