China HR & Recruiting – Navigating the Differences

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The most serious mistake a U.S. company can make is not understanding basic differences in China's human resources environment. Choosing the best staff and managing them effectively is the #1 success factor. Navigating human resources differences in China presents unique challenges. None of them are insurmountable, but failure to adjust business models and personnel management practices often causes problems for a Western business operating in China.

In the U.S., and similarly many other Western countries, skill development happens on two levels. Obviously, there is an individual's formal education. But more importantly, people develop skills on the job, working alongside people with experience. We all learned by working with people with varying experience – some with 40, 20 and 10 years.. This "multi-generational" process creates natural mentoring that passes down experience and develops new individual and organizational skills.

China does not yet have this same mentoring capability. China has only really been engaged in Western-like business for two decades, and primarily in cities such as Shanghai, Beijing, Guangzhou and Shenzhen. If you moved away from these cities, the sophistication of Western-like management drops sharply. Even in these cities, Western-like "multi-generational" mentoring simply does not exist. We call this the "Experience Gap" and it has big individual and organizational implications.

The result is that the average sophistication and experience level of Chinese employees lags significantly what we take for granted in the West. This sophistication and experience lag drives other fundamental differences:

- Very few middle managers have experience hiring staff for their departments or conducting basic management activities such as performance evaluations;
- Whereas in the West, we expect some breadth of functional experience from new employees, functional experience tends to be narrower in China. For example, it is rare to find a financial manager with experience across all sub-functions of the financial discipline. Similar limitations exist in all other business disciplines.

Multiple Factors Drive the Differences

Cultural differences also come into play in structuring companies and managing people. For thousands of years, China has been dominated by a strongly directed "top-down" leadership culture. Emperors, government officials, company managers have called the shots; employees usually have no option to question authority or have input in decision-making. In the West, strong leadership is also important, but most businesses thrive on a healthy interactive "constructive conflict" process, in which employees are encouraged to challenge the status quo and drive improvement. This does not happen naturally in China. Chinese employees expect a strong directive, local leadership process, and become uncomfortable in its absence.

A Chinese company needs a strong leader with the responsibility, authority and accountability for results. Chinese teams need the certainty of knowing who is in charge and that a consistent and unambiguous direction and expectation of activity is in place and communicated clearly.

Another odd difference that many Western companies miss is the sharing of information between employees. For example, everyone knows what everyone else is paid in a China company. In the West, this tends to be closely held information and most people don't talk about their salary. That's not the case in China. Everyone shares. Structuring job classifications and managing them consistently in tandem with compensation is therefore critical or the risk is developing festering morale issues. This is the reason why hiring, compensation and reward systems are generally managed centrally at a China company rather than delegated to department managers.

China Management Model Considerations

There is no "one size fits all" management model for China, but there are some that work better than others. Generally speaking, Chinese companies and their staffs work more effectively in a structure with strong local management that has responsibility, authority and accountability for all local activities. That does not mean that functional oversight and mentoring from foreign functional managers is not important – it is essential.

The point is that China employees work better under a single strong local leader to whom they can go to in normal business hours for immediate direction when problems arise. Matrix management structures, in which Chinese managers report directly to U.S.-based managers, are problematic in China. China is 12 time zones away from Eastern U.S. and when problems occur, there is no supervisor to talk to immediately. Quick problem resolution is impossible.

Local "ownership" by a leader stimulates nimble management. Not all problems can be solved locally, but most can and a local leader has the authority to marshal cross-functional teams to solve problems as they happen. Matrix structures, where functional managers report to U.S. functional executives, inevitably slow the process. There is no locally empowered leader with the responsibility and authority to solve the problem immediately.

Strong management direction by U.S.-based functional managers has great value for technology and process knowledge transfer, extraordinary problem response, and business oversight – especially for internal control level issues. This support role is best structured in "dotted line" relationships, providing subject matter expertise. An exception to this model can be the finance function due to critical internal control considerations, but the relationship with the local manager should be strong even in this situation. The main value elements of U.S. oversight and control of process are retained with this structure while empowering the local team to own results through a single responsible leader with clearly defined authority.

Role of the HR Management Function

A Human Resources Manager is important in a company anywhere, but even more critical in a China company. Few middle managers in China have hiring experience. At U.S. companies, we generally delegate to middle managers the tasks of candidate interviewing, selection, and job offering – within guidelines and with varying approval processes. In China, due to the lack of hiring experience among middle managers, the interviewing and hiring tasks are almost always centralized to the Human Resources Manager.

The general workforce transparency to compensation across the organization requires consistent pay plans and job classification management, and the Human Resources Manager manages this process. In smaller companies that do not have a dedicated HR Manager, the task falls to a local executive with the overall responsibility for HR issues.

Just as middle managers do not generally have experience with hiring, they are equally inexperienced in performance management. In the West, with senior management approval, middle managers review performance of employees, making recommendations for compensation changes, employee development, and even termination. In China, the Human Resources Manager performs this role centrally at most companies, not because this is a preferred approach but rather because there is limited capability among middle management.

Finally, China employment laws are different than in the West and failure to understand and manage employee programs in a compliant fashion can cause serious exposure and risk. The Human Resources Manager is the point person for compliance to China employment regulations.

Develop a Relationship with China Management

China is far away from most Western parent companies. The Western company management team must have rock-solid trust in the company's China management team. This is not simply about hiring someone with the right credentials. It is about developing a personal and professional relationship with the key managers, especially the China leader.

Relationships can't be built on conference calls, e-mails or videoconferences alone. These are all important task-oriented tools for business management and issue resolution. But, relationships require a personal touch, and consistent periodic face time with the China management team. During the early stages of establishing a China company or the tenure of a China senior manager, it is China Centric's experience that the positive impact of frequent (quarterly) trips by the U.S. manager responsible for the China Company cannot be overemphasized. Perhaps after a couple of years the frequency can be cut back to semi-annual, but significant in-country time by the responsible U.S. executive is essential.

The most important value of this personal presence by the Western executive is to spend time – not just business time, but personal time – with the China leader. Get to know him or her. Show interest in them. Your interest and loyalty to that China leader will be invaluable when the inevitable business crisis confronts the team.

The relationship building value does not stop at the China leader; the U.S. executive needs to work with and get to know the China team. Working so far away from the U.S. parent company, it is easy for the China teams to wonder how important they actually are to the company and where they fit in the priorities. These natural concerns undermine optimal performance. Regular visits by the Western executive with cross-functional team meetings, plant tours, and dinner events underscore the strategic importance of the China operation.

It is not sufficient to send engineers, quality technicians, or other individual contributors from the West to China. These are necessary for tactical activities, but they are no substitute for the boss from the parent company being seen and heard by the China team. It is an investment that pays back in multiples.

Managing China teams is different than managing in the West. Understanding and adjusting to the differences is the #1 critical success factor for any company operating in China.