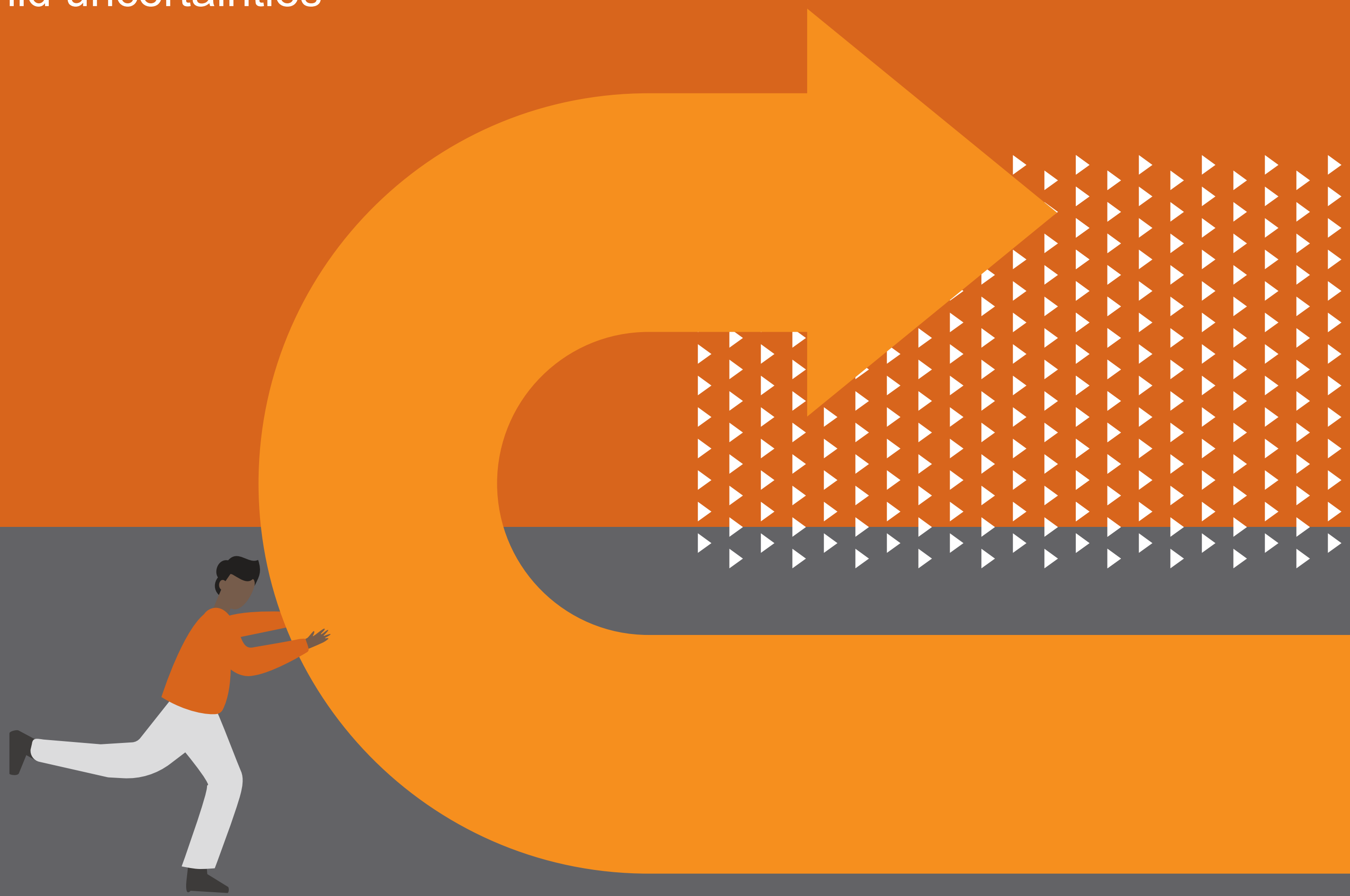
pwc 普华永道

From trust to impact

Trust, sustainability and transformation amid uncertainties



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Executive Summary

Research shows that when there is an economic contraction, family businesses tend to outperform their non-family business peers.[1] The former place a greater emphasis on stewardship and longevity over short-term financial performance. In doing so, their founders often sacrifice surplus returns when an economy is booming, in order to ensure the company can weather potential downturns.

Undoubtedly, the public health crisis that occurred in 2020 has firmly put this theory to the test. Overnight, firms across the globe (family businesses included), needed to prove their mettle. The following is an overview of the main findings from the Global Family Business Survey 2021 which sheds light on how family businesses in Mainland China and Hong Kong have fared during the recent pandemic. It looks at how these family businesses navigated and responded to the disruptions, and how they can further position themselves to succeed in the post-pandemic era.

The main insights from Mainland China and Hong Kong are as follows:

Mainland Chinese family businesses are more optimistic than their Hong Kong peers and the global average in terms of their growth aims in 2021 and 2022.

73%

of family businesses in Mainland China expect to see their business grow in 2021 (Hong Kong: 53%; Global: 65%) while 89% expect to see growth in 2022 (Hong Kong: 83%; Global: 86%). This compared to 83% of Mainland Chinese respondents having positive growth expectation of their company revenue two years ago. Such optimism is likely to have been buoyed by the strong economic recovery resulting from effective countrywide COVID-19 containment measures, polices guiding businesses to resume production, tax and fee reductions and exemptions, and central bank liquidity support to combat the pandemic.

The key priorities facing Mainland Chinese family businesses over the next two years include market expansion, product/service diversification and increasing their investments in R&D and innovation.

63%

of Mainland Chinese family businesses hope to expand into new markets/client segments in the next two years (Hong Kong: 53%; Global: 55%). 51% will prioritise increasing their investments in innovation and R&D (Hong Kong: 44%; Global: 28%) and 49% will focus on introducing new products/services (Hong Kong: 50%; Global: 50%). Apart from simply growing their business, family firms are likely to be pursuing expansion and diversification from a risk management perspective.

Family businesses in Mainland China and Hong Kong have helped their employees and community during the public health crisis by enabling staff to work from home, retaining staff, repurposing production, supporting suppliers, topping up wages of staff and taking actions to support local community.

75%

of Mainland Chinese respondents enabled their staff to work from home once the pandemic hit (Hong Kong: 68%; Global: 80%) while 70% sought to retain as many staff as possible (Hong Kong: 64%; Global: 71%). Family firms also repurposed their production to meet pandemic-related demand (Mainland China: 29%; Hong Kong: 20%; Global: 25%) and supporting suppliers by placing non-critical orders (Mainland China: 22%; Hong Kong: 8%; Global: 14%). Mainland Chinese family firms outperformed their Hong Kong and global peers in terms of topping up the wages of staff on government employment retention schemes (Mainland China: 68%; Hong Kong: 15%; Global: 21%), and taking action to support the local community (Mainland China: 43%; Hong Kong: 29%; Global: 39%).

A lower proportion of Chinese family business respondents state that the family who owns the business has a clear set of family values articulated in written form (relative to the global average). Similarly, they are less likely to have a robust, documented and communicated succession plan in place relative to their global counterparts.

62%

of Mainland Chinese respondents and 50% of Hong Kong respondents report that the family that owns the business has a clear set of family values (Global: 70%). Only 19% of the Mainland Chinese family business respondents and 20% of Hong Kong respondents have a robust, documented and communicated succession plan in place (compared with 30% of respondents globally).

Mainland Chinese family business respondents are more likely to have developed a clear and documented roadmap for digital transformation relative to their Hong Kong or global peers.

45%

of Mainland China firms have developed a clear and documented roadmap for digital transformation (Hong Kong: 9%; Global: 33%). This is likely correlated with the strong focus the country has placed on developing their digital economy and implementing demand side structural reform in recent years.

A high proportion of survey respondents from Mainland China report engaging in some form of philanthropy (relative to their Hong Kong and global counterparts). 79% also believe that sustainability is at the heart of everything they do (Hong Kong: 50%; Global: 49%).

95%

of Mainland Chinese family businesses engage in some form of philanthropy (Hong Kong: 70%; Global: 81%). This tends to involve contributions to the local community (Mainland China: 65%; Hong Kong: 39%; Global: 62%) or traditional philanthropic activities and charitable donations (Mainland China: 56%; Hong Kong: 38%; Global: 42%).

Introduction to the Survey

The prevailing COVID-19 pandemic has forced family businesses to make vital strategic decisions both to survive the current crisis and to grow their business over a longer time horizon. At the same time however, these firms must uphold their values and corporate purpose in their interactions with stakeholders. Beyond financial performance, family firms place a greater emphasis on protecting their reputation and standing in the community as well as preserving their family's legacy. The social and economic disruption caused by the pandemic has made this mandate even more critical. Against this challenging backdrop, PwC interviewed family business executives across the world as part of its Global Family Business Survey 2021.

The survey covers family business' financial performance before the onset of the public health crisis as well as their expectations of future growth given the impact of the outbreak. It looks at their business priorities in the short and medium term and tracks corporates' progress in key areas such as succession planning and digital transformation. The study also revisits the importance of values and corporate purpose for family firms particularly in light of the current health and economic crisis. It focuses on how businesses have supported their staff and local community during this challenging period, while also championing sustainability more broadly. Our global survey was conducted between October and December 2020 capturing the insights of 2,801 family businesses from 87 territories and a range of sectors.

This is the China report which presents the views of 129 executives based in Mainland China and Hong Kong. For the purposes of this report, "China" refers to the People's Republic of China, including Hong Kong SAR survey respondents. Where there is a statistically significant difference in the survey results between Hong Kong and Mainland China, results are presented separately.

Key highlights of China survey findings

The responses of the 129 family business owners or executives in Mainland China and Hong Kong who participated in the survey reveal important insights into how family businesses operated in a pandemic year.

Revenue outlook is brisk

73%

expect to see their business grow in 2021 while 89% expect to see growth in 2022

Increase investment to diversify risks

63%

hope to expand into new markets/ client segments in the next two years and 51% will prioritise increasing their investments in innovation and R&D

Support staff at times of crisis

75%

enabled their staff to work from home once the pandemic hit while 70% sought to retain as many staff as possible.

Communicate and articulate on family values

62%

report that the family that owns the business has a clear set of family values. Only 19% have a robust, documented and communicated succession plan in place.

Commit to advancing on the digital curve

45%

have developed a clear and documented roadmap for digital transformation

High engagement in philanthropy activities

95%

engage in some form of philanthropy such as contributions to the local community and charitable donations.

Chapter 1: Family business' performance, challenges and ambitions

Business performance and outlook

Family businesses in Mainland China performed better than the global average with regards to their sales turnover in the last financial year [i] (before the onset of the outbreak). 65% of mainland family businesses saw their sales grow in 2019 (prior to the COVID-19 outbreak) relative to the global average of 55%. This is not surprising given that the contribution of the country's private sector to the national GDP has increased in recent years, and is estimated to be over 60%, out of which 85% comprises family-owned businesses.[2] Family-owned firms have flourished in recent years on the back of supportive economic policies and are driving technological innovation and job creation in the country.

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i As the survey was conducted between early October and mid-December 2020, the previous financial year prior to the start of the pandemic would refer to FY19.

In contrast, only 50% of Hong Kong family businesses experienced growth in their sales turnover in the past financial year (prior to the health crisis). The city has been confronted with social unrest and competition from neighbouring cities such as Singapore, Shenzhen and Shanghai with regards to the attractiveness of setting up a business and from an investment perspective[ii].

Additionally, it is facing structural constraints including rising land prices and a lack of tech talent.[3]

Mainland Chinese family businesses are also more optimistic than the global average in terms of their future growth aims in 2021 and 2022. 73% of family businesses expect to see growth in 2021 (Hong Kong: 53%; Global: 65%) while 89% expect to see growth in 2022 (Hong Kong: 83%; Global: 86%). Similarly, Chinese family business have demonstrated greater resilience to the direct impact of the COVID-19 pandemic than their global and Hong Kong counterparts, as only 38% of them expect to see a decline in sales (Global: 46%; Hong Kong: 56%) resulting from the health crisis.

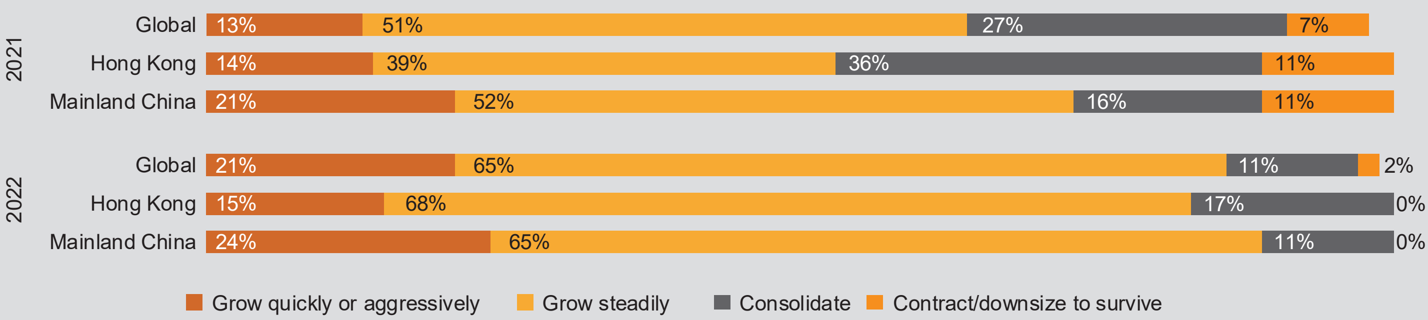
This positive sentiment aligns with the Two Sessions[iii] conducted in March 2021 where continued support of fiscal policy was confirmed supporting a rebound in economic growth in 2021. The International Monetary Fund (IMF) projects that the Chinese economy will grow at 8.1% in 2021 (compared to the newly announced target growth rate of 6% by the government), while the global economy is expected to grow at 5.5%. This strong recovery has been the result of effective pandemic containment measures, polices directed at resuming business activities, and central bank liquidity support to combat the health crisis.[4] The implementation of China's "dual circulation strategy" in the second half of 2020 has also been underway, ushering in a new development pattern under which domestic and international circulations mutually promote each other with domestic circulation as the core element.[5] The Two Sessions also confirmed the government's willingness to tackle structural issues such as population aging, raise technological innovations, and accelerate trade by expanding regional agreements with key trading partners, such as Japan and Korea and even joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

ii Hong Kong lags behind Singapore in the World Bank's Ease of Doing Business 2020 rankings and in the World Economic Forum's Global Competitiveness Index for 2019. Also, according to CEOWORLD, Hong Kong ranked well behind China, Singapore and several other Asian markets in terms of investing and doing business in 2019.

iii The term refers to the annual plenary sessions of the national or local People's Congress and the national or local committee of the Chinese People's Political Consultative Conference.

Figure 1: Sales growth of family businesses before and after the COVID-19 pandemic

Figure 1b: Sales ambitions of China family businesses for 2021 and 2022

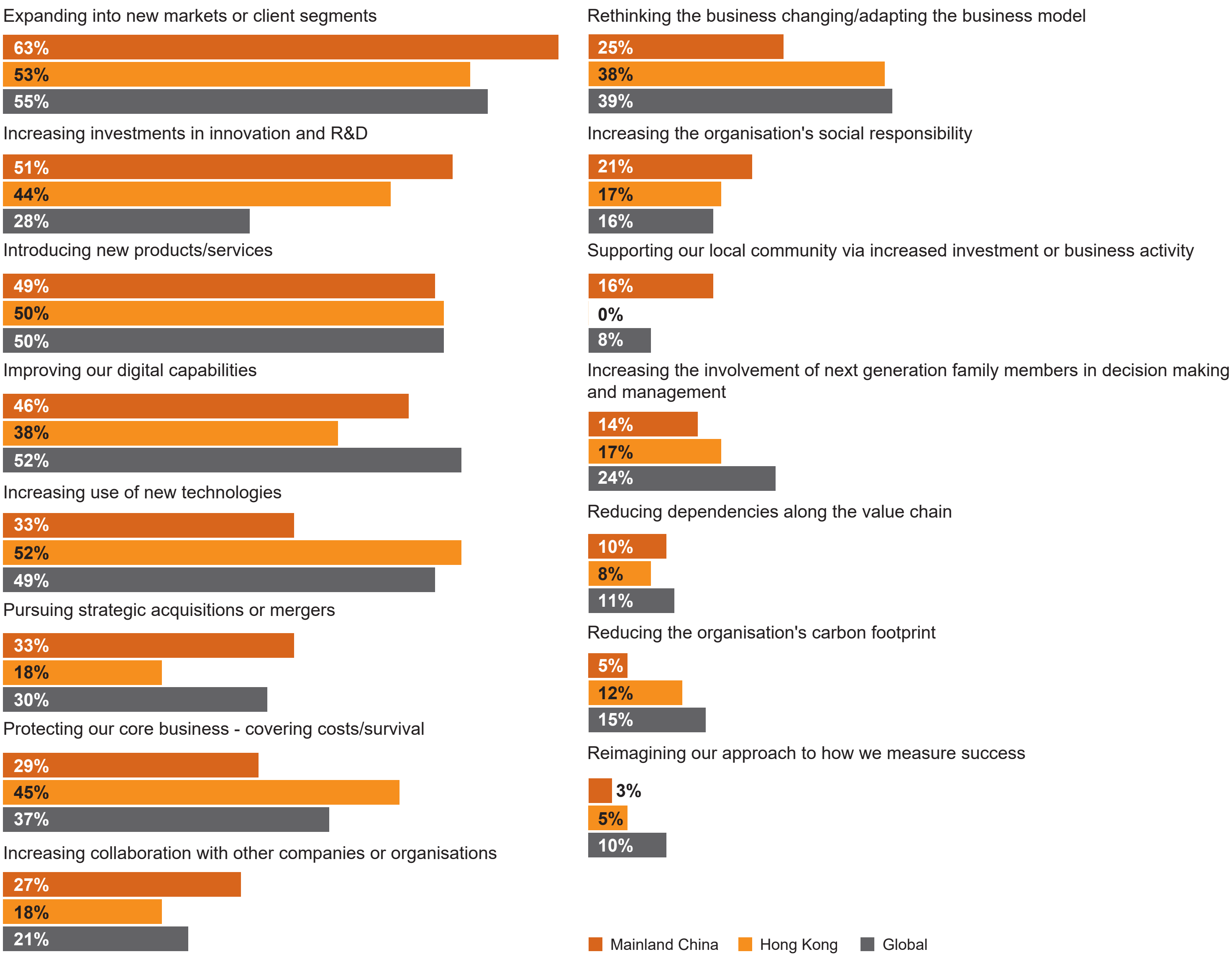


Business priorities and strategies

According to our survey, the key priorities facing Mainland Chinese family businesses over the next two years are expanding into new markets/client segments (63%; Global: 55%), increasing investments in innovation and R&D (51%; Global: 28%) and introducing new products/services (49%; Global: 50%). Apart from simply growing their business, family firms are also likely to be pursuing expansion and diversification from a risk management perspective. The disruption to the global supply chain and distribution channels in recent years due to external factors such as the US-China trade tensions and more recently the public health crisis, has thrown into sharp relief the importance of not "putting all your eggs in one basket".

For Hong Kong businesses, apart from market expansion (53%) and product/service diversification (50%), 52% are prioritising increasing their use of new technologies. For 45%, survival or protecting their core business is a key priority. Family firms, which comprise nearly 70% of all listed companies in the city, are undoubtedly facing tough times. Hong Kong's GDP shrank by 6.1% in 2020 (marking the sharpest contraction since 1985) before rebounding to a growth of 7.9% in the first quarter of 2021, according to the Census and Statistics Department on 14 May 2021[6]. To address the need to keep businesses afloat, the Hong Kong government set aside HK$9.5 billion in the city's latest budget for 2021 in relief programme targeted at local businesses, including extending the application period for a 100% guarantee low-interest loan for enterprises to the end of 2021, and raising the loan ceiling to $6 million and extending the repayment period.

Figure 2: What are the company's top five priorities for the next two years?



Funding and wealth management

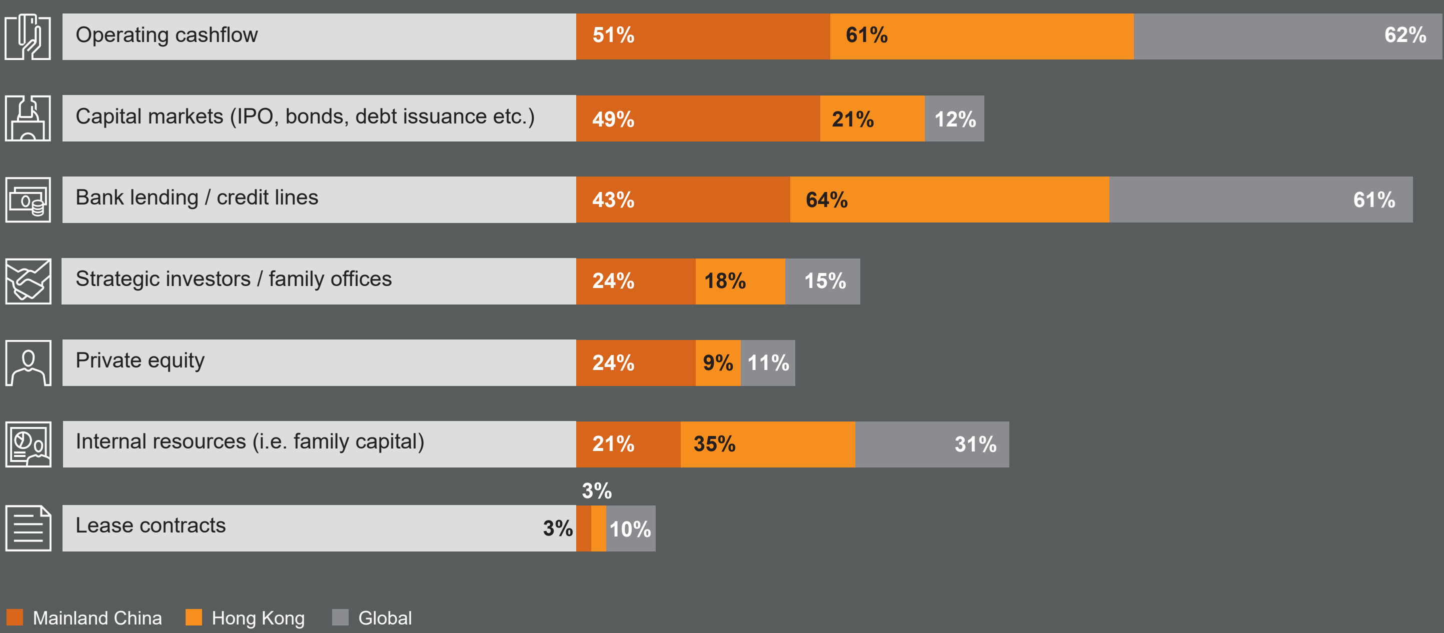
In order to fund their aforementioned business operations, 51% of the family firms surveyed in Mainland China rely on operating cashflow (Hong Kong: 61%; Global: 62%). 49% of them are accessing capital markets (Hong Kong: 21%; Global: 12%) to fund their business operation and expansion. Only 43% of mainland respondents prefer to tap into bank lending/credit lines, a significantly lower proportion than their Hong Kong or global peers (Hong Kong: 64%; Global: 61%). Other sources of funding include strategic investors/family offices and private equity firms (24% each).

Family offices have been fairly nascent in Mainland China and according to one study quoted in 2017[iv] over half the family offices in the country were established during 2015 and 2016.[7] Yet given the rapid rise of ultra-high net worth individuals (UHNWIs) and their families that have founded businesses in the country over the past decade, there is potential for this number to grow in the future. Research conducted by UBS and PwC found that from 2009 to 2020, billionaire wealth in Mainland China grew by 1146%.[8] Setting up a family office is a logical step for these UHNWIs and their families that are seeking to consolidate and have better oversight of their finances and investments. For individuals based in the Greater China region, Hong Kong (as an international finance centre and asset management hub), is another obvious place in which to locate these family offices.

According to a PwC research paper released in March 2020, family business founders in Hong Kong are becoming more sophisticated and are looking for holistic solutions from their family offices to meet their corporate and family-related needs.[9] Apart from services such as family legacy and succession planning and next generation coaching, many are also focussing their attention on advice related to environmental, social and governance (ESG) impact investing. In January 2020, the Hong Kong Securities and Futures Commission released a circular providing general guidance for family offices intending to carry out asset management or other services in Hong Kong.[10] While in November 2020, the Family Office Association Hong Kong (FOAHK) was established, with the aim to lead and drive dialogue between the family office industry, government and regulatory bodies in the city.[11]

iv It is worth noting that there is little available data on family offices in Mainland China. Additionally, given the discreet and low-profile nature of these entities the actual figures may vary considerably.

Figure 3: Current and planned sources of funding for family businesses



Long-term goals and next generation

In terms of their longer-term goals (over the next five years or longer), 83% of family businesses in Mainland China aim to protect their business as the most important family asset (Hong Kong: 67%; Global: 82%) and 71% create dividends for family members (Hong Kong: 61%; Global: 63%). Relative to their peers in Hong Kong or globally, a slightly lower proportion of businesses on the mainland are concerned about ensuring the business stays within the family (59%; Hong Kong: 65%; Global: 65%) or creating a legacy (57%; Hong Kong: 59%; Global: 64%). This may be because these firms are less likely to have next generation family members (NextGens) that are willing to take up the mantle after the founder steps down. Indeed, 49% of the mainland respondent sample have no NextGens involved in the business (Hong Kong: 42%; Global: 38%). External research suggests that NextGens of Mainland Chinese family businesses would rather work for themselves or in more popular industries such as banking, investment and technology.[12] The one-child policy implemented during the 1980s (since withdrawn as of January 2016) has further exacerbated the issue. Mainland founders' millennial offspring often do not have any siblings, therefore the pool of potential heirs to the business is smaller from the outset.[13]

On the other hand, the handover of control to external managers can also be viewed as a natural progression in the lifecycle of a family business as it matures. A recent study of family businesses in Mainland China conducted by IE University and Cheung Kong Graduate School of Business finds that from 2012 to 2016, there has been a drop in the number of companies under founding family control. Similarly, the average number of founding members in top management positions and the average shareholding ratio of the founding family has also dropped during this period.[14] Since most Mainland Chinese family businesses were only founded after the 1978 economic reforms that fuelled the development of the country's private sector, many are probably still in the expansion and formalisation phase[15] of the business lifecycle. As they develop, family businesses in Mainland China are more likely to bring in external management, expertise and funding to further commercialise their operations.

Figure 4: Longer-term goals (next five years or longer) to which family business executives attribute an essential or high level of importance

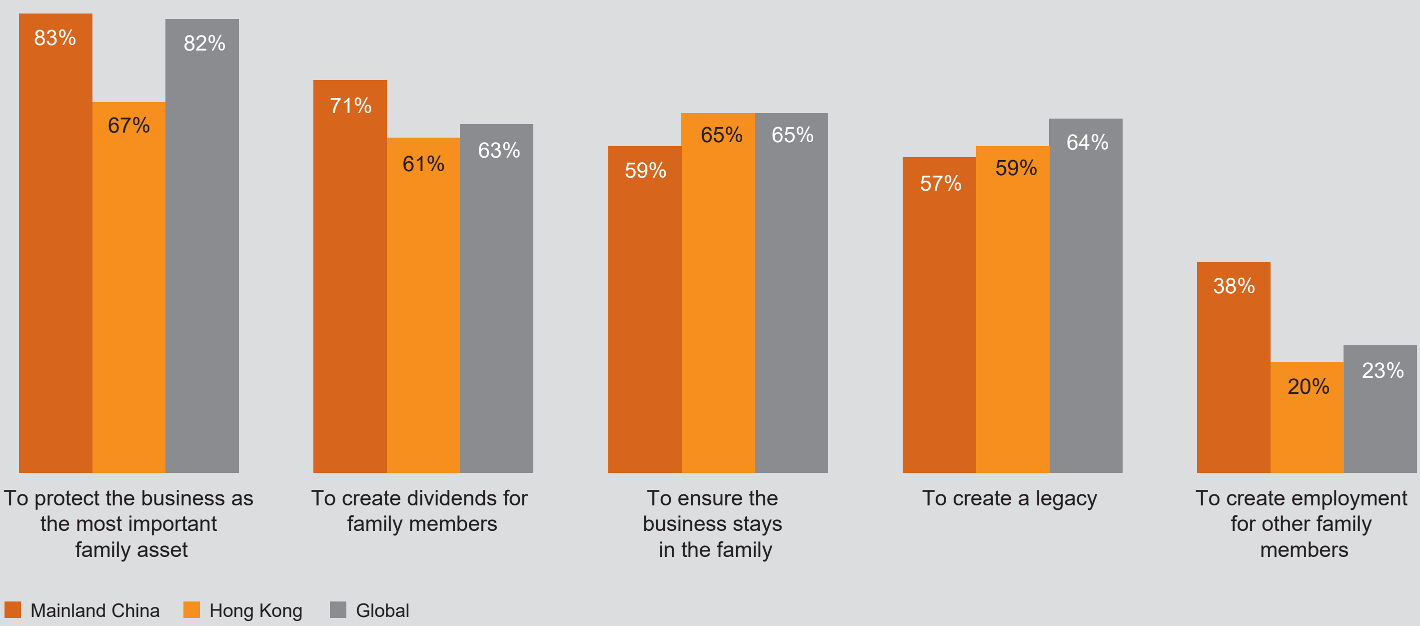
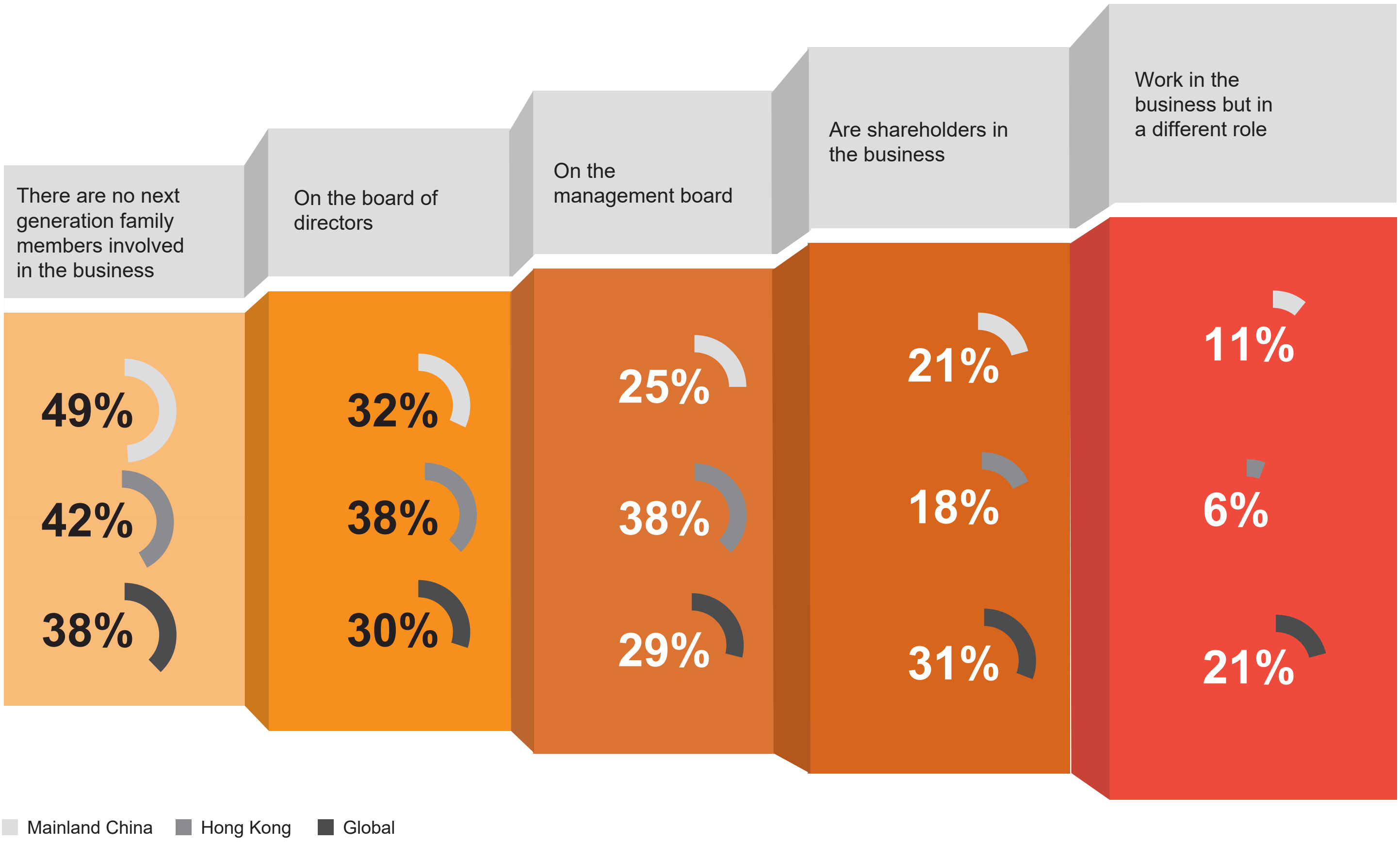


Figure 5: Involvement of the next generation in the family business



Chapter 2: Overall impact of the pandemic on family businesses

The public health crisis has caused widespread disruption resulting in staggering socio-economic consequences for all sectors of society including family businesses. Survey results show that 54% of family businesses in Mainland China have seen a reduction in profits in 2020 (Hong Kong: 59%; Global: 51%) and 27% have seen a need for additional capital (Hong Kong: 18%; Global: 21%). With regards to sacrifices they have made or are planning to make in light of the public health crisis, 49% of family firms in Mainland China expect a reduction in dividend pay-outs (Hong Kong: 41%; Global: 57%) and 44% will inject capital into the business (Hong Kong: 17%; Global: 37%). Fewer respondents in Mainland China have taken or expect to take salary or bonus cuts relative to their Hong Kong or global counterparts.

Figure 6: Impact of the COVID-19 pandemic on the family business in the last 12 months

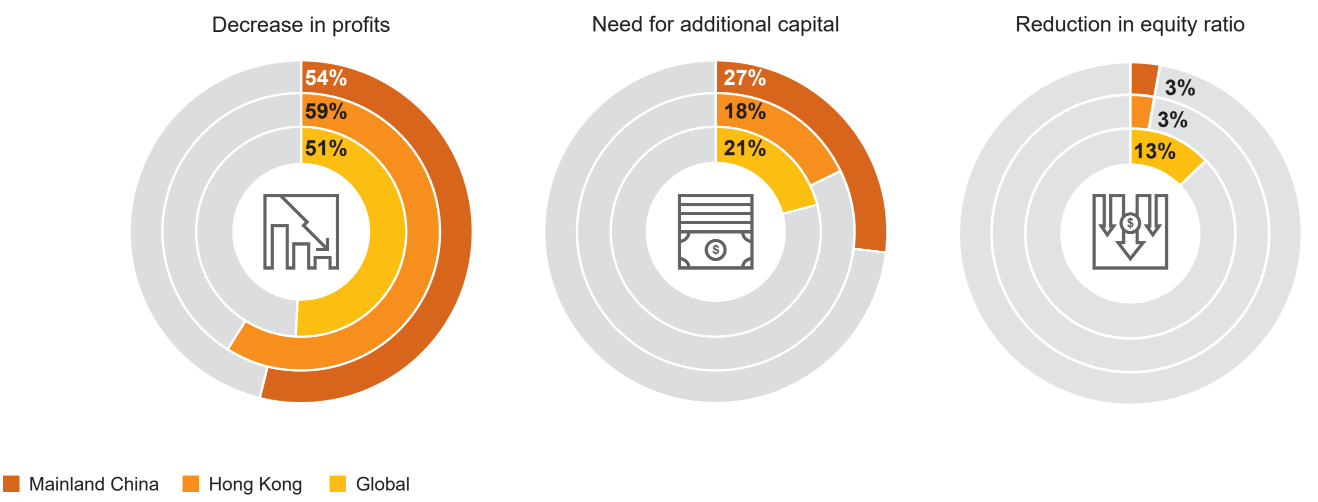
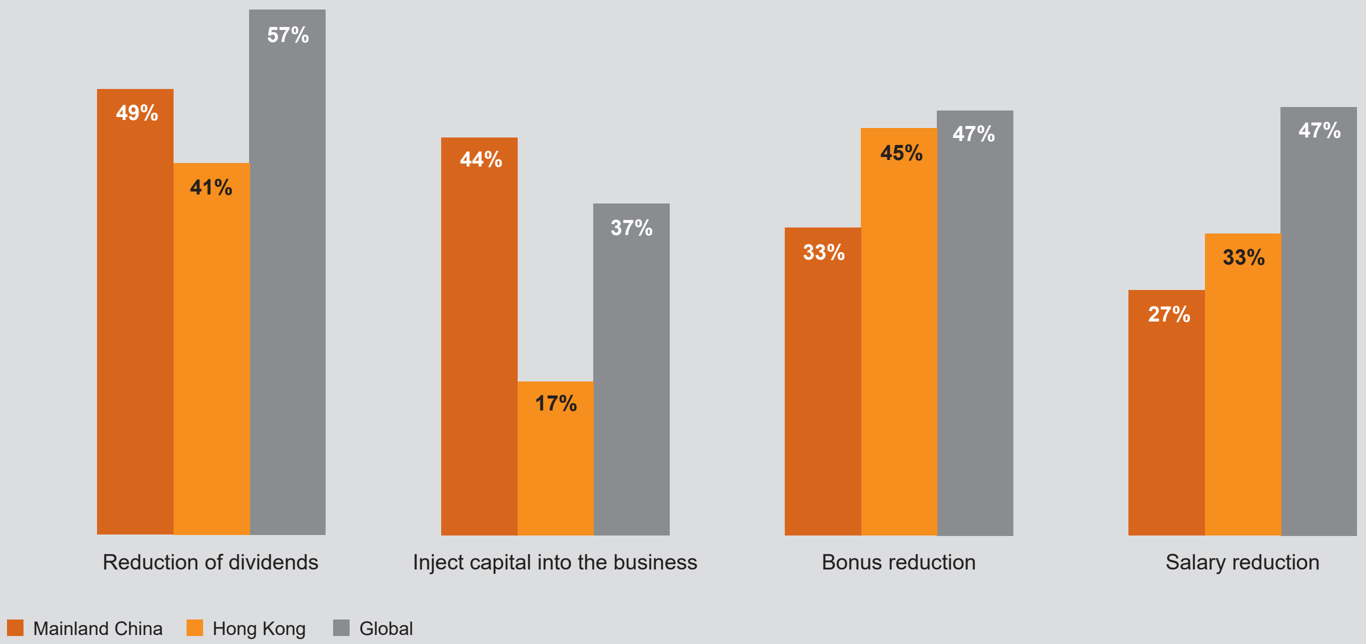
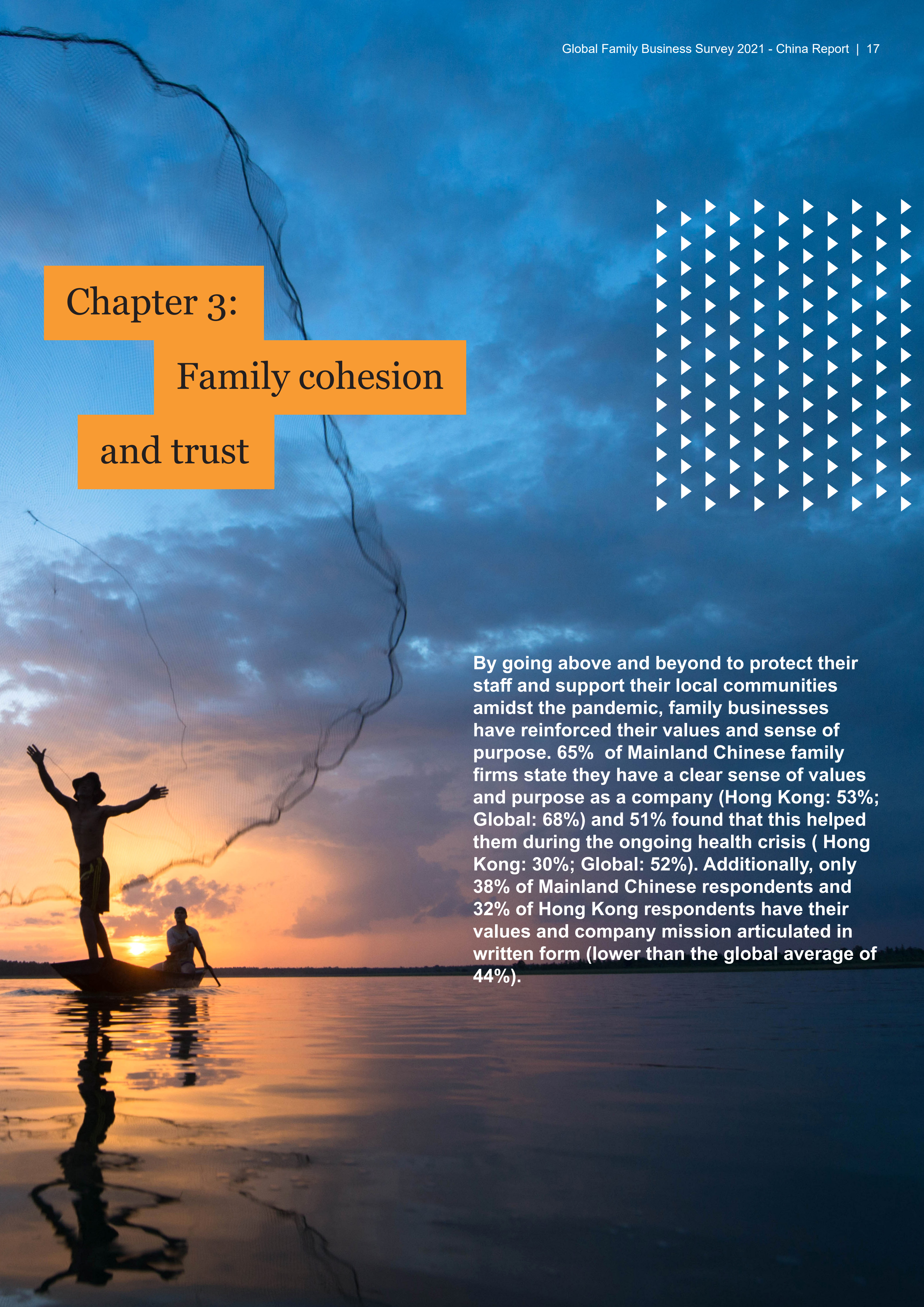


Figure 7: Sacrifices which family shareholders have made / would be prepared to make in the future as a result of COVID-19



Family businesses are known for taking a long-term view on their business, cultivating a strong corporate culture and making it a point to prioritise their employees and other stakeholders. According to the Edelman Trust Barometer, businesses command a higher level of trust than NGOs, governments and the media[16], and in 2020, a greater percentage of respondents trusted family-owned businesses than those that trusted privately-owned, public and state-owned businesses.[17] Once the pandemic hit, family businesses acted quickly to maintain this trust and preserve their reputation. 75% of Mainland Chinese respondents enabled their staff to work from home (Hong Kong: 68%; Global: 80%) while 70% sought to retain as many staff as possible (Hong Kong: 64%; Global: 71%). It is worth noting that a much larger proportion of Mainland Chinese respondents (68%), compared to only 15% for Hong Kong and 21% for global, said they have topped up wages of staff on government employment retention schemes. Family businesses also helped their communities more broadly by repurposing their production to meet pandemic-related demand (Mainland China: 29%; Hong Kong: 20%; Global: 25%) and supporting suppliers by placing non-critical orders (Mainland China: 22%; Hong Kong: 8%; Global: 14%).

Figure 8: Ways in which the family business has provided help and support during the COVID-19 pandemic



Chapter 3: Family cohesion and trust

By going above and beyond to protect their staff and support their local communities amidst the pandemic, family businesses have reinforced their values and sense of purpose. 65% of Mainland Chinese family firms state they have a clear sense of values and purpose as a company (Hong Kong: 53%; Global: 68%) and 51% found that this helped them during the ongoing health crisis (Hong Kong: 30%; Global: 52%). Additionally, only 38% of Mainland Chinese respondents and 32% of Hong Kong respondents have their values and company mission articulated in written form (lower than the global average of 44%).

Figure 9: Views of family business executives on values and purpose

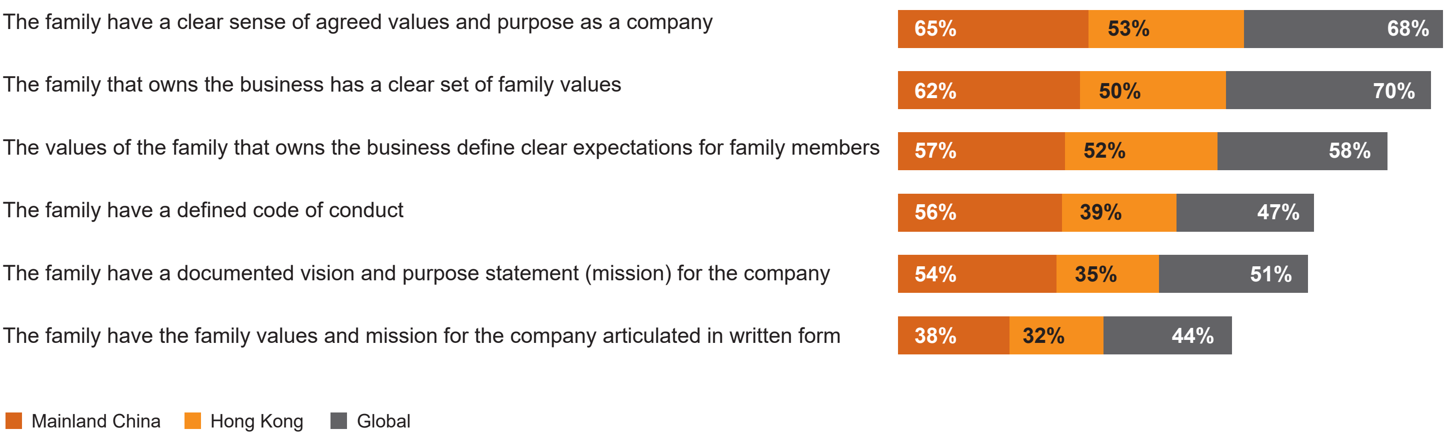
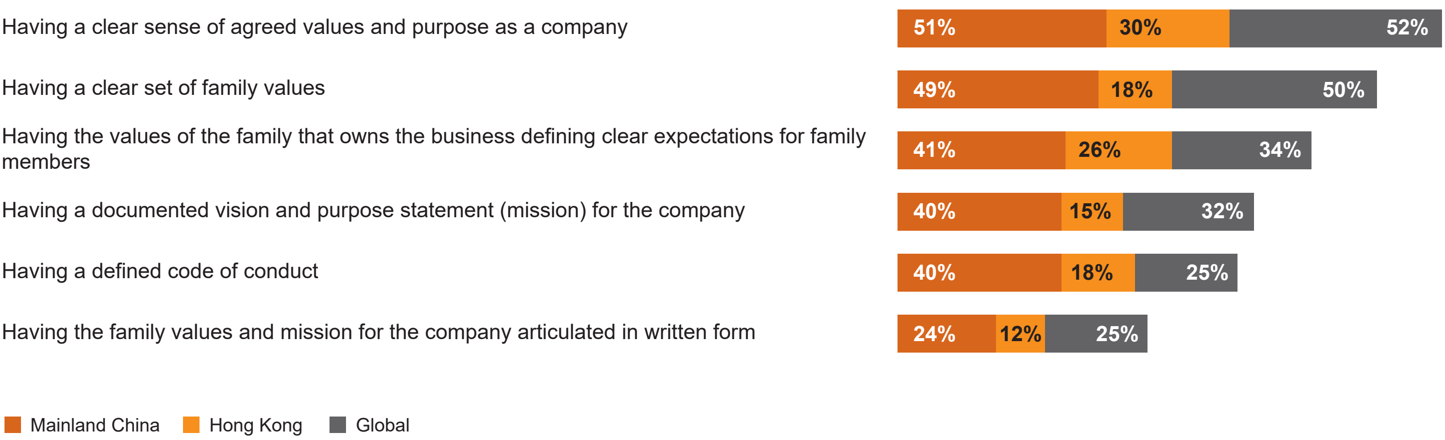
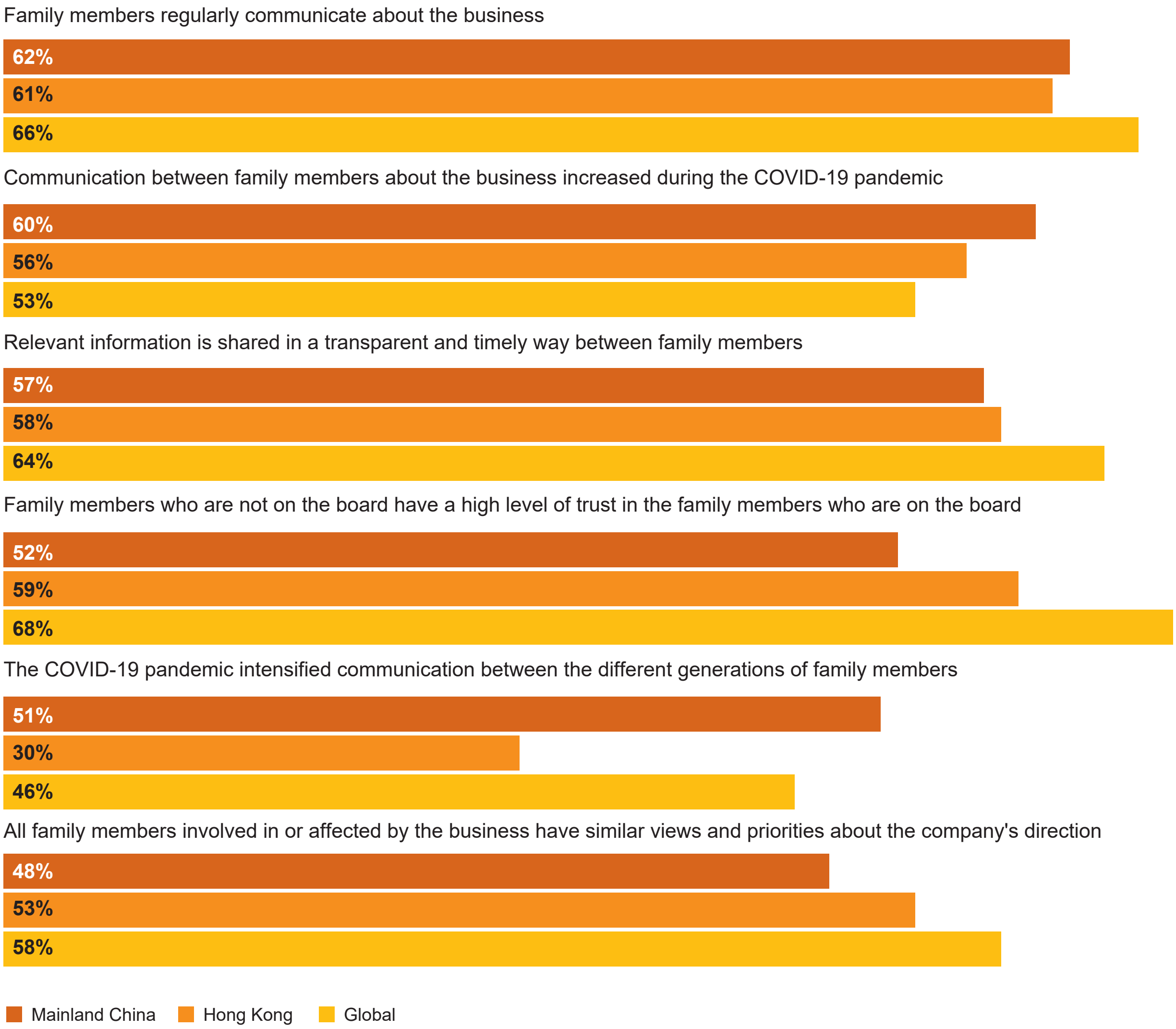


Figure 10: Level to which statements on values and purpose helped how businesses managed during the COVID-19 pandemic



Codifying family values in a written form is one method of ensuring that these values can be communicated to the board, management and company employees in a consistent way. As for the exchange of information more broadly, 62% of Mainland Chinese respondents state that family members regularly communicate about the business (Hong Kong: 61%; Global: 66%) and 60% state that this level of communication increased during the public health crisis (Hong Kong: 56%; Global: 53%). Yet despite this, only 48% of Mainland Chinese family businesses say there is family alignment on company direction relative to 53% of Hong Kong respondents and the global average of 58%. On top of this, levels of trust between family members are notably lower in Mainland China and Hong Kong than the global average (Mainland China: 52%; Hong Kong: 59%; Global: 68%).

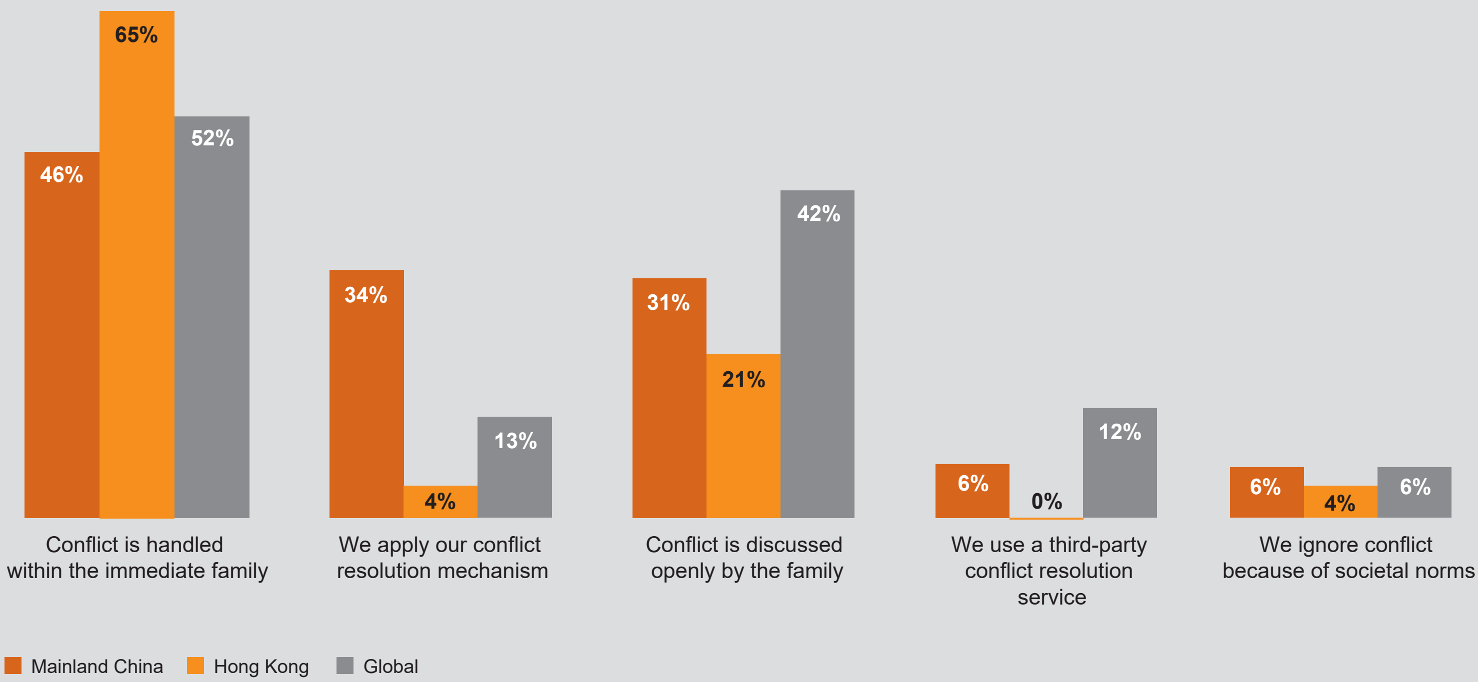
Figure 11: Family business executives that "strongly agree" or "agree" on statements related to level of communication in the company



It goes without saying that having a high level of trust and alignment on company direction among family members is paramount for ensuring the overall success of the business. The way conflict is handled within the business is another critical component that goes hand-in-hand with this. 46% of Mainland Chinese respondents state that conflict is handled within the immediate family (Hong Kong: 65%; Global: 52%) while 34% use a conflict resolution mechanism (Hong Kong: 4%; Global: 13%). It is notable that one-third of family firms in Mainland China surveyed opted to use a formal mechanism for settling conflict (while the proportion of Hong Kong firms employing this solution was insignificant).

Open discussions about conflict are less common among Mainland Chinese and Hong Kong family businesses relative to their global counterparts (Mainland China: 31%; Hong Kong: 21%; Global: 42%). This is typical of Chinese family businesses where Confucian virtues stress the importance of filial piety and respect for elders. Since many of the family businesses in Mainland China are still first generation, conflicts among different generations are usually controlled by the so-called "father figure" or most senior family member rather than there being candid dialogue across the hierarchical structure. Additionally, the focus is placed firmly on handling conflict internally within the family network due to the reliance on blood ties (rather than involving employees outside the family unit or relying on third-party conflict resolution services).[18]

Figure 12: Description of how family conflict is handled in the company

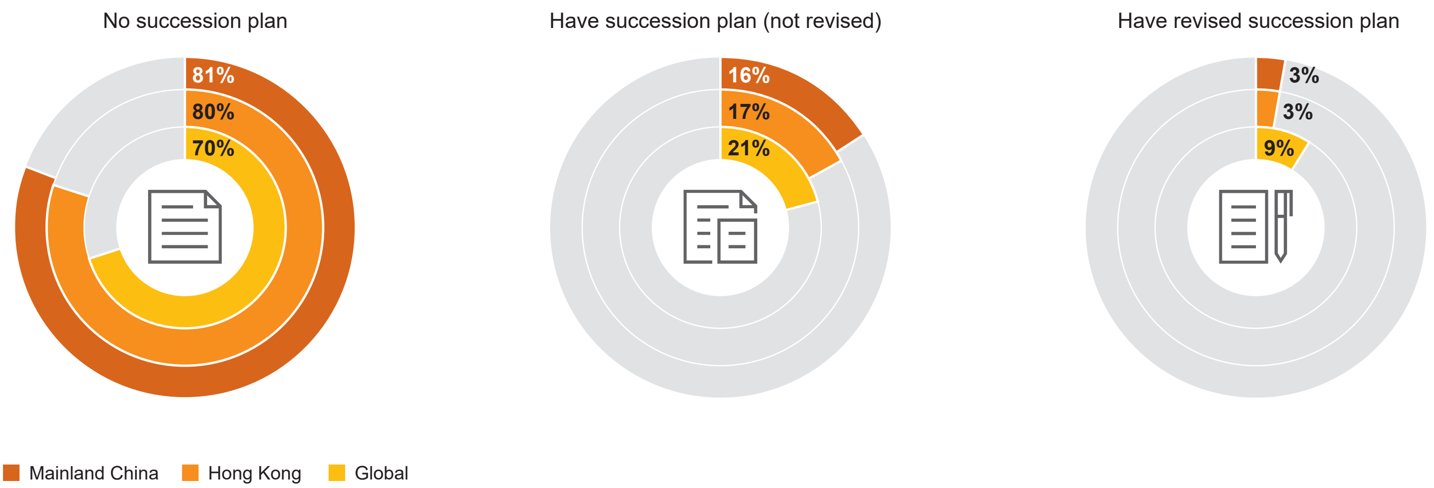


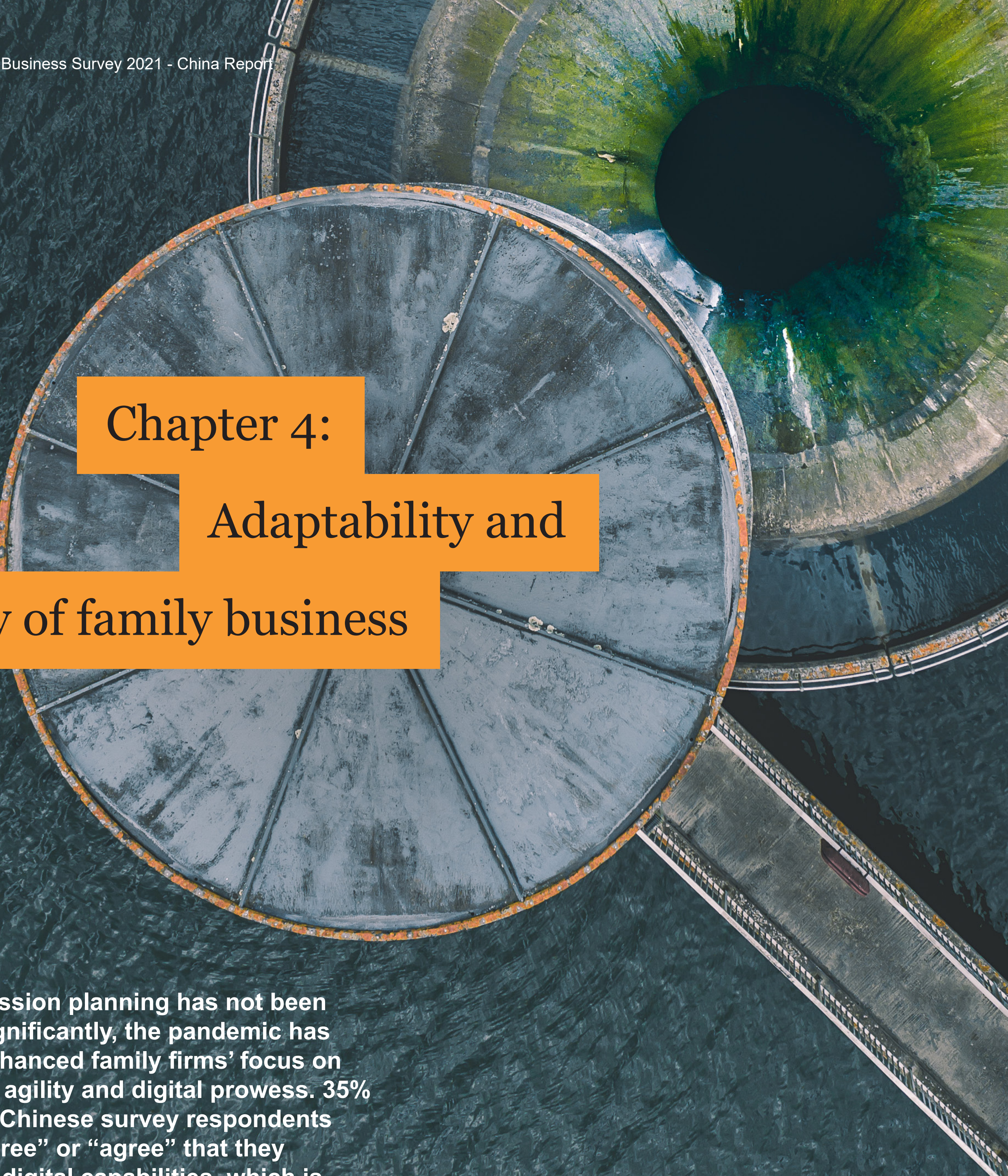
The priority afforded to blood relations can also pose a challenge when it comes to handing over the business. Successors in Chinese family businesses are often chosen based on birth right rather than their aptitude and merit. With regards to succession planning, the survey data finds that only 19% of Mainland Chinese family business respondents and 20% of Hong Kong respondents have a robust, documented and communicated succession plan in place (compared with 30% of respondents globally). As Chinese family businesses are relatively "young" compared to their counterparts in other parts of the world, many are still owned by first-generation founders who are still actively running their business and may not have thought about how they will pass on the reins.[v] Also as mentioned in the first chapter, handing over the business to NextGens is not always a single option, as the NextGens are not necessarily keen on succeeding their family businesses and are more open to other career opportunities.

The pandemic has undoubtedly brought to light the vulnerabilities of businesses to unpredictable external shocks, and family firms are no exception. It is worth noting however that the public health crisis has not significantly impacted existing succession plans. Only 9% of the sample of global family firms revised their succession plan as a consequence of the outbreak, while 3% of Mainland Chinese and Hong Kong respondents did the same. More importantly, 81% of respondents in Mainland China (Hong Kong:80%; Global: 70%) indicated they do not currently have a robust, documented and communicated succession plan in place, raising the concern of business continuity and crisis preparedness especially in a more uncertain post-pandemic world.

v The sample composition of the survey data in the 'Research Methodology' section of the report corroborates this (see Figure 20). The first generation own the majority of the shares in the case of 71% of Mainland Chinese firms and 65% of Hong Kong firms surveyed (relative to 32% of global firms).

Figure 13: Presence of succession plan and whether this has been revised in light of COVID-19





Chapter 4: Adaptability and agility of family business

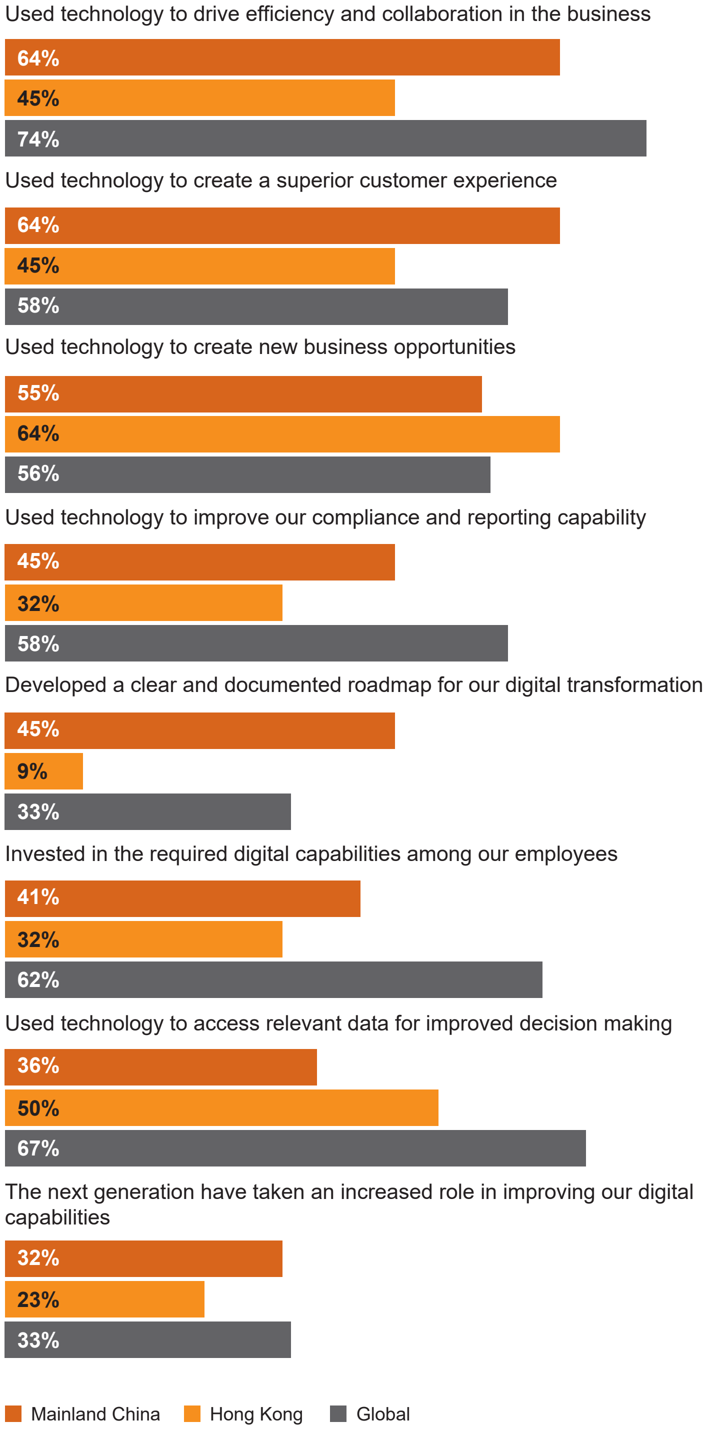
While succession planning has not been impacted significantly, the pandemic has definitely enhanced family firms' focus on adaptability, agility and digital prowess. 35% of Mainland Chinese survey respondents "strongly agree" or "agree" that they have strong digital capabilities, which is not very different from the proportion of Hong Kong respondents with this view (33%) or the global average (38%). This group was also asked what steps they have taken to ensure they have the digital capabilities they need going forward. 64% of respondents in Mainland China state they have used technology to drive efficiency and collaboration in the business (Hong Kong: 45%; Global: 74%) and the same proportion state they have used technology to create a superior customer experience (Hong Kong: 45%; Global: 58%).

A higher proportion of family business respondents in Mainland China have developed a clear and documented roadmap for digital transformation relative to their Hong Kong or global peers (Mainland China: 45%; Hong Kong: 9%; Global: 33%). This is likely correlated with the strong focus the country has placed on developing their digital economy in recent years. According to a 2020 white paper from the China Academy of Information and Communications Technology (CAICT), the economic value-add of China's digital economy reached 35.8 trillion yuan (US$5.11 trillion) in 2019, accounting for 36.2% of GDP.[19] Additionally, in July of last year, China's National Development and Reform Commission (NDRC) together with 12 central government departments released a guideline to support the digital economy.[20] It is estimated that, by 2027 the digital economy in China will account for about half of the country's GDP and become the main driver of economic growth, according to data from China Academy of Information and Communications Technology.

Thus, family businesses in Mainland China (alongside most other firms in the private sector) are acutely aware of the importance of digital transformation, and the pandemic has only fast-tracked this process. The growth of industries such as e-commerce, online gaming, digital health, online education and IT services that support remote working has been significant since the start of the outbreak and traditional brick-and-mortar manufacturers and retailers have also seen a shift to online channels in China.[21] Where the proportions of Mainland China and Hong Kong businesses are pointedly lagging the global average, however, are in investing in the required digital capabilities among their employees (Mainland China: 41%; Hong Kong: 32%; Global: 62%) and using technology to access relevant data for improved decision making (Mainland China: 36%; Hong Kong: 50%; Global: 67%).

Currently, most Chinese business enterprises leverage new technologies (such as artificial intelligence, blockchain, cloud computing, and data analytics) to create new business opportunities or improve customer experience. We expect more Chinese enterprises will deploy similar technologies to digitalise their internal operations - from frontend customer-facing functions to backend support - to drive effectiveness and efficiency and facilitate decision-making.

Figure 14: Steps taken by family business executives to ensure they have the digital capabilities they need as a business going forward

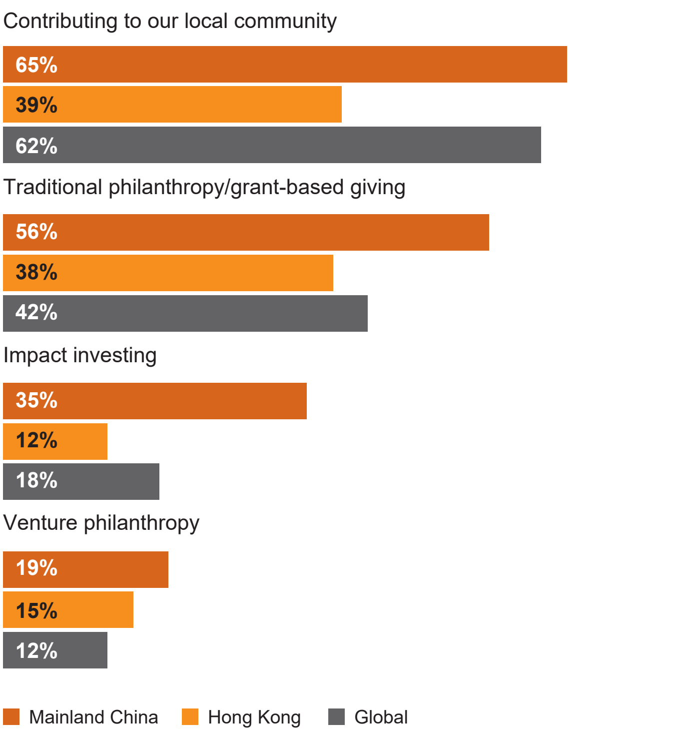


Total impact and sustainability

Regarding the involvement of family businesses (or individual family members) in total impact activities, our survey indicated that a larger proportion of family business in Mainland China (95%) engage in some form of philanthropy (Hong Kong: 70%; Global: 81%). This tends to involve contributions to the local community (Mainland China: 65%; Hong Kong: 39%; Global: 62%) or traditional philanthropic activities and charitable donations (Mainland China: 56%; Hong Kong: 38%; Global: 42%). Charitable donations among family businesses in Mainland China has become more commonplace in recent years. According to the China Philanthropy Research Institute, as at the end of 2018, there were 268 family foundations in the country, and they accounted for 4% of the total national figure. In spite of the small number, donations from these family foundations grew exponentially from 2005 to 2017, from 8.73 million yuan to 3.7 billion yuan. These donations were mainly directed towards poverty alleviation, basic education and higher education.[22]

Throughout the pandemic, Chinese enterprises have acted quickly to procure and distribute personal protective equipment, support hospitals and medical staff, organise volunteers and even assist with advocacy and public education efforts. On top of contributing to the wider community, they also protected their own employees, suppliers and customers.

Figure 15: Family business engagement in total impact / philanthropic activities



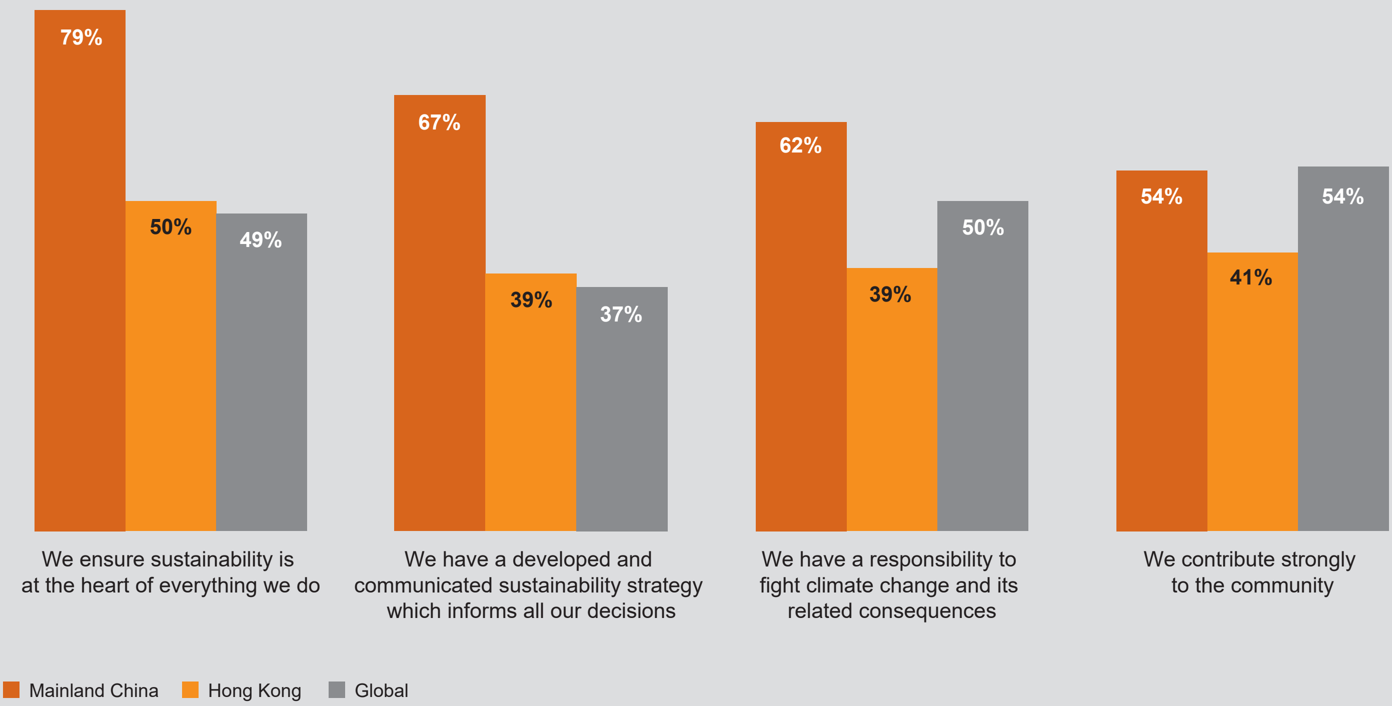
The most successful family firms build long-term relationships with their stakeholders by pursuing sustainable business practices rather than focusing on short-term profitability.[23] The motivation for family firms to raise their ESG profile has further grown in light of the pandemic. The public health crisis has shown how quickly a high-impact, low-probability event can disrupt business as usual. Family businesses that are not showcasing their commitment to their stakeholders and society will likely be at a higher risk of getting left behind or even penalised for their inaction.

Encouragingly, the survey data finds that 79% of Mainland Chinese family businesses “strongly agree” or “agree” that sustainability is at the heart of everything they do (Hong Kong: 50%; Global: 49%). 67% say they have a developed and communicated sustainability strategy (Hong Kong: 39%; Global: 37%). Going forward, 65% of Chinese family businesses say there is an opportunity for family businesses like theirs to lead the way in sustainable business practices (Hong Kong: 35%; Global: 55%) and 71% feel that businesses will need to deliver greater benefits for the planet and society (Hong Kong: 41%; Global: 53%).

The argument that businesses and governments alike will need to deliver greater benefits for the planet and society is not a new one. However, with the economic consequences of climate change becoming more obvious, the need for family businesses to pursue an ESG agenda has become even more critical. The ESG strategy at corporate level is aligned with China’s long term commitment to tackle climate change and to achieve peak carbon emissions before 2030 and carbon neutrality by 2060, including Hong Kong’s goal to realise the carbon intensity target of 65% to 70% by 2030.

Stakeholders, not least regulators, investors and the media, are demanding that business enterprises become more accountable for their actions towards the planet and society and are punishing those that do not comply. Therefore, family businesses are encouraged to live up to stakeholders’ expectations by embedding ESG into their strategies and business operations and improving their ESG performances, while also recording and tracking their commitment to ESG targets.

Figure 16: Family business executives that "strongly agree" or "agree" on statements related to sustainability



Conclusion and recommendations

Ensuring ownership continuity

- Put clear plans in place for any family members that may become sick or incapacitated, including reviewing wills and setting out clear leadership/role transitions both at family and business level.
- Prioritise succession planning by enlisting the help of external specialists. Though it is a sensitive topic, it is essential that founders build a robust, documented and communicated succession plan. This may involve training NextGens or hiring external managerial expertise to take up the reins.

Professionalise family governance

- Having a professional governance structure and a clear process for conflict resolution, preferably involving an independent party, makes business sense, particularly for family businesses. A professional approach to resolve differences strips emotion and personal bias, which are common stumbling blocks for families.
- Governance should reflect that families are dynamic. Family businesses need to revisit governance structures regularly, because the structure of ownership can change through marriages or as NextGens enter the business. Therefore, it is important to set out parameters in a family constitution and keep them current.

Communicating purpose and values

- Develop a clear set of family values and company mission and articulate these in a written form. This will ensure there is family alignment on the company's direction and will help in preserving the family's legacy as the business is handed down to future generations.
- Stay connected and prioritise communication. Think about instituting regular virtual gatherings with family stakeholders and/or employees. Consider holding an extraordinary family council and/or shareholder meeting to create transparency, consensus and support around next steps to address the crisis.
- Ensure any actions taken are aligned with company purpose and values – such as supporting wider community responses – and communicate about them clearly and consistently.

Making digital fitness a priority

- Family firms should invest in digital transformation, to make impactful changes to its governance, organization, people, culture, business operations and processes, by aligning the technology with company strategy, digitally upskilling their employees or upgrading their technologies, automating the systems and processes to steer the company into the future
- Give NextGen the opportunity to prove themselves. For example, NextGen's with digital skills could bring changes that make the difference between falling behind and staying ahead, as remote working and digital solutions become even more important.
- Digital transformation and agility go hand in hand. Digital technology helped firms pivot their operations quickly. Family businesses with good digital capabilities found transitioning their employees to remote work easier, enhancing their agility to respond to disruptions.

Promoting the ESG and sustainability agenda

- Whilst continuing their important role of managing families' assets, governance and succession, family offices should also develop ESG and sustainable investing strategies in line with global investment trends, as well as in executing the families' philanthropic responsibilities in society to align with families' goals and social responsibilities.
- Family businesses should go beyond traditional corporate social responsibility (CSR) activities, which, while unequivocally good, are not necessarily integrated into a company's core operations. Companies that integrate ESG factors into their growth strategy and business decisions are better equipped to manage risks, capture opportunities and deliver long-term profitability.
- Establishing a company's purpose can help articulate the means by which a business brings solutions to economic, environmental and social needs, and create a tangible link between business strategy and family values.
- A materiality assessment identifies those ESG issues that are most relevant to the company. For issues identified as material, companies should establish a focused set of KPIs. The Integration of ESG into business operations is a journey, so companies can start with a small number of targets and develop a more sophisticated approach over time.

Research Methodology

About the Family Business Survey

The Family Business Survey is a global market survey of owners and executives. The yearly turnover of participating companies ranges from under US$5m to more than US$6bn. The goal of the survey is to get an understanding of what family businesses are thinking on the key issues of the day.

For the purposes of this survey, a 'family business' is defined as a business which is either a:

- Publicly listed company where 30% or more of the shares are in possession of the owning family; or
- An un-listed/private business where the owning family controls more than 50% of the company's voting shares.

Figure 17: Distribution of samples by sales turnover in the last financial year (pre COVID-19) (US$)

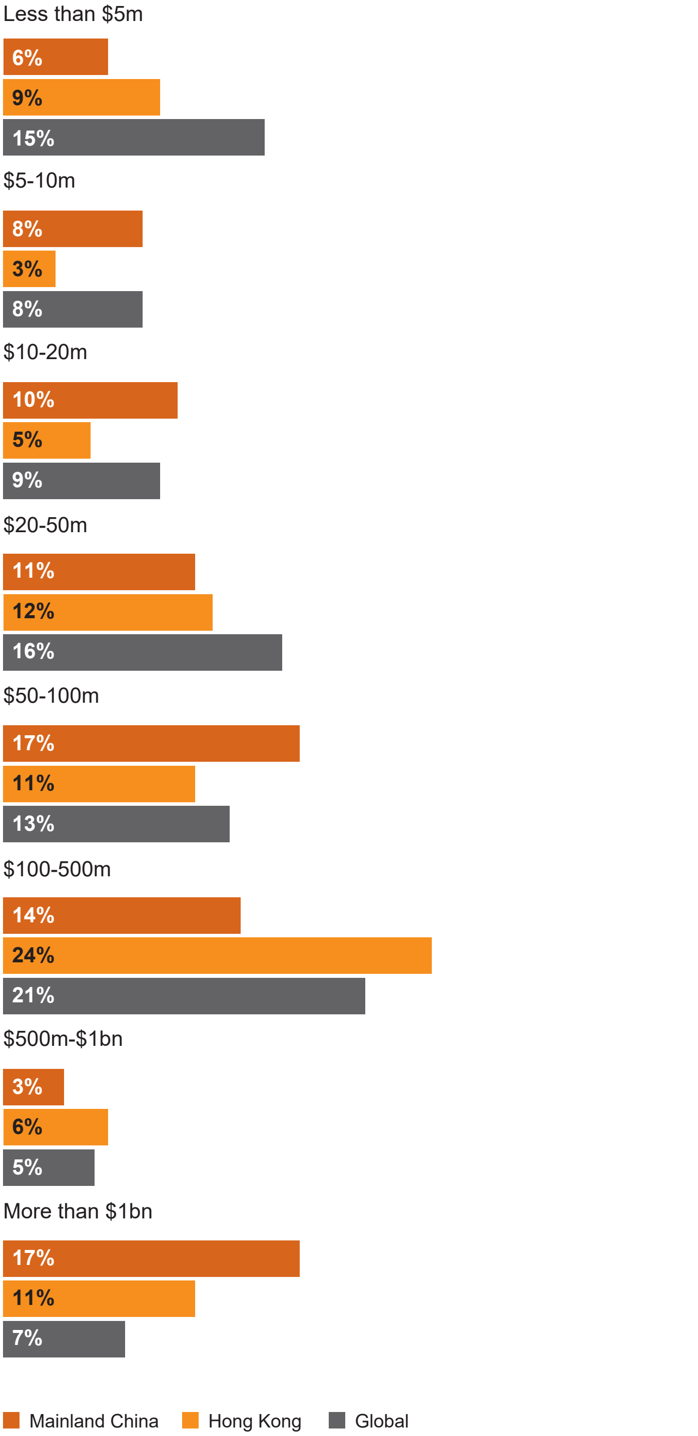


Figure 18: Distribution of samples by sector

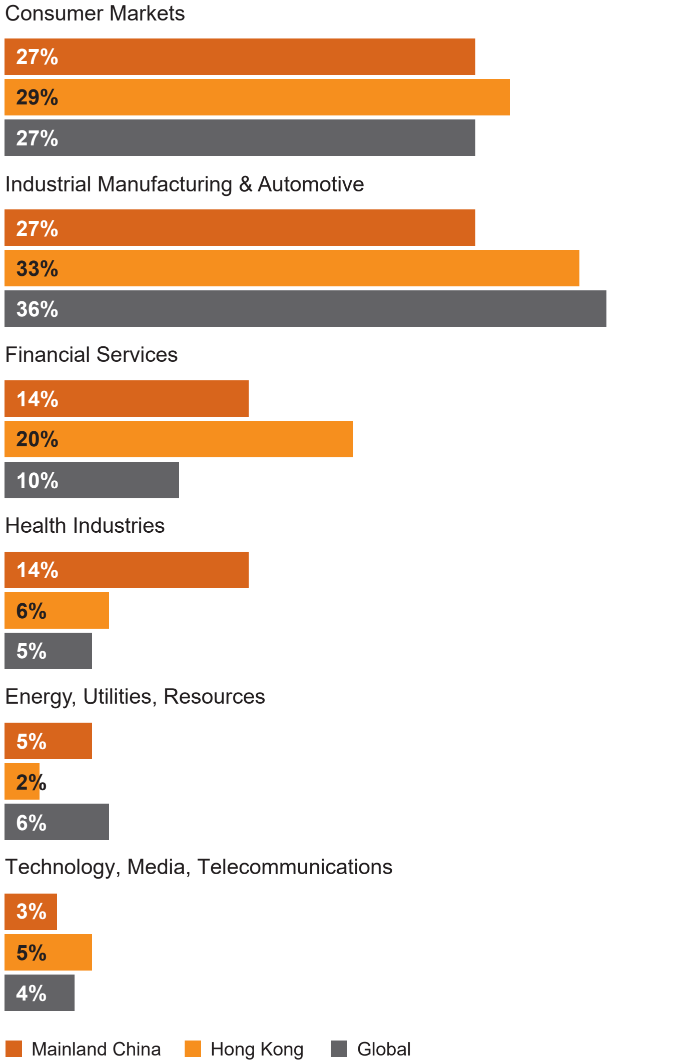


Figure 19: Distribution of samples by public ownership

Figure 20: Distribution of samples by current generation of majority of shareholders

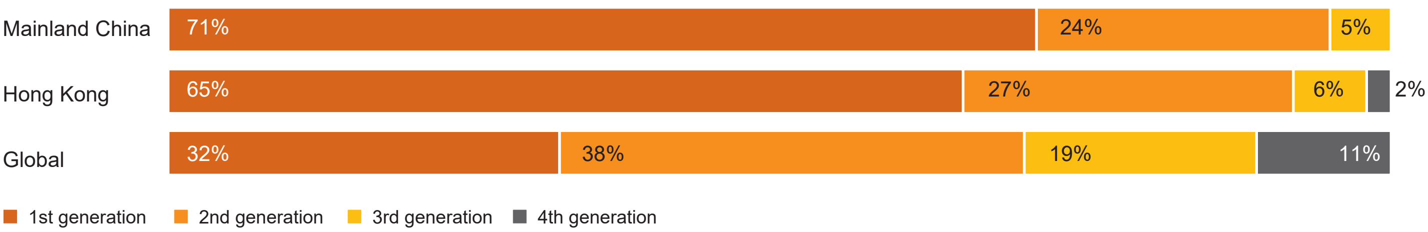


Figure 21: Distribution of samples by current governance structure

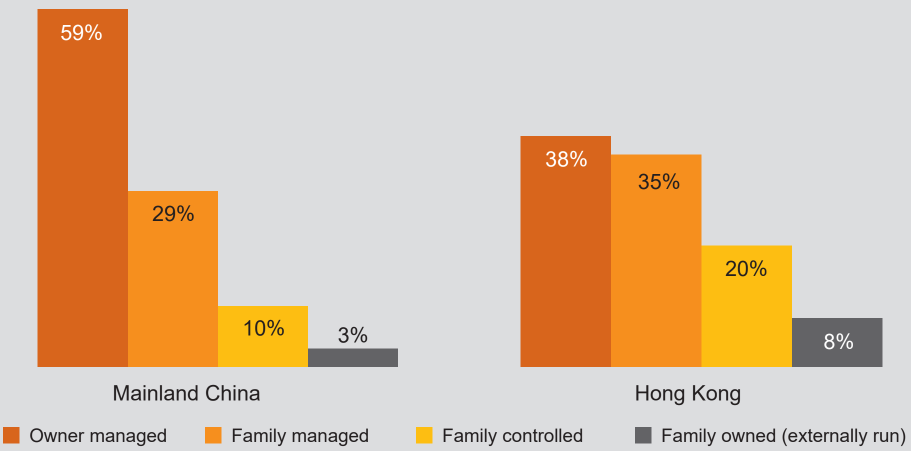
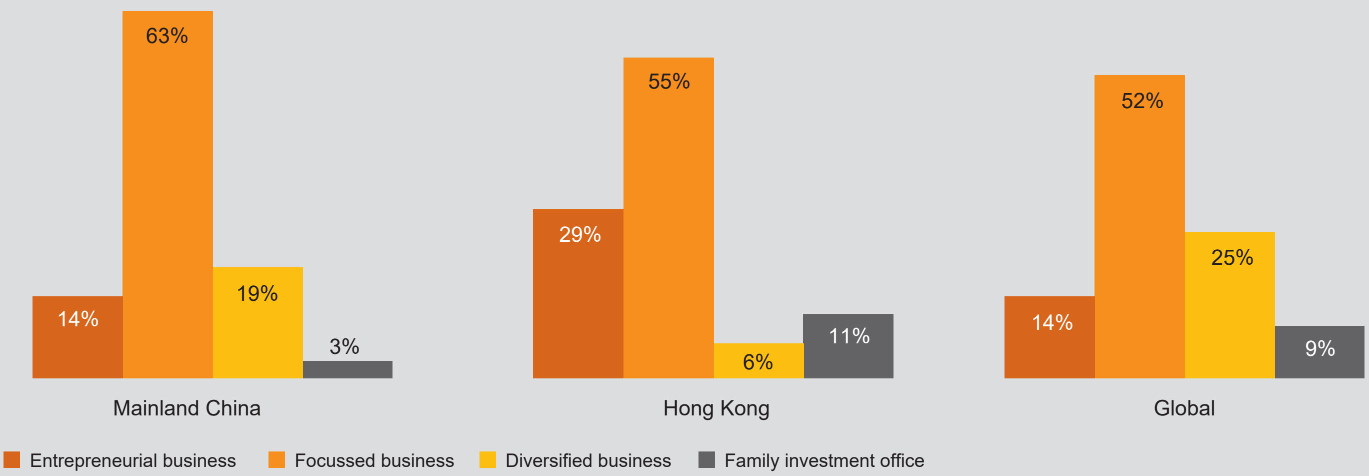


Figure 22: Distribution of samples by current corporate structure



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Endnotes

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