

*Globalizing the Local Talent Pool
and Localizing Global Packages*

— CHINA —

OVERCOMING THE CHALLENGES OF RECRUITING AND RETAINING TALENT IN CHINA'S LIFE SCIENCES MARKET

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THE DEMAND FOR HARD TO FIND – AND EVEN HARDER TO KEEP – TALENT

As the economies of North America and Europe have seemed to flatten for life sciences companies, the growth rate of most MNCs in China is, by any standard, phenomenal. The pace was

exemplified by William Keller, General Manager of Keller Pharma Consulting, whose company is based in Zhangjiang (the high-tech/biotech zone in Pudong). He explained that the Government's

massive spending on research in the life sciences arena has further tightened the availability of talent in the MNC sector. For example, China currently has seven key national genomics centers; in addition, more than 300 startup companies have been founded by returnees in the past four years alone. He added that the cost of doing business in the chemistry arena can be 25-30 percent lower in China than in the U.S., and that some established companies such as Eli Lilly now have more than 250 scientists working on site there. He also cited clinical development and pharmacology as other high-growth areas.

Our discussions with a number of China-based senior MNC executives

China has long valued medicine, both traditional and Western. Today, multinationals (MNCs) recognize the potential of this vast country, in terms of both its manufacturing clout and the much improved economic status of many of its citizens, during what has been an unprecedented period of development and growth. In the past, the MNCs' biggest challenge was with patent protection, but today, Korn/Ferry International and our clients believe the single largest brake on the growth of the life sciences sector in China is the struggle to attract – and even more importantly, retain – an executive workforce that possesses the right skill sets to sustain this growth for the long term.

This article will examine the unique challenges that life sciences MNCs face in hiring and retaining indigenous executive talent in China. We will also assess the strategies that companies must implement in order to minimize the churn, while laying the foundation for the development of tomorrow's leaders who will ensure the stability and growth of the industry well into the future.



revealed that the biggest challenge facing the life sciences industry – across all sectors, be it medical equipment or pharmaceuticals or biotechnology – is a severe shortage of executives who are People’s Republic of China (PRC) nationals. When many of the larger pharmaceutical companies such as BMS, GSK, J&J and Roche established themselves in the country some 10-plus years ago, they relied heavily on expatriates from the West to fill key leadership positions. Once the pool of seasoned, international executives from Europe or the U.S. seeking an assignment in China started to dwindle, companies looked to other Asian countries as a source of “expat” talent.

All of these expatriates had a mandate to not only help build their companies’ presence in China, but to train and nurture PRC nationals to succeed them, so that they could move on to their next assignment. These local executives, who have adapted and understood the politics and processes of operating in an MNC environment, are today perhaps the most highly sought-after candidates, and have emerged frequently in senior roles over the last three to five years. One such executive told us that he gets approached from competitors weekly and actually feels slighted if for some reason the pipeline of opportunities seems a little quiet.

In manufacturing, the MNCs’ woes about hiring local talent to act as facility heads have been aggravated by the large number of medium and small pharmaceutical, biotech and medical-equipment companies entering the market, which has further boosted the demand for local skills and knowledge. Unfortunately, few PRC nationals possess the requisite qualifications, and thus the top rungs of the executive ladder are largely inhabited by expatriates from Asia or the West. This

picture is even worse for pharmaceutical manufacturers, many of whom seek to hire PRC nationals who understand stringent European and North American compliance requirements. However, it is important to recognize that even such local talents are, in some cases, still relatively inexperienced in terms of their exposure to global management issues when compared to their Western counterparts.

This compounds the talent gap, and today the shortage of appropriate local talent in manufacturing is so severe that companies are starting to once again turn toward hiring expatriates whenever possible. As we will explore further in this paper, localizing the workforce and mitigating the reliance on expatriates requires a very different HR approach than has been traditionally employed in China, one that includes training and development programs that foster loyalty to the company’s culture in order to effectively address these gaps.

Once you have found the right people, keeping them for long seems nearly impossible in a country where nothing is guaranteed and where five years is now considered a lengthy tenure. In most countries, for example, non-compete agreements are the norm, and there have been some notable cases in the U.S. where jumping ship to the competition comes with stiff legal penalties. In China, however, even when a non-compete agreement is signed, to enforce it a company needs to keep the person on their payroll – and in most cases, the laws simply are not strong enough for such agreements to hold up.

It is perhaps not surprising, therefore, to learn that employee turnover can be in the 30-40 percent range for sales and manufacturing functions, and not a great deal lower as one enters the executive ranks. As an executive at Roche Diagnostics China explained, “Sometimes it is difficult to explain this to headquarters, and for them to understand the issues.” What seems clear is that high churn within China’s life sciences sector is a reflection of local market conditions that exacerbate the challenge of keeping one’s people, despite steadily increasing salaries across industry sectors.

CULTURAL FIT: THE KEY TO SUCCESS WHEN SOURCING NEW TALENT POOLS

Because of the lack of available talent locally, there has been a tremendous emphasis on trying to attract “returnees” and overseas Chinese/Asian expatriates for posts in China.* But in many cases, rushed recruitment has resulted in hiring mistakes. An executive from Medtronic said, “There are many types of overseas Chinese, such as Hong Kong Chinese, Taiwanese Chinese, American born Chinese, Singaporeans and Malaysians. As one would expect, they come with a variety of management styles and expectations – and there may be no cultural fit whatsoever.”

The hiring of returnees also can understandably lead to some animosity between PRC nationals who feel that they have earned the right for a promotion and those piloted in, frequently in more senior roles. One hugely credible life sciences company actively recruited young managers from the top U.S. business schools, but found that when these recruits arrived in China with great expectations and little experience, they could manage up but not down. At Medtronic, executives indicated that the return on investment for returnees is generally slower as they have to adjust to the Chinese market, and it is estimated that only approximately one out of three succeeds.

THE RISING COST OF EMPLOYMENT

Case Study:

THE STATE-OWNED ENTERPRISE ANOMALY

It is interesting to compare the recruitment challenges faced by life sciences MNCs in China to the challenges - or lack thereof - faced by some of the state-owned companies. For example, Liu Hai Liang, Assistant to the President at Shanghai Fosun Pharmaceutical Company Ltd., one of the largest state-run pharmaceutical companies in China, said that his employee turnover is at only 10-15 percent, much lower than the MNC average. He added that his company looks for different characteristics than his counterparts at the MNCs do. For instance, instead of seeking executives who can immediately execute against the plan, his company prefers those who can work across a larger environment and have broader skills, and who therefore may not necessarily come across as the “high flyers” attractive to MNCs.

In other words, SOEs seek individuals who fit in to their culture, while MNCs tend to seek superstars who stand out above the rest. Step by step, the SOEs gradually progress these employees up the ladder, rewarding and reinforcing loyalty. This seems to foster a more stable employee-employer relationship, with tenures averaging between 7-10 years.

It is interesting to see how many company headquarters in Europe or the U.S. view China as a very large mass of people just queuing up for jobs. As stated above, in many ways China’s market is unique – hiring tends to be largely from the top one percent of the population and people with prior MNC experience are highly regarded, as they are perceived to have a superior grasp of advanced business ethics, processes and systems, as well as the ability to manage global teams in a high-growth environment. However, due to the relative immaturity of the China market, this background is hard to find.

Those who have this rare combination of skills are well aware of

* According to survey of over 300 CEOs worldwide conducted in late 2006 by Korn/Ferry and the Economist Intelligence Unit, regional expatriates from Hong Kong, Singapore, Taiwan and Malaysia are perceived to be the best talent to run operations in China by over 60 percent of respondents.

their market value and have increasingly high expectations and demands for prospective employers. One exasperated regional HR executive said that he had a defined bonus pool for his Country Managers, but the demands in China for both salary increases and expected bonus payments had eliminated shares for the rest of the team in the other countries, who had achieved their targets but had not grown as fast as China. How was he going to play fair? Commenting on mistakes that companies commonly make in terms of compensating top talent in China, another executive noted: “Companies frequently just copy what they have at home and then wonder why they fail.”

Nearly all MNCs in China today are caught in the trap of going with the flow to ensure that compensation levels, while escalating fast, remain competitive. No longer will paying at the median level work – it is upper quartile salary levels or nothing. That, in itself, is pushing compensations higher, and while the rest of the world increases by a standard cost of living of around four percent, in China, the minimum annual increase is 10 percent.

Stanley Lau, General Manager of Baxter Healthcare China, added that a promotion could involve up to a 30-50 percent increase. Equally alarming is that some of the top executives seek a 50-100 percent increase when considering a new job. There-

fore, it becomes essential for hiring managers and recruiters to carefully manage expectations with realistic numbers, which more likely would be between 15-30 percent.

In a culture where openness about compensation packages seems to exist like nowhere else, one executive observed that “it seems that people are always comparing their packages...and it is nearly impossible to keep things confidential.” As one can imagine, this is any manager’s or HR executive’s nightmare. According to Lau, companies need to acknowledge that this openness will not stop and be

transparent with their approach to compensation, ensuring that it is as equitable as possible so that employees feel a greater sense of trust.

Korn/Ferry is also witnessing unprecedented levels of benefits – a company car is standard and, to a certain extent, interest-free car and housing loans and corporate-sponsored EMBA programs are popular. As one senior executive told us, “Anything that is short-term is acceptable, and pension and long-term incentive schemes are laughable.” He added, “Most companies expect change, and service in a company longer than five years means that people start questioning the employee’s ability to adapt.”

TYPICAL COMPENSATION PACKAGE FOR SENIOR LOCALS

- Base salary: 13-14 months
- Performance bonus: up to 30% of base
- Standard government benefits
- Housing/transportation/other allowances
- Stock

LOCATION, LOCATION, LOCATION

Another factor further complicating the situation is that in China, the practice of relocation is still in its infancy. Culturally speaking, it is generally accepted that people from the Northern part of China have as much difficulty adjusting to the South and vice versa as a French person would in North America or a native of Wisconsin would in New York. Traditionally, the man of the house-

hold would leave the women and children behind in search of work. Today, with women becoming an important segment of the Chinese workforce, the issue of relocation has become more complex depending on who is considered the primary “bread winner” for the family, and split family arrangements are increasingly common.

To address the growing trend in healthcare manufacturing to base senior positions in cities outside of key centers like Beijing or Shanghai, Gary Wang, VP, HR, J&J Medical, advised that companies offer temporary assignments of two to three years in second and third-tier cities, with a promise of a better role thereafter if they perform well. At the same time, he cautioned that placing top executives in the provinces, even temporarily, exposes them to being poached, as the talent pool there is still significantly behind that of Beijing or Shanghai.

Shanghai is viewed by many executives as *the* place to be in China, with more than 65 regional headquarters for established MNCs across all industries based there already, and more arriving every day. As a result, persuading Shanghai-based candidates to take an assignment in other parts of the country is problematic and often only realistic if a guaranteed return is part of the deal. Baxter's Lau advised that expectations need to be carefully managed, with a clear plan of how and when the executive can come back to Shanghai.

WOMEN AND "DIVERSITY"

Whereas companies in the U.S. have a clear policy for diversity that encourages a balance of talent from a variety of ethnicities, genders and races, in China it is indeed the diversity of one's background that is most important. That said, one up-side of the dramatic growth in China is that there are now more chances for women to excel in the workforce. According to Helen Tantau, Senior Client Partner with Korn/Ferry in Shanghai, "Women tend to be more stable in the workforce - it is their partners who stereotypically are meant to support them and move to increase their salary levels. Women are deemed attractive hires not to add diversity, but because they offer greater organizational stability and a different approach to managing."

However, the percentage of women in leadership roles in China today is still disproportionately small considering the growing number of female graduates in business and engineering fields, and remains heavily skewed towards HR, sales and marketing positions. A recent study that Korn/Ferry conducted with Beijing University found that female Chinese executives are, on the whole, less social than men in terms of leadership style. "Indeed, in order for women to maximize the career opportunities presented by a globalizing China market, they will need to outperform their male counterparts by displaying some leadership attributes even more strongly than men," states Ling Li, Senior Client Partner and Regional Leader for Korn/Ferry's Asia Pacific Life Sciences Markets.

LEADERSHIP DEVELOPMENT KEY TO EMPLOYER LOYALTY

Companies in China are starting to focus more on employee development. The thirst for knowledge is evident everywhere, and most MNCs are working hard to determine career pathways for their staff before they even join the company, so that every new employee has at least two career steps up the ladder in their sights. According to one Medtronic executive, "Companies in the past would promote when a candidate was 90 percent ready, but in the current climate, they need to take risks and promote people when they are 70 percent ready. If you don't, others will."

One complicating factor is that organizational development (OD) is a relatively new field in HR management in China. Most companies - with a few notable exceptions - do not appear as yet to have either the pool of talent to draw upon to develop people or the processes required for succession planning.

In relatively "young" companies (i.e., less than 10 years old), where the turnover rate is frequently high and

the average age of employees is late 20s to early 30s, it may seem irrelevant to discuss the importance of company culture, or take proactive measures that help create a “sticky” work environment. But culture and tradition are an important way of life in China and to lower employee turnover, it is critical for MNCs to understand this. Many Chinese still hold traditional values, such as employer loyalty, close to their hearts. “People don’t leave their jobs, they leave their boss – so teaching management skills is an essential step in retaining talent,” said one executive.

Baxter’s Lau explained that, in his view, the ideal culture is one that is “team-based, transparent, open and less hierarchical, where values and ethics are rewarded.” He added that “managing in China is difficult and complex, and flexibility is needed without lowering your principles and ethics.” According to Stella Hou, General Manager of Hewitt Associates in Hong Kong, the issue is “how to build the winning culture, and to develop and create the right environment.”

Churn rates are highest when employees are developing through the middle- to more senior-level management phases of their careers. Interestingly, Lau also maintained

that it is these middle managers who are not necessarily as skilled at managing subordinates as their Western counterparts and as a result, the culture is one where people are generally uncomfortable giving critical or constructive feedback. There is an aversion to conflict; it is easier to “tell” as opposed to “teach” someone, especially in a scorching, fast-growing environment like China’s. Managers are continually dealing with a range of pressing and challenging issues and have limited time to nurture and properly train new staff, but they must learn to make this a priority for the health of their team and organization.

Case Study:

P&G’S DEVELOPMENT PROGRAMS CREATE NEW POOL OF TALENT

Recognizing that the difficulties involved in attracting and retaining talent in China were very stark, combined with a belief that only people trained in-house would truly be able to deliver in the “P&G way,” Proctor & Gamble embarked on a progressive campus recruitment campaign in the late 1980’s. This sophisticated approach to recruiting fresh talent (95 percent of whom were undergraduates) and then training and developing them in-house helped to drive superior company performance, but it also had the effect of making their employees highly attractive to competitors.

For other companies seeking to combat this problem, Gary Wang, VP, HR, J&J Medical, stresses the importance of establishing a solid sense of company culture to mitigate the downside of losing people you have invested so much in. Companies that adopt the vision of being an “employer of choice” tend to have managers who behave in the same professional way, based on the same fundamental principles and ethics. Therefore, if one person leaves, many other capable managers will remain to oversee operations.

CONCLUSION

In tracking the evolution of the business environment in the Greater China Region in recent years, similarities seem to exist between China today and North America's Silicon Valley in the mid- to late-1990s. The intense level of recruitment, the steep escalation of compensation levels and the associated cost of living increases – these factors were all present during the dot-com era. Naturally, the unprecedented rate of growth that China is experiencing cannot last forever – but one hopes that when it does inevitably begin to level off, companies will not have to confront the same difficult business decisions that their American predecessors did.

In this context, we believe that proactively working to foster and develop a stable workforce should be the top focus of HR practitioners and CEOs alike. We envision that in the next five to ten years, Chinese companies and

MNCs in the life sciences industry will have new talent management hurdles to overcome, driven by new indicators including but not limited to:

RECRUITING IN CHINA – SPECIAL CONSIDERATIONS

1. Always conduct education and reference checks
2. Avoid employing job hoppers (many locals believe they should change jobs at least every two years)
3. Try to identify true motivation for moving

1. The entry of Asian conglomerates into China. These new players will be recruiting the same small group of talent, thereby putting even greater pressure on the market.
2. The privatization of health care, requiring administrators to oversee the operations of groups of hospitals.

Whatever the outcome, there is no question that this is a remarkably complex, challenging and exciting time to do business in China. According to Keller Pharma Consulting's Keller, "Over the next 10 years, China will become a knowledge-based economy, not a manufacturing one – and it will have an unbeatable advantage." If the challenges of hiring and retaining talent are met, these words may very well ring true.



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Korn/Ferry International, with more than 70 offices in 40 countries, is a premier global provider of talent management solutions. Korn/Ferry was the first major U.S. executive search firm to operate in Asia Pacific when it opened its doors in Tokyo in 1973. Today it has 15 offices in key business centers throughout the region, including: Auckland, Bangkok, Beijing, Hong Kong, Jakarta, Kuala Lumpur, Melbourne, Mumbai, New Delhi, Seoul, Shanghai, Singapore, Sydney, Tokyo and Wellington.

Based in Los Angeles, the firm delivers an array of solutions that help clients to identify, deploy, develop, retain and reward their talent. For more information on the Korn/Ferry International family of companies, visit www.kornferry.com.

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