

Rise of the Chinese enterprise as employer of choice

by Marie Han Silloway, Steve Fisher, and Steve Jiang

June 2011

Chinese firms are luring talented managers and executives away from multinational corporations by offering generous compensation, more decision-making power, and a faster career track. MNCs will need to respond with smart recruiting and retention strategies to maintain any edge in this competitive market.

China's economic growth is unprecedented. Its GDP is expected to more than double between 2010 and 2020 while its current 13 percent share of global GDP could balloon to 30 percent in that decade. The International Monetary Fund recently forecast that, in terms of purchasing power parity (PPP), China could surpass the United States as soon as 2016. China's middle class is, by some calculations, already 300 million people and rising.

For years, multinational corporations (MNCs) have viewed this scenario as an opportunity for their own growth, and have moved aggressively to compete for market share and brand loyalty. What they seem not to have anticipated is that Chinese companies might poach their critical managerial talent.

"I recently lost an employee who went to a Chinese enterprise for four times the pay," reported the head of talent recruitment in greater China for a global food and beverage company. "And there is no way we would ever match that."

MNCs cannot compete effectively without brainpower. So is their position in China threatened? Are we entering a new era in which the Chinese enterprise is the preferred career choice for executives?

The allure of Chinese enterprises

China's potential might seem infinite, but the pool of business talent engineering this boom is not; heating up competition for experienced managers and executives. MNCs traditionally held the upper hand in recruiting top talent, but a new trend is emerging: Chinese enterprises are becoming more attractive to white-collar Chinese professionals, as well as expats steeped in the market.

MNCs traditionally held the upper hand in recruiting top talent, but Chinese enterprises are becoming more attractive to white-collar Chinese professionals and expats.

For Chinese professionals, joining an MNC has long been viewed as an attractive opportunity for improved social and career mobility. MNCs offered competitive salaries, handsome benefits, business training, and the possibility of an overseas assignment. Few ambitious professionals would forgo those perks to work for a Chinese enterprise. Now, with the number of private Chinese employers expanding and offering similar benefits, fresh graduates and senior executives alike view Chinese enterprises as a legitimate – even preferable – career option.

Foreign executives are also getting into the act – especially since the global recession, with China's economy emerging relatively unscathed. Korn/Ferry International's executive recruiters reported a significant rise in interest in joining Chinese enterprises among foreign top-level executives. In addition, our consultants are more frequently being asked to fill vacancies created when senior executives depart for a Chinese enterprise.

Indeed, there have been several high-profile moves in the last few years. David Wei from B&Q joined Chinese e-business Alibaba in 2006, and in 2004 Jun Tang (former president of Microsoft China) left to head online gaming operator Shanda Interactive Entertainment before joining New Huadu Group as president and CEO.

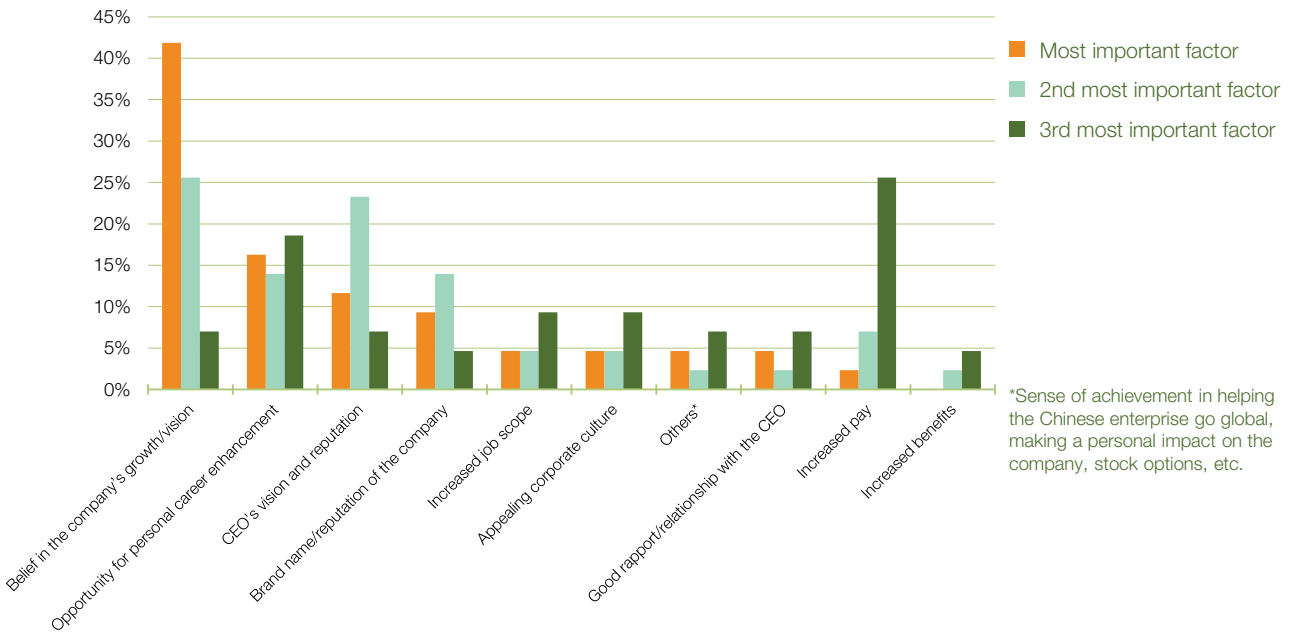
Noting this shift in attitude, we surveyed more than 40 senior executives working in China across a range of industries, and in March 2011, brought some of them together to discuss the findings (see Figure 1). About a dozen people at the event shed light on the new appeal of Chinese enterprises and whether this would last.

During the forum, we found that almost a fifth of the participants had left an MNC in 2010 to join a Chinese enterprise. While not a startling number in light of the small group size, it confirmed the growing trend in the country. Why are some executives leaving MNCs for Chinese enterprises? Is this trend likely to be permanent? What preemptive actions might MNCs consider to safeguard their talent?

Figure 1

Factors that would entice executives to join a Chinese enterprise

Korn/Ferry surveyed 43 executives and managers working in China on the factors most important to them.



*Sense of achievement in helping the Chinese enterprise go global, making a personal impact on the company, stock options, etc.

Myriad factors influence the decision to move from an MNC to a Chinese enterprise. Participants at the forum settled on four principal determinants: financial upside, career momentum, empowerment, and security.

Financial upside. Gone are the days when receiving a good salary from a prestigious MNC was enough to motivate an ambitious manager in China. Today, smaller local enterprises with the potential for rapid growth in scale and profitability in China's vast market offer not only a generous salary but also the financial gain from a possible IPO—a gain that has made many people millionaires overnight. This was a powerful draw, we found. In fact, 45 percent of the senior managers we polled said they would consider joining a pre-IPO Chinese enterprise, and 30 percent a publicly-traded Chinese enterprise.

In addition, executives don't see much long-term career risk if the move doesn't work out. "I switched companies [from an MNC to a Chinese enterprise] thinking I could potentially retire at an early age," said one manager from an international food group. "When the company failed to go public, I was disappointed not to be very rich, but I knew I could go back to my old job." MNCs are simply unable to match such incentives.

Career momentum. MNCs generally adhere to globally standardized grading scales resulting in a slow and controlled career growth. This is regarded as too slow for some, especially as Western firms retrenched during the global recession.

Conversely, the common belief is that managers at Chinese companies tend to be promoted quickly. As one senior human resources manager from an international beverage company observed: “There is a lack of patience. Local enterprises have lost their patience in growing their own talent and they are willing to pay for (outside) talent. So they offer senior, flexible titles to encourage executives to come on board since most MNCs cannot offer these. On the other side, good talent are losing their patience with MNCs because they see friends making a lot of money by either running their own business or leaving the corporate world to join small enterprises. So they want immediate returns in the form of either money or title.”

To compensate, some MNCs have found a way to commit to both the company’s global scaling as well as the local demands by making a small adjustment: creating additional titles for use in China that are outside of the global ranking scale. In truth, none of the participants at our forum cared if a person on their team had a special, custom title, so long as he or she was committed to the company targets.

Empowerment. Another oft-cited reason for shifting to a Chinese enterprise is the enhanced freedom in decision-making. One manager at a global fashion retail company compares joining a local company to “starting your own company and satisfying a dream or ambition, but without having to sink in your own capital.” Since Chinese enterprises tend not to be burdened by the same structures, processes, or formal chains-of-command found in MNCs, managers are encouraged to innovate and implement new ideas quickly. The current head of recruiting at a global industrial firm said, “China is like the new global headquarters. Which manager does not want to be tied to the center of true decision-making?”

Security. Chinese enterprises are perceived to offer greater security and loyalty to their employees. Executives here echo what the *Harvard Business Review* wrote in March 2011 about the battle for China’s talent: “Foreign companies are in retrenchment mode. Even in this fast-growing market [China], multinationals surveyed were more likely to cite ‘reducing operational costs’ as their top business priority. That means lower salaries and smaller bonuses.”

However, some participants argued that so much of the positive sentiment about Chinese employers could be attributed to the global economic slowdown that this could turn out to be temporary.

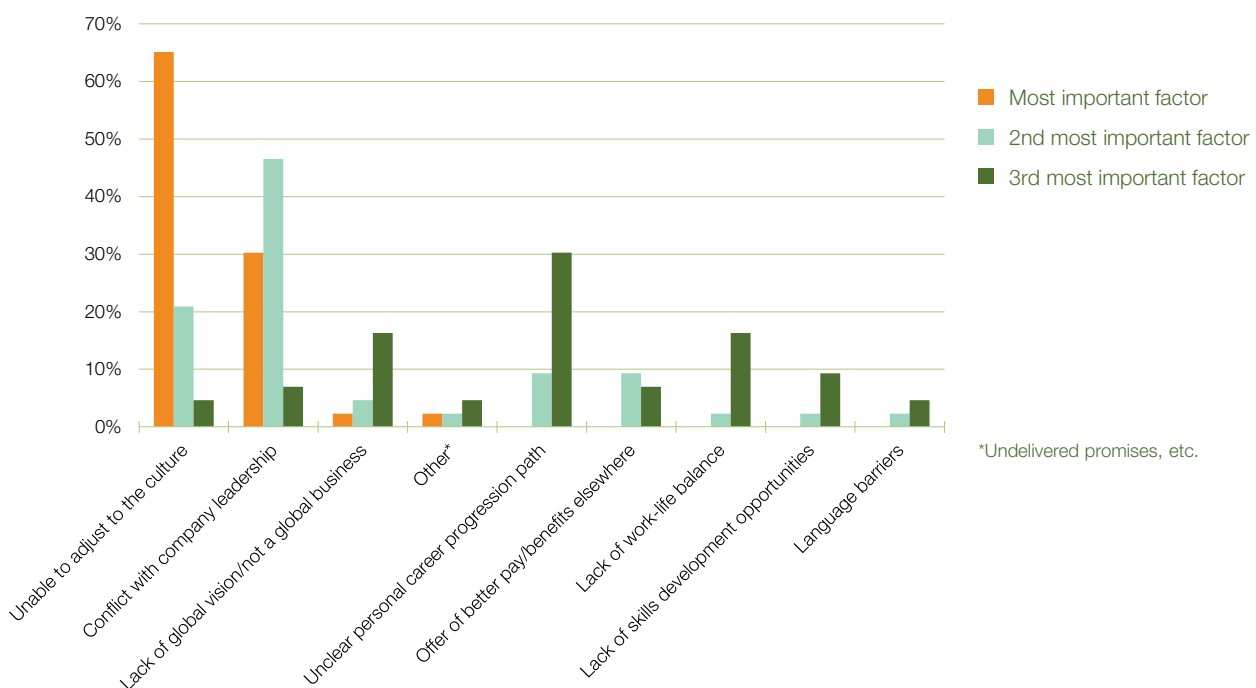
Will they stay?

Not all high-level appointees who moved to a Chinese enterprise remained there for the long-term. There is no firm research available yet, but Korn/Ferry consultants estimate that 15 to 20 percent of managers who join a Chinese enterprise leave before eighteen months. Within the group of executives that we polled, many of the managers who moved to a Chinese enterprise returned to an MNC. “The feedback [about moving to a Chinese enterprise from an MNC] is mixed. It is very difficult to draw a conclusion at this moment,” said the head of one global industrial firm.

The survey results and the subsequent discussion at the forum showed that talent retention at Chinese enterprises is hindered by three principal factors:

Cultural differences. The nature of these will vary widely, but cultural differences are almost always a source of tension for senior managers who move from an MNC to a Chinese enterprise. While the processes and systems in MNCs may be frustrating at times, they do offer desirable structure and quality control, and more frequently than not, a structured path to growth within the company. Contrast this with the entrepreneurial environment often found at Chinese enterprises, where strategic decisions and changes may be more ad hoc, with little transparency. Such an environment can often feel chaotic to senior managers with an MNC background. At the forum, a manager at a Chinese enterprise shared that its corporate culture made him feel cut off from “global best practices.” In fact, over 65 percent of the people polled said cultural differences would be the main reason to leave a company (see Figure 2).

Figure 2
Factors that would influence executives to leave a Chinese enterprise



Internal communication can be an extremely effective tool for an MNC to demonstrate its commitment to its staff and the Chinese market.

Communication. Since their growth has usually been quick, Chinese companies' internal communication processes frequently aren't fully developed. Forum participants further pointed out that local managers are, understandably, transaction-focused as a rule and not strong executive communicators. This frustrates executives; if the strategic direction is unclear, it's difficult for them to perform.

A general manager from a banking services firm also found it hard to find an ear open to his own ideas, and suggested that the only way to share thoughts with the boss was to be one of the few invited to play golf with him. Internal communication can be an extremely effective tool for an MNC to demonstrate its commitment to its staff and the Chinese market. This in turn can improve the company's brand and value proposition by creating employee-ambassadors in the market.

Unrealized promises. Chinese enterprises, seemingly rich with cash and promises, present a tantalizing prospect for managers. However, some have found that promises are not necessarily kept. Expectations of extravagant pay are often misguided; the "jackpot" of an IPO materializes only for a few. One senior recruiter left her role with an MNC to join a pre-IPO Chinese enterprise that dangled generous stock options – only to discover that the company was almost bankrupt and shortly thereafter was dissolved. She was also surprised to find that her job description differed greatly from what she was asked to do in practice, and that "informal chains of command bypassed her." Disappointed, she returned to a MNC and has no intention of joining another Chinese enterprise.

Dealing with threats to retention

As Chinese enterprises become true career alternatives, they continue to hire broader types of talent, particularly executives with international or multinational expertise. MNCs may still have an edge, which could sharpen with economic recovery and new hiring, but should consider revisiting their recruitment and retention strategies in view of the increased competition.

Some MNCs have developed creative ways to retain talent. For example, the head of human resources for a beverage MNC acknowledged that she collects and shares anecdotes about people who were unhappy with a move to a Chinese enterprise.

We asked the senior managers participating in the forum to share innovative strategies they had considered or implemented. While the suggestions were plentiful, we found the three below to be most relevant across industries:

Stretch your high-potential talent. Don't be afraid to give your talent stretch assignments instead of waiting until they are ready. One of the major drivers of joining a Chinese enterprise is the ability to hold jobs with greater responsibilities and influence. The Chinese enterprises don't hesitate to challenge their talent and let them learn by doing.

Adjust salary and compensation bands. One size does not fit all in China. Chinese enterprises often edge out MNCs in their ability to put together creative compensation packages. They are flexible on pay scales; a new hire doesn't necessarily have to fit into any particular salary range. They are flexible on titles as well, which can be very meaningful to executives here.

Polish your own employment brand proposition. Demonstrating long-term commitment to continuous growth and the Chinese market would help stem any fear of job-cuts post-recession. Inculcating a strong belief in the company's vision, demonstrating a strategic interest in the development of managers, and portraying a leading corporate culture may be the difference between fight and flight for a company's top talent.



Marie Han Silloway is a Senior Client Partner and Managing Director of Korn/Ferry International's Asia Pacific Consumer Market. Based in Shanghai, she can be reached at marie.silloway@kornferry.com



Steve Fisher is a Senior Client Partner and Head of Korn/Ferry International's Industrial Market for China. Based in Shanghai, he can be reached at steve.fisher@kornferry.com.



Steve Jiang is a Senior Client Partner with Korn/Ferry International's Global Industrial Market. Based in Shanghai, he can be reached at steve.jiang@kornferry.com.

About the Korn/Ferry Institute

The Korn/Ferry Institute generates forward-thinking research and viewpoints that illuminate how talent advances business strategy. Since its founding in 2008, the institute has published scores of articles, studies and books that explore global best practices in organizational leadership and human capital development.

About Korn/Ferry International Asia Pacific

Korn/Ferry International, with a presence throughout the Americas, Asia Pacific, Europe, the Middle East, and Africa, is a premier global provider of talent management solutions. Korn/Ferry was the first major global executive search firm to operate in Asia Pacific when it opened its doors in Tokyo in 1973 and today has 18 offices in key business centers throughout the region. Based in Los Angeles, the firm delivers an array of solutions that help clients to attract, deploy, develop and reward their talent.

Visit www.kornferryasia.com for more information on the Korn/Ferry International family of companies, and www.kornferryinstitute.com for thought leadership, intellectual property, and research.