



# The Flight of Human Talent

## EMPLOYEE RETENTION IN CHINA 2006–2007

### AN EXECUTIVE SUMMARY BY

ANN HOWARD, PH.D.

LOUIS LIU

RICHARD S. WELLINS, PH.D.

STEVE WILLIAMS, PH.D.,  
SPHR

The escalating rate of job turnover in China is significantly interfering with organizational productivity. *Employee Retention in China 2006–2007* sheds light on why employees stay or leave and what organizations can do to stanch the accelerating outward flow of human talent. Although others have investigated China's retention problem, this research is unique in its focus on employees who recently changed jobs and in its use of both interviews and survey methods.

Development Dimensions International (DDI) and the Society for Human Resource Management (SHRM) worked together on *Employee Retention in China 2006–2007*. Two sponsors—*BMR* magazine and ChinaHR.com—helped recruit participants. Online survey respondents included 215 human resource (HR) professionals and 862 employees in a wide range of organizations operating in China. In addition, more than 100 respondents engaged in one-on-one telephone interviews to describe their experiences and views.

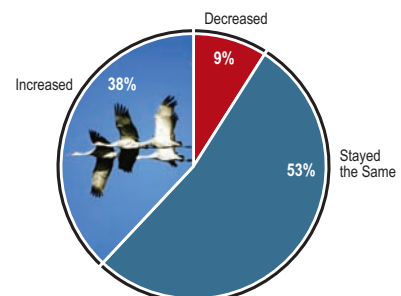
Four-fifths (81 percent) of the survey participants' organizations were multinational; that is, they own, operate, or have affiliate offices outside their home country. The average organization had annual revenues between 1.1 and 5 billion yuan (142 to 647 million USD) and a workforce of 1,001 to 5,000 employees. Nearly half (48 percent) of participating organizations were publicly traded.

Slightly more than one-third (36 percent) of the employees were leaders, half of them at the first level and the remainder were middle managers or executives. Professionals (engineers, consultants, etc.) constituted another third (36 percent), and individual contributors (administrative, support, craft workers, etc.) made up the rest of the sample (28 percent). Participants tended to be young; most were 21 to 30 years of age. Most employees (62 percent) had been with their employers less than one year. This emphasis on newer employees was by design: The HR professionals were asked to recruit new hires in order to obtain recent data on turnover experiences.

## TALENT IS FLYING AWAY


Nearly two-fifths of the HR professionals (38 percent) indicated that turnover in their organization had increased in the past 12 to 18 months; only 9 percent said it had decreased (see **Figure 1**). Although the typical Chinese organization continues to experience the same high rate of turnover as in the recent past, a substantial number are experiencing even worse problems with retention.

FIGURE 1 | Turnover in the Past 12–18 Months



Source: HR Professionals



 **Chinese employees are not expected to stay as long as employees in other world regions.**

Talent is not just flying away; it's flying away fast. In this study HR professionals' expectations for new-employee tenure were notably lower for China than for other regions of the world surveyed in DDI's *Selection Forecast 2006–2007*.<sup>1</sup> For instance, individual contributors in China were expected to stay little more than two years.

The HR professionals' pessimistic expectations of tenure were supported by several employee findings. Almost three-fourths (73 percent) of employees had resigned from previous jobs, and nearly one-fourth (24 percent) had already held three or more jobs, despite their relative youth. Moreover, 22 percent said they were likely to leave their positions in the next year. Apparently, turnover has become an accepted practice among Chinese employees.

 **High-level leaders are turnover risks.**

As with their counterparts in other regions of the world, HR professionals in China expected high-level leaders to stay with the organization longer than other employees—nearly six years. Unfortunately, the higher-level leaders indicated they were the most likely—not the least likely—to leave the organization within the next year. Although these leaders had been employed with the organization longer than other employees, their average tenure was only one to two years.

With high-level leaders much in demand in China, it should not be surprising that other positions would tempt them. In fact, more of the study's mid- and executive-level leaders left their previous jobs for better career opportunities elsewhere than did those at lower levels.

Other survey data supported leaders' intentions to leave, regardless of their level. Compared to professionals and individual contributors, leaders felt less loyalty to their company and were less likely to want to continue working for the organization over the next five years. They also were less likely to feel that they had a good manager, great company leadership, or a creative or fun workplace culture. This finding runs counter to what is usually found in Western cultures, where employee satisfaction and engagement typically increase with higher organizational levels. Organizations in China will need to address these issues quickly if they hope to retain their leaders.

**WANTED: BETTER BIRD-WATCHERS**

The majority of HR professionals track turnover rates (81 percent) and employee job satisfaction (67 percent), but monitoring turnover is not the same as preventing it. If organizations want to be successful at retaining their key talent, they first must understand the work characteristics that prompt employees to leave the organization and those that induce them to stay.

**Why Employees Leave**

The top two turnover reasons for both employees and HR professionals—highly differentiated from the remaining reasons—were lack of growth and development opportunities with the current employer and the availability of better career opportunities elsewhere. Both groups ranked insufficient compensation as the third most important reason. HR professionals reported that competitors were offering higher salaries, but they also noted the impact on retention of regional salary differences between China's coastal and inland cities.

 **Official and actual turnover reasons differ.**

HR professionals and employees did not agree on the importance of several reasons for turnover, and these differences are telling. HR overlooked the importance of uninteresting work, placing it 14th in their rankings of a list of 18 turnover reasons. (Employees ranked it 4th.) Apparently, the nature of work warrants more HR attention. On the other hand, very few employees (6 percent) cited a poor relationship with their manager as a reason for leaving compared to 39 percent of HR professionals. This discrepancy might be a result of the Chinese culture, which frowns upon speaking badly about one's manager in public.


The HR professionals were twice as likely as employees (35 percent vs. 17 percent) to identify external factors (such as going back to school or a spouse moving) as responsible for turnover. Apparently, employees often give external factors as their official reason for leaving when the real reason represents a problem they don't want to expose.

The discrepancies between the employees' and HR professionals' responses suggest that official turnover reasons fail to convey the whole story. Departing employees often focus on what new employers are offering, such as opportunities for career growth and/or tangible rewards like compensation. Employees are not inclined to bring up sensitive issues like a poor relationship with their boss, although HR often learns about such issues from management or other sources. One way to gain a better understanding of the causes of voluntary turnover is through the use of more thorough exit interviewing, perhaps by a neutral third party.


## Why Employees Stay

High employee satisfaction with important aspects of work should bode well for retention. This research revealed that some work characteristics are more likely than others to be associated with employees' motivation to stay with an organization.

The work characteristics shown in **Table 1** are listed from most to least important as employee retention drivers. Those ranked in the top half of the list are considered primary retention drivers; those in the bottom half, secondary. The work characteristics are classified by category (tangibles, culture, etc.) on the left side of the table.

 **Strong leadership is the key to gaining employees' commitment.**

Three of the top four employee retention drivers are directly related to leadership: Employees were most likely to want to stay with an organization if they had a good manager or boss, were recognized for individual contributions, and had great company leadership. Work that provides opportunities for accomplishment also was among the top four retention drivers.

 **Compensation is overrated as a retention driver.**

HR consistently overvalues the importance of two tangibles—compensation and benefits—as a way of keeping employees on the job. Although employees cited compensation as one their primary reasons for leaving their last position, satisfaction with salary was not a strong driver of retention. These findings suggest that organizations need competitive salaries, but compensation alone is insufficient for retaining valued talent.

**TABLE 1. PERSPECTIVES ON WHY EMPLOYEES STAY**

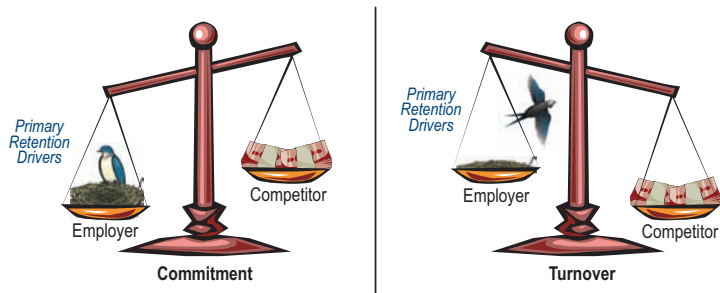
Tangibles	Culture	Nature of Work	Growth	Leadership	Work Characteristics	Employee Retention Drivers	HR Retention Drivers
				X	A good manager/boss	Primary	Primary
		X			Opportunity for accomplishment	Primary	Secondary
				X	Recognition for individual contributions	Primary	Primary
				X	Great company leadership	Primary	Primary
	X				A creative or fun workplace culture	Primary	Primary
	X				A compatible work group/team	Primary	Primary
			X		Opportunities to learn and grow	Primary	Primary
	X				An organization you feel proud to work for	Primary	Primary
		X			Interesting work	Primary	Secondary
			X		Opportunities for advancement	Primary	Primary
X					Benefits	Secondary	Primary
	X				Employee autonomy (freedom to direct work)	Secondary	Secondary
	X				Balance between work and personal life	Secondary	Secondary
X					Compensation	Secondary	Primary
	X				Promise of stability/job security	Secondary	Secondary
X					Employee lifestyle support	Secondary	Secondary
		X			Variety in the work	Secondary	Secondary
	X				Flexible work conditions	Secondary	Secondary
			X		Opportunity for expatriate assignments	Secondary	Secondary
X					Amount of vacation/annual leave	Secondary	Secondary

This conclusion is not meant to suggest that compensation can be ignored. Labor costs are surging in China,<sup>2</sup> and organizations need to conduct frequent salary reviews to stay in touch with the market. However, this study and other research<sup>3</sup> have shown that, contrary to other work characteristics, dissatisfaction with pay is not related to employees’ organizational commitment. Rather, it is their dissatisfaction with various intangible aspects of work that lessen employees’ commitment and make them vulnerable to outside offers.

**Figure 2** illustrates the relationship between primary retention drivers, compensation, and turnover. In making a decision to stay or leave, employees weigh the advantages and

disadvantages of staying at their current organization (left side of scale) with what competitors offer (right side of scale). If their employer has filled their nests with weighty retention drivers like strong leadership, growth opportunities, and a compatible culture and work associates, then competitors’ offers of high financial rewards won’t outweigh employees’ commitment (illustration on left). However, employers who fail to offer enough of the primary retention drivers end up with dissatisfied employees who lack the same level of commitment. The balance then shifts in favor of the competitors’ monetary incentives, and, as the illustration on the right shows, talent flies away.

Model of Retention Drivers and Employee Commitment



In other words, employees who are satisfied with their manager, opportunities for accomplishment, recognition for their contributions, company leadership, and other primary retention drivers are not as inclined to leave as employees who feel less content. Employees who are dissatisfied in these areas begin to look elsewhere and can be enticed by competitors who are dangling larger salaries. Then compensation becomes the official reason for leaving.

**RETAINING VALUABLE TALENT**

As employee turnover becomes an increasingly difficult issue in China, organizations have tried numerous strategies to promote retention. Some of the most valuable and most used retention methods include having a succession management program and offering training and development opportunities. Lack of growth and development was the main reason employees cited for leaving an organization and a primary retention driver, so emphasis on these retention methods is well advised. Linking pay to performance and improving compensation also were frequently used methods that the HR professionals believed had high value, although financial incentives alone are unlikely to be successful.

**Dedicated retention plans are under-used; team-building activities are overused.**

In some instances, how often a retention method was used was inconsistent with its value. Methods with high value but low usage include career-planning services, making employee retention a corporate objective, and having specialized retention plans. Organizations should pay more attention to these specialized services when developing strategies for retaining talent.

Other retention methods appeared to be overused. A large majority of organizations used nonmonetary rewards and team-building activities, even though only one-fourth of the respondents rated these programs as having high value.

**Most retention efforts need substantial improvement.**

Despite the obvious energy that has gone into various retention strategies, 79 percent of the HR respondents felt they weren't really effective. Nearly all the organizations (99 percent) believed their retention efforts need improvement.

Although the general trends pointed out in the survey are a good place to start, the best path to enhancing retention should be undertaken one organization at a time, concentrating on its unique circumstances and the nature of its employees. Organizations should make a comprehensive effort to pinpoint why employees leave, why they are dissatisfied, and the degree to which discontent is most likely to precipitate turnover. They can then use this specific information to formulate a strategy that will have the greatest impact.

## RECOMMENDATIONS

The following policies and practices can help subdue the turnover problem in China.

### 1. **Select the right people.**

Ensuring that candidates are the right fit to the job, the organization, and the leader reduces the probability of employee dissatisfaction after being hired. In addition to evaluating candidates' skills, experience, and knowledge, organizations need to take steps to understand candidates' expectations and match them with what the organization can reasonably provide.

### 2. **Improve managers' leadership skills.**

In this study, having a good manager was more highly related to employee retention than any other single work factor. Skills such as handling performance issues or conflict are essential for many new (and even experienced) managers if they are to be effective leaders.

### 3. **Examine retention factors more closely.**

Outsourcing exit interviews to neutral third parties can help uncover employee dissatisfaction that is not in personnel records or apparent to observers. Putting in place regular follow-ups with current employees, using surveys, interviews, and day-to-day discussions, will help organizations understand the issues and meet employee expectations before it's too late.

### 4. **Don't take higher-level employees for granted.**

Turnover of key managers can be among an organization's most expensive and disruptive situations. Unfortunately, higher-level leaders—highly pursued and less committed than other employees—are exceptionally vulnerable to poaching in China. Focused efforts on understanding and meeting the needs of these key employees should be high organizational priorities.

### 5. **Use the most effective retention methods, not the most popular.**

Organizations are trying a wide range of retention methods, but frequency of use doesn't necessarily follow value. Targeted retention objectives and programs, including career-planning services, should be used more often. At the same time, organizations should reevaluate their investments in less valuable approaches, such as team building and nonmonetary rewards.

### 6. **Don't stop with compensation.**

Although it's important for organizations to remain competitive with rapidly rising salaries, compensation was much less of a retention driver than intangible factors like having opportunities for accomplishment, being recognized for individual contributions, and having a good manager. Organizations should focus most of their resources on employees' primary retention drivers, including opportunities for development and advancement.

### 7. **Focus retention strategies on your unique situation.**

To deal with turnover effectively, organizations need a precise understanding of employees' expectations and issues and what matters most to them personally. The right retention strategy is the one that best fits each organization's circumstances and the nature of its employees.

The imbalance between the demand for modern workers in China and the available supply has created unprecedented pressure to find and keep employees. Organizations that want to prevail over the competition must develop and execute a targeted retention strategy and carefully monitor its effectiveness. Insights from *Employee Retention in China 2006–2007* can guide those strategic efforts and help protect organizations from the flight of human talent.

## ABOUT THE AUTHORS

**Ann Howard, Ph.D.**, is DDI's chief scientist. As the leader of DDI's Center for Applied Behavioral Research (CABER), she evaluates the validity and impact of DDI's programs and uncovers global trends and issues in human talent management. Ann has more than 30 years' experience as an industrial-organizational psychologist, specializing in assessment centers and managerial careers. She is a recognized author, researcher, and speaker in her field. She has held leadership roles in a variety of professional organizations and is a past-president of the Society for Industrial and Organizational Psychology.

**Louis Liu** is DDI's managing director for Greater China, where he's responsible for managing and growing DDI's operations in Shanghai, Hong Kong, Beijing, and Taipei. He provides consulting advice and services in the areas of performance management, strategic alignment, selection, executive assessment, and development. Some of his clients include 7-Eleven, Li Ning, Jun Yao, Pacific Life, BenQ, New York Life, Pfizer, Spirox, Winbond, tsmc, and Toyota. Before joining DDI, Louis was a training manager at ING Aetna. Previously, he was production manager in SMI Group's factory in China, where he built a strong, diversified management team and increased efficiency through a systematic and comprehensive management system. His MBA is from Taiwan University.

**Rich Wellins, Ph.D.**, is senior vice president for DDI, where he oversees international marketing, business development, and research and benchmarking. Rich is an expert on global management, engagement, and leadership development. He has written for more than 20 publications and has published six books, including the best seller, *Empowered Teams:*

*Creating Self-Directed Work Groups That Improve Quality, Productivity, and Participation.* Besides making dozens of presentations at professional conferences worldwide, Rich has been interviewed by *The Wall Street Journal*, *The New York Times*, *BusinessWeek*, Marketplace radio, *USA Today*, and numerous international publications.

**Steve Williams, Ph.D., SPHR**, is the director of research at the Society for Human Resource Management, where he oversees the organization's domestic and international HR and workplace research efforts and serves as a media spokesperson. His department produces survey reports on domestic and international topics of interest to HR professionals. Most of his professional career has involved working for associations conducting research on various topics in management, human resources, and work-related issues. Steve has authored numerous publications on workplace issues and has conducted workshops, seminars, and press conferences for CEOs, CFOs, HR professionals, and other executives.

## ENDNOTES

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## THE AMERICAS

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