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**FIRST**

## The Battle for China's Talent



Western multinationals are losing their luster as employers of choice. Here's how they can regain their advantage. *by Conrad Schmidt*

**F**or more than 15 years, one major U.S.-based multinational we've worked with (which asked to remain anonymous) had no trouble hiring top graduates of China's most prestigious universities. Its recruiting sessions, held in campus auditoriums, were typically standing room only. After the formal presentations, students would rush the stage with questions. But that's changed in the past year, as a company VP described during a recent meeting of senior HR executives in Shanghai. Student interest in foreign

multinationals has fallen dramatically. These days the auditoriums are only about a quarter full, and just a few students approach the recruiters. The other HR chiefs at the meeting were sympathetic: Many of them are experiencing the same thing.

Attracting talent in emerging markets has always been a challenge for Western multinationals, but historically they've enjoyed a big advantage: Local workers have viewed them as employers of choice, offering higher status and better career prospects than domestic companies. Now that

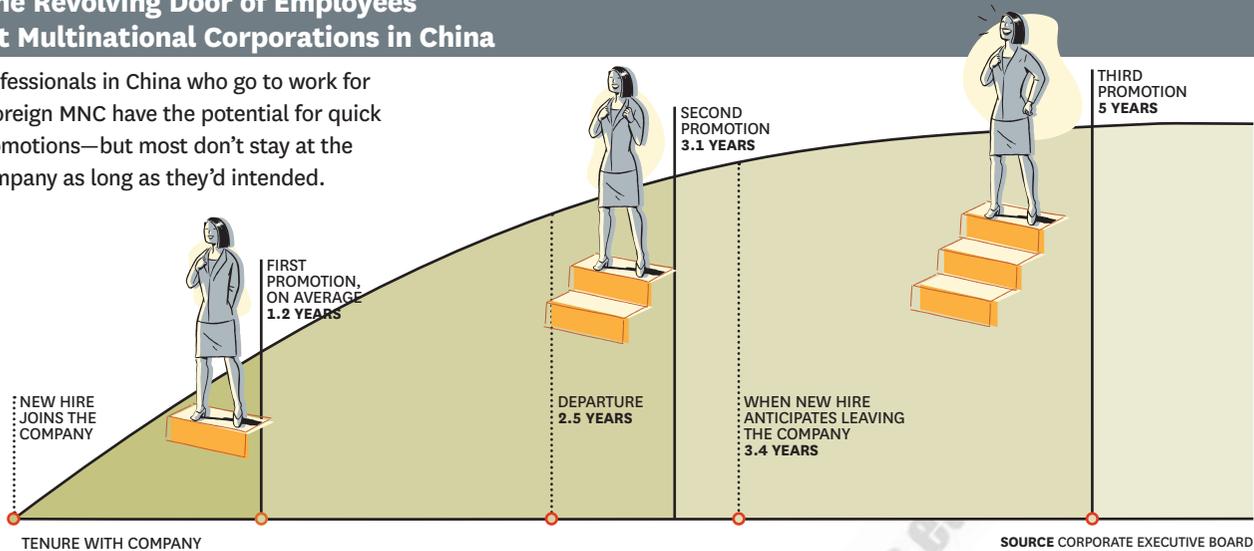
attitude is shifting, and a growing proportion of high-potential Chinese workers see domestic employers as a better bet.

The Corporate Executive Board has been collecting data on employees and job candidates in China since late 2006. We've surveyed more than 300,000 of them and worked with HR teams at more than 60 companies, and our data quantify this shift. In 2007, 41% of high-skill Chinese professionals preferred working for a Western multinational, while 9% preferred a job with a domestic firm—a comfortable 32-point gap. By the second quarter of 2010, the preference for MNC employment had risen to 44%, but the preference for Chinese employers had jumped to 28%—shrinking the gap to 16 points. (Sectors losing share to private Chinese employers include government, state-owned enterprises, self-employment, and education.) In just over two years, Western companies' hiring advantage was cut in half. Anecdotal reports, like the one from the VP in Shanghai, suggest that the gap may be narrowing even faster.

This shift is driven in large part by the fact that Western firms and their brands took a significant hit in the Great Recession, while the Chinese economy—and local career opportunities—continued to grow. Although the popular press refers to the “global” economic slowdown, China has largely escaped the effects: Its GDP rose more than 9% annually in 2008 and 2009. During that time Western companies reduced hiring, cut expenses, and in some cases resorted to layoffs. So Chinese workers are reacting rationally, figuring that career opportunities will be constrained

## The Revolving Door of Employees At Multinational Corporations in China

Professionals in China who go to work for a foreign MNC have the potential for quick promotions—but most don't stay at the company as long as they'd intended.



in Western companies undergoing restructuring and diminished growth.

But there are other factors in play. According to Western HR executives who work in China, opportunities for global training and experience outside China—perks that once helped make MNCs preferred employers—are becoming less attractive to Chinese professionals. These workers now see that the best immediate and long-term career development opportunities are likely to be found in one of the world's fastest-growing economies—that is, right at home. Many also express a desire to remain in their own cities, as growing incomes allow a higher quality of life in China's increasingly cosmopolitan centers.

In addition, many local workers believe they will hit a glass ceiling at MNCs because of a preference for expatriate management. Although the number of foreigners in senior positions varies widely by company, fully 40% of the Chinese MNC employees we surveyed thought that most senior positions are, and will continue to be, held by expatriates. National pride is also a factor: Western recruiters tell of faculty members at Chinese universities who talk up the patriotic appeal of working for domestic companies, and those companies' recruiters pull at the same emotional strings.

Some Western companies trying to retain local talent feel they're under attack. One major U.S.-based industrial goods producer we work with has seen domestic firms aggressively recruit its experienced Chinese middle managers and junior executives. Local companies offer these pro-

fessionals "skip-level" promotions that put them straight into jobs with senior titles and greatly expanded responsibilities. An executive at a European consumer goods company told us she believes that some of her key Chinese employees get recruiting calls every day. A partner in the Beijing office of one executive recruiting firm confirmed the phenomenon, saying that his company targets Chinese executives in their late 30s and early 40s who may be disillusioned with their progress at Western MNCs. His firm not only is finding more takers when it reaches out to candidates, he told us; it's also getting more "inbound" requests from employees of Western MNCs—a clear sign of growing discontent.

### How Can Western Companies Fight Back?

Here are five strategies companies should consider, extrapolated from our survey data and our work with Western MNCs operating in China.

**Reboot employment branding efforts.** Even though multinationals' lead over domestic employers is shrinking, it hasn't disappeared: More Chinese professionals still want to work at Western than at domestic companies. And our surveys show that employees of multinationals are much more satisfied with their work and their career prospects. MNCs need to regain their advantage in the labor market by more effectively communicating their overall stability, their commitment to China, and their focus on individual employee development.

**Western companies trying to retain local talent feel under attack. One European executive says her key Chinese workers get recruiting calls every day.**

Consider Cisco Systems (which, like many of the companies named in this piece, is a client). It takes a strategic approach to building a strong employment brand in China, putting out broad messages about its employment value proposition and targeting key technical talent. It also publicizes its government partnerships, high-profile university alliances, and business school sponsorships—all of which increase its visibility in the labor market. Cisco has used this "broad and deep" approach to great effect, generating the biggest improvements in company awareness and underlying employment brand strength that we've seen in our surveys of the Chinese labor market.

**Create local development opportunities.** Until recently, the typical high-potential Chinese professional who signed on with a Western company hoped to be posted at some point to the firm's headquarters. MNCs need to recognize that today more job candidates want to stay in China while advancing their careers and need to create roles that will accommodate this desire. Shell, for example, modified

its approach by complementing long-term global assignments with short-term ones for its Chinese staff. These shorter rotations are focused on closing specific developmental gaps and quickly returning staff to China. In addition, Shell has increased its job rotations into China, exposing more global leaders to the Chinese market.

**Offer viable career paths.** High-potential talent in China is attracted to—and stays with—companies that offer compelling long-term career paths. But Western firms often struggle to meet the aggressive advancement expectations of Chinese employees. Western MNCs, partly as a strategy to create global leaders, have a history of rotating high-potential Western employees into senior posts in emerging markets—creating the glass ceiling that Chinese professionals worry about. They need to recognize the advantages of establishing and highlighting long-term career paths for Chinese employees as well. Dow Chemical, which has traditionally used career development to attract and retain top Chinese talent, consistently ranks as one of the most popular Western MNCs among graduating Chinese university students. Its campus recruiting pitch is built on its commitment to diverse career paths. “Career ambassadors”—tenured, successful midlevel managers and executives—give candidates a firsthand account of how their careers were developed and managed at Dow. And once employees are on board, companies should ensure that career-planning conversations take place early on, in a deliberate, structured way.

**Be smart about pay.** According to some reports, domestic firms looking to raid Western companies of experienced technical talent and executives are offering dramatic pay increases—often as much as 50%. Retention challenges may force multinationals to consider pay increases as well, but they don’t necessarily need to match what their Chinese rivals are offering. One large U.S.-based technology company has quietly implemented a policy under which local professionals who try to resign in order to join a domestic firm are

automatically offered a 20% pay hike. It has found that many employees accept that counteroffer—suggesting that although competitive pay matters, other attributes are important, too.

#### Become a quasi-local company.

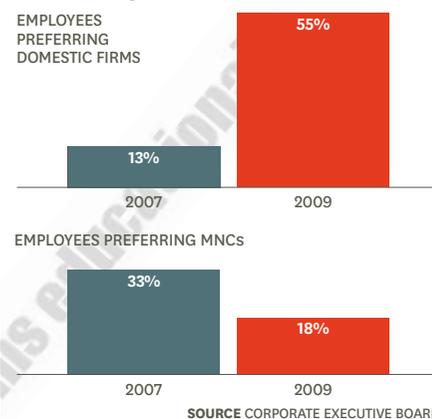
Some HR executives point to Walmart as a Western company that’s become so well established in China that it has many of the advantages of local employers. Indeed, in our employment brand surveys, Chinese professionals ranked Walmart as comparable to local companies in terms of attractiveness as an employer. Walmart’s business model compels it to create a deep mutual dependence with local suppliers, and as a result it has more touch points with locals than MNCs typically do. The company is now a presence in a number of second- and third-tier Chinese cities, whereas many multinationals have branches only in Beijing and Shanghai. Having combined a global brand with stronger local roots, Walmart is well positioned to acquire the domestic talent it needs to keep growing in China.

To be sure, over the long term the China talent challenge may be less troubling than it appears. Because much of the shift in sentiment about employers can be attributed to the global economic slowdown, it could turn out to be temporary. And either way, there may be a small but meaningful silver lining: A rising number of young high-potential Western employees now view China as *the* place in which to develop their careers. This new generation of would-be expats could help fill key gaps in middle management and senior leadership if Chinese professionals’ migration to domestic employers continues. But for now, Western recruiters will have to get used to looking over a smaller number of prospects when they visit Chinese universities—and be prepared to fight harder to win them. ♣

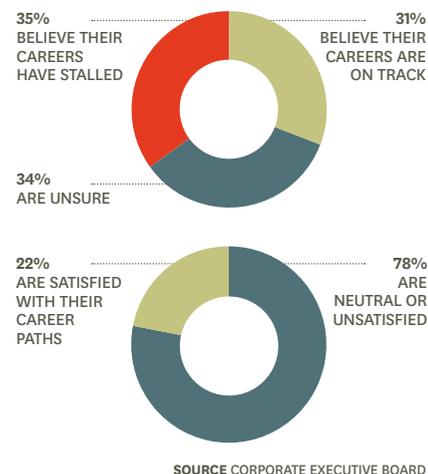
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### Fewer Chinese Working at Local Firms Aspire to Work for MNCs

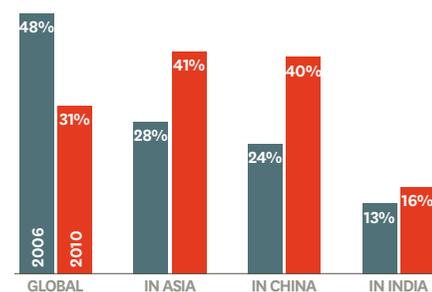


### Among Chinese Working at MNCs, Anxiety About the Future



### Talent Is Getting Scarce in Asia

Companies having trouble filling jobs (percent):



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