

## viewpoint

### MANAGING HUMAN CAPITAL IN CHINA

Managing human capital is especially critical to success for companies doing business in China. Frank Gallo, managing consultant for China in the Beijing office of Watson Wyatt Worldwide, offers firsthand insights.

#### **What are the human capital challenges in China?**

China is in transition from a planned economy to a market economy. Fifteen years ago, every company was pretty much told what to do by the central government. Now the concept of everything being dictated is going away very quickly.

Now companies must make the decisions, beginning with how to reward the performance of their employees. It's the ABCs of business, but that's what a lot of business in China is like. In order to be profitable and successful, you need to have a strong workforce, just as in the U.S.

#### **But aren't there plenty of good workers available anyway?**

China has 1.3 billion people, about five times the population of the U.S. But more than 60% of those people are fairly poorly educated rural inhabitants who have grown up in a very agricultural environment. The remaining 40% aren't all fully educated and able to do the things U.S. companies would like.

As a result, there's a real scarcity of skilled workers in China. When you have a short labor supply, people become more important than technology. The technology is easily replicable. What isn't replicable is a limited supply of people.

Business people in the U.S. assume there are so many people in China that there must be plenty of qualified workers. But most Chinese aren't accustomed to Western style manufacturing. The idea of showing up for work on time or being paid more for working harder are likely to be new concepts, for example.

#### **What is required to create a strong workforce in China?**

Typically there will be a lot of human resources management issues to address. Compensation and benefits programs, for example, would typically pay more for more performance—a new concept in China but one that is very

admired among the country's leading-edge companies.

#### **How can Watson Wyatt assist employers in China?**

Watson Wyatt helps companies design programs to motivate their employees and teach their managers how to do their jobs better. It used to be, "Push the button and put something on the belt." It's much more results oriented today.

We find there's almost unlimited demand for our kind of service in China. The phone never stops ringing. Chinese companies want to improve their business, and many realize they must improve the level of sophistication of their employees.

#### **What about working conditions in China?**

There are fewer regulations that business people are accustomed to in the U.S. There is a need for a little more order. A planned economy in a Communist country isn't going to have a sweat shop environment. It's just the opposite. People in China aren't going to have the incentive to produce as they would in, say, a factory in Detroit.

#### **What is your advice for companies just entering China?**

Don't do it alone, even if you decide to go into a joint venture with a Chinese company. You still need local partners you can trust, such as a good local lawyer, tax accountant and human resources. You want to go to China and maintain your best practices, but you're also a guest in another country and need to accommodate to a different culture.

Be aware that there may be very different expectations. You're probably going to China to save money, for example. But the local Chinese government, your partner and your employees may assume you have deep pockets.

Also recognize that the rule of law is vague. A contract is more of a step in negotiations than a final binding agreement. And regulations vary among the 21 provincial governments and sometimes from town to town within the same province.

Government regulations regarding employees tend to side with the employee and not the corporation. But there may be differences in practices from area to area. Some recognize the Chinese holiday for women and others don't.

*To learn more about Watson Wyatt International services in China, please contact Vicki Kozlowski at (248) 358-7918 or [vicki.kozlowski@watsonwyatt.com](mailto:vicki.kozlowski@watsonwyatt.com).*