

How to address China's growing **talent shortage**

The imbalance between business opportunities in China and qualified executives to manage them will get worse—a lot worse—before it gets better.

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The growing need for talented managers in China represents by far the biggest management challenge facing multinationals and locally owned businesses alike. In a recent AmCham Shanghai¹ survey of US-owned enterprises there, for example, 37 percent of the companies responding said that recruiting talent was their biggest operational problem—more than the number who cited regulatory concerns, a lack of transparency, bureaucracy, or the infringement of intellectual-property rights. Separately, 44 percent of the executives at Chinese companies surveyed by *The McKinsey Quarterly* reported that insufficient talent was the biggest barrier to their global ambitions (see sidebar, “A global talent search for China”).

Continued strong economic growth in China over the next several years will further fuel demand for good people. Mature economies too face a growing talent gap because of longer-term demographic trends such as lower birth rates and the retirement of the baby boomers. Leading multinationals in these countries therefore increasingly compete globally to find talent, intensifying the problem still more.

On the supply side, the gap is widening at all levels in China. For entry-level corporate positions, there is an ongoing mismatch between the sort of

¹The American Chamber of Commerce in Shanghai.

graduates most Chinese universities turn out and the type of candidate who would interest local and regional companies, to say nothing of multinationals. People who prove themselves effective will have increasingly high expectations of their current employers, and if those expectations aren't met they may easily be tempted by lucrative rival offers. The market for experienced hires is even more challenging, especially when international experience beyond China and Asia is required.

Local companies and multinationals therefore increasingly fish in the same small pond of high-potential graduates and experienced managers with the right functional capabilities, leadership potential, and language skills. Many local companies are willing to match or exceed the multinationals' compensation packages.

Companies that are successfully addressing the talent challenge in China stand out in a number of ways, including their ability to localize techniques that have worked in other parts of the world. The most effective compa-

Top companies segment their talent base with the same effort and care that a top marketing department employs to segment its customer base

nies have a clear strategic view of their talent needs four to five years out, identify gaps at all levels of the organization, and segment their executives carefully. They develop and operate both a sophisticated

external-recruiting machine and an internal-development and -training program adapted to the local Chinese environment.

Integrate strategic planning and talent planning. In the past, the world was short of capital and innovation but rich in talent, which was therefore a second-order consideration in defining corporate strategies. In China today, by contrast, a leading company is likely to think of talent as a key input. A superior understanding of the available talent pools—and a realistic assessment of the company's ability to attract and develop talent from them—shapes its strategic choices.

Know what you need—it may not be what you think it is. Top companies segment their talent base with the same effort and care that a top marketing department employs to segment its customer base. That means making projections, based on corporate strategy, for perhaps four or five different salary grades and tenure groups, taking into account the expected number of internal hires, promotions, and likely attrition rates. Given the rapid rate of change and the likelihood that new assumptions about issues

A global talent search for China

Hampered in their global aspirations by a lack of managerial talent, Chinese companies seem poised to recruit worldwide to fill the void. In a *McKinsey Quarterly* survey of executives at companies headquartered in China,¹ 30 percent of those at companies with activities abroad say they have no senior managers—C-level executives or business unit leaders—from outside mainland China, and 27 percent say their top teams have only a small foreign component, at 5 percent or less (exhibit). But 43 percent of those executives say they expect the proportion to increase over the next three years. If these expectations play out, Chinese companies and multinationals alike will find intensified competition for capable global managers.

At the root of this global search for talent, our survey shows that, above all, Chinese executives worry about managerial capabilities. Forty-four percent of respondents at companies based in China say a lack of managerial talent is a barrier to conducting activities outside of China. Although it's no surprise that a lack of talent is holding back Chinese companies, the intensity

of the concern is eye-opening. The next-largest barrier, a lack of capital, was cited by only a quarter of the respondents.

Chinese companies will be hiring globally throughout their organizations, not just for the executive suites. Looking at their total workforce, 57 percent of the respondents at companies with activities abroad say less than 5 percent, if any, of their workers now come from outside mainland China. But 62 percent of respondents say they expect the foreign contingent to increase over the next three years, including 16 percent who expect a significant increase. This hiring trend may reflect another expectation stated by respondents to our survey: that assets owned abroad also will increase over the next three years.

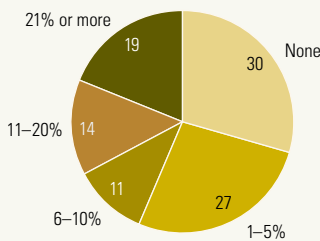
¹In April 2008, *The McKinsey Quarterly* surveyed a sample of executives at companies based in China and received 63 responses.

EXHIBIT

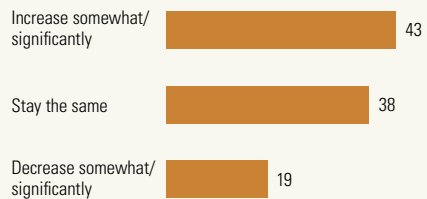
Starting to look abroad

% of respondents from companies based in China with activities abroad¹

What proportion of your company's top managers are not mainland Chinese?



How, if at all, do you expect the proportion of your company's top managers who are not mainland Chinese to change over the next 3 years?



¹Figures may not sum to 100%, because of rounding.

such as employee turnover will have to be built into the model, these targets should be reviewed at least twice a year.

Companies should also define the types of functional capabilities they must build and identify the specific types of leaders they will need—for example, “business builders,” who can lead enterprises into new regional markets, or “execution drivers,” who can instill discipline in performance. The functional skills and leadership abilities required in China will probably differ from those called for in developed markets (exhibit). Managers in China might, for example, need to know more about simplifying or tailoring products, finding low-capital solutions, and managing alliances and government relations. A higher level of comfort with ambiguity or greater cultural openness may be necessary as well. Companies in China must therefore be prepared to recognize and address the difference between their talent needs in that country and in the rest of the world.

A stronger—and sharper—focus on talent. In China, any company’s local management committee should make talent a standing item on the agenda. The top team ought to review important initiatives every two or three months and invest time in devising efficient processes to gather data from factories, in making specific people accountable for acting on

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Additional skills required



The best candidate should be able to do not only this . . .

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| <ul style="list-style-type: none"> • Master advanced technology • Create a few ‘substantial’ innovations | <ul style="list-style-type: none"> • Improve overall process and equipment efficiency | <ul style="list-style-type: none"> • Negotiate terms aggressively with a few large suppliers | <ul style="list-style-type: none"> • Rationalize manufacturing, logistics footprint | <ul style="list-style-type: none"> • Undertake marketing research • Control media planning and execution | <ul style="list-style-type: none"> • Manage large, modern retailers • Manage large distributors |
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. . . but also this

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|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Simplify products • Tailor products by responding quickly to changing consumer needs | <ul style="list-style-type: none"> • Handle hundreds of small suppliers • Identify, coordinate, motivate, and develop suppliers | <ul style="list-style-type: none"> • Identify and manage low-cost and low-capital investment options | <ul style="list-style-type: none"> • Configure distribution network by evaluating low-cost alternatives | <ul style="list-style-type: none"> • Master event marketing • Focus on PR management | <ul style="list-style-type: none"> • Transform wholesalers into distributors • Manage small, fragmented accounts • Control point-of-sale management |
|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

talent issues, and in setting and revising targets. Senior executives need to take this responsibility personally by devoting significant and highly visible time to talent rather than assigning the problem solely to human resources (HR), and they must apply as much rigor and intensity to recruiting, developing, retaining, and allocating talent as they do to financial planning. We often find that companies ignore some of these basics, treating talent as a “soft” issue and thus ignoring its very “hard” financial impact.

Longer, stronger pipelines. University recruitment is a key element in the talent strategies of multinationals and local Chinese businesses alike.

It requires a highly tailored approach to partnerships with institutions of higher learning, as well as a careful analysis of the top-tier schools,

schools with a strong national reputation, and those with solid regional or local standing. (We often find that some of the most successful—and loyal—recruits can be found at universities close to the places where jobs

*Companies should build a **portfolio of relationships** with universities, aiming for close ties with a few and looser links to a number of others*

open up.) Recruitment efforts should begin with a rethinking of a company's brand attributes and value proposition for Chinese graduates, whose attitudes on these issues often differ from those of their counterparts elsewhere.

Companies have a number of ways to establish a reputation on campus, and all must be explored—for instance, sponsoring a lecture or university chair, hiring student interns during summer vacation, and forging relationships with faculty members to support research. In other markets with similar talent challenges, companies and trade associations have even set up their own schools and universities to alleviate the scarcity of suitable high-potential entry-level talent.

Companies should build a portfolio of relationships with universities, aiming for close ties (developed by a specific team) with a few institutions and for looser links to a number of others. An important objective of these relationships should be to identify talented people at a much earlier stage than companies elsewhere might consider appropriate—as early as the second year of college. IBM, one of the corporations now building strong bridges to education in China, has formed partnerships with several Chinese universities, donated millions of dollars to educational

institutions across the country, and collaborated with the Ministry of Education to improve the teaching and curricula at Chinese universities.

Do-it-yourself development. Since the tight talent market routinely fails to provide candidates who have the right skills and leadership qualities, leading companies build training and development programs and put them at the center of hiring and retention. Global policies and programs may not work; companies in China must tailor them substantially to the mind-set of a highly willing but often relatively low-skill talent pool that nonetheless expects a fast track to senior levels and substantial responsibility. Employees therefore ought to have clear development paths, which may include unusually fast promotion to intermediate tiers of responsibility, such as assistant brand manager. Apprenticeships and mentoring can promote both learning and commitment, and training should take place in the context of real work as much as possible.

P&G, which uses these tools very effectively, has built one of China’s strongest talent engines, with a high degree of localization. At Motorola, employees can benefit from such tailored offerings as the China Accelerated Management Program, for promising local managers; the Motorola Management Foundation Program, to train new managers in such areas as problem solving and communication; and the Motorola high-tech MBA program, a partnership with Arizona State University and Tsinghua University, which allows high-performing employees in China to earn an MBA in house.

Proactively building the basics is no less important; many Chinese companies either lack the evaluation systems, feedback loops, and other mechanisms regarded as the minimum level of best practice in the West, or they implement them poorly. Companies should not only build these processes but also train employees to manage them effectively (explaining,

for example, how to set expectations unambiguously and to have meaningful feedback conversations).

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Not the usual suspects. Given the pace of growth in the number of qualified senior managers and

the time required to develop them, external recruitment ought to be a regular part of the talent solution in China. Companies should look beyond

their own sectors for experienced leaders by identifying industries that have faced analogous challenges, such as similar distribution structures or regulatory barriers.

Often, the types of experiences managers have under their belts indicate their potential more accurately than do the industries where they work. When a top company identifies the key types of leaders it needs, across the ranks, it can define the background, experience, and qualities it wants them to have. Going beyond the usual suspects becomes easier: a company can then methodically identify situations, industries, and companies that have exposed managers to the specific types of experiences it requires.

Turning challenges into opportunities. China poses the dual challenge of aggressive business-building goals and an insufficient pool of talent to achieve them. Top companies turn this challenge into an opportunity by using major initiatives as a chance to develop new leaders from within and to bring experienced leaders recruited from the outside up to speed

more systematically. This approach does require a willingness to give relatively inexperienced people responsibility for major initiatives but can also help companies to develop leaders and capabilities more quickly. The

*Companies should **look beyond** their own sectors for experienced leaders by identifying industries that have faced analogous challenges*

keys to success include matching the right people to the right initiatives, ensuring that the initiatives are truly important, and providing the right support—to build both leadership and functional skills—so that leaders emerge in a “just in time” fashion.

Comprehensive and consistent. Our suggestions address critical aspects of the talent problem in China. But to be effective, they must be integrated tightly with other elements of a company's operations and organization, including its corporate culture and HR processes. Employees expect a company's stated mission, values, and talent policies to hang together consistently; companies that value entrepreneurship highly should reward it highly, for example. This kind of alignment is a distinct challenge in a market where many employees, including managers, are relatively new to the companies they serve. Companies in China must therefore revisit their HR policies and processes to ensure a good fit with the peculiarities of the changing local talent market; retention policies, for instance, should reflect the priorities of Chinese employees (such as whether they

tend to leave for money, advancement, or better learning opportunities), and internal talent markets should be as vibrant and exciting as the external one.

The broad principles of managing talent in China may not differ much from those prevailing in other markets, but the extreme imbalance of supply and demand, coupled with the rapid pace of change in both the corporate and social domains, poses a distinct challenge. Companies hoping to compete successfully in China must raise talent to the top of the agenda. Those that get the solution right will create a real source of competitive advantage. **Q**

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