Reward, recognition programs bring opportunities, challenges to companies operating in China

A white paper produced by the Global Incentive Council

This white paper examines the dynamic economic market and cultural changes taking place in the People’s Republic of China, how it affects employee reward and recognition practices, offers multinational companies advice on how to design and implement a successful recognition and reward program, and how to avoid potential problems while navigating the Chinese business and cultural scene.

China’s economic landscape

Companies now operating, or intending to expand their business into the People’s Republic of China (PRC), face a myriad of complex business, governmental, and cultural issues amid the lure of a fast-growing economy.

Economic growth in the PRC has averaged 9.5 percent of gross domestic product in 2010, according to China’s National Bureau of Statistics. Consumer prices over the same period rose 6.4 percent, which many economists believe to be, for now, sustainable.

At the same time, China is well on its way to become the world’s second-largest consumer market – just behind the U.S. – by 2015, according to The Economist magazine (July 16-22, 2011). Chinese people already buy more cars than people in any other country: 13.5 million vehicles last year versus 11.6 million units in the U.S.

In a variety of consumer categories, including such items as shoes, consumer electronics, and jewelry, China already ranks as the number one or number two market in the world, and is the now the leading consumer for designer and luxury goods. International jeweler Laurence Graff, referred to in a June 19, 2011 New York Times story as “the biggest dealer in seriously big stones,” is expanding his empire to the PRC, where the number of billionaires is second only to the U.S. Graff joins the ranks of DeBeers and Tiffany which already have multiple stores across China.

Other luxury brands now established in the PRC include the fashion houses Gucci and Zegna. “China is where the main battleground for the global luxury market is,” Yuval Atsmon, a McKinsey & Company analyst, told the Times in the June 25, 2011 edition.

For now, much of this level of demand is concentrated in and around China’s major cities – particularly Beijing and Shanghai. However, the poorer smaller cities and rural areas – where most manufacturing takes place – are growing both in population and wealth. According to the Harvard Business Review, China’s cities are growing so quickly that the country now has more urban centers than most Western nations do (June 2011). The Review predicts that by 2020, China will have 800 cities whose residents’ real disposable incomes are greater, on average, than those of Shanghai’s residents today. "It’s a market you can’t ignore," said Vin Nguyen, assurance partner at consulting firm BDO and member of the Asian Pacific American Chamber of Commerce.
In the less-wealthy regions of the PRC, the consumer focus quickly downsizes from more expensive items to products of greater household necessity, such as water purification units, air filters, and small kitchen appliances, like rice cookers. Over the years, more and more consumer products are being produced by a growing network of Chinese-owned companies, versus multinationals.

“Beyond consumer markets, Chinese companies are already recognized as among the world leaders in numerous B2B technologies, including wind turbine blades, solar panels, high-speed rail equipment, steam boilers, port terminal cranes, and electrical transmission equipment,” the Harvard Business Review noted in June.

What this means for multinational companies is that in order to compete, they must be prepared to invest their capital and human resources in an atmosphere of phenomenal growth – in some markets and industries up to 60 percent. Companies need to be prepared to do business in hundreds of locations – not just the megacities. This has dramatic implications for organizational structure, distribution interface, choice of business partners, and employee recruitment, staffing, and retention.

It is in these people-centered functions of the business that reward and recognition play such a critical role in any degree of business success in the PRC. The smart manager needs to understand cultural nuances and reward expectations in developing and implementing recognition systems.

**Cultural norms, reward expectations vary among Chinese employees**

The understanding begins with the fact that China has one of the lowest levels of employee engagement in the world, according to Derek Irvine, vice president of client strategy and consulting at Globoforce, Southborough, Mass. “So any opportunity for improvement can make a difference,” he said. This is borne out by the 2011 Employee Engagement Report by BlessingWhite, Inc., a global HR consulting firm. The report found that China has the world’s lowest level (17 percent) of employee engagement, and the highest level of disengagement (29 percent). By contrast, India has the highest level of engagement (37 percent) and the lowest level of disengagement (12 percent). The level of discontent in China is significantly greater at state-owned companies where wages are lower, but it is also a major issue for joint ventures and multinationals. Recognition programs and activities to address engagement issues exist across joint ventures, multinationals, and state-owned firms, but the rate of adoption at state-owned firms is much lower, and where they do exist, are drawn out over a longer period of time.

Compensation and benefits packages play a major role in determining whether a Chinese employee remains with a company, or resigns to accept a more lucrative offer. One estimate by international executive search firm and HR consultant Pacific Bridge, Inc. puts the employee turnover rate at about 15 percent annually. While at the same time, salaries in China over the past five years have risen about 9 percent, just keeping pace with the same-period rate of inflation at 7.5 – 8 percent. Employee retention continues to be the top "people" issue among companies operating in the PRC.

Michelle M. Smith, vice president of business development at O.C. Tanner, Salt Lake City, described how the problem began: "Prior to 2008, there was so much economic growth in China getting underway; upwards of 15 percent annually; and salaries were climbing by 25 to 30 percent, according to research conducted by WorldatWork, and Mercer Consultants. This was accompanied by annual bonuses and inflated titles given to workers who were promoted much earlier than they should have been. This chain of events created these huge pay bubbles."
Smith added, “After 2008, there arose with the recession a lot of restlessness and disengagement, especially among younger workers who came from the country’s university system, and were thrown into management positions, and this new, younger workforce, with Western-style influence and aspirations, brought with them higher expectations for rewards and recognition.”

Smith and others point out that there is a widening generational difference as to how employees want to be communicated with, recognized in the workplace, and rewarded for their service or other accomplishment.

“Older workers are very traditional and more motivated by collectivism and team-based rewards. In this generation, the team is responsible for the success and growth of the company. Everyone on the team is equal, no one is singled out, and no one loses face (Mianzi).

“The younger generation of employees; internet-connected and more Western culture oriented; are the products of China’s one-child law, indulged by their parents and grandparents. They have high ambitions and expectations around their careers, and are motivated by more-individualized recognition and rewards,” concluded Smith.

Smith noted that there is a strong desire among the younger Chinese workforce for career development opportunities and training. The 2011 BlessingWhite Employee Engagement Report noted that 32 percent of Chinese employees -- more than any other region in the world surveyed -- said that career development and training opportunities would improve job satisfaction. “I think that the whole area of career development and training is a squandered opportunity for reward and recognition, and should be tested as a form of recognition,” Smith proposed. To better connect with the vast Chinese market, O.C. Tanner has offices in China and Hong Kong for in-country recognition solutions and fulfillment.

Among older and younger employees alike, one popular form of recognition and reward in the PRC is the service award, which combines the structure and ceremony expected by older workers, plus the flexibility of rewards which appeal to younger workers, as well.

Maria Frank, who directs global sourcing and international partnerships at Michael C. Fina in New York, said that while length of service recognition in the U.S. is usually a casual event conducted at 10-year milestones, “in China it is a very formal process, which is taken very seriously by everyone in the organization, from the most senior executive to every person in the office or factory.” Frank noted that because of the employee retention problem, service award ceremonies and accompanying rewards at many multinational companies are presented at shorter intervals – in some cases as soon as a one-year anniversary.

The venue for the ideal service ceremony, according to Frank, is a group banquet, generally held around the Chinese New Year season, and attended by the top executives and all the honorees. “It’s all about the cultural nuances and the process of recognition. Because the older employees hold a great deal respect for the company hierarchy, it is critical that the top executives be there as presenters. Both older and younger workers are honored equally, and for both groups, it gives them a chance to shine,” Frank noted.

Besides length of service, other occasions for recognition are growing in China. Frank noted, “Many of the companies we work with are taking advantage of our online technology platforms, such as a points system, to ensure that recognition is consistent across the organization. Employees
can be rewarded for meeting specific department or company goals and initiatives on an ongoing basis. These can be measured by sophisticated online reporting tools by company and department heads. Employees can see exactly how many points they can earn for meeting a goal or exemplifying a core value and compare that amount to various rewards they wish to order. This ability to bank points adds another layer of motivation as employees – particularly the younger generation of employees – aspire to save for something they truly want.”

**Communication plays an important role in recognition process**

For both generations of workers, the preferred communication style goes by the Chinese expression, “Guanzi,” meaning interpersonal relationships. Pacific Bridge and other consultants noted that one of the most vital elements of employee retention is treating employees well. “More so than in the West, it is important for Chinese employees to feel they have a good relationship with their boss. Chinese employees must feel that their boss cares for them personally and professionally,” according to a Pacific Bridge 2001 report on employee retention in China.

**Reward preferences: Looking at economic level, lifestyle**

Depending on where one is situated: economically, generationally, or geographically – the array of award preferences among Chinese employees is as vast as the country itself.

Interviewees for this report all agreed that cash – in this case Chinese Yuan – is still the most preferred recognition award among a wide cross-section of employees. For the younger upwardly-mobile employees, a cash bonus affords them the opportunity to show, as O.C. Tanner’s Michelle Smith described it, “big face,” signifying status and prestige by being able to buy high-quality brand-name goods, such as electronics, clothing, and fashion accessories. Other popular rewards include imported spirits and cordials, gourmet foods, leather business accessories, and high-quality pens.

Older employees in poorer areas who may be working in manufacturing jobs prefer cash in order to purchase more practical products, or the products themselves such as kitchen appliances, filtration systems, and foodstuffs. Michael C. Fina’s Maria Frank found that employees at one manufacturing client company preferred luggage pieces because of the necessity to travel long distances from their rural homes to the factories, which often have dormitory-style living arrangements for their far-flung workforce.

Derek Irvine at Globoforce offered up one “sweet” discovery: “What I’ve been taken by in China is the big demand we’ve seen from clients for high-end baked goods and confections. They like to bring them home to share with family and friends.” In support of Irvine’s observation, the July 9, 2011 edition of The Economist reported that Nestlé, the world’s largest food producer, confirmed that it is in talks with Hsu Fu Chi, one of China’s biggest makers of confectionary and baked goods, with a view of buying the firm.

As the Chinese growing middle class becomes more affluent, one potential recognition tool may come in the form of tickets to world-class sporting events, concerts, and theatre productions, predicts Peter Cannon, president and CEO of TicketJones.com., which supplies hard-to-get tickets to the incentive industry. “We are currently operating in places such as Beijing, Shanghai, and Hong Kong, offering our products to multinational firms,” he said. Today’s prime market is expatriate employees in Asia and elsewhere where “experience-based” rewards for employees and business clients is becoming more popular.

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While business gift-giving customs vary around the globe, Smith, Frank, Irvine and other recognition experts remind gift presenters about the symbolic aspects attached to gifts in China. Special attention must be paid to colors, materials, numbers, and often the very gift itself. And with counterfeiting of luxury goods and consumer electronics now at an all-time high, particularly within the PRC itself, companies, Frank said, need to be extra careful of who they work with for order fulfillment. Best advice: be sure to work with a trusted recognition/rewards solution supplier with in-country experience. For example, Frank’s company, Michael C. Fina, works with local subject matter experts across China who provide expertise and advice on appropriate gifting based on the occasion. The company partners with in-country China gift providers who can provide incentives customized by occasion and local tastes.

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The consumer market: Small but growing opportunity

This report examines primarily the internal side of the recognition scene in China. However, companies should be aware that the growing consumer market will come with opportunities for building customer incentive/loyalty programs, as well. Case in point: China’s consumer spending continues to grow strongly as retail sales of consumer goods rose 17.1 percent in April and 16.9 percent in May 2011 from year-ago levels, according to China’s National Bureau of Statistics (NBS) and reported by Xinhua News.

“This is definitely a space that’s in its infancy now, but will grow over the years,” said Michael C. Fina’s Maria Frank. “Leading retailers such as Wal-mart from the U.S., Tesco from the U.K, and Carrefour from France are pushing for a national presence in the country. For example, Tesco is working with Infosys to increase Tesco’s customer loyalty in China. Customers who manage their personal accounts via Tesco’s website will gain better experiences. This customized membership system will allow Tesco’s members to receive direct marketing coupons in accordance with their preference, and will have the ability to recommend it to their friends, as well.”

Recognition and reward lessons from the front

Companies looking to design and implement a recognition and rewards program for their China operations can achieve a far better result by following these tips from these recognition industry professionals:

• It is most important that the company’s vision, messaging, and branding remain consistent between the home country and its Chinese operations, and that includes consistency in rewards and recognition policy across the entire company. “If you are a major Fortune 500 company in the U.S., your corporate brand and message will likely be similar in China. However, it’s smart to customize gifts based on local preferences and occasion,” said Frank.

• Management must assertively ensure there is no discrimination, perceived or actual, in the recognition and reward system between talented local employees and expatriate workers, advises James Berkeley of London-based Berkeley Burke International. In many cases, tension already exists in the workplace between locals and expats over how each group is treated.

• Successful companies “think globally but truly act locally” when devising and implementing recognition and rewards programs, according to Globoforce’s Derek Irvine. “A successful classic international company operates its program with an international vision, with the overall frame and structure, and eligibility and criteria for awards consistent, but having in place local program champions in each country to direct the local aspects of the program.” Irvine added that results measurement must also be consistent across the company.

• Rewards logistics, shipping, fulfillment, redemption and customer service should all take place within China. “It’s important to find truly local reward options,” advised Irvine, who noted that at Globoforce, in-country experts partner with the Chinese operation to manage the implementation process.
“One of the most powerful tools for engaging employees is strategic recognition,” Irvine said in his bylined story, “How to Reward a Multigenerational and Culturally Diverse Workforce” (April 2010 issue - Workspan Magazine). “These programs engage a workforce by rewarding them – frequently and with meaningful awards – for behaviors, actions, and attitudes that reflect an organization’s core goals and values. They reward process and appeal to the multiple generations and cultures that characterize today’s workforce.”

The article devotes considerable focus on challenges and opportunities in the Chinese workplace. In Irvine’s experience, strategic recognition in China appears to produce faster, more dramatic results.

Irvine cited a program his firm launched a year ago for an international company which has 50 percent of its workforce in the PRC. Employee engagement was at a very low level. Just six months after the program launch, the company reported a 25 percent improvement in engagement scores.

Irvine concluded, “For anyone looking to start a recognition and reward program in China, they should know that it is hugely worth the investment, and the results can have a hugely successful impact.”

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The organization is comprised of international suppliers, incentive companies and buyers in the incentive marketplace, representing Asia, Europe, Latin America, Canada and the United States.

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