

Not enough people in China

A shortage of staff means employers will take more risks in 2008

Ask senior executives about their main concerns for the year ahead, and the “shortage of talent” will come at or near the top of the list. Surely help is at hand, with the world’s most populous country now open for business? Alas, no: even China has a talent shortage.

It is an odd discovery to those without much experience of the country. In almost every business and every industrial sector, the biggest problem facing employers is a lack of qualified people. It will get noticeably worse in 2008, for several reasons.

First, investment. Flush with cash from Hong Kong IPOs, a new wave of investment will create lots of new jobs in 2008 as Chinese firms expand. Many will seek to grow internationally too, bringing added troubles. What these companies lack are the skills needed to achieve their goals. Nor do they have the time it takes to develop them. So they will poach the staff they need from rivals.

Second, demographics. Thanks to the one-child policy introduced in 1979, the number of workers in their late 20s will shrink further in 2008. Businesses, which typically select the best of this age-group for supervisory jobs or the fast-track to management, will increasingly find a much smaller talent pool to fish from.

Third, migrant workers. The flood will slow to a trickle in 2008. Until now, migrant workers coming from the western provinces have fed the bottom end of the labour market in the richest parts of China. But following government efforts to set up factories away from the coastal regions, and with the drop in the number of people entering the workforce, fewer inland workers will bother to make the trip.

The search for more senior managers, those who can lead businesses in China, will get tougher in 2008 too. The shortage of bosses has been acute for several years, but with more demand and little new supply it will become even more of a headache.

China’s universities and many schools were closed for ten years during the Cultural Revolution. This means that most people in their late 50s and early 60s have had little or no formal education. The majority lack any experience of working outside the state sector. Although the government has been hurriedly trying to train the best of them, the demand for top managers will exceed the supply in 2008.

Nor can China’s existing skills problems be fixed easily. Much of the shortage of qualified staff is the result of the education system, which has not been able to keep up with China’s fast-evolving labour market. The schools system still teaches by rote, producing people who foreign employers often say are inflexible, lacking in creativity and initiative. Staff turnover is very high, too. It is not uncommon for fast-expanding

factories to find that 40% of their staff are new each year. Wages have also been rising quickly. It is now cheaper to employ factory workers in Malaysia than in parts of China and senior managers often cost more in China than in Europe.

With the outlook less rosy still, what will employers do? According to Michael Bekins of Korn/Ferry in Hong Kong, there will be a shift in the mindset of head-hunters and HR bosses in 2008. "Developing retention plans will become a bigger issue than recruiting," he says. He thinks managers will start being measured explicitly on how well they keep their team.

Jürgen Kracht, the head of Fiducia, a China-specialist consultancy, says there will also be "many more Chinese returnees and more Asians moving from countries like Singapore and Malaysia" to make up the shortfall. This, he says, means that the shortage will be exported to the rest of the region.

Employers are also likely to take more risks in 2008 to entice the best, or even the very-nearly-good-enough. Foreign and domestic companies will bring more expatriates from Europe and America. As well as raising costs further, the newcomers will bring new headaches. Without any experience of working in such a difficult place more mistakes will be made, resulting in more product recalls and safety scares. There will also be a trend towards promoting people before they are ready, of "placing people in big shoes", says Vanessa Moriel of Human Capital in Shanghai. Tax-saving pay deals, where part of someone's salary or a sign-on bonus is paid in vouchers or overseas, will become more common in 2008, as employers try to find cunning ways of paying people more, more cheaply.

"Foreign companies risk doing deals in China that they would never do in Europe or the United States," says Mr Kracht. Yet for many companies bending the rules and making compromises will be the only way they can attract the skills they need in China in 2008.