



## China's Next Step: Employee Engagement in China, 1996 to 2006

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Confucian philosophy identifies “Quietism” as a key tenet. Yet, in January 2007, in an effort to continue pushing China’s modernization, the Shanghai City Council authorized 24-hour a day construction. Blending and balancing these two realities will depend on many factors, but one of the

most critical is China’s historical approach to employees and the employment relationship itself. The company-worker relationship may well prove to be the most critical key to the long-term success of businesses in China.

China’s planned economy has historically provided the most secure employment system in the world, known

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as the “iron rice bowl” (铁饭碗). Traditionally, young Chinese were assigned to a work unit, or *danwei* (单位), which provided cradle-to-grave benefits. But in the last decade, things have changed dramatically, and the bowl is shattering—into 1.3 billion pieces.

China is experiencing the fastest industrial revolution the world has ever seen. Since 1978, the country’s per



capita GDP has grown at an average of 8 percent a year, and Goldman Sachs estimated annual growth for 2007 to be over 12 percent. The speed of this transformation is reshaping the *dan-wei* employment relationship as well. Whereas providing for the worker once captured the entire employee-employer relationship, the emphasis should now be shifting to a model where the interests of both blend together. This means that employees must see contributing actively to the financial success of their firm as being tied to their own interests. For employers, an investment in engaging employees is critical.

Broadly, this entails significant change in how employers and employees connect. As our research consistently shows, engagement is an outgrowth of the rational, emotional and motivational bonds employees form with their

employer. These bonds are forged to a great extent by leadership behavior and actions, and an organization's commitment to both career development for employees and service excellence for customers.

## EMPIRICAL ARGUMENT FOR ENGAGEMENT

Our research demonstrates the clear and measurable link between levels of employee engagement and an organization's financial performance. For example, we examined 50 global companies over a one-year period, correlating employee engagement levels with financial results. The companies with high employee engagement had a 19 percent increase in operating income and almost a 28 percent growth in earnings per share. Conversely, companies with low levels of engagement saw operating income drop more than 32 percent and earnings per share decline 11 percent.

According to our research, Chinese employees' levels of engagement are fairly low—about a quarter lower than the global average. Equally problematic, 34 percent of Chinese employees are disengaged from the work of their companies. This has implications not only for productivity and performance, but also for retention of key talent, since highly engaged employees are far more likely to stay with their employer than are their less engaged colleagues, saving training costs and increasing efficiency.

## REDUCING TURNOVER, INCREASING EFFICIENCY

If China can make the transition from an emerging market—where the local context drives most strategic and operational decisions—to a maturing market with world-class execution, it will have to develop a different attitude towards the workforce. Chinese organizations have to move from viewing employees as costs to be controlled, to assets in which to invest. For example, half of Chinese workers report that work objectives change too frequently to support efficiency. Partially as a result, Chinese employees, once remarkably loyal, are becoming decidedly mobile.

In 1996, two-thirds of Chinese workers reported that their managers made

little effort to solicit their opinions. While that number has dropped by just over 10 percent, only a third were satisfied with their training opportunities and even fewer with their opportunity for long-term advancement. Furthermore, satisfaction with pay was just 24 percent. Mobility will continue to be a reality as cultural barriers towards changing jobs erode and Chinese employees seek better wages and advancement opportunities.

Of course, there are currently pockets of engagement in China. Over the past decade, the percentage of Chinese employees reporting that morale in their department is high has increased slightly, from 57 to 62 percent. The percentage of employees expressing overall satisfaction with their company as an employer has risen from 48 to 59 percent. These are noteworthy trends.

## FOUR STEPS TO TAPPING THE POWER OF EMPLOYEES

Both domestic companies and foreign multinationals in China face a host of issues: rising labor costs, more stringent employment laws, a shortage of skilled employees and managers, larger tax burdens, and volatile stock prices and exchange rates. The success of China's economy over the past decade has been dramatic and unique. However, the country's ability to evolve smoothly and prosperously toward an efficient and stable economic and political system is in question.

The good news? Our data indicates Chinese employees are a vast, untapped source of discretionary effort, and we see four ways that Chinese companies can use this tremendous resource:

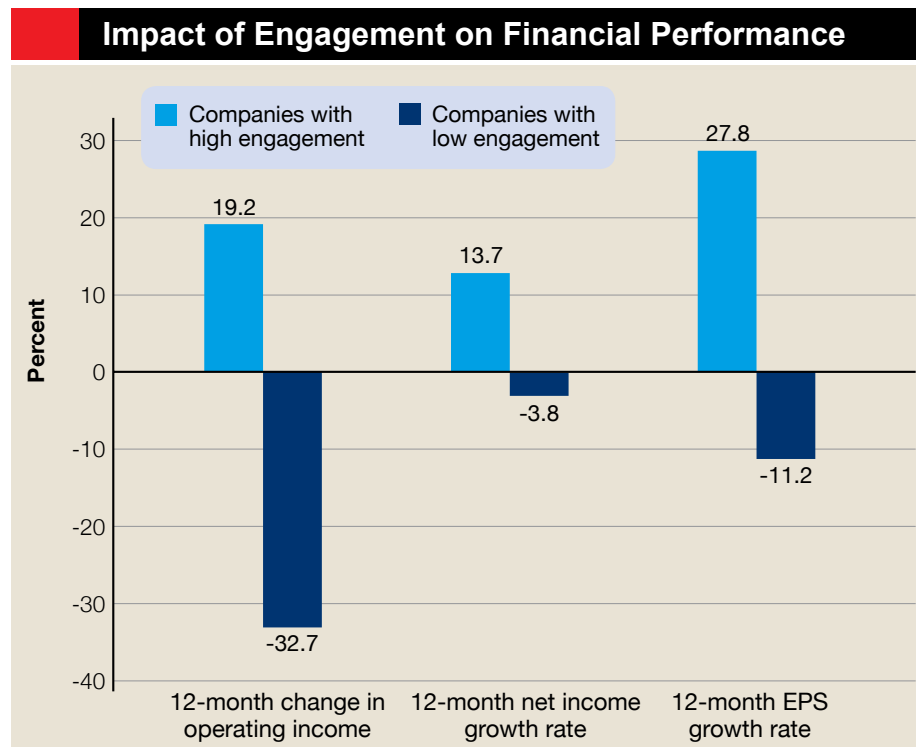
*Build on current strengths.* For the most part, Chinese employees report that they work for well-managed and well-led organizations that tend to be economically successful. Two-thirds of Chinese employees say their company is well managed, up from 58 percent in 1996. Three-quarters think their top management has a well-formulated business strategy for the present, up from 68 percent in 1996. And 80 percent agree their top management has a clear vision for the future, up from 76 percent in 1996. But management teams need to build on these strengths with clear, focused and continuing

communication, and reward strategies that align desired behaviors with required performance results.

*Make rewards strategic.* Despite spectacular economic growth, Chinese employees' level of satisfaction with their compensation has actually declined marginally since 1996 (from 27 to 24 percent), well below pay satisfaction levels in neighboring countries. Digging deeper into this issue, we also find that satisfaction with internal pay differentials in China—people feeling fairly paid in comparison with others in their company—has dropped from 47 to 38 percent. In addition, employees' satisfaction that their company pays well in comparison to others declined marginally as well.

These downward shifts indicate growing frustration and mistrust that can, over time, lead to a more serious erosion of employee engagement and performance. Our study of the impact of reward strategy on employee attitudes and behaviors shows that fairness is one of the fundamental principles employees look for. People need to know their company sets pay fairly—relying on a sound compensation system and reasonable assumptions about job value and level of contribution—and, even more critically, that it implements its pay system fairly. When people believe they are rewarded in a manner and level commensurate with what they do and how well they do it, they focus on other aspects of work, engaging their heads, hands and hearts to give discretionary effort freely and consistently.

*Focus on training.* China faces a challenge in sourcing and developing a skilled workforce of sufficient scale and breadth to meet its dual objectives of global economic and political prominence. It is clear that Chinese workers want training and development opportunities. According to our most recent employee research, the top driver of higher engagement is employees' trust that they have excellent career advancement opportunities. Yet, only 49 percent of employee respondents in China rated their company highly in this regard. Organizations that invest in appropriate training will not only equip themselves to compete more effectively on the global stage, but will also build a foundation for more workplace engagement.



SOURCE: TOWERS PERRIN

*Enable management talent.* Recognizing China's demand—and the sizable gap in the available supply—there is a clear need to develop new management talent and better enable existing management. Chinese workers respect their managers and respond to them. Liu Xueqin, a researcher at a think tank affiliated with the Chinese Commerce Ministry, said recently, “For years, China has beaten its competitors with low costs. This strategy has now run its course.” Chinese organizations must now engage their workers, and to do that they first need to engage the supervisors and managers.

Our data confirms that Chinese employees have a positive view of both senior leaders and their immediate managers in many respects, but that view is by no means an overwhelming endorsement. Chinese companies will have to work at helping their managers build a more collaborative work environment, deal with performance issues and convey that both the organization and its senior team have workers' well-being in mind when making decisions. For employees, these are not academic notions but visible signs of the kind of work experience and environment they want, the aspects that matter to them in strengthening their rational, emotional and motivational bonds with their organization over time.

## CONCLUSION

There is no doubt that China faces some very significant challenges, from improving the environment to addressing safety for workers and in products, to growing beyond the “China price” as its source of competitive advantage. It also needs to recognize that employees are assets to be invested in rather than costs to be managed. For the enterprises that recognize the importance of employee engagement, significant opportunities lie ahead, both in the emerging market economy of the present and in the maturing market economy of the future. 🇨🇳

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