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US-China Business Council 36th Annual Membership Meeting

**China HR Trends and Best Practices in
the Economic Downturn**

June 2, 2009

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From the Headlines

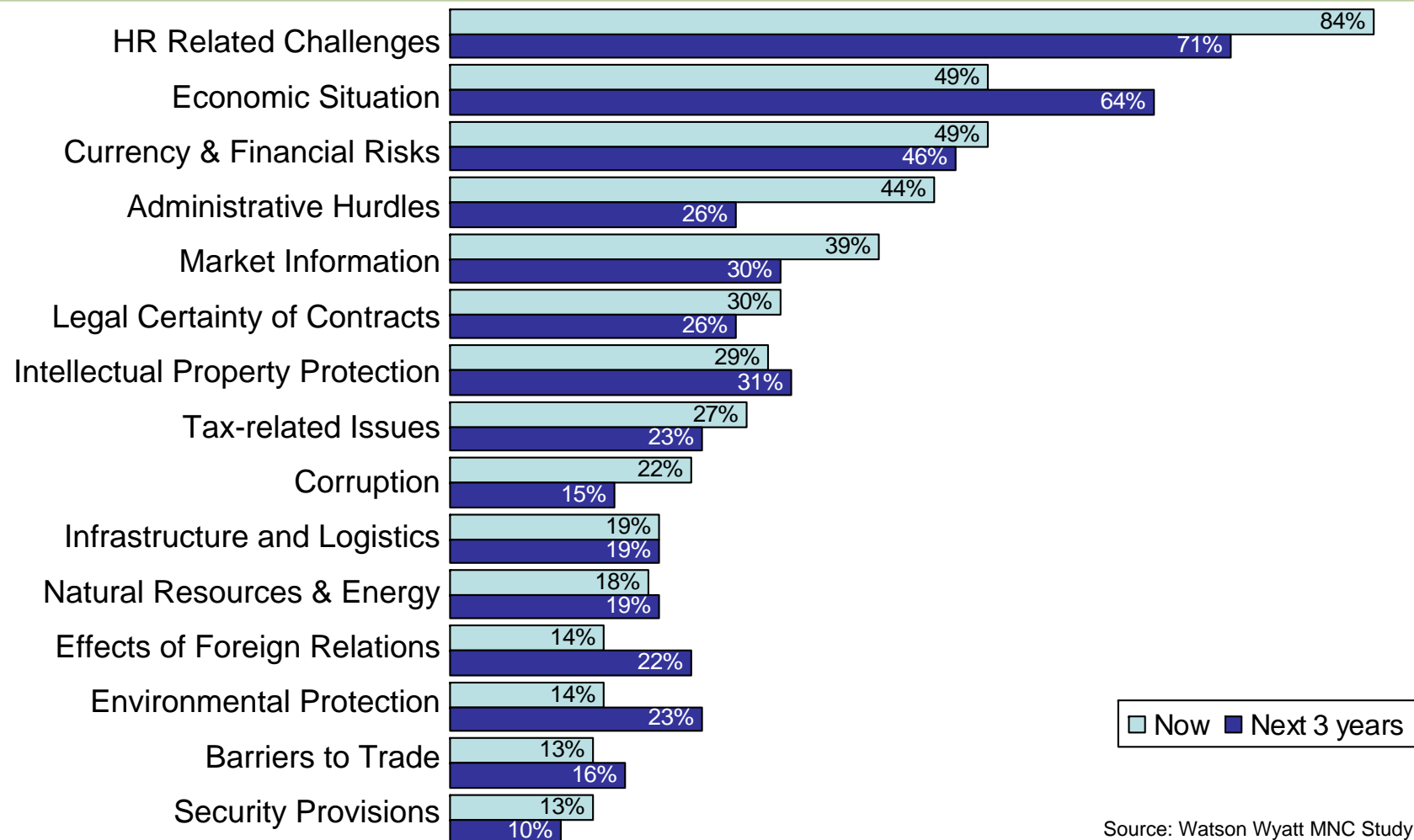
Worker striking – angry
about salary cuts

Planning to cut salaries and
discharge employees

Labor disputes and protests over
lost back wages have surged

What's Top of Mind for MNC Executives

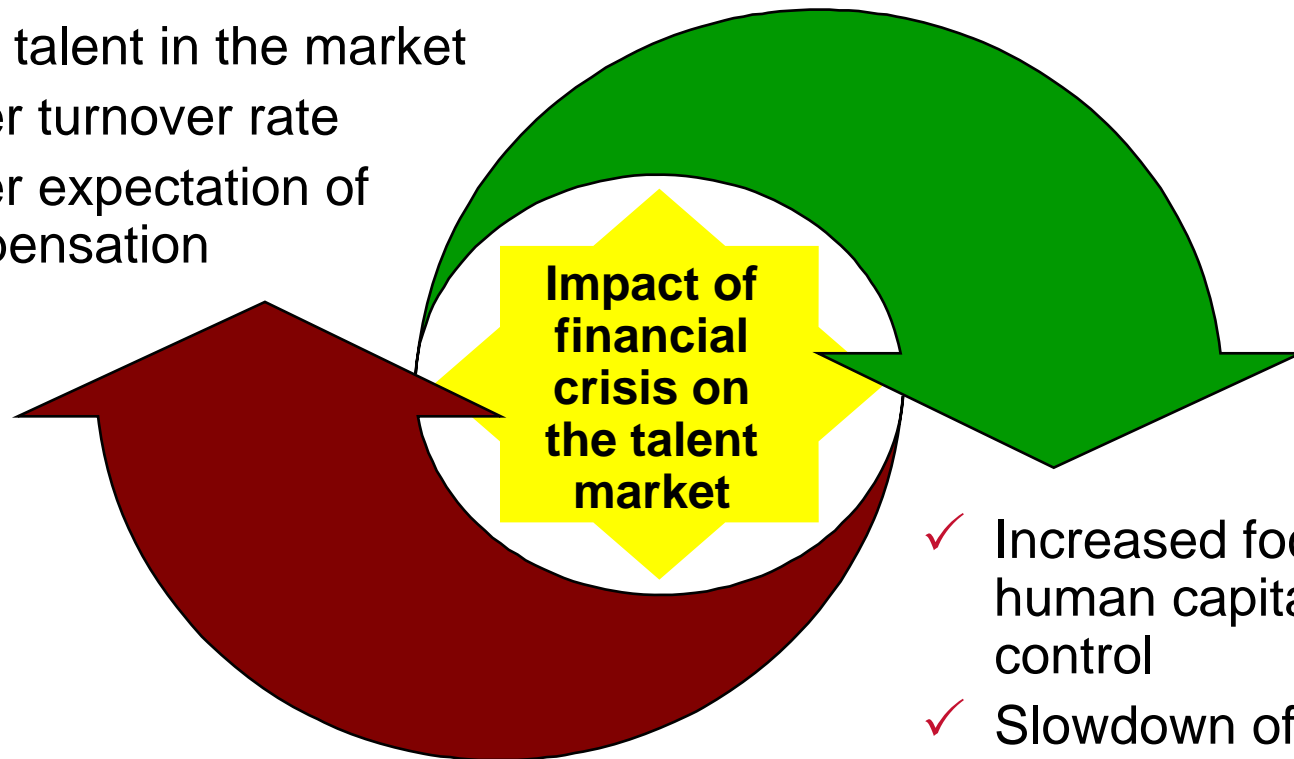
HR-related challenges are top of mind for executives of multinationals with employees in China



Source: Watson Wyatt MNC Study

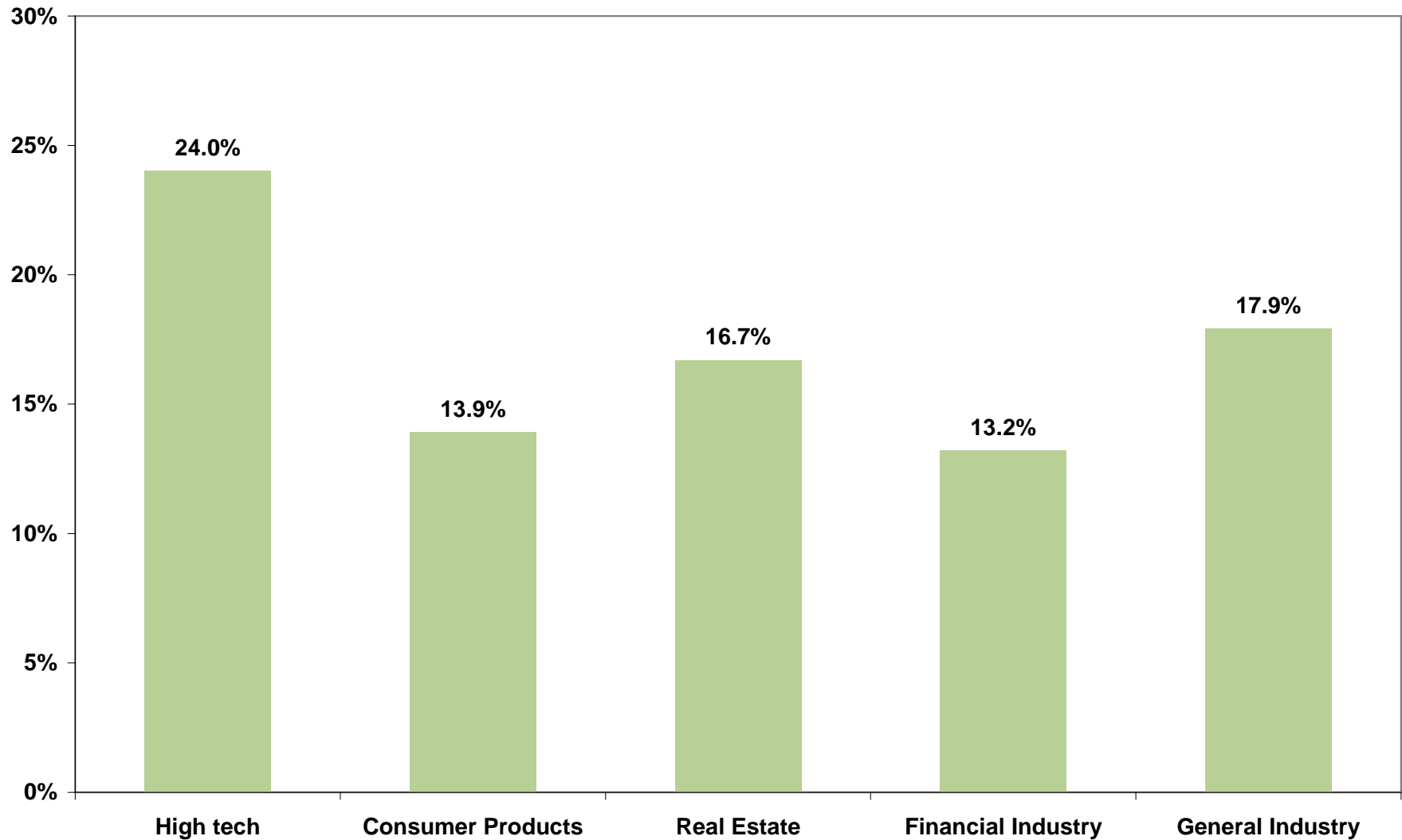
Economic Impact on the Talent Market

- ✓ More talent in the market
- ✓ Lower turnover rate
- ✓ Lower expectation of compensation



- ✓ Increased focus on human capital cost control
- ✓ Slowdown of growth
- ✓ Layoffs
- ✓ Recruitment freeze

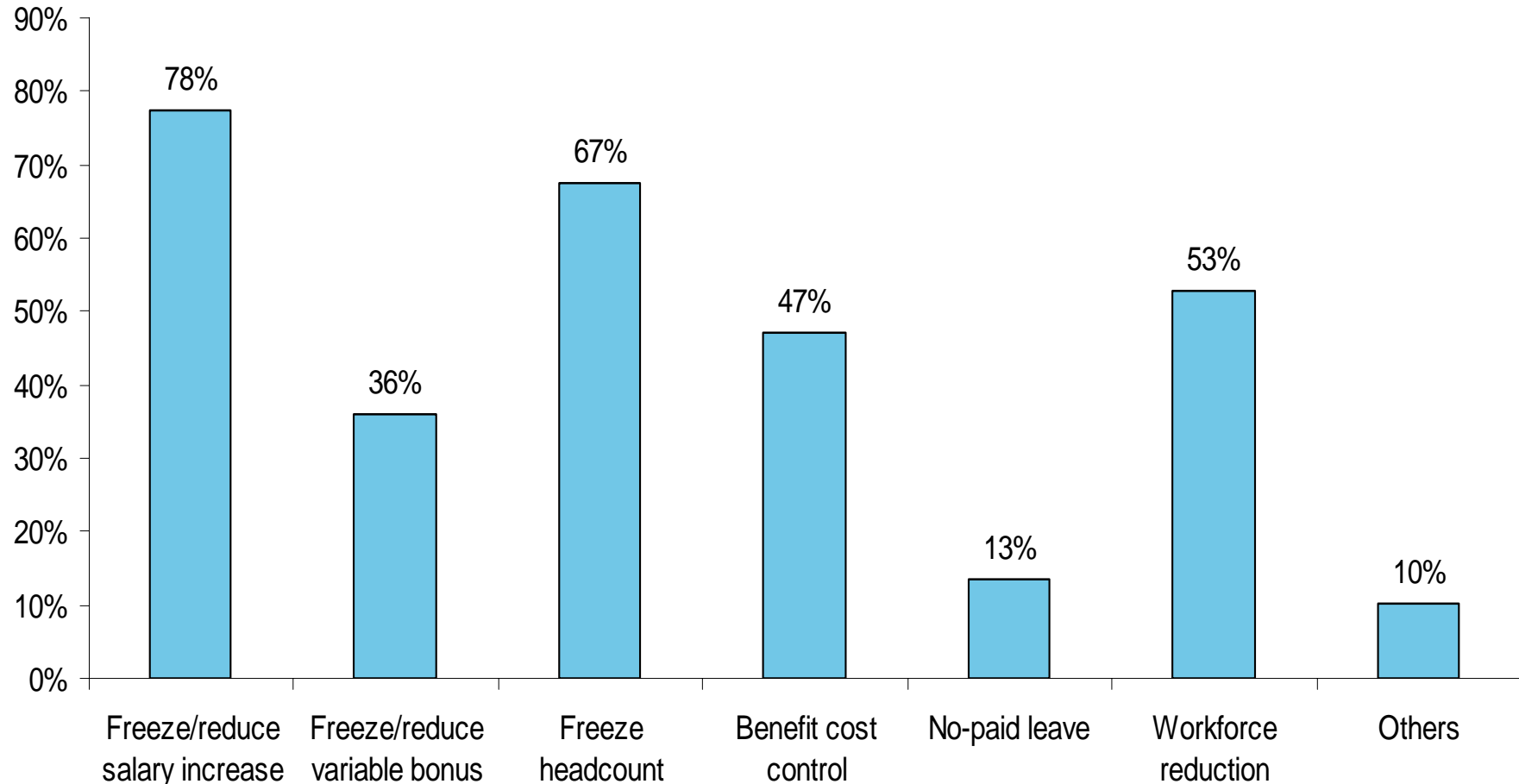
2008 Turnover In China Indicated a “Hot” Market...



Source: Watson Wyatt HR Trends Update, January 2009

But 2009 Will Require Cost Controls

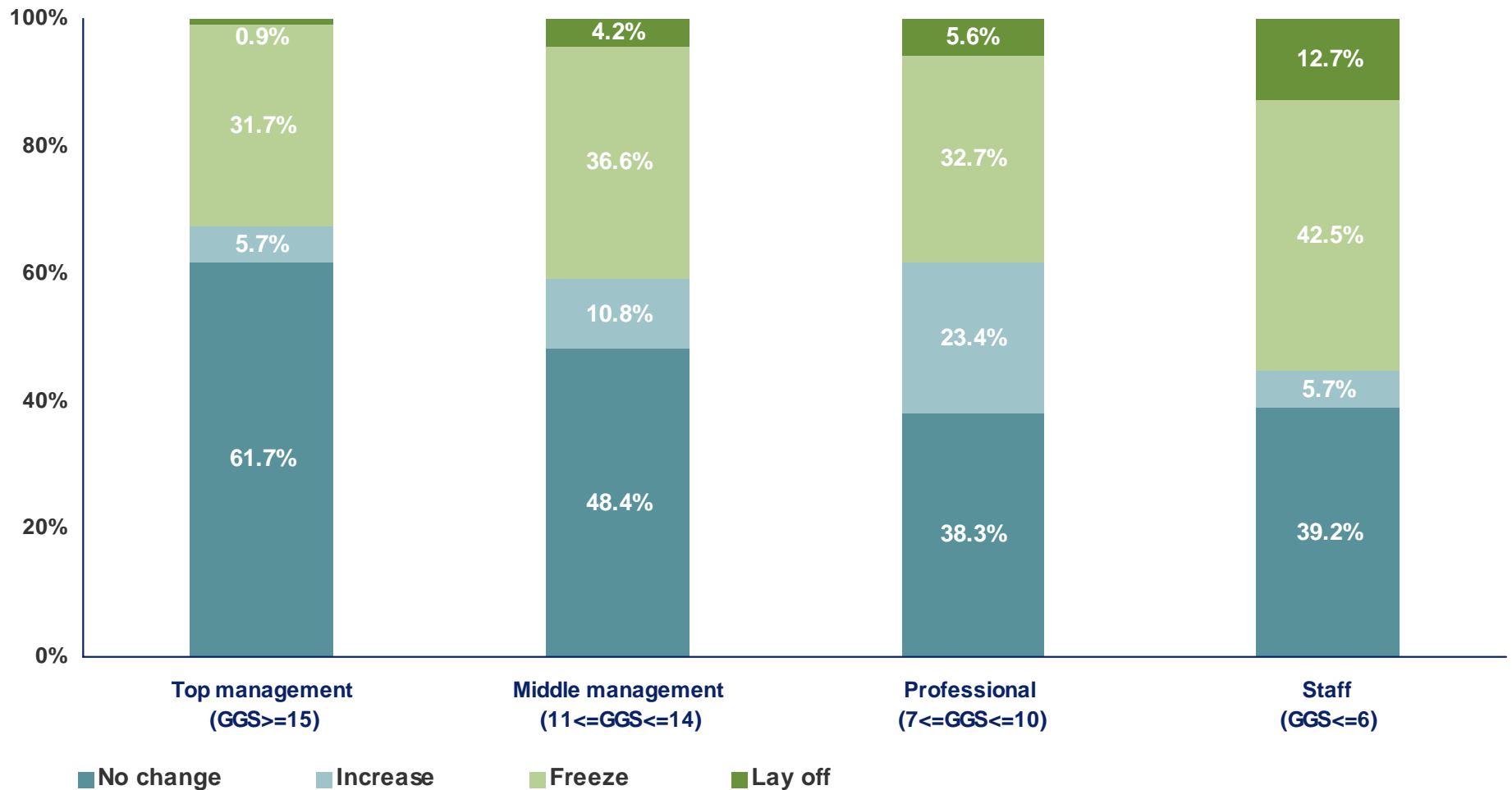
Types of Cost Control Measures



Source: WW Workforce Realignment Survey – China

Headcount Reductions Vary By Level

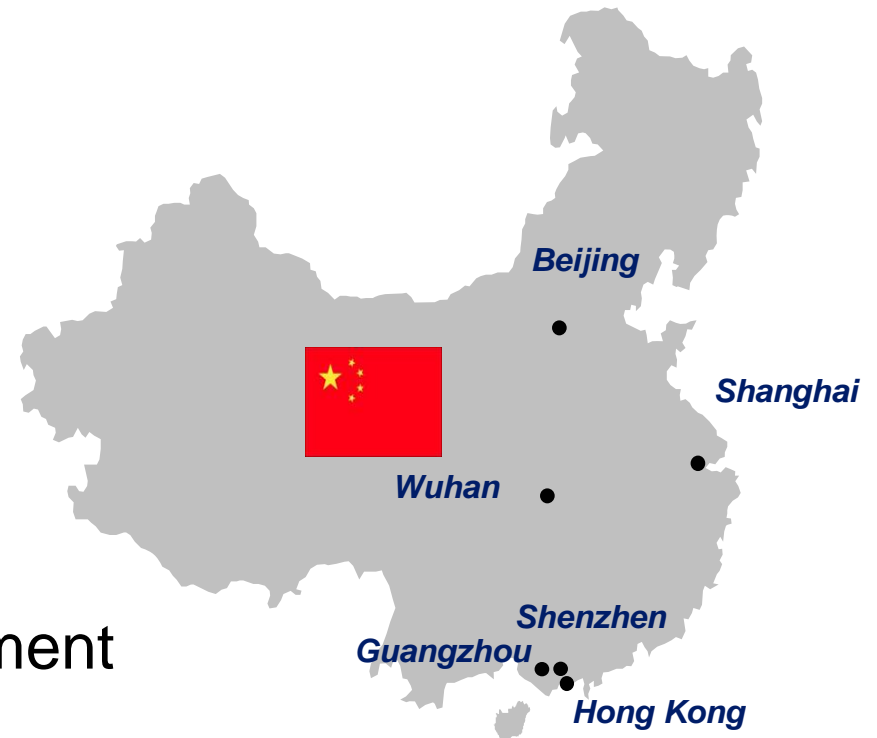
2009 Headcount Management



Source: Watson Wyatt HR Trends Update, January 2009

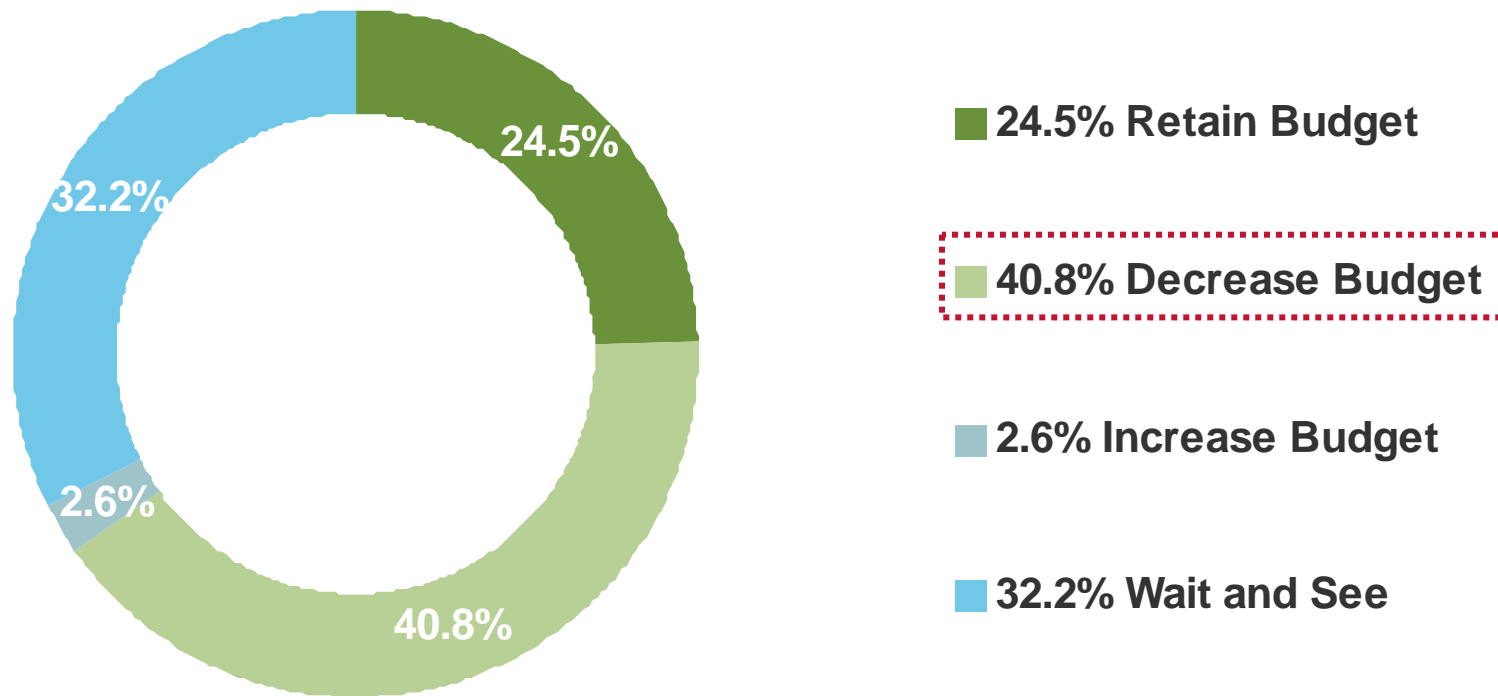
Special Considerations for Headcount Reductions in China

- China's Labor Law
- Chinese Unions
- Face
- Tight labor market
- Dynamic Business Environment
- Government Policies



Decrease In Salary Increase Budgets

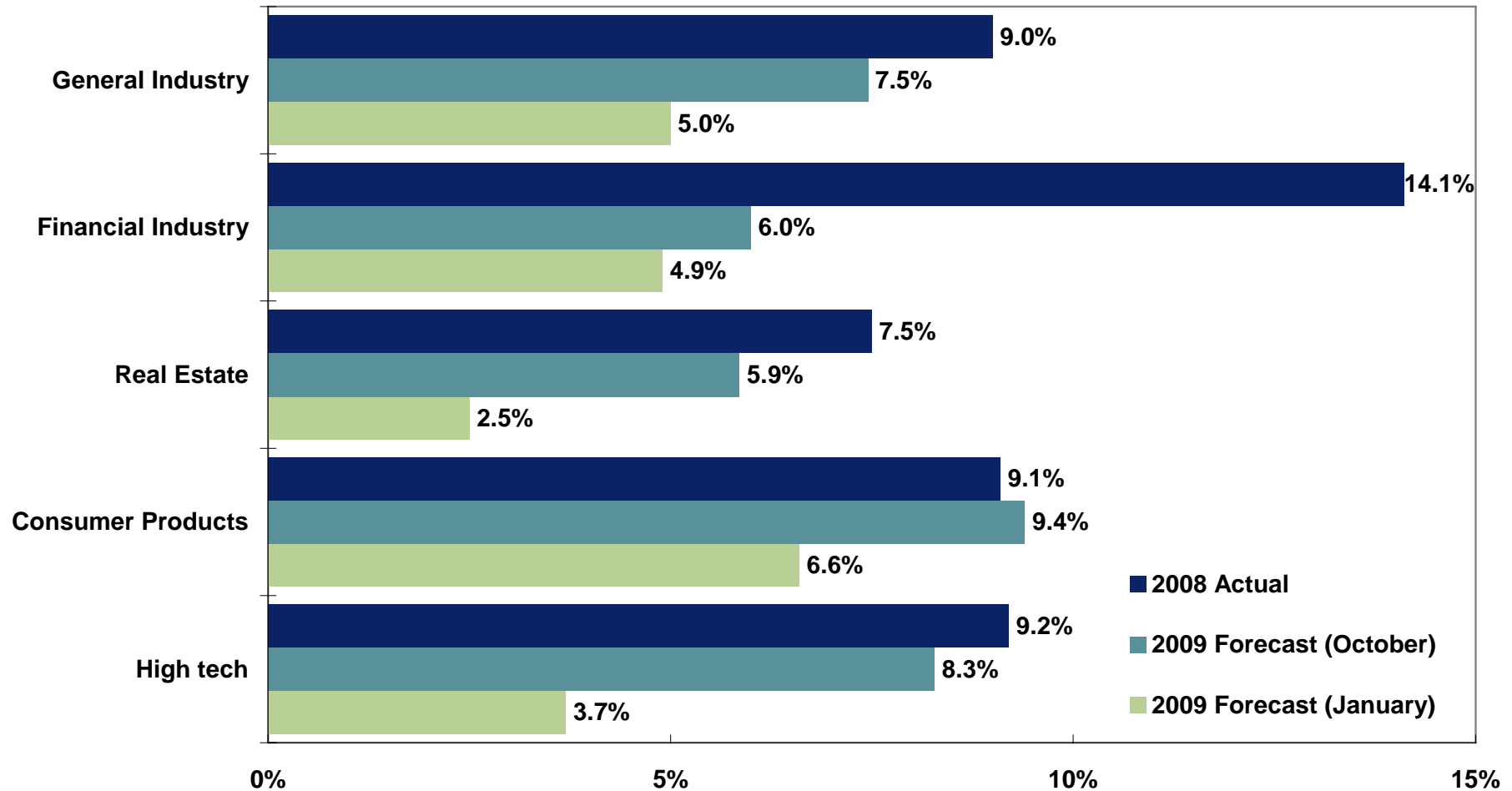
Adjustment of Salary Increase Budgets



Source: Watson Wyatt HR Trends Update, January 2009

Decrease In Salary Increase Budgets

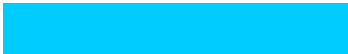
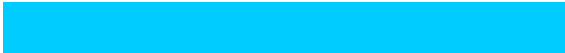


2009 Forecast Salary Increase Trend



Source: Watson Wyatt HR Trends Update, January 2009

Differentiating Annual Incentives Based on Performance

Chinese employers are achieving differentiation in annual incentives based on performance

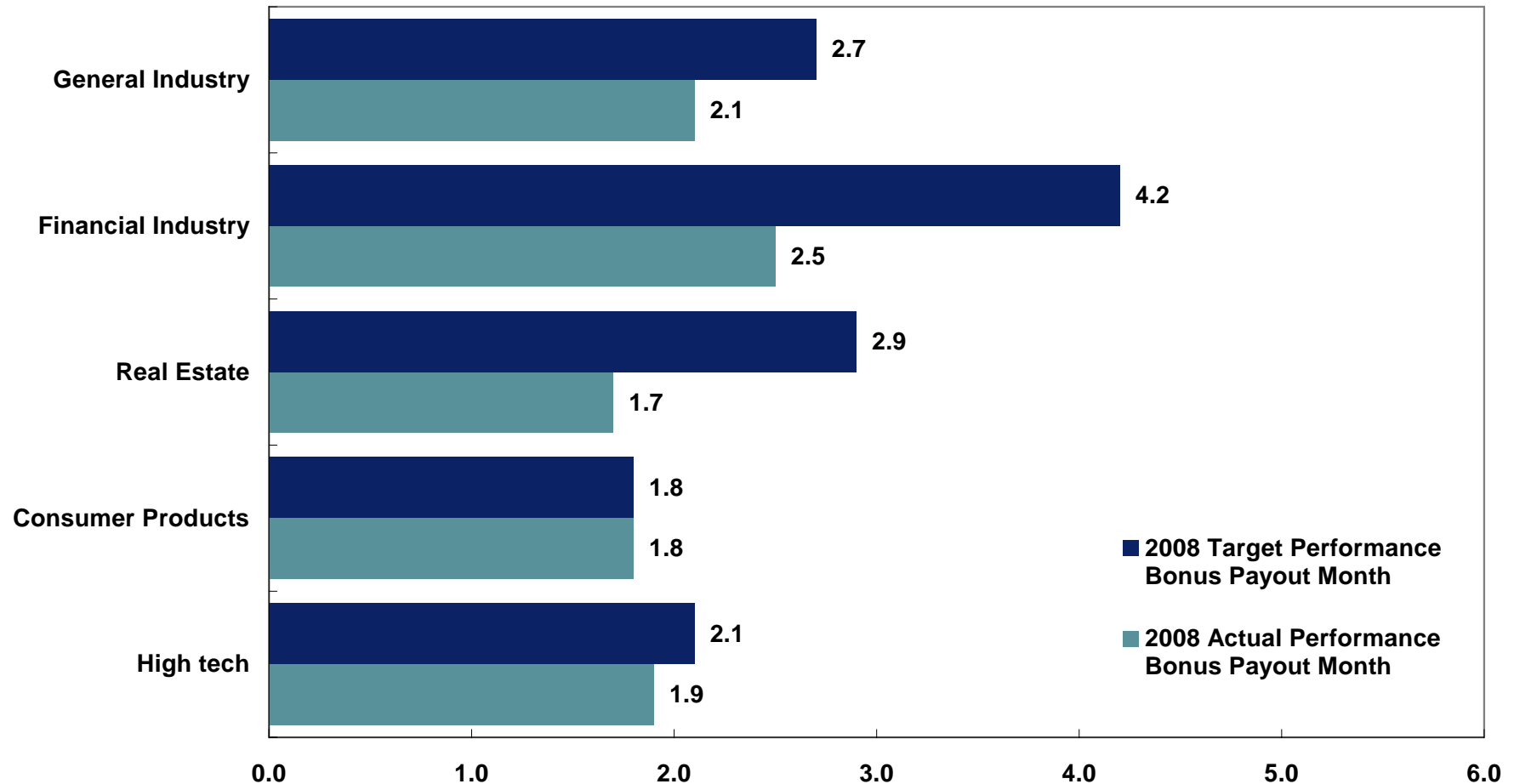
Did not meet expectations	0%
Partially met expectations	 50%
Met expectations	 100%
Exceeded expectations	 120%
Far exceeded expectations	 150%

 Median annual incentive as percentage of incentives for “met expectations”

Source: Watson Wyatt's 2008/2009 Strategic Rewards Survey - Mainland China

Bonus Payouts Falling Short

2008 Actual Performance Bonus Compared with Target (Non-sales)



Source: Watson Wyatt HR Trends Update, January 2009

Overview of Employee Benefits in China

Statutory	Typical Supplementary Benefits
<ul style="list-style-type: none">■ Medical■ Occupational Injury■ Maternity■ Unemployment■ Retirement■ Housing fund	<ul style="list-style-type: none">■ Supplementary medical■ Life / PA insurance■ Leaves■ Long term incentives – stock plans■ Car policy■ Housing arrangements■ Supplementary retirement■ Education assistance

Trends in Supplementary Benefits

Typical

- Annual leave
- Life / Personal accident insurance
- Supplementary medical insurance

Emerging

- Healthcare benefit
- Nationwide benefit integration
- Retention program instead of “benefits-for-all”
- Expatriate packages
- Flexible benefits (FLEX)

Economic Downturn Is Driving Shifts in Employers and Employees

Employers were focused on...

- Growing rapidly
- Attracting and retaining most employees
- Expanding corporate investments



Now focused on...

- Contingency planning
- Attracting and retaining critical-skilled employees
- Controlling costs

Employees were focused on...

- Frequently changing jobs
- Building short-term income increases
- Managing workload



Now focused on...

- Finding job security
- Seeking retirement benefits
- Managing increased on-the-job pressure

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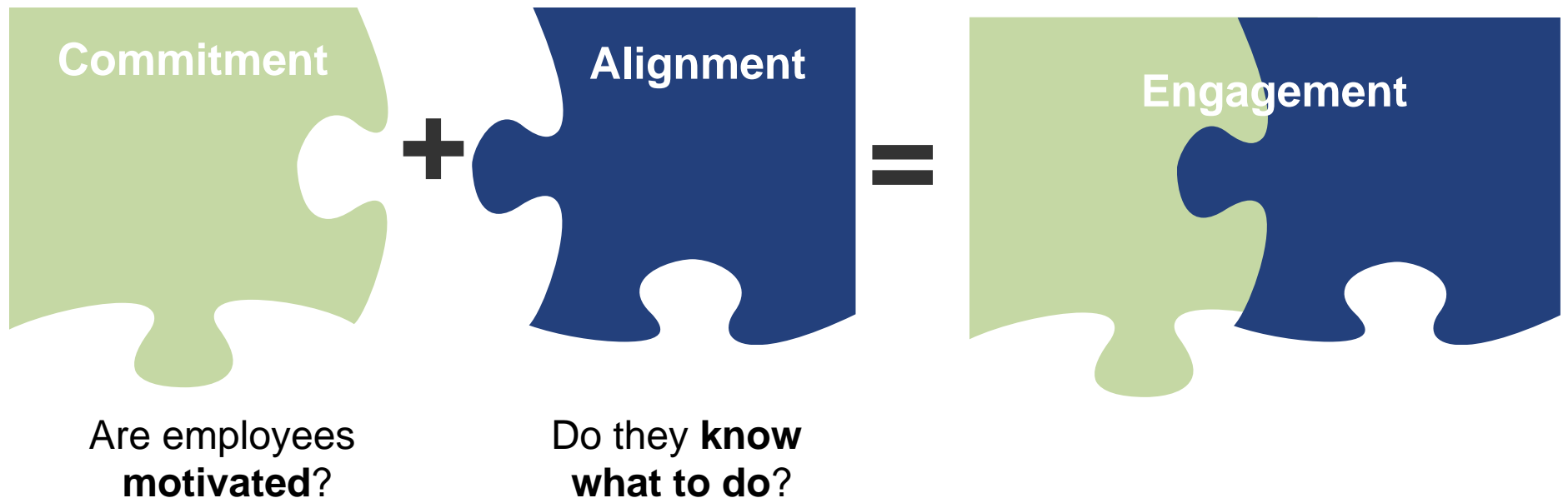


Engaging Chinese Employees in the Downturn

The Downturn and Engagement

What is Engagement?

Watson Wyatt research shows engagement occurs when employees are motivated to help the organization succeed (commitment) and know what to do in order to make it successful (alignment).



Watson Wyatt's Global WorkAttitudes

Global WorkAttitudes is ...

One of the world's most statistically-representative studies of worker attitudes.



Global WorkAttitudes encompasses ...

Over 250 questions across a wide variety of topics from all job levels and all major industries.

Impact of Engagement on Your Company

Companies that **improve engagement** levels can expect higher subsequent overall **financial** returns.



Employees with high engagement work at companies with:

- 16% higher 5 year total returns to shareholders over five years
- 50% higher market premium
- 26% greater employee productivity

Source: Watson Wyatt's 2008/2009 WorkAttitudes

Impact of Engagement on Individual Performance

- Highly engaged employees are 3.7 times as likely to be **top performers**.
- 38% of them **exceed performance** expectations.
- Fewer days of work are missed due to illness.
- They more readily **identify with the company**, products and customers.
- Have three times higher **intention to stay** at the company



Highly Engaged Employees are key to driving business growth

Source: Watson Wyatt's 2008/2009 WorkChina

Engageable Moments are Easy to Find

Engageable moments occur as a result of **formal HR programs** such as onboarding, performance management, communication, and annual benefits enrollment

Recruiting

Onboarding

Training

Managing major change

Senior leadership communication

Advertising and public relations

Benefits enrollment

Employee surveys

Goal setting

Ongoing performance feedback

Coaching and mentoring

Annual performance reviews

Career development

Personalized communication

Retirement

Recognition programs

Source: Watson Wyatt's 2008/2009 Global WorkAttitudes

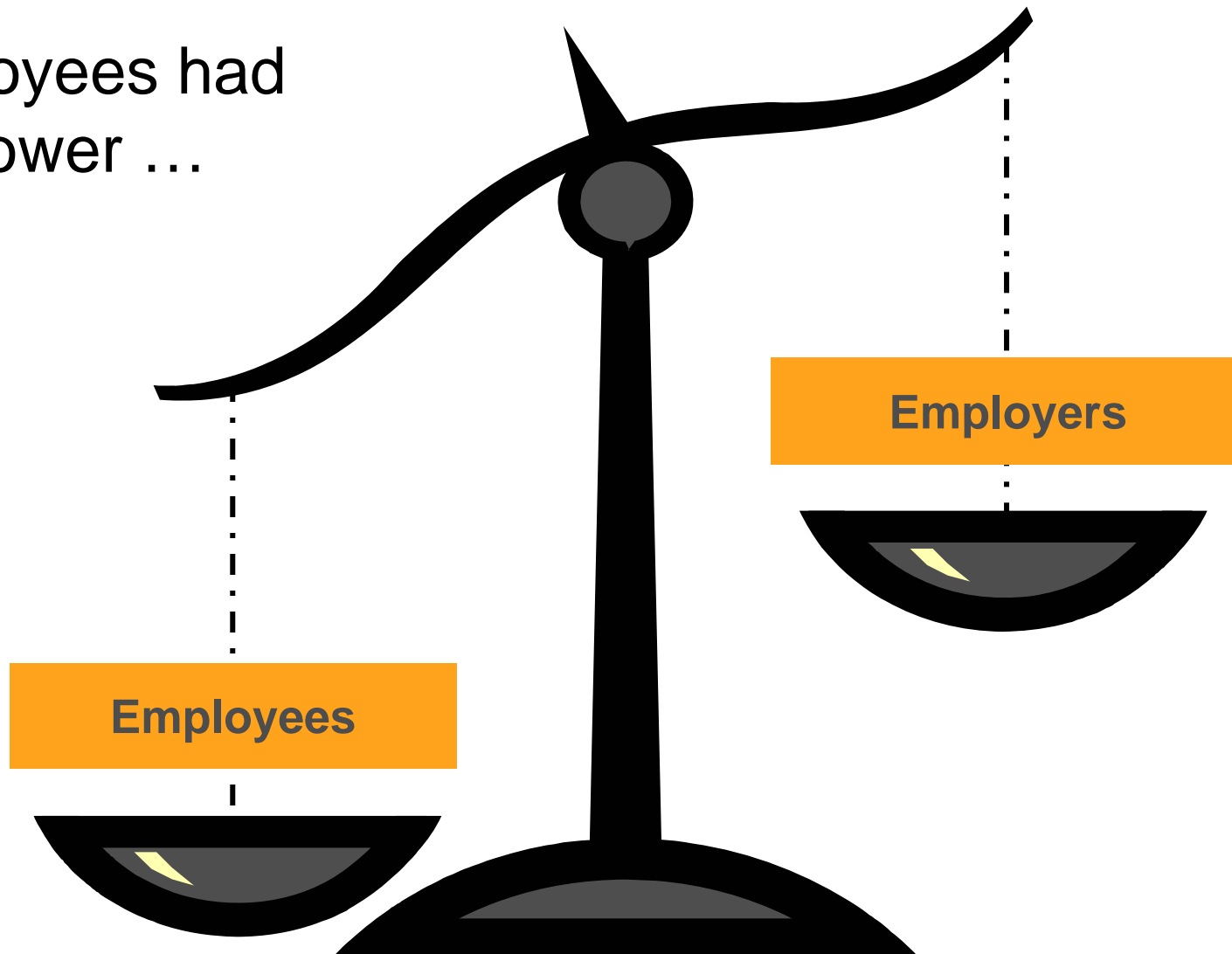
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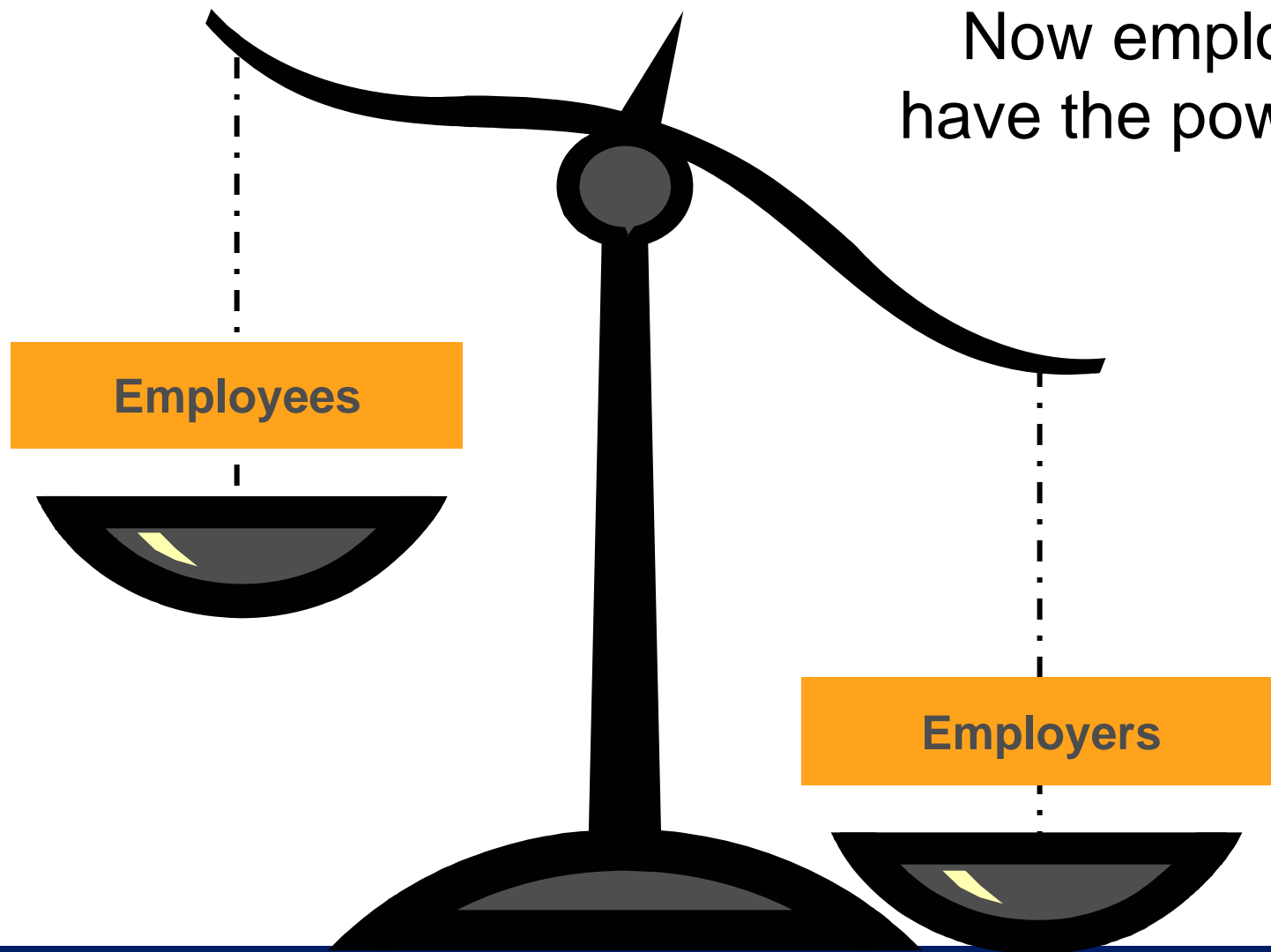
Considerations Moving Forward

Shift In Power

Employees had
the power ...

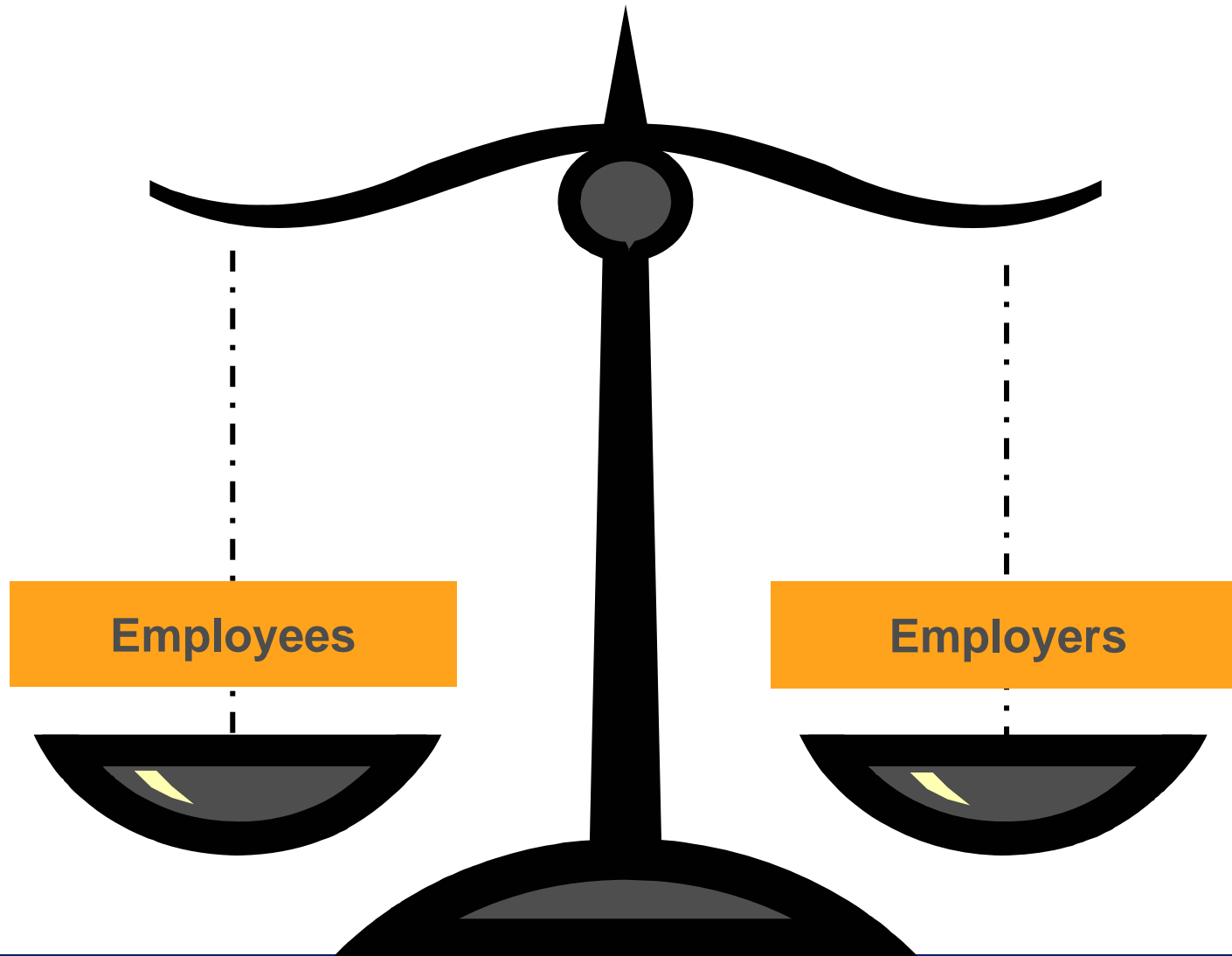


Shift in Power



Now employers
have the power...

Need to Strike a Balance to Avoid Negative Consequences



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