
Talent Management in China

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1 Introduction

The rise of the Chinese economy has arguably been the most important story in the world economy this past generation. Its rapid rate of growth (about 10 % a year for the last 30 years) brings with it not only a higher standard of living but also challenges around managing employees. The exposure of government-run business operations to world markets and the expansion of private enterprise have led to important changes in operations, especially in how employees are managed, and to the development of what may eventually be a distinctive approach to employee management. At present, the field of human resources in China is both extremely important and at the same time under-developed. The demand for better human resource outcomes is creating considerable interest in human resources among new managers, and the rise of this new generation will likely increase the pace at which practices change.

The chapter begins with the historical evolution of human resource management (HRM) and talent management (TM) since China initiated economic reform and open-door policies in the late 1970s. Although HR remains a support function for most companies (especially the state-owned enterprises or SOEs) in China, the TM landscape is quickly changing. Strategic considerations have been incorporated in the HRM and TM practices, especially among the multinational corporations (MNCs) and even among some of the large SOEs. At the national level, TM has been viewed as a critical component in the transitions from low-cost manufacturing to an innovation-based economy. At the global scale, China has joined the

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Table 1 Five Key Global Talent Management (GTM) challenges, strategies, and future opportunities

Five key points regarding GTM challenges	Five key points regarding strategies to overcome these GTM challenges	Five key points regarding future opportunities in GTM
1 Talent management in a transitional economy The old way: Hold a static view about supply and demand for the labour market based on the assumption of an infinite supply of labour in China and rely too much on the external labour market for talent	Be adaptable to the dynamic nature of the Chinese labour market, grow talent internally, and ensure smooth transitions in areas affected by talent shortages	Hold a long-term view of talent management, develop a succession plan for your company, invest some real money in people, and commit to a process or structure of internal management and talent development
2 Global talent mobility and management The old way: Go to a few traditional sources of talents and advertise to job hunters, view recruiting simply as a screening process, specify a compensation level and stick with it	Tap many diverse pools of talent including passive candidates, consider recruiting both as selling and screening, break the compensation rules when necessary to get the talent you want	Anticipate supply and demand of skilled talents in the global labour market, critically assess the make or buy decisions
3 Strategic considerations of talent management The old way: Hire workers as needed with no overall plans. HRM mainly serves the administrative functions such as hiring and pay/benefit administration	Embrace a talent mindset, develop a recruiting strategy for each type of talent, get involved in key people decisions, and be accountable for talent management	Remember that the talent management function is already strategic in many MNCs and even some SOEs, but that in most Chinese companies, HRM remains a support function; change the mindset and instil a talent-focused mindset, and get involved in the important decision-making process
4 The influence of Chinese culture on talent management practices The old way: Hold onto a traditional view of cultures and values, believe Western HRM practices can be applied to the Chinese contexts	Develop a deep understanding of Chinese culture and its implications for the talent management practices in China, provide relevant cross-cultural management training to both HR managers and line managers	Establish a government relation manager, hire a local consultant to deal with some sensitive talent management issues such as household registration system, social security for foreign workers, taxation issues, etc.
5 Talent management as a national development strategy and diaspora option The old way: Face potential free-riding problems, focus on headcounts rather than talent quality, adaptation, and retention, fail to coordinate and critically evaluate both national and regional talent programs	Focus on adjustment and retention of global talents, critically assess and utilize government-initiated and supported talent attraction and management programs	Evaluate short- and long-term effects of talent management and development programs as part of China's national development agenda achieved by assembling national resources

international war for talent and has introduced a number of ambitious talent attraction and development plans to bring home highly skilled and Western-trained talents, while at the same time accepting Chinese diaspora as a viable option for overseas depository and reservoirs for future talents (Zweig 2006). This chapter uses a number of TM and other theoretical frameworks to explain the current state and transitions of TM practices in China, highlights the unique challenges Chinese managers and foreign entrepreneurs are facing, and points out future opportunities in global talent management (GTM) in China and beyond (Table 1).

1.1 The State of HRM and Talent Management in China

According to a renowned Wharton professor of human resource management, Peter Cappelli, talent management is simply a matter of anticipating the need for human capital and then setting out a plan to meet it (Cappelli 2008). Talent management also reflects an organization's commitment to recruit, retain, and develop the most talented employees available in the labour market. It comprises all of the work processes and systems that are related to retaining and developing a superior workforce. The field dramatically gained popularity after McKinsey's research and subsequent book *The War for Talent*, which highlights the looming demographic changes, skill shortages, and extant employment strategies of firms that cannot adapt to the challenges (Michaels et al. 2001). Both Cappelli (2003) and Critchley (2004) acknowledge the changing demographics but criticize the fundamental flaws of McKinsey in firms' inability to adapt to the above-mentioned challenges, and they argue for the need for more creative HR practices to attract and retain talented employees.

A review of strategic HRM literature suggests two theoretical frameworks are significant (Holland et al. 2012). The first is the human capital theory, which links organizations' human assets to increased productivity and sustainable competitive advantages (Smit 1998). The strategic aspect of the theory ascertains that the long-term enhancement of human assets can be achieved through employee skill development, career progression, and employee retention. This is consistent with the second theoretical argument, the resource-based view of the firm (RBV), that the retention and development of human resources will ensure that these human assets that are valuable, rare, and difficult to imitate, and will become the firm's long-term competitive advantages (Barney 1991; Walton 1999; Garavan et al. 2001). Broadly speaking, talent management includes workforce planning, talent-gap analysis, recruitment and selection, training and development, talent review, talent retention, succession planning, and evaluation. Organizations must align these processes and practices with their business strategies in order to drive up performance, cope with rapid change, and create sustainable success.

In sharp contrast with the upcoming skill shortages and war for talent in the advanced economies, the big story behind the growth of the Chinese economy has been the low cost and abundant supply of labour for factory jobs. That abundant supply of labour has created workplace discipline ("do what we say or we will

replace you with someone who will”) and has kept wages low and performance high. To maintain that supply of labour, the east-coast factories looked west and imported labour from rural western regions, housing them in dormitories. According to Kuruvilla et al. (2011), the average employment arrangement in China is still characterized by highly precarious employment with low job security, relatively low wages, and no benefits. About 40 % of the workforce operates with these arrangements.

Given this simple model, it is not surprising that most of the HR functions in China have been administrative in nature. That is, they mainly processed paper: bringing new hires into the system and administering payroll. Supervision, the design and organization of work, and virtually everything else about the workplace was handled by line managers, who were subject more to government policies than to any company policies. Any HR policies were highly standardized, slow to change, and governed by bureaucratic principles. Especially in the SOEs, which are by far the largest employers in China, HR practices lack sophistication. Workplace problems such as skill shortages, turnover, and workplace conflicts were more likely to be tolerated than addressed systematically, and the ability to tailor solutions to the unique aspects of those problems was limited.

Many of the constraints that continue to cause problems in the Chinese workplace are legacies from earlier communist practices when everyone worked for the government, when operations were not subject to competitive pressures, and when the need for change was limited. In that context, firms did not layoff employees, and it was extremely difficult to fire them. Efficiency was rarely a concern, so improving performance was not a concern, either. Practices effectively treated everyone as equals, and when there was differentiation, as when senior positions had to be filled, the criterion for doing so was political rather than performance-related. These constraints exist now mainly in the SOEs, and they are slowly eroding as fewer individuals remember the old systems.

1.2 HR: Support Function

The overall perception of HR has been as a supporting function: something that is necessary for business success but that does not contribute directly to competitive advantage. There is no well-developed national HR professional association in China, which means a lack of central influence on the HR direction or sharing of best HR practices (Cooke 2009), and there is little evidence that HR leaders have knowledge of overall business operations outside their area.

The most comprehensive study of the current status of Chinese HRM practices and their relationships with firm performance in China was conducted by Akhtar et al. (2008). To investigate strategic HR practices and their impact on firm performance, a large-scale survey was conducted in three major cities: Guangzhou (36.1 % of the sample), Shanghai (26.2 %), and Nanjing (37.6 %). The survey was based on the sampling frame of the China Industrial Enterprises Database, collected by the National Bureau of Statistics of China, to cover both manufacturing and

service sectors. Among a sample of 400 Chinese firms, 29.2 % were state-owned, 10.1 % were publicly listed, and 60.6 % were foreign-invested. General managers or their deputies responded to the firm performance questionnaires, and HR directors responded to the strategic HR practices. Data were collected from multiple sources to match the responses so as to reduce the simultaneous bias in survey responses. Responses were obtained on a 4-point scale (1 = not at all accurate to 4 = very accurate) for the dimensions of the strategic HRM practices, and on a 5-point scale (1 = very low to 5 = very high) for the dimensions of firm performance. The responses suggest what practitioners believe is the relationship between specific practices and overall business performance. It is probably best to think of these results as indicating management perceptions rather than actual relationships, but they are nevertheless interesting. The authors asked about the presence of a number of HR practices, then factor-analysed them using principal component factor analysis followed by varimax rotation (Delery and Doty 1996), which resulted in seven instruments (training, participation/voice for employees, employment security, job description, results-oriented performance appraisal, internal career opportunities, and profit sharing).

Given that caveat, job descriptions and results-oriented performance appraisals are seen as most prevalent (mean scores of 2.80 and 2.70, respectively) followed by having better internal career opportunities (2.64), participation/voice for employees (2.59), and training (2.57). Profit sharing and employment security were seen as only weakly related to performance (1.69 and 2.41, respectively) and were not related to other HR practices. In terms of relationships with financial and product/service performance, firms with more of these practices (with the exception of profit sharing) also performed better. Given the limited nature of the cross-sectional data, it is difficult to say whether the HR practices caused these outcomes or were merely associated with them, but the results are intriguing.

1.3 The Changing Reality

The emerging story, and the one breathing new interest into human resources, begins with the exhaustion of the supply of cheap labour. Labour costs have risen from roughly US\$ 0.5 per hour in 2000 to US\$ 3.5 per hour in 2010, reflecting the tighter labour market for unskilled labour. Accounts from some of those factories suggest that wages for operators have risen 50 % from 2010 to 2012. Turnover has become a real problem in these factories as the tables have turned: Workers now hop from employer to employer, chasing higher wages and “switching bonuses.” Shortages in key skills have emerged in the large and coastal cities like Beijing, Shanghai, Guangzhou, and Shenzhen. Anecdotal accounts suggest that wage levels for managers and executives are already at European levels and in some areas are climbing to US levels. The biggest skill gaps relate to managerial skills, especially as companies grow, become more complex, and move into new products and markets.

Further, labour problems and the increase of strikes and other labour disputes raise employee relations challenges that higher wages alone are unlikely to address. The Chinese government has increased minimum wages in several of the key manufacturing provinces by as much as 30 %. Although Chinese unions so far have little bargaining power with employers, they have been effective at lobbying governments to pass new contract and employment standards laws, which reduce working hours and improve working conditions.

2 Strategic Considerations and Talent Management

An immediate result of these developments has been that many employers complain about the rigidity and high costs of the new standards and have made greater use of staffing firms to provide workers and non-standard employment contracts (part-time, contract, temporary, etc.) to avoid the legislative requirements. The consequence is that employment issues have become a much bigger challenge for businesses and a more important factor in shaping their competitiveness.

Many Chinese corporations have become competitive globally, largely benefiting from the “cost innovation” strategy, which centres around leveraging low cost and innovation by offering more technology, performance, and value with less money (Zeng and Williamson 2003, 2007, 2011). They take advantage of the niche areas of the global product market including the low end, the periphery, the eccentric demands, and unique niches. For example, “national champions” are the domestic leaders who build global brands by identifying segments that global market leaders have dismissed because of low volumes or thin profit margins (examples are Haier, Huawei, Chonghong, and Wanxiang).

“Dedicated exporters” set their sights on global markets by leveraging their economies of scale (e.g., BYD, CIMC, Galanz). “Technology upstarts” capitalize on the large government-built infrastructure and on the research and development (R&D) conducted by state-owned laboratories to obtain funding by commercializing the technologies (e.g., Beijing Yuande, Datang Microelectronics, Tsinghua Solar). However, the major weaknesses of the Chinese corporations are weak and intangible initial brands, difficulties early in the product life cycle, and dependence on the Chinese domestic market base; and the major vulnerability is their inability to manage the complex systems of R&D, global supply chains, manufacturing, logistics, marketing, and distribution.

2.1 Managerial Talent: Now an Immediate Priority

At the executive level, the growing complexity of business has made managerial talent an immediate priority. CEOs reviewing their operations understand that every important business development creates the need for new organizational competencies (e.g., how do we do market research, how do we do business in another country?) that in turn create the need for new management skills. Hiring

those skills and creating a process where they might eventually be grown from within is now a pressing CEO-level concern, especially in the private sector companies as they are the most innovative.

Along with the emerging labour and skill shortages in the southern and coastal areas of China, hiring and training are increasingly considered to be the strategic functions driving business outcomes. The companies also have increased their R&D investments dramatically to facilitate the transition from labour-intensive manufacturing to knowledge economy focusing on innovation, for which talent is the key. Chinese unions are also found to contribute positively to both innovation inputs and outputs (Fang and Ge 2012).

3 Talent Management as a National Development Strategy

Almost unnoticed, China's shift to a high-tech economy has occurred by cajoling and co-opting Western businesses. China's trade is approaching a tipping point, while China's innovation has not yet reached the tipping point.

The importance of China's new human capital strategy is not limited to the crucial role it plays in evolving to an innovation-driven stage of global competition. Its importance also lies in leading the transformation trends that are in high demand in China, including the transformation from demographic dividend to talent dividend; from "made in China" to "created in China"; from attracting investment to attracting intellectuals; from hardware development to software development; from investment-driven economy to talent-driven economy; from resource-intensive growth to knowledge-intensive growth; from solo economical/technology-focused-innovation development pattern to dual economical/technology-and-social-creativity development pattern; from relying on nationally educated talent to giving attention to both nationally educated and internationally trained talent. To be able to achieve these transformations, high quality human capital is the key.

The international war for talent has intensified in the last decade with both developed and developing countries joining in the game. Five years ago, China announced its desire to make the country an innovation-oriented society—but the Tech War had begun much earlier, so China has much ground to make up.

Market forces have created tremendous economic opportunities which are the single most important factor in attracting talented people back to China. Low salaries and difficulties in maintaining overseas contacts have discouraged returnees to China, but these issues have lessened in recent years. Favourable government policies such as Thousand People Plans and Cheung Kong Scholars may not significantly increase the quantity of returnees, but they may help to increase the quality, as predicted by migration theory (Borjas and Bratsberg 1996).

Surveys also reveal that favourable government policies play an important role (Al Ariss and Crowley 2013). There is consensus that government policy could do more to turn the tide of emigration: develop the economy; improve policies that support intellectuals, including more vigorous protection of intellectual property, as suggested by innovation theory; expand democracy; fully utilize people who have

already returned; and invest more in science and technology. Interpersonal relations at work also remain a major concern. This problem is more cultural than institutional, and therefore somewhat beyond the reach of the government to address. For the system to work better within the ever-changing global and national environment, future work needs to critically evaluate the real impact of government policies on talent attraction, development, and retention.

3.1 Human Capital Strategy: The Solution for China's Innovation-Oriented Economic Strategy

As developing countries take steps to progress through middle-income status, modern growth theory predicts that middle-income countries in East Asia will witness three transformations: first, diversification will slow and then reverse as countries become more specialized in production and employment; second, investment will become less important and innovation will accelerate; and third, education systems will shift from equipping workers with skills for adjusting to new technologies to preparing them to shape new products and processes (Kharas and Gill 2007).

3.2 Human Capital: Beyond Research and Development (R&D)

Economists have been working on understanding technology and innovation for quite a few decades. Advanced nations' stories have proven that innovation is the driver of high-value products and services, productivity, competitive advantages, and national prosperity. A presentation by the Organisation for Economic Co-operation and Development (OECD) at a World Intellectual Property Organization (WIPO) innovation seminar clearly argued that "innovation today involves the interaction of a system: R&D is only one element...R&D is critical to innovation and is the main focus of public support, but innovation is more than R&D... It is a bundle that includes services, software and 'network' capital." There are a number of policy implications of moving the focus beyond R&D:

- Innovation can not only be derived from advanced science and technology (S&T), but also from the design of new business models, and organizational change;
- A recognition that a bundle of investments are needed for innovation, both technical and non-technical;
- The importance of broad-based human capital: hard and soft skills, including entrepreneurship;
- Taking a systemic approach: "push"/supply and "pull"/demand policies.

This OECD innovation strategy presentation recommended evaluating and monitoring innovation through improved performance measures (Wyckoff 2010).

When going beyond just R&D in terms of encouraging innovation, factors of human capital—generally seen as a set of knowledge, abilities, and skills of

individuals used in activities that stimulate economic growth and development—are considered to be a major stimulus of the innovation process. Human capital carries all the “soft” factors in the innovation process, such as culture, aesthetics, creativity, and intellectual nature. High-quality human capital is the key to the success of R&D investment and innovation.

A Canadian study analysed survey data and concluded that there is a significant correlation between the number of employees with post-secondary education in a firm and whether the firm has produced a new and unique innovation; innovative firms are more likely to have some type of training programs than non-innovative firms (Holbrook and Hughes 2000).

4 Global Talent Mobility and Management: A Diaspora Approach

4.1 Immigrants and Innovation: Diaspora Option and National Complementarity

As developing countries embark on a policy agenda for innovation-based growth, they face an acute shortage of competent individuals who know the country well, but who are not part of the “status quo” and therefore have no vested interests other than the best possible country outcome. Paradoxically, the search for such individuals often leads to the country’s talent abroad: its skilled diasporas (Kuznetsov 2010). There is some evidence that returnees have more to offer than people who have not been abroad.

4.2 From “Brain Drain” to “Brain Gain” to “Brain Circulation”

The Chinese education policy that encourages Chinese students to study abroad was heavily criticized in the 1980s because most of the students chose to stay in the host countries after graduation. This is supported by the earlier migration theory of “Brain Drain,” first developed by Jagdish Bhagwati, a Columbia scholar in the 1970s (Bhagwati and Hamada 1974). Advanced economies have been able to attract and retain talents from developing countries at low cost, constraining the development capacity of such nations. However, this argument was countered by Chicago scholar Robert Lucas and others in the 1980s (Lucas and Stark 1985) because most overseas talents of the developing nations helped advance the economic development of their home countries by sending back remittances, sharing information and technologies, and boosting bilateral trades between the two countries. This is the so-called “Brain Gain” argument.

At the onset of the twenty-first century, Berkeley scholar Anna Lee Saxenian proposed a new migration framework called “Brain Circulation” (Saxenian 2000). Regardless of their final destination, migrant workers can benefit both host and home countries if their human capital is utilized effectively. When the economies

and industrial structures of two countries are complementary, the “win-win” effect of “Brain Circulation” can be found in the interacting relationship: “Brain Circulation,” as a bridge between resources that are being exchanged, brings industrial opportunities to countries that lack capital and technology but possess labour and natural resources, while it also benefits industries from advanced countries which possess capital and technology but lack labour and natural resources. Though this exchange process, “Brain Circulation” also offers opportunities for the talented to advance their career. This coincided with the waves of Chinese students returning to their homeland starting at the beginning of the twenty-first century, when China joined the World Trade Organization (WTO) in 2001.

An example of this complementarity can be seen between China and Canada. Canada has abundant natural resources, advanced technologies, and high-quality education, while China’s complementary assets include abundant human resources and a huge product market. At a time when the world has not fully recovered from the ongoing economic recession and the United States especially is caught in a debt crisis, China is playing an important role in the economy of Canada, where the recovery is still fragile. In the meantime, Canada is a very strong producer and exporter of resources to China. The economies of the two countries are highly complementary, with a largely untapped potential for further collaborations. Under this context, Chinese immigrants and diasporas are well positioned to cooperate with Canadian firms as well as national, regional, and local governments to promote bilateral trade and investment and to create new science and technology partnerships for both countries.

4.3 Immigrants and Innovation: US and Canadian Evidence

In the United States, immigrants have had a disproportionate role in innovation and technology, founding such companies as Yahoo, eBay and Google. Half of Silicon Valley start-ups were founded by immigrants, up from 25 % a decade ago. A recent study by the Kauffman Foundation found that immigrants are 50 % more likely to start businesses than are native-born Americans. Immigrant-founded technology firms employ 450,000 workers in the United States. And, according to the National Venture Capital Association, immigrants have started one-quarter of all US venture-backed firms. Last year, four out of nine Nobel Prize winners were naturalized US citizens.

In Canada, at least 35 % of Canada Research Chairs (CRCs) are foreign-born, even though immigrants are just one-fifth of the Canadian population (Downie 2010). Immigrants to Canada win proportionally more prestigious literary and performing arts awards (immigrants comprise 23 % of Giller Prize finalists and 29 % of winners, and 23 % of Governor General’s Performing Arts Award recipients). Foreign direct investment into Canada is greater from countries that are well represented in Canada through immigration, based on data from the Census and from Canada’s Department of Foreign Affairs and International Trade.

4.4 Overseas Chinese Returning Home

A World Bank publication recently studied how countries can draw on their talent abroad. The study shows that in the past decades, expatriates have come to play a critical and highly visible role in accelerating technology exchange and foreign direct investment in China, India, Israel and the United States. Some expatriates became pioneer investors before the widespread decentralization of the supply chain and the internal decentralization of authority assured major capital markets that these economies had rosy futures. This World Bank study suggests that the pool of expatriate expertise can be utilized for the benefit of developing countries through the collaboration of networks of diaspora professionals. These diaspora networks could team up with the governments of developing countries and with external funding agencies to share policy and technological and managerial knowledge in order to improve local conditions and promote a development agenda within developing countries (Kuznetsov 2006).

Using the China Statistical Yearbook to determine the absolute number of overseas Chinese returning home, we find the number has been mostly increasing over the last three decades (National Bureau of Statistics, Various Years). In the 1990s, the annual rate of increase in number of Chinese returnees was at 13 %. The rate jumped to 45 % between 2001 and 2002. In 2006 alone, about 35,000 overseas Chinese returned to China.

The Institute for Competitiveness and Prosperity conducted a comparison between Ireland and China of the relationship between economic sophistication and their return of diasporas. Ireland is a country that successfully navigated the transition to an innovation-competition wave. Ireland completed this transition in the 1990s, and net migration patterns in Ireland can be considered a good gauge of movements from one wave to the next.

However, the dominant view both inside and outside China is that the truly talented stay abroad, even though some very eminent academics have returned. The longer one stays abroad, the more difficult it is to return. Family obligations and professional affiliations can not easily set aside. Therefore, the diaspora option of building a transnational scientific community becomes one more way Western technology can flow into China and strengthen it through “science and education” (Zweig et al. 2008).

Although the positive correlation between Chinese diasporas and economic sophistication needs to be confirmed, it has often been argued that investments by the Chinese diaspora in the provinces along China’s south and east coast are one of the key determinants of the continued success of China’s economic reforms. Since the mid-1980s, “diaspora Chinese capitalism” is emerging as the most dynamic force throughout the whole region after the introduction of the open-door policy in China, far “out-investing Japan and United States combined by a factor of four.” It is also seen that Chinese diasporas simultaneously replaced Japan as the major foreign investor throughout Southeast Asia in the 1990s (Lever-Tracy and Ip 1996).

4.5 Nationally Educated Talent in China

China is not rich in terms of talent as the proportion of the population. Recent research show that in 2005, only 2 % of China's population over the age of 25 held a bachelor's degree or higher, while in the United States it was 27.4 % (Stolarick and Chen 2011). The absolute number of university-educated students paints an overly optimistic picture for China. Articles have stated that in 2004 the United States graduated roughly 70,000 undergraduate engineers, while China graduated 600,000 (Gereffi and Wadhwa 2005). However, when researchers from Duke University adjusted comparability, China's graduates were scaled down to 352,000 and those in the United States rose to 137,000 (270/m in China and 470/m in the United States). A labour market study by the McKinsey Global Institute argues that this estimate is still far too generous. McKinsey concluded that only 10 % of Chinese engineers can compete in the global outsourcing arena (Farrell et al. 2005). If that is the case, then even the absolute number of competitive engineers produced by China is less than that by the United States, even with China's population being four times larger than the United States.

Although China is making great strides in human capital, it is still a long way from competing on the basis of innovation and sophistication. So how can China respond to the threat of a global overhaul? McKinsey attributed the low competency of China's engineers to limited language proficiency, lower educational quality, cultural issues, reduced job accessibility, and the attractiveness of domestic non-outsourced jobs. Individuals with strong interpersonal skills, professional knowledge, and the ability to communicate across borders are virtually always in demand (Farrell et al. 2005).

However, to begin producing more highly skilled individuals, China needs a primary education system that is on par with international standards and practical competencies. It is not only about how high the enrolment rate is within China's colleges and universities, but also about how well the graduates adopt and develop existing ideas, and how well they learn new competencies and adapt to a changing environment—the so-called “soft skills.” China's education system is producing huge numbers of technically proficient degree holders, but in order to compete globally, China must add more soft skills to the package.

5 The Transition of Talent Management in China and the Influence of the Chinese Culture

5.1 Chinese Talent Management in Transition

For all these reasons, Chinese talent management is in transition (Cooke 2011; Preece et al. 2011; Zhu 2005; Zhu et al. 2008). Western consulting companies are everywhere in the Chinese business community, offering advice and training programs on topics such as recruiting and skill development. Most of the privately held companies are so new that they represent almost a blank slate for experimenting,

and the new ideas are Western HR practices. Not surprisingly, the leaders in this area are foreign-based companies operating in China, which adapt easily to these new challenges by bringing in practices from their home countries. Law et al. (2003) supported this notion by combining the followers' perception of the leader and the role of HRM in a survey of 180 firms. They found that the effect of HRM on performance was stronger in foreign-invested enterprises (FIEs) than in the SOEs. Evidence suggests that the HRM functions have been elevated to a level of strategic importance in FIEs in China (Braun and Warner 2002).

However, this is not to suggest that Chinese practices will converge with Western HRM. Many factors affect the willingness to adopt Western practices, such as firm size, age, ownership, and competitive strategy (Ding and Akhtar 2001; Warner 2003). Ahlstrom et al. (2005) noted that WTO membership has increased the motivation for Chinese firms to implement strategic HRM, while Wang and Zang (2005) suggest that, because innovation is a top national priority for China now, HRM practices that contribute to it will more likely increase.

5.2 The Continuing Influence of Chinese Culture

Cultural and political factors present the greatest barrier to a convergence of HRM practices with those in the West and are most likely to contribute to the development of HRM practices with "Chinese characteristics."

More than 5,000 years of a continuous civilization creates a national culture that has far-reaching effects on management practices in general and HR practices in particular (Ding and Akhtar 2001; Chen and Wilson 2003; Zhu and Warner 2004a, b). Most observers suggest that any successful practices will need to adapt to the Chinese culture and that forms of management hybrids are already developing (Taylor et al. 2001; Chen and Wilson 2003).

To illustrate, consider the topic of loyalty. In China, employees typically build attachment with the leaders of the organization rather than to the organization *per se*. It is fairly common that, when a leader leaves a company, many of the employees will follow him/her (Wang 2011). This is perhaps not surprising in the business world, given that the idea of a corporation is still relatively new, and there is no history of iconic corporations that transcend generations the way there is in the West. Whether we can expect organizational commitment in Chinese companies is an interesting question. Perhaps commitment to the leaders is enough, but what needs to be done to develop that commitment to leaders is likely to be different.

5.3 Shaping Organizational Culture

Chinese business leaders do seem very aware of the issue of organizational culture and their role in shaping it. This is arguably the "glue" that ties individuals to the leaders of these companies, and it is likely to become a more explicit focus of attention in the future.

Chinese culture values hard work. Many employees work extra hours on the weekend and weekdays until late at night, even without overtime pay. Tung (1981) was one of the first to extol the virtue of the Chinese worker and to emphasize the need for foreign investors to understand the moral basis for the Chinese motivation. Perhaps the Western focus on motivating employees is less of a concern in China. The bigger concern might be to avoid those factors that might distract and demotivate them.

One of those factors might be harmony. Chinese culture values harmony as crucial to its view of a welcoming work environment. Chinese managers rely on Confucian principles to achieve that harmony or benevolence (Chew and Lim 1995). Market pressures create changes that disturb harmony, however, and Western HRM practices that focus on individuals rather than the workforce as a whole and that differentiate individuals in terms of rewards may further disturb harmony.

Relationship-building is often seen as the most distinctive aspect of business in China. The concept of “*guanxi*” refers to informal social networks that influence not only social interactions but also business interactions such as employment and financial transactions (Luo 2000; Parnell 2005). *Guanxi* is often considered a major barrier for foreign nationals attempting to establish Western HRM practices such as purely merit-based recruitment and selection (Chen et al. 2004; Zhu 2005). For HRM, *guanxi* reflects the notion of trust that comes from experience. It is reflected in the fact that business leaders like to work with a team of employees that they know. Executive “churn” does not happen as commonly as in US firms, and there is a fair amount of loyalty from leaders to their followers in return. In that sense, these practices at the top level may resemble older corporate models in the United States where lifetime employment was assumed. How CEOs will deal with the need to bring in new skills, though, or whether talent can be rotated across roles to develop it—breaking at least in the short term those working relationships—remains to be seen.

A final Chinese value, which exists in many Asian countries, is the value placed on “*face*,” or avoiding personal embarrassment (Wang 2011). Western HRM practices rely on promotions, dismissals, and other individualized outcomes that create winners but also losers. Whether those practices can be adapted to the Chinese context remains an open question. If not, how Chinese businesses will deal with the challenge of moving the right people into positions whose requirements change is not obvious.

HR professionals also need to “manage” and “educate” senior leaders on important HR issues, showing them the value of HR activities and practices. For example, the succession planning process in China is not transparent; HR professionals need to get involved in the decision-making process rather than to take orders (Wang 2011). HRM also needs to develop world-class leaders to meet the demands of local and multinational corporations.

6 The Future of Talent Management in China

This chapter illustrates the evolving HRM and TM practices in China since the late 1970s and explains why the TM practices deviate from the Western model. This deviation is largely driven by the large population of China and the almost infinite supply of labour that was available for a considerable period of time. There was little incentive for the Chinese managers to adopt sophisticated TM practices. Although HR remains a support function for most companies (especially the SOEs) in China, the TM landscape is quickly changing. Strategic considerations have been incorporated into the HRM and TM practices, especially among the MNCs and even in some large SOEs. At the national level, TM has been viewed as a critical component and major driving force for the crucial transitions from low-cost manufacturing to innovation-based economy. At the global scale, shortly after its entry into the WTO in 2001, China joined the international war for talent and introduced a number of ambitious talent attraction and development plans to bring home highly skilled and Western-trained talent, while at the same time accepting Chinese diaspora as a viable option for overseas depository and reservoirs for future talent. This chapter used a number of strategic HRM and TM theoretical frameworks to explain the current state and transitions for TM practices in China; highlighted the unique challenges that Chinese managers and foreign entrepreneurs are facing—in particular, the far-reaching effects of Chinese culture on the TM practices; and pointed out future opportunities in GTM in China and beyond.

In his influential article, Peter Cappelli offered the following prescriptions for talent management in the twenty-first century (Cappelli 2008). First, in order to strike the make or buy decision, we need to understand the relative costs of under- and over-estimation. The cost of over-estimation appears to be considerably high. China is a notable exception, given that many firms now need to be prepared for pockets of labour and skill shortages and high turnover in the workforce. Second, we need to adapt to uncertainty in talent demand. This is especially true now in China since the demand is volatile, and supply is also difficult to predict. Therefore, most of the suggestions made by Cappelli could apply to China, such as breaking up long training programs into discrete pieces, splitting smaller training groups into more intervals, and centralizing training across divisional groups. Third, we must improve return on investment (ROI) of employee training and skill development. This can be done by requiring employees to share the training costs and to sign a binding contract to reduce attrition, and by bringing “leavers” back into the firm. Although the rationale works well in theory, Chinese employees often consider training and development as an entitlement and are reluctant to share the costs. Fourth, we need to give employees more choices in their career path. This fits well with the aspirations of the new generation of Chinese workforce, as the young Chinese workers are less committed to the organization and place more emphasis on their own career development.

China now is the second largest economy in the world, and the World Bank (2012) forecasts that it will be the largest economy by 2030. The business model that brought it to this point—factories that relied on surplus labour to keep wages

down and maintain workplace discipline—is already on the way out. Chinese businesses will have to find ways to deal with competitive labour markets, to train workers to meet skill needs, and to engage workers in ways that substitute for labour market discipline. Much of those TM practices can be borrowed from the West.

Chinese businesses will also need to deal with the problems of change in the workplace: changing skill requirements and changing demands of workers. The pressures from markets for responsiveness will lead to intense pressures for adaptation at the managerial level. Western solutions to those problems conflict not only with existing Chinese practices but also with Chinese culture. It is therefore unlikely that Chinese businesses will use these exact solutions. The path they will end up following is bound to be both unique and interesting.

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