



# Smart Growth 2.0

--- for the Age of Value Proposition in China



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## Introduction

Twelve years ago, Korn Ferry published a white paper on “Smart Growth.” At that time, the Chinese market had just transitioned into a medium-high growth phase after a long period of rapid growth, with demand slowing and competition intensifying. The whitepaper pointed out that the business models and leadership styles formed in the previously favorable environment were no longer suitable for the new economic situation. In response to these market changes, Korn Ferry introduced the concept of Smart Growth for corporate management; based on this, we launched a new leadership model that emphasizes measuring and cultivating leadership through two dimensions: agility and maturity.<sup>1</sup>

**More than a decade later, and China’s economic environment has once again undergone dramatic changes. Today, business leaders face an unfamiliar and more complex financial and competitive environment. How should companies navigate this new reality? And what kind of leadership is required to succeed?**

In July 2024, Korn Ferry conducted a series of in-depth interviews to examine and compare the practices of companies that have performed very differently in this new environment.

We found that the companies that have continued to perform well during periods of market turbulence demonstrated two key capabilities: resilience and innovation. These companies have moved away from the trend-riding, opportunistic approach of a few years ago. Instead, they have carefully cultivated their core competencies and business ecosystems around their corporate purpose and inspired resilience and innovation through visionary and collaborative efforts.

Based on these insights, Korn Ferry has constructed the new leadership model and ideas of human resource management needed to shape these organizational capabilities, resulting in the main framework of Smart Growth 2.0.



# **Evolving Economic and Business Environment in China**



**Businesses face varying challenges in different economic environments, which place distinct demands on leadership. A historical perspective on broad economic development helps organizations and leaders understand the evolution and trends of the business environment, enabling them to develop more effective leadership and human resource strategies. Over the past few decades, China's socioeconomic development has gone through several stages.**

## **The Productive Era**

In the early days of economic reform, China's various industries were in a phase of learning and exploration. By removing ideological barriers, opening to the world, and attracting foreign investment, China gradually transformed into the world's manufacturing center. Business leaders during this period were mainly production-oriented leaders, focusing on improving production capacity. They emphasized execution, strong work ethics, and the delivery of results on time and in quantity.

## **The Adaptive Era**

After joining the World Trade Organization in 2001, China actively adapted and integrated into the world trading system and vigorously developed its manufacturing industry and export processing trade. In 2008, China launched a four-trillion-dollar economic stimulus plan that significantly advanced infrastructure and accelerated urbanization. Meanwhile, the private sector also developed rapidly. "Scaling up" became an important goal for businesses during this period. Companies adapt to increasing competition by leveraging economies of scale and achieving cost advantages.

In 2000, nine mainland Chinese companies were listed in the Global 500, and by 2012, this number had risen to 61.<sup>2</sup> Leadership during this era emphasizes not only mass production but also the ability and broad perspective to manage large-scale enterprises.

However, whether in the productivity era or the adaptive era, China's economy was in a relatively easy, high-growth phase. The volume-based competition placed minimal demands on leadership.



## The Generative Era

The year 2012 was an important turning point in China's post-reform and opening-up economic development. Before that, China experienced years of high growth. In 2011, China's GDP growth was 9.6%, but dropped to 7.8% in 2012. Since then, China's economy has slowed but maintains a medium to high growth rate.

From 2012 to 2019, China's economy grew at an average annual rate of 7.0%, significantly higher than the global average growth rate of 2.9% during the same period. In addition to export trade, China's domestic consumer market has also become a driver of the economy. During this period, although competition has intensified, opportunities remained abundant, and various new industries emerged. Following trends and seizing opportunities have become key strategic measures for many companies.<sup>3</sup>

Against this backdrop, Smart Growth 1.0 has been proposed. The management approaches of the previous era are no longer suitable for this environment, and companies need leadership with both maturity and agility to effectively seize emerging opportunities.

## The Age of Value Proposition

After 2022, China's economic development has entered a new phase.

Expectations for economic growth have continued to decline. Demographic changes, rapid advancement of new technologies, trade protectionism, supply chain reconfiguration, shifting consumer preferences, natural disasters and emergencies have exposed business operations to greater uncertainty.

This means that companies can no longer rely solely on chasing opportunities to achieve success but must embrace long-termism.<sup>4</sup> Long-termism requires companies to balance immediate benefits with future growth and promoting the sustainability of their business. Companies must identify and respond to societal and consumer needs, clarify their value propositions, and create unique social impact through their distinctive products and services.

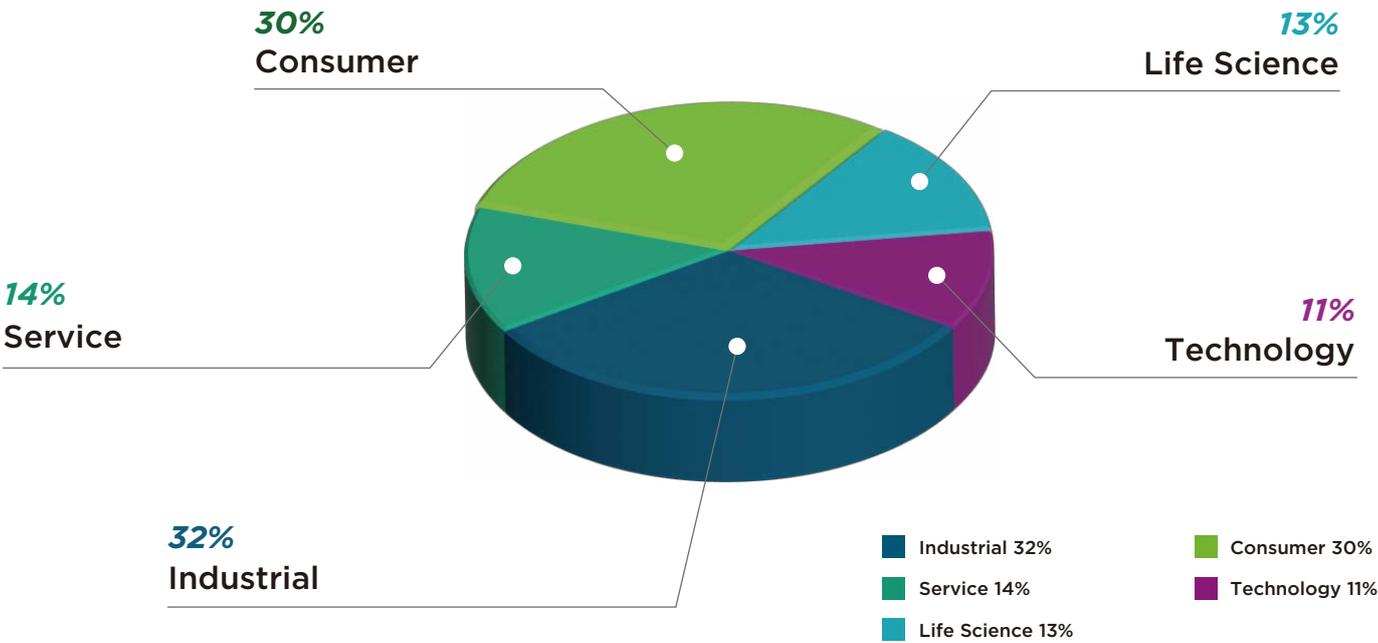
If Smart Growth 1.0 was designed for the generative era, today's companies need a new way of thinking to cope with the highly uncertain business environment, i.e., Smart Growth 2.0.

# About Smart Growth 2.0 Research

In the summer of 2024, Korn Ferry conducted research on 200 Chinese domestic and foreign companies and interviewed more than 100 business and HR leaders in depth about the business challenges they have faced since 2020. The research also explored the shifts in HR focus and their perspectives on trends in operation, talent, and leadership.

The study reveals the status and trends of business operations in a wide range of areas, including financial performance, investment, business priorities, staffing, and organizational effectiveness. The respondents include 52.5% local companies (mainly listed companies) and 47.5% multinational companies operating in China. The following figure shows the distribution of surveyed companies by industry.

**Industry distribution of surveyed enterprises**



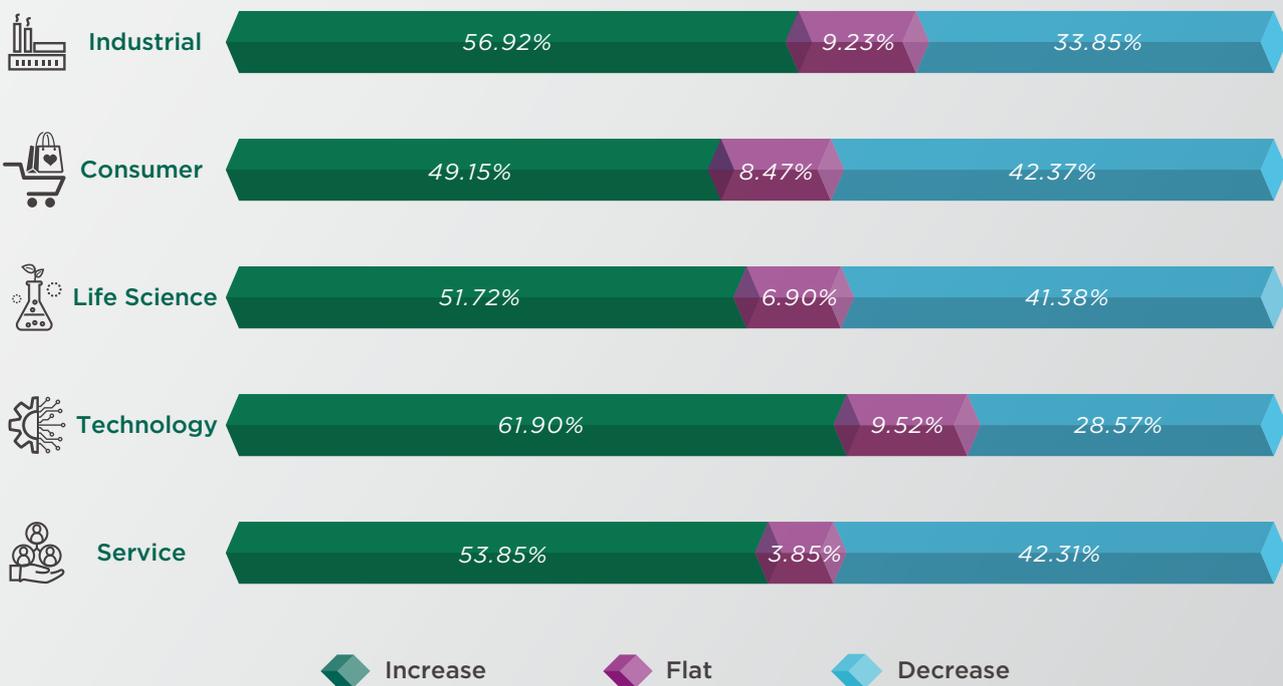
# Business Performance and Priorities

In the first half of 2024, 108 companies (54%) surveyed experienced business growth, 76 companies (38%) experienced a decline in performance, and 16 companies (8%) maintained the same performance as in the same period last year.

Of the companies that experienced growth, 56% were local Chinese companies. Only 28.7% reported double-digit growth, with most companies in the fast-moving consumer goods and emerging technology sectors. Despite the majority reporting revenue growth, nearly 15% (16 companies) saw increased revenues without corresponding profit increases, with some even mentioning that profits were at record lows. The rise in costs outpaced the increase in sales, leading to concerns that performance in the second half of the year would not be optimistic.

The consumer sector was the most volatile overall, accounting for nearly half of the companies reporting double-digit growth, but also the largest declines. Companies in the industrial sector are more stable than other sectors, with 80% reporting low to mid-single digit growth.

The majority (90%) of companies surveyed are concerned about performance in the second half of 2024, while 80% in the growing mode in the first half of the year indicated that the forecast for the full fiscal year 2024 should be a mid-single digit.



In terms of their priorities, the surveyed companies mentioned cost reduction and efficiency enhancement, shifting from external recruitment to internal training, talent optimization, change management, digitization, organization transformation, etc. Almost half (45%) of companies are taking steps to reduce costs and increase efficiency, indicating a transition from past extensive management practices to a focus on precision and efficient use of resources. Nearly one-third of companies (31.6%) emphasized internal talent redeployment and training, reflecting the scarcity of new talent in the labor market and the need for companies to adapt their talent supply models. This includes developing a talent supply system that aligns with their strategies through enhanced training and internal talent mobility.



# Business Challenges

**The business challenges summarized in this survey cover a wide range of areas, including strategy, culture, mindset, marketing, and leadership. A common theme from respondents was that organizations currently lack the experience and leadership talent to deal with unfamiliar business environments.**

- In a downturn, most business leaders and professional managers are not experienced and prepared to break free from the inertia of past practices and adapt quickly.
- During the market downturn, many of the original industry leaders found themselves in a situation where "the ship is too big to turn around." As a result, many of their decisions could not keep up with rapid market changes.
- Trend-following companies lack strategic vision and long-term planning, resulting in fleeting successes.
- The management of some companies is stagnant and lacks vitality and competitiveness.
- Business leaders are increasingly focused on short-term results under constant pressure to reduce costs.
- Amid the wave of "optimization", professional managers have become increasingly conservative. The mentality of "making fewer mistakes" and "waiting for retirement" has led some to prioritize risk mitigation in their business decisions.
- High-level executives and industry leaders are cautious about job-hopping and seek greater stability in their careers.
- In the face of uncertainty and business volatility, HR and business leaders struggle to establish new talent standards, leading to confusion about how to identify the right talent and where to find them.
- With rising domestic technical and management labor costs and Southeast Asia's efforts to attract international investment, many enterprises are relocating their production and supply chains. This shift has resulted in a surplus of domestic talent in certain areas in China.
- As multinational companies prioritize their business in other markets, their supply chain partners will likely follow suit, reprioritizing their centers of operation.

**Most respondents believe that China will remain "one of the most profitable regional markets" despite increased economic uncertainty. However, this will require business leaders to break away from the old mindsets and actively explore the Smart Growth 2.0 approach to business and management.**



## Two Core Competencies

# of Smart Growth 2.0

Based on performance, the companies surveyed can be divided into two groups: high performers with significant growth in both revenues and profits (9%) and low performers with declining revenues and profits (15%). Korn Ferry's research team interviewed senior executives from these companies to gain insight into their practices and their views on the current state of their businesses.

Undoubtedly, economic and industry trends have a significant impact on business performance. Many underperforming companies highlighted poor strategic decisions, such as a lack of awareness of industry trends that led to inaccurate production capacity and revenue forecasts. More importantly, they lack a strategy for dealing with business cycles. Top-performing companies, on the other hand, have fully embraced forward thinking and developed their counter-cyclical strategies. For example, some companies focused on efficiency during prosperous times and sought benefits from high-quality management; some carefully planned their business portfolios and rationally allocated their assets to avoid putting all their eggs in one basket; and others built a good brand image and maintained customer loyalty through word of mouth. These measures have helped companies mitigate the impact of adverse market conditions. However, these measures only maintain the status quo and are not sufficient to create a growth trend. High-performing companies not only take a "defensive" approach to unfavorable market conditions but also adopt an "offensive" approach to actively seek opportunities. Some companies anticipate customer dynamics, increase R&D efforts, respond quickly, and introduce new products and services. Others are actively exploring new markets, such as following upstream and downstream companies overseas to gain new growth opportunities.

The qualitative analysis of the interviews reveals two core competencies of Smart Growth 2.0: resilience and innovation. These two competencies reinforce each other. In a highly uncertain economic environment, business innovation builds upon resilience.<sup>5</sup>

## Core Competency

# Business resilience

**Business resilience is the ability of a business to survive, adapt, and recover in the face of sustained pressures. This capacity includes the ability to flexibly adapt to the environment or adjust strategies in a timely manner.**

The more resilient it is, the more robust the business will be. By taking various measures such as capital reserves, asset utilization, business portfolio management, intangible assets, risk management, key customers, business partnership, cost reduction, and efficiency initiatives, companies can reconfigure resources, processes and relationships in a crisis, recover quickly and use the crisis to achieve counter-trend growth.

In the era of Smart Growth 2.0, companies need to change their management practices that causing the waste of resources and dispersion of energy. They should define their social value and long-term goals, make strategic trade-offs, and return to their roots. By centering the business around the societal impact that the company intends to generate and allocating resources rationally, they can build a healthy operating system that drives a virtuous cycle of revenue growth and makes the overall business more robust.

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*Side story : One company attributed its stable growth in uncertain times to its operating and management philosophy of "fixing the roof when the weather is clear." The company has planned well in advance of adverse cycles, for example, by upstream and downstream integration, new business deployment, business strategy improvement, overseas expansion strategy, etc.*

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## Core Competency

# Business innovation

Resilience helps a company survive temporary difficulties, but to achieve sustainable business, companies ultimately need new engines of growth. This is especially true during downturns, which are often accompanied by shrinking demand and increased competition. Through innovation, companies can develop new products and services to meet changing market needs and remain competitive.

Innovation is not limited to products and services, but also includes process and operational model innovation. By optimizing internal processes and introducing new technologies, companies can improve operational efficiency and reduce costs to maintain profitability. In addition, innovation can help companies identify and enter new markets, industries, and customer groups.

During the economic downturn, consumers prefer brands with high added value and reliability. Through continuous innovation, companies can enhance their brand image and customer loyalty, and thus gain a favorable position in the market. In short, innovation is the key to sustainable growth and long-term success in a highly uncertain economic environment.

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*Side story: The head of a major U.S.-based consumer goods company said that their adherence to and efficient execution of their China strategy over the past five years, which includes an emphasis on China innovation (including technology, branding, and channels), has resulted in organizational capabilities that can adapt and scale quickly.*

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# The Two Mindsets

## of Smart Growth 2.0

**Mindsets profoundly affect people's analysis and decision-making processes. However, the mindsets that helped organizations make effective decisions in the past are not necessarily applicable today, and they can limit organizations' agility and innovation. Therefore, companies need to identify and break through these limiting thinking patterns in their operations and management to adapt to new challenges and opportunities.**

**Through qualitative analysis of the interviews, the Korn Ferry research team identified two mindsets that support Smart Growth 2.0 - being purpose-driven and collaborative.**

## Purpose-driven

Purpose is an expectation and imagination of the future, an ideal state that a company hopes to achieve.

Purpose describes what a company can contribute to society. As such, it is not only a business goal, but also a driving force that motivates and guides the company forward. A clear and inspiring purpose allows the company and its employees to focus on the future, rather than being frustrated by temporary difficulties and increases the company's resilience. In an environment of ambiguity and high uncertainty, a clear purpose frees business leaders and managers from opportunistic thinking, avoids the impact of "fear of missing out" on corporate decision-making, and allows companies to intelligently assess new business opportunities and build an ecosystem around their core purpose.

Purpose enables leaders to transcend the confines of their current business and think about the way they operate from the perspective of creating value for customers and society, thereby stimulating innovation. As society becomes more diverse and people's consumption habits and preferences evolve, consumers face a plethora of choices due to the transparency and rapid dissemination of information. In such an increasingly competitive market, companies must define their target customers and value propositions and attract and build a solid customer base through a unique brand image and clear corporate purpose.

A study by Korn Ferry found that purpose-driven companies perform better in innovation, employee engagement, and customer loyalty.<sup>6</sup>

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*Side story: The head of human resources at a large industrial manufacturing company stated that they have been striving to build a "competency-based" organization, focusing on internal talent development, competency building, succession planning, and building strong teams that can compete and adapt to changes in the marketplace.*

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# Collaboration

Historically, some companies have favored independence and self-reliance to maintain control, and confidentiality, and manage risks. However, with the acceleration of technology development and the blurring of industry boundaries, this self-reliance mindset is increasingly limiting vision and innovation. Companies now need a collaborative mindset to cope with the complex market environment and competitive pressures.

Collaboration can harness complementary strengths in areas such as technology, marketing, and channels. Through vertical or horizontal collaboration, business partners can leverage each other's strengths to increase competitiveness. By working together, companies can share costs and distribute risks, alleviating the burden on individual companies. This is especially important in times of market volatility and uncertainty.

And synergistic collaboration within an organization can stimulate more innovative thinking. Teams with different backgrounds and experiences working together can generate more ideas and solutions.

As the market environment becomes more complex, business decisions become increasingly challenging. This means that leaders must recognize the limitations of their own experience and perspectives and rely more on the collective wisdom of their teams. Different backgrounds and areas of expertise can bring diverse viewpoints and insights, avoiding the biases and blind spots that come with a single perspective.<sup>7</sup>

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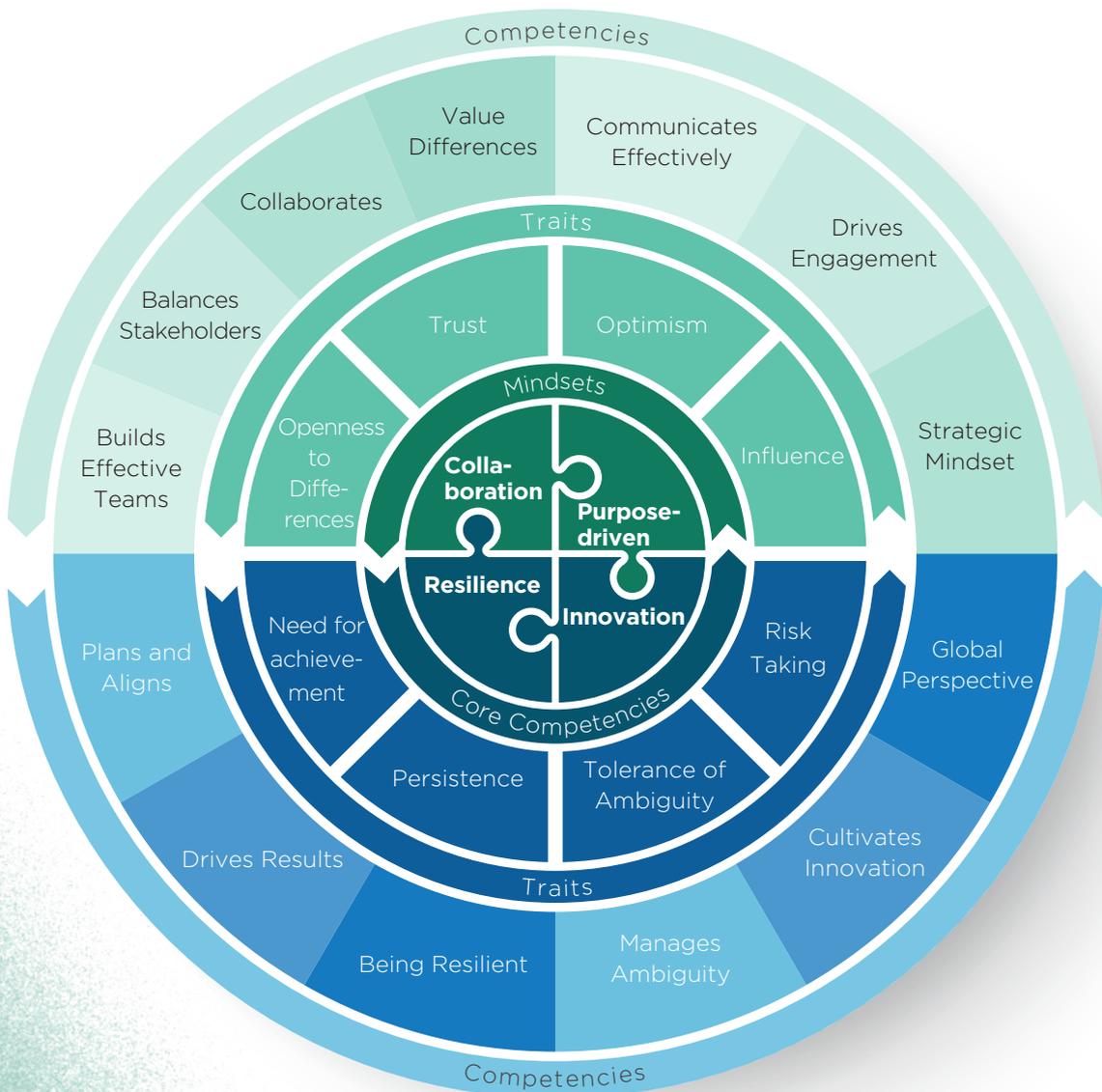
*Side story: The human resources manager of a large foreign auto parts company explained that they are looking for new business opportunities through synergistic cooperation, such as sending experienced teams to help local new energy vehicle companies go overseas, helping them establish a strong presence, and introducing upstream and downstream of the supply chain to gain synergistic opportunities.*

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# Smart Growth 2.0 Leadership Model

Leadership based on traditional mindsets can no longer keep pace with market developments. The core competencies and mindsets of Smart Growth 2.0 provide an important context and foundation for redefining leadership in the new environment.

Based on this research, Korn Ferry has constructed Smart Growth 2.0 leadership model with two sets of leadership qualities: competencies and traits.



In the research conducted by Korn Ferry, many corporate HR leaders noted that in the face of completely new economic situations, they struggle at defining clear standards for talent development and recruitment.

**We suggest that companies can take the Smart Growth 2.0 leadership model as a foundation, adapting it to their strategic priorities and specific operational measures.**

The importance of this foundational model is to create a unified understanding of the ideal managers and leaders for the new environment, centered around two core corporate competencies and mindsets.



# Driving Smart Growth 2.0

Talent is essential to meet competition and challenges. Companies can drive Smart Growth 2.0 by improving their leadership and HR strategies.

In response to the scarcity of leadership talent, especially managers with experience in dealing with market downturns, companies need to strengthen the talent pipeline by appropriately combining internal training and external recruitment. Establish a standardized assessment and development system based on the Smart Growth 2.0 leadership model. Enhance the resilience and innovation capabilities of the organization with new types of leadership.

- **The high degree of uncertainty in the business and competitive environment makes it impossible for managers to lead and manage companies according to pre-determined scripts.**

This necessitates continuous learning and adaptation in practice. To this end, companies need to establish effective learning mechanisms through practices such as job rotation, internal talent mobility, experience sharing, performance feedback, pilot projects, and interaction with partners.

- **Move from relying on individual leaders to harnessing collective wisdom and group efforts.**

Strengthen leadership through team building, especially at the senior leadership level. Through regular team learning activities, leadership training, and cross-functional collaboration, companies can continuously improve the cohesion of their leadership teams and leverage collective wisdom to achieve more effective management and superior performance.

- **Define the company's purpose and core values.**

Purpose explains the reason for a company's existence, while core values define the basic principles and code of conduct that a company follows to achieve its purpose. Build a unique culture around this purpose and values. Through various forms of internal communication, training, and community activities, continually reinforce employees' sense of identity and ownership of the purpose and values. Emphasize the alignment between candidates and the company's culture and values during recruitment and attract and engage talent through culture and values.

As the Chinese proverb says, "A wise person changes their way as circumstances change; a knowledgeable individual alters their means as times evolve." The role of business leaders is to lead today's business to adapt to tomorrow's changes. By creating leadership that adapts to the new era, companies not only remain competitive in a difficult market but also lay a solid foundation for long-term growth.

Adapting to the new era requires business leaders and managers to change their mindset, grasp the demands of the current complex economic situation on the capabilities of enterprises, and power Smart Growth 2.0.

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