

CHINA FOCUS

HR & Organisational Change in “China 2.0”

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China is more affluent and innovative than ever, but also more complex and competitive. In this new reality that we call “China 2.0”, foreign businesses are under intense pressure to do things differently - starting with the way they structure and run their organisations.

Companies are reshaping their **organisational setup and HR strategies** to match “China 2.0” and cope with broader shifts happening in the country’s **employment landscape**, including generational change and a severe skills shortage in high-tech industries (see page 2).

This issue of China Focus addresses these people-related challenges, and looks at how forward-looking enterprises are adjusting in different industries (see page 3).







Many of our clients are **driving agility** to stay ahead in a market where trends and regulations can change unexpectedly. Others are **growing their headcount and functions** after realising that tough competition calls for an “all in” approach. And many, like us, are strengthening their **company culture** through corporate social responsibility (CSR) and other engagement programmes (see page 4).

We are proud to work closely with businesses - old and young - who are embracing change rather than shying away from it. Like them, we believe that the potential gains for foreign companies in China have never been higher, and that seizing them starts with building the right team.



“CHINA 2.0” THROUGH THE HR LENS

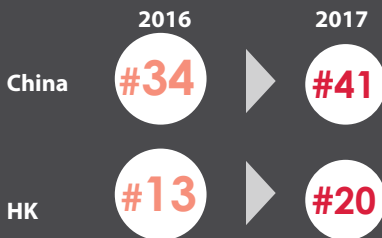
Each organisation is a world of its own. But certain HR challenges and priorities are shared by many of our Executive Search and China Consulting teams’ clients. These are some of the ways in which “China 2.0” is influencing their HR agendas:

CHINA 2.0 CHALLENGE	FOCUS AREAS	
<p>1</p> <p>The End of “Cheap China”</p>	 <p>Optimising structure and reducing layers for a leaner, more cost-efficient organisation</p>	 <p>Identifying and offering key non-monetary benefits that attract and retain talent</p>
<p>2</p> <p>Stronger Chinese Competitors</p>	 <p>Establishing agile processes and effective communication to increase speed-to-market</p>	 <p>Improving workplace culture to win talent war against millennial-minded tech firms & high-paying SOEs</p>
<p>3</p> <p>Disruptive Consumer Trends</p>	 <p>Recruiting innovation talents who are “digital natives” and are familiar with local trends</p>	 <p>Enhancing cross-border collaboration to transfer know-how from China to HQ</p>

HEADWINDS...

Disenchanted expats

China and HK are ranking lower on HSBC's survey of expats' favourite destinations due to life quality factors such as health.



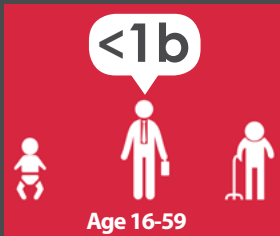
More attractive Chinese employers ★★

Successful Chinese companies have become top working places. 2012 was the last time more than 1 foreign firm made the top 5 in career site Zhaopin's "Best Employers" survey.

Year	Rank	Company
2012	1.	Shanghai Volkswagen
	★ 2.	Tencent
	3.	BMW China
	★ 4.	China Merchants Bank
	5.	Pfizer
2017	1.	BMW China
	★ 2.	Tencent
	★ 3.	China Merchants Bank
	★ 4.	Vanke
	★ 5.	Netease

Rising labour costs

China's working-age population is shrinking since 2014. In 2017 it hit a record low:



#2 challenge for global businesses in China in 2018:



Source: Survey by AmCham and Bain & Co.

Talent shortage in China's IT industry



...& TAILWINDS

New leadership roles

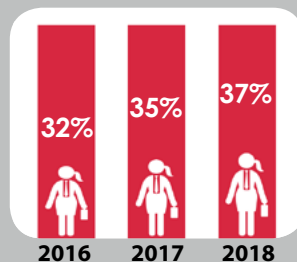
40%

of companies in China now have **director-level roles for digital functions.**



A shrinking gender gap

The % of women in management positions is rising...



...particularly in the technology industry, where



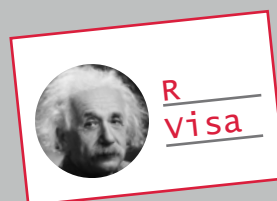
of new internet companies are **founded by women.**

Openness to foreign "high-end talent"

The new tiered "Foreigner Work Permit" is designed to encourage Class A & B foreigners.

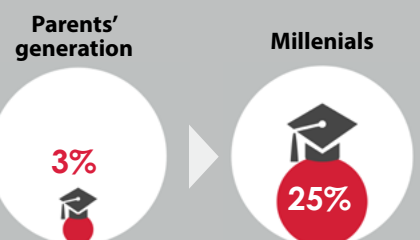
Class A	Top talent in critical industries
Class B	Degree-holding professionals
Class C	Unskilled workers in seasonal/service industries

The new "R Visa" is a fast-track, long-stay permit designed to attract "high-end talent"



Generational change

Bachelor's degrees (or higher) have become more common:



Sources: China Ministry of Commerce, Bain & Company, AmCham, Hays, HSBC, BCG, Fiducia Analysis

How are foreign companies in China adjusting their organisations to new times? We asked two business leaders to share their experience with us. They come from sectors where transformation is strongly underway: retail and industrial solutions.

RETAIL

The journey to omni-channel



With retail sales of EUR 11.6b and over 5,500 affiliated stores in 45 countries, Switzerland-based **INTERSPORT** is a leading sports retailer. In China, the company is riding the country's sports and fitness wave, with 23 stores across 7 provinces. **Robin Trebbe, MD China & Asia Pacific**, shared the organisational transformations that lie behind their winning strategy in the region.

How has INTERSPORT's China strategy changed in the last few years?

Just offering good products is not enough anymore. The Chinese market has developed rapidly: consumers have a deeper product knowledge and are more demanding than before, and e-commerce and electronic payment have become the norm.

So we have adopted an omni-channel approach, constantly enhancing our online presence and in-store experience. Around 50% of our revenue in China already comes from online sales, and soon we will open our first physical "future store" in Beijing, which we have built together with Alibaba to incorporate VR and other exciting interactive features.

Have you expanded or re-structured to pursue this new strategy?

Yes. Our regional head office was previously in Hong Kong. Seeing the growth and potential of the Chinese sports market, we decided to relocate to Shanghai and build a complete HQ here with all functions – from product development to retail and marketing. We created a digital team fully dedicated to driving e-commerce and online marketing.

What HR challenges have you faced?

Finding and keeping qualified people remains difficult. Rotation tends to be highest among store staff, who are crucial in our business - if

a customer is looking for the right ski outfit, you need people with product knowledge in stores to assist them. The market for e-commerce talents is also tough because you're competing against China's booming tech firms. In our industry, the growth of Nike, Adidas, and other large global sports brands, poses an additional talent challenge.

How do you manage these problems?

We focus on developing our internal talent pool, whereas in China the traditional approach is to recruit from outside. Previously, it was common for store staff to be completely renewed after one year. Now they stay 1.5-2 years, which we've achieved through a store management team that focuses on people development. Being an international employer with an inclusive company culture also helps. New joiners are motivated by the exposure they get through global meetings, and the chance to gain experience in our Europe HQ or other global offices.

INDUSTRIAL SOLUTIONS

From volume to quality growth



Production in China is increasingly tech and quality focused. This is driving demand for advanced industrial solutions such as those offered by **Ziemann Holvrieka** - a leading provider of tanks, engineering services, and process technology for breweries and other beverage and liquid food industries. **Christian Blatt, GM Asia**, talked to us about the organisational factors behind their success in China, where the company now has the world's largest factory for producing stainless steel tanks.

Has Ziemann Holvrieka's China strategy changed in recent years?

Our China organisation has developed its focus from volume growth towards quality growth. A major part of our strategy now is to differentiate ourselves by offering more diversified services, which we can achieve thanks to our growing market know-how. Sustainability concerns have also become a major driver for new business areas.

How has the company developed its China organisation to pursue this new strategy?

When it comes to processes, production, engineering, and service, our sister companies in Europe provide continuous know-how transfer to upgrade our capacities in China. At the same time, the China team drives improvements by (1) working closely with customers to understand their specific needs, (2) monitoring the activities of the competition, and (3) continuously improving the cost and quality of our products and services. The management in China is also fully responsible for recruiting and developing talent, which has been key in the organisation's success.

Is the mix of local/expat talent changing?

We believe in the sentence: think global, act local. Activities for the Chinese market are mostly managed by local talent, whereas export oriented activities involve more expats.

What HR difficulties have you faced?

The main challenge is finding technically and commercially skilled sales people. Our sales team requires very specific know-how on production and application processes in order to provide valuable solutions to customers. The "war" over this hard-to-find talent is severe, so costs are significant.

How do you manage this problem?

Comprehensive training: Besides functional capabilities, our training activities focus on personal efficiency (communication and self-management), culture (cultural awareness and compliance), and leadership (result orientation and change management).

Strategic partners: We have had a positive experience in our cooperation with Fiducia, who helped us scan the market to identify matching candidates with the right motivation (no job hoppers!).

High-trust relationships: Organisations in China are harmony driven - trust is a major factor. We have learned from experience that, once on board, high performing employees expect a high-trust relationship with leaders, and reward this trust with personal loyalty.

Personal approach: Employees in China don't differentiate between personal and professional as much as Europeans. Understanding their personal needs is key for retention. As an example, young people in China must normally own an apartment as a precondition for marriage. So we take this into consideration in the salary levels of employees we recruit from other cities, to ensure that they can settle down in Nantong, where our China HQ is based. ☺

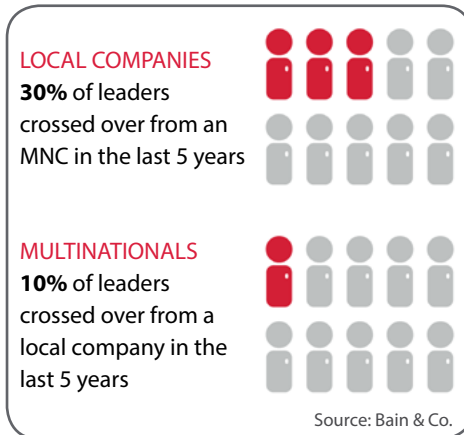
5 HR Trends in "China 2.0"

There are no "one size fits all" solutions to the problems of finding, retaining, and developing talent, but businesses facing similar setbacks tend to come up with similar strategies. These are 5 common ways in which international companies are solving HR challenges in China.

1 Re-think your candidate profile - Multinationals have traditionally had a clear idea of which positions they want to fill with expats, and which ones they need local talent for. Increasingly, the nationality of candidates is not specified by employers and recruiters from the outset, largely because the pool of Chinese professionals with international experience has expanded. Identifying cases where traditional assumptions no longer apply is an easy way of broadening your pool of potential candidates.

2 Build a talent pipeline - Searching for talent is becoming an ongoing and proactive effort rather than a reactive action when there's a vacancy to be filled. Measures such as maintaining a strong industry network and investing in employer branding can help you build a pipeline of potential candidates. In industries where scarce or highly specialised skills are needed, our clients engage Fiducia's Talent Mapping service to identify and start building relationships with candidates they might one day need.

3 De-centralise decision-making - Foreign companies are increasingly losing top talent to Chinese businesses:



One disadvantage leaders face at foreign enterprises is that strategic decisions are made at headquarters, so their authority and ownership is limited. Shifting more decision-making power to your China subsidiary is an effective way of increasing motivation and retention among senior executives.

4 Get creative with compensation - China's economy is cooling, yet living costs keep soaring - especially in big cities. In this context, it's difficult for companies to give their employees the salary increases they expect. Domestic top employers are implementing ingenious and more cost-

effective ways of showing their employees that they understand their concerns. Alibaba, Tencent, and Xiaomi, for instance, are helping employees to purchase apartments by offering subsidies or interest-free loans.

5 Invest in upskilling - Developing employees has always been a priority for HR departments, but the resources and effort spent in it often take second place to hiring new talent. China's fierce and costly talent wars are driving foreign companies to shift gears and realize that investing in retention and upskilling pays off. We're witnessing this change first-hand, through the growing demand for Assessment Centres that help clients identify and then develop high-potential talents. 🌱

How Fiducia can assist your HR needs

- ▶ Candidate search
- ▶ Compensation advice
- ▶ Talent mapping
- ▶ Assessment centres
- ▶ Payroll administration

QUICK TAKE | Nurturing your company culture through CSR

For a company's values to become a real binding force, they must be reflected in everything it does - in its behaviour towards clients, colleagues, and also towards the broader community.

In 2010, Fiducia decided to put its spirit of integrity, dedication, and fairness into action through our CSR programme "Fidu-Share".

Under Fidu-Share we've worked with NGO partners to improve the welfare of the elderly, raise environmental awareness, and increase the social inclusion of children. With time, Fidu-Share has become an essential part of our identity as an employer.

We're proud to see our efforts recognised by the German Chamber's "More than a Market" award and the "Caring Company" award in Hong Kong. More importantly, we're determined to continue supporting good causes and enabling every team member to feel part of an organisation with a soul and purpose.



"It's great to see how many candidates mention Fidu-Share as a reason why they want to join our team."

- Stephen Wong, Fiducia HR Head



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