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MANAGEMENT



INTO CHINA

PAGEUP PEOPLE RESEARCH

Talent management essentials in a land of paradox



CONTENTS

Introduction

The unique Chinese business landscape

Business environment
The Great FireWall of China
The talent management challenge for MNCs

Six factors influencing talent management in China

1. Confucianism
2. The 'iron rice bowl' legacy
3. Mian zi - saving face
4. The Doctrine of the Mean
5. Guan xi - relationships
6. Holistic mindset

Critical business issues and talent management in China

Effective strategy execution
Business intelligence through workforce analytics
Filling the global talent pipeline
Transferring knowledge

Optimising human capital management in China

Talent acquisition
Performance Management
Compensation
Leadership and High Potential Development
Training and Development
Promotion and Succession Management

In closing

About the Author



Message from the CEO

As we continue into the second decade of the Asian Century, it becomes increasingly apparent that this emerging region will not only outstrip the rest of the world in economic growth and social contribution, but also change how and where business is done. Global interdependencies between countries demand that we adopt a global mindset and this is felt acutely, especially by multinational corporations.

In this exciting era of growth and transition, we at PageUp People have elevated our commitment to better understanding and serving the needs of our current and future clients in this market. With our own corporate roots in the Asia Pacific region, we are both intently interested in and empathetic to, the extensive opportunities and challenges presented here.

This White Paper is one of a series aimed at providing multinational corporations with insights that help to better understand and manage their talent in environments likely to be vastly different from that of their home base. Designed to educate, as well as provide practical suggestions for optimising human capital productivity and engagement in China, this paper explores real and challenging differences between the western and eastern worlds.

Key takeouts include the critical role that leadership, training and change management will play in optimising MNC outcomes in China.

I trust you find it helpful in your talent management endeavours.

Karen Cariss
Global CEO



Forward

In China, great change is occurring in all facets of life, business and talent management. Two decades ago, for example, talent acquisition was more akin to talent distribution: the Chinese Government gathered each year's college graduates and dispatched them into state-owned enterprises (SOEs) where they pursued whatever work they were allocated.

I was born and raised in Shanghai and left China in 1996 to complete my Masters studies in the US. At that time, holding a well-paid job in a foreign company in China, especially a well-recognised multinational corporation (MNC), was considered a life-time achievement. Even being a secretary in an MNC was given a revered status. Most senior positions in MNCs were held by expatriates from the company's head office or, alternately, they came from Hong Kong, Singapore or Taiwan.

Today, the relationship between China, its MNCs and their human talent has shifted significantly. The giant SOEs such as Petro China or Bank of China are becoming employers of choice for local graduates, many of whom are attracted by both higher salary packages and job security. Top local talent aggressively seeking out career development opportunities rate the SOEs ahead of many MNCs. Senior expatriates are still there, but many more locals are now balancing the mix at the executive table, or even heading up the local operations.

China is exciting and dynamic and at the cusp of even more change. Managing talent in this environment is challenging for all organisations based in China, locals and multinationals alike. I believe the insights in this White Paper highlight both the challenges and opportunities employers face in this fascinating time of change.

胡鈞
Jack Hu
Regional Manager, GCR & Asia

Introduction

The dragon: powerful, inspirational and capable of feats of both greatness and destruction. In many ways, China is well symbolised by the dragon – growing from strength to strength and potentially both the hero and the villain of the modern world. As the water dragon tempers the fires of the mythical beast, so too may globalisation and liberalisation begin to temper this powerhouse of the East.

2012 is shaping up to be another tough year, particularly for the western world. The IMF expects global GDP growth to slow from 3.8% in 2011 to 3.3% in 2012, and for the emerging markets to account for as much as 80% of this growth¹. No wonder multinational corporations are turning their attention to their eastern operations to fill the corporate performance gap.

In a recent report released by the American Chamber of Commerce, U.S. multinationals reveal their Chinese operations are performing well – very well in fact: 85% report revenue growth in 2010, and 78% reported they were profitable or very profitable². And they are bullish about their future prospects.

Executives surveyed by the Economist Intelligence Unit agree: they expect growth to be fast and cite the need to operate at ‘China speed’. However they also note concerns about Chinese Government policies, especially those related to intellectual property and local protectionism³.

The Conference Board highlights that the Chinese themselves are conscious of their positioning on the global stage: sensitive to their financially weakened global customer base, and recognising that current growth rates are not sustainable in terms of either resources or the environment⁴.

The world’s multinational corporations look to China with wonder: at the vast opportunities, the debilitating bureaucracy and the multiple paradoxes that confront them. The Chinese Communist Government exercises a tight reign on the country, has eradicated its political rivals, eliminated the autonomy of the courts and the media, restricted religious practices and polices its laws with an iron fist⁵. We are unlikely to see China adopt democracy any time soon, if ever, but that is not stopping significant and growing relations and interdependencies between China and the democratic world.

In the sphere of talent management, the market is global. The 2012 PriceWaterhouseCoopers annual CEO survey⁶ points squarely at talent management being a key obstacle to success:

- 54% said their R&D efforts were hampered by talent shortages
- 45% claimed they missed market opportunities
- 41% attributed below target performance to insufficient quality talent.

China, like every other country, has both a supply and a demand for human talent to lead and implement its initiatives, and a population to produce and consume its goods and services. The talent management challenge is the same in China as everywhere else: how do you source the people with the skills you need, where and when you need them? How do you develop and nurture this asset to optimise its contribution? And how do you retain it in a competitive labour market?

What makes China different is the context in which this story plays out: the political, social, economic and cultural nuances that are signature China. This paper aims to provide multinational corporations expanding their operations in China with some key principles that differentiate talent management in this market from that of their home domiciles. It explores the idiosyncrasies that make China so unique.

2012: YEAR OF THE DRAGON

VITAL
STRONG
PROUD
DECISIVE
POSITIVE

DOGMATIC
EGOTISTICAL
IMPULSIVE
INTIMIDATING
CHALLENGING

The unique Chinese business landscape

Business environment

Multinational corporations have good reason to be bullish about their prospects in China. Whilst China shows no propensity to democratise politically, there are clear signs that the Chinese are cherry-picking capitalist traits that suit them, not the least of which is consumerism. Already the world's largest consumers of LCD televisions, tobacco and personal computers, the current Five Year Plan (2011-2015) has the government clearly focused on building the purchasing power of the Chinese consumer.

Multinational corporations who have suffered many years of disappointing financial performance in China may finally be seeing rewards on the horizon. In its annual member survey, the American Chamber of Commerce found that U.S. based multinationals with operations in China significantly increased their profits from this market in 2010 and were generally optimistic about their future prospects⁷. The shift in global GDP growth toward the east is both staggering and sobering.

For foreigners doing business in China, there remain however significant market differences that can impact success. Despite an Open Door Policy, the Chinese still do business very much on their terms. The Chinese Communist Party (the Party) maintains tight control over institutions, state-owned enterprises (SOEs) and the media, directly through the placement of personnel into senior positions as well as through the daily messaging released by the Propaganda Department. Multinational corporations continue to report that Party-imposed bureaucracy and restrictions act as significant barriers, and affect both the mode of entry of foreign business as well as how effectively it can execute business strategy. Multinationals note that the development of relationships with the Chinese government is a necessary prerequisite to success⁸. In addition to the top five challenges experienced by multinationals in China, listed opposite, business leaders also cite corruption, obtaining licences, non-management level human resources, local protectionism and contract law as key among their concerns⁹.

Despite an
Open Door Policy,
the Chinese still
do business
very much on
their terms





Top 5 Business Challenges

1. Bureaucracy
2. Management level human resource constraints
3. Unclear laws
4. Inconsistent interpretation of regulations
5. IP infringement

China is pushing hard to modernise and optimise its position on the world stage

Source: AMCHAM, 2011

The idiosyncrasies of the Chinese market have caused many multinationals to reassess the implementation of their global strategies there. Nowhere is *glocalisation* (thinking global, acting local) more an agenda item. This is true not only of business strategy, but also human resources strategy. Predictions of the homogenisation of cultures (east with west) have failed to materialise. Despite superficial similarities such as the adoption of western materialism, the underlying values of the east, and China in particular, remain fundamentally divergent¹⁰.

China is pushing hard to modernise and optimise its position on the world stage. In the 30 years since the central planning system of Mao Zedong, an enormous transformation has been under way¹¹:

- SOEs accounted for 80% of China's GDP in 1978 - by 2003 this had dwindled to 25%
- 350,000 joint venture agreements with foreign organisations have been established
- the Labour Law (1994) was established, introducing employment contracts and performance based pay where lifetime employment had previously prevailed.

Opening the business environment to foreign investment has resulted in enormous financial inflows for China, but also western people and practices. While many western business practices get 'lost in the translation', many others are being localised and integrated with the Chinese way.



China has devised the world's most complex and sophisticated system of Internet censorship

The Great FireWall of China

For a government determined to exercise high levels of control over what people see, hear and ultimately believe, there could be nothing more threatening than an uncontrolled, unregulated, ubiquitous and empowering information medium, as is the Internet. The anarchy and political upheaval experienced during 2010/11 in Egypt, Libya, Tunisia, Syria and Yemen, whilst not caused by the Internet, was certainly facilitated and accelerated through the vast social networks and real time flows of information.

This is not lost on the Chinese. In fact China has devised the world's most complex and sophisticated system of Internet censorship. From websites to chat-rooms, emails, blogs and video content, the Chinese government restricts, filters and outright prohibits any online material that may "harm the State's honour". If you think that is a very broad umbrella of possible offending material, you are right, and it is intended to be.

China has nine licensed Internet content providers (ICPs) and numerous ISPs that provide the service connection. Censorship of the Internet is effected by the filtering of information flows at three levels: the router level, through ISPs and ICPs. In order to retain their licences, the ICPs must implement the government's censorship directions: for example, they jointly develop and maintain detailed lists of prohibited keywords and phrases, and target any online forum in which they appear, including corporate websites¹².

However the government should not be considered anti-Internet. The Party uses the Great FireWall to keep western ideas out but also as a mechanism for extensive self and internal promotion. China has an enormous Internet police force, charged with watching and controlling online content, with powers to instantly shut down sites contravening government policies as well as paying bonuses to those that support it¹³.



The government
is keen to show
its citizens that
access to foreign
information is
available

Yahoo!, MicroSoft and Google are well known for their encounters with the Great FireWall and have been scrutinised as much in their U.S. homeland for corporate complicity leading to human rights violations (freedom of speech), as they are in China for providing access to broad content. (After 4 years of operation, Google exited China on 22 March 2010, but it's licence was renewed in July 2010). Despite the difficulties of operating in China, it appears to be in the interests of both the Party and the American ICPs to maintain their presence. The Chinese search engine Baidu had a 79% market share in 2011, providing the government with more than adequate control. The government is keen to show its citizens that access to foreign information is available. Ultimately, the Great FireWall is far from impenetrable, and virtual private networks (VPNs) can navigate most restrictions¹⁴.

How will the story of the Internet in China evolve? Today, those who seek access to the Chinese population through this medium are forced to comply with the restrictive guidelines of the The Chinese Ministry of Industry and Information Technology. And the Internet landscape itself is a work in progress. In January 2012 Twitter heralded a new era of censorship announcing it had the capability to vary content by country, allowing it to comply with specific country regulations.

For MNCs doing business in China, the Great FireWall is just one of many hurdles presented by this unique landscape.

The talent management challenge for MNCs

PARADOX OF SUPPLY

Despite the huge population, demographic and social factors combine to create a shortage of the quality of labour required to meet China's economic expansion. Only 10% of Chinese college students graduate with the requisite skills for roles in MNCs and even the best students frequently fail to make the best employees. The situation is slowly improving: over 200,000 Chinese are now studying abroad, local management education is improving through linkages to international business schools, and MNCs are playing a direct role in the education and development of Chinese locals¹⁵. But demand for talent is accelerating. With MNCs expanding their operations in China and simultaneously seeking to increase the localisation their workforce, there is mounting pressure on supply.

Only 10% of Chinese college students graduate with the requisite skills for roles in MNCs



COMPETITION FOR TALENT

When it comes to attracting the best, MNCs have, in the past, held a competitive advantage over local Chinese firms: prestigious international brands, higher compensation and global career opportunities. Not any more. In a recent survey of 326 MNC executives, the talent market was rated as the third highest business concern for respondents¹⁶. Local private firms and SOEs are all now competing for the same talent. They are matching or exceeding salary packages and many have international operations that offer equally exciting career opportunities. In fact there has been a recent shift of talent back to Chinese organisations. In part, there is a patriotic component to this shift, and many Chinese employees prefer working for Chinese managers. Top local talent is becoming frustrated with the constant need to 'translate for foreigners' – both language and cultural nuances. In fact, cultural differences in business dealings, such as the acceptance of kickbacks, result in many locals feeling they are hamstrung from competing as they would if they worked for Chinese firms. With everyone fishing in the same small pond, the war for talent is on.

EXPATS VERSUS LOCALS

Surveys continue to show a trend for MNCs to reduce their ratio of expatriates to locals in foreign operations over the next five years. Localising management and leadership has become a priority, initially due to the high costs of expatriates, but increasingly because it makes better business sense to have local operators running local operations.

After years of joint ventures, international training and improved local education, the Chinese are becoming better equipped with the skills required by MNCs. Attraction and retention of high calibre Chinese employees also requires that they perceive senior career opportunities. In a global workforce there will always be expatriates, however there is a shift toward rebalancing senior roles to be filled by more local employees¹⁷.

Benefits of locals

- Market knowledge
- External relationships (guan xi)
- Cultural understanding
- Higher morale

Benefits of expats

- Understanding of corporate strategy
- Global consistency
- HQ controls
- Internal relationships

The Chinese are becoming better equipped with the skills required by MNCs

INTEGRATING GLOBAL BEST PRACTICES

Most global organisations adapt their products to suit the needs and tastes of local consumers – you sell more products that way. In China, KFC serves rice porridge for breakfast and Peking Duck burgers for lunch, Starbucks has introduced a range of green and aromatic teas, and Coca-Cola produces carbonated fruit drinks.

Similarly, western business practices do not necessarily translate directly into eastern cultures – some do, some can be adapted, and some fail completely. China has come a long way in a very short time: economically, politically and culturally. Where western organisations have had the past twenty years to evolve the personnel function into strategic human capital management, China aims for the same transition in five years. The challenge for leaders, managers and human resources professionals is to work out how to combine western practices that will benefit business, with the needs and tastes of the Chinese talent market. It has been described as akin “more to a salad than a soup – not just blending all the ingredients, rather mixing them such that that each can still be appreciated”¹⁸.





Confucius (551 - 479 BCE)

Confucian Values

- Order
- Loyalty
- Morality
- Obedience
- Compassion
- Self discipline

Six factors influencing talent management in China

1 Confucianism

His philosophies are over 2,500 years old but remain at the heart of the Chinese national culture. Confucius was a thinker and political leader of his time and established a doctrine that guided Chinese social and political life. Its essence was that order, obedience and compassion led to harmony and peaceful relations for the good of all.

At the centre of Confucianism is the importance of relationships, including clear hierarchies: 'the king is king, the minister is minister, the father is father and the son is son'. This hierarchy underpins order in society and establishes a fundamental respect for authority. It also reinforces clear and distinct role definitions.

The nature of the relationship hierarchy in China is described by Hofstede's cultural dimension of power distance. Power distance is defined as "the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally"¹⁹. China is a high power distance culture in which the younger, junior and inexperienced defer to the greater wisdom and authority of their seniors.

Another key tenet of Confucianism is jun zi (gentle man) and relates to the way in which relationships should be approached. Here, the philosophy teaches the importance of kindness and benevolence, and the desirability of being humble and patient.

Confucius also taught the crucial necessity for patriotism and the virtue of placing the needs of the State ahead of personal needs.

These values have become deeply entrenched in the Chinese psyche over many generations and manifest themselves in the collectivist approach favoured by the Chinese. Many of these values are not consistent with the western values of individuality, independence, equality and freedom and can easily lead to misunderstandings.

These underlying Confucian values can also be at odds with multinational organisational practices that are based on western approaches.

Impact of Confucianism on talent management

- Individual achievement can be viewed as elitist and creating disharmony amongst the group
- Leadership approaches tend to be 'low key' and inconspicuous compared to the 'courageous and decisive' preferences of western leaders
- Empowering employees at all levels contravenes the respect for hierarchy and brings disorder and confusion

2 The 'Iron Rice Bowl' legacy

Multinational corporations rate amongst their biggest management challenges the iron rice bowl mindset on many Chinese workers. This refers to a 'cradle to grave' 'job for life' mentality that emanates from historical Chinese social structures that became entrenched during Mao Zedong's rule (1949-1978).

To understand this mindset, one must understand its origins in the danwei (work community) that has been integral to Chinese life until very recently. The Communist Party controlled all aspects of life by establishing mini societies (sometimes contained within walls) that centred around the community's employer, a state owned enterprise. The danwei provided not only the work environment, but everything for the employed community, including communal facilities, housing, schools, healthcare, transportation and utilities. Run by powerful political leaders that consistently reinforced the party's doctrines, the danwei were closed communities whose occupants were totally dependent on their leaders to distribute resources. Allocations were heavily politically influenced, so the need to build good relations with political powerbrokers became a survival mechanism. As the danwei consistently produced the same output, high performance had no value, and on the contrary, was viewed with scepticism and disdain.

The danwei structure became inefficient and cumbersome, and with no incentive to improve, no innovation resulted. The talents of individuals were not differentiated or recognised. Collective leadership required a consensus approach to all decisions, which meant they were always protracted and often influenced by the personal agendas of the influential.

Like many aspects of the Chinese transformation, the danwei have been dismantled but the deep-seated values, in part, remain. The iron rice bowl has come to represent the attributes of employees who have an entitlement mentality, typically without the high performance standards to match their expectations. Today, the 'Iron Rice Bowl' syndrome is a mindset legacy associated with expectations of job security irrespective of job performance and has become "a symbol for deficiency, laziness and unwillingness to change"²⁰.

For expatriate leaders in the Chinese market, the challenge is to inspire employees to accept accountability, drive innovation and strive for performance excellence.



Iron Rice Bowl

Danwei

Work communities established during the old Communist regime that controlled Chinese livelihoods from 'cradle to grave'.

The resulting traits were:

Dependence

Conformity

Stability

Political power

Impact of the 'iron rice bowl' on talent management

- Good teamwork within intact teams (a connected social unit), however poor cross-team collaboration
- High respect for authority and expectation to be given clear directives and supervision
- High scepticism and low flexibility toward change
- Low levels of innovation
- Peer pressure to not out-perform the group – individual achievement frowned upon
- Low willingness to take on leadership roles or accountability for tasks or projects



Mian zi

Saving face in China is a critical element to building and maintaining relationships.

A loss of face compromises an individual's pride and honour and is extremely difficult to restore.

3 Mian zi - saving face

Nobody likes to feel embarrassed or belittled in public, however when it comes to maintaining your self esteem in such an event, westerners appear to have a much thicker skin than their eastern counterparts.

In Chinese society, maintaining self respect and personal reputation are among the deepest drivers of behavior. To protect the reputation and standing of others extends this value of mian zi beyond the individual and across all of society.

Face can be lost, saved or given and warrants due consideration by westerners due to the substantial effects it can have on social and professional relationships.

The consequences of losing face in China may appear extreme to westerners, but are a cultural reality. Relationships can be discontinued, employees resign. A Chinese individual's pride and honour is deeply rooted in maintaining face, and losing face can be an irretrievable position for most.

Losing face

- Direct confrontation
- Losing your temper
- Humiliation or embarrassment
- Failing to show respect
- Criticising or challenging

Saving face

- Avoid causing shame or dishonour
- Suppress opinions that would cause loss of face
- Maintain an even tone if angry
- Show respect

Giving face

- Acknowledge social status
- Show appreciation
- Recognise prestige
- Give public praise
- Give high ratings on evaluation forms
- Give expensive gifts

western expatriate leaders must be sensitive to mian zi in their approach to leading their Chinese teams. Harsh criticism, public reprimands, sarcasm and even some forms of humour²¹ can have a dire (albeit unintended) impact on employees.

As a consequence, it is customary in China to avoid being very direct. Communication, especially if it holds any negative content, may be inferred, watered-down or avoided altogether. To the Chinese, it is worse to offend through direct confrontation than not to address an issue at all – even at the expense of sub-standard performance.

Impact of Mian zi on talent management

- Negative performance feedback given directly is a loss of face, and therefore typically avoided
- Care must be taken, especially in group scenarios, to avoid challenges or confrontations
- To save the face of others, the clear truth may be compromised in favour of a face-saving alternative
- The need for open recognition is high, however this must be tempered with acknowledgement of the group, not just an individual (see the Doctrine of the Mean)

4 The Doctrine of the Mean

China is a collectivist culture. Unlike individualist cultures in which personal achievement and individual distinction are valued, collectivist cultures value consensus, team harmony, and group achievement.

The Doctrine of the Mean emanates from Confucian philosophy and emphasises the need to avoid extremes (zhong yong) and to exercise moderation. By taking the middle ground, Confucius taught that one would gain a holistic perspective and see all aspects of an issue.

Exercising this philosophy at an individual level also ensured that one would not stand out in the crowd – which could be dangerous or overly exposing. Given that much of the Chinese social structure was based on fear and punishment, operating ‘below the radar’ or keeping a low profile were seen as an effective means of self-preservation.

Although this mindset is also beginning to show signs of modernisation, its historical grip on the culture remains, and most Chinese appear, at least on the surface, more humble, conciliatory and low key than their western counterparts. Unlike westerners, the Chinese prefer not to take a strong position – right or wrong, black or white, yes or no – instead, they desist to balancing in the middle.

In the workplace, the doctrine of the mean still manifests itself in several ways:

GROUP ORIENTATION

Employees prefer the relative safety of the group and strive to be an ‘in-group’ member. Chinese employees fear making mistakes or being exposed. Social acceptance means that individual ideals are often subverted to conform to group norms.

PERFORMANCE BENCHMARKS

Individual achievement can be perceived as being against the good of the group. In this sense, high performers that ‘stand out’ or exceed the mean can be seen as disrupting group harmony for personal benefit, which fundamentally undermines this Confucian principle. High performers that are singled out for recognition and reward have been known to reject this praise, or even subsequently underperform in order to ‘right the wrong’.

LEADERSHIP APPROACHES

Chinese leaders seek team harmony. In their effort to achieve this end, they can appear (by western standards) to be focused more on process than outcome, and delay decisions unnecessarily. Chinese leadership has historically been highly paternalistic – employees expect their leaders to protect their welfare and to socialise with them outside the workplace.



The Doctrine of the Mean

Moderation

Avoid extremes

Maintain equilibrium

Group conformity

Impact of the Doctrine of the Mean on talent management

- Group-think may limit the expression of individual ideas and innovation
- High performers may be ostracised by the group or lower their performance to conform to group norms
- Individuals may resist taking on responsibilities that set them apart from the group
- Lack of commitment to a single course of action may be deemed indecisive or procrastinating



Guan xi

Long term relationships for mutual benefit characterised by being:
Personal
Reciprocal
Long term

5 Guan xi – relationships

Deeply rooted in Confucian culture is the concept of guan xi, the development and maintenance of deep relationships that are nurtured over a long period of time, with mutual benefits to both parties.

Western professional networks are not the same. Westerners easily build relationships that may be work or function specific, in which there are no real obligations and that can begin and end quickly, as the need arises. Guan xi is a personal relationship, not one with an organisation, that is based on the agreement that there will be reciprocated personal favours, that incur interpersonal obligations, and that are built for the long term, not a single trade²². Guan xi has been described as “a mutual web of interdependence” and “the oil that keeps China running” – essential to getting anything done²³.

Historically it was essential to develop guan xi, especially with those that could access and distribute the resources people needed. Those who developed effective guan xi networks got better access to scarce resources, such as bricks, plaster and power equipment, as well as access to information.

For westerners, there is a somewhat dark side to guan xi. Due to its emphasis on personal relationships and reciprocating favours, there is real potential for abuse, such as nepotism in the hiring process or favouritism in the selection of trading partners. Guan xi at the extreme has been associated with bribery and corruption. It can be very challenging to have a level playing field in such an environment.

Changes to Chinese Government policies are driving a more ‘open’ business environment. However guan xi is a fundamental component of Chinese culture and upbringing, and cannot be underestimated.

If anything, increasing competition in both the local and global markets is placing greater importance on guan xi. Until recently, multinational corporations were required to enter the Chinese market via joint ventures with local companies. The MNCs would frequently leverage their Chinese partners’ ability to maintain the guan xi relationships necessary to gain the licences, resources and approvals required to execute business. Now, with wholly foreign owned enterprises (WFOEs) becoming more prevalent, foreigners are finding it necessary to build their own guan xi networks.

MNCs must tread warily with this unique facet of Chinese culture. Recently the Government has tightened the Foreign Corrupt Practices Act (FCPA), which severely punishes MNCs engaging in corrupt activities, and there have been several high profile cases exemplifying the hazards (25 companies and 50 individuals have been charged since 2009)²⁴.

There are suggestions that with the increasing reach of the Internet, market liberalisation and better know-how on the part of MNCs in understanding and developing guan xi, it’s importance may decline over time²⁵. Notwithstanding, in the current multi-generational workforce, this Chinese value still plays an essential part.

Impact of guan xi on talent management

- Chinese employees value relationships above tasks
- The reciprocity and obligations associated with guan xi may influence the objectivity of hiring decisions, performance evaluations and promotion recommendations
- Inability to develop effective guan xi networks may negatively impact performance, especially of employees engaged in sales, negotiation or lobbying roles.

6 Holistic mindset

The Chinese behave differently to westerners in their approach and business practices because they think differently. Westerners are taught to think in linear sequences – cause and effect, action and reaction. From childhood they are raised with numbers and letters and taught reason and logic, method and planning. They solve problems by isolating the issue, reducing it to components that can be analysed and understood, and finding the most direct paths to its resolution.

This is fundamentally different to the eastern approach, which considers the whole rather than the parts. Chinese children learn a pictorial alphabet and the importance of situational context. Therefore the Chinese tend to take a very broad perspective, understand and evaluate a problem on many dimensions, and come to a balanced and thoughtful conclusion.

The Chinese believe holistic thinking to be a distinctly Chinese trait, and one that cannot be developed by westerners. It is believed to be a Chinese inheritance, based on centuries of deep and philosophical thought. Indeed, it is at the heart of Chinese wisdom²⁶.

This preference for holistic thinking is important to understand because it is essentially subconscious and manifests itself in differing approaches to communication, leadership and problem solving. For an expatriate leader for example, failure to recognise this trait of the Chinese may lead to frustration and impatience. Conversely, Chinese employees may perceive their expatriate leader to make hasty decisions that should be given more or deeper consideration. The problem lies in the potential communication ‘disconnect’ between eastern and western employees resulting from this differing approach.

In the business world, failure to take the ‘big picture’ approach can come at a cost. For example, many MNCs follow a principle of product profitability and are not prepared to undertake a transaction at a loss. Local competitors are likely to think more holistically: a short term loss may be viewed as a longer term opportunity to establish a client relationship and recoup profits on future transactions.

The holistic mindset also highlights the differing relationship we have with time. Westerners see time as limited, precious and a resource not to be wasted. Therefore they value efficiency and the most direct path to an outcome. Chinese see time on a broader continuum and do not espouse the same sense of urgency as westerners.



Holistic Mindset

Holistic thinking

Deep insight

Broad perspective

Long term focus

Wisdom

Impact of the holistic mindset on talent management

- **Communication:** Chinese employees and their western colleagues or managers may be on ‘different wavelengths’ and find it challenging to communicate effectively.
- **Problem solving:** clashing approaches to problem solving (efficient, focused, linear v considered and holistic) can create disharmony, frustration and lack of confidence in the resolution.
- **Negotiation:** a holistic mindset can change negotiating parameters and lead to gains or losses in new business acquisition.
- **Leadership:** Chinese and western leaders use very different leadership styles and this will impact their employees. While neither style is necessarily more correct, the western style will be unfamiliar and challenging for Chinese employees, requiring adaptation.

Strategy Execution

Ensuring business performance, profitable growth and competitive value propositions.

Effective talent management aligns the human capital required to execute global and local business strategies in the present and the future.

Critical business issues and talent management in China

Effective strategy execution

The proof is in the delivery. Immaculately crafted global business strategies are worthless if they cannot be executed effectively. The role of leaders in China, as elsewhere, is critical to successful strategy execution. Difficulties can be caused by:

- having the wrong Chinese partners or failing to work effectively with the right partners
- having a short term focus and overly aggressive delivery timelines
- placing the wrong leaders or team of leaders at the helm
- failing to be flexible, negotiable and patient

Adapting to local Chinese conditions to achieve effective strategy execution is highlighted in this case study²⁷:

UPS China

Atlanta, Georgia US-based United Parcel Service (UPS) established operations in China in 1988. Initially a joint venture with Sinotrans, UPS was finally granted rights to become a wholly foreign owned enterprise (WFOE) in 2005. In order to deliver a global strategy, UPS combined its corporate values with local know-how and identified 5 obstacles and 5 facilitators of business success.

By understanding these obstacles and facilitators, UPS management was able to develop initiatives to minimise success inhibitors while capitalising on facilitators. These factors were included in employee induction, training, leadership development and expatriate assimilation programs and proved to be both effective and sustainable.

OBSTACLES

Cultural multiplicity
Relationship v task orientation
Time concept
Business style
Language use

FACILITATORS

Pragmatism
Gender equality
English
American pop culture
'Big country' mentality

TIPS FOR STRATEGY EXECUTION IN CHINA

1. Understand the market

MNC leaders need to understand the unique attributes of Chinese customers, market structures (including SOEs and private Chinese firms) and government policy. Astute leaders will combine commercial savvy with cultural sensitivity to execute strategy effectively.

2. Respect the culture

Relationships matter. Trust and respect matter. The whole is greater than the sum of the parts. Consider guan xi, mian zi and holistic thinking in your dealings with and expectations of others.

3. Globalise talent management practices

Force-fitting global best practices without tailoring to local preferences lacks an international mindset and is more than likely doomed to fail. Take a marketing based approach and meet the needs of the local customer.

Business intelligence through workforce analytics

Human resources is among the most data-rich and information-poor functions of any business. Most organisations have invested and support multiple disparate information systems to capture the volumes of data collected on their workforce at each stage of the employee lifecycle. These range from bulky and restrictive ERP and HRIS systems to a cocktail of point solutions for specific tasks, such as recruitment or performance management, to basic Excel spreadsheets. And very few of them can truly integrate their data to produce meaningful information that provide any future insights.

Predictive workforce analytics are a must for any large organisation. For multinationals needing to resource their operations across numerous geographies, jurisdictions and cultures, it becomes a critical tool. Companies advanced in the use of these technologies have successfully connected HR measures with corporate performance, as highlighted below²⁸:

Best in class organisations have mastered the use of sophisticated business intelligence systems to guide critical business functions from finance to marketing to distribution and logistics. More recently, human resources, the single biggest cost to most organisations, has seen the advent of workforce analytics technologies to guide decision-making in the talent management arena.

Harrah's Entertainment has utilised business analytics for many years to manage customer profitability, and more recently expanded this to provide insights into its workforce. Harrah measures the bottom line impact of employee engagement and health programs.



Best Buy has developed sophisticated analytics that have been able to correlate each 0.1% increase in employee satisfaction with a \$100,000 per annum increase in store operating income.



AT&T and Google have utilised workforce analytics to identify the best predictors for high performance as well as the best sources of talent.



Business Intelligence

Meaningful, accurate and timely information that informs strategic decision-making and provides competitive advantage.

Effective talent management utilises human capital data to develop predictive analytics that forecast talent risks and opportunities.

TIPS FOR USING WORKFORCE ANALYTICS

1. Upgrade to a unified talent management system

Most organisations are burdened by legacy systems acquired over years that have become expensive and inefficient. The advent of Cloud technologies, SaaS and PaaS solutions remove the dependence on self-hosted and proprietary systems. Unified talent management systems provide a distinct advantage over integrated ones in collecting and collating business metrics.

2. Create business (not HR) metrics

When HR measures such as time to fill vacancies, performance ratings, engagement scores and talent bench strength begin to predict business outcomes such as employee productivity, revenue growth, customer satisfaction and return on investment, workforce analytics will have created real business intelligence.

Global Talent Pipeline

Global supply and demand for labour is unevenly distributed and shifting demographics, social and educational factors are crystallising a worldwide shortage of critical skills.

Effective talent management ensures a rich pipeline of technical, managerial and leadership skills to ensure business continuity, including strategies to reduce time to productivity and accelerate high potential.

Filling the global talent pipeline

In manufacturing, an inadequate pipeline of raw materials stops production. In sales, an inadequate pipeline of new business dries up revenues. In finance, an inadequate funding pipeline stops business investment. In HR management, an inadequate pipeline of talent can result in all of the above.

Human capital has been viewed as a more expendable asset than say, financial or operational assets. The ratio of workers to jobs has always been in the employer's favour. That has changed. While there is no shortage of people on the planet, there is a distinct shortage of critical skills, in every industry, in every country. Building a solid talent pipeline has become a strategic business issue, with many companies already reporting that failure to source and retain the right skills has led to project delays, loss of business and significant opportunity cost. MNCs are rethinking their resourcing requirements and becoming much more proactive in talent pipelining. The organic supply of talent is too thin and too slow, so MNCs are introducing their own initiatives. Here is one example:²⁹

NOVARTIS

The market for pharmaceutical R&D professionals (biological and chemical scientists) is truly global and the establishment of a Chinese R&D operation in partnership with state-owned Shanghai Institute Materia Medica in 2001 created a new set of talent management challenges for Novartis.

The pipeline for the best and brightest research scientists drew on two main sources: U.S.-educated Chinese nationals returning to China, and local science graduates from the best Chinese schools. In the case of returning nationals, their demand for US compensation packages and western schooling for their children caused significant internal inequities.

Meanwhile local talented science graduates were more cost effective, but created serious retention issues after 12-18 months, when their world-class training at Novartis made them highly attractive to competitors.

In response, Novartis combined a strategy of sourcing graduates from second-tier cities where fewer competitors were based, entering into sponsored part-time further education programs with Beijing University, and introducing pay parity for local research staff. After one year, turnover had decreased by 3% and further initiatives are constantly being reviewed to maintain an attractive employee value proposition.

TIPS FOR BUILDING A TALENT PIPELINE

1. Align the talent pipeline with business strategy

There is no mystery to effective talent pipelining for your organisation – it is written in the business plan. Human capital requirements are clearly drawn from the future structure and goals of the business.

2. Think globally – your talent does

Attracting new talent and retaining what you have is driven by the employee value proposition you create. It must match or exceed that of your competition, and for most young talent, that includes rich learning experiences and global opportunities.

3. Don't wait – be proactive

There is no pipeline if talent sourcing only occurs when the need has already arisen. Workforce planning is about forecasting needs, and pipelines can be actively built to match these forecasts.

Transferring knowledge

The success of any organisation hinges on its ability to collate and channel information developed and learned over time, and use it where and when it is required. For MNCs in China, this is further impacted by headquarter and subsidiary relations, and the ability for critical corporate knowledge to flow effectively between them.

Studies of MNCs in China show that knowledge contributed by the parent to the Chinese subsidiary is impacted by the parent's capacity and willingness to transfer knowledge. Further, the success of the transfer also relies on the Chinese subsidiary's capacity and intent to acquire the knowledge³⁰. Whether or not effective knowledge transfer occurs then is dependent on communication and cultural factors that could both support and hinder success.

Parent companies from different countries have a varied need for operational control: for example a study of German and Australian MNCs showed considerably more decision-making latitude and local accountability was provided by Australian MNCs than their German counterparts. Another study highlights that the greater the cultural distance between the MNC and its Chinese subsidiary, the more difficult the knowledge transfer³¹.

Given the increasing need for MNCs to localise their operations, the importance of effective knowledge transfer is paramount. MNCs such as Solvay (case study below)³² highlight the need for proactive expatriate management as part of the knowledge transfer process.



Solvay Pharmaceuticals

With a program of over 300 expatriates on global assignment at any one time, Solvay has a global talent program with three objectives: (1) transfer technical expertise (typically between engineers); (2) transfer corporate knowledge and culture and maintain HQ control; and (3) development opportunities for high potentials.

Solvay tailors expatriate management to both the individual and the country to which they are assigned to ensure that knowledge transfer and expatriate assimilation and job performance is optimised.

Knowledge Capital

Knowledge capture, storage and transfer enable continuous improvement and best practice development, leverage corporate memory and minimise brain drain.

Effective talent management facilitates the transfer of business critical knowledge and best practices across generations, geographies and cultures.

TIPS FOR EFFECTIVE KNOWLEDGE TRANSFER

1. Establish appropriate protocols

The decision-making authority and level of direct parent intervention in local issues will vary and requires clear guidelines to overcome confusion and resistance.

2. Support knowledge transfer with appropriate resources

People, training and technology are required to support effective knowledge transfer. Cultural values and leadership commitment to information sharing and global collaboration provide the necessary environment for effective knowledge flows.

Candidates are seeking:

- Jobs that offer fast progression
- Flexibility
- Stimulating and challenging work
- High status organisations
- Community-minded employers

Strategies MNCs employ:

Sourcing:

- Job fairs for non-professionals
- Job boards and newspapers for professionals
- Head-hunters for management and senior technical roles

Selection:

- Interviews
- Reference checks

Onboarding

Optimising human capital management in China

Talent acquisition

Acquiring the right talent to resource the operations of multinational corporations in China is a key human resources challenge.

While collectivist cultures prefer loyalty over the western focus on competencies, a recent study of MNCs human resources practices in China showed that whilst some nepotism still prevails, the predominant focus of the recruitment process is on transparent and objective practices driven by the job requirements³³.

Specifically, employers:

- refrain from recruiting relatives
- use job-based selection criteria
- integrate career development, and
- provide interview training to hiring managers.

Recruitment appears to be one of the less culturally-sensitive HR functions, and many MNCs apply their global systems and processes to this task. However selection practices popular in the west, such as assessment centers and psychometric evaluation are less universally adopted.

Chinese private companies and SOEs apply significantly less rigor in the selection process and prefer to recruit relatives and acquaintances.

JOB HOPPING

The competition for top talent in China is de-stabilising the market and creating a culture of job hopping. Local private firms and SOEs struggled in the past to attract the best away from the MNCs, who were clear employers of choice. This scenario is changing rapidly – in favour of the locals.

An annual study conducted by The Corporate Executive Board shows that in 2010, while 44% of highly skilled Chinese professionals preferred a role in a global MNC, 28% preferred to work for local companies. When the survey was conducted 3 years earlier, the respective figures were 41% and 9% - this means the gap has closed from 32% to 16% preference for MNCs over locals – MNCs are losing their employer competitive advantage³⁴.

MNCs need to take stock of their future talent needs based on their business plans in China and think laterally about sourcing this talent. The focus must be on employee value propositions that provide competitive differentiation from other market players.



Performance Management

Striving for high performance is a relatively new phenomenon in China, driven by the opening of trade borders and the need to be internationally competitive. Whilst most Chinese recognise and accept the need for high performance and performance management, leaders must tread carefully in this domain due to its potential for offending cultural factors:

CONFUCIANISM

Employees expect to be given directives and specific job tasks, not to participate in or drive their creation. An employee asked to 'establish their own goals' may be suspicious and confused and passively avoid the task for fear of getting it wrong.

THE 'IRON RICE BOWL'

China is changing, but there is still an element of job security and paternalistic care expected by some Chinese employees. This means the value placed on performance by the employee may vary from that expected by a foreign leader.

MIAN ZI

Many employees will neither expect nor seek feedback – this is one way to avoid losing face in the event of a negative assessment. To save the face of their employees, many Chinese managers will also rate their employees higher than their performance would warrant³⁵. Many Chinese employees see the appraisal process as merely administrative, as the 'real' performance expectations and feedback are unlikely to be discussed or documented.

THE DOCTRINE OF THE MEAN

High performers stand out – a contravention of this Confucian doctrine. Colleagues may view this with suspicion and jealousy and shun this employee for failing to be a team player.

One aspect that considerably increases the effectiveness of performance management in China is perceived procedural fairness. In a study comparing high and low power distance cultures, Chinese employees and managers perceived standardised performance appraisals to be fairer than their Norwegian counterparts. This was attributed to the profound economic and political change occurring in China (making a structured process that is uniformly implemented certain and appealing) as well as the high power distance (yielding higher respect for authority)³⁶.

MNCs in China have the added complexity of needing to evaluate the performance of both locals and expatriates, the latter mostly occupying leadership roles. Whilst the appraisal of locals' performance can be directly related to job outcomes, there are numerous confounding factors that can impact the performance of an expatriate. Models suggest that in addition to job related KPIs, expatriate evaluation should be contextualised to include³⁷:

- the political environment
- economic factors
- socio-cultural aspects and
- the stage of internationalisation of the MNC.

Employees are seeking:

- Clarity and direction
- Procedural fairness
- Team goals and rewards

Strategies MNCs employ:

- Participative goal setting
- Focus on reward, not punishment
- Reduced power distance gap
- Two way communication
- Access to a grievance process
- Development focus
- No favouritism

Becoming more popular:

- Balanced scorecard measures
 - Management by objectives (MBO)
 - Competency frameworks
 - Linking pay to performance
-

Employees are seeking:

- Pay parity between expatriates and locals

Strategies MNCs employ:

- Job grading
 - Competitive benchmarking
 - Performance based salary reviews and bonuses
 - Individual and collective rewards
 - Material incentives
 - Stock options
-

Compensation

The introduction of the Labour Law in 1994 brought fundamental change to the psychological contract between Chinese employers and their employees. The law heralded a new open labour market, the principle reforms of which were³⁸:

- Labour contracts defining fixed and variable employment durations and extinguishing the right to a job for life;
- Performance based pay, allowing remuneration to be differentiated by job performance rather than hierarchy or relationships; and
- Contributory welfare in place of fully state funded housing, healthcare and education services.

The phenomenal growth of Chinese industries and the expansion of MNCs has driven a competitive market for labour, with senior technical, managerial and leadership skills in short supply. MNCs are importing global remuneration and benefits approaches to compete for top talent.

WAGE INFLATION

There are market factors pushing up the cost of senior technical and managerial labour – a shortage of supply and high competition. But in addition, policies of the Chinese government are also spiking the cost of labour, even at lower skill levels. With local consumption earmarked as the main source of economic growth in the next five years, government is driving income growth for workers to equip them to consume vast volumes of products and services. In 2010, the minimum wage in Beijing increased by 45%³⁹.

Wage inflation is already eroding China's previous position as a cheap source of labour and corporations are looking and moving elsewhere to reduce the cost of manufacturing and distributing products. Compensation of both locals and expatriates will continue to be an emerging challenge as China's economy develops.



Leadership and High Potential Development

The problem has been identified and the solution cannot come fast enough: China needs more leaders, with better skills and experience, yesterday.

It is both a quantity and quality issue, and stems from the loss of a generation of Chinese leaders to the Cultural Revolution of the 1960's. During this time the political agenda drove the youth of the day back out to plough the fields, stunting their education and experience in an urban environment. China's One Child policy has exacerbated the problem by restricting the size of the current generation. Today, Chinese employees are on average 10 years younger than their western counterparts, and 10 years less experienced¹⁴.

The new generation of Chinese employees are hungry for development and will work hard to augment their skills. When employee performance is appraised with a focus on development, Chinese employees yield positive reactions and increase their satisfaction ratings⁴⁰.

Chinese organisations and MNCs alike are increasing their budgets for leadership development. In its annual Global Leadership Forecast 2011, DDI Corporation noted that the Chinese leader of the future would require a significantly different skill-set⁴¹:

Critical Leadership Skills (PAST 3 YEARS)

- Making difficult decisions
- Coaching and developing others
- Building customer satisfaction and loyalty

Critical Leadership Skills (NEXT 3 YEARS)

- Driving and managing change
- Fostering creativity and innovation
- Identifying and developing future talent

This survey highlighted that only 25% of leaders and 15% of HR professionals believed that the quality of Chinese leadership was high. Only 56% of leaders claimed to be skilled at driving change and fostering innovation.

Studies of the prevailing leadership styles in China (based on the Life Styles Inventory - LSI⁴²) highlight predominance for approval and avoidance (passive defensive traits) as well as power and competitiveness (aggressive defensive traits)⁴³.

China's leaders are also challenged to integrate best practices in leadership with the country's cultural norms and values.

Future Leaders are seeking:

- Fast track development opportunities
- International training, education and development
- Experiential learning

Strategies MNCs employ:

- Formal workshops
- Leadership coaching
- Cross functional secondments
- International assignments

Employees are seeking:

- Regular training
- Continuous education
- On-the-job learning
- Mentoring

Strategies MNCs employ:

- Dedicated training budgets
 - Corporate universities
 - Collaborative curriculum development with local universities
-

Training and Development

Training is a critical element of talent management in China – employers need to elevate the skills of their workforce and employees are keen to learn.

MNCs use training as a lever to engage and develop employees. Training in MNCs is typically more systematic than in Chinese firms and is designed to develop individual competencies. The approach taken by MNCs to training emphasises a coaching style, compared to Chinese firms who apply a traditional teacher/instructor style⁴⁴.

In a recent Asian study, training has also been identified as a key determinant of employee retention. In conjunction with size of organisation, length of operation and industry, organisations providing more training suffered lower levels of turnover⁴⁵.

MNC's are making tangible contributions to the training and development of Chinese locals. For example:

- Motorola Corporation dedicates 3% of revenue and 40 hours per annum per employee for training, and has established Motorola University in Beijing to provide training and education in professional disciplines for its employees, partners, suppliers and distributors⁴⁶.
- In 2009, Accenture invested US\$800 million in training and professional development and 67 hours per annum per employee⁴⁷.
- IBM founded the China Development Lab (CDL) in 1999 as a major educational initiative to develop its employees in Beijing, Shanghai and Taipei.
- Other MNCs, such as Coca-Cola are providing sponsorships to U.S. based universities to advance Chinese studies for Americans⁴⁸.

The China Europe International Business School (CEIBS), founded in 1994 is regarded as one of the top business schools in Asia and provides MBA programmes through physical and virtual campuses in China. Further, many MNCs invest heavily in cross-cultural learning and communication programs including induction, management and leadership development.

The Chinese place great value on learning and further education. Their need to learn is matched by their motivation to pursue learning and MNCs are well placed to contribute to the broader China learning agenda. From a talent management perspective, this is also a pivotal factor in both the attraction and retention of high potential employees.



Promotion and Succession Management

The ability of any organisation to replenish its capabilities and align them to future business strategy is a function of its human capital pipeline. The DDI study quoted earlier also highlighted that the weakest area of talent management in China is succession management. Only 16% of respondents claimed their organisation had good bench strength, 30% have a formal process for identifying high potential talent, and 32% have formal development programs for high potentials.

Succession is a large and looming issue in China, more so for the private firms, many of whom are family-run businesses that look to succession from within. In a recent poll of private company owners in Guangdong province, 62% of respondents said they hoped family members would succeed them to run the business, but 51% of these thought this would be unlikely⁴⁹.



For MNCs the challenge of leadership succession increasingly forces the debate between expats and locals. With several years of leadership development now behind them, more Chinese managers are becoming ready for senior leadership roles. It is important to these emerging leaders that senior management and executive opportunities are made available, as the expatriate stronghold over these positions in the past has created a perception of a 'glass ceiling' restricting the promotion of locals.

The Confucian respect for hierarchy is most evident at the leadership level and organisations need to ensure that both the 'hard' and 'soft' attributes of leaders are adequately developed. For example, leaders are expected to take a personal interest and caring responsibility for the welfare of their employees. Respect for the hierarchy has also shown that age matters, especially in the acceptance of expatriates into leadership roles. One study has shown a positive relationship between older age and the performance of expatriates in China, highlighting the cultural value the Chinese place on age⁵⁰.

Over the next five years, the leadership landscape in the Chinese operations of MNCs will almost certainly rebalance with a greater emphasis on local incumbents. MNCs will continue to develop the skills of these local leaders to ensure the success of their operations.

Future Leaders are seeking:

- Transparent succession opportunities
- No glass ceiling of expats
- Leadership development

Strategies MNCs employ:

- Identification of leadership talent
 - Tailored development programs
 - 'Reverse' expatriation (from Chinese subsidiary to MNC parent)
 - Peer mentoring
-

In closing

So much has changed and continues to change. But China remains distinctively Chinese. No-one debates that China will grow, continuously and at times, exponentially. The question for MNCs is how to grow profitably with and in China.

One answer will lie in their ability to channel the talents of their human capital. China is transitioning from an era when labour was dispensable and the needs of individuals were submerged below that of the collective. With the steady introduction of westerners into the more open and modern China, values are beginning to shift.

MNCs are well placed to glocalise their operations with a best of breed approach to introducing their global best practices and aligning them with local culture, needs and tastes. That said, there is much work to be done before global businesses can claim to have succeeded. By understanding the people and culture in China, MNCs can increase their likelihood of tapping the potential of this enormous and exciting market.

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