

Cut Risk of Employee Turnover by Half (or More)

Compelling Careers Trump Pay in the War for Talent in China

SESSION SUMMARY

2008 ANNUAL SHANGHAI EXECUTIVE EVENT

- ▶ Executives across functions and industries are facing a dramatic shortage of qualified staff in China: **30% of all Chinese employees are at high risk of attrition.**
- ▶ Leading companies are rethinking approaches that rely principally on wage escalation to combat attrition. Instead, they are creating an employment value proposition (EVP) that depends on using a specific subset of attributes that Chinese employees find most compelling. In general, these attributes **demonstrate a company's emphasis on creating an opportunity for advancement** rather than simply building skills.
- ▶ Companies effectively delivering on the **China-specific EVP reduce employee turnover risk by three times** compared with employers who fail to deliver.

2008 Shanghai Executive Event

In April 2008, the Innovation and Operations Practice convened an exclusive meeting in Shanghai for global and regional Operations Practice executives at the world's largest companies. This document contains high-level insights from the discussion.

Take Action

- ▶ E-mail this report to a colleague.
- ▶ Visit china.executiveboard.com for additional research findings including the China Playbook.
- ▶ Register for the China Strategy EPNGroup™ at china.executiveboard.com/peer to pose questions to a group of more than 5,000 member executives with interest in China.

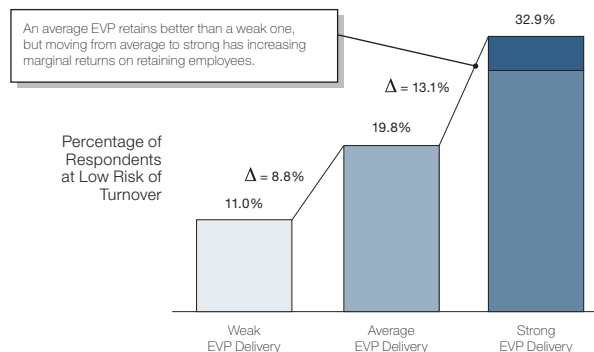
Pay Increases Show No Effect on Retention

In an environment where 30% of all employees are at high risk of turnover, operations staff in China (particularly supply chain and procurement staff) exhibit some of the highest employee turnover risks compared to peers in almost every other function. But companies are finding that using pay to match the competition—the most common solution to the problem—still fails to retain employees. Executives report increasing concern that they are stuck in a “pay trap,” misallocating scarce resources to a group already likely to leave the organization.

Turnover Results from Failure to Deliver on the Right Employment Value Proposition for China

A China HR Executive Board (CHREB) survey of 65,000 mainland Chinese employees, presented at the Innovation and Operations Practice's 2008 Shanghai Executive Event, shows that effective delivery on a company's employment value proposition—the set of attributes employees perceive as the value they gain through employment with a company—is the single biggest driver of an employee's intent to stay with their current employer. As shown in Figure 1, organizations in

Figure 1:
Strong EVP Delivery Greatly Reduces Turnover Risk



Source: China HR Executive Board research.

Core EVP in China

Top Attributes for Driving Both Employee Attraction and Retention

1. Future Career Opportunity
2. Respect
3. Development Opportunity
4. Job-Interests Alignment
5. Meritocracy

The China EVP is different from the EVP in the developed world

- ▶ In China, “Rewards” and “Opportunity” are relatively more important
- ▶ In the developed world, by contrast, “People,” “Organization,” and “Work” are relatively more important

China that fail to deliver on the most significant elements of the EVP have three times the number of employees at high risk of turnover than those who effectively deliver the EVP. Additional findings from the CHREB research show that:

- ▶ Even if companies pay above-market rates, these companies are still more likely to see employees leave the organization.
- ▶ Of all 38 attributes in five categories that drive EVP, those relating to Opportunity (as opposed to People, Organization, Work, or Rewards) are most important in China.
- ▶ Differentiating the EVP could provide significant advantage in an otherwise dissatisfied employee base. At present, more than 85% of Chinese employees are either ambivalent or dissatisfied with their careers and development opportunities.

Make Career Advancement the Focus, Not Skill Development

Realizing the importance of EVP, many companies are allocating resources to develop employee skills to increase productivity and demonstrate commitment to their career development. However, members at the Shanghai executive event report that such strategies are not enough, as many employees simply elect to apply their learning in other jobs at higher pay.

Leading companies view skill development as “table stakes” and couple this with recognition that Chinese employees expect more rapid promotion than peers in other geographies. Consequently, these companies are showing how their organization can provide a unique opportunity for advancement. Satisfying such employee career expectations increases their retention likelihood by up to 20%, according to CHREB research.

Discussion at the Shanghai executive event focused on three of the following sets of strategies for satisfying employee career and development interests:

Adjust Views on Hiring and Career Paths.

- ▶ **Change the perception of “Average Tenure.”**
Companies are finding success by screening employees for their attitudes about tenure and selecting those who are more likely to express interest in longer careers at the company. Members find that slightly older employees with families are less likely to leave the organization than younger employees without family commitments.
- ▶ **Reduce time-in-seat requirements before promotion, rotation, or transfer.**
Some meeting participants mentioned reducing their in-seat requirement from three years to two years to meet Chinese employee expectations for rapid advancement.
- ▶ **Facilitate non-obvious career moves.**
Demonstrating nonobvious career moves apart from purely vertical transitions (i.e., moves between functions or into new businesses) both provides employees with new lenses to evaluate their future at the company and encourages acquisition of new skills.

Provide Experiential Development Opportunities.

- ▶ **Move strategic, rather than tactical, jobs to China.**
Companies that move decision-making roles to China find they have an easier time retaining talent because employees appreciate the increased responsibilities and influence.
- ▶ **Cycle international rotational opportunities.**
Rather than long international rotations, some companies are using consecutive rotations (e.g., 12 months in China, then 6 months in Europe, then 12 months in China) to enable employees to keep their connections to China and provide longer-term incentives to stay at the company and benefit from future rotations.

- ▶ Provide expat benefits during in-country rotations. Employers rotate staff within China to other cities, including rural locations, as an opportunity to demonstrate leadership and contribute to accelerated company growth while also reducing the number of more expensive international rotations. To reduce the hardship associated with this, many provide expatriate benefits like housing and cars.

Circulate To:

- ▶ Business Leaders and General Managers in China
- ▶ HR Executives Responsible for China and/or Asia-Pacific
- ▶ China-Based HR Staff
- ▶ Front-Line Managers

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Build Better Support Structures.

- ▶ **Begin career planning early in an employee's tenure.**
Leading companies are introducing career paths and decision-making tools as part of employee onboarding in China—years earlier than most competitors.
- ▶ **Focus on employees' key career decision points.**
Member companies report focusing attention and resources on employees at key career-decision times, which they find to typically fall after two years of employment and again after five years.
- ▶ **Enable managers to efficiently understand and address retention risks.**
Leading employers in China provide managers with tools to evaluate and address employee retention risks.
- ▶ **Hold managers accountable for developing staff.**
Successful companies establish performance ratings for managers based on people management, provide guidance on people management metrics, and link people management to manager compensation and career development.

Action Steps

- ▶ *What kinds of career paths does your company offer its employees in China? Are these paths well communicated?*
- ▶ *How do you hold managers accountable for people management activities?*
- ▶ *Are your managers in China able to evaluate and quickly address employee retention risks?*



Dow ensures that meaningful career choices are available and enabled across the entire employment life cycle.



Pepsico establishes specific people management objectives and links people results directly to compensation.



Novartis introduces a checklist for managers to evaluate and address employee retention risks.

Research Methodology

The consultants of the China HR Executive Board surveyed more than 60,000 job candidates and employees in China in 2007 to understand their job preferences, expectations, and brand assessments for more than 700 employers in China. In addition, Board staff conducted more than 50 interviews with leading MNC employers in China.



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