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Michelle Atkinson

Cornell University, ma467@cornell.edu

Ann M. Kubricky

Cornell University

Nathan J. Sheranian

Cornell University

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Navigating the Labor Market in China: Enhancing Expatriate Effectiveness

Abstract

[Excerpt] As business continues to grow in China, employers there struggle to find locals who possess the needed knowledge, skills, and abilities to meet the talent demands of the market. Many multinational corporations fill requisitions with candidates from outside of their local region or even from outside China. Since expatriate assignments are extremely costly, employers actively seek cost-effective expatriate compensation options. The local-plus-pay approach in China is popular but remains a work-in-progress. In addition to lower-cost compensation and benefit plans, employers are searching for increased return on expatriate investment. In fact, 10 to 20 percent of all U.S. managers sent abroad returned early because of job dissatisfaction or difficulties in adjusting to a foreign country. Of those who stayed for the duration, nearly one-third performed below satisfaction. Most alarming, one-fourth of repatriated employees joined a competitor within one year of returning to their home country. This paper discusses the complexities HR professionals face in China including attracting top talent into an organization—with a focus on expatriates—and in managing an organization uniquely situated in a high-growth environment. It further highlights successful best practices to thrive in such circumstances.

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CORNELL HR REVIEW

Navigating the Labor Market in China: Enhancing Expatriate Effectiveness

Michelle Atkinson, Ann M. Kubricky, & Nathan J. Sheranian

As business continues to grow in China, employers there struggle to find locals who possess the needed knowledge, skills, and abilities to meet the talent demands of the market. Many multinational corporations fill requisitions with candidates from outside of their local region or even from outside China. Since expatriate assignments are extremely costly, employers actively seek cost-effective expatriate compensation options.¹ The local-plus-pay approach in China is popular but remains a work-in-progress.² In addition to lower-cost compensation and benefit plans, employers are searching for increased return on expatriate investment. In fact, 10 to 20 percent of all U.S. managers sent abroad returned early because of job dissatisfaction or difficulties in adjusting to a foreign country. Of those who stayed for the duration, nearly one-third performed below satisfaction. Most alarming, one-fourth of repatriated employees joined a competitor within one year of returning to their home country.³

This paper discusses the complexities HR professionals face in China including attracting top talent into an organization—with a focus on expatriates—and in managing an organization uniquely situated in a high-growth environment. It further highlights successful best practices to thrive in such circumstances.

Attracting & Retaining Top Local Talent

To stay competitive in a complex labor market such as that in China, firms must employ several strategies to attract and retain top local talent. For example, employers should have clearly defined career development programs for local hires. To be most effective, each employee should have an individual development plan designed to help him or her meet personal and organizational goals, with frequent feedback loops.⁴ As part of a program, firms should consider assigning local talent in China on overseas assignments. Although costly, overseas assignments in China are viewed as an effective tool for employee development and retention.⁵

Another way to attract and retain top talent in China is to utilize individualized employment packages. Such arrangements may include flexible work scheduling, work-life balance initiatives, and programs promoting health and wellness. Paramount to the latter in talent attraction and retention in China, however, are team-building activities and subsidized loans.⁶

Furthermore, Mercer Consulting reports competitive pay to be the chief factor in attracting and retaining top talent in China. Such pay schemes tend to have a competitive base pay with a performance-based pay component. Retention bonuses, special

incentives, and stock options, in contrast, are shown to have the least significant impact on employee attraction and retention.⁷

Organizational Challenges

The bulk of research on expatriate management in China focuses on adjustment issues. While more research is needed in such areas as remuneration, knowledge transfer, cross-cultural training, trust, and identity,⁸ the following sections outline practices that confront such organizational challenges that can be utilized across employee groups.

Management

Expatriates in China earn 20 to 50 times what the local Chinese earn, and in some cases the housing allowance of a foreign employee is more than the salary of a local employee of similar rank.⁹ In China, foreign expatriates are potential sources of social and compensation comparisons to local employees for many reasons. For instance, although expatriates may differ in nationality, race, or ethnicity, the respective output of locals and expatriates are similar, thus locals view expatriates as colleagues and partners.¹⁰ Locals who perceive that they possess a compensation advantage over similar locals employed in another firm offset the negative effects of their compensation disadvantage in relation to expatriates; there exists an endorsement of both local-expatriate disparity and the disparity between locals.¹¹ Although it would be unrealistic to eliminate the local-expatriate disparity, the magnitude could be reduced by implementing non-pecuniary incentives to locals, such as fast-track programs to senior management and a clear justification of the disparity.¹²

Localization

To strengthen the relationships between expatriates, repatriates, and locals, it is important for expatriates to be prepared and advised about living and working conditions in China. Reasons for expatriates' dissatisfaction with placement include lack of activities and entertainment outside of work, privacy, inadequate language facility, and difficulty of traveling within China.¹³ Studies show a deeper knowledge of Chinese culture, history, and politics could enhance the ability to relate to the Chinese and may facilitate working relationships.¹⁴ Immersion issues could be mitigated with more effective training programs and utilizing returning expatriates to organize and run training programs in China.¹⁵

Some firms are addressing retention and work intensification by organizing after work social activities for their young graduate employees, implementing employee assistant programs, and introducing specialized diets from their home countries. Additionally, work-life balance and managing diversity take on very different meanings from how they are understood in Western societies and require different HR initiatives when implemented in the Chinese context.¹⁶

Team & Knowledge Transfer

Studies suggest that the methods used by Japanese manufacturing firms in China to manage expatriates could validly be transferred to other industries. Qualified local workers become frustrated and exit companies due to insufficient opportunities to participate in decision making, limited career opportunities, and non-merit-based appraisal systems.¹⁷ Locals can be placed in middle management positions to ensure knowledge is shared across all levels of the organization and inclusion in the joint decision making by expatriates and local employees.

Trust & Identity

Creating sincere interpersonal relationships between expatriates, returnees, and locals is another initiative that has been proven to yield high return in the expatriate management process. To be successful, expatriates must learn and adapt to Chinese ways of building and maintaining relationships built on trust. This is best done by demonstrating sincerity in working for common goals.¹⁸ Expatriates' interpersonal sensitivity toward locals furthermore reduces the effect of disparity on perceived fairness.¹⁹

Best Practices

Expatriate Assignments

A complete salary and benefit package for an expatriate assignment costs between \$0.3 and \$1.0 million annually on average.²⁰ Research has found that companies which have successful expatriate programs follow three general practices:

1. *Achieve knowledge generation and develop global leaders by expanding their skills.*²¹ Nokia is a prime example of utilizing international assignments to foster innovative ideas. Instead of having an R&D department, senior executives examine their global workforce for engineers and designers that are likely to develop new ideas. Selected workers are given two year assignments to work in a team with an explicit objective of creating new products. Nokia has been able to quickly turn new ideas into successful products.²²
2. *Target openness and cross cultural abilities over technical skills.* Successful companies extend international assignments to employees that not only possess the technical skills but are also open and adaptable to new cultures, customs, and procedural norms.²³ LG Group has a formal process to determine an employee's fit for an international assignment. Shortly after an employee is hired, he or she is administered a survey that is designed to rate whether he or she is ready for an international assignment and whether he or she possesses cross cultural skills. Identified potential expatriates work with their manager to create an individual development plan, with specific timetables, to facilitate attainment of requisite skills for an expatriate assignment. Approximately 97 percent of expatriates succeed in their international assignments.²⁴

3. *Develop a repatriation process.* This process may entail career guidance and fostering the utilization of the employees' international experience in the workplace.²⁵

Honda of America Manufacturing is an excellent example of a company that combines all three general practices. Expatriate assignments start with clear strategic objectives. Employees then complete a survey to determine their strengths and weaknesses. Six months before returning home Honda searches for a position that is best suitable for the expatriate and part of the repatriation process entails lessons learned. The majority of expatriates either meet or exceed expectations, there is less than 5 percent turnover, and consistently the objectives established prior to the assignment are fully met.²⁶

Benefits

In Asia, employee appreciation of employer-provided benefits is limited. An organization should conduct a benefits review to ensure alignment of its rewards programs, people, and business strategies. It is critical for an employer to determine benefits most preferred by employees. This information can be gathered through employee feedback surveys and focus groups. Eighty-six percent of highly engaged employees report that their employer seeks employee opinions and suggestions,²⁷ and research further indicates that employee perceptions are more favorable when a company effectively communicates the value of its rewards.²⁸ Employee awareness can also be enhanced by providing total rewards statements to employees or utilizing interactive employee portals. Taking such steps increases a firm's ability to attract and retain talent.²⁹

Coca-Cola China, for example, created a flexible benefits program for its employees that provided basic benefits and allowed upgrades based on wants and needs. During enrollment, onsite support was provided to answer employees' questions to ensure a smooth process. This program shifted employees' attitudes and perceptions, from taking their benefits for granted to, "I own them now."³⁰

Conclusions

With growth in the Chinese labor market, firms need to be aware of the challenges associated with managing a diverse and global workforce. Given the highly competitive landscape of the investment management industry, compensation schemes for expatriates and locals are not readily available. In addition, management of different employee groups within the same population is a modern and evolving human resources issue. The role of human resources, therefore, is becoming increasingly important as these global people management issues shape the labor market. ✎

Michelle Atkinson is an HR specialist for the U.S. Office of Personnel Management, Chicago Oversight and Accountability Group. She holds a bachelor's degree from the School of Industrial & Labor Relations at Cornell University.

[Ann M. Kubricky](#) is a student at Cornell University, pursuing an MILR at the School of Industrial & Labor Relations. She also serves as president of the ILR Graduate Student Association and works as a research assistant for the Center for Advanced HR Studies (CAHRS) at Cornell.

[Nathan J. Sheranian](#) is a student at Cornell University, pursuing an MILR at the School of Industrial & Labor Relations. Upon graduation, he will join the HR Leadership Program at General Electric.

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