A Closer Look to Employee Engagement in China

China Human Capital Forum 2011

Towers Watson
Jim Leininger
Agenda

- Introduction
- China’s Macro Economic Environment
- China's Talent Market
- Challenges of Engagement in China Today
- Best Practices in Engagement in China
Towers Watson has operation in major cities all over the world, providing globalized best practices and localized professional services to fulfill clients’ needs

- **130 Years** of providing solutions to our client’s needs – Our first client is still with us today
  
  R Watson & Sons established in **1878**; The Wyatt Company founded in **1946**; in **1995**, the two firms formed a global alliance and began operating as Watson Wyatt Worldwide;

  Towers Perrin was established in **1934**;

  In **2010**, Towers Perrin and Watson Wyatt have equally merged as Towers Watson.

- Headquartered in **New York, U.S.A.**, We have over **14,000** associates
  
  We operate in **36** countries and areas.

  In Asia-Pacific, we have **22** offices located in **12** countries and areas.

- Our clients include **three-quarters** of the **Fortune 500 global companies**
In Greater China, we dedicate to improving clients’ performance and financial results through our extensive experiences, top consulting team and strong industry expertise

- We entered China in **1984**, this *first* wholly foreign owned international management consulting firm stepping into Mainland China.

- In Greater China, we have **6** consulting offices located in **Beijing, Shanghai, Shenzhen, Guangzhou, Taipei, and Hong Kong**, also one research center in **Wuhan**.

- In Mainland China, we have more than **250** associates to provide clients with value-added services. In Greater China, we have over **500** associates.
We help organizations improve performance through effective people, financial and risk management

<table>
<thead>
<tr>
<th>Talent and Rewards</th>
<th>Benefits</th>
<th>Risk and Financial Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The leader of organization transformation consulting in financial and telecom industries</td>
<td>• The actuary of choice for GAAP valuation - 80% market share, and selected by top 100 SOEs of various industries</td>
<td>• The largest insurance consulting actuarial team in China covering both Life and non-life</td>
</tr>
<tr>
<td>• The brand of executive compensation consulting for big state-owned enterprises (SOEs) and high growth private enterprises</td>
<td>• The leader of benefit consulting by market share, total solution offering and size of consulting team</td>
<td>• Long term relationship with the top 3 insurance groups in China – China Life, Ping An and China Pacific</td>
</tr>
<tr>
<td>• Possess one of the largest compensation and employee engagement databases consisting of over 800 companies in 15 industries and 15 cities</td>
<td></td>
<td>• Number one investment consulting firm in China among the international peers</td>
</tr>
</tbody>
</table>

**Mergers and Acquisitions:** Consultant of choice for inbound and outbound M&As for all 3 segments of business lines
Agenda

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China has displayed deft economic management in recent years

- China outperformed all other emerging economies during the financial crisis.
- Starting 2nd half of 2010, policymakers have had to adjust policy in response to an overheating economy.
- PBOC has been taking measures since October 2010 to soak up excess liquidity to fight inflation.
- As a result of rising cost of capital, dwindling orders and shortage of labor, SMEs are facing difficulties and some have declared bankruptcy.
- China will calibrate policy to ensure the economy will grow by around 9% in 2011.

### Real GDP growth, %

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>14.2</td>
<td>9.6</td>
<td>9.2</td>
<td>10.3</td>
<td>9.0</td>
<td>8.7</td>
</tr>
<tr>
<td>India</td>
<td>9.6</td>
<td>5.1</td>
<td>9.1</td>
<td>9.1</td>
<td>8.9</td>
<td>8.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.3</td>
<td>6.0</td>
<td>4.6</td>
<td>6.1</td>
<td>6.1</td>
<td>6.3</td>
</tr>
<tr>
<td>Vietnam</td>
<td>8.5</td>
<td>6.3</td>
<td>5.3</td>
<td>6.8</td>
<td>6.4</td>
<td>7.0</td>
</tr>
</tbody>
</table>

### Consumer price inflation (av), %

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>4.8</td>
<td>6.0</td>
<td>-0.7</td>
<td>3.2</td>
<td>5.0</td>
<td>4.1</td>
</tr>
<tr>
<td>India</td>
<td>6.4</td>
<td>8.4</td>
<td>10.9</td>
<td>12.0</td>
<td>8.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6.3</td>
<td>9.9</td>
<td>4.8</td>
<td>5.1</td>
<td>6.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Vietnam</td>
<td>8.3</td>
<td>23.1</td>
<td>7.0</td>
<td>9.0</td>
<td>16.9</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit, June 2011
“China’s economy is like a bubble bath – any one bubble popping may affect a few other bubbles around, but not drain the entire bath.”

Quote from “Twin Turbo China by Economist Intelligence Unit, 2010
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China’s Talent Market
The Past

Foreign companies entered China by the thousands

Source: From China Statistics Bureau; China Statistical Information & Consultant Center, SSB (CSICC)
Ministry of Commerce of the People’s Republic of China
China’s Talent Market
The Past

At the same time, domestic companies have been reforming, and becoming more competitive

Salary Differential – SOE Vs. MNC

Intended type of employer for graduates


Source: www.51job.com;
China’s Talent Market

The Present

As the economy rebounded, staff turnover starts again…

Source: Towers Watson Total Reward Survey 2009 - 2010
China’s Talent Market
The Present

...companies have to raise salaries substantially to compete for talent
China’s Talent Market
The Present

Salary increases are not limited to white collar staff, workers get more

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2011 vs 2009 % of Incr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>1,480</td>
<td>1,770</td>
<td>2,140</td>
<td>45%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>1,770</td>
<td>2,070</td>
<td>2,360</td>
<td>33%</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>1,850</td>
<td>2,030</td>
<td>2,440</td>
<td>32%</td>
</tr>
<tr>
<td>Wuhan</td>
<td>1,290</td>
<td>1,660</td>
<td>1,660</td>
<td>29%</td>
</tr>
<tr>
<td>Chengdu</td>
<td>1,200</td>
<td>1,570</td>
<td>1,570</td>
<td>31%</td>
</tr>
<tr>
<td>Zhengzhou</td>
<td>1,200</td>
<td>1,480</td>
<td>1,480</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: China Statistical Bureau
China’s Talent Market
The Present

But, it’s the very senior levels who have got the best deal.

Source: Towers Watson Total Reward Survey, 2008 - 2010
China’s Talent Market

The Future

China’s Talent Supply can’t keep up with the demand for talent in China

**China’s R&D Boom**
Multinational Companies have more than 1,100 R&D centers in China, with a total workforce of 130,000.

**China’s R&D Talent:**
Between 2003 – 2007, of all the new jobs in R&D across the world, 90% of them were in China.

**China’s Talent in Financial Services:**
Shanghai in 2011 has 230,000 people in the financial service industry but only 600 (0.25%) of them have international experience and credential.

**China’s High Tech Talent Shortage:**
“A shortage of 200,000 high-level talent in the next five years”

**China’s qualified accountant shortage:**
China has almost 10 million people in the accounting profession. Only 200,000 are mid to senior level financial talent. There is an urgent need for at least 300,000 of them as of today.
China’s Talent Market
The Future

China has a high number of skilled graduates, but it is still a low percent of the total population, and not always appropriate for foreign and Chinese MNCs.

Skilled Labor Supply age 25-59, China, India, Latin America and USA (Millions)

% of Population in 2020
- China: 6.1%
- India: 5.4%
- USA: 25.7%

Number of Suitable Graduates for Hire – Sample High Tech Company

<table>
<thead>
<tr>
<th>Universities</th>
<th>Graduate in relevant disciplines per year</th>
<th>Sum up Graduate Number per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Peking University</td>
<td>231</td>
<td></td>
</tr>
<tr>
<td>2. Tsinghua University</td>
<td>543</td>
<td></td>
</tr>
<tr>
<td>3. Beijing Jiaotong University/Northern Jiaotong University</td>
<td>1,069</td>
<td></td>
</tr>
<tr>
<td>4. Bei Hang University</td>
<td>526</td>
<td></td>
</tr>
<tr>
<td>5. Institute of Microelectronics of Chinese Academy of Sciences</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Shanghai</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Fudan University</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>2. Tongji University</td>
<td>553</td>
<td></td>
</tr>
<tr>
<td>3. Shanghai Jiaotong University</td>
<td>1,010</td>
<td></td>
</tr>
<tr>
<td>4. East China University of Science &amp; Technology</td>
<td>320</td>
<td></td>
</tr>
<tr>
<td>5. Shanghai University</td>
<td>460</td>
<td></td>
</tr>
<tr>
<td>Shenzhen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shenzhen University</td>
<td>766</td>
<td></td>
</tr>
<tr>
<td>Suzhou</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suzhou University</td>
<td>503</td>
<td></td>
</tr>
</tbody>
</table>

Source: Towers Watson Analysis

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China’s Talent Market
The Future

And not always located where we need them

Total Enrollment Distribution of China’s Higher Education, 2004 (thousands)

Geographical distribution of foreign invested enterprises in 2005 (thousands)

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- Challenges of Engagement in China Today

- Best Practices in Engagement in China
Challenge # 1: Despite relative strong engagement levels, employees are looking to move

“I am happy with my current employer but I am prepared to leave them in order to pursue opportunities”

Finding: A mobile and opportunistic workforce means that employers will need to remain focused on engagement to ensure retention.

Client Impact: Effective leadership, career advancement opportunities, belief in company’s products and service to your customers, and competitive Rewards are all important.

Source: Towers Watson 2010 Global Workforce Study

Employment Intentions

<table>
<thead>
<tr>
<th></th>
<th>Working for one organization</th>
<th>Working for 2 – 3 organizations</th>
<th>Following opportunity as it arises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Overall</td>
<td>33%</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Brazil</td>
<td>32%</td>
<td>31%</td>
<td>37%</td>
</tr>
<tr>
<td>China</td>
<td>23%</td>
<td>38%</td>
<td>39%</td>
</tr>
<tr>
<td>India</td>
<td>25%</td>
<td>32%</td>
<td>44%</td>
</tr>
<tr>
<td>U.K.</td>
<td>35%</td>
<td>37%</td>
<td>29%</td>
</tr>
<tr>
<td>U.S.</td>
<td>39%</td>
<td>40%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Towers Watson 2010 Global Workforce Study
...They are also quite optimistic about the job market in China

- Employees in China are particularly optimistic about the job market in the next 12 months

![Pie chart showing job market optimism in China and globally](chart.png)

- There will be significantly more jobs available in the next 12 months
- The availability of jobs will not significantly change over the next 12 months
- There will be significantly fewer jobs available in the next 12 months

Source: Towers Watson 2010 Global Workforce Study
## Challenge #2: Combating Dissatisfaction with Rewards

### Key rewards items – China vs Global/Asia Comparisons

<table>
<thead>
<tr>
<th>Item</th>
<th>Work USA, 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall, (relative to your job responsibilities) how satisfied are you with your pay (total guaranteed cash, allowances &amp; variable pay)</td>
<td></td>
</tr>
<tr>
<td>I think I am paid fairly compared with: Other people in my company who hold similar jobs</td>
<td></td>
</tr>
<tr>
<td>I think I am paid fairly compared with: People in other companies who hold similar jobs</td>
<td></td>
</tr>
</tbody>
</table>

Source: WorkChina, WorkAsia, and WorkUSA studies, 2009

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...Not surprisingly, employees also rate their employers low on communicating total rewards

Key communication items – China vs Global/Asia Comparisons

<table>
<thead>
<tr>
<th>Item</th>
<th>Work USA, 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>My company does a good job providing information on the following: The way my base pay is determined</td>
<td></td>
</tr>
<tr>
<td>My company does a good job providing information on the following: The way my bonus is determined</td>
<td></td>
</tr>
<tr>
<td>My company does a good job providing information on the following: My benefits</td>
<td></td>
</tr>
</tbody>
</table>

Source: WorkChina, WorkAsia, and WorkUSA studies, 2009
Challenge #3: Satisfying the Thirst for Career Development

“I look for an employer who can provide me with opportunities for growth and career advancement”

**Finding:** Career development continues to be a top priority for employees in China and is a key driver of attraction, retention and engagement, yet companies are falling short in this area.

**Client Impact:** To provide employees with career management tools and resources, internal mobility and managers who can coach and support them will be a key differentiator for companies in the war for talent.

### Engagement Drivers – China

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>1</td>
</tr>
<tr>
<td>Image</td>
<td>2</td>
</tr>
<tr>
<td>Career Development</td>
<td>3</td>
</tr>
</tbody>
</table>

### Factors influencing decisions to join a new organization

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased compensation</td>
<td>1</td>
</tr>
<tr>
<td>Greater career advancement opportunity</td>
<td>2</td>
</tr>
<tr>
<td>Availability of better pension</td>
<td>3</td>
</tr>
</tbody>
</table>

### Retention Drivers – China

<table>
<thead>
<tr>
<th>Factor</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Career Development</td>
<td>1</td>
</tr>
<tr>
<td>Leadership</td>
<td>2</td>
</tr>
<tr>
<td>Competitive Rewards</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Towers Watson 2010 Global Workforce Study — China

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Challenge # 4: Increasing Expectations on Leaders

“I rely on my manager and leadership, but they don’t always deliver.”

**Finding:** Gaps exist between what employees expect from leaders and managers and what they believe they “get”, particularly in relation to softer skills

**Client Impact:** Will need to find ways to develop “homegrown” leaders with both the business acumen to steer the company towards success and the interpersonal skills to connect with employees

### Characteristics most desired in Senior Leaders

- **Cares about the well being of others:** 65%
- **Encourages the development of talent in the organization:** 57%
- **Is trustworthy:** 53%
- **Manages financial performance successfully:** 36%
- **Positions the organization to compete in the global business environment:** 29%
- **Focuses the organization on satisfying the customer:** 25%
- **Promotes the brand/image of the organization:** 22%
- **Maintains a high profile outside the organization:** 16%

Source: Towers Watson 2010 Global Workforce Study — China
Key Challenge # 5: Entitlement Mentality in Benefits

Responsibility for providing for my retirement income needs lies…

<table>
<thead>
<tr>
<th>Country</th>
<th>With me</th>
<th>With my employer</th>
<th>With the government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Overall</td>
<td>57%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Brazil</td>
<td>34%</td>
<td>34%</td>
<td>32%</td>
</tr>
<tr>
<td>China</td>
<td>33%</td>
<td>27%</td>
<td>40%</td>
</tr>
<tr>
<td>Germany</td>
<td>51%</td>
<td>12%</td>
<td>37%</td>
</tr>
<tr>
<td>India</td>
<td>43%</td>
<td>41%</td>
<td>16%</td>
</tr>
<tr>
<td>U.K.</td>
<td>68%</td>
<td>18%</td>
<td>15%</td>
</tr>
<tr>
<td>U.S.</td>
<td>79%</td>
<td>16%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Towers Watson 2010 Global Workforce Study — China
In the future, employers are expected to shoulder more of this burden

Looking ahead to the next five years, do you expect responsibility for managing the area rests primarily with you, with your employer, or with the government?

**China Today**

- **Providing for my financial future**: 67% with me, 20% with my employer, 13% with the Government.
- **Providing for my health care needs**: 63% with me, 17% with my employer, 21% with the Government.
- **Managing my career**: 61% with me, 32% with my employer, 6% with the Government.
- **Ensuring my individual health and well-being**: 46% with me, 30% with my employer, 24% with the Government.
- **Providing for my retirement income needs**: 33% with me, 27% with my employer, 40% with the Government.

**China Next 5 Years**

- **Providing for my financial future**: 63% with me, 25% with my employer, 11% with the Government.
- **Providing for my health care needs**: 61% with me, 23% with my employer, 15% with the Government.
- **Managing my career**: 57% with me, 36% with my employer, 7% with the Government.
- **Ensuring my individual health and well-being**: 47% with me, 33% with my employer, 20% with the Government.
- **Providing for my retirement income needs**: 35% with me, 32% with my employer, 33% with the Government.

Source: Towers Watson 2010 Global Workforce Study — China
Challenge #6: The “After 80” Generation in China

% of Employees Highly Engaged - China

- Born 1980 or later: 19%
- Born before 1980: 26%

Career Path Intentions - China

- Born 1980 or later:
  - Working for one organization for life: 43%
  - Working for 2-3 organizations throughout my career: 36%
  - Changing organizations whenever a better opportunity arises: 21%

- Born before 1980:
  - Working for one organization for life: 39%
  - Working for 2-3 organizations throughout my career: 35%
  - Changing organizations whenever a better opportunity arises: 26%

Source: Towers Watson 2010 Global Workforce Study — China
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Engagement strategy in China

1. Leadership
   “I need a leader who cares about me as much as the company’s results”
   - Develop home-grown leadership programs emphasizing the “soft” skills for leaders

2. Career Development and Advancement
   “I need to know how I will grow as the company grows”
   - Link T&D programs to the employee’s performance and future job
   - Be creative about new opportunities for employees

3. Strong Employer Brand and Image
   “I want to work for a leading company that has a great future in China”
   - Define and communicate your employee value propositions in relation to the China market
   - Invest in image building activities

4. Competitive Rewards
   “I need to understand my total rewards”
   - Communicate the “Total Rewards” approach and differentiate rewards by performance

Source: Towers Watson 2010 Global Workforce Study — China