

Managing Effective Staffing, Compensation, and Training in Mainland China

Tad Lincoln

Abstract

Developing and maintaining the best team in your organization in China starts with hiring the best people. This paper will discuss important aspects of staffing in China, and also ways to retain good employees. A well-thought-out compensation plan is a key way to keep your employees. A comprehensive success strategy in China may include paying above the going wage rate, and offering opportunities for overseas training and internal promotion. Such a strategy helps to retain good employees, helps to keep their skill level high, keeps them well motivated, and ultimately helps to create the kind of reputation for your organization that feeds back and helps attract the best candidates.

Staffing

Finding candidates to fill positions at any level in China might seem easy at first glance. China has a huge population, a relatively high unemployment rate, and plenty of people who are willing to move to make a better living elsewhere in the country. This is particularly true at the worker level, where unskilled labor pours into the more developed coastal regions from the country side. There is a variety of media available in which to advertise, and there are numerous job and career fairs where people flock to seek employment opportunities. At the worker level, with a little advertising, plenty of candidates will be available to choose from. And above the worker level there is usually no shortage of resumes for any position you are looking to fill. At all levels it might seem, as elsewhere, that the difficult task is to sift through them and find the ones that are the most appropriate for your positions. However, the greatest challenge is getting resumes from the kinds of hard-working, high-quality individuals that you hope to hire.

Advertising the right way in the right places makes a big difference. This varies widely depending on your location in China and the kind of position you are filling. Yet advertising may do more to increase the quantity of candidates rather than the quality. With the right strategy, however, more resumes from better candidates can be available for you to choose from.

Building a reputation for paying relatively high salaries is one very important feature of an organization in China to attract good candidates. We will discuss compensation in depth below. As will be explained further, money and salaries are a part of everyday discussion among Chinese to an extent that you don't usually see in the West. Information about good compensation can also be included in advertisements, but the Chinese seem to be more trusting of what they hear from others than from advertisements, which in China match reality less frequently than in the West.

A reputation for high salaries helps draw many candidates, but one word of caution: their (applications and) resumes are not always what they seem. Resumes anywhere tend to show everything in the best light. But in China you may be more likely to find large exaggerations or outright falsehoods. If the resume is in a language other than Chinese, there may also be mistakes resulting from translation.

This is one reason why the interview process is particularly important in China. Sufficient time should be taken to try to confirm the relevant information on the candidate's resume. Employment dates are important to confirm. Also look for a job-hopping tendency. If there is one, take time during the interview to understand why your candidate moves so often. If the candidate is otherwise well suited to the position, determine whether your organization's retention strategy would retain him or her.

Job-hopping is very common in China. Similar to the West, employees often move from one job to another to get more money. Others move to improve their knowledge and experience base, which in itself improves their resumes for the next move, or it improves their chances for promotion and higher-paying jobs wherever they work in the future. However, some people change jobs as often as every six months. Many Chinese today take their potential mobility very seriously, and this may be a backlash from the days of Mao when it was extremely difficult to change jobs. While in the West a candidate who appears to be an excessive job-hopper is less marketable because the candidate is thought to lack loyalty, I have found that most candidates in China don't seem to see this downside. They talk proudly about changing jobs frequently, casting it in the light that they must be good if so many companies wanted them and kept paying them more.

Even many Chinese employers don't see this downside. I have gotten the impression that many Chinese still view even higher-skilled workers as "hands" in the sense of workers or peasants on the farm, and are only starting to grasp the idea of stability, continuity, and loyalty in the company as a valued asset. In a State Owned Enterprise (SOE), losing a person is often not very disruptive because there are frequently redundant workers. And with many layers of management your boss usually knows what you have been doing very well because he or she has been feeding you work task by task, and can simply feed it to someone else when you leave. Talk with your candidates and try to understand their motivations for changing jobs and determine if they will fit in your organization. In any case, job-hoppers are so common in China that you may not have a choice except to choose from among them.

Further interview questions should be asked to get a feel for how much of a team player a candidate is, and to understand what his or her idea of hard work is. Often it is not so difficult. Chinese can be surprisingly open about their work experience, and about the reasons they have left previous employers. In interviews I have done, many candidates told me frankly that they had nothing to do in their previous job, which was not surprising since they were coming from SOEs. This may indicate that they have grown accustomed to a slow-paced environment where there is little to do each day. Candidates who haven't spent many years in such an environment may be able to adapt more easily to a faster-paced organization. Others, coming from Foreign Invested Enterprises (FIEs) told me that they wanted to leave because they had too much work to do, indicating that they may prefer not doing much

work each day. In another case, a candidate told me flatly that he wanted to leave his current company because he hated his boss, indicating a possible bad attitude. I found Chinese generally not skilled in being interviewed, and in this aspect at least, making the job of hiring easier, as long as the right questions are asked, and the necessary time is taken to understand the candidates. The first step in creating and maintaining a motivated team is to make sure the newly hired employees are satisfactory and have the potential to improve your team.

On the one hand a manager has to take quite a lot of time to make sure he or she has the facts about a candidate. As mentioned, check information from the candidate in the interview with information on the resume, and also check certain information with former employers after the interview. On the other hand, the weeding out process can be easier since many candidates are not good at interviewing, frequently volunteering information that eliminates them from the process. Be patient in your hiring. You certainly want to choose the best for your organization. However, there still seems to be a tendency toward high turnover, so you don't want to spend an inordinate amount of time getting the perfect candidate. In addition, there is a probationary period that allows you to dismiss an employee that turns out to be unsatisfactory.

Probation

In China, when you hire someone there is a 3 month probationary period. Within this three-month window, you can dismiss an employee for almost any reason. At the end of this period, you must submit paperwork to various government agencies that document that this individual is working for you. During the 3 months no related taxes have to be paid, and there is little record of the employee even working for you. I have never heard of any legal or other problems arising from someone being let go during this period.

Employees are well aware of the importance of this three-month period, and therefore they often work particularly hard during this time. They also may work hard “perceptions politicking.” That is, trying to create the perception that they are good workers who will fit in with the team. During this period managers should be vigilant, observing employees closely particularly if problems become apparent.

In general, give new employees plenty of freedom, while keeping a distant eye on them, and seeing if they abuse it. Observe when they come to work and when they leave. Are they early, on time, or late when they arrive for work or when they leave? Since you prefer employees who are pro-active, and who can and will do the job without supervision, give the probationary employee some tasks that take more than a few hours, and that are completely unsupervised and without a clear deadline. Do they prioritize the tasks well, are they organized, and do they complete the tasks in a step-by-step fashion?

See if they complete the tasks at a reasonable level of quality, and in a reasonable amount of time. Do they ask questions if they are unclear about what to do? If they do, are they good questions or do they indicate a poor understanding of what was requested of them? If they don't ask questions about some things, do they make good assumptions about what is expected? Of course you don't expect them

to be perfect, but do they resemble what you expected? And since you sometimes get resumes with falsehoods, do the questions they ask and the quality of the completed tasks, and the way they complete them seem consistent with the skills, experience, and education that they purport to have?

Obviously most newly hired employees would be putting their best foot forward during the probationary period, making it difficult, in some ways, to detect problems. Discuss the employee with other managers who might be in a position to know about him or her. After a few weeks or so, make opportunities to be with new employees together with some who have been with the company for years, for example over lunch. See how they behave together, and how employees react to one another, and look for signs that they are getting along well. Keep your eyes and ears open for comments or indications of how the new employees are doing.

If a new employee doesn't really want to work hard (for example someone who is accustomed to a laid-back job at an SOE) and is just running a three month marathon, you might start to see a slowing-down in their work habits in the third month. However, the process of evaluating employees should start as soon as a newly hired employee walks in the door the first time. If a non-performer made it through your hiring process, ideally it would be discovered in the first week of probation - the earlier the better - and the employee dismissed right away. The more time that passes, the more disruptive letting the employee go will be for the team.

Nevertheless, such action should be rare. The selection process should be thorough. In addition, more numerous and higher quality resumes and candidates provide better choices for that process. And having more choices can result from a good reputation derived from an effective comprehensive retention and motivation strategy with good compensation as a key feature.

Compensation

Compensation is important to people everywhere. But in developing countries such as China, where people tend to live closer to subsistence level, it is more important, as every small bit of compensation can have a more significant impact on everyday life. Additionally, the culture in China is one where money, salaries, prices, value, etc. seem to be a staple of everyday conversation. Frequent discussion of money doesn't seem to carry the negative stigma as it often does in the West.

In this environment, at the organizational level, I have found that tending to pay above the going wage rate is an effective part of a strategy to become a preferred organization to work for in the community. A reputation for paying well may be reinforced with the help of satisfied employees whose discussions of their compensation with others are an integral part of conversations in the community.

On an individual level, I have found paying above the going wage rate and offering frequent, although typically not large, increases is a good way to help retain employees and provide some continuity in the organization. It frequently lets employees know that you value them. Some employees who may otherwise look for another position may not do so as long as they see a raise coming in the near future. This may not be an ideal solution over the long run, but as long as wages in China remain so low, and they probably will for many years, it is a relatively small price to pay for

staff retention, motivation, and productivity.

Without this strategy, you may end up managing chaos given the high two words turnover. Management already must generally provide a large amount of micro-management to employees in China, taking time away from other management responsibilities. But constant hiring and training for the same positions, and the costs of communication lapses, errors due to inexperience or lack of knowledge of organizational rules, etc. can be extremely expensive. Minimizing the turnover of employees, or especially starting out immediately with a retention strategy in a new venture, will establish the character of the organization. As you grow, employee retention rubs off on newcomers and will pay off over time. Wage-levels are not likely to go up much in real terms for several years, as China seems to have an endless flow of unemployed people from the countryside willing to work for little. There is upward pressure on the salaries of some skilled positions, but as household incomes increase, mainly along the Chinese coast, people are seeking more college educations and competing for the skilled positions. Also, over the medium-run, there will be plenty of others losing jobs, mainly from SOEs, as the transition of China's economy accelerates and as its WTO commitments start to bite. All of these things will continue to keep wages generally low for some time, and therefore maintain conditions that are suitable for a strategy of paying above the going wage rate.

For a "large" company, however, this strategy would be limited by its significant macro-impact. By a "large" company I mean one that is a major employer in a particular community, region, or the entire country. Their wage-strategy would be limited by the impact that the company itself has on setting the wage rate in specific communities or in the national economy. In other words, if you were one of the largest employers in your community, raising your wages may prompt a similar response from other employers in the community, canceling out some of the motivation and retention impact, while still increasing your costs. So, paying above the going wage rate would be less effective, although a "large" well-known company in China, as elsewhere in Asia in particular, would probably be a sought-after and prestigious company to work for by virtue of its size, and therefore probably wouldn't need this aspect of a strategy to attract candidates or retain employees.

There are some labor-market sectors in China where there are shortages, like management and IT talent, and these salary categories have been bid up over the past several years throughout the country (and throughout the world for IT positions of course). Chinese salaries in these areas still are low by world standards, and although they tend to be highly paid by Chinese standards, I would still stick to a rule of thumb of paying above the going wage rate. Retention is simply too difficult in China, and it is much more difficult for managers and IT professionals. The costs of losing these key people who are in short supply in the country far outweighs the additional money that I recommend be paid to them. And you also maintain a consistent wage-strategy, and a corresponding consistent reputation.

In implementing your compensation strategy at the employee-level each employee's compensation must be consistent with your motivational and reward strategies. Most employees will be paid above the going wage rate, but some more than others depending on performance. Management must make sure that each employee has a clear understanding of why they are paid well, consistent with the incentive system. Goals must be clear, and performance measured against them.

For the employees who are not doing well, you also want them to be well motivated as long as

they are working for you. Complement them on the positive aspects of their performance, but make sure they understand clearly how they need to improve. At the time of the performance appraisal, there should be no surprises; areas where the employee is expected to improve should have been made clear long before the appraisal, at the time problems became apparent. You want the employee to buy into the appraisal, and buy into how they can get better. Pay them less than the going wage rate. Expect that the employee will improve, and be sure the employee knows that you know he or she can do it.

Of course, such pay for performance makes sense, but it can be difficult to implement in China. On the one hand, most Chinese will tell you that they feel strongly that they should be paid more if they accomplish more. But on the other hand, as an apparent legacy of the egalitarian communist days, they are uncomfortable with large differences in pay among people at the same level. And as mentioned above, Chinese talk openly about each other's compensation, resulting in tension in the organization due to salary level differences. Inevitably, employees complain about other employees that they believe are being paid more, but they feel don't contribute as much. However, with the strategy that your employees are generally paid above the going wage rate, they will also be comparing themselves to others outside your organization, and your employees' salaries will usually compare favorably to these. For the few whose salaries do not compare favorably, presumably they are not the ones that you would be particularly concerned about retaining anyway.

Direct bonus systems are also particularly effective in China for some jobs, particularly where the results of the employees' work is easily measured. A good example would be based on quantity of manufacturing output. These systems must be carefully crafted to avoid unintended consequences. You must ensure that what you are encouraging isn't at the expense of other important things, such as quality, and that it is measured accurately. And employees must see the system as fair and objective.

In addition, it is important in China to give gifts to the employees. There are a few times a year, associated with certain holidays, when these are somewhat expected, and you shouldn't miss these opportunities. But I think you can also give them a little something a few other times during the year when you have a good excuse to show your appreciation (winning a quality award, achieving big productivity improvements, completing a major project,...). Give everyone exactly the same thing, or different only if the items are obviously of the same value. Chinese are very sensitive to such things. The Chinese also seem to remember these gifts more than I recall co-workers remembering gifts from employers in America. And these gifts have the added advantage, like bonuses, that they don't increase the baseline on which future percentage raises are based.

Some might argue that money is a short-term motivator, and after a raise people usually get used to it quickly, and soon feel they deserve another. One might further contend that by giving frequent raises you are setting yourself up for high wage-costs down the road as you keep establishing a higher baseline on which future raises will be based. I would respond first that money is a bigger motivator in China than in the West, because China is a developing country and the Chinese tend to live closer to a subsistence level. I would agree that money is a short-term motivator. As a result I suggest giving frequent raises, although smaller ones. I would also say that even with the right strategy and the accompanying reduced turnover, there still will be turnover that will probably be greater than is typical in the West, and the replacement employees will be hired with a lower baseline. Also, to some extent

you can avoid adding to the baseline by compensating employees with bonuses and gifts. These also reduce “income tax” payments, which are based on the base salary. In the West, salaries and wages are typically the largest part of the organization’s budget, and therefore they get a lot of attention. In China they are a much smaller share of the overall budget, and therefore higher-percentage wage increases don’t have nearly the impact on company finances. I believe paying a little more in wages at this stage in China’s development, is a small investment that results in a large gain in motivation, retention, and productivity in your organization.

Overseas Training

Overseas training opportunities can be a powerful tool for employee retention. Most Chinese love to travel, whether for work or pleasure. They can hardly dream of overseas travel on their own, or at least not without large sacrifices. Chinese love to see the world and have their expenses paid by the organization. They like to improve their English or other foreign language as it improves their ability to communicate with foreigners, and increases their foreign language test scores. They also learn the skill that the overseas training was arranged for. Just being able to put on their resumes that they have been trained overseas, regardless of the reason, as well as the specific skills learned and the enhanced foreign language ability, improves their potential earnings and marketability in China dramatically. In addition, that you are offering such opportunities to your employees spreads outside the company by word of mouth. This further improves your organization’s reputation as a preferred place to work, along with higher pay, and to a lesser extent internal promotion. Such potential overseas opportunities can also be advertised to help attract candidates.

Because an overseas training stint is such a powerful retention tool, its effect can be maximized by holding the training out to employees as a possibility long before they would actually be sent overseas. It could be discussed with them a year or two in advance, or even held out for employees who meet certain criteria after a couple years.

The challenge with overseas training is retaining your employees *after* they return from the stint. With their marketability improved, employees often leave within months after returning. Companies commonly have these employees sign contracts before they leave for training requiring them to stay with the company for a couple years after they return. Such contracts are legal and common in China, but they are expensive and ultimately very difficult to enforce in practice in a weak rule of law environment such as China’s. I suggest reaching an agreement with an employee in advance of the overseas stint to have a small percentage of their salary withheld monthly from the time they start the training. This money would be put into a special account with their name and the company’s name, and would be available to the employee as soon as they have fulfilled their contract. But this is only a small incentive to stay. If the employee is valuable enough to merit the cost of overseas training, he or she should be compensated well enough to reduce the incentive to go elsewhere.

Internal Promotion

Making a habit of promoting from within helps attract, motivate, and retain employees. China is not so different than elsewhere in this regard. However, because the turnover rate is so high, internal promotion may be more valuable in China. Internal promotion helps in two ways: by putting people in higher positions who you know already and that have some history with the company, and by retaining others who, anticipating possible promotion, might otherwise leave the company. This helps maintain more stability and continuity within the organization.

This retention incentive can be potent in that it is targeted at the individuals who have the most promotion potential, and they are usually the same employees who you want to retain the most. Of course, for this to be an effective retention tool, you must be sure that these employees are well aware that they are in the pool of candidates for promotion.

Conclusion

When staffing in China, take the time to thoroughly verify the information about your candidates. Use the probation period wisely to make sure you keep only good employees beyond the three-month period. Develop a reputation for your organization of paying above the going wage rate. This helps attract more good candidates, improve productivity, motivate your employees, and retain them. Hold out overseas training as a possible option a year or two in advance for employees who may be good candidates. And promote from within, which is particularly valuable to retain good employees and maintain more continuity in an otherwise high-turnover environment.

This paper has dealt with a few specific issues for maintaining an excellent organizational team in China. For more related issues in retaining and motivating employees in China, and for more background on the mainland Chinese management environment, as well as the cultural and political environment in which management takes place, please take a look at my previous paper, from which this paper follows, entitled, “Motivating and Retaining Human Resources in Developing China” in the July 2004 edition of the NUCB Journal of Economics and Information Science, Volume 49, Number 1.

Acknowledgements

I would like to thank PingPing Lincoln, Jane and Robert Domke, and Ve-Yin Tee for their helpful advice and feedback on this article.