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About the survey

Recently, more and more companies in China are attaching importance to people issues, especially talent management. Ernst & Young (China) Advisory Limited (hereinafter as Ernst & Young) sponsored a Talent Management Survey in 2008. More than 60 MNCs took part in the survey. Based upon their feedback, Ernst & Young published the Talent Management in China Survey report.

After two years, Ernst & Young took this survey again in 2010 to help companies in China systematically review their current status and find the trends of talent management in China market. Meanwhile, in 2010 survey, we also involved local companies' feedback so that we can show a whole picture about talent management in terms of comparison between foreign and local companies. In future, Ernst & Young will take this survey every two years regularly.

This survey comprises six sections:



You will find the following key messages from this report:

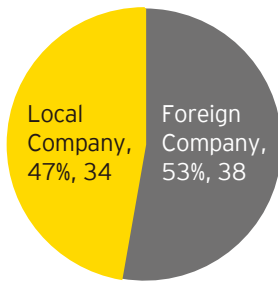
- ▶ Key findings of this survey and drivers analysis.
- ▶ Changes and implications of talent management in companies in China in the past two years.
- ▶ Difference in talent management between foreign and local companies, and the corresponding reasons.
- ▶ Implications to improve HR management.

Executive summary

Survey participants overview

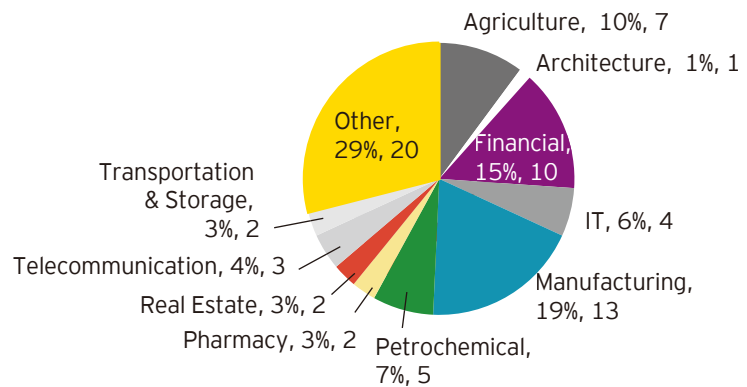
A total of 72 companies from different sectors, with different properties and scales participated in this survey

38 foreign companies and 34 local companies took part in the survey.



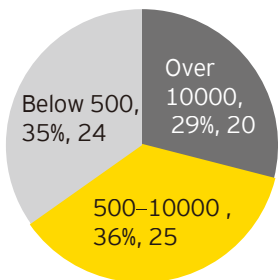
Based on responses from 72 companies.

Among the companies included in the survey, these were the most responsive sectors: manufacturing (13), financial (10), agriculture (7).



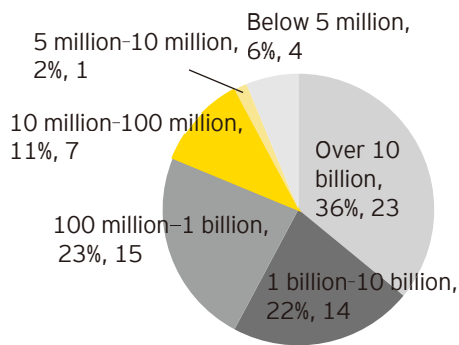
Based on responses from 69 companies.

Around one-third of responding companies were small scale (<500 employees), one-third were medium scale (500 - 10,000 employees), and one-third were large scale (>10,000 employees).



Based on responses from 69 companies.

Sales volume of 81% of companies is over 10 billion, among whom 23 companies' sales volume are over 100 billion.



Based on responses from 64 companies.

Participant list of a part of responding companies who were willing to disclose their names

- ▶ Schneider Electric (China) Investment Co., Ltd.
- ▶ Lafarge
- ▶ GSK
- ▶ Aviva-COFCO Life Insurance Co., Ltd.
- ▶ Thomson Reuters
- ▶ New Zealand Trade & Enterprise
- ▶ Albemarle Management (Shanghai) Co., Ltd.
- ▶ CHIC Group
- ▶ Dongfeng Peugeot Citroen Automobile Co., Ltd.
- ▶ Card Center of China Merchants Bank
- ▶ China Datang Finance Co., Ltd.
- ▶ Behr Asia Pacific Mgt (Shanghai) Co., Ltd.
- ▶ Jianxing Group
- ▶ China Recycling Energy Corporation
- ▶ Qingdao Lidong Chemical Co., Ltd.

In addition, this survey covered global leading or domestic leading companies from the following industries:

- ▶ High-Tech companies
- ▶ Commercial banks
- ▶ Real estate companies
- ▶ Internet companies
- ▶ Manufacturing companies
- ▶ Retailing chain companies
- ▶ Electronic commerce company



Key findings and implications

General feedback in each main aspects from participants

In general, local and foreign companies in China make lots of efforts in the talent management area and get some positive results initially along with more and more companies being aware of talent's strategic importance to business success and the organization's long-term sustainable development, though these companies are still facing lots of challenges.



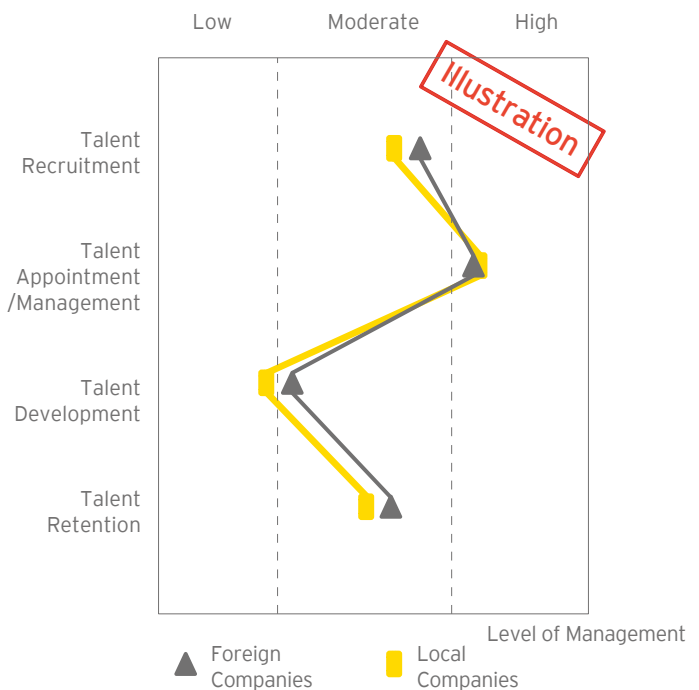
Key findings and implications

Comparison between feedback from foreign and local companies

Looking at foreign and local companies in China, there are many similar aspects in talent management, which proves that the gap of talent management level between these two groups is narrowing, and in certain areas, local companies have surpassed foreign ones.

Of course, in some given areas, local and foreign companies have notable differences.

- ▶ In recruitment, the challenge to foreign companies is the difficulty of providing enough and clear career development space and specificity of corporate culture. For local companies, their challenge is limited salary competitiveness.
- ▶ In people management, local companies have larger span of control and better empowerment than foreign ones. But in the performance management area specifically, foreign companies perform better than local ones.
- ▶ In talent development, the effectiveness of the competency model and training systems in foreign companies is visibly better than local ones.
- ▶ In talent retention, foreign companies perform better than local ones in career path planning and long term incentive areas.



Key findings

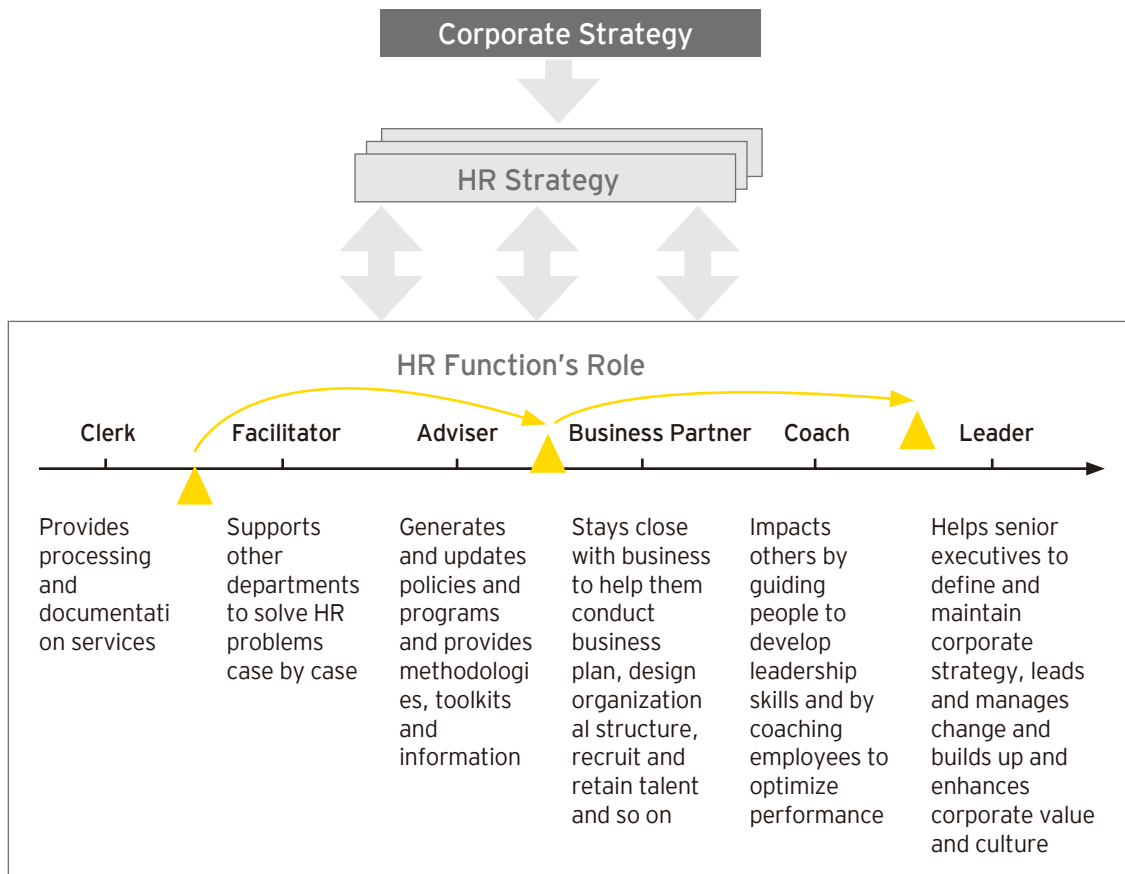


A majority of companies have established a clear corporate strategy but the implementation should be strengthened. The value of HR function in an organization is increasing while HR strategy plays a more important role than ever.

Most of companies have already had clear corporate strategies in place. Over 40% of companies communicate their strategy with all employees. Most of companies can break down their strategy to some extent to ensure it can be implemented and achieved.

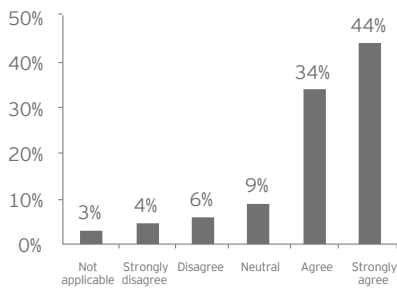
Sixty-seven percent of companies have a clear HR strategy, among which 42% of companies prefer to review their HR strategy at least once a year and 25% review less frequently every three years. Comparing with the results in 2008, there is a trend that companies tend to review their HR strategy on a longer term basis.

HR function's role of companies operating in China has changed in the past two years. The current roles of the HR function are usually "Business Partner", "Coach" and "Adviser". To be a "Leader" is always the ideal role for HR practitioners. It is related to different stages of companies' growth and the HR positioning defined by the company.

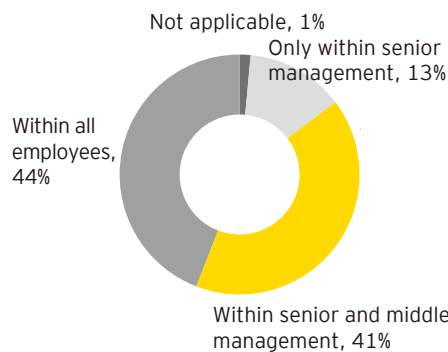


Corporate strategy: Nearly 78% of companies are confident that they have already had a clearly defined strategy in place. 41% of companies communicate their strategy with middle management and senior management. Most companies believe they break down their strategy to a tactical or even operational level to some extent.

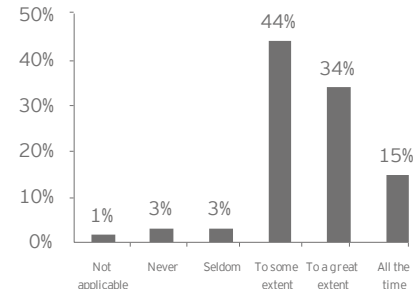
Q1-1: Your organization has a clearly defined strategy? (Based on responses from 68 companies)



Q1-2: To what extent has your corporate strategy been communicated with employees? (Based on responses from 68 companies)



Q1-3: The strategic goal is cascaded down into responsibilities and performance objectives for each managerial job? (Based on responses from 68 companies)



► Nearly 78% of companies are confident that they have already had a clearly defined strategy in place and there is a small increase compared with the results in 2008 (75%).

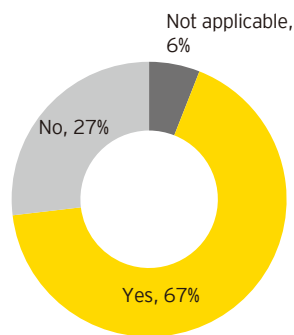
► Forty-four percent of companies have communicated their strategy with all employees.
 ► 41% of companies communicate their strategy with middle management and senior management.
 ► Forty-seven percent of foreign companies choose to communicate their strategy with all employees, which is more than local companies (41%). But compared with the results in 2008, the portion decreased by 6%.

► Ninety-three percent of companies cascade down their corporate strategy to some extent, among whom 49% of companies can cascade down their strategy to a great extent.
 ► Ninety-seven percent of foreign companies cascade down their corporate strategy to some extent, which is better than local companies (88%).

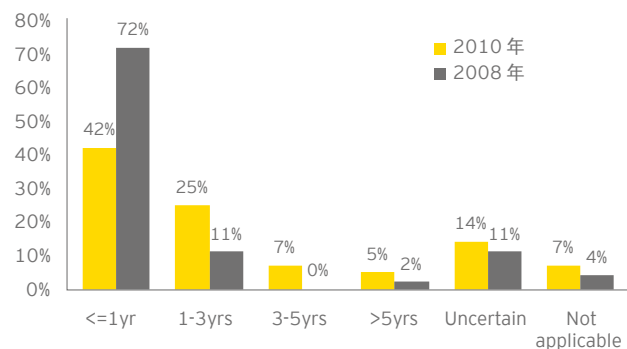
► The companies operating in China pay more and more attention to establish their corporate strategy. However, the efforts of strategy communication and implementation should be strengthened.
 ► Establishing a strategy based on a company's real situation is just the first step to drive business forward. Moreover, it is key to transfer strategic goals into reality that in what range and manner a company communicates and cascades down its strategy.

HR strategy: Sixty seven percent of companies have an established HR strategy, among whom 42% of companies review their HR strategy at least once a year and 25% review less frequently every three years. Compared with the results in 2008, there is a trend that companies tend to review their strategy less frequently.

Q1-4: Your organization has already established a Human Resource strategy? (Based on responses from 67 companies)



Q1-5: How often is the HR strategy reviewed in your organization? (Based on responses from 45 companies)



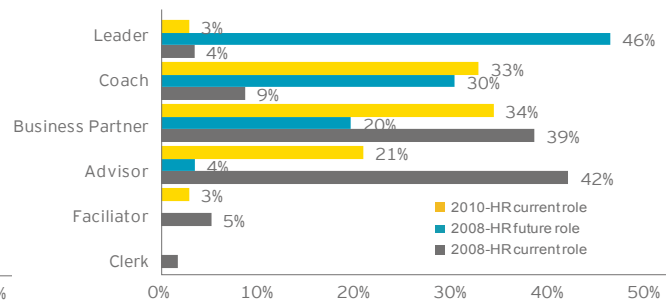
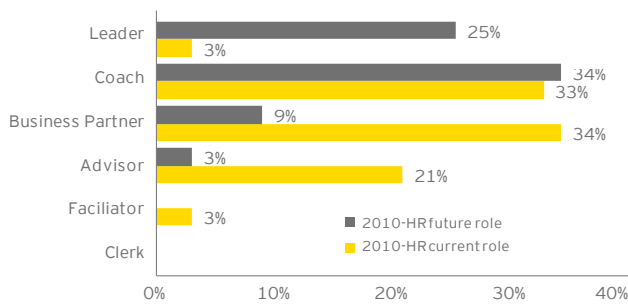
► Sixty-seven percent of companies have a clear HR strategy in place. Herein 71% of foreign companies and 63% of local companies have established HR strategy respectively.

► Compared with the results in 2008, there is a trend that companies tend to review their HR strategy less frequently.

- Foreign companies perform better than local ones in setting up HR strategy. To some extent, this is because the former can leverage their global or regional HR strategy to their local operation, and is also related to foreign companies' relatively mature HR management platform has higher requirements to having an appropriate HR strategy.
- The result in 2008 showed that nearly three quarters of companies reviewed their HR strategy once a year. This was due to the uncertainty of economic environment at that time which made lots of companies highly sensitive to the economic environment, thus, they prefer to review and adjust HR strategy, even business strategy more frequently. The results in 2010 shows there is a trend that companies tend to review their HR strategy less frequently. It indicates that the external market is becoming more stabilized, and also shows that companies' HR strategy is being mature.

HR Function's Role: HR function's role in the organizations operating in China has changed in the past two years. The current roles of HR function are usually "Business Partner", "Coach" and "Adviser". To be a "Leader" is always the ideal role for HR practitioners.

Q1-6: How would you describe your HR department's current role in the organization and its ideal role in the future? (Based on responses from 67 companies)



- ▶ Result shows that the current roles of HR function are "Adviser", "Coach" and "Business Partner".
- ▶ To be a "Leader" in the middle and long run is an ideal goal of HR function.

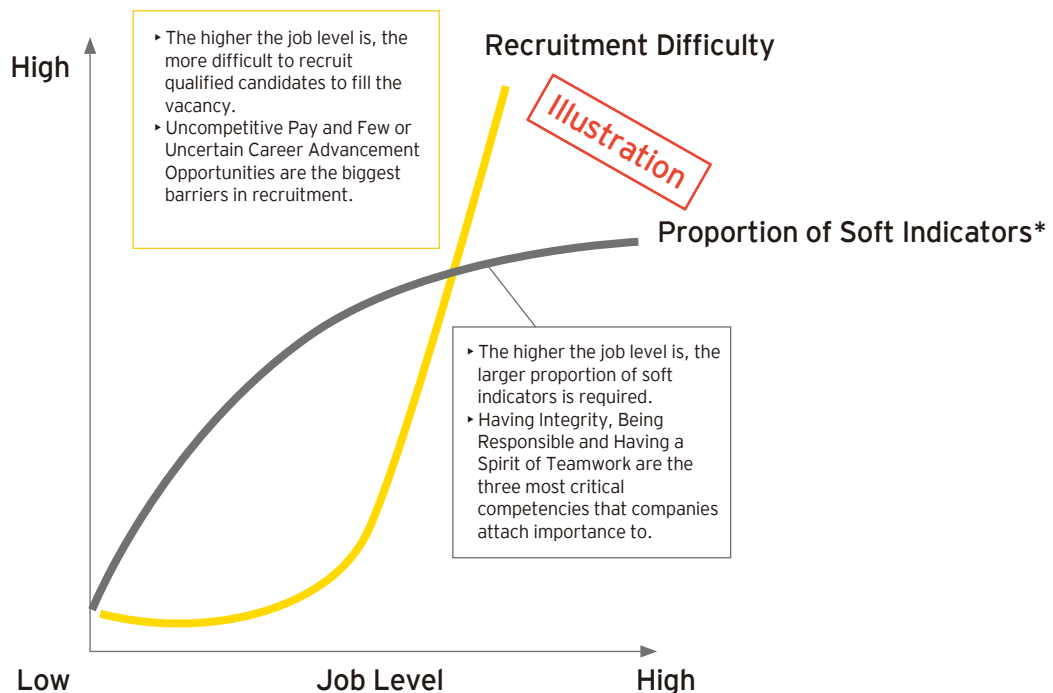
- ▶ Compared with the results in 2008, the HR function's role in companies has been improved (HR function's roles were "Adviser" and "Business Partner" in the 2008 survey). More and more HR practitioners are playing the "Coach" role in companies in 2010.

- ▶ HR Function's role is related to different stages of companies' growth and the HR positioning defined by the company.
- ▶ In order to achieve the objective of making HR the "Leader", strategic promotion of HR function's value is necessary, in addition, improving the strategic awareness, entrepreneurial thinking, standpoint and perspective of observing and analyzing things of HR practitioners are also very crucial.
- ▶ "Business Partner" is a necessary stage for HR to improve their roles in this spectrum. Accurate understanding of business, effective supporting and serving business development, can not only help HR practitioners to win respect from management team and staff, but also infuse new energy to their own jobs.



There is a positive correlation between job level and recruitment difficulty, as well as the portion of soft indicators in people assessment. The top reasons leading to recruitment difficulty are lack of salary competitiveness and uncertainty of career development opportunities.

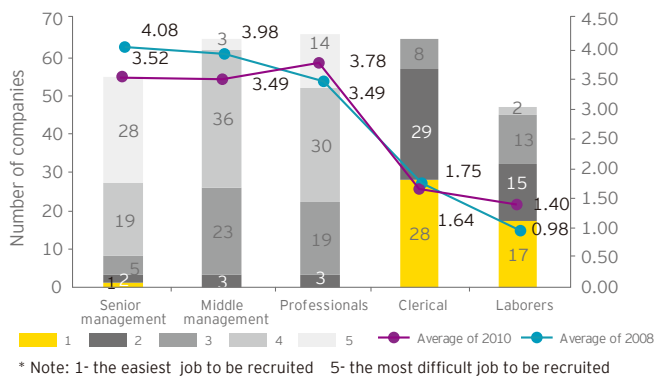
- ▶ From a job hierarchy perspective, the higher the job level is, the more difficult it is to recruit a qualified candidate to fill the vacancy. And from the functionality point of view, Sales and Marketing people, Research and Development/Technical people are regarded as the most difficult group to be recruited.
- ▶ Same with the results in 2008, Uncompetitive Pay and Few or Uncertain Career Advancement Opportunities are the biggest barriers in recruitment.
- ▶ When assessing candidates, the proportion of soft indicators used to measure managerial jobs is larger than that for non-management jobs. Also, the higher the job level is, the larger proportion of soft indicators is required.
- ▶ Having Integrity, Being Responsible and Having a Spirit of Teamwork are the three most critical competencies that companies attach importance to. Local companies and foreign companies are highly consistent on this issue in their feedback.



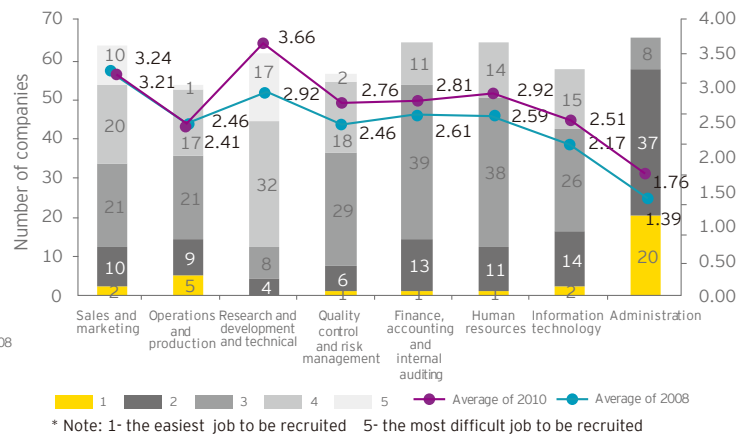
Note*: Soft Indicators refer to value, personalities, etc.

Recruitment Difficulty: From the job hierarchy perspective, senior management is regarded as the most difficult level to be recruited, while from the functionality point of view, Sales and Marketing people, Research and Development/Technical people continue to be the most difficult group to recruit.

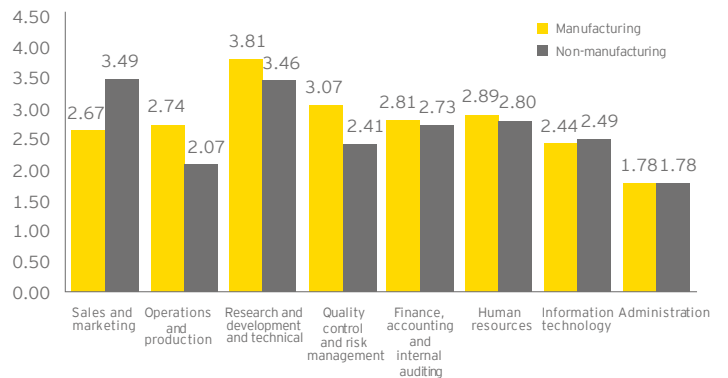
Q2-1: For which levels of personnel is it difficult to recruit suitable candidates? (Based on responses from 67 companies)



Q2-2: For which job functions is it difficult to recruit suitable candidates? (Based on responses from 66 companies)



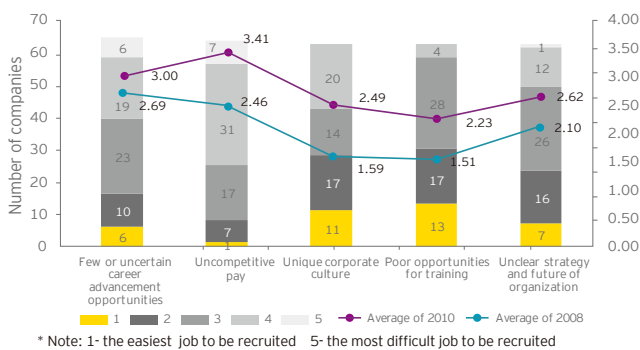
Recruitment difficulty across different job functions in manufacturing and non-manufacturing sectors



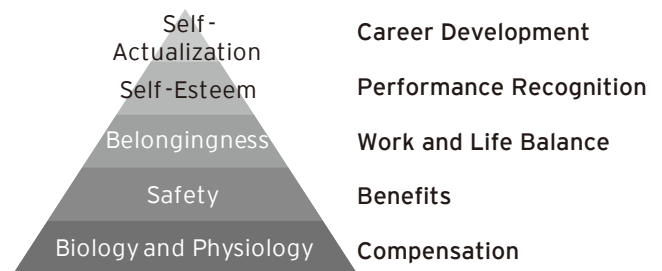
- ▶ From the job hierarchy perspective, the results of 2008 and 2010 consistently show that senior management is the most difficult level to recruit. But comparing with 2008, it becomes less difficult. On the other hand, recruitment difficulty of general workers increased by nearly 50%. This finding corroborates the shortage of workers in companies in China, especially for the manufacturing industry.
- ▶ From the functionality point of view, Sales and Marketing people, Research and Development/Technical people continue to be the most difficult group to recruit. The difficulty in recruiting Research and Development/Technical people increase by 23% and becomes the first difficult function in recruitment. In addition, the difficulty in recruiting Human Resources people rises to the third place in 2010 from the fourth in 2008.
- ▶ Companies in different industries have slightly different views on this issue. Research and Development/Technical people are the most difficult group to recruit for all industries. But for manufacturing companies, the second difficult group in recruitment is the Quality Control and Risk Management professionals, rather than Sales and Marketing people.

CoBarriers of Recruitment: Compared with 2008, Uncompetitive Pay and Few or Uncertain Career Advancement Opportunities are the biggest challenges in recruitment.

Q2-3: Which factors are most responsible for the recruiting difficulties identified above? (Based on response from 66 companies)



Maslow Hierarchy of Needs Model and HR Solutions

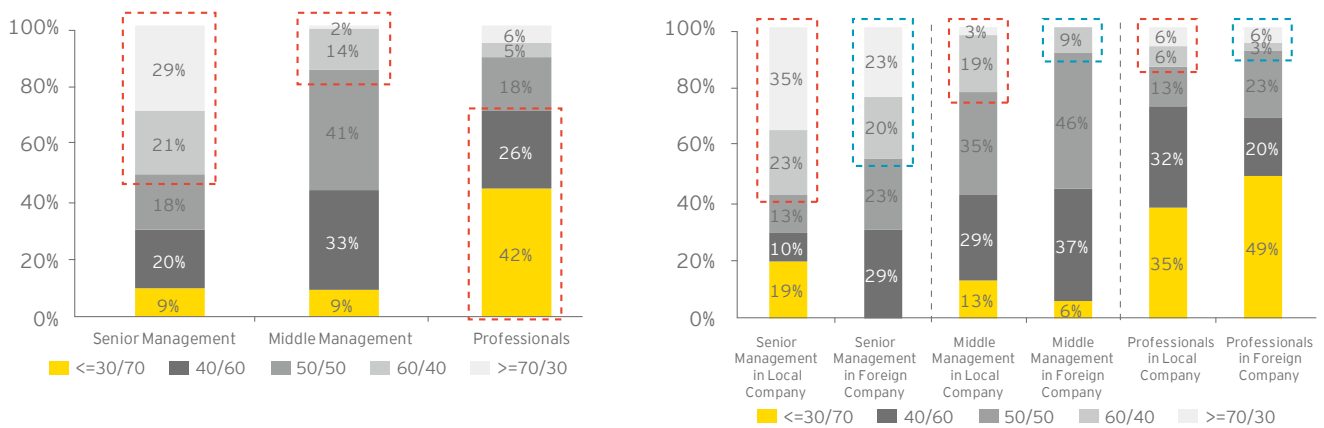


- ▶ Results in 2008 and 2010 demonstrate that Uncompetitive Pay and Few or Uncertain Career Advancement Opportunities are key challenges for companies in recruiting talent.
- ▶ But the ranking of these two factors are switched in the past two years. Uncompetitive Pay is recognized as the first barrier, instead of Few or Uncertain Career Advancement Opportunities in 2010.

- ▶ In addition to giving material incentives which means providing a competitive salary, giving a clear career path and opportunities to meet employees' self-challenges, self-fulfillment and motive of achievement are also very crucial to solve this problem. As an HR practitioner, learning to look at people incentive issues from a Total Reward perspective is quite important.
- ▶ China's annual rate of consumer price index increased by 3.3% in 2010 (from the Chinese Statistical Bureau). Along with the increase in price of commodities, job seekers pay more attention to remuneration and have higher expectations on pay increase. Thus, companies face bigger challenges to provide competitive remuneration.

Candidate Assessment: The higher the job level is, the larger proportion of soft indicators are used to assess people. Local companies use a larger proportion of soft indicators in recruitment than foreign companies.

Q2-4: What is the ratio of soft indicators (e.g., value and personality) to hard indicators (e.g., educational background, work experience and special qualifications) that you rely on for final judgments in recruiting candidates at different managerial levels? (Based on responses from 66 companies)



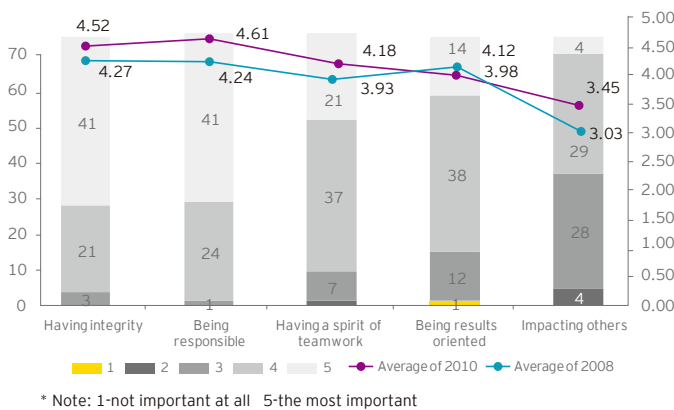
- ▶ Half of companies choose to use 60% and above proportion of soft indicators to assess people at senior management level.
- ▶ Sixty-eight percent of companies prefer to use over 60% proportion of hard indicators to assess professionals.

- ▶ Relatively speaking, local companies tend to introduce a larger proportion of soft indicators than foreign companies in people assessment.

- ▶ Regarding the difference between management and non-management, we notice that companies tend to introduce larger proportion of soft indicators in assessing managerial people. In assessing people in management jobs, companies tend to use larger proportion of soft indicators for higher level ones.
- ▶ Considering the types of companies, we find local companies use a larger proportion of soft indicators in recruitment than foreign companies. It reflects the difference between qualitative and quantitative management habits. In the competency assessment for middle management, the proportion of soft indicators used by local companies is twice more than foreign companies. It reflects that local companies tend to position their middle management as “people managers”, while foreign companies prefer to regard them as “senior professionals”.

The key competencies in people selection: The results in 2008 and 2010 both show that Having Integrity and Being Responsible are the top two key competencies that local and foreign companies attach most importance to.

Q2-5: Generally speaking, what are the most critical competencies in your appraisal of candidates for recruitment? (Based on responses from 65 companies)



- ▶ The three most critical competency criteria are Having Integrity, Being Responsible and Having a Spirit of Teamwork in assessing people for recruitment purposes. Compared with the results in 2008, Having a Spirit of Teamwork becomes the third important competency replacing Being Results Oriented.
- ▶ Besides the competencies listed above, some companies also add that Customer Focus and Quick Learning are also crucial criteria in selecting candidates.

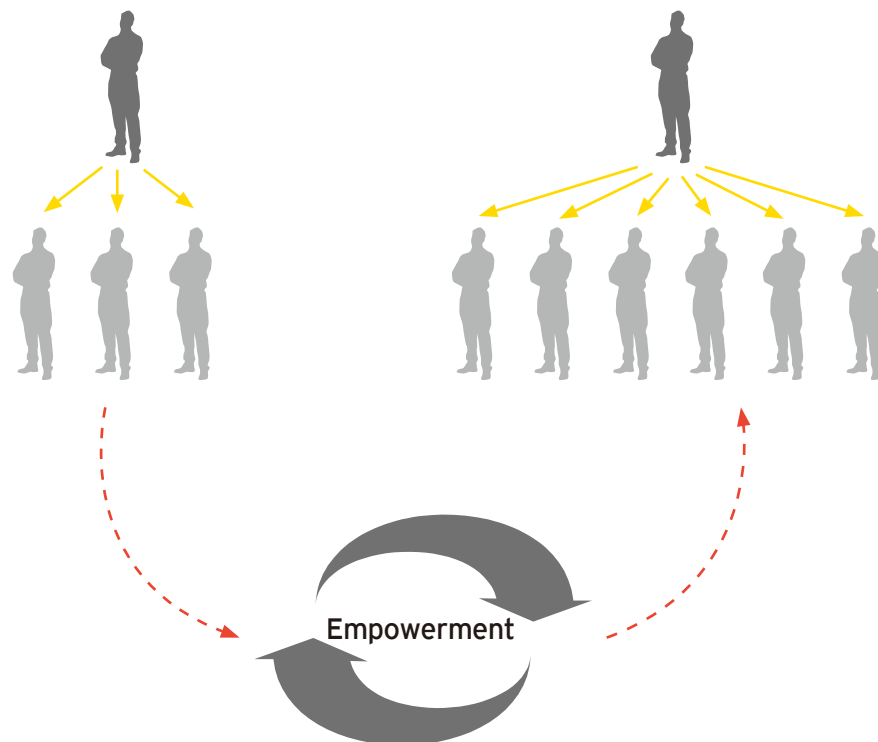
▶ The trend of 2010 survey results is basically the same as the one in 2008. This can prove that individual traits mentioned above are deep-rooted and relatively stable factors when selecting talent to some extent. In addition, local companies and foreign companies demonstrate high consistency on this issue, which reflects the existence of cross-country generality for some deep-rooted individual traits.

▶ Having a Spirit of Teamwork replaces Being Results Oriented as the third important competency in people assessment, which proves that Having a Spirit of Teamwork is more helpful in exploring team's advantage and making 1+1>2, optimizing the organizational atmosphere to build a strong work force.



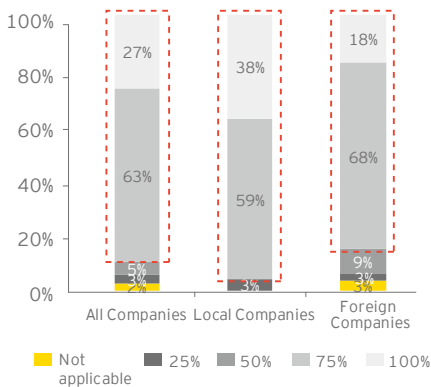
The people management effectiveness of local and foreign companies are similar basically. Most companies' span of control is among 5 to 10 subordinates. Foreign companies perform better than local ones in the performance management aspect.

- ▶ From the employee management perspective, most of the companies operating in China believe that a majority of employees understand their own responsibilities and authority, their jobs' objectives and key performance indicators, and the linkage between their personal objectives and the organizational objectives.
- ▶ Fifty-four percent of companies choose that the average span of control of their senior and middle management is between 5 and 10 people. The average span of control in local companies is higher than that in foreign companies. Meanwhile, we notice that foreign companies are facing the enlargement of span of control compared with 2008.
- ▶ As one of the important manners of expanding span of control without losing efficiency, 66% of companies believe their managers can empower subordinates to complete their own tasks appropriately in circumstances of controllable risk.
- ▶ From a performance management perspective, companies operating in China do well in performance coaching and feedback, as well as performance evaluation effectiveness, while in people motivation and standardization of performance evaluation, there is still some room for improvement. Foreign companies are ahead of local ones in performance management system construction as a whole.



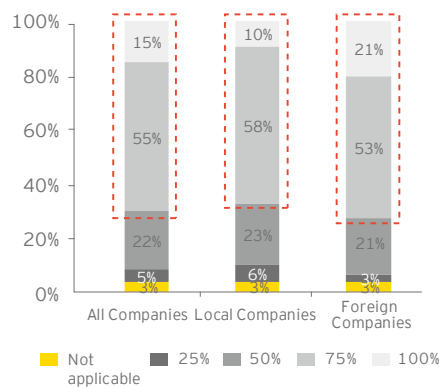
People Management: Most of the companies operating in China believe that a majority of employees understand their own responsibilities and authority, their jobs' objectives and key performance indicators, and the linkage between their personal objectives and the organizational objectives.

Q3-1: Approximately what proportion of your employees understand the responsibilities and authority of their respective jobs clearly? (Based on responses from 63 companies)



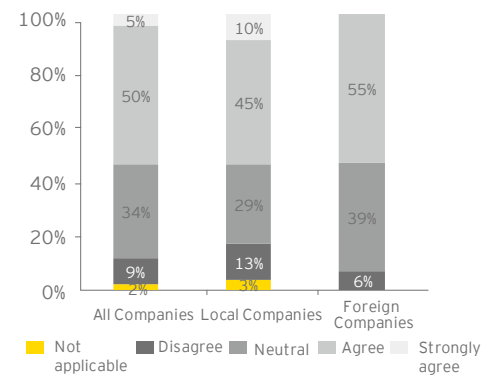
► Ninety percent of companies believe that over three-fourths of employees understand their own responsibilities and authority. Local companies (97%) perform better than foreign companies (86%) on this issue.

Q3-2: Approximately what proportion of your employees understands their job objectives and key performance indicators? (Based on responses from 65 companies)



► Seventy percent of companies believe that over three-fourths of employees understand their jobs' objectives and key performance indicators. Foreign companies (74%) perform better than local companies (68%) on this issue.

Q3-3: Your employees understand the linkage between their own objectives and the organizational objectives clearly? (Based on responses from 64 companies)

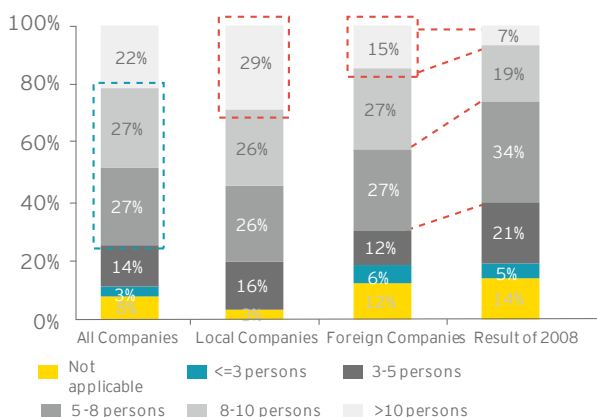


► Fifty-five percent of companies believe that over 75% of employees understand the linkage between their personal objectives and the organizational objectives clearly.

- From the job responsibilities and authority management perspective, local companies perform better than foreign companies as a whole. This is probably because some foreign companies have already stepped into the competency management stage after crossing the job management stage. Meanwhile, comparing with job responsibilities and authority management, employees' better professionalism in foreign companies is also a key factor that can support companies to operate smoothly.
- In the goal and performance management aspect, foreign companies are slightly ahead of local companies. This is caused by the relatively mature performance management system of foreign companies. On the other hand, this is also affected by the vague management behavior of local companies' managers.
- Considering the linkage between employees' objectives and the organizational objectives, companies need to strengthen the communication with employees, especially with the generation born after 80's and even 90's. These young employees are more eager to know Why to Do, rather than What to Do and How to Do. Only by enhancing the communication with employees, companies can help these employees to grow up within the organization from I Have to Do to I am Willing to Do.

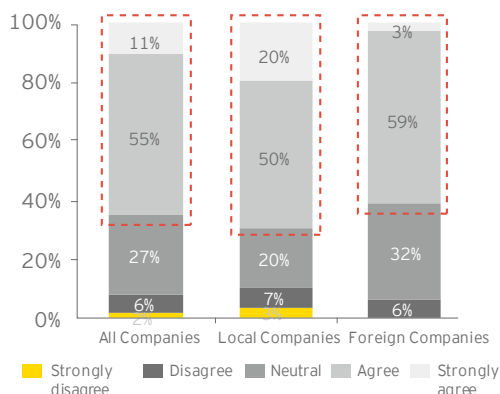
Span of Control: Fifty-four percent of companies choose that the average span of control of senior and middle managers is between 5 and 10 people, while foreign companies are facing the enlargement of span of control enlargement. Sixty-six companies believe that their managers can empower subordinates appropriately to complete their tasks.

Q3-5: What is the estimated average span of control of your senior and middle management? (Based on responses from 64 companies)



► Fifty-four percent of companies choose that the average span of control of senior and middle managers is between 5 and 10 subordinates. In addition, 29% of local companies and 15% of foreign companies suppose that their average span of control is over 10 persons. Compared with the results in 2008, there is an increasing trend for foreign companies.

Q3-6: Managers in your organization authorize subordinates to complete their tasks independently in circumstances of controllable risk. (Based on responses from 64 companies)

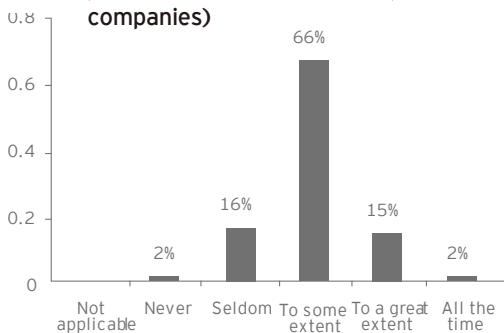


► Sixty-six percent of companies believe their managers can empower subordinates to complete their own tasks appropriately in circumstance of controllable risk. Local companies perform better (70%) than foreign companies (63%) on this issue.

- Regarding the span of control, local companies' is larger than foreign ones', which is related to the difference of organization structure and employee scale to some extent. Besides, compared with the results in 2008, the span of control in foreign companies tends to expand. There is another survey which shows that the average age of middle management is 35 years old in companies in China, while that of companies in USA is over 45 years old. Whether young managers under the expansion of span of control can really shoulder the management burden is another challenge that the companies in China are facing.
- As to empowerment management, managers in local companies have more willingness than foreign companies. Considering the larger span of control in local companies, we notice that appropriate empowerment is one of the effective means to expand span of control without losing efficiency. Meanwhile, it reflects that in recent years, local companies pay more and more attention to provide a broader space to their key employees to display their talents to better retain them.

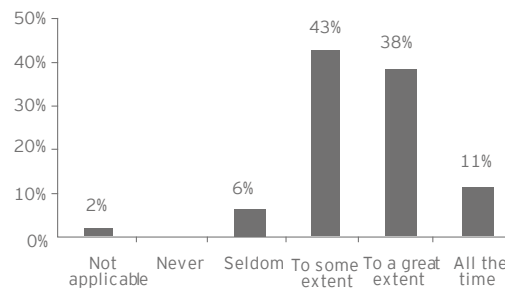
Performance Management: In the performance management process, companies operating in China do well in performance coaching and feedback, and performance evaluation effectiveness, while in employees motivation and standardization of performance evaluation there is still some room for improvement.

Q4-10: Managers continually coach their subordinates and give periodic feedback on their performance? (Based on responses from 62 companies)



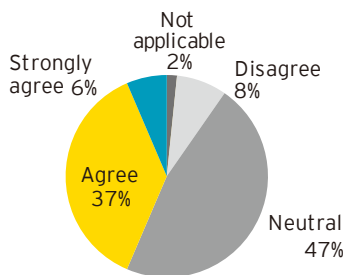
► Eighty-three percent of companies believe that their managers can coach subordinates and give periodic performance feedback.

Q5-7: Recognition of employees' performance can differentiate high performers and low performers. (Based on responses from 63 companies)



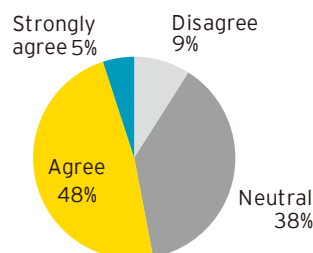
► Ninety-two percent of companies believe that employees' performance results can be differentiated by a reasonable recognition.

Q4-9: Managers in your organization can properly motivate their subordinates. (Based on responses from 62 companies)



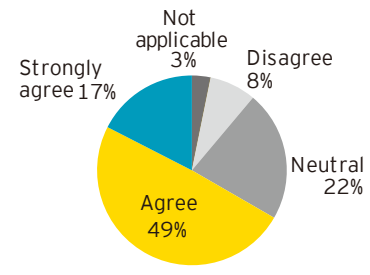
► Forty-three percent of companies believe that their managers can properly motivate subordinates.

Q3-7: Your employees can receive timely, accurate and objective evaluations on their performance? (Based on responses from 62 companies)



► Fifty-three percent of companies believe their employees can receive timely, accurate and objective evaluations on their performance.

Q5-6: There are established ways in which an employee's strong performance can be recognized and rewarded, e.g., a salary increment or a promotion. (Based on responses from 63 companies)

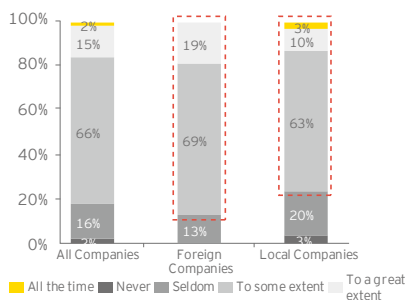


► Sixty-six percent of companies have established ways to recognize and reward employees' strong performance.

- Performance management is highly process-driven work, and most of companies have made a lot of effort and achieved positive results in performance coaching and feedback, and performance evaluation. There are improvement opportunities in employees motivation and standardization of performance evaluation.
- Performance management also needs to align with other HR functions. The feedback shows that leadership development, especially the performance management skills improvement of managers, and the application of performance results including the linkage with bonus payout, salary and job adjustment, should be strengthened.

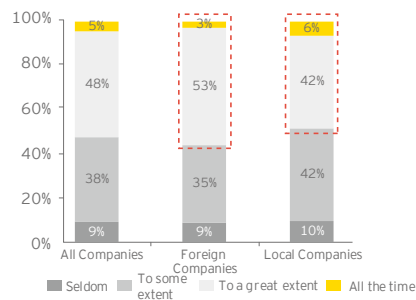
Performance Management: In performance management practice, foreign companies are ahead of local companies as a whole, especially at the system construction and operation level. This is because foreign companies' performance management system is relatively more mature and systematic than local ones'.

Q4-10: Managers continually coach their subordinates and give periodic feedback on their performance?



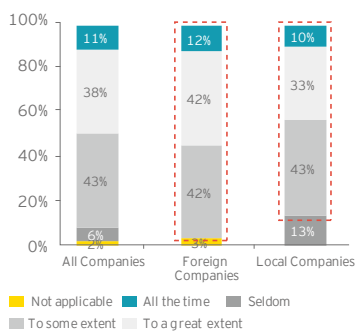
► Eighty-eight percent of foreign companies believe that their managers can coach their subordinates to some extent, which is better than local companies (76%).

Q3-7: Your employees can receive timely, accurate and objective evaluations on their performance?



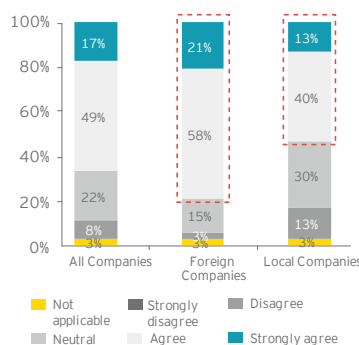
► Fifty-six percent of foreign companies believe that their employees can receive timely, accurate and objective evaluations on their performance, which is better than local companies (48%).

Q5-7: Recognition of employees' performance can differentiate high performers and low performers.



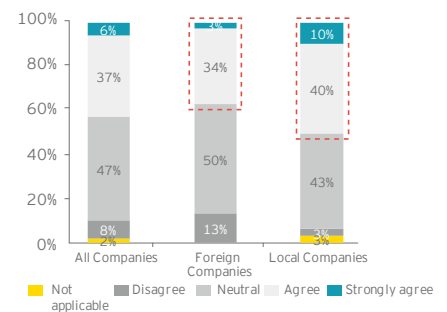
► Ninety-six percent of foreign companies believe that employees' performance can be differentiated via reasonable evaluation, which is better than local companies (86%).

Q5-6: There are established ways in which an employee's strong performance can be recognized and rewarded, e.g., a salary increment or a promotion.



► Seventy-nine percent of foreign companies have established ways to recognize and reward employees' strong performance, which is better than local companies (53%).

Q4-9: Managers in your organization can properly motivate their subordinates.



► Fifty percent of local companies believe that their managers can properly motivate subordinates, which is better than foreign companies (37%).

- Generally speaking, in performance management process construction, criteria establishment and implementation aspects, foreign companies perform better than local companies, which reflects that procedure orientation and compliance with regulations are highly upheld by western culture to some extent.
- In the people management aspect, such as inspiring employees on a timely basis and motivating them appropriately, local companies perform better than foreign ones.



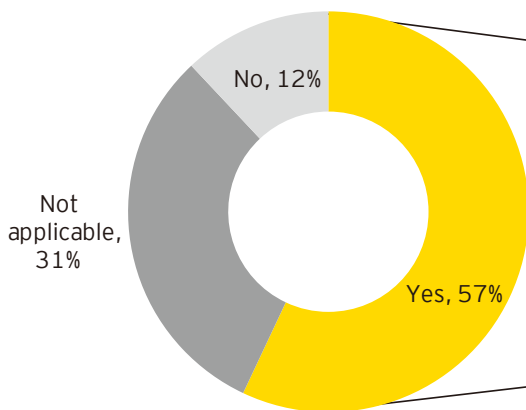
Talent development and training is a weakness for companies operating in China. There is a gap between the actual results and expectation of training and development for a large number of companies though they have had made lots of effort.

- ▶ Comparing with the other three sections of the survey, Attracting and Recruiting, Appointing and Managing, Motivating and Retaining Talent, the feedback to Training and Developing Talent is relatively more negative.
- ▶ 57% of the companies state that they have already had clear requirements on competencies for key talents. Among these companies, 54% of them believe that their current competency model is effective.
- ▶ Companies who believe their training program can effectively support business development and meet employees' career development needs are less than 30%. On the other hand, enhancing companies' training and development program is regarded as one of the top priorities for HR practitioners in the coming 12 months.
- ▶ In the leadership program construction area, companies in China are still in an exploratory stage as only 24% of companies believe their current leadership program can meet their business development requirements on leaders.
- ▶ Companies in China pay more and more attention to succession plan and 69% of companies have established succession plans for key jobs.
- ▶ On-the-Job Training and Systematic Training Program are chosen as the most effective approaches for talent training and development.

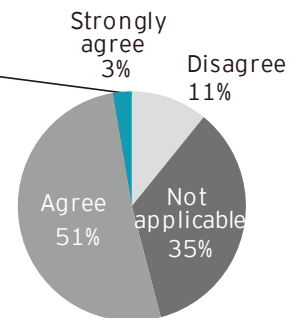


Competency Model: Only 31% of companies believe their current competency model is effective. This means there is still a long way to go for companies operating in China in the establishment and implementation of competency model.

Q4-1: Your organization has already defined competency criteria applicable to key talent? (Based on responses from 65 companies)



Q4-2: Your current competency model is effective and applicable to your talent management work? (Based on responses from 37 companies)



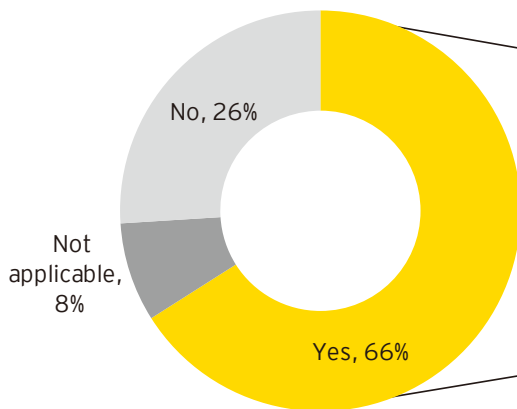
► Fifty-seven percent of companies have already defined competency criteria applicable to key talents.

► Among the companies who have already had a competency model in place, 54% of them suppose their current competency models are effective and applicable to talent management work.

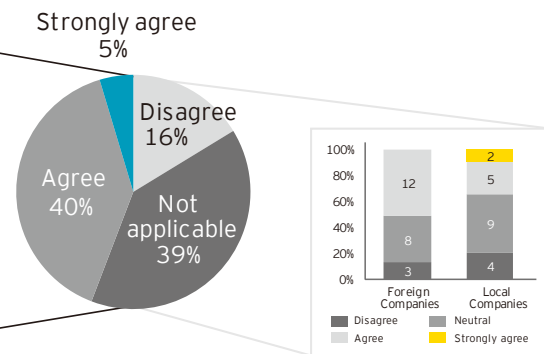
- Fifty-five percent of local companies and 59% of foreign companies have already established competency models. Thus it can be seen that competency model, as an important basis of talent management, is being an area of focus among companies.
- However, on the other hand, only 31% of companies believe their current competency model is effective, which reflects that the influence of the competency model is still limited in practice, typically, the establishment and implementation of competency models are inadequate.

Training Program: Companies who believe their training program can effectively support business development and meet employees' career development needs are less than 30%. Correspondingly, enhancing companies' training and development program is regarded as one of the top priorities for HR in the coming 12 months.

Q4-3: Has your organization already built up a training program? (Based on responses from 65 companies)



Q4-4: Your current training program can support your business development and effectively meet your employees' career development needs? (Based on responses from 43 companies)

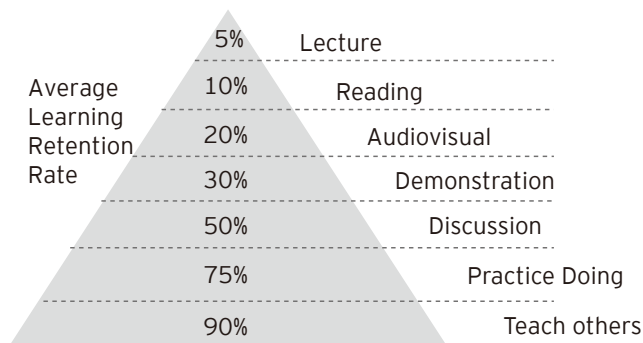


Neutral

▶ Sixty-six percent of companies have already set up training programs.

▶ Among the companies who have already had training programs, 45% of them suppose the current training programs can effectively support business development and meet employees' career development needs.

Learning Pyramid

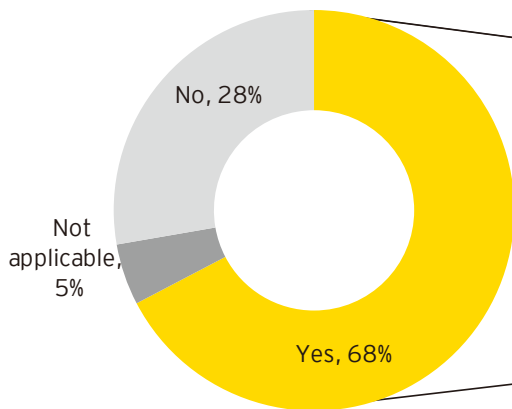


Source: National Training Laboratories. Bethel, Maine

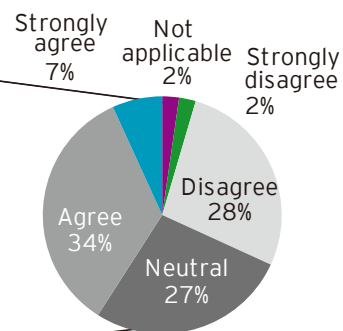
- ▶ As a product provided by the HR function, training needs to be treated from a business perspective focusing on how to maximize the benefits such as training satisfaction and employees' competency improvement by investing reasonable inputs, including training budget and employees' training time.
- ▶ Regarding the evaluation of training effectiveness, the feedback from foreign companies is more positive than local companies', which is largely due to the fact that foreign companies have done lots of comprehensive and detailed work in training system continuous improvement, including training requirement research, training resources integration, courseware design and version management, training manners optimization (such as classroom training and on-line training), and training effectiveness evaluation etc.

Leadership Assessment and Development: In the leadership program construction area, companies in China are still in an exploratory stage as only 24% of companies believe their current leadership programs can meet their business development requirements for leaders.

Q4-5: Does your organization have any initiatives related to leadership assessment and development programs?
(Based on responses from 65 companies)



Q4-6: Your current leadership program can meet the business development requirements of leaders?
(Based on responses from 44 companies)



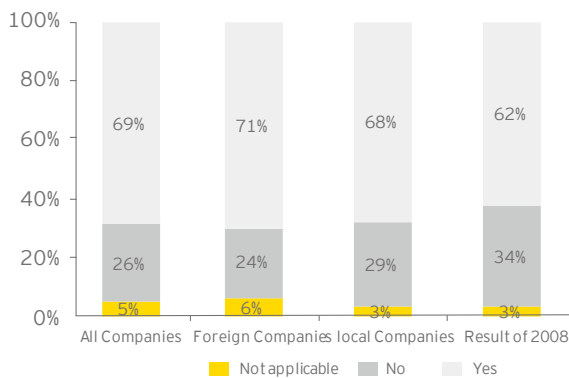
▶ Sixty-eight percent of companies have initiated leadership assessment and development programs.

▶ Among the companies who have already established leadership programs, 41% believe that their current leadership programs can meet the business development requirements on leaders.

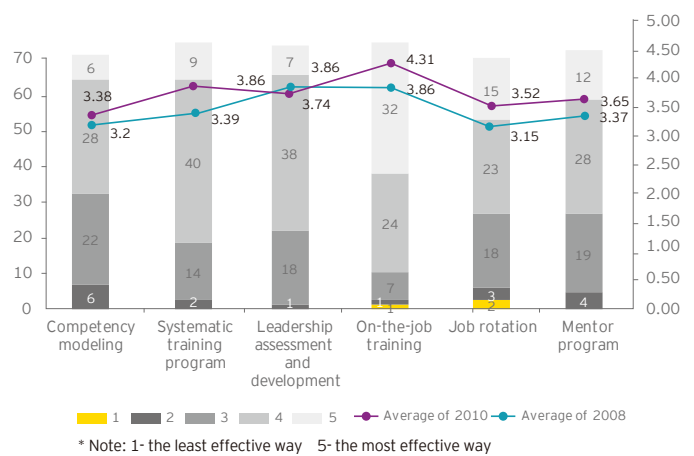
- ▶ The result shows that 72% of companies neither have any initiatives related to leadership assessment and development, nor achieve the desired results. This illustrates that in the leadership program construction area, companies operating in China still have lots of opportunities for improvement.
- ▶ We notice that leading companies in leadership area always pay attention to these two points :
 - ▶ Explore and excavate leadership requirements according to a company's characteristics, and apply the Situational Competency concept to guide leaders' behavior directly and specifically.
 - ▶ Enhance leaders' self-awareness and try to guide them to learn others further from knowing him/herself well. Then manage personal behavior intentionally based upon self understanding, and finally manage/impact others in terms of the experience of self management and understanding of others.

Effectiveness of People Development: Companies in China pay more and more attention to a succession plan as 69% of companies have established succession plans for key jobs. On-the-Job Training and Systematic Training Program are chosen as the most effective approaches for talent training and development.

Q4-7: Has your organization already devised a succession plan for key jobs? (Based on responses from 65 companies)



Q4-8: Which of the following approaches to talent training and development do you think would be most effective in your organization? (Based on responses from 65 companies)



▶ Sixty-nine percent of companies have established succession plans for key jobs. Seventy-one percent of foreign companies have succession plans which are a little more than local companies (68%). Compared with the results in 2008 (62%), the portion has increased a little.

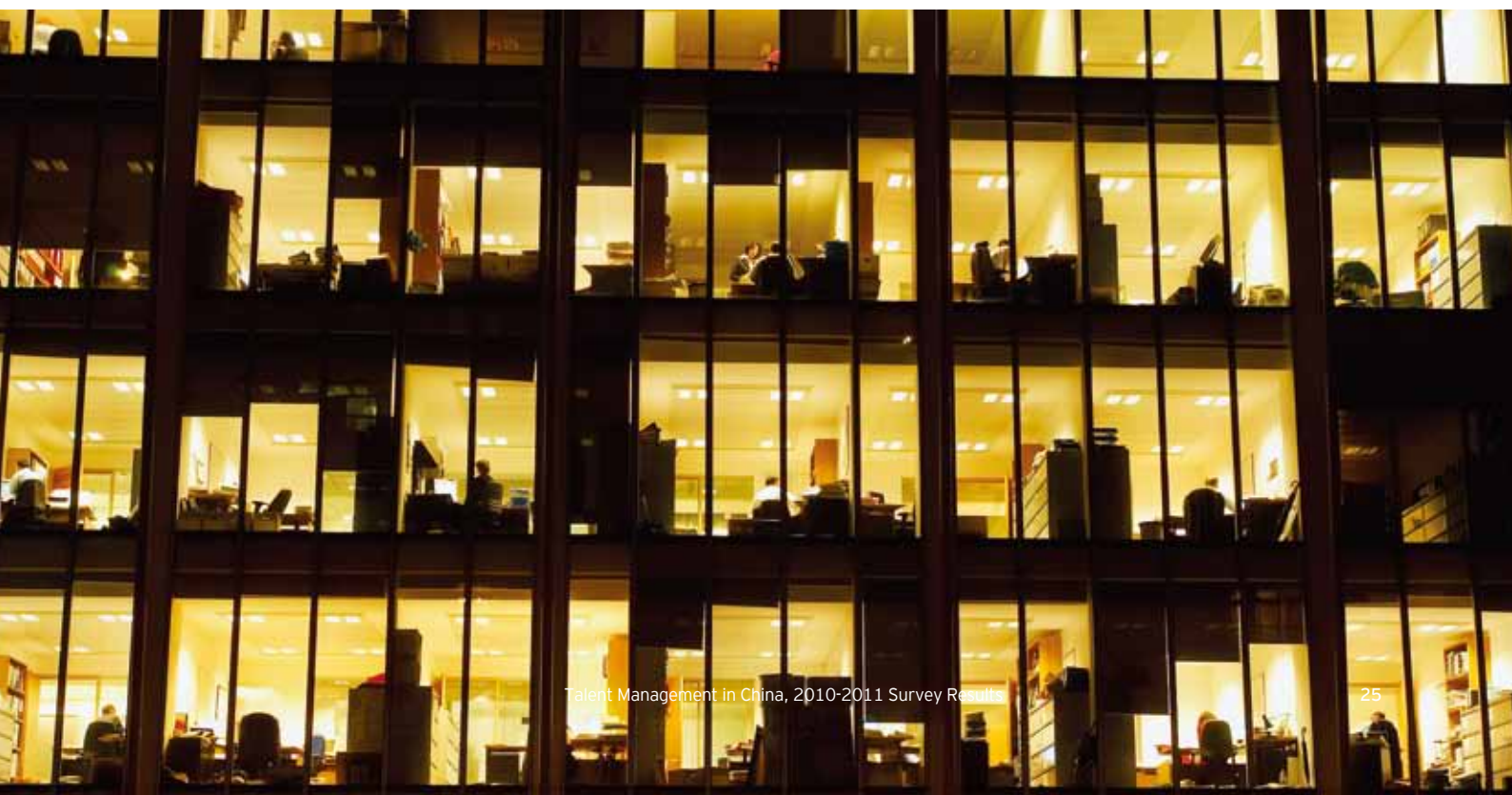
▶ On-the-Job Training and a Systematic Training Program are regarded as the most effective approaches for talent training and development.

- ▶ The result shows that succession plan for key jobs is attracting more and more attention from companies. This is because the talent pool for key jobs influences the long-term sustainable development of companies directly and can make companies ready to face the drastic talent competition. However, we notice that some companies just include certain key talent into a succession plan but without giving them real opportunities to take a senior role. This unfulfilment of promise could accelerate talent turnover rate to a great extent, so managing staff's expectations well is equally important.
- ▶ Compared with the results in 2008, On-the-Job Training and a Systematic Training Program are playing a more important role in talent management. On-the-Job Training is highly valued by a large number of companies due to its lower cost and better effectiveness to meet real job requirements.



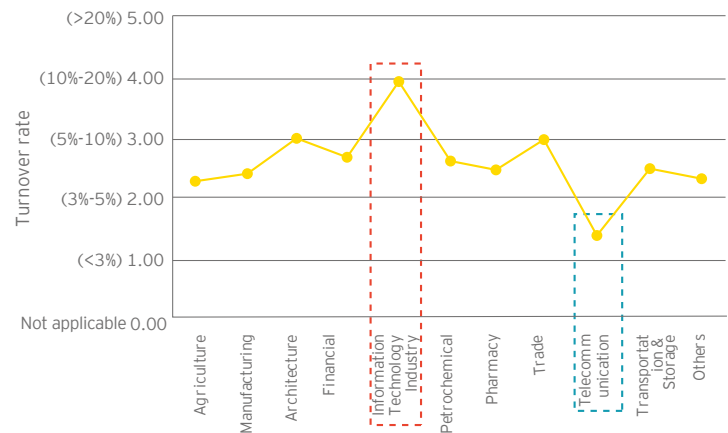
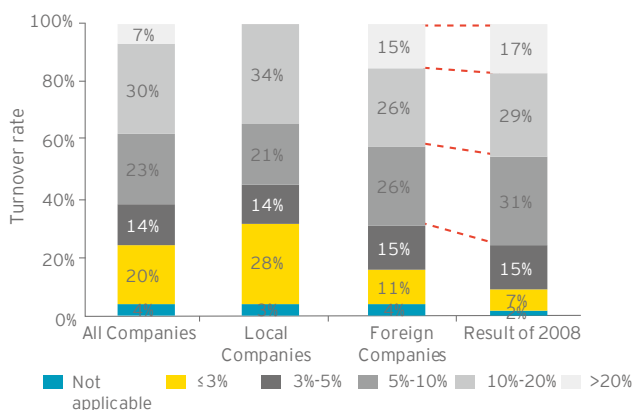
The employee turnover rate of the vast majority of companies in China is below 20%. Lack of Career Development Opportunities is the main driver to lose key talent but it is also exactly the area where companies don't perform well.

- ▶ Most of companies' turnover rate is within 20%. The Information Technology Industry faces the highest turnover rate while Telecommunication has the best employee stability.
- ▶ Sales and Marketing people, Research and Development/Technical people are the most difficult groups to recruit and the easiest group to lose.
- ▶ More Attractive Options Elsewhere, Lack of Career Development Opportunities, Uncompetitive Pay and Managerial Style of Superiors are the main reasons driving employees to leave.
- ▶ The results show that Career Development Opportunity is the key factor influencing talent turnover and people motivation, which is also regarded as the first priority for HR practitioners to improve in the next 12 months. However, in fact, companies operating in China are facing strong challenges in employee career path development.
- ▶ Nearly a half of companies have already had long-term incentive plans in place. Only 25% of companies believe their current long-term incentive plan can effectively ensure that key talents' interests are aligned with the companies' long-term strategic goals. Stock Option is chosen as the most commonly used vehicle in long-term incentive plans.



Talent Turnover: A majority of companies' turnover rate is within 20%. The Information Technology Industry faces the highest turnover rate, and Telecommunication is the lowest.

Q5-1: What is the total turnover rate in your organization in the last 12 months? (Based on responses from 56 companies)



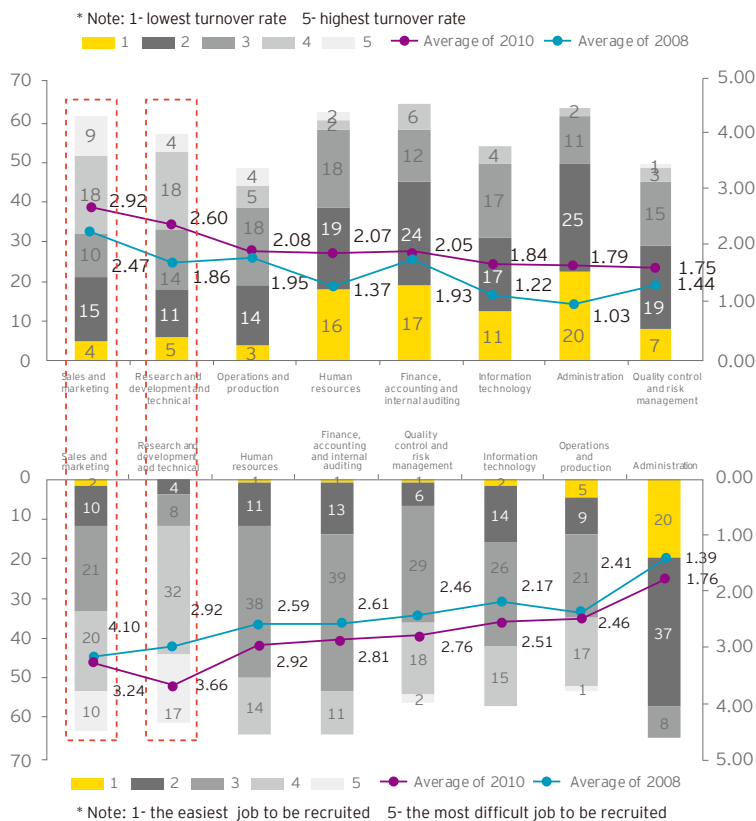
- ▶ A majority of companies' turnover rate is within 20%. Seven percent of companies' turnover rate is over 20%.
- ▶ No local companies' turnover rate is over 20% and their turnover rate is lower than foreign companies in total.
- ▶ Compared with the results in 2008, there is a decrease of talent turnover rate in foreign companies.

- ▶ The Information Technology Industry is facing to the highest turnover rate.
- ▶ The Telecommunication Industry has the best employee stability.

- ▶ Talent flow can reflect the natural turnover rate of an organization. Keeping a normal talent turnover rate should be an ideal situation that companies try to realize. The result shows local companies have better talent retention than foreign companies. This is partially caused by that foreign companies are facing a more open and market-oriented environment, which makes their talent have a higher commonality. Compared with the results in 2008, talent turnover rate in foreign companies decreased slightly due to an improving economy impels employees to pursue stronger career stability.
- ▶ From an industry perspective, the Information Technology Industry has the highest turnover rate. This reflects that this industry is still facing fast development and severe business competition which creates lots of employment opportunities in a marketplace.

Disaster-hit Area of Talent Turnover: Sales and Marketing people, Research and Development/ Technical people are the most difficult group to be recruited but also just the easiest group to lose.

Q5-2: Which functions in your organization lose the most talent? (Based on responses from 60 companies)



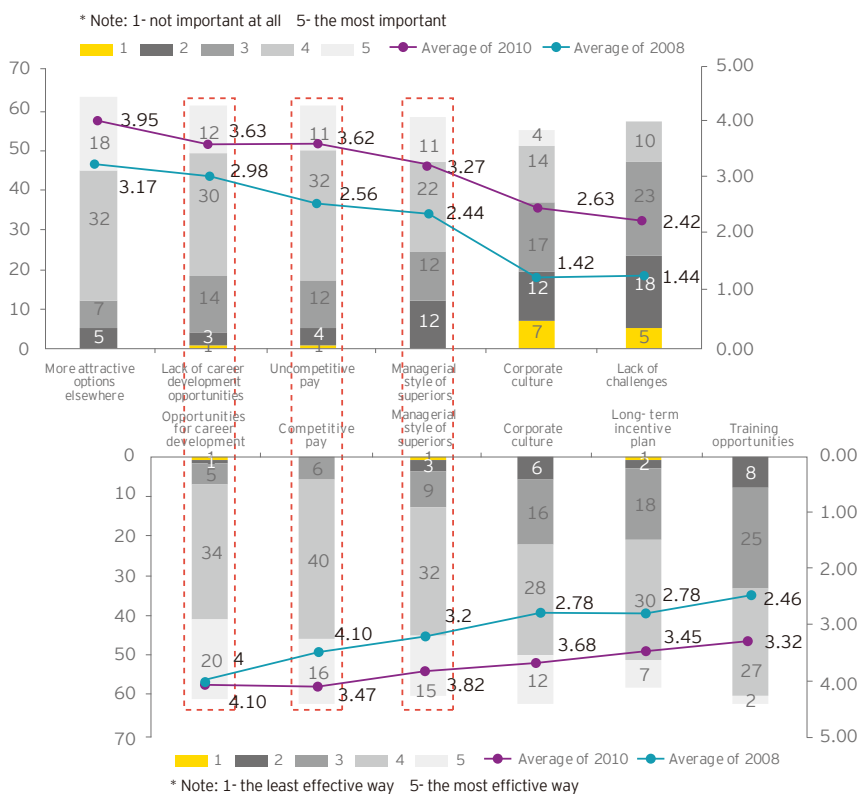
- ▶ Sales and Marketing, Research and Development/Technical people are chosen as the top two functions that face the highest talent turnover rate.
- ▶ This result coincides with the result of an aforementioned question, For which job functions is it difficult to recruit suitable candidates (Sales and Marketing, Research and Development/Technical people are selected as the top two functions that face the highest recruitment difficulty).

Q2-2: For which job functions is it difficult to recruit suitable candidates? (Based on responses from 66 companies)

- ▶ From companies' point of view, qualified Sales and Marketing employees, Research and Development/Technical employees are the most difficult people to be recruited but also the easiest group to lose. This will bring challenges to most of companies and increase the costs caused by talent turnover.
- ▶ As shown in the left chart, in general, recruitment difficulty has a relationship with talent turnover rate.
- ▶ The job with higher recruitment difficulty is always easier to lose incumbents as he/she has relatively strong competitiveness in the marketplace.
- ▶ Correspondingly, jobs with lower recruitment difficulty normally have less turnover pressure.

Drivers of Turnover: More Attractive Options Elsewhere, Lack of Career Development Opportunities, Uncompetitive Pay and Managerial Style of Superiors are the main reasons driving employees to leave. This is consistent with the results in 2008.

Q5-3: Generally speaking, what are the main reasons that people choose to leave? (Based on responses from 60 companies)



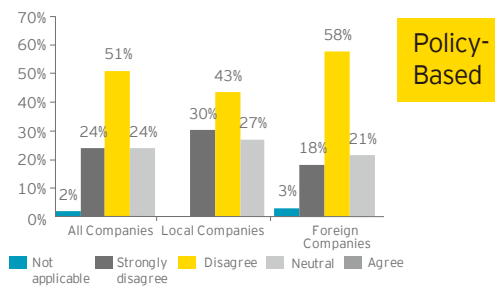
- ▶ More Attractive Options Elsewhere is the first cause driving people to resign.
- ▶ Lack of Career Development Opportunities, Uncompetitive Pay and Managerial Style of Superiors are not only the main causes to drive people to leave, but also the key problems that companies would like to solve. This is consistent with the results in 2008.
- ▶ Meanwhile, building up career paths and creating opportunities for employees' advancement are chosen as the first priority by most of companies.

Q5-10: Which of the options below do you think would be most effective for increasing talent retention in your organization? (Based on responses from 62 companies)

- ▶ To better retain key talent, management should enhance their effectiveness internally and improve the relationship between employer and employees.
- ▶ When facing pressure from outside talents competition, management needs to have the crisis management concept to change crisis into opportunities and conduct exit interviews carefully, so as to keep track of the true reasons driving employees to leave. Especially, companies should convert their competitors' advantages into self improvement opportunities to optimize related work correspondingly.

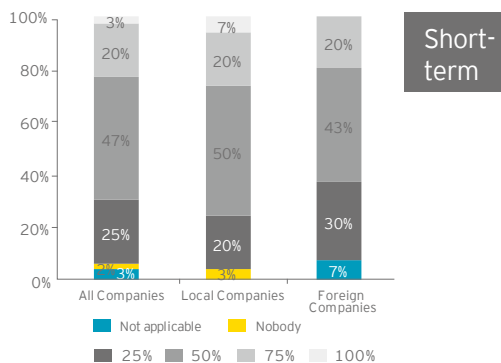
Career Development: Companies in China have a large space to improve in employee career path development. Management should balance policy-based and people-driven management, and take account of long-term and short-term benefits of employees at the same time.

Q5-4: Your organization provides employees with a clear path for career development? (Based on responses from 63 companies)



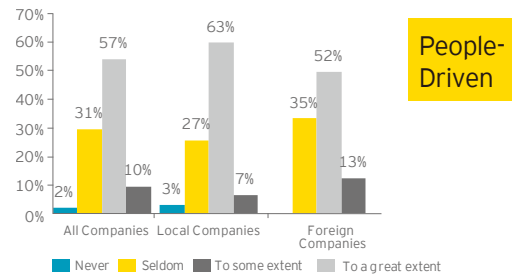
▶ Only 24% percent of companies have provided a clear career path to employees.

Q5-5: Approximately what proportion of employees in your organization understands what they need to do to get promoted? ((Based on responses from 60 companies)



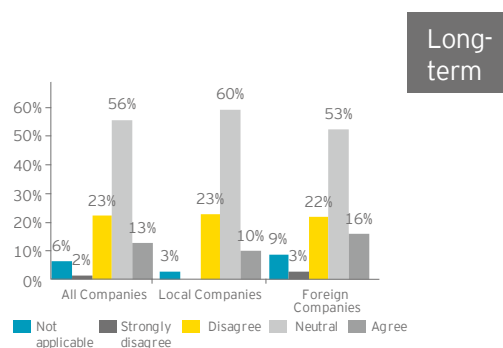
▶ Sixty-seven percent of companies suppose that over half of employees understand what they need to do to get promoted.

Q4-11: Managers help subordinates plan their career path? (Based on responses from 61 companies)



▶ Sixty-seven percent of companies believe that their managers can help subordinates plan their career path at least to some extent.

Q4-12: Employees in your organization know their own potential opportunities for career advancement clearly? (Based on responses from 62 companies)

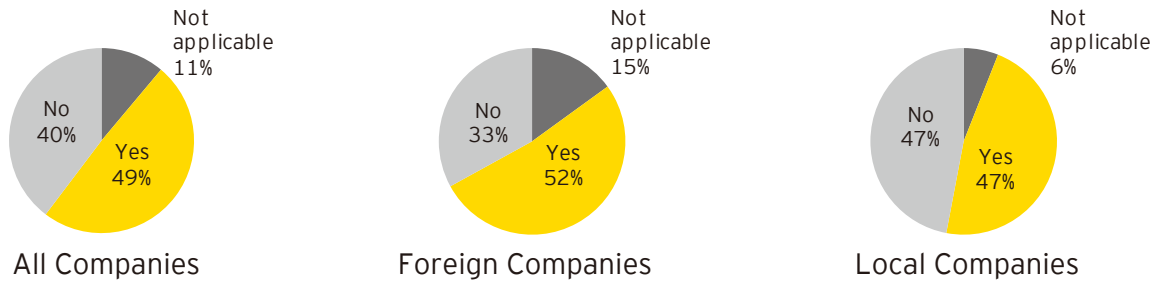


▶ Only 13% of companies believe that their employees know their own potential opportunities for career development clearly.

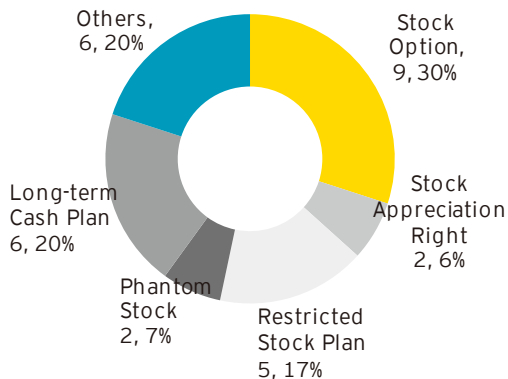
- ▶ Although the results listed before show that Career Development Opportunity is the key factor that influences talent turnover and employees' motivation, in fact companies operating in China are facing various degrees of problems in employee career path development.
- ▶ From a companies' point of view, whether a company provides employees a clear career path is an issue at system establishment level, and whether managers help subordinates plan their career path is another issue at the managerial behavior level. These two manners could be helpful to support employees to know their own potential career direction clearly and keep going forward continually to achieve the target.
- ▶ From employees' point of view, although over two-thirds of companies believe that most of their employees understand what they need to do to be promoted, in the long run, only 13% of companies are sure that their employees know their own career direction clearly. This result discloses a potential risk that the promotion opportunities employees pursue in the short-term may have conflicts with their long-term career development plan.

Long-term Incentive Plan: One-fourth of companies believe their current long-term incentive plan can effectively ensure that key talents' interests are aligned with the companies' long-term strategic goals.

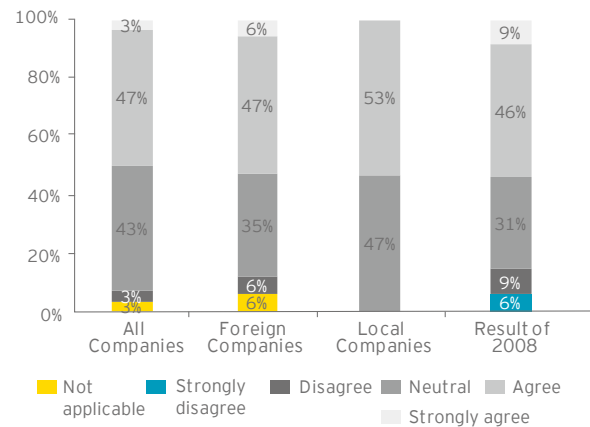
Q5-8: Does your organization have any kind of long-term incentive plan? (Based on responses from 63 companies)



Q5-9: What kind of vehicle(s) does your organization apply as long-term incentive plan? (Based on responses from 30 companies)



Q5-10: Your long-term incentive plan effectively ensures that key talents' interests align with your organization's long-term strategic goals? (Based on responses from 30 companies)



- ▶ Forty-nine percent of companies have already had long-term incentive plans in place, among which 52% of foreign companies and 47% of local companies have established long-term incentive plans respectively.
- ▶ The top three popular vehicles are
 - ▶ Stock Option Plan with 30% of companies selected
 - ▶ Long-term Cash Plan with 20% of companies selected
 - ▶ Restricted Stock Plan with 17% of companies selected
- ▶ Regarding the effectiveness of a long-term incentive plan, 50% of companies who have already had plans in place believe that their long-term incentive plans can effectively ensure that key talents' interests are aligned with their organizations' long-term strategic goals.

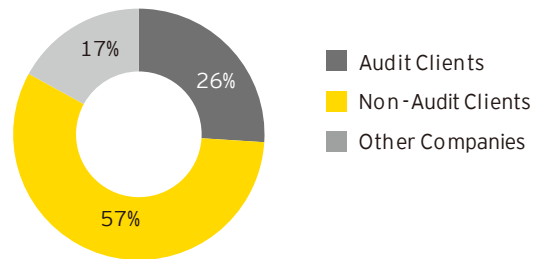
▶ Foreign companies perform better than local companies in long-term incentive plan design and effectiveness. This is because some foreign companies can introduce their headquarters' long-term incentive plans to China operation, and on the other hand, some of local companies have to face the uncertainty of the domestic regulatory environment.

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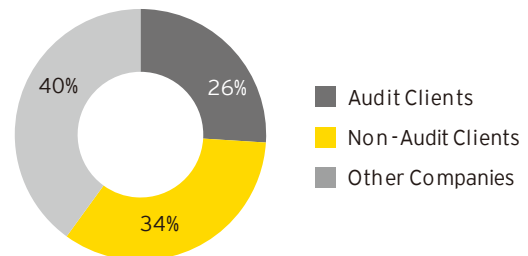
2010 Global Top 500 Companies disclosed in Fortune

The companies that Ernst & Young services for



2010 Global Top 2000 Companies disclosed in Forbes

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- ▶ Leadership development
- ▶ Career path planning
- ▶ Training and development

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- ▶ HR documentation
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- ▶ Corporate culture
- ▶ Employee communication
- ▶ Post-deal HR integration
- ▶ People related change management

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