

Im Fokus

Maintaining Chinese Management Talent in Western Subsidiaries

Was bindet lokale Führungskräfte in Niederlassungen westlicher Firmen?

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Abstract

Western companies uniformly point out that the competition for qualified local executives in China is becoming increasingly tough. Employees recruited at great expense and trained with a lot of commitment are ruthlessly wooed away by competitors, so that the talk about a “war for talent” is totally appropriate. The result is an urgent need for those responsible for personnel to explore the reasons for these high fluctuation rates and to optimize concepts and instruments for ensuring adequate employee loyalty. The author provides an overview of fluctuation and retention concepts in foreign-invested companies and summarizes the statements of 63 German, Swiss, and Austrian experts as well as 55 Chinese personnel and general managers.

Keywords: China, labour market, “war for talent”, fluctuation, retention

Introduction

The branches of Western companies in China are uniform proof that the competition to employ qualified local managers is becoming increasingly tough. Employees who have been recruited and trained at considerable expense and with commitment are being unscrupulously poached by rival firms – a fact which seems to justify the description “a war for (local) talent”.

Before we look more closely into attempts to reduce the fluctuation caused by such “poaching”, we shall first outline a few characteristics of the volatile Chinese labour market. The next step will be to analyse in more detail the motives of local employees for quitting their jobs. Here we shall likewise quote fragmentary proof of the alarming dimensions of labour turnover. The focus of this article will be on the question of which operative concepts may be able to effectively bind outstanding local employees. Twenty representative incentives

to make employees stay in their jobs are examined, taking, as a starting point, the hypothesis that the binding force attributed to various incentives differs significantly in strength.

A survey questioning 118 experts in 2005/2006 did in fact produce detailed clues as to which of the operative concepts promised to be potentially more and less effective. In a concluding chapter, paramount human resources strategies which, even in China, might raise the level of loyalty of qualified employees towards their firm, are outlined.

The Initial Situation: Shortages of Management Talent in the Labour Market

The problem sketched above is obviously the result of a very specific constellation within the labour market regarding both managers and trainee managers:

- The ever-increasing involvement of foreign investors – which is also evident in the increasing establishment of regional headquarters – plus the expansion of successful Chinese groups of companies, even into the Western export markets, have intensified the competition for qualified managers.
- As Western firms were able to establish themselves only after China had been opened up (to foreign investors) and many of them have been “in situ” for barely a decade or fifteen years, few mainland Chinese people have, up to now, gained practical experience with international companies. A McKinsey report published in 2005 estimates that a maximum of between 3,000 and 5,000 internationally deployable indigenous managers were available at that time. (Farrel & Grant 2005:74). The latest figures may be gradually approaching the 10,000 mark (author’s assessment).
- Of the approximately 1.5 to 2 million university graduates (the figures are on the increase) who are flooding the labour market annually, only a limited number have completed a major qualification within the fields of business administration, economics, or related areas of study. According to McKinsey, a maximum of 10 per cent could be deployed in internationally orientated businesses (Gillies 2006:85). They would then need three to five years before they could be entrusted with the most basic managerial responsibilities.

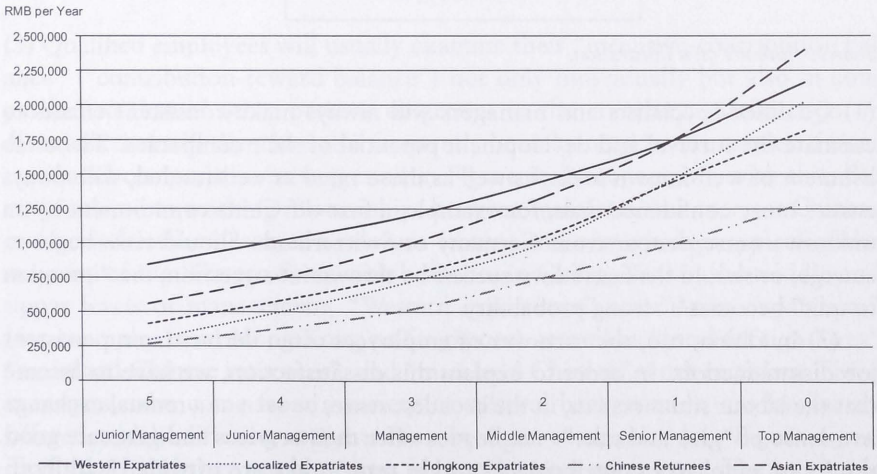
Given this situation, supply shortfalls in the employment market very often have to be compensated for with junior and senior managers from Hong Kong, Macau, and Taiwan, or with Chinese living abroad from Singapore, Malaysia, Thailand, and other South East Asian countries. Approximately 60 million ethnic Chinese

living outside the People’s Republic of China (PRC) are settled in diverse cultural areas around the globe.

This reservoir offers the possibility of recruiting both managers and trainee managers who, on the whole, have grown up according to traditional Chinese culture, who are competent in both Mandarin and one Western language, and who already have some management experience. These people can be considered to be the ideal bridge-builders between different cultures. They frequently find employment in multinational enterprises from their country of origin with the status and income of an expatriate; less frequently they are taken on as “local foreign hires” under the usual conditions of the PRC.

This – at first glance convincing – solution does occasionally work very well, but it can just as often provoke conflict. Expatriate Chinese are mostly considered by the mainland Chinese to be arrogant, due to their more frequently practised autocratic style of leadership. They receive considerably higher salaries, for example, “expatriate packages” (cf. Figure 1), better fringe benefits, and have more attractive career prospects. In many cases this absence of mutual acceptance is barely concealed – a fact which leads to a considerable increase in stress and thus damages the working climate.

Figure 1 Salary Differentiation between Different Management Groups in 2005

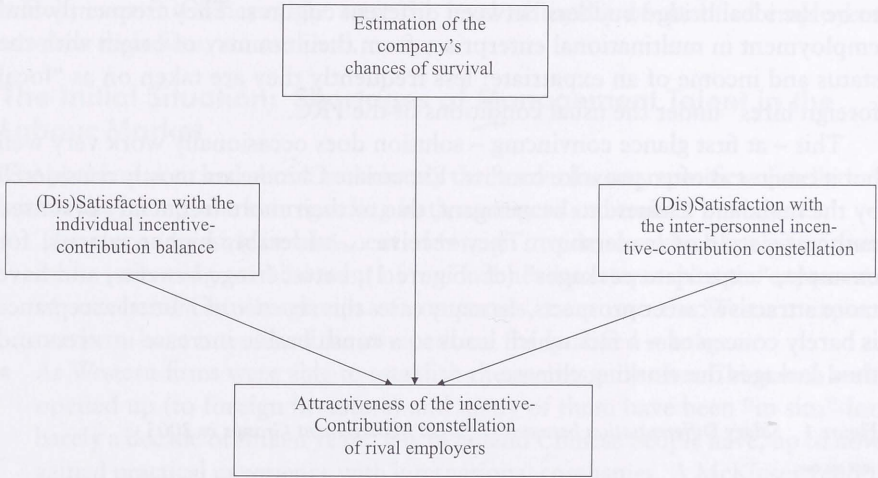


Source: Watson Wyatt Worldwide (2006:27).

Possible Reasons for the Fluctuation in Managerial Staff

Within this context, it can be assumed that the tendency for local managers to make more frequent job changes can be attributed to some important motives, as indicated in Figure 2.

Figure 2 Determinants of Resignation Decisions



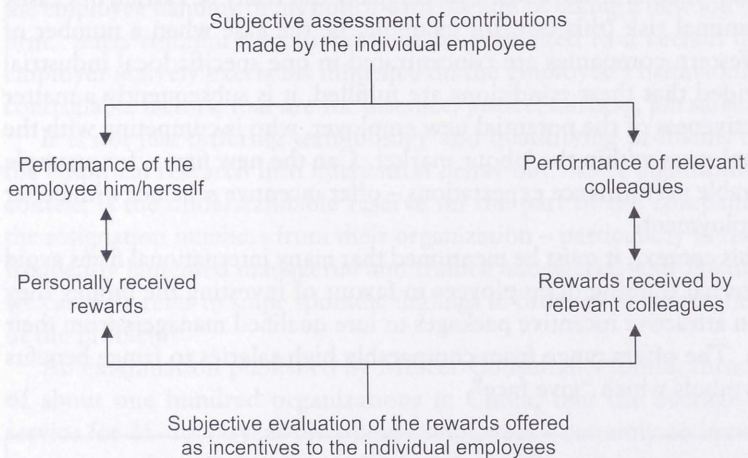
Source: Author's own illustration.

(1) Qualified specialists and managers will always make consistent efforts to estimate the survival and development potential of their companies. The establishment of well-known firms, as well as those rated as well-funded, will always ensure more confidence than, for example, a first-off China commitment by an unknown entrepreneur from Germany or Switzerland. Should risks begin to emerge, or should the firm's own success be thrown into question, the "intention to quit" becomes a strong probability.

(2) In China, too, the turnover of employees often derives from persistent job dissatisfaction. In order to explain this dissatisfaction, we have to assume that the labour situation can, in the broadest sense, be seen as a mutual exchange in a sense of "give and take": employees offer their services and generate good results (= employee contributions) and in return they are provided with both tangible and intangible rewards (= company incentives/inducements). If the

balance between achievement and rewards is subjectively seen to be “fair”, this can be experienced as a psychological equilibrium, thereby creating satisfaction (cf. Figure 3).

Figure 3 Performance and Rewards: An Inter-personnel Comparison



Source: Author's own illustration.

(3) Qualified employees will usually examine their “incentive-contribution balance” (“contribution-reward balance”) not only individually but also in comparison to that of other persons or groups in the company. Satisfaction or dissatisfaction will therefore also frequently be influenced by the results of inter-personnel comparisons as suggested in Figure 3. In connection with this, the stress related to working relationships between mainland and overseas Chinese mentioned earlier becomes a relevant feature and one which is typical of the majority of the Western firms with branches in China. Within the middle and upper levels of management, “Western expatriates” and “Asian expatriates” (for example, from Hong Kong or Singapore) as well as “local foreign hires”, “mainland Chinese returnees”, and “mainland Chinese” work together. These managers, who come from a variety of cultural backgrounds, are frequently offered widely differing remuneration by their companies (cf. Figure 1 and Textbox 1) and they rarely possess identical career prospects. The inevitable question, then, is whether this unequal treatment is justified on the grounds of

recognizably different achievement levels.

(4) Apart from the aspect of dissatisfaction, what remains significant with regard to actual job-fluctuation behaviour is whether the employee subjectively assumes that his qualifications and experiences are actually attractive to other employers and whether a move to a new company can really be carried out easily and with minimal risk (this can, for example, be the case when a number of attractive Western companies are concentrated in one specific local industrial zone). Provided that these conditions are fulfilled, it is subsequently a matter of the attractiveness of the potential new employer, who is competing with the previous employers within the labour market. Can the new firm – for example, with comparable performance expectations – offer incentive schemes with better terms of employment?

Within this context, it must be mentioned that many international firms avoid intensive internal training of employees in favour of investing the money they have saved in attractive incentive packages to lure qualified managers from their competitors. The offers range from comparably high salaries to fringe benefits and status symbols which “give face”.

Textbox 1: Unequal Treatment as the Cause of Dissatisfaction

A survey at the end of 2003 carried out on executive managers employed in overseas firms in an industrial area of the region of Suzhou lead to the following realization: “They were very sensitive to ‘the fairness of the companies’. Some of the employees [...] expressed their dissatisfaction with the inequality between expatriates and local staff when it comes to compensation and promotion opportunities. ‘It’s not only about money or position. It’s all about being recognized. The company policies favour the expatriates in many ways and such arrangements send a stronger message than any corporate values: all employees are not equal. How could they blame us for disloyalty when they treat us second class”.

Source: Goodall et al. 2006/07:68-69.

Some Indications of Fluctuation Rates

When, in the following, “fluctuation rates” in China are quoted, we should be aware that there is no standard definition of the term. The term may include dismissals initiated by the employer. More likely – as a rule, in fact – it refers to the employee handing in his notice with the aim of taking a new job in a different firm. Such voluntary fluctuation can be prevented to a certain degree if the employer actively exerts his influence on the employee’s behaviour via various controllable factors, that are for instance, justice, fairness, job satisfaction.

It is not just differing terminology and quantifying problems that hamper the empirical research into fluctuation behaviour. More significant within this context is the understandable reserve on the part of the companies to reveal the resignation numbers from their organization – particularly in the case of the frequently lamented managerial and trainee managerial staff fluctuation. Thus, we can only refer to some sporadic findings in order to illustrate the dimensions of the problem:

An examination published by Mercer Consultants found, through a survey of about one hundred organizations in China, that the average duration of service for 25- to 35-year-old trainee employees – certainly an important target group in multinational companies – sank rapidly within a very short space of time from the previous “three to five years” to “one to two years” in 2005 (Mercer HR Consulting 2006). Although the fluctuation rate in the management sector in Beijing or Shanghai at this time still stood at 14 to 15 per cent per year (according to Watson Wyatt Worldwide), figures concerning senior management in multinational companies were sometimes estimated at 30 per cent and more (Gillies 2006:85). And as far as some of the research and development departments of China’s pharmaceutical industry are concerned, it is estimated that in Western subsidiaries the fluctuation rate per year can even reach the 50 per cent mark (FAZ 2007:22). However, individual companies may show distinctly different figures depending on their personnel policy in general and their retention concepts in particular:

[...] the Hewitt Best Employers in China 2005 study [...] found the employee turnover rate among the 10 Best Employers was 50% lower among first-year employees and even two-thirds lower among the critical group of second-year employees compared with the overall China market. (Asiatalk 2006)

Concepts for Retention of Qualified Managers

In the short term, finding solutions is mostly and primarily about concentrating on tailor-made efforts regarding local “excellent performers”; that is, those who are of key importance for both the current achievements and future development of the company, particularly when these people possess relevant, inimitable knowledge or rare talent or if they have optimal contacts to important customers, suppliers, and administration authorities at their disposal. In addition, clarification is needed as to whether any one of the managerial staff suspected of considering firm-swapping could cause an additional “domino effect” in so far as his team might also be encouraged to follow this move to another firm.

More extensive medium- and long-term preventative strategies need to be developed which can integrate with the personnel policies of the country in question. In terms of this connection, the overriding questions are which concepts and mechanisms can contribute to an improvement in loyalty and commitment and how their impact on commitment can be assessed within the context of economic life in China.

Table 1.a Assessment of Selective Stay-put Incentives in Branches of German, Swiss and Austrian Companies (N = 118)

Concepts and instruments for retaining local managers in Western companies	Ranking	Average judgement	Standard deviation
Expansion of the company/prospects of company success in the long run	6	3.043	0.677
Retention by contract regulations			
Employment contracts that include a fixed contractual period of a certain number of years.	18	2.172	0.967
Reimbursement of (proportionate) training expenses in the event that the employee leaves the company shortly after training.	19	2.052	0.873
A non-competition clause included in the job contract that forbids the employee (in the event of resignation) from changing to a competing company in the same branch during the following 2 or 3 years.	20	1.791	0.786
Training and Development			
Medium- or long-term career opportunities in the company.	3	3.239	0.687
Permanent training, continuous development of the employee's qualifications.	5	3.061	0.714

Table 1.b *Assessment of Selective Stay-put Incentives in Branches of German, Swiss and Austrian Companies (N = 118)*

Good prospects of work for months or years in the company abroad (for instance in the head-office/an overseas placement).	9	2.726	0.769
Compensation			
Annual salary increase (above local average).	2	3.246	0.663
Loyalty premiums, loyalty pay.	13	2.435	0.804
Seniority-based wages: increasing payments parallel to increasing age or period of employment.	15	2.315	0.910
Employee stock ownership plans.	16	2.262	0.998
Deferred compensation (bonuses are paid out only after 3 or 5 years).	17	2.259	0.948
Fringe benefits			
Old age pension schemes offered by the company.	11	2.553	0.928
Company health insurance (also for dependents belonging to the core family).	8	2.754	0.894
Employees can rent company-owned apartments or receive good housing allowances from the company.	14	2.387	0.932
Employer's credit (for instance to buy a flat, an apartment or a car).	12	2.500	0.856
Leadership and working atmosphere			
Creating a good working atmosphere in the company.	1	3.274	0.533
Superiors show long-term confidence and trust in their employees.	4	3.102	0.785
Participative/cooperative style of leadership.	7	2.949	0.804
Personal care of employees and their families through superiors.	10	2.591	0.812

Note: The average evaluations in this table refer to the four-point scale of the statements used in the questionnaire: "There is hardly any evidence of a retention effect" (Grade 1); "Minimal retention effect and likely to be limited to individual cases" (Grade 2); "Retention effects occur often" (Grade 3); "A retention effect is (almost) always evident" (Grade 4). The average evaluation was calculated from the weighted arithmetic mean.

Source: Groenewald 2007:42.

Interviews with Experts about the Effectiveness of Operative Retention Concepts

In order to be able to judge the effect of selected “stay-put” incentives, we implemented two-stage written questionnaires (Groenewald 2007:16-36). The first round, in the second half of 2005, was directed at 200 experts from German, Swiss, and Austrian organizations who were either consultants on trade with China, actual on-the-spot expatriates, or former expatriates who had just returned from China. In the questionnaire, they were asked to evaluate 20 conceivable incentives for staying put in one job. Of the 200 addressees, 63 (20 of whom were consultants) handed in their evaluations. In the second round, during the second half of 2006, the same questionnaire – this time in English and distributed with the help of the head offices of the firms which cooperated in the first round – was focussed on around 200 Chinese managers. The specific target group consisted of the local directors and personnel managers at these same companies. Of these, 55 commented on the 20 retention incentives given.

The evaluation of the stay-put incentives resulted from grading statements on the basis of a 4-point scale from “There is hardly any evidence of a retention effect” (Grade 1) to “A retention effect is (almost) always evident” (Grade 4). Grade 2 results indicate that a minimal retention effect limited to single instances can be detected; Grade 3 corresponds to the assessment that retention effects occur fairly regularly.

An overview of the complete results is presented in Table 1. A ranking of the 20 stay-put incentives was derived from the average values of the experts’ questionnaire results. The standard deviations mentioned additionally indicate the variance in the evaluation of each employee-retention approach. Comparatively high standard deviations indicate that the experts questioned returned very varied evaluations.

The results confirm the originally formulated hypothesis. In some cases they clearly indicate stay-put incentives with a high retention effect. In other cases frequently used instruments and concepts have turned out to have only a very small retention effect – if any at all.

Stay-put Incentives with a Definitive Retention Effect

The results of the questionnaire indicate that seven of the 20 stay-put concepts mentioned can be credited with having remarkable retention effects.

As already discussed, it is not only the current reputation of a company which has a consistently significant importance for ambitious Chinese managers but also its prospects for success. In addition, working for a successful international company adds to one's image. Thus, it is hardly surprising that in many cases the retention effect is attributed to those corresponding perspectives – not only by the European experts asked but also by the Chinese managers, as illustrated by an average value of 3.043 and a ranking of 6.

Three further stay-put incentives with a high degree of effectiveness can be filed under “inter-personnel relationships”. As expected, in a cultural environment where the desire for harmony is particularly pronounced, the development of a good working climate is acknowledged as having considerable significance regarding the integration of employees. This opinion is underlined by the China experts from Germany, Switzerland, and Austria, just as it is by the local managers who have ranked this retention initiative at position 1. The largely uniform high positioning of “a good working atmosphere” as regards binding a local manager to a firm is likewise confirmed by the comparatively low standard deviation in its assessment.

In addition to a good relationship with one's respective colleagues, a good relationship with one's immediate superiors plays a central role. Accordingly, expatriates in middle and top management in particular must continually invest a great deal of energy in interpersonal relationships. Recognition and appreciation of local management talent ought to be expressed not only through selective coaching, but also through a participatory management style plus the transfer of decision-making responsibility. This also signals a sense of trust, which, according to the experts questioned, can contribute significantly to a sound commitment on the part of local managers and trainee managers, and thus to their retention (cf. ranking positions 4 & 7 in Table 1).

That said, it should be emphasized, however, that competition for qualified local management and high potentials in China is (still) conducted by means of material incentives. Accordingly, in the “boom regions” considerable income enhancements are often demanded and granted (see also Textbox 2). Between the years 2003 and 2007, for example, salaries and wages rose by an average of 8 per cent – and in the areas of banking and finance by as much as 10 to 11 per cent (admittedly at a rate of inflation which fluctuated between 1.8 and 4.5 per cent) (Leininger 2007:28).

These average increases have frequently been insufficient to keep all the

key-position managers. To hold them in the company, it has also been important that the individual wage offers top the regional market level. According to the estimation of the experts we asked, it is the short-term material incentives which are the greatest determining factors concerning loyalty towards the firm (cf. Table 1). Rank 2 expresses this decisively (at the same time the standard deviation of 0.663 indicates that the voting was relatively uniform).

Textbox 2: Material/Tangible Orientation and Security Requirements

In China, a high income is also seen as a guarantee of the status which the outstanding performers have achieved both in the economy and in society. But irrespective of their social status, almost all Chinese people see financial resources as, above all, a guarantee for their future security. The “one-child policy” and the resultant family pyramid of “one child, two parents and four grandparents” intensifies the Chinese people’s need for security. The concepts and traditions of the *yang er kao lao* (children as a provision for old age) can no longer function – one child scarcely has the potential to financially support six elderly people. At the same time, China lacks a sustainable and efficient social insurance system. Consequently, all Chinese people are frightened about the slender resources of their later years. They collect and save as much as possible to ensure that they can manage to take care of themselves in their old age.

Source: Ma 2007:139.

Particular attention also has to be paid to the field of personnel development. It is of paramount importance that the effects of the Cultural Revolution, which largely destroyed chances for education and training and blocked access to the world of business for people of various age-groups, are eradicated. In addition, the effects of the state educational system can still be felt, as this system failed to provide courses in modern managerial qualifications and only a limited number of students were allowed to join training courses in Western languages. Thus, even today, many local managers still have noticeable qualification deficiencies which their employers can only improve through further, specific training.

The key function of qualifying employees is strongly emphasized by a US expert when he stresses the fact that “training employees is an essential and vital part of doing business in China”. In accordance with this, the 118 experts questioned presume that continual training is essential in order to achieve a clear retention effect (evident in the average mean of 3.061 and ranking 5). However, the acquisition of highly marketable qualifications can also occasionally trigger the temptation to switch firms.

According to the questionnaire results, long-term career propositions were also recognized as having a notable binding force, expressed in the average variable of 3.239 and a ranking of 3 (cf. Table 1). Clear career prospects, particularly for ambitious (trainee) managers, enjoy high-priority status which should be emphasized in the individual tailor-made promotion plans. In fact, however, the possibilities of professional advancement are limited if no consistent expansion is foreseeable in newly established minor branches or if, in the long term, key positions remain occupied by expatriates: “[...] if a glass ceiling seems to exist, with all the top positions staffed by expatriates, the turnover rate is likely to be higher” (Melvin 2001:43).

Finally, it can be assumed that any improvement of these seven positively rated concepts also contributes to the image-profiling of the company within the employment market by conveying additional incentives to potential applicants.

Stay-put Incentives with a More Limited Retention Effect

According to the opinions of those questioned, the weakest retention effect, comparatively, is demonstrated by the six following concepts.

As mentioned above, salaries – and in particular the annual salary increases – clearly have a pivotal significance for Chinese employees and count as a potent instrument in gaining the commitment of skilled workers and managerial staff. However, more lastingly and effective monetary incentives such as employee stock-ownership plans (Table 1, Ranking 16), seniority-based wages (Ranking 15) or deferred compensation (Ranking 17) are valued very differently (cf. the high standard deviation). These stay-put incentives are rarely considered to have a noteworthy retention effect. As far as China’s dynamic development is concerned, one author provides a plausible justification:

Long-term, rescheduled payments are, in view of the uncertainty involved in the future, less attractive and are discounted by the employees as having a rather high risk-factor. (Reden 2002:175)

The second group of somewhat sceptically viewed stay-put concepts includes a variety of approaches to retention through contracts, for instance, a multi-year duration of the work contract, the agreement that the employee has to reimburse the cost of further training courses (in the case of premature resignation), and a contractually agreed non-competition clause. According to the opinion of the majority of people questioned, all these suggestions landed in the bottom three ranking positions. They argued, for example, that recompense for outstanding contractual penalties or self-imposed expenses is often compensated for by the firms who are trying to entice employees away.

The doubts regarding the efficiency of contractual agreements with the aim of binding the employee can furthermore be attributed to a latent scepticism about the jurisdiction in China. Here we are not referring to the current system of legal norms (which is often orientated around conventional Western regulations) but rather to its uniform enforcement right down to the lowest level of jurisdiction; there is often a gaping inconsistency in legal decisions as judges themselves have completely different training and background experiences.

Human Resources Strategies which Implicitly Contribute to Employee Retention

Due to their increasing engagement in China, the growing Western subsidiaries will be implementing additional and more comprehensive human resources concepts and strategies, which will have the side effect of binding employees more closely to their firm. Here are some examples to illustrate this:

(1) Most importantly, a corporate culture needs to be developed which – while reflecting the cultural core of central values of the parent company at the same time – includes elements of Chinese national culture. The integration of “Chinese values” will contribute to strengthening the emotional commitment to the firm.

(2) Thereafter, the most important thing is to concentrate on those segments of the labour market which contain groups of applicants who would genuinely suit the firm. An effective employer-branding strategy must be developed for these segments. Gehlen points out that qualified Chinese personnel are exceptionally brand-conscious and attach great importance to being employed in a firm well-known by its products, its advertising, and its positive image (Gehlen 2005:84).

(3) An effective commitment on the part of new personnel can be generated by means of systematic job training plus a sustainable process of integration into

the social structure of the firm. "A smooth start and a thorough introduction to [...] the company can help make employees feel like valued team members, encourage them in their work, and build their loyalty to their new company" (Melvin 2001:43).

(4) A recently developed human resources strategy recommends that personnel should be offered a wider variety of choices, especially regarding company benefits and further compensatory elements. Within the framework of a granted budget (one which, for example, is dependent on the position held by the employee), personnel should be able to choose from a kind of menu of benefits. In contrast to more traditional standard benefits, the choice, once geared to the needs of the individual employee, will raise the appreciation level for the benefits received, the level of job satisfaction, and likewise the level of commitment felt for the firm.

(5) Last but not least, a more offensive communication strategy should be established. The development policy and results of the firm should be made transparent to the employees. Likewise, staff bonuses paid out by the firm should be explained and illustrated (this includes having convincing arguments concerning the grading of payments and benefits as regards both expatriates and local staff – cf. Figure 1 and Textbox 1).

Conclusion

Though the "intention to quit" can certainly not be prevented, it can, however, be reduced by the right combination and implementation of stay-put incentives. The findings of our survey of 63 German, Swiss, and Austrian experts as well as 55 Chinese personnel and company managers provide some specific pointers regarding which incentives to choose. In addition, in the medium and longer term, more general personnel strategies can have a positive effect on employees' loyalty.

In the case of an employee actually handing in his or her notice, a thorough final interview should be carried out in order to discover the reasons for quitting or the decisive factor in the choice of the new employer. These insights also contribute to creating an optimum mix of retention incentives.

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