

No Free Lunch in China

by Patrick O. Courtois

I tend to receive a recurring misconception about the Chinese labor market from overseas-based clients. This misunderstanding primarily affects overseas-designed provisional staffing budgets as well as the perceived value of quality of China-based recruitment agencies. In short, agencies are perceived to attempt inflating candidate packages for higher fees. While some rogue agencies do, there is a distinctive trend that the cost of Chinese talent is catching up with international benchmarks.

China is an emerging Dragon, Shanghai, a crouching tiger... China is an emerging and developing economy. At least, it is its official status according to the International Monetary Fund's World Economic Outlook Report, dated April 2008 (1). Taking into consideration the measurement criteria, based on statistical indexes of element like income per capita, GDP, literacy rate and such, are calculated against the sheer size of its population, it can only make sense.

Shanghai is, along with Beijing, Guangzhou and Shenzhen the economy's locomotive. Having the status of “wealthiest” city in China, with a GDP per capita, above US \$7,000 for 2007, it is however still far behind any Major European capital (2). To give you a clearer idea, Shanghai's GDP per capita is below a city like Istanbul, Turkey (3). Once again, keep in mind the size of Shanghai's population (over 15 million souls) and you can understand that GDP per capita does not necessary reflect the reality of local white collars, which are far from being the majority.

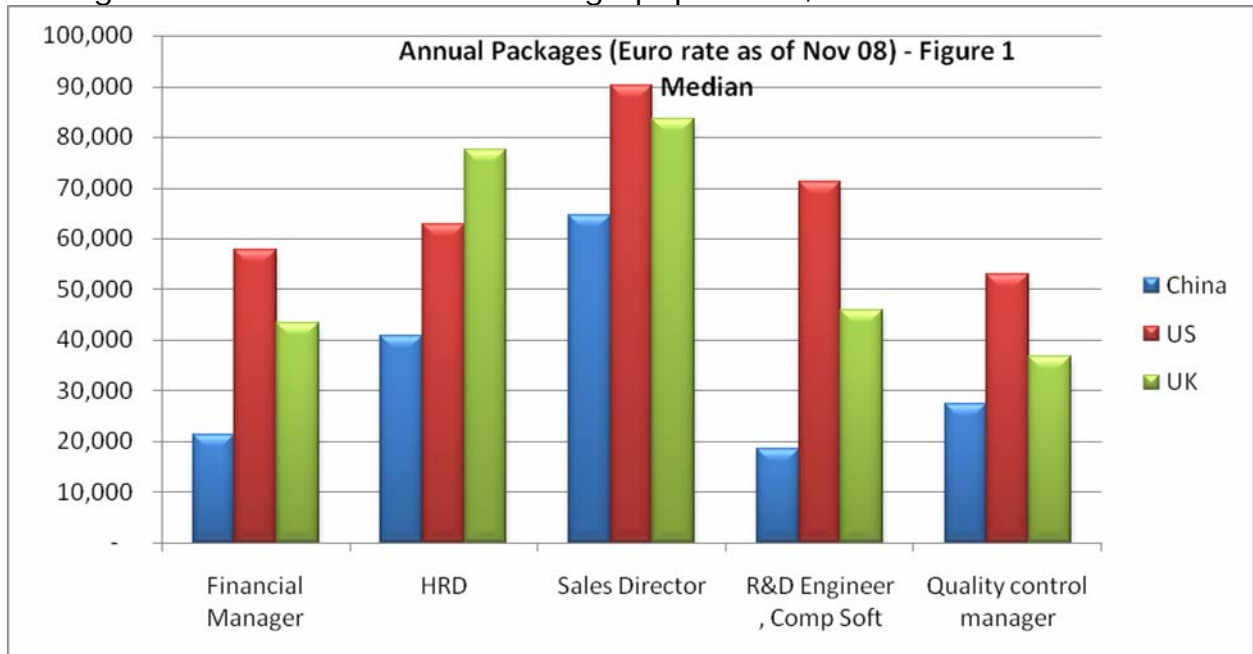
Another interesting piece of information is the Mercer's 2008 Worldwide Cost of Living survey (4), which gives us an idea on the rising costs of living in Beijing and Shanghai, with both cities present in the Top 25. The results, however not entirely applicable to local nationals, as based on expatriate populations, still gives us an insight on a certain reality of the local economy. That is, the gap in cost of living observed between a modern city like Shanghai and other “emerging” one, in China.

Despite all these, Shanghai can still be considered as a “cheap” city, with low business operations related costs, minimal salaries requirements, and reasonable living costs below those of similar sized cities in US or Europe.

The “Made in China” picture of low wages is still relevant today.

Compared to wages in the EU or US, employing local nationals is indeed an affordable option. Looking at the table 1 comparison of the median US, UK and Chinese total packages (salary + bonus and benefits) on some

common positions, the point is made. At first glance, it quickly illustrates the cost-effectiveness of employing local nationals, considering we are talking about the "median" or average population, of course.



It quickly demonstrates that employing the "average" local candidate can still be regarded as a cost-effective solution.

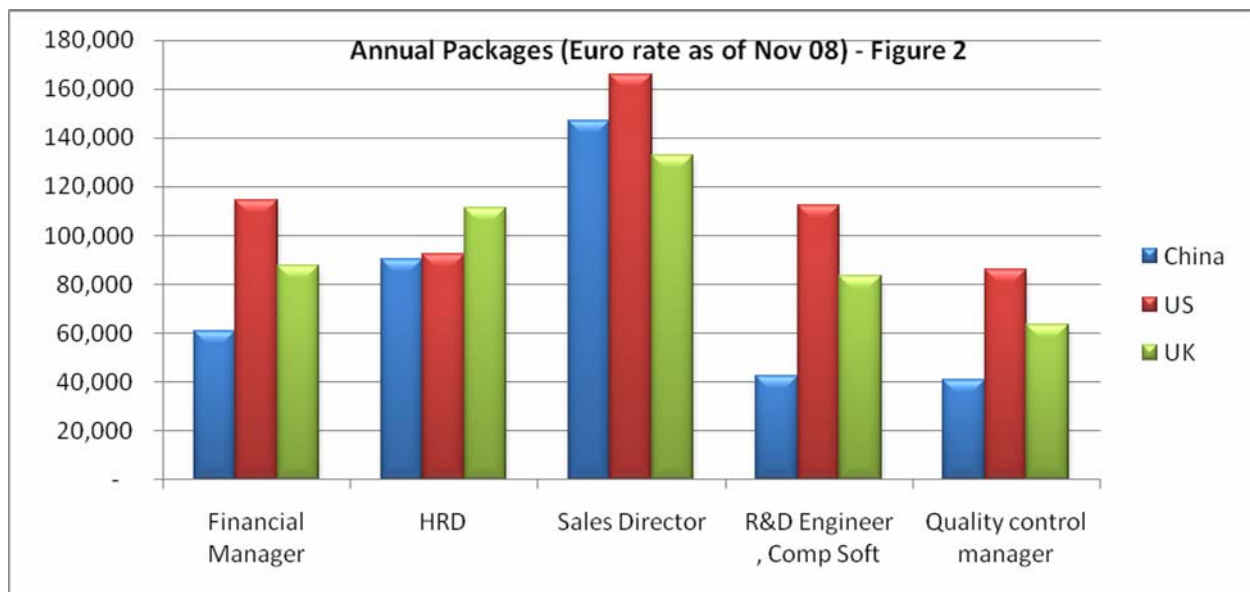
If you pay peanuts, you get monkeys... No offence to anyone in particular, as this applies to pretty much anywhere around the world... But, If you take a closer look at this "average" labor market, as it is the one providing input for most official statistics, surveys and other reports that one can easily find online and, incidentally, the segment on which a lot of people base a provisional recruitment budget upon, you get a rather interesting picture... Simply put, by a fellow recruitment specialist, "the average employee in China does not speak English, he does not work in a foreign firm, he does not think outside the box, understand western reporting structures, go to a top university, or have a chance of getting hired into your firm..." (5).

The average candidate has also the shortest retention potential, following a simple logic of job hopping for ever shinier titles and bigger financial packages, thus leaving a city like Shanghai with a dramatic employee turnover at around 18 months and a managerial workforce with somewhat arguable overall managerial skills.

If you are the decision maker of one of these multinationals, which are slowly initiating a shift toward management localization by cutting off expatriates' budget plans, would you really consider handing over the

keys to your financial, commercial or product development operations to an average candidate whom, however nice of a person, would most likely fail to properly relate to, understand or even communicate on basic day to day issues?

No money, no honey... On the other hand, you have the candidates which are at the center of what is now known as the “Talent War” (6). These are candidates with bilingual English abilities, 5 to 10 years of solid people and projects management experience, strong overseas exposure, the ability to think in a systemic way, whom are fully acquainted with western



reporting systems, can deal with foreign clients with the highest level of service quality, have graduated from top Western universities and can leverage on the added-value of their biculturalism. These are the candidates companies are fighting over for in Shanghai, Beijing or other tier 1 cities, with packages narrowing closer to those in the US or Europe, and sometimes going well beyond.

Figure 2 sheds some light on a more relevant picture of the Shanghai employment market (for top candidates), with key functions such as Finance, HR or Sales clearly aligning themselves on EU/US levels. This “headhunter’s” dream can quickly turn into an employer’s nightmare, if the latter does not properly understand the realities applying to the local market: An overall talented, self-motivated, creative, and experienced manager is a scarce resource in China, and a 28 years old sales manager making above RMB 1 million (EUR 100,000) is common.

Assignments, completed by Orion China, regularly cover positions for Financial Controllers around the RMB 500,000 (EUR 58,000) figure, HRDs



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in the vicinity of RMB 700,000 (EUR 80,000) and many others, with financial packages often giving a new meaning to the common image of China as the land of cheap labor. You need to face the facts, if you want to buy yourself the next superstar everyone else wants, you will most likely have to fork out a substantial amount for it, at least, more than your competitors.

*Money can't buy happiness...*but you can definitely get yourself a top senior HR or Finance candidate, in China, for the right price... Sure, there are no comparisons possible between a Shanghai or Guangdong based factory worker and his counterpart in Europe, the US or Japan. China has and will continue to retain its image of "world's factory" for years to come, with affordable labor costs and ever increasing quality standards. Nonetheless, good management, talented leaders and high potential profiles come with a high price tag, just like it would, in "Developed" economies.

Companies that will successfully implement localization strategies, in the upcoming years, and leverage on the amazing opportunities this rapidly growing market yields; are the ones currently understanding that quality, experience and skills come at a certain price, in particular in the Chinese economic capital Shanghai is.

A solid and ethical executive search firm, with deep networks, up-to-date market knowledge, and experienced consultants, is therefore a partner of choice to prevent your next hiring from becoming a time bomb, in your company's development plan, or a pricey mishap that may not look great during your next board meeting.