China posts an average salary increase rate of 6.7% and turnover rate of 20.8% in 2016

November 14, 2016, Shanghai – Aon Hewitt, the global talent, retirement and health solutions business of Aon plc (NYSE: AON), releases the Human Capital Intelligence (HCI) study, including the all-industry rewards survey. This year, the annual salary increase rate for employees in China averages 6.7%. The average turnover rate is 20.8%, with voluntary turnover rate at 14.9% and involuntary turnover rate at 5.9%. The HCI study covers over 3000 enterprises in first-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen and major second-tier and third-tier cities, spanning across a number of industries including hi-tech, Internet, real estate, finance, healthcare, auto, machinery and industrial manufacturing, consumer goods, retail, chemical, logistics, engineering and hotel.

Salary increases of industries vary; turnover rate remains high

Salary increase rate decreases to 6.7% (excluding promotion) this year, equal to China’s GDP growth rate posted by the National Statics Bureau. Salary is expected to grow at 6.9% (excluding promotion) in 2017. However, this year, salary increases of different industries vary. The Internet industry tops the chart (10.3%), followed by real estate (8.0%), hi-tech (7.9%), and medical device (7.6%). Salary increases in pharmaceutical Foreign Invested Enterprises (FIE) (7.0%) and retail (6.8%) are above the national average. Salary increases in engineering (5.3%) and hotel (4.5%) remain low.

This year, the employee turnover rate in China remains high at 20.8%. Ms. Zhang Zhuolei, head of Rewards and Performance Consulting in Eastern China, Aon Hewitt, says: “This highlights the long-standing lack of talent and the imbalanced talent supply.”
Industry-wide, turnover rate in the hotel industry (43.4%) is the highest, followed by the Internet (36%). Turnover rates in real estate, retail, logistics and consumer goods are also higher than the national average. Ms. Zhang continues: “Enterprises in the Internet industry, especially Internet start-ups, are still appealing to talents (millennials in particular) because of a flatter organizational structure, faster career progression path, as well as an open and innovative corporate culture. However, Internet startups feature immature management and business models, which pose risks of uncertainty, so the employee turnover rate is relatively high.”

Labour costs keep rising, and employee productivity is yet to improve

According to the Aon Hewitt HCI study, the proportion of compensation and benefits (C&B) costs to revenue keeps rising year on year. For example, C&B costs in the engineering industry accounted for 32.1% in 2015, up 1.2 percentage points from 30.9% in 2014. C&B costs in the logistics industry accounted for 16.1%, up 1.1 percentage points compared with 2014 (15.0%).

Ms. Zhang says, “Although enterprises tend to tighten or even freeze headcount, the number of employees still rises slowly in general. Also, this year’s national salary increase rate falls to 6.7%, though it is still relatively high compared with other countries. Apparently, the increase of employees and the minimum wage, as well as salary increases, constitute the major factors to rising labour costs. Labour costs would be higher if we take into account costs incurred by employee turnover, training, and other invisible costs, which squeezes corporate profit margins.”

To address the ever-increasing labour costs, enterprises are in urgent need to improve productivity of employees. The Aon Hewitt HCI study reveals that this year, the per capita C&B cost of full time employees (FTEs) in foreign pharmaceutical in China is around 313,620 RMB, rising by 12 percent compared with the previous year; while executive compensation for senior management in China approximates to that of their counterparts in the US. In leading foreign pharmaceutical enterprises, per capita revenue of FTEs in China is around 1,568,000 RMB, while the per capita revenue of global
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workforce of these enterprises reaches about 3,216,000 RMB, almost twice the productivity of Chinese employees.

Radford, a business unit of Aon Hewitt, shows in recent research that in the Internet industry, the per capita C&B cost of FTEs (around 536,000 RMB) in developed countries is 1.5 times that of Chinese employees (around 348,400 RMB), while the per capita revenue of FTEs (around 5,762,000 RMB) in developed countries is almost 1.9 times that of Chinese employees (around 3,015,000 RMB). Ms. Zhang concludes, “It is no doubt that enterprises in China desperately need to improve employee productivity.”

High-performance culture building in industries differ, and private enterprises outshine

Linking pay to performance has been a mantra of business leaders and HR for decades, yet the enterprises that walk the talk are not as many as Aon Hewitt has expected. According to the Aon Hewitt HCI study, enterprises in most industries declare that they pay for performance. For example, in the consumer goods industry, which has an average salary increase of 6.7%, top performers enjoy an average salary increase of 13.9%, while poor performers have an average salary increase of only 4.4%. Similarly, in the automotive industry whose average salary increase is below the national average, top performers boast an average salary increase of 13%, while poor performers have an average salary increase of only 4%

However, when it comes to bonus distribution, proportions of different performers vary from industry to industry. The bonus distribution curves of consumer goods and foreign pharmaceutical companies accord most with the standard distribution curve simulated by Aon Hewitt, showing that these two industries have a strong performance-oriented culture. Nevertheless, the chemical industry features very few top and high performers and a vast majority of standard performers, which showcases the smooth and moderate performance management that the industry adheres to as always. For most businesses, there is still a long way to go towards developing a high-performance culture where there is a clear linkage between pay and performance.

In recent years, private enterprises are outstanding in developing a high-performance culture, which can be seen from the ratio of bonus to total rewards and bonus distribution. Compared with FIEs,
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private enterprises pay much more bonuses to top and high performers. More and more, in the internet era, private enterprises are innovating on variable pay by increasing the levels of variability, and offering more approaches and flexibility in Long Term Incentives (LTIs). Mr. Ni Baijian, principal consultant and head of Executive Compensation and Corporate Governance consulting, Aon Hewitt, says: “Leading private enterprises are more aggressive in LTIs than state-owned enterprises and FIEs. In addition, private enterprises have been exploring richer and more diverse approaches regarding stock option incentives. Besides, the partnership that is catching on in private enterprises is more than enabling key talents to have stock options, and it also entails more voice and a self-realization platform, coupled with flat and equal corporate culture, so that partners can so-share created value with shareholders.”

Retaining talent and improving productivity are top priorities for enterprises

Confronted with challenges of rising labour costs and declining salary increase budgets, enterprises should adopt the following approaches to retain and engage top talents:

- **Encourage a high-performance culture** — enterprises should create a fair and transparent high-performance culture, and stick to the sharp differentiation while paying for performance.
- **Cultivate engaging leaders** — while relentlessly developing leadership of junior to middle-level management, enterprises should also cultivate engaging leaders who can motivate and engage their subordinates.
- **Pay attention to Total Rewards Statement (TRS) communication** — enterprises should provide differentiated, diversified, and personalized benefits, while enhancing TRS communication with employees.
- **Develop a compelling culture and Employee Value Proposition (EVP)** — Enterprises should persistently shape a constructive corporate culture, and create a positive and healthy EVP.

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