20th CEO Survey China report

Leading through disruption

Over **58%** of executives in China see investment opportunities emanating from the 'Belt and Road' initiative

66% of executives in China "agree" or "agree strongly" that how they manage people's data will differentiate them from their competitors

89% of executives in China "agree" or "agree strongly" that it is important to have strong corporate purpose

pwc

pwccn.com/ceosurvey

Chairman's message

China has maintained its growth momentum in 2016 buoyed by domestic consumption, services and innovation. Services have grown strongly and accounted for 51.6% of GDP, and domestic consumption remained robust, contributing to 64.6% of GDP. Investment activities remained strong, albeit slower than in the past years. Manufacturing Purchasing Managers' Index moved to positive zones while industrial profits showed signs of recovery, rising by 8.5% in 2016. GDP for the whole year of 2016 reached RMB 74.41 trillion, 6.7% higher than in 2015. GDP growth is likely to retain its momentum in 2017, though growth rates could fall slightly as supply-side structural reform progresses and global economic uncertainties prevail. Nonetheless, it is a very high rate among the world's major economies.

The recent news headlines around political outcomes in the US (Trump's win) and UK (Brexit) are a reflection of the anxieties that globalisation and the prevailing economic systems might not have worked for everyone. Electorates in the West have rejected the rising inequality and job losses and there is a surge in populism. And the population in China is not immune to these popular opinions.

Globalisation has brought many benefits from connectivity to trade and capital mobility but also downsides. This January at the World Economic Forum (WEF), President Xi Jinping delivered a robust defence of globalisation and technological progress. He said that China has not only been a beneficiary of globalisation but has also contributed to inclusive growth through its poverty alleviation. While acknowledging the flaws of globalisation, President Xi said that "we should adapt to and guide economic globalisation, cushion its negative impact, and deliver its benefits to all countries and all nations".

The main discourse was about reforming globalisation and ensuring that technological progress and innovation are used in the service of mankind. What then is our responsibility as business leaders to lead through disruptions?

In order to lead through disruption, business leaders need to be guided by purpose. 89% of business leaders in China told us that they agree strongly it is important to have strong corporate purpose, that is reflected in an organisation's values, culture and behaviours. Corporate behaviour guided by purpose that is inclusive, responsive, values diversity of thought, balances longer term investments over quarterly results will help us to find solutions to complex problems.

Companies will have to build and sustain stakeholder trust in the digital age by using technological progress and innovations to augment human capabilities and help humankind to achieve more. 49% of executives in China (compared to global average of 63%) told us they "agree" or "agree strongly" that technology is to be used to improve people's well-being. Trust in the digital age is also about strengthening cyber security and safeguarding personal data. Protecting people, information, systems, processes, and physical surroundings are business imperatives against disruptions. And given the advent of automation, it is crucial that businesses think critically about worker displacement and are prepared to offer retraining, reskilling and retooling to offset long term social and economic consequences.

Business leaders have to account for wider stakeholder expectations so that longer term value creation and inclusive growth becomes a reality. Under the new economic rebalancing, companies face the challenge of maximising shareholder value while ensuring that environmental and social concerns are being reflected in their strategic thinking. In the China context, 86% of executives told us that it is more important to run business in a way that accounts for wider stakeholder expectations. For longer term value creation and for sustainable solutions, businesses, governments, regulators and society have to increase engagement with each other and augment each other's efforts to ensure that in addition to wealth creation, negative impacts are being mitigated, inequalities are being reduced, access is being improved and that human development progress is being delivered to all, not just to a few.

Decision makers everywhere have to ensure that there is adequate representation of diverse views and interests. This would give us a better chance of addressing the social, economic and environmental imbalances so that there is more inclusion, connectedness and better distribution of the benefits – promoting "inclusive globalisation" as President Xi stressed at the WEF this year.

Business leaders today have a great opportunity and responsibility to lead through the disruptions by demonstrating purpose and increasing trust through corporate behaviour and to work in partnership across sectors towards shared goals that leads to positive outcomes and real returns for all stakeholders.

I would like to thank the 182 company leaders from mainland China and Hong Kong who have taken the time to share their views with us. We greatly appreciate the willingness of our respondents in sharing their views on business challenges, concerns and opportunities. These insights shed light on how executives in China are navigating disruptions and emerging trends of technology during an interesting junction in world history.

Raymund Chao
PwC Greater China Chairman

Introduction to the Survey

The forces of technology and globalisation have produced significant economic benefits in the last 20 years but recent political events in the West confirmed the level of public discontent with the outcomes of globalisation as sections of populations have become marginalised with rising inequality and job losses. Sceptics of globalisation are demanding change, and it was during this unsettled and disquieting climate globally that PwC conducted its 20th annual CEO survey to gauge the sentiments of executives all over the world. The survey built around the theme *Technology, Globalisation and the CEO* was conducted between September and December 2016. We interviewed over 1,300 executives from 79 countries across a range of industries.

This is the China report which presents the views of 182 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 survey respondents. Where there is statistically significant difference in the survey results between Hong Kong and mainland China, results are presented separately.

Growth in the new economy

The Chinese economy continues to undergo complex structural reforms to ensure balanced and steady development and growth. Business outlook for executives in China appears quite positive, as the survey results found that there has been an appreciable increase in the proportion of executives who are "very confident" about their companies' prospects for revenue growth whether in the next 12 months or over the next 3 years. *For the 12 month timeframe*, survey found that 33% of executives in China are "very confident" in their companies' prospects for revenue growth compared to one year ago when 25% stated the same and compared to two years ago when 36% said they were "very confident" in their outlook for 2015. Similarly, there has been a sizeable increase in the proportion of executives who are "very confident" in terms of revenue growth prospects *over the next 3 years* (50% this year compared to 34% last year), reflecting growing confidence in the direction of transformation of the Chinese economy. Globally as well as in China, a higher proportion of executives are optimistic over a longer time horizon than over the next 12 months.

Figure 1 **Percentage of CEOs who are confident about revenue growth prospects in the short-term and long-term**

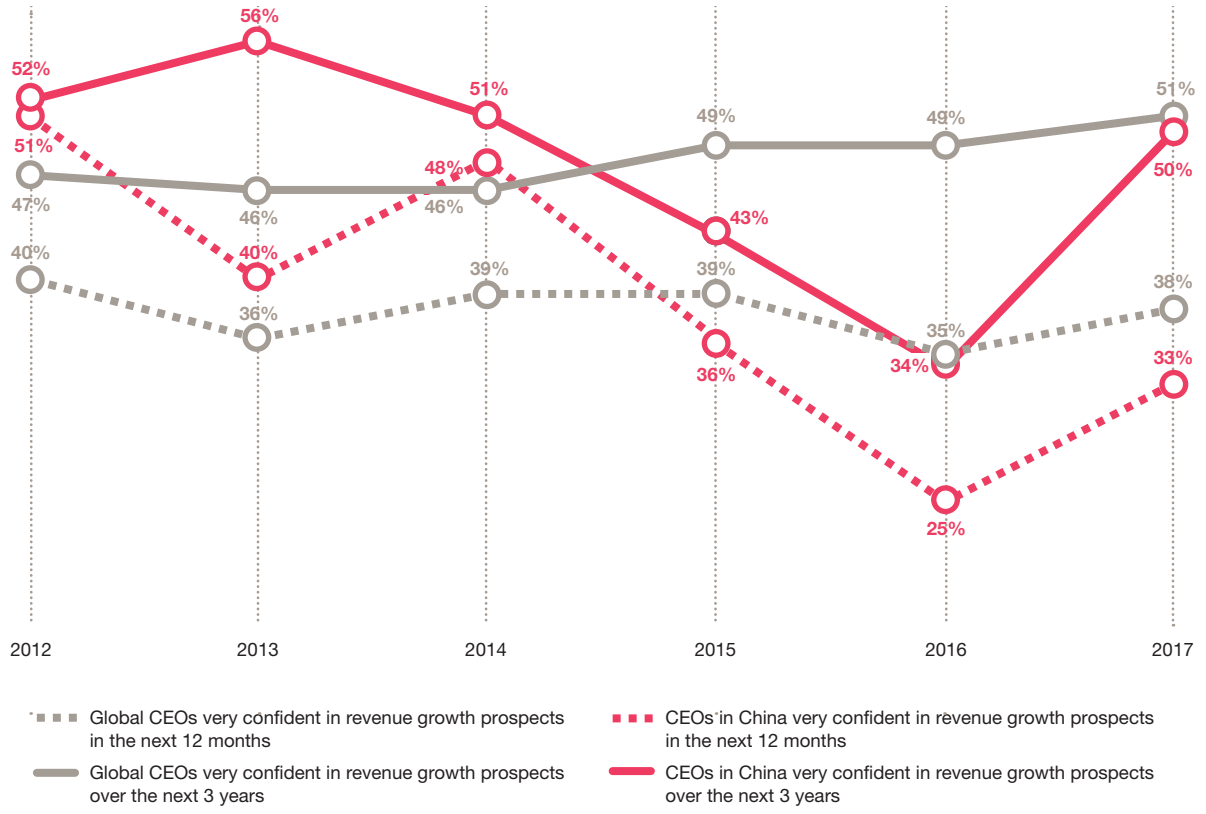
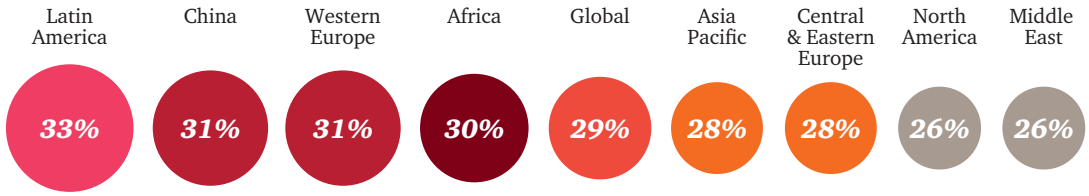


Figure 2 **Percentage of CEOs who stated that outlook of global economy will improve over the next 12 months (by region)**



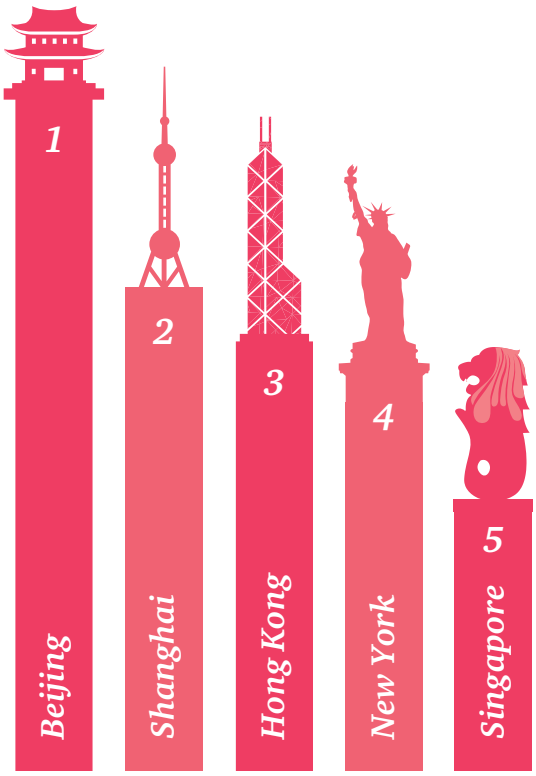
As far as CEOs' outlook of the global economy over the next 12 months is concerned, the proportion of respondents in China who stated that the outlook would improve remained at 31% but it was more positive than their peers in other parts of the world.

Globally, 29% of executives stated that global economic growth over the next 12 months would improve compared to 27% in 2016 and 37% in 2015.

In terms of *going global* to seek investment opportunities and growth prospects for their companies over the next 12 months, the ranking of attractiveness of countries by CEOs in mainland China is different from those in Hong Kong. For example, in mainland China the three economies (apart from their own) that CEOs consider as being most important to their organisations' overall growth prospects over the next 12 months are the US (58%), followed by Hong Kong (30%) and Germany (22%). In Hong Kong, the three economies (apart from their own) that CEOs consider as being most important to their organisation's overall growth prospects over the next 12 months are China (73%), followed by the US (56%) and UK (19%).

CEOs in other parts of the world ranked the US (43%), China (33%) and Germany (17%) as having the most growth opportunities for their companies.

Figure 3 **Most attractive cities for growth prospects over the next 12 months ranked by CEOs in China**



Shanghai and Beijing were ranked by global CEOs as the top cities for growth prospects followed by New York and London. Generally speaking, the evidence seems to imply that executives all over the world view the major cities in China as having more investment opportunities over cities in the West.

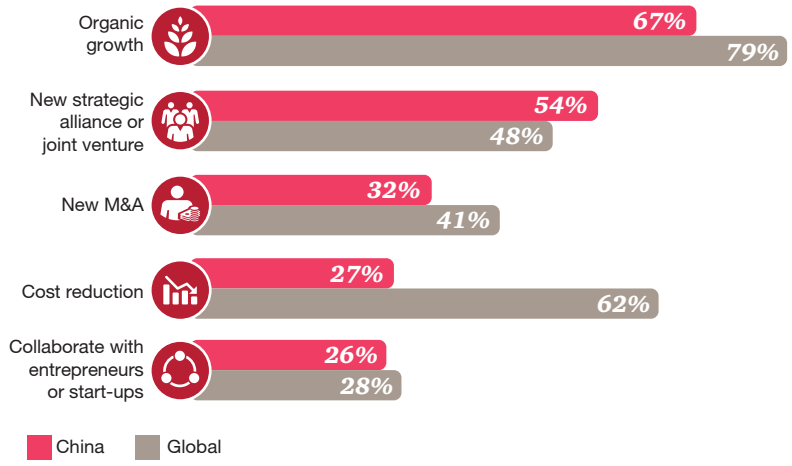
China's 'Belt and Road' initiative is also a key part of organisations' business expansion strategy. *Over* **58%** *of executives in China see investment opportunities emanating from the 'Belt and Road' initiative,* especially in infrastructure development through building roads, high speed trains and data networks, land use planning, real estate development, urbanisation and tourism, all driven by partnerships, collaborations, joint ventures and M&As.

Increasing trade cooperation between China and countries along the "Belt and Road" routes is expected to lead to substantial demand in international trade financing services in the banking sector as well.

Indeed, in January 2017 during the World Economic Forum, the first freight train arrived from China to London, covering 12,000 km and this coincided with President Xi's defence of free trade in Davos. The symbolism of this cannot be overstated.

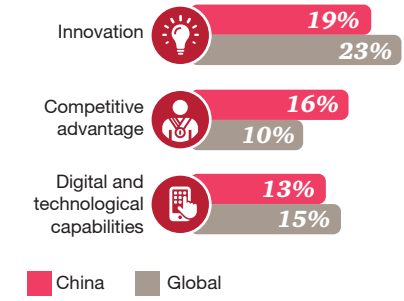
To drive their growth strategy/profitability in the next 12 months, executives in China planned to achieve this through:

Figure 4 **Top strategies to drive corporate growth or profitability in the next 12 months**



To capitalise on new opportunities and to thrive in the current business environment, executives in China also planned to strengthen:

Figure 5 **Top areas to strengthen in order to capitalise on new business opportunities**



On the other hand, global CEOs considered organic growth (79%) and cost reduction (62%) as favoured measures to drive growth and profitability but they also recognised the need to do more. They are prioritising investments in innovation and digital capabilities in order to seize new opportunities.

China has a thriving start-up and entrepreneurial culture and this is supported by our findings as 26% of executives told us that this area would also provide opportunities for growth and profitability, comparable to a global average of 28%.

Tough questions to ask:

- What growth strategies have you considered deploying to adapt to the current complex and divergent environment?
- How can you factor both agility and resilience into your growth strategy?

Top economic, policy, social and environmental threats to organisation's growth prospects

Globally, as well as in mainland China and Hong Kong, "uncertain economic growth" tops the list of threats for CEOs this year (compared to over-regulation last year). Presumably this is a proxy for the implications of Brexit, new policies under the US administration and the future of the Eurozone on their companies, as implications of each of these scenarios have yet to be fully worked out.

Figure 6 **Top economic, policy, social and environmental threats to organisation's growth prospects**

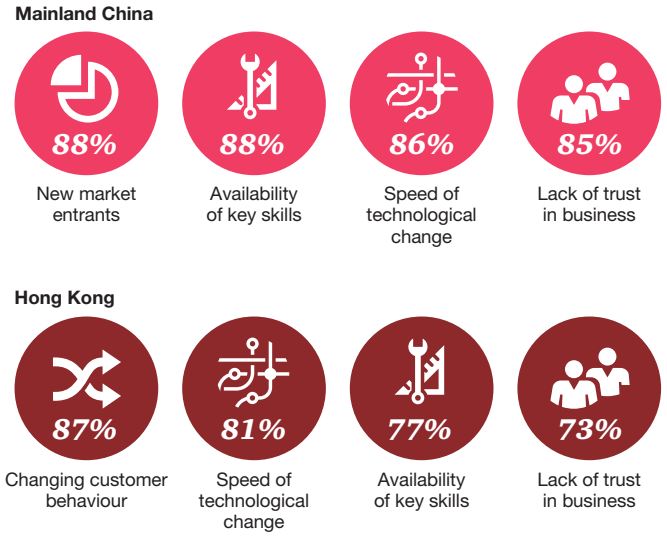
It is quite unprecedented that globally as well as in China ***social instability (69%)*** *has emerged as a serious concern ahead of protectionism, terrorism, geopolitical uncertainty and climate change and environmental damage.*

Top business threats to organisation's growth prospects

Executives in mainland China considered new market entrants (88%), availability of key skills (88%), speed of technological change (86%) and lack of trust in business (85%) as top business threats to their organisations' growth prospects. In Hong Kong, changing consumer behaviour (87%), speed of technological change (81%) and availability of key skills (77%) were cited as key concerns.

Compared to last year, the core business threats in mainland China and Hong Kong remain the same, only the ranking has slightly changed.

Figure 7 Top business threats to organisation's growth prospects



Tough questions to ask:

- Given the global uncertainties what strategies will drive growth and profitability?
- In increasingly volatile markets, what strategies are you using to mitigate risks?

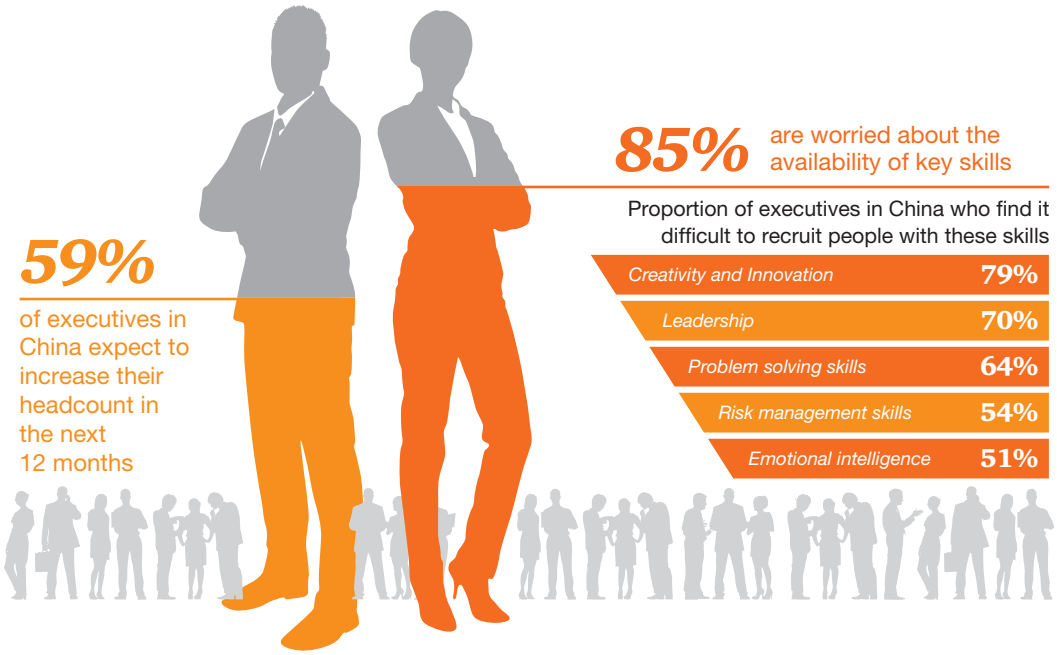
The right talent for the digital age

With China's development of the new economy powered by innovation, technology and entrepreneurship on one hand, and solving complex problems confronting the economy on the other hand, recruiting right people for the jobs is proving to be a challenge. Key growth sectors can only thrive if the talent strategy fits the country's new direction.

Data from the International Labour Organization (ILO) shows that the labour force participation rate[1] for males declined from 83% to 70% between 2000 and 2017. Also, the projections from ILO show that China's labour force (aged 15-64) is expected to decline between now and 2050. In addition to the projected shortfall of labour, China's labour market is facing a mismatch of skills demand and supply. Unemployment is evident among college graduates and migrant workers but at the same time companies are finding it hard to recruit people. Almost 7 million college graduates entered the job market in 2015, and records from the Ministry of Human Resources and Social Security show that unemployment rate of college students stood at 9.3%, higher than the country's average of 4%. Steel mills, coal mines and shipping companies are also laying off their staff as a result of sagging economy, leaving many migrant workers returning home jobless. Why are companies finding it challenging to hire staff even when there is an abundance of job seekers in the market?

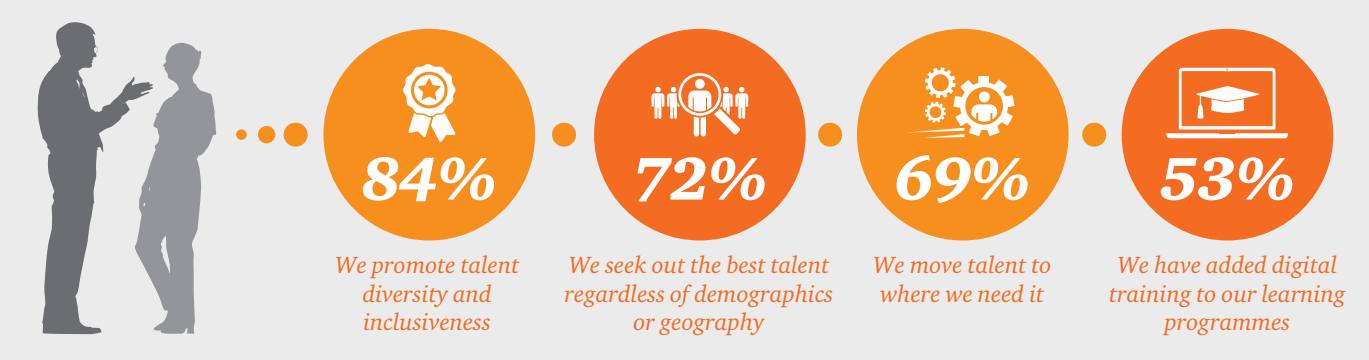
[1] Labour force participation rate is the proportion of the population aged 15 and older that is economically active

Figure 8 **China's labour market is facing a mismatch of skills demand and supply**



In response to the speed of technological change and rising demand for digital capabilities, 87% of executives in Hong Kong are looking for talents with digital skills, compared to 68% in mainland China. As companies are stepping up their efforts to digitise their business, new positions in data and analytics, digital marketing and cyber security are being added. Despite the high demand for technology, data and digital professionals, only 53% of executives in China have added digital training to their companies' learning programmes.

Figure 9 **Proportion of executives in China who are adjusting their talent strategies to satisfy hiring needs**



As China's economy continues with its structural reforms, having the right skills in the workforce is crucial, otherwise economic stimulus or policy measures would have limited impact due to restricted labour supply.

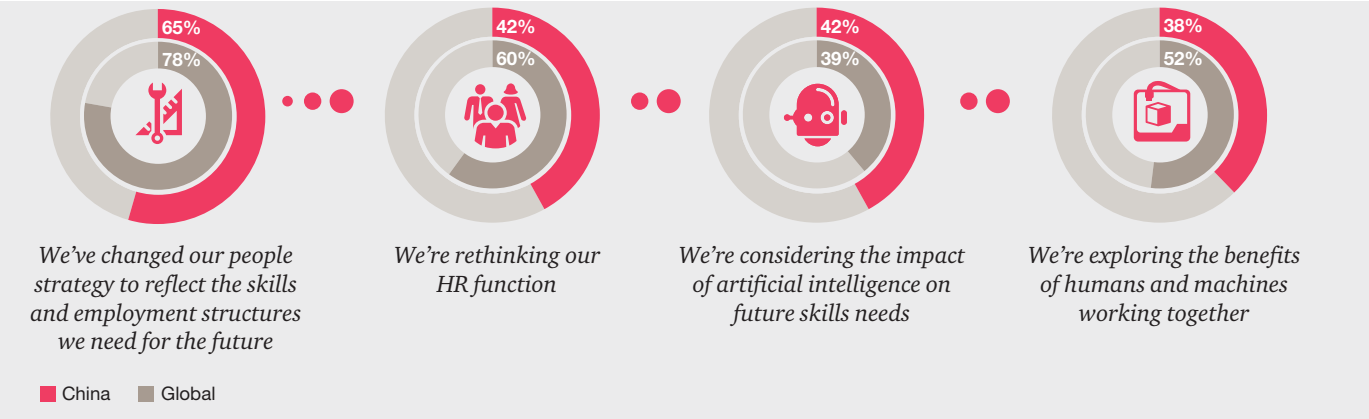
We look at technology more as productivity enhancements. But as we develop our services more, we find that the human interaction is still very important. So we're investing a lot more in recruiting people, and getting to understand our customer better and understand our customer needs better.

Alex Arena
Group Managing Director, HKT Limited, Hong Kong

Meeting the future talent gap

Executives in China recognise the challenges of recruiting the right skills; many, according to our survey also foresee structural changes in the workforce in the next 20 years due to the extensive development of robotics, big data and eventually artificial intelligence (AI). Executives recognise the need to adjust their talent strategy that not only bridges the existing talent gap, but will also be fit for future growth.

Figure 10 Proportion of executives who are rethinking HR functions and employment structures of the future where man and machine can work together



Educating the next generation workforce to thrive in the AI led economy is as much the challenge of educational institutions and governments as it is businesses'. This is another opportunity for private and public sectors to augment each other's efforts to scale solutions: providers of education need to pragmatically upgrade their human capital training to prepare a skilled workforce with high emotional intelligence so that organisational and economic growth is not constrained by unskilled human capital.

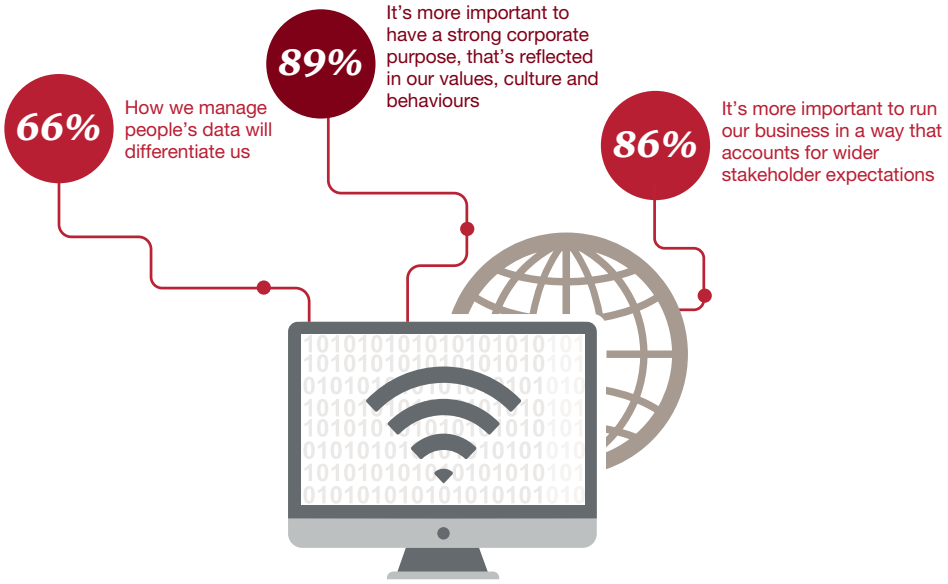
Tough questions to ask:

- What strategies do you have in place to seek out the best talent where you need it?
- Are you thinking about how AI can be used to improve the workplace in the future?
- What re-training programmes have you added to your company's learning and development programmes to bridge the existing talent gap and to ensure a workforce that is fit for future?

Trust in the digital age

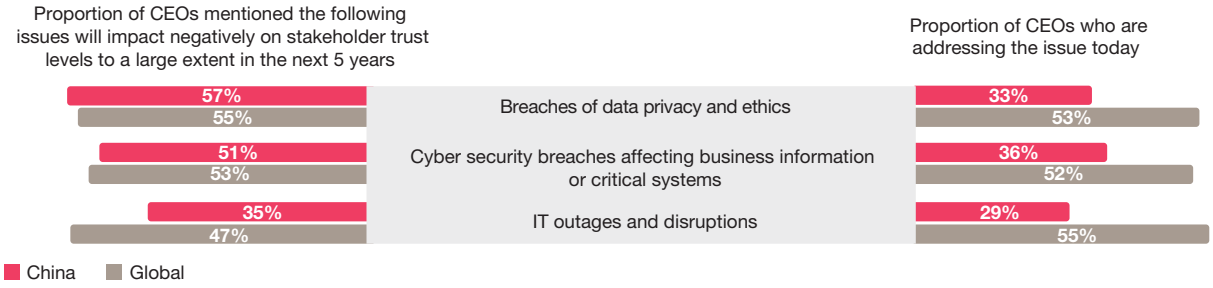
In the context of an increasingly digitised world as stakeholder expectations increase, 86% of executives in China "agree" or "agree strongly" it is increasingly important to run business in a way that accounts for wider stakeholder expectations and 89% of executives in China "agree" or "agree strongly" that it is important to have a strong corporate purpose that is reflected in their values, culture and behaviours. 69% of executives in Hong Kong "agree" or "agree strongly" it is harder for business to gain and keep trust, 30 percent higher than their counterparts in mainland China (39%).

Figure 11 **Proportion of CEOs in China who "agree" or "agree strongly" with the following statements regarding business trust**



Amongst the CEOs surveyed, over half of them mentioned that "to a large extent" breaches of data privacy and ethics (57%) and cyber security breaches (51%) will negatively impact on stakeholder trust levels in the next 5 years.

Figure 12 There are serious concerns on cybersecurity and data privacy breaches. Companies need to do more to increase cyber resilience and safeguard data to build and sustain trust.



Despite the widespread recognition of the severe consequences of cyber security, data and ethics breaches, we find that only 33% of executives in China (compared to 53% of global CEOs) are "to a large extent" addressing breaches of data privacy and ethics and 36% of executives in China (compared to 52% of global CEOs) are "to a large extent" addressing cyber security breaches. While companies in China are investing heavily in digital technologies, they seem to be less convinced about addressing vulnerabilities of digital assets in a robust way which is vital. Recognising the potential economic losses from an adverse cyber event, China recently passed a cybercrime law set to take effect in June 2017 in order to make all stakeholders obligated to comply with stringent cyber security measures.

While globalisation and technological advancements have made businesses interconnected and leveraging data and analytics have enabled companies to pivot to opportunities, understanding and navigating emerging enterprise risks have taken on new dimensions. In addition to conventional risks of corporate governance and compliance, risks in today's digital world range from cyber security and misuse of data. Focusing on risk management to safeguard critical information systems will involve integrating data analysis from myriad data sources into the decision making framework. Amongst the CEOs surveyed in China 66% of them "agree" or "agree strongly" that how they manage people's data will differentiate them from their competitors.

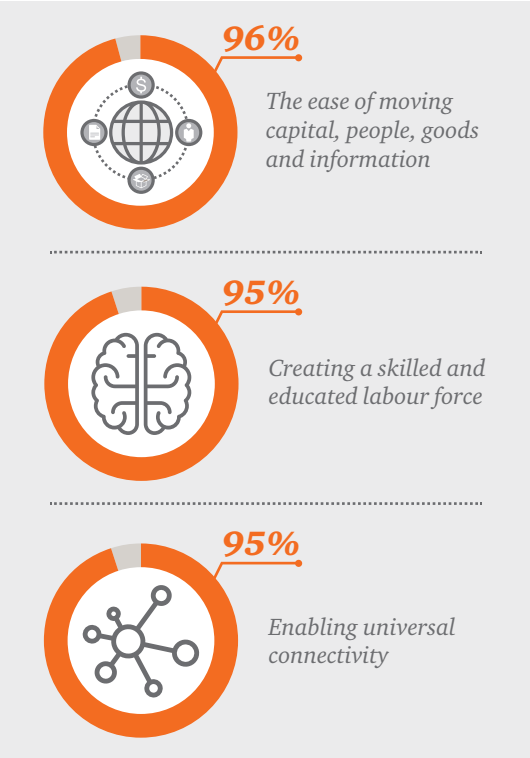
Understanding relationships between entities, stakeholders, consumers, partners and suppliers is key, as undetected links or missing links will increase vulnerabilities. Given the lack of trust in the digital age, companies will have to build and sustain stakeholder trust and confidence through actions such as enhanced management of cyber security, digital and data risks.

Tough questions to ask:

- Are you actively managing data privacy and ethics vulnerabilities? Do you see this as a way to differentiate yourself from the competition?
- Are you actively managing cyber security risks as a way to increase trust in the brand?
- How can you build the right infrastructure for collecting, managing, governing and securing data?
- What can you do to leverage trust in your brand as a competitive advantage?

Reforming globalisation

Figure 13 **Proportion of CEOs in China who agree about benefits of globalisation**



China has been a beneficiary of globalisation, transforming into the manufacturing hub of the world and lifting 439 million people out of poverty between 1990 – 2011[2]. CEOs in China overwhelmingly agree that globalisation has helped to improve the ease of moving capital, people, goods and information (96%), create a skilled and educated labour force (95%) and enabled universal connectivity (95%).

People are becoming more intelligent…through globalisation. All issues are relatively similar, and things are relatively easier to understand by different people. It could be said that the gap between cultures has been bridged. This is the biggest change.

Dr. Charles Zhang
Board Chairman & CEO, Sohu.com Inc., China

[2] UN Development Programme (UNDP), *Report on China's Implementation of the Millennium Development Goals (2000-2015)* (2015), http://www.cn.undp.org/content/china/en/home/library/mdg/mdgs-report-2015-.html

These remarkable achievements, however, have been accompanied by rising inequality, mismanagement of natural resources due to over-use, industrial and environmental pollution, large scale overcapacity amongst other ills[3]. CEOs in China (and globally), told us that social instability (69%) has emerged as a serious concern ahead of protectionism, terrorism, geopolitical uncertainty and climate change and environmental damage. This is quite unprecedented. As far as income inequality is concerned, the survey found that 50% of CEOs in China (compared to 38% of their global counterparts) believe that globalisation has helped "to some extent" to reduce the gap between rich and poor.

Indeed, in order to address these challenges, in its 13th Five Year Plan, the government explicitly stated to adjust the country's income distribution system and narrow the income gap, enhance support to less developed regions, such as ethnic minority communities and border areas as well as resource-strained and ecologically degraded regions, shift industrial capacity from the affluent coastal cities to developing western regions, enhance environmental protection and green growth, plan better allocation of resources and raise the efficiency of investment and companies amongst other measures.

Even as market forces gain in prominence in China, the government is playing a role to mitigate the negative impacts of globalisation. At the WEF in Davos, President Xi spoke

> *"about the necessity to make the process of economic globalisation more invigorated, more inclusive and more sustainable. We should act pro-actively and manage economic globalisation as appropriate so as to release its positive impact and rebalance the process of economic globalisation."*

How can businesses work with governments to drive change to economic, regulatory and social frameworks which govern business and society?

CEOs in China pointed out that while the public private partnership (PPP) model is an effective way to scale effective and sustainable solutions, continuous engagement and dialogue with the government (for example through trade associations and industry federations) is another way to foster open and practical information exchange with regulators and policymakers so that they have a better understanding of the new emerging business models and consequent updating/harmonising of standards and regulations required for properly functioning markets. For example, for workers displaced by globalisation and technological advancements, governments and businesses can provide re-training, reskilling and other innovative initiatives that can address these challenges.

> *Governments are generally not forward thinking enough to anticipate technological change and to make appropriate policy adjustments in a timely manner, therefore regular interaction and education become important activities in our attempts to work with the government.*
>
> CEO in China

[3] PwC, "*What China plans to do in 2016 and the next five years* – A business review of Premier Li Keqiang's government work report" (2016), http://www.pwccn.com/home/eng/govt_work_review_mar2016.html

[4] PwC, "*What China plans to do in 2016 and the next five years* – A business review of Premier Li Keqiang's government work report" (2016), http://www.pwccn.com/home/eng/govt_work_review_mar2016.html

Hong Kong's economy is one of the freest in the world due to the government's commitment to maintaining open and free trade and a competitive business environment that is driven by the free flow of capital, talent and goods. When asked about competing in an open global marketplace with trends toward more closed national policies, 63% of CEOs in Hong Kong "agree" or "agree strongly" that it is becoming harder for them to balance competing in an open global marketplace with trends toward more closed national policies. When asked how to stay competitive, executives mentioned:

- Maintaining flexibility towards policy changes
- Finding good local partners who can guide through localised issues
- Staying focused on the macro international business objectives

In mainland China, a modest 18% said they "agree" or "agree strongly" that it is becoming harder for them to balance competing in an open global marketplace with trends toward more closed national policies. Of the executives who agreed with this view, when asked to elaborate on how they cope with this challenge, the consensus was:

- Promoting diversification
- Paying attention to developments and trends and adapt to new situations
- Operating in accordance with the law and regulations
- Setting up local entities
- Actively responding to challenges
- Balancing is an art about making choices

Despite regressions caused by anti-globalisation, counter-market forces or planned economies, the impetus for strong market forces is irreversible, and it continues to march forward. As time goes by, whatever happens, China will continue moving towards a fully free market and this cannot be stopped.

Dr. Charles Zhang
Board Chairman & CEO, Sohu.com Inc., China

As President Xi said in Davos,

"There was a time when China also had doubts about economic globalisation, and was not sure whether it should join the World Trade Organization. But we came to the conclusion that integration into the global economy is a historical trend….In the face of both opportunities and challenges of economic globalisation, the right thing to do is to seize every opportunity, jointly meet challenges and chart the right course…."

Tough questions to ask:

- Is your firm effectively engaging with governments and societies to help drive systemic change?
- Do you agree that business has a role to play to better distribute the benefits to all thus contributing to economic stability?
- Is your organisation engaging with multi-stakeholder networks to solve the economic and social instability that is giving rise to populism?

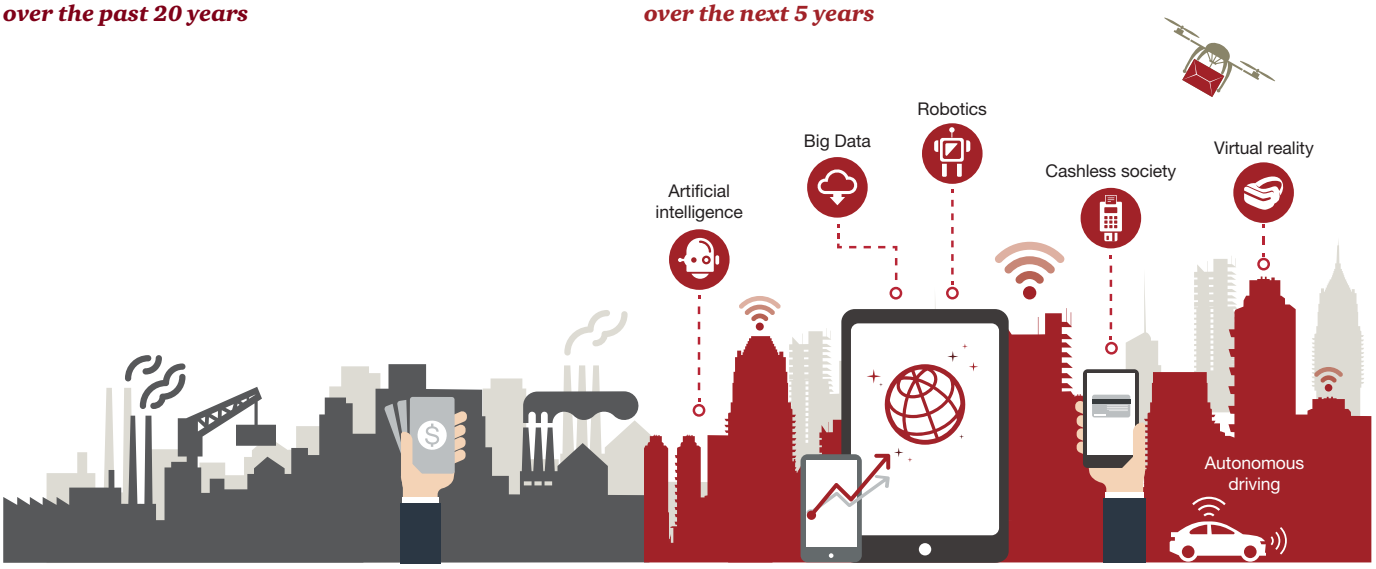
Technological advancement in the service of mankind

There is universal consensus that technology has accelerated change and transformation in some sectors increasing efficiencies, raising productivity, changing business models, offering conveniences thereby leading to value for consumers and growth for companies. Development of technological innovation and digitisation is a strategic national priority in China as it was expressed in the 13th Five Year Plan in 2016. Companies in China are leading the world in the application of many of these technologies by adopting and prioritising digitisation in order to capture economic and productivity benefits.

Figure 14 **Technology has reshaped industries in the past, and will continue to transform industries in the future**

More than a quarter *of the CEOs said technology has completely reshaped competition in their industry* ***over the past 20 years***

More than half *of the CEOs said technology will have a significant impact on competition in their industry* ***over the next 5 years***



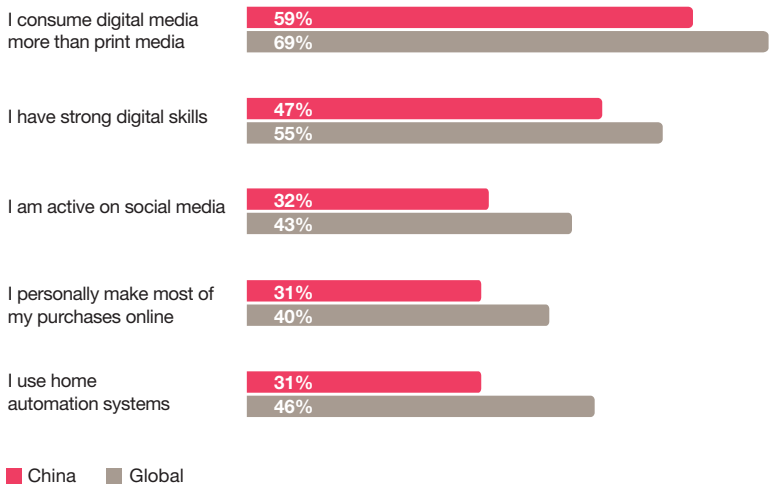
Thinking ahead into the next 20 years, CEOs are expecting to see disruptions in transportation (autonomous driving), finance/currency (moving towards digital/cashless society), communication (VR), manufacturing (3D), renewable energies, healthcare (robotics, personalised medicine) and automation (IoT, Big Data, Artificial Intelligence).

Just about every sector is going to have a disruption, it's just a question of scale… There are massive readjustments now in traditional retailing, banking services, the way insurance is sold. Those sectors have not been used to the technological change cycles as much as [the telecommunications industries] have been. So, we see opportunities in helping those different sectors adjust to the new world. For every painful adjustment, there's also opportunity.

Alex Arena
Group Managing Director, HKT Limited, Hong Kong

The digitised world of today characterised by pervasive and affordable broadband, hyper-connectivity, social networking, cognitive and quantum computing, cloud services and the Internet of Things (IoT) is different from the one 20 years ago. The application of technology at a personal level in China is catching up with global averages.

Figure 15 Application of technology at a personal level among CEOs



For sure, digital technologies are rapidly advancing beyond the new economy service sectors of e-commerce, media and finance (or Fintech) into other realms of the old economy such as transportation and logistics, tele-medicine, construction, hospitality to capture economic value. Leveraging technological advancements while increasing productivities and efficiencies is expected to ultimately lead to elimination of lower skilled jobs that would potentially cause upheavals and social unrest.

The issue facing the world is what to do with all the people when we get autonomous vehicles, Big Data analytics, and other automation in place. What should people be doing? How do we distribute wealth so it is balanced and fair? Who are the future consumers and what do they consume and how do they earn a living to pay for it?

CEO in China

But in terms of solving the problems, it's not technology; people are the ones that have got to solve the problems.

Alex Arena
Group Managing Director, HKT Limited, Hong Kong

Underlying these technology-enabled, data-driven transformations is the use of augmented intelligence to better understand the key problems facing society and business and therefore to find solutions and opportunities. Nearly half of the respondents in China (compared to global average of 63%) told us that they "agree" or "agree strongly" that technology is to be used to improve people's well-being.

Amidst the anxiety about technological advancement and automation displacing workers, it is essential to understand that technology has to be harnessed for the benefit of humankind to augment human capabilities and help humankind to achieve more. The Chinese government has credible plans to address these by strengthening social safety nets and as President Xi said in Davos:

> *"We should address the negative impact of IT application and automation on jobs. When cultivating new industries and new forms of business models, we should create new jobs and restore confidence and hope to our peoples".*

Tough questions to ask:

- Are you considering using augmented intelligence to better understand problems facing business and help you create competitive advantage?
- Have you reengineered your business processes so that your employees are best placed to work seamlessly with automation to create new value?
- Are you focusing on using machines to augment and extend human capabilities for the broader benefit of humankind?

Conclusion

Globalisation has received a backlash as populations are questioning the process and outcomes that have excluded them from the benefits. At this critical juncture, reflections and adjustments are necessary in order to have inclusive growth. The global political and economic uncertainties, and the challenges of Brexit and Trump's policies might alter patterns in global trade, investment and capital flows.

As President Xi pointed out in Davos, China has its own pressures and realities to contend with, that are "temporary hardships" which the leadership is trying to resolve strategically and incrementally for the prosperity of all. While China's unresolved structural issues are significant (in particular overcapacity and debt problem), China remains a vibrant economy. China is committed to "building of an innovative, open, interactive, and inclusive world economy" and companies can find ample business opportunities.

In addition to developing the domestic market and rebalancing the economy, China's "Belt and Road" strategy of "attracting inward, going outward" will provide further investment opportunities for its companies and help to improve the business environment in the region along the belt and road routes. It will be conducive for the development of landlocked countries and help to reduce trade investment costs and barriers among and between countries.

China's technology focused and innovation driven growth is yielding results. Relentless technological progress is bringing even more change and disruptions and while technology will alter many sectors, it will create new business challenges as well as opportunities. Leaders must be forward thinking and anticipate the negative effects of technology on systems. Long term investments in people and innovations, as well as strengthening cyber security, privacy and data systems will keep companies agile, dynamic and resilient to disruptive forces. Innovations must be used not only to build capital but also to scale positive social impacts to solve the multi-dimensional challenges confronting China and the world.

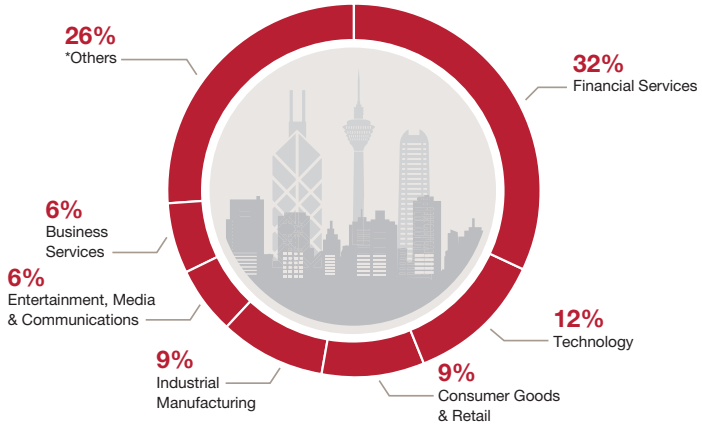
In order to deliver benefits to a wider group of stakeholders, business leaders face the challenge of maximising shareholder value while ensuring that environmental and social concerns are being reflected in their strategic thinking. Trade-offs have to be considered between a short term focus on quarterly results and long term investments in people, environment and communities that will yield real returns to all stakeholders.

The dramatic political outcomes of the last few months is demanding change to the business as usual model. Processes, systems and institutions have to be accountable to their constituents so that the excesses do not get out of balance. To take ownership of the future, it is imperative that businesses, governments and civil society increase engagement with each other and augment each other's efforts to ensure that in addition to wealth creation, negative impacts are being mitigated, inequalities are being reduced, access is being improved and that human development progress is being delivered to all and not just to a few. Business leaders today have a great opportunity and responsibility to lead through the disruptions by demonstrating purpose and increasing trust through corporate behaviour and to work in partnership across sectors towards shared goals that leads to positive outcomes and real returns for all stakeholders.

Methodology

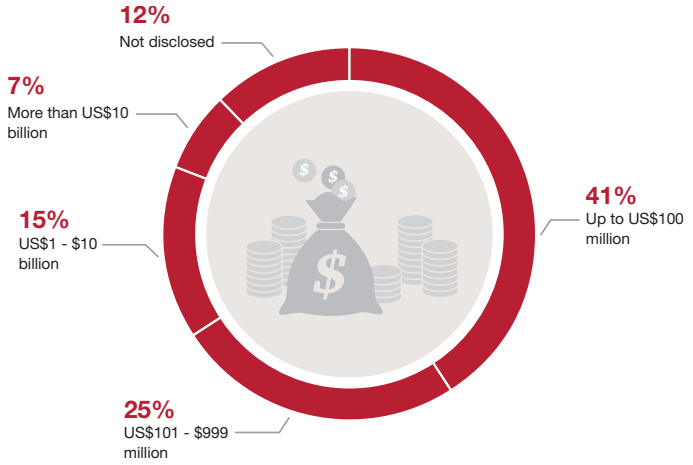
The top three sectors in the mainland China sample were Financial Services (32%), Technology (15%) and Industrial Manufacturing (8%), whereas the top three sectors in the Hong Kong sample were Financial Services (35%), Consumer Goods & Retail (17%) and Industrial Manufacturing (10%).

Figure 16 **Distribution of overall China sample by sector, 2017**



(*Industry shares less than 5% of the total respondents aggregated under "Others": Automotive, Transportation & Logistics, Chemicals & Metals, Energy (incl Oil & Gas), Engineering & construction, Forest, paper & packaging, Government/ Public services, Healthcare, Hospitality & leisure, Pharmaceuticals & Life Sciences and Power & utilities)

Figure 17 **Distribution of overall China sample by revenue, 2017**



In terms of the composition of firms in the sample, a majority of the firms in the mainland China and Hong Kong sample were privately-owned: 54% of the executives in mainland China surveyed represented private firms, compared to 73% in the Hong Kong sample and 57% in the global sample. Second, among privately-owned firms, partnerships represented 21% of mainland China's sample and 24% of Hong Kong's sample, compared to only 10% of the global sample; owner-managed firms represented 39% of mainland China's sample and 29% of Hong Kong's sample, compared to only 19% of the global sample; family-run firms represented 9% of mainland China's sample and 16% of Hong Kong's sample compared to 24% of the global sample. Finally, firms with some level of government ownership or backing accounted for 40% of mainland China's sample and 13% of Hong Kong's sample, compared to only 16% of the global sample.

This leads to the inference that the mainland China and Hong Kong sample is represented by privately-owned firms which are owner-managed and they are likely to have a more concentrated leadership structure than their global peers.

Sources:

1. PwC, "*What China plans to do in 2016 and the next five years* – A business review of Premier Li Keqiang's government work report" (2016), http://www.pwccn.com/home/eng/govt_work_review_mar2016.html
2. PwC, China Economic Quarterly Q2 2016, Q3 2016 and Q4 2016, http://www.pwccn.com/ceq
3. President Xi's speech to Davos in full: https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum/

Acknowledgement and thanks to reviewers

Special thanks to Allan Zhang, Poh-Khim Cheah, Suzanne Snowden and Yvonne Chan for their contributions to the report.

Editorial and Writing

Sanjukta Mukherjee

Project Management

Elvis Chiu

Lesley Lai

Lan Lan

Contacts

Frank Lyn

PwC Mainland China and Hong Kong Markets Leader

+86 (10) 6533 2388
+852 2289 1233
frank.lyn@cn.pwc.com

David Wu

PwC China Beijing Senior Partner
PwC China North China Markets Leader
PwC China Government and Regulatory Affairs Leader

+86 (10) 6533 2456
david.wu@cn.pwc.com

Elton Huang

PwC China Shanghai Senior Partner
PwC China Central China Markets Leader

+86 (21) 2323 3029
elton.huang@cn.pwc.com

pwccn.com/ceosurvey