

# *Discussion on the Challenges and Solutions in Talent Acquisition for Private Enterprises*

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**Abstract:** Private enterprises are an essential part of the economy in China, and their continuous development relies on the good work of recruiting and retaining top talent. With the fierce competition for talent in recent years, many private enterprises have been experiencing problems such as low wages, no development paths, a rigid corporate culture and unfavorable external institutions. As a result, private enterprises face high costs in attracting talent, low retention rates, and a talent structure misaligned with business needs. The study examines the actual situations and reasons for the above recruitment problems in private enterprises in light of the theories of human capital and organizational behavior. It puts forward four strategic suggestions: build a competitive compensation and incentive system, strengthen talent development and promotion paths, foster an open and inclusive corporate culture, provide strong policy support, etc., to offer some ideas for private enterprises to boost their talent competitiveness and achieve high-quality development.

## 1. Introduction

Since the reform and opening up, private enterprises have been the main power driving the economic development of China. The private sector accounts for more than 50% of the country's tax revenue, over 60% of GDP, over 70% of technological innovation achievements and over 80% of urban employment opportunities; this is known as the "5-6-7-8-9" pattern. As the country enters a new stage of development, it has continuously implemented the innovation-driven development strategy and the talent-strong nation strategy, and talent has gradually become the main strategic resource for corporate competitiveness. Therefore, whether the private enterprise can attract and keep outstanding talent will affect how well it performs the changes, upgrades and development of its business.

However, compared with state-owned enterprises and foreign-funded enterprises, private enterprises have been relatively behind in talent acquisition for a long time. High-end talent tends to be more attracted by state-owned and foreign-invested enterprises, and as a result, the turnover rate of recruited staff is relatively high; that is to say, although talent has been successfully acquired, it cannot be retained. This problem has become a severe impediment to the innovative development and strategic upgrading of private enterprises. According to the theory of human capital, the primary source of an economy's growth is the level of its people's skills <sup>[1][2]</sup>, and if private

enterprises cannot attract and use high-quality talent effectively, they will gradually lose their edge in competition.

More and more studies have recently been conducted on talent management in private companies at present. Although the individual factors of compensation and incentives<sup>[3]</sup>, organisational culture<sup>[4]</sup> and the institutional environment<sup>[5]</sup> have been studied in previous research, they have not been combined and analysed systematically yet. A system of analysis for the three levels of compensation and development, organisational culture and policy system has been constructed to determine the causes of the problems and put forward corresponding countermeasures.

## 2. The Practical Challenges in Talent Acquisition for Private Enterprises

Problems in the talent recruitment of private enterprises have many connections and are divided into two main types: low external attractiveness and weak internal retention. As shown in Figure 1, the reasons for the above problems are the combination of external institutional restrictions, internal management deficiencies and friction in the flow of market information.

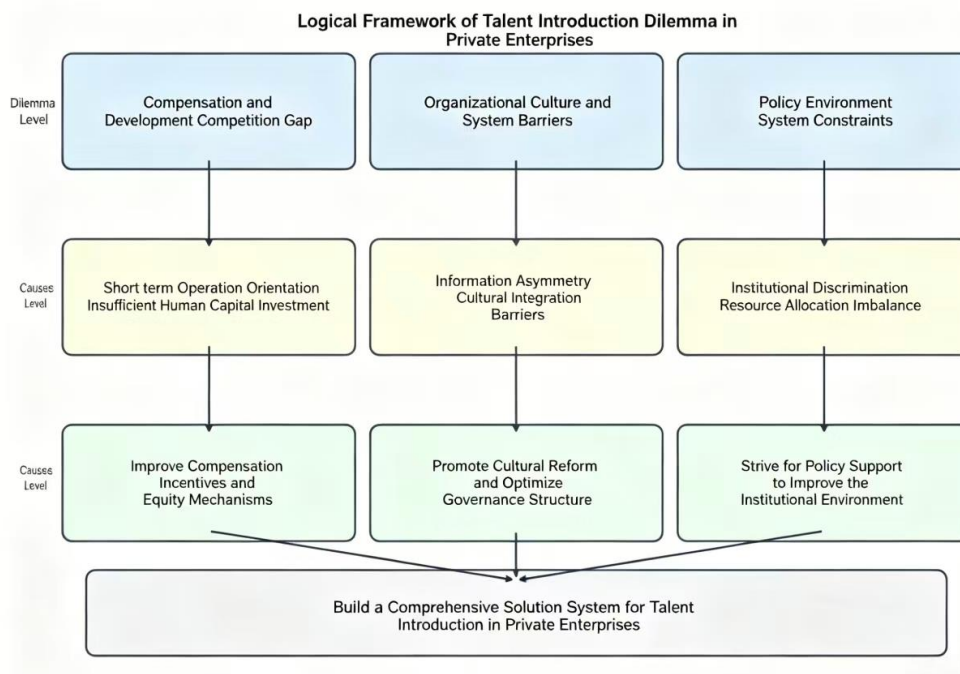


Figure 1: Logical Framework of Talent Acquisition Challenges in Private Enterprises

### 2.1 Competitive Gap in Compensation and Career Development

Compensation is a primary factor influencing individuals' career choices. Compared with the stable compensation and benefits system of state-owned enterprises and the market-oriented total compensation of foreign-funded enterprises, a relatively large number of private enterprises, especially small and medium-sized ones, are lagging behind in many areas, such as base salary, contribution bases for the five social insurances and one housing fund, housing subsidies and commercial insurance. As shown in Table 1, private enterprises have been lagging behind the other types of enterprises in terms of job stability guarantees and research support; thus, it is difficult to attract top technical and management talents with career plans.

Table 1 Comparison of Talent Recruitment Requirements for Different Types of Enterprises  
(Example/Reference)

<b>Comparison Dimension</b>	<b>private enterprise</b>	<b>State-Owned Enterprise</b>	<b>Foreign Enterprise</b>
Base Salary Level	Moderate, high variance	Relatively stable, comprehensive benefits	Market-driven, generally high
Long-term Incentive Mechanism	Generally underdeveloped	Stable promotion via rank system	Mature equity/option mechanisms
Career Development Path	Opaque, family-first	Structured, regulated competition	Competency-oriented
Research Project Support	Limited access	Priority access to national projects	Strong in certain industries
Employee Stability Guarantee	Low, high fluctuation	High, well-developed benefits	Medium-high, high compliance
Cultural Openness and Inclusiveness	Varies significantly	Conservative and regulated	Relatively diverse and open

A more serious problem is the limited career development path. Promotion opportunities in private companies are often concentrated among the core members of the family or a small number of senior managers, and ordinary employees do not have a clear career development path or a structured system for learning. As a result, high-potential employees have decreased their desire to stay and will no longer be attractive to top talent outside the company. According to the human resource architecture theory by Lepak & Snell, the extent to which a company is willing to invest strategically in its people determines the model of talent attraction <sup>[3]</sup>; if private enterprises fail to provide good development opportunities for employees, they will naturally leave for other types of organisations.

## 2.2 The institutional barriers within organizational culture and management systems

The family-oriented culture of private enterprises is one of the internal reasons for talent attraction. Many small and medium-sized private enterprises have developed a trust system based on family relations at the beginning, and now their management is more based on personal relationships than on institutional rules. Although this way has worked for small-scale enterprises, with their growth, it has also shown problems; there is no official management system, the decision-making process is opaque, and professional managers have lost their power. High-end talents from state-owned or foreign-invested enterprises often experience role conflict and a lack of alignment in power-responsibility relationships. Unable to adapt to the corporate culture after joining, they tend to leave voluntarily.

In addition, the performance appraisal system at some private companies is insufficient, they place too much emphasis on subjective criteria, and thus an equitable incentive system cannot be formed. Employees have not been satisfied with the fairness of promotions and the distribution of incentives, thus losing interest in working for the company. Flaws in the internal system have had a more serious impact on top-tier talent; this group is especially sensitive to fairness and professional respect in the organisation.

### 2.3 The systemic constraints imposed by the policy environment and the external ecosystem

Regarding the household registration system, social security continuity and children's education are insufficient to attract high-quality talent from other areas of the country to private enterprises. The restriction of household registration makes non-local talent have a higher cost of living and limits their access to local medical care, pension insurance and children's school enrollment; thus, the cost of talent mobility within the company is relatively high.

Due to the lack of research support and accreditation, most private enterprises are not included in the national research plan, and thus the top talent pool available to them generally has fewer research opportunities and lacks academic prestige. Zhu Yapeng's research shows that the development of local policy innovation in China is promoted by the active participation of policy entrepreneurs [5]; to enhance talent policies for private enterprises, local governments must also take the initiative to promote policy innovation and institutional deregulation, as corporate enterprises alone cannot resolve external institutional constraints.

### 3. The Mechanism behind the Emergence of Difficulties and Their Underlying Causes

The reasons for the difficulties private enterprises have in attracting talent are not simple; rather, a number of reasons are involved. As shown in Figure 2, according to the answers from the respondents, the main reasons for the failure of recruitment are a low level of compensation competitiveness and insufficient career development prospects (examples/simulated data). The following are the three aspects and their respective analyses in terms of human capital investment, information markets and institutional resources.

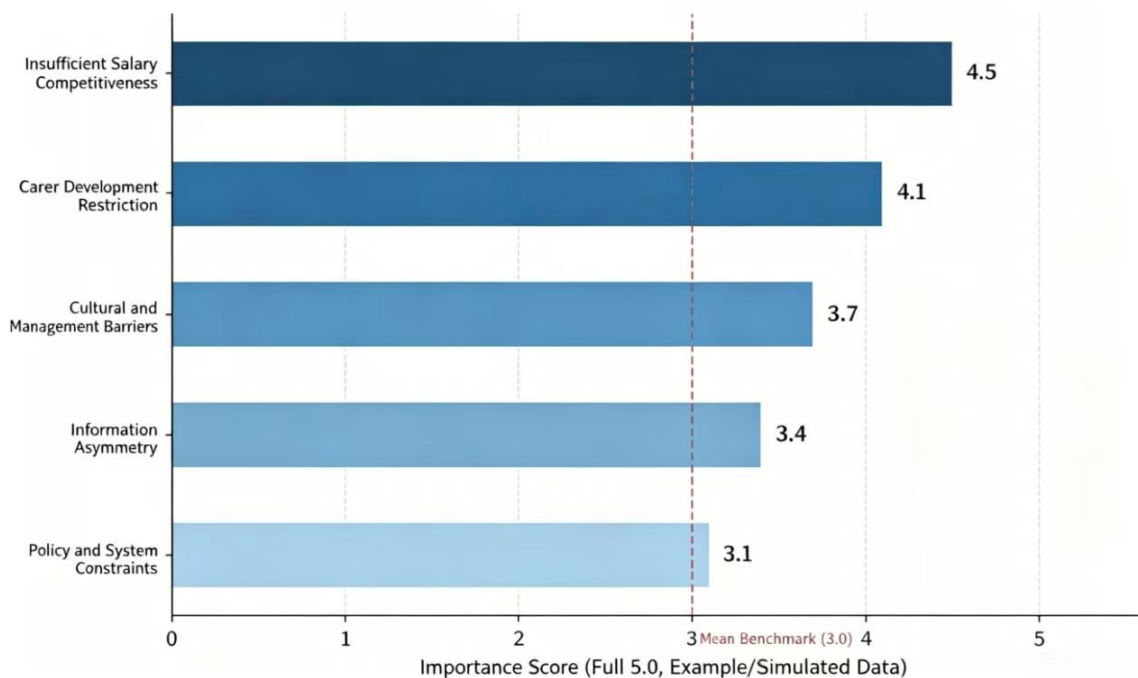


Figure 2: Importance Assessment of Major Barriers to Talent Acquisition in Private Enterprises (Example/Simulated Data)

#### 3.1 Insufficient Investment in Human Capital and a Short-Term Operational Orientation

Due to the dual constraints of lack of funds and uncertainty of the market, small and medium-sized private enterprises have been reducing investment in human capital. Training costs are

considered a short-term expense and are not regarded as long-term investments; there is no regular training for new employees or staff, owners often only offer an immediate salary without continuous motivation, and a strong long-term system of equity incentives and stock option plans has not been established. Due to the short-term operation mode, it will be difficult to attract excellent talents who are eager for career development.

To quantify the comprehensive cost of talent acquisition, this paper introduces the following measurement framework. Let the comprehensive cost be  $C_{total}$ , comprising four components: recruitment cost  $C_r$ , training and integration cost  $C_t$ , adaptation period efficiency loss adjustment value  $C_a$  and management support cost  $C_m$  :

$$C_{total} = C_r + C_t + C_a + C_m \quad (1)$$

Here,  $C_r$  is the recruitment cost,  $C_t$  is the training and integration cost,  $C_a$  is the converted value of productivity loss in the adaptation period, and  $C_m$  is the management support cost for policy adjustment and cultural alignment. As a result of the loss of talent, the sunk costs are unavoidable, and the company will have to start a new recruitment process and waste resources on redundancy.

### 3.2 Information Asymmetry and Market Matching Friction

There is a two-way information asymmetry in the talent market: Job seekers have difficulty obtaining reliable information about the operational stability, career development and other reasons for leaving private enterprises; at the same time, private enterprises find it difficult to identify high-potential talent economically. Uncertainty will increase the cost of matching and raise the risk that talent will be mismatched or leave. Compared with state-owned enterprises, private enterprises have certain problems in terms of brand awareness, transparency of information and perceived stability of employment; thus, although their salaries are the same, they may not attract employees.

In order to consider the overall effect of talent recruitment, an index for evaluating the efficacy of the recruitment work has also been put forward in this paper:

$$I_t = \frac{P_t \cdot \alpha_t}{C_{total} \cdot (1 - \beta_t)} \quad (2)$$

Here,  $P_t$  represents the incremental performance value generated by talent recruitment in year  $t$ ,  $\alpha_t$  is the retention rate weight coefficient;  $C_{total}$  denotes the total recruitment cost; and  $\beta_t$  indicates the efficiency discount coefficient attributable to cultural mismatch and management friction. When  $I_t > 1$ , talent recruitment yields net benefits; however, an excessively large  $\beta_t$  turns these benefits negative, highlighting the significant economic value of reducing management friction and enhancing cultural integration.

### 3.3 Institutional Discrimination and Imbalances in Resource Allocation

Private enterprises do not have the same access to policy resources as state-owned enterprises. In the past, the research funds, industry-academia-research cooperation projects and high-level talent recognition (such as quotas under the national talent program) have been mainly distributed among universities, research institutes and state-owned enterprises, and private enterprises have taken part in a relatively small number of these activities. Therefore, it cannot attract the best academic talent directly and will thus result in a structural problem of talent flow. Li Xiao'ao and others have shown in their research that under the background of a transitional economy, distorted resource allocation mechanisms are one of the main constraints on the innovation ability of private enterprises<sup>[6]</sup>, and to optimise talent policies, this imbalance in the institutional level needs to be addressed to improve the talent ecosystem of private enterprises.

#### 4. Solution Approaches and Recommendations

Based on the three types of problems and their causes listed above, this paper proposes systematic solutions at the level of enterprises and for the policy environment, as shown in Table 2.

Table 2: Correlation between the Causes of Talent Acquisition Challenges in Private Enterprises and Corresponding Solutions

<b>Dilemma Type</b>	<b>Main manifestations</b>	<b>Deepogenic origin</b>	<b>Solution Approach</b>
Pay and Development Gap	The base salary is insufficient; the promotion pathway is closed	Short-term operational focus; lack of long-term incentives	Equity incentive; transparent promotion system; policy subsidies aligned with corporate objectives
Cultural and institutional barriers	Exclusionary family culture; opaque decision-making; unfair performance evaluation	Confusion between ownership and management rights; insufficient institutionalization	Modern corporate governance; Professional management; Fair incentive systems
Institutional and Regulatory Constraints	Housing registration barriers; restrictions on research qualifications; discontinuity in support mechanisms	Institutional discrimination; Imbalanced allocation of public resources	Advancing household registration reform; expanding research qualifications; improving the talent sharing platform
Information Asymmetry	Corporate information is opaque; the cost of talent identification is high	Employer brands are weak; there are frictions in the talent market	Strengthen the employer brand; introduce third-party evaluations; share recruitment platforms

##### 4.1 Establish a competitive compensation and incentive system

Compensation reform is a direct way to solve the problem of talent acquisition. Private enterprises should construct an all-weather incentive mechanism, combining a stable base salary with various other forms of long-term motivation for employees, such as performance bonuses, profit-sharing plans, stock options, etc., to align the interests of the employees with those of the company. High-end technical and management personnel will be motivated to remain in the company and better serve the company by adding stock options.

In order to strengthen the policies, local governments have introduced various attractive living environment and other support measures to reduce the housing expenses of talented individuals, simplified the process of household registration and matching for research funds, and thereby lowered the recruitment costs for enterprises. The company can appoint a particular policy coordinator to stay informed about the new local talent policies in advance and make full use of the policy benefits to reduce the short-term drop in wage competitiveness.

##### 4.2 Improve the mechanisms for talent cultivation, promotion, and development

The proposed framework includes orientation programs, ongoing training, external practice, and exchange opportunities for employees. Keep investing in human capital to promote the professional development and career goals of employees. In addition, enterprises should set up open-door policy

systems and make the rules for promotion transparent; that is to say, when promoting staff, the reasons should be based on their performance and not on family connections.

In the systematic design of talent development, full attention should be paid to the strategic value of succession planning; establishing tiered reserves for key positions can reduce the risk of talent loss and provide clear career paths for current employees to make the organization more attractive in the medium and long term. Pfeffer thinks that the basic way to build a people-oriented management system is to create an environment where employees can be the focus of attention <sup>[4]</sup>, thus making people-related investments a source of value for the company instead of just costs.

### **4.3 Fostering an open and inclusive corporate culture and improving the governance structure**

In terms of governance, private enterprises should strengthen the construction of professional management system, establish a modern corporate governance system, clarify the proper division of ownership and operating power, safeguard the decision-making rights and incentive interests of professional managers, and build a rule-based management framework instead of a relationship-based one.

In the development of culture, build an organizational culture based on trust, openness and achievement to reduce the exclusionary effects of family culture on the integration of external talent. Wang Lu's study finds that by making systematic thinking use of theoretical innovation and practice, high-quality development can be achieved <sup>[7]</sup>; similarly, to prevent institutional friction caused by fragmented changes, cultural transformation in private enterprises also needs to be organised and promoted in coordination among the three areas of governance structure, management process and value cultivation<sup>[8]</sup>.

### **4.4 Seek policy support and improve the external institutional environment**

At the macro level, the government should continue to advance the reform of the household registration system, ensure equal access to essential public services, reduce institutional friction costs in the movement of talent between regions, and build a favourable institutional environment that can attract external talent for private enterprises<sup>[9][10]</sup>. At the level of industrial policy, more and more private enterprises should be included in the scope of national research projects; reforms need to be made to build a neutral scientific research evaluation system and talent recognition standards, and institutional discrimination against private enterprises must be eliminated.

The government can build a "talent-sharing platform" that has many small and medium-sized enterprises share recruitment and training resources; by using the platform economy model, it will be possible to reduce the talent acquisition costs of individual enterprises and achieve economies of scale. Zhu Yapeng and others' research shows that policy entrepreneurs are at the center of local innovation <sup>[5]</sup>, and in the area of talent policy, local governments should also act as the main forces for policy innovation to implement targeted talent attraction incentives based on local circumstances and build a cooperative talent ecosystem involving the government and enterprises.

## **5. Conclusion**

The problems in attracting talent for private companies are multifaceted and result from several interconnected reasons, such as lack of competitiveness in salary, inadequate career development opportunities, a poor work environment, etc. Since the problems are in one area only, we will make some improvements; however, cooperation from both the company and the government is also required.

At the corporate level, institutional innovation should be at the centre, and efforts should be made to adjust the compensation incentive system, career development framework, cultural management mechanism, etc., changing talent investment from a cost-driven mode to a value-driven mode; at the governmental level, to build a fair institutional environment, institutions need to be streamlined as quickly as possible. Only by strengthening the talent governance ability of private enterprises can they achieve a good position in the new development model.

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