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What Every Rewards Professional Should Know About China's Changing Workforce

In past years, China's economy was designed for rapid growth. Now, the emphasis is on building quality talent and sustainable businesses. To successfully navigate this transformation, HR and rewards managers should pay attention to four big developments.

China's business and employment environment has undergone a remarkable set of changes in the past decade, including the continuous reformation of state-owned enterprises, the rapid rise of private-owned businesses, extensive readjustment of industrial structures, and an increasing number of new employees entering the workforce.

As part of this transformation, different types of enterprises are adopting a wide array of measures to optimize human resources (HR) and rewards management. For example, more state-owned enterprises are actively engaging in the reformation of market-oriented compensation, breaking the pattern of "Da Guo Fan" (income egalitarianism) and optimizing performance management and compensation incentives. Meanwhile, private-owned enterprises are adopting more flexible HR systems to adapt to the constantly changing market. Foreign companies, for their part, are also focused on improving human capital efficiency.

With the market changing so rapidly and new generations entering the workforce, HR and rewards professionals working in China should pay particular attention to the following big issues:

1. Changing views of employer of choice

While government-linked institutions are still the employer of choice for many new graduates due to their ability to offer strong job security and work-life balance, we see the younger generation increasingly turning to Internet/e-commerce companies. They are attracted by the highly competitive rewards packages and career development opportunities these companies tend to provide as well as their high-growth, start-up cultures. This trend taps into the national call from the government: "Everyone Venture, Everyone Innovate."

Meanwhile, to find increasingly specialized talent and compete in a growing industry, HR leaders in the Internet/e-commerce space must innovate as well. To start, they are turning to non-traditional job-seeking channels, including the social media platforms LinkedIn and WeChat. And next, led by China's biggest Internet leaders, they are expanding into the United States and Europe to tap into their talent pools. In turn, this creates attractive global opportunities for Chinese nationals.

2. Salary increases are slowing, but variable pay programs and regional variation in pay are on the rise

With slowing economic growth, median pay increases for employees in China have dropped from double-digit rates to 8.0% at life sciences companies and 7.6% at technology companies as of 2017, according to the **Radford Global Life Sciences Survey** and **Radford Global Technology Survey**. However, as this downshift occurs, we see greater adoption of pay-for-performance models, including larger annual bonuses and long-term incentive vehicles. Additionally, it is more important than ever to recognize that China represents a huge geographical range, has many different levels of economic development, and shows increasingly large differences in pay across its regions (see our article, *It's Time for Technology Companies to Take a More Nuanced Approach to Pay in China*, for more information). Therefore, companies in China need to dig well beyond country-level data to formulate pay levels and standards based on the unique circumstances of the specific region or city where they are competing for talent. In hot functional areas like artificial intelligence, cloud computing and blockchain, talent shortages are severe, leading to significant pay premiums and even greater emphasis on additional variable pay.

3. Managing manufacturing workers

At present, China's manufacturing companies (including traditional high-tech manufacturers) still offer mostly labor-intensive work and are concentrated in the Yangtze River Delta and Pearl River Delta. This makes younger generations less inclined to pursue job opportunities at these firms. As a result, employees born before the 1980's and 1990's are gradually becoming the majority of the manufacturing workforce in key “tier 2” cities, where the mantra of “retaining the core workforce" has become a major point of emphasis for business and HR leaders. Yet, as the manufacturing workforce matures and is encouraged to work longer, labor costs increase. Rising minimum wages in various regions across China add to this pressure. Plus, to continue piling on, operators and technicians remain eager for overtime pay and shift allowance pay opportunities, which usually account for 30% to 40% of total cash income. Balancing a rising cost base with an increased emphasis on the retention of experienced manufacturing work is not easy. HR and rewards professionals will be forced to get more creative in the future.

4. Managing a new generation of employees

In China, workers born in the 1980's and 1990's are known as New Generation Employees, and this group has gradually grown to become a key driver of the new economy. New Generation Employees are mostly from single-child families with a fairly strong level of self-awareness and self-esteem, but also a need for regular recognition. New Generation Employees are digital natives and big fans of transparent communication and continuous feedback in the workplace. Based on these characteristics, companies need to adjust their management styles and practices. Increasingly, people managers will be called upon to establish higher levels of trust within their teams, carry out more effective performance feedback communications, prioritize career development, and focus on guiding employees' values. Forward-thinking HR and rewards professionals will look for ways to incentivize people managers to adopt the practices cited above.

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If you have questions about your rewards strategy in China and want to speak with a member of our compensation consulting group, please write to amea@radford.com.

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