Western Firms Find Hiring, Retention in China Surprisingly Tough

By NINA SOVICH
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PARIS -- Hubert Giraud of Capgemini never thought hiring people in China, the world's most-populous country, would be so difficult.

As multinationals like Capgemini, a French information-technology and consulting company, flood the market looking for skilled workers, they are running up against unforeseen problems. Salaries among qualified workers are rising faster than expected, midlevel managers in their 40s are scarce, education standards are weak and many Chinese say they would rather work for a local firm rather than a Western company.

Strong competition for experienced employees, the cultural complexities of working in a Western company and the sense that the top positions will always be held by European or U.S. managers push many Chinese workers out of Western companies after only a few years.

"Eighty million people live in this province," says Mr. Giraud, Capgemini's global head of business-process outsourcing, referring to Guangdong in Southern China, where the firm employs 500 people in the outsourcing unit. "When you see that, you think you can get anything you want. It's just not true."

In a nation of 1.3 billion only 5.2% of the population has a college degree and above, China's National Bureau of Statistics reported in March. By comparison, roughly 25% of the U.S. population of 298 million have college degrees.

Many multinationals, which spend heavily on training young Chinese graduates to compensate for the educational shortfalls, lose them to local companies after a few years because the Chinese perceive that opportunities for career development and promotion are greater.

In China, as well as rapidly developing economies like India, it isn't unusual for Western companies to lead investment in their sectors and import their own educational standards. What surprises some companies is the lengths to which they have to go to train young Chinese, as opposed to Indians, who generally have workable English.

It is common, managers interviewed for this article say, for a company to lose a third of its work force in a year. Headhunting firm Heidrick & Struggles said in a July study that "talented managers" in China are changing jobs every 15 months. Heidrick says most companies are happy if they can limit turnover to no more than 15%, particularly in fast-growing industries like technology and telecommunications. Bob Krysiak, STMicroelectronics NV's president and general manager for Hong Kong, Taiwan and China, says attrition rates for the company's China operations range between 12% and 15%.

"China is like the Internet bubble in the U.S. -- vibrant and bullish," says Vincent Gauthier, general manager for human-resources firm Hewitt Associates in Hong Kong. "If you are in your 30s, have English and skills, you can walk right out of one job and into another without breaking a sweat. And people do."

The recent influx of college students to Chinese universities means it is easy to recruit 22-year-olds with no job experience. However, people with even a few years of experience are in deep demand.
The surge in employment opportunities has been driven by China's entry into the World Trade Organization in 2001, which led to a leap in investment in China. Last year foreign companies invested $60 billion in China, compared with $38 billion in 2000, according to China's National Bureau of Statistics.

China's Ministry of Commerce said in the first four months of 2006 roughly 12,000 new foreign companies began operations in China. Heidrick notes that established companies in China, both local and foreign, are rapidly expanding their ranks. Of the companies polled by Heidrick, the number of those with staff of more than 5,000 tripled in the past two years, to six.

Few companies are backing down from plans to carve out a corner for themselves in China's thriving marketplace, despite rising wages and intense competition. That is because most companies see the Chinese market itself as an important source of revenue. According to Heidrick, two-thirds of respondents cite selling to China's 1.3 billion people as the key reason for being in China, while setting up operations to outsource for the West is a secondary concern.

Both U.S.-based and other foreign companies face intense competition for staff and rising salaries to increase their operations. Capgemini, which derives 1% of its revenue from China, is looking to triple its staff in China in the next four to five years to between 2,000 and 3,000.

STMicro, which draws a quarter of its sales from China, announced that it would invest $500 million in a new semiconductor factory. It plans to hire 2,500 across China during next few years.

Meanwhile, General Electric Co. said it is looking to maintain its annual 10% earnings growth in part by outsourcing to China. At present the company makes about $5 billion in revenue from China, and recently Chairman Jeff Immelt said he expects that number to double in the next four to five years. GE employs 13,000 people in China.

The labor shortage, particularly among experienced workers, means companies routinely poach talent from each other, driving up salaries in the process. Hewitt Associates estimates that wages are rising as much as 15% a year for experienced, English-speaking workers, but anecdotal evidence puts the number much higher.

Stefan Dyckerhoff, head of Capgemini's consulting arm in China, hires first-year consultants for $5,000 per year but bumps their pay up to $35,000 by the third. By comparison the average rural salary in China is $225 annually and the average urban salary is $1,164, according to the National Bureau of Statistics. Mr. Dyckerhoff says salary inflation is outpacing what the company charges in consulting fees, though profit is still possible.

STMicro which employs 4,000 people in China, pays a relatively experienced engineer in Shanghai about $40,000 a year.

The problem, says Mr. Krysiak, is that raising salaries alone doesn't keep workers. Many are leaving for rising Chinese technology companies or even to become entrepreneurs.

"There is a lot of venture-capital money chasing Chinese enterprises," he says. "We lose people because some of these guys all want to be part of the next IPO."

Junwen Mo, a 22-year-old Chinese business student, has an internship at BNP Paribas but says many Chinese want to work for a Chinese company in the long run.

"For prestige and personal satisfaction it is better to work for a Chinese company," he says, adding that foreign companies might pay better salaries but they don't grant promotions. "If you are ambitious you have to work for a Chinese company after a few years of experience."

Losing people like Mr. Mo is painful for Western companies that have spent both time and money training them.

Although China produces 3.1 million college graduates a year, educational standards are lacking, McKinsey & Co., a U.S. consulting firm, says in a 2005 report. Even engineering students from the most prestigious universities in Beijing receive little practical training in projects or in working with a team. Few speak passable English. As a result McKinsey estimates that only 160,000 engineering graduates a year are suitable to work in multinationals -- a pool no
larger than the U.K.'s, which has a population of about 60 million.

To compensate for the poor education system, companies are investing in training programs to get new recruits up to speed, which can add 15% to personnel costs, McKinsey says.

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