

Refreshing Talent Strategy in China's Complex Market Environment

In today's post-pandemic era, uncertainty permeates every aspect of the global economy. In particular, the Chinese economy now faces numerous new variables and challenges, such as real estate liquidation, weak demand, and decreasing exports.

To adapt to the new market environment, companies that operate in China need to change both their business approach and talent strategy. Multinational corporations (MNCs) need to be more localized, taking a "be China for China" approach.¹ Conversely, domestic Chinese companies are looking to internationalize, increasingly involving the global value chain.

To help organizations bridge these gaps, Russell Reynolds Associates developed recommendations for creating new, robust talent strategies that complement China's evolving business context.



China’s “new normal” is creating new market opportunities

The Chinese economy’s “new normal” promotes the transition from a “single circulation” to a “dual circulation” economy. Related, “talent strategy” has become a key focus of China’s “14th Five-Year Plan”² and will be implemented between 2025 and 2035. As a result, the traditional approach of evaluating the Chinese economy based on GDP growth rate needs to be reassessed. Business leaders must shift their perspectives towards reform and new market opportunities.

Single circulation: China produces goods and services and sells them to foreign markets.

Dual circulation: China produces goods and services and sells them to both foreign and domestic markets, with a focus on boosting domestic demand.

These trends in the Chinese market are differentiating new business considerations— including consumption upgrades, supply chain integration, and technological advancements—from traditional ones, such as real estate, exports, and investments. China’s unique market structure and digital environment continually incubate new technology pioneers. These companies have gradually become leaders in global fields such as consumer goods, high-end manufacturing, new energy, and biotechnology.

- **Consumer Goods:** In the mass consumer sector, trends such as consumption upgrades, rational consumption, increased social media influence, and new retail will reshape the future. Projections show that, by 2025, China will account for nearly 25% of all global luxury goods consumption.³
- **Pharmaceutical:** Chinese pharmaceutical companies⁴ are expanding to compete with MNCs operating in China. Chinese pharmaceutical companies have also made substantial breakthroughs in international licensing cooperation. Meanwhile, the launch of government bidding is driving companies to optimize channels, reduce costs, enhance research and development capabilities, explore new product lines, and expand overseas markets.
- **Supply Chain:** Stable supply chains and robust risk management measures are essential for business success. Building a digitalized supply chain can contribute to the formation of a “dual circulation” economy. Additionally, companies should actively expand their supply chain’s “external circulation” to better adapt to the new normal.
- **Manufacturing:** High-end manufacturing will bring continuous transformation to industrial production, further enhancing a company’s global competitiveness. Practices such as digitalization, process automation, and AI adaptation will make companies more efficient and more globally competitive. Additionally, some companies are developing B2C channels, to meet consumer needs with more agility.

Evolving talent characteristics in the face of uncertain, complex Chinese markets

Over the past two decades, the Chinese talent market has undergone three stages of change. From 2000 to 2009, there was a shortage of high-end local talent despite significant market demand. From 2010 to 2019, the supply of local talent increased, but still fell short of market demand. However, since 2020, the supply of local talent has continued to grow.

Overall, we observe the following characteristics amongst current Chinese talent:

- **Senior domestic talent:** Talent in China has localized rapidly, and Chinese leaders and professionals with a global mindset are highly sought after. China has witnessed the rise of many large start-ups that offer high salaries, high degrees of freedom, and senior positions, attracting more executive talent.
- **Internationalized high-end talent:** Complex market changes have led more Chinese professionals to explore overseas opportunities, enabling them to bring international experience when they return to roles in China.
- **Cross-industry talent:** Talent mobility across industries has become more common. Past experience is no longer the sole measure of talent.
- **Digitally-oriented talent:** Companies on digital transformation journeys have seized opportunities to attract top talent from the technology industry.



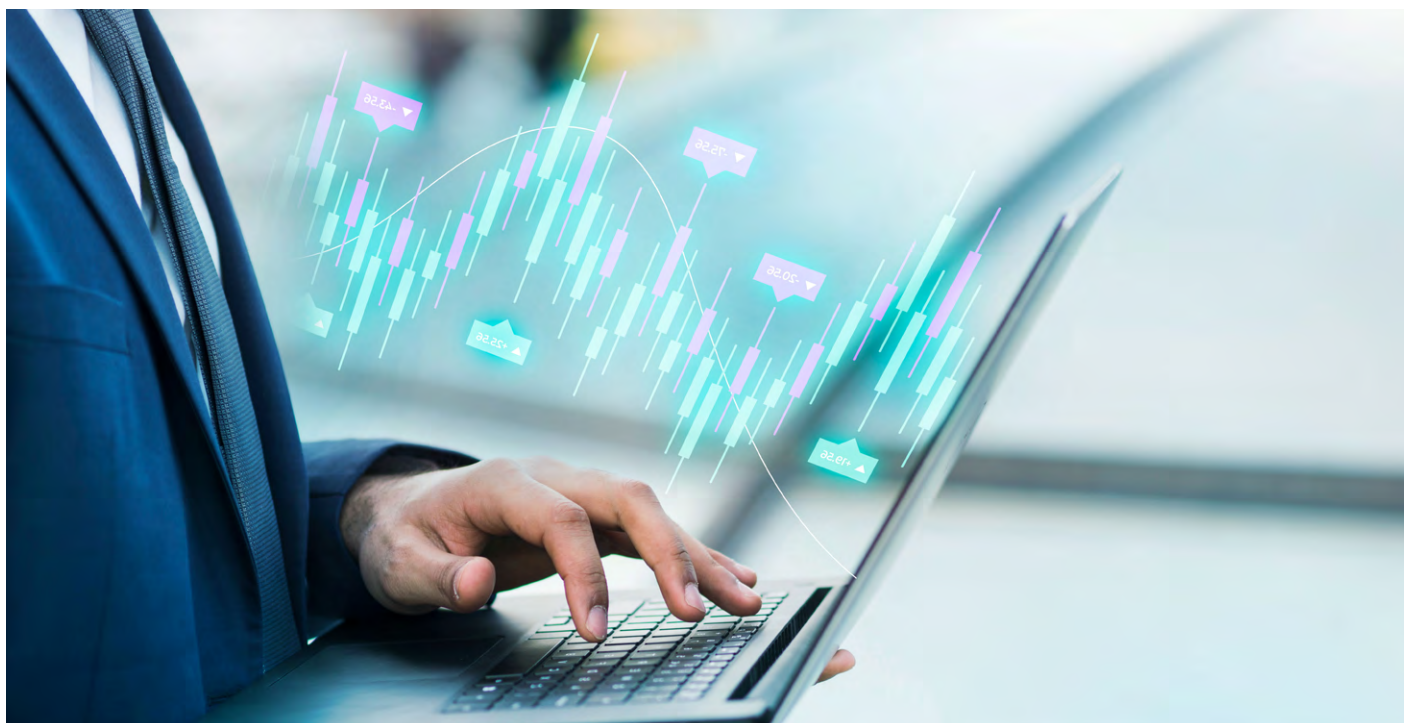
Overcoming talent challenges in China's new environment

Many traditional domestic companies seeking to transform hope to find versatile and tech-oriented leaders. Despite the abundance of talent in the market, companies still face challenges in identifying core competencies and helping newly appointed executives integrate into corporate culture. Recent Bain research found that the turnover rate of high-end talent hired externally by private enterprises exceeds 40% within three years,⁵ indicating that executives may not have enough time to demonstrate their value before moving on to other companies. This phenomenon is particularly prominent in medium-sized enterprises (with annual revenue between 10-50 billion RMB). Resolving this challenge requires efforts from both companies and leaders.

Companies aiming to attract and retain excellent talent should:

- Adhere to a talent strategy of openness and inclusiveness, recruiting external multi-level talent to infuse fresh blood into the organization.

- Help newly appointed executives integrate by patiently facilitating their onboarding, allowing them time to learn the business and demonstrate value.
- Prioritize managerial talent with an international perspective to support the expansion into new markets, along with professional and institutional decision-making mechanisms.
- Provide training to facilitate employee growth and ensure the transfer of corporate culture and expertise.
- Establish transparent communication channels and foster a culture of truthfulness and pragmatism.
- Offer better compensation, higher work flexibility, and more senior positions to attract executive level talents—many larger start-ups have been successful with this approach.





In order to win in this complex environment, leaders in China should prioritize:

▪ **Lifelong learning around cross-disciplinary capabilities:**

- Maintain market sensitivity, reject complacency, and expand perspectives by combining professional knowledge and experience, actively learn and explore cross-industry best practices.
- Flexibly transfer knowledge and experience to new industries and fields, exploring new patterns.
- Maintain an open learning attitude towards emerging technology trends. Actively work to understand and implement disruptive technologies, such as artificial intelligence.
- Develop a global vision, cross-industry insights, and strategic thinking to quickly identify new opportunities in new environments.

▪ **Empowering your team:**

- Use a coaching approach to build a highly effective team with active participation from everyone.
- Broadly incorporate overseas and cross-industry talents into the company, respecting the diversity of the team composition.
- Strengthen the company's talent pipeline through proactive talent development planning.

▪ **Balancing short term and long term goals.**

- As the market continues to change, ensure you are looking ahead to future mandates while continuing to innovate on a day-to-day basis.
- Identify risks and benefits that accompany tech innovations and a changing workforce, and plan around them.
- Prioritize relationship building to break down silos in this new environment, achieve a broader perspective, and get things done.

By addressing talent challenges at both the company and leadership levels, businesses can navigate the complex new market environment and gain a competitive edge in China.

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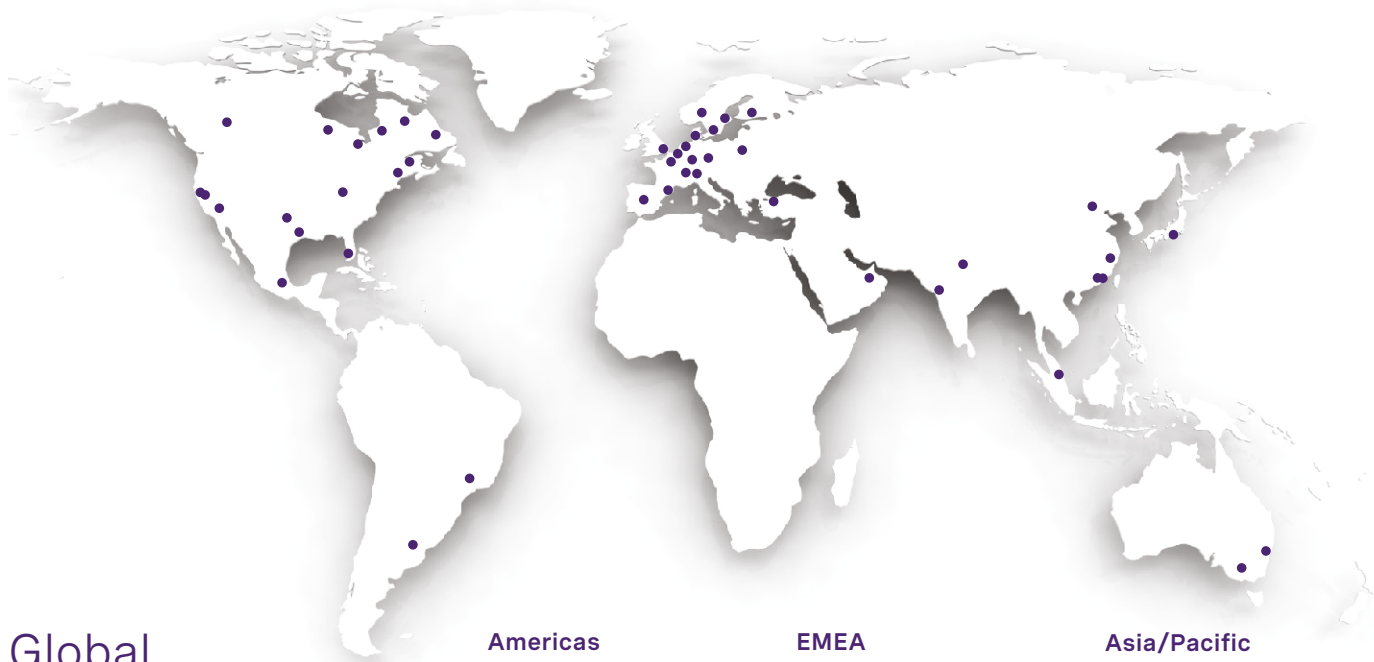
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