Recharting the path to sustained outcomes

25th Annual Global CEO Survey China Report

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Executive Summary

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2021 marked a challenging year as the world attempted to recover from the COVID-19 pandemic amidst the rapidly evolving business and geopolitical climate. To navigate these turbulent times and achieve outcomes that matter, CEOs in China are urged to look beyond short-term financial goals and identify factors that are critical to their company's long-term growth. Conducted prior to the resurgence of COVID cases in China and recent geopolitical tensions, our survey examines CEOs' hopes and fears, and the steps they are taking towards a more sustainable future at a time of unprecedented changes and declining societal trust. The key findings of the China report are as follows:

- Mainland China and Hong Kong saw subdued optimism on GDP growth over the next 12 months, while confidence increased for revenue growth in Mainland China.
- While the US, Australia, Germany and Japan are considered by Mainland Chinese CEOs as the most important overseas economies for revenue growth, overall reliance on external economies continued to decrease.
- Macroeconomic volatility and health risks are seen as the top threats to revenue growth prospects over the next 12 months.
- CEOs based in Mainland China anticipate less impact than their global counterparts from their exposure to a multitude of external risks, such as cyber risks and climate change.
- A higher percentage of Mainland Chinese CEOs have made net-zero commitments than their global counterparts, driven mainly by strong government directives, investor expectations and the need to drive product or service innovation.
- CEOs in Mainland China are taking actions to tackle climate change with focuses on switching to renewable energy and improving energy efficiency, reducing waste and water consumption, as well as designing more sustainable products and services.
- Mainland Chinese CEOs tend to have more overarching strategic objectives and supporting initiatives, but too many of these can pose challenges for communication and assessment.
- Despite the rising interest in ESG (environmental, social and governance) among companies and investors, core business metrics are more predominant in long-term corporate strategies and compensation plans than other non-financial outcomes

Introduction to the Survey

For more than two decades, PwC's Annual Global CEO Survey has opened a unique window into the thinking of chief executives around the world. This year, we marked our 25th anniversary by opening that window wider and looking through it in new ways. 4,446 CEOs from 89 countries and territories participated in this year's survey, which documented a moment of extraordinary change in the wake of the lingering pandemic and social upheaval.

The global economy is likely to face new headwinds amid geopolitical tensions and spiking inflation, with the IMF projecting global growth to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. Looking into 2022, businesses will likely find themselves in a more challenging environment complicated by macroeconomic volatility, geopolitical tensions, cyber risks, and the increasingly urgent need to transition to a net-zero economy.

The survey, conducted in October and November of 2021, explores CEOs' sentiment on global growth as well as their company's own financial performance in the short- and medium-term. It looks at how CEOs are rethinking and reconfiguring their long-term strategies to create sustained outcomes while facing multiple threats in an ever-evolving landscape. The study also captures CEOs' views on climate change, decarbonisation and ESG considerations, among other important topics.

As executives grapple with a convergence of environmental, financial, and social pressures, they find themselves having to recalculate the equation for success. Yet the need to take decisive action has never been stronger. Business as usual isn't mitigating the climate crisis or bridging the socioeconomic divide. The results of our 25th Annual Global CEO Survey lay these truths bare — and underscore the need for bold leadership to unite us as global citizens and problem solvers.

This China report presents the views of 180 executives based in Mainland China and the Hong Kong SAR. For the purposes of this report, 'China' refers to the People's Republic of China, including Hong Kong. Where there is a statistically significant difference in the survey results between Hong Kong and Mainland China, results are presented separately.

Section 1

CEO optimism diverged amid new forces of change

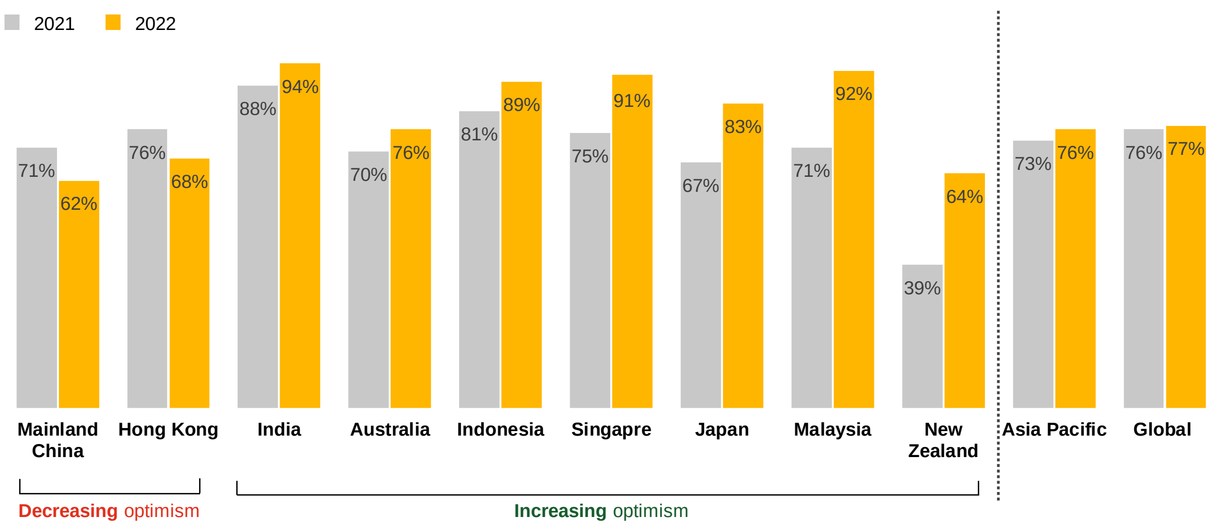
Chinese CEOs expressed lower optimism on GDP growth than their global counterparts

COVID-19 continues to bring sea changes to China's economic and business landscape. At the beginning of the outbreak, China's economy showed resilience and managed to expand by 8.1% in 2021, surpassing the government's own target of above 6%.[1] Economic data indicates that the economy was mainly driven by strong industrial output and exports.[i] But weakening indicators in the closing months of 2021 and early 2022, such as slowing consumption and deleveraging in many sectors, suggest that threats to growth remain as the country grapples with a new wave of COVID outbreaks, structural reforms brought by tightening regulations over multiple industries, and changing international relations, among other risks.[2] This sentiment is echoed as the Chinese government announced a lower GDP growth target of 5.5% during the Two Sessions meeting in March 2022, setting in motion a more balanced path of growth with more space for policy makers to tackle the challenges at home.[3]

Figure 1

CEO confidence on economic growth

How do you believe global economic growth (i.e., gross domestic product) will change, if at all, over the next 12 months? (showing only 'improve' responses)



i. China's 2021 trade in goods have reached USD6.05tn, representing 21.4% year-on-year growth. Both imports and exports appear to have grown by USD1.4tn over the past year, the highest growth volume China has seen in a decade.

CEOs in China are less optimistic about near-term economic prospects, compared to global and other Asia-Pacific CEOs. When we surveyed chief executives in Mainland China in October and November of 2021, 62% said they expect global economic growth to improve during the year ahead, a drop of 9 percentage points from our previous survey (conducted in January and February of 2021). Similarly, Hong Kong CEOs are less optimistic than a year ago with 68% expecting the global economy to improve over the next 12 months.

The drop in CEO confidence on economic growth can be attributed to a number of factors. Although China had been somewhat well ahead in the global race to economic recovery and reopening during the earlier phase of the pandemic (2020-2021), it is expected that GDP growth will slow to a more moderate level after a strong rebound. The country has been undergoing structural economic reforms since the first quarter of 2021, resulting in crackdowns on multiple sectors as varied as e-commerce, education and platform economy, which coupled with the continued pursuit of the zero-COVID strategy and restrictive measures, would mean that the Chinese economy is steering along a more balanced and moderate growth path.

Note that our findings did not factor in the effects of the Omicron variant, which began wreaking havoc around the world just two weeks after the close of our CEO Survey field work. The rapid spread within communities in China as well as the geopolitical tensions between Russia and Ukraine raise new questions about post-pandemic recovery while navigating geopolitical conflicts.

Companies in Mainland China remain agile and resilient seeing higher revenue predictability

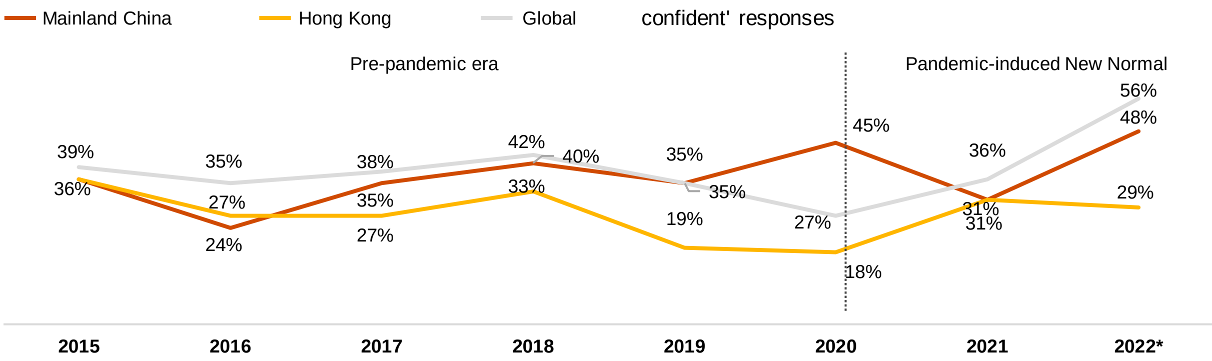
Contrary to their rather conservative economic outlook, 48% of CEOs in Mainland China (Hong Kong: 29%; Global: 56%) report high levels of confidence about their own prospects for revenue growth over the next 12 months.

Figure 2.

CEO confidence on short-term revenue growth

How confident are you about your company's prospects for revenue growth over the next 12 months? (Showing only 'very confident' responses)

*2022 data includes 'very confident' and 'extremely confident' responses



Benefiting from China's strong economic rebound and continued resilience in the last two years, businesses swiftly adjusted their operations to the pandemic-induced New Normal, characterised by structural reforms introduced in the 14th Five-Year Plan, accelerated growth in the digital economy, demographic policy shifts, and major changes in consumer behaviour, e.g. consumer activism and support for domestic brands.

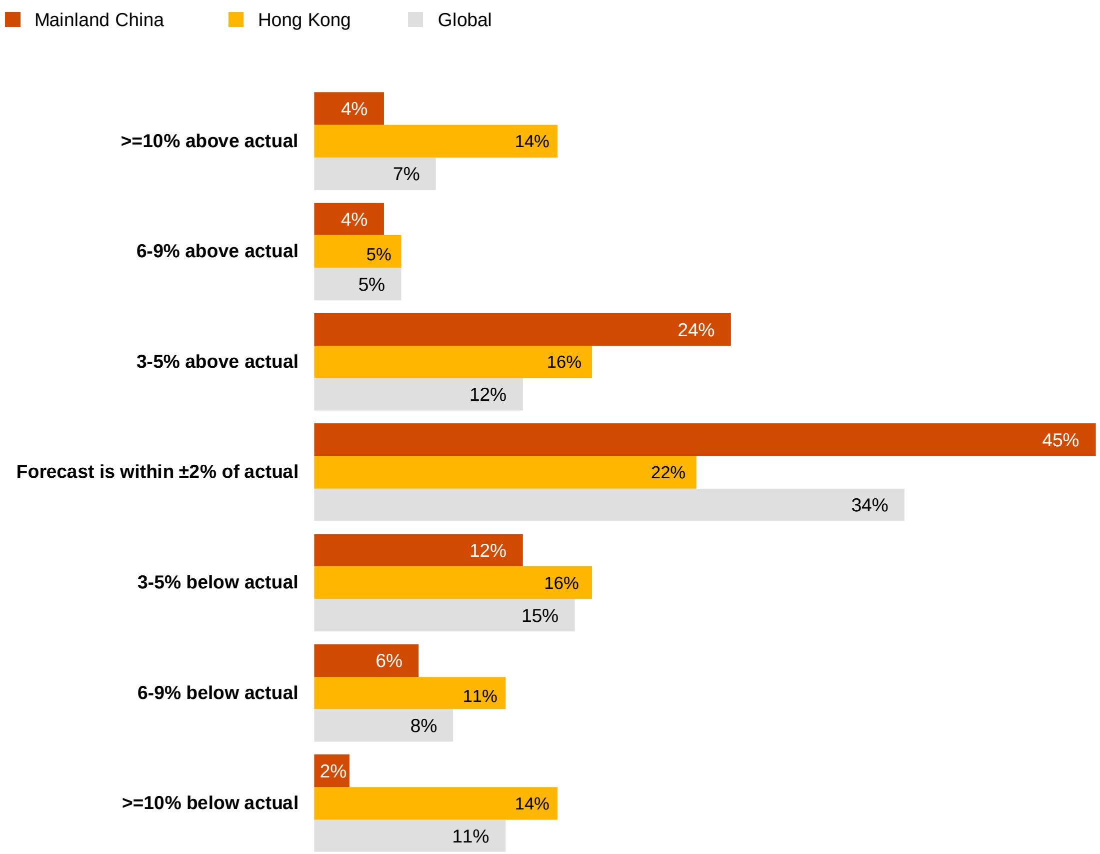
Policy divergence also contributes to the difference in CEO confidence. With higher nominal interest rates and lower asset valuations, Mainland China is more likely to adopt accommodative monetary policies to further stimulate its economy, while US and Europe face continuous pressure to combat inflation with interest rate hikes. However, with recent global challenges on the health and geopolitical fronts, this sentiment has presumably changed as businesses globally experience their aftereffects.

Among Hong Kong CEOs, confidence in revenue growth declined by 2 percentage points. As an open economy that is highly dependent on the service sector, the city still faces economic headwinds amid restricted travel and low domestic consumption. The continued closure of businesses and heightened social distancing measures added to the challenging environment.

Figure 3

Perception of revenue forecasting accuracy

How would you describe your company's typical forecasting accuracy regarding year-on-year revenue growth?



It is interesting to see that despite the continued uncertainties in the New Normal era, Mainland Chinese CEOs perceive higher accuracy in forecasting company revenue, with 45% saying that their forecast varies by only 2% of their actual revenue. Meanwhile, 24% tend to overestimate revenue by a margin of 3-5%. Perhaps the predictability of revenue growth is directly linked to the level of perceived uncertainty. In particular, Mainland Chinese CEOs that primarily focus on the domestic market face a vastly different and somewhat less complex risk environment than their global counterparts. For many sectors, policy changes, and legal and regulatory risks can outweigh other risk factors.

Session 2

Emerging threats, growth markets and motivations

Health risks and macroeconomic volatility seen as top threats to Chinese companies' growth prospects

Mainland Chinese CEOs are most worried about the global health situation as the pandemic lingers, with 42% saying they are very or extremely concerned about health risks impacting their company's growth over the next 12 months. The second biggest threat on their radar is macroeconomic volatility (41%), including fluctuations in financial markets, global trade disruptions and surging inflation, followed by geopolitical uncertainties (32%) and climate change (31%).

Figure 4

Top global threats causing concerns for Chinese CEOs

How concerned are you about the following global threats negatively impacting your company over the next 12 months? (Very and extremely concerned)

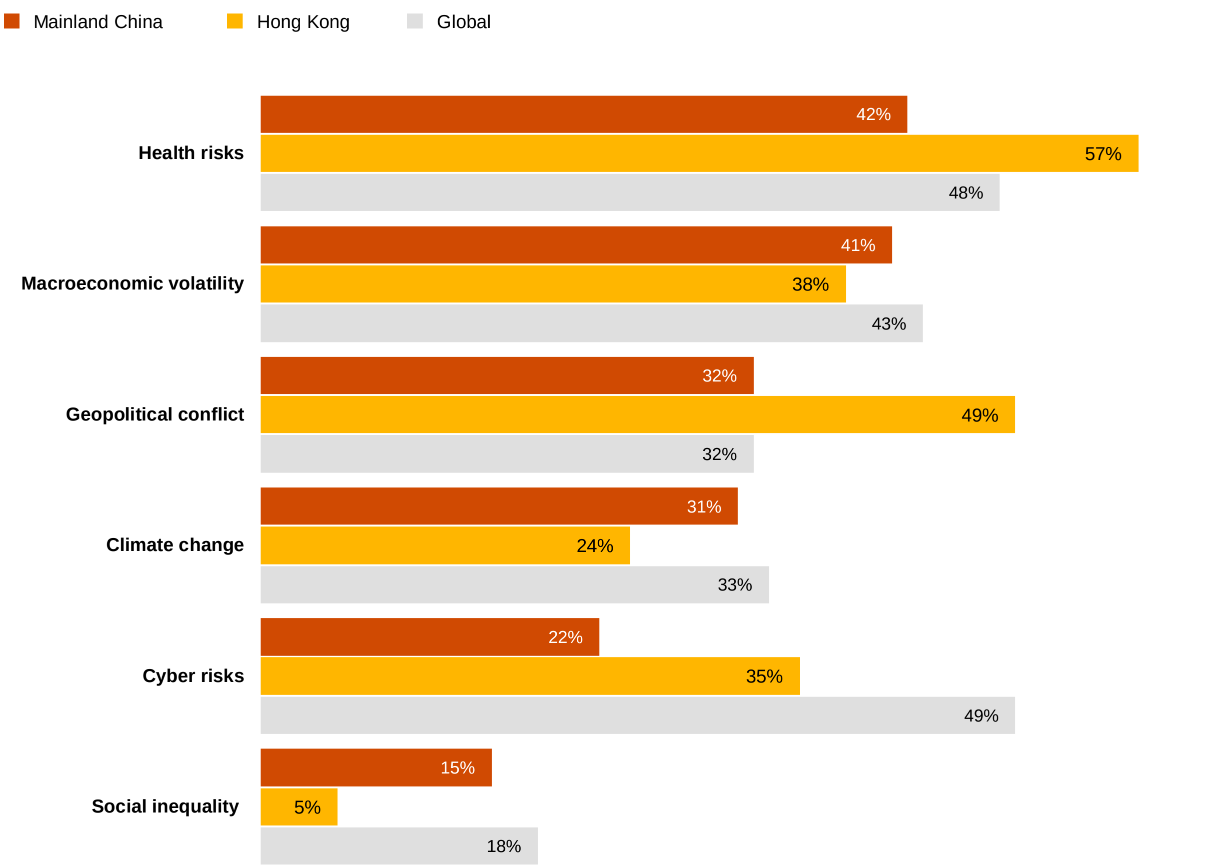


Figure 5

Mainland Chinese CEOs' concerns compared to their global counterparts

How concerned are you about the following global threats negatively impacting your company over the next 12 months? (Showing only 'very' and 'extremely concerned' responses)

	Cyber risks	Health risks	Macroeconomic volatility	Climate change	Social inequality	Geopolitical conflict
Mainland China	**22%**	**42%**	**41%**	**31%**	**15%**	**32%**
Japan	45%	60%	38%	39%	9%	37%
India	49%	62%	35%	32%	21%	27%
Indonesia	57%	80%	52%	48%	28%	41%
Australia	71%	55%	35%	37%	14%	27%
Middle East	57%	48%	50%	36%	16%	54%
Latin America	53%	46%	64%	39%	41%	32%
Mexico	71%	52%	52%	48%	40%	33%
Brazil	50%	32%	69%	36%	38%	21%
North America	56%	44%	42%	28%	17%	29%
US	61%	51%	42%	27%	23%	35%
Canada	53%	40%	42%	29%	13%	25%
Western Europe	50%	37%	38%	37%	16%	31%
Germany	59%	31%	34%	38%	7%	38%
UK	48%	40%	41%	34%	21%	22%
Spain	62%	44%	69%	53%	44%	42%
Netherlands	58%	26%	24%	33%	14%	19%
France	55%	30%	28%	30%	9%	40%
Italy	41%	36%	34%	29%	17%	31%
Switzerland	66%	25%	17%	25%	2%	31%
Turkey	34%	35%	69%	49%	28%	45%

0%-9%   10%-19%   20%-39%   40%-59%   60%-69%   70%-100%

Cyber threats have become more acute for businesses in the past few years given the accelerated offline-to-online migration of work content and the increased digital dependency. The Cyberspace Administration of China's (CAC) recently enacted regulations on network data security, augmenting the Personal Information Protection Law (PIPL). The updated regulations have heightened the cost of doing business in the form of hefty fines for non-compliance[ii], among others, in Mainland China for both local and foreign companies.[4] The compliance requirements have compelled businesses to reconsider their data strategy and management models, and have cost and legal implications on foreign companies operating in China. For example, new requirements for data localisation are forcing many companies to move from centralised to decentralised HR and CRM systems.

ii. PIPL establishes a spectrum of materially significant penalties for businesses: confiscation of illegal gains, a fine of up to RMB50m (about USD7.8m) or 5 percent of the past year's turnover, and even the possibility of business suspension. Violations could also affect a company's social credit scores, making it difficult to access credit, purchase property and conduct everyday business operations.

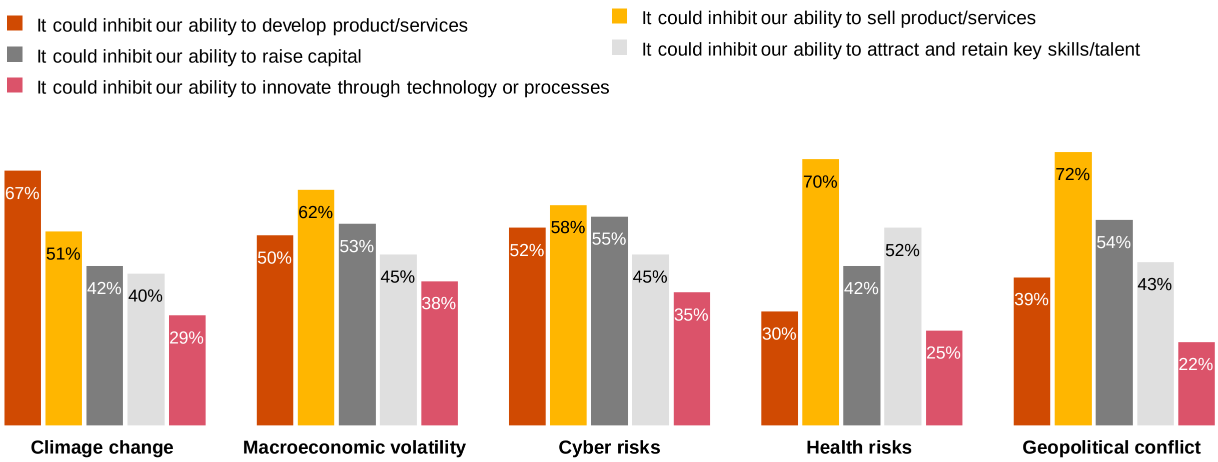
Mainland Chinese CEOs are primarily concerned about these threats to revenue growth

Figure 6.

Mainland Chinese CEO views on how global threats are affecting their business

How do you anticipate your company could be impacted by this threat over the next 12 months?

(Showing only responses from Mainland China CEOs who were 'very concerned' and 'extremely concerned' about each threat)



To understand what lies behind these views, we asked CEOs how they think each threat could inhibit their ability to achieve various business outcomes over the next 12 months. Mainland Chinese CEOs were most concerned about the potential disruption in their ability to sell products or services, with geopolitical conflict posing the biggest impact in this area. They consider cyber risk, geopolitical conflict and macroeconomic volatility as the most significant risk factors that could impact their ability to raise capital.

The current health crisis has forced many Chinese CEOs to revamp their revenue models, digitalise their product and service offerings, and strengthen their focus on domestic markets. The suspension of outpatient services during the COVID-19 outbreaks, for example, triggered the push towards online pharmacies and digital consultation.[5] Also, the accelerated offline-to-online migration of work content and the increased popularity of hybrid work also created many opportunities for data centres and cloud-based service operators.

Macroeconomic volatility – particularly the financial market turmoil sparked by the US's monetary tightening policy – came second on CEOs' list of global threats. In contrast to their overseas counterparts, Chinese executives are likely to experience a credit expansion cycle leading to a more conducive operating environment.

In fact, China's central bank has already initiated multiple targeted monetary easing measures over the past few months, including cutting banks' reserve requirement ratios (RRRs) in July and December 2021, and slashing the benchmark mortgage lending rate in January 2022 to pump liquidity into the property market. In December 2021, a slew of fiscal support measures specifically targeting micro-, small-, and medium-sized enterprises (MSMEs) were also announced by the State Council to combat negative economic pressures.[6]

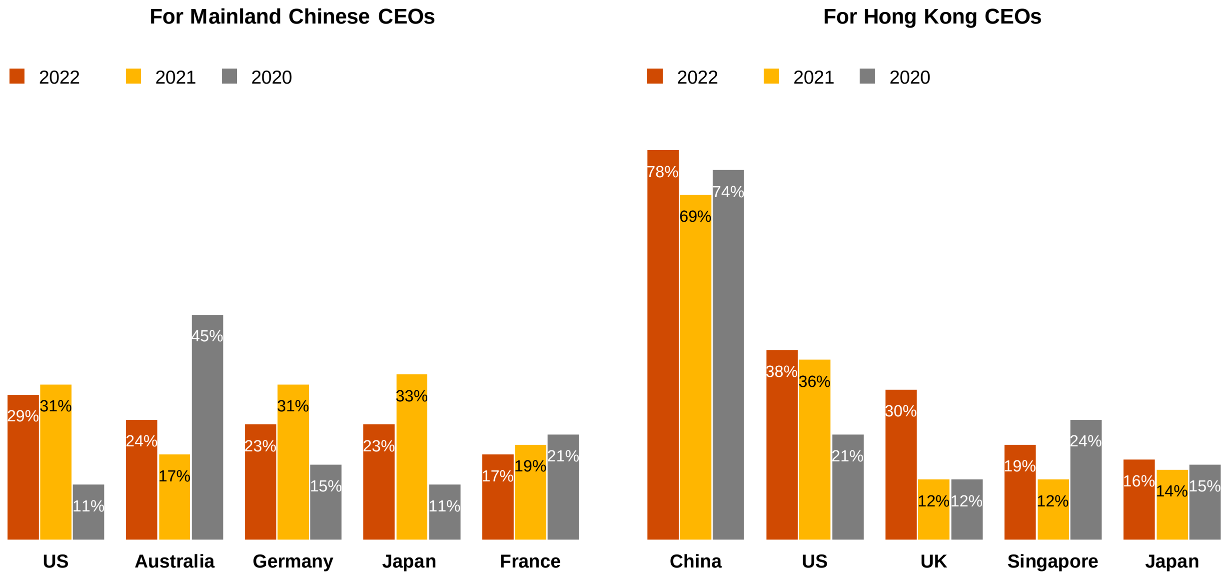
To restore domestic consumption and compensate for slowing fixed investment growth due to nationwide deleveraging, it is expected that China's Dual Circulation Strategy (DCS) will be at the top of policymakers' minds in the coming years. Businesses should be prepared to see a more level playing field, as the government focuses on sustaining economic and household income growth, promoting domestic economic clusters and continuing its common prosperity campaign.

Growth markets proliferate with reduced reliance on external economies

Figure 7

Most important external markets for growth

Which three countries/territories, excluding the country/territory in which you are based, do you consider most important for your company's prospects for revenue growth over the next 12 months?



For Mainland Chinese CEOs, their most important overseas markets for revenue growth over the next 12 months are the US (29%), Australia (24%), Germany and Japan (23%). At the business level, the survey shows a diminished reliance on external economies for growth compared to a year ago as China pursues its dual circulation strategy to stimulate domestic consumption, and businesses look inward for opportunities arising from local and regional economic clusters. Meanwhile, pandemic-induced supply chain disruption has prompted businesses to diversify their overseas market exposure and seek alternative sourcing options.

For Hong Kong CEOs, the most important markets for growth are Mainland China (78%), the US (38%) and the UK (30%). The importance of the Chinese market to Hong Kong businesses cannot be overstated. The current border closure and renewed social distancing measures have added to the challenges faced by local businesses that were already hampered by inflation and weakening demand.

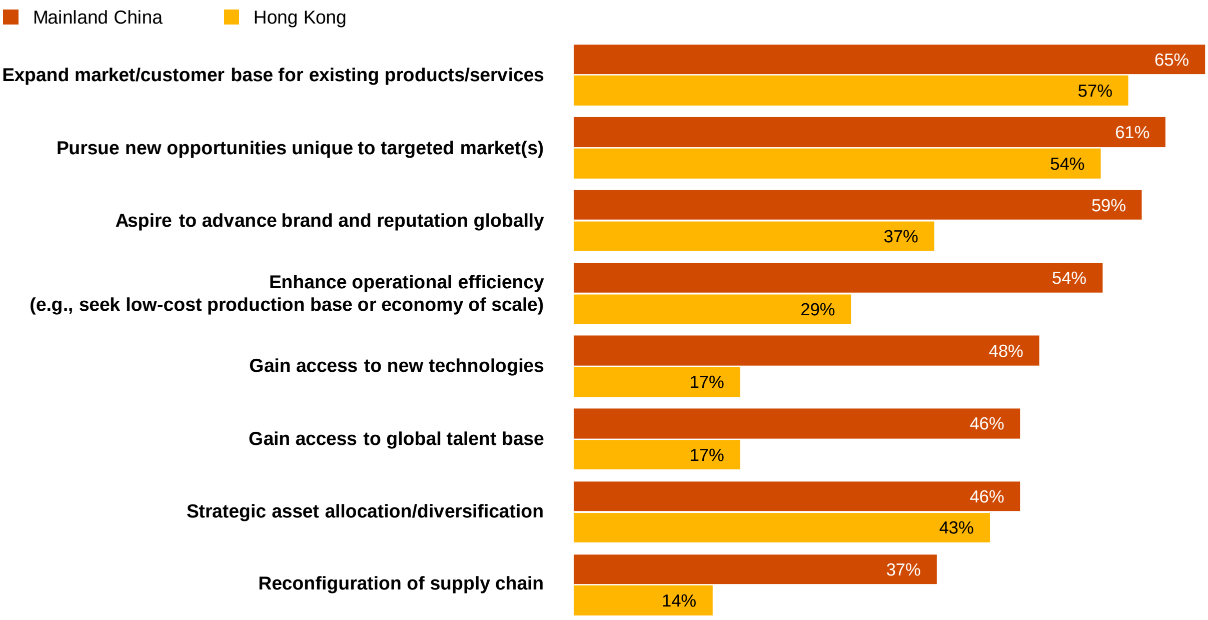
In terms of priority markets for outbound investment, Mainland Chinese CEOs are targeting Asia Pacific (66%), Belt and Road countries/regions (50%) and the EU (48%) in the next 12 months, while Hong Kong CEOs plan to invest in Asia Pacific (69%) and ASEAN (46%).

Asia Pacific will continue to be the growth engine for Chinese companies looking to expand their international footprint. In particular, the Regional Comprehensive Economic Partnership (RCEP) trade agreement marks a new chapter for regional economic cooperation and trade ties. As the world's largest free trade agreement, accounting for nearly a third of the world's population and about 30% of global GDP, it is expected to bring a degree of coherence and rules-based stability to regional trade in goods and services in the New Normal.

Figure 8

Key motivations for expanding into overseas markets

What are your key motivations to enter into or continue operations in overseas market(s)?



Key motivations for Chinese companies to operate in overseas markets include expanding the market/customer base for existing products/services (Mainland China: 65%; Hong Kong: 57%), pursuing new opportunities unique to target markets (Mainland China: 61%; Hong Kong: 54%), advancing company brand and reputation globally (Mainland China; 59%; Hong Kong: 37%), enhancing operational efficiency (Mainland China: 54%; Hong Kong: 29%) and strategic asset allocation/diversification (Mainland China: 46%; Hong Kong: 43%).

Section 3

Progressing along the sustainability curve

The ESG agenda gaining traction

ESG has been a top item on CEOs' agendas in recent years, with an increasing demand for companies to incorporate ESG considerations in their strategies and decision-making processes, and to issue ESG reports.

While ESG is still at an early stage of adoption, it has rapidly gained momentum in China. The Hong Kong Stock Exchange has required listed companies to issue ESG reports since 2016. In Mainland China, 1,147 A-share companies disclosed their ESG information by the end of 2021, a significant increase from 371 companies in 2009.[7]

Our survey indicates a weaker representation of social and environmental outcomes in corporate strategies and CEO compensation plans relative to business outcomes, but this does not mean that the ESG momentum is fading. More than half (53%) of Mainland Chinese CEOs reported linking greenhouse gas (GHG) emissions targets to their long-term corporate strategies and nearly half (46%) have such targets linked to their personal compensation packages. Chinese companies have been increasing their focus on the environmental aspect of ESG as the country pushes forward with its 2060 carbon neutrality goal.

Mainland Chinese companies lead net-zero commitments

As the UN Climate Change Conference (COP26) brought net-zero transition into the global spotlight, China has also been taking major green steps at home. In 2021 alone, China revised the standards for annual reports of listed companies to highlight environmental and social responsibility, released an action plan for peaking carbon emissions by 2030 and achieving carbon neutrality by 2060, launched its new national carbon trading scheme, and jointly published the Common Ground Taxonomy for climate change mitigation with the EU, to name a few. More recently at the Two Sessions meeting, Chinese government officials discussed proposals on accelerated carbon reductions and green transformation through new energy vehicles, recycling, and low-carbon technological innovations, to supplement the country's efforts in mitigating climate change.[8]

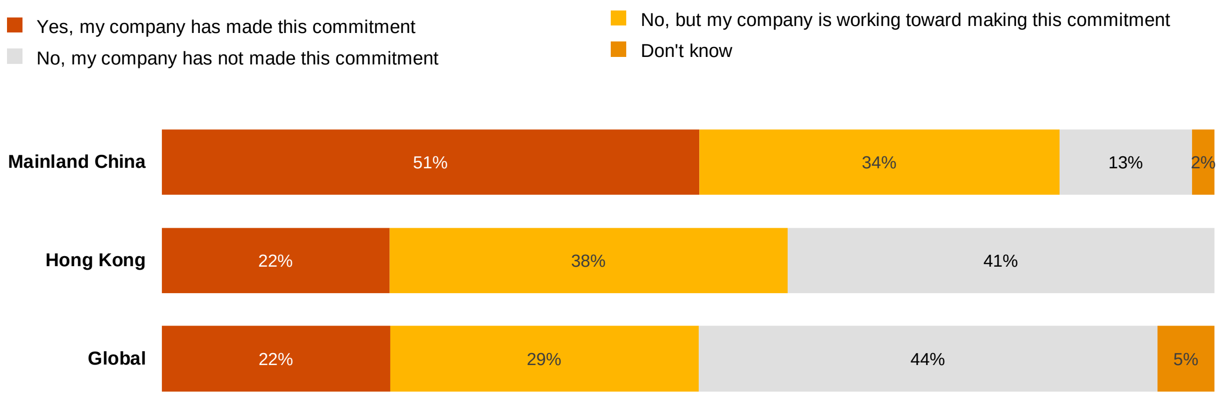
In line with the ambitious national ‘double carbon’ commitments, 85% of Mainland Chinese CEOs have either made (51%) or are working towards making (34%) net-zero commitments. In contrast, only 22% of Hong Kong CEOs have already made such commitments with 38% working towards one. Globally, only 22% have made net-zero commitments, while 29% are working towards one.

Figure 9

Net-zero commitments reported by CEOs in China and globally

Has your company made a net-zero commitment?

Companies that have made a net-zero commitment



It is clear that businesses in China cannot afford to ignore the consequences of climate change in pursuit of profit. As extreme weather events sweep the world, China has also witnessed the impact of these events at home. Most notably, record-breaking rainfalls and floods hit the Henan province in July 2021, resulting in casualties, damages and direct economic losses.[9] Extreme temperatures, forest fires and strong winds were reported across the country throughout the year.[10] According to a recent study, the public health threat caused by climate change is even more severe than the COVID-19 pandemic.[11]

Since 2019, the number of articles on climate change in Chinese media has surged from less than 800,000 to over 3.2m in 2021.[12] The awareness of ESG-related issues and risks is on the rise, as is the urgency to adopt achievable science-based targets to optimise sustainable outcomes derived from climate preservation actions.

Our data shows notable progress in China. Among Mainland Chinese CEOs who have made net-zero commitments, 93% reported the adoption of science-based targets to limit global warming to 1.5 ° C (42%) or well below 2 ° C (51%). In contrast, only 61% of global CEOs said they have done the same.

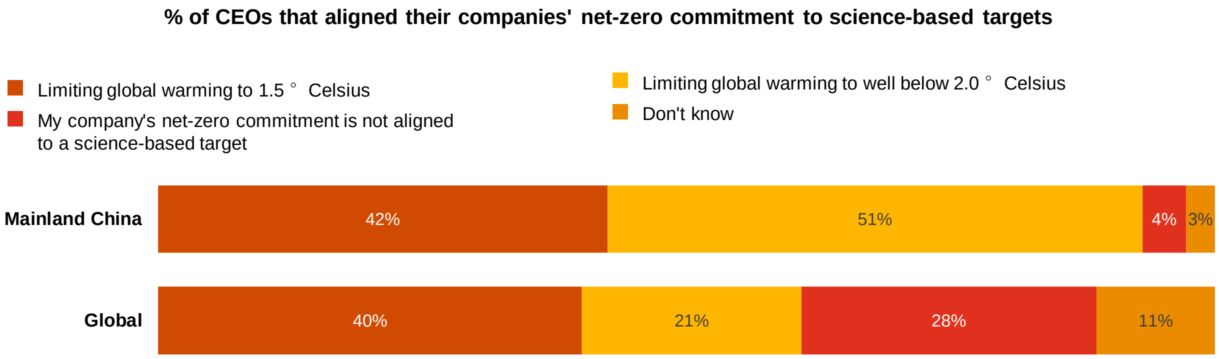
Almost all Mainland Chinese CEOs said their company's approaches to reducing GHG emissions have been or will be independently assessed and validated, either by the Science Based Targets initiative (SBTi) or local providers, way ahead of the curve when compared to their global counterparts.

Figure 10

Aligning net-zero commitments to science-based targets

Which science-based target, if any, is your company's net-zero commitment aligned to?

*Base: All respondents who have made a net-zero commitment in Figure 9.

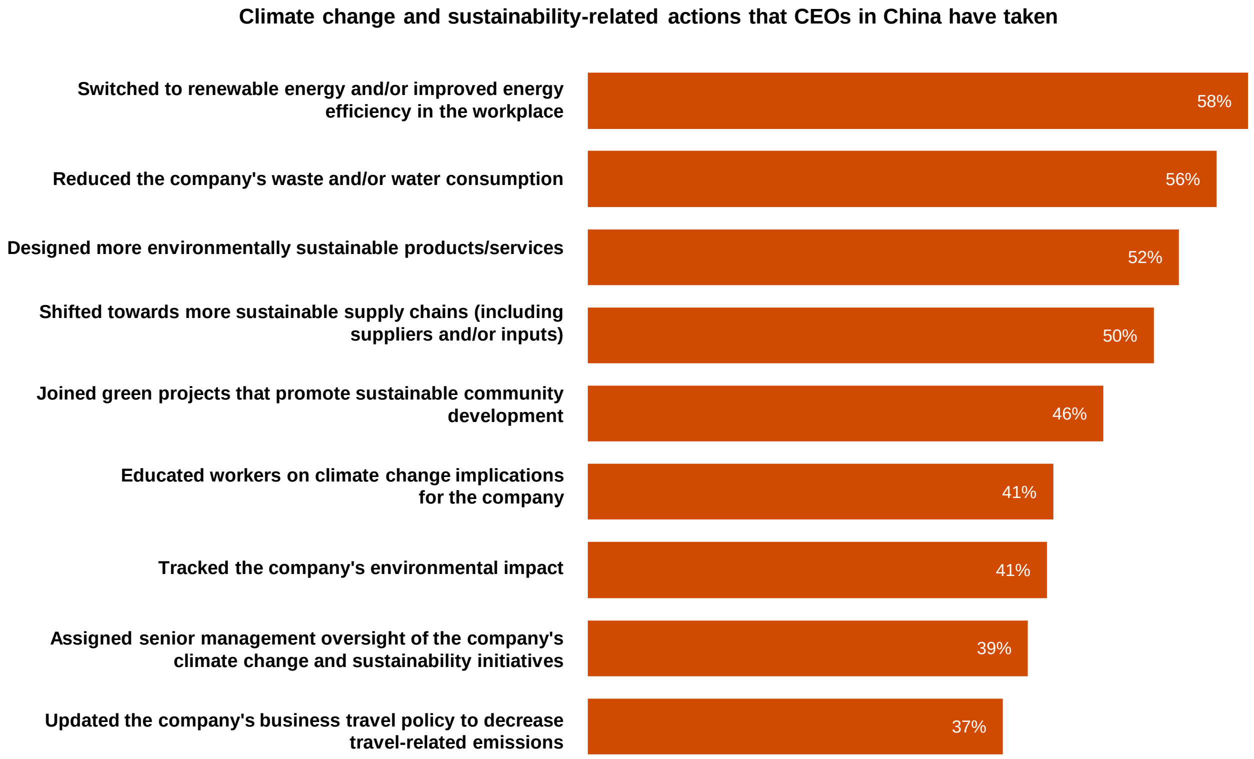


To understand what approaches have been taken, we asked Chinese CEOs about their top climate change and sustainability-related actions in their business operations. Over half (58%) of Chinese CEOs cited switching to renewable energy and improving energy efficiency as a top priority. This was followed by reducing the company's waste and water consumption (56%), and designing more sustainable products and services (52%).

Figure 11

Climate change and sustainability-related actions taken by Chinese CEOs

Which of the following climate change and sustainability-related actions has your company taken?



As encouraging as it is to see companies beginning the transition to a low-carbon economy, business leaders should be mindful of the less obvious contributors in their carbon footprints. For now, climate preservation actions are mainly focused on Scope 1 (direct) emissions and Scope 2 (indirect) emissions from the purchase of electricity, steam, heating or cooling, as opposed to Scope 3 emissions which are created through the use of their products and across the full value chain, including the contributions of suppliers and other partners, which are harder to measure and quantify.

Favourable regulatory environment conducive to ESG developments

There is also a striking difference between the motivations of Chinese and global CEOs' net-zero goals. The net-zero commitments by Mainland Chinese companies are largely driven by government regulations, with 45% of respondents citing compliance with government targets as a 'very influential' or 'extremely influential' contributing factor, followed by satisfying investor demands (44%) and driving product and service innovation (41%). Mitigating climate change risks, the leading influential factor for global CEOs (63%), was only cited as a key motivator by 37% of CEOs in Mainland China.

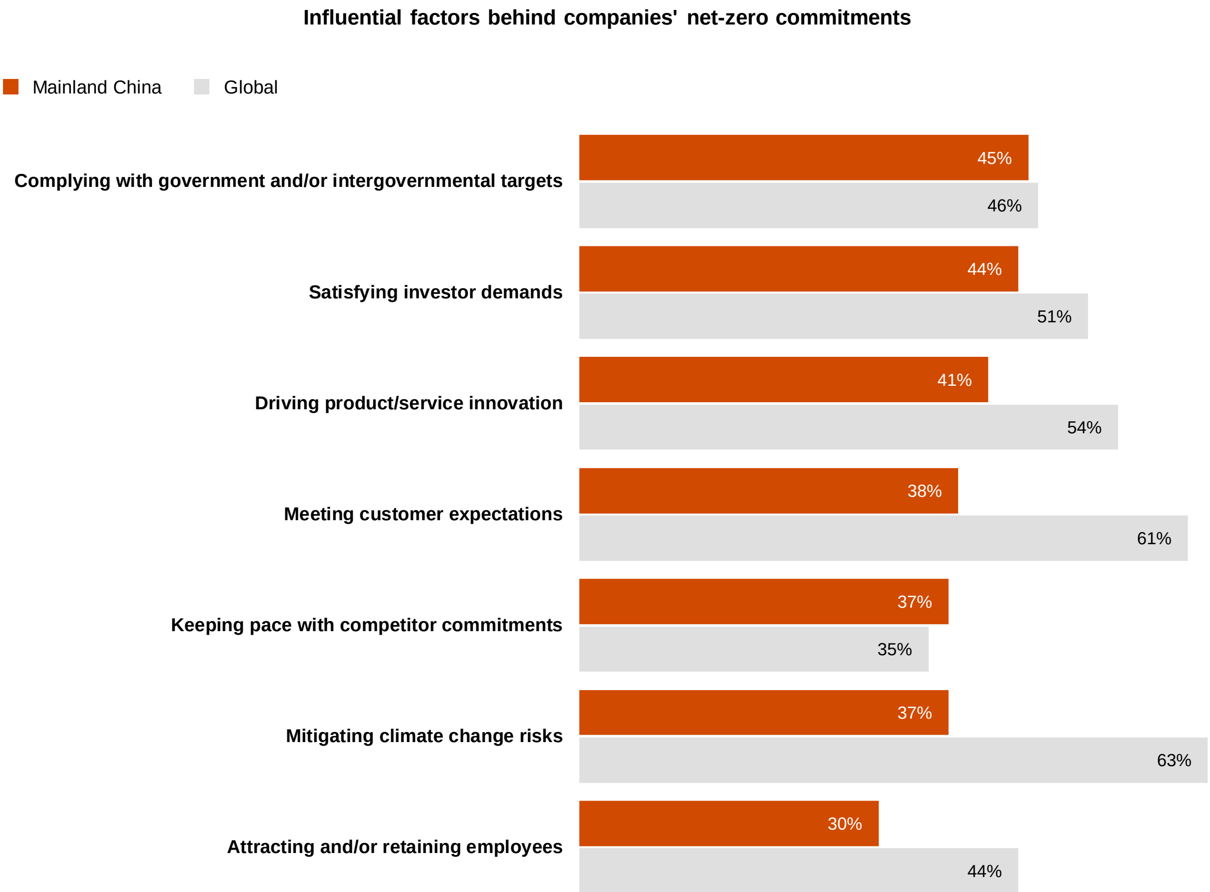
Figure 12

Influential factors behind companies' net-zero commitments

How influential are the following factors behind your company's carbon-neutral and/or net-zero commitments?

*Base: All respondents who answered 'Yes' in Figure 9.

*Very & extremely influential



A joint survey by PwC and the Hong Kong Trade Development Council on ESG investing in the Greater Bay Area (GBA) presented a similar finding.[13] In the survey, we asked business executives in the GBA about their considerations when incorporating ESG elements into their organisation's strategic decision-making process. Complying with government policies and regulations was, by far, the most important factor for consideration.

Over the past few years, China has been striving to refine its ESG-related policies and regulations, creating an increasingly robust green regulatory environment. The Shenzhen Stock Exchange, for example, issued guidance on voluntary ESG reporting in 2006.[14] Following which, the Shanghai Stock Exchange issued similar relevant guidance in 2008.[15] The China Securities Regulatory Commission (CSRC) now requires companies identified as heavy polluters by the Ministry of Ecology and Environment (MEE) to disclose their pollution information.[16] Most recently, in December 2021, the MEE released Measures for Enterprises to Disclose Environmental Information by Law to further regulate company disclosures.[17]

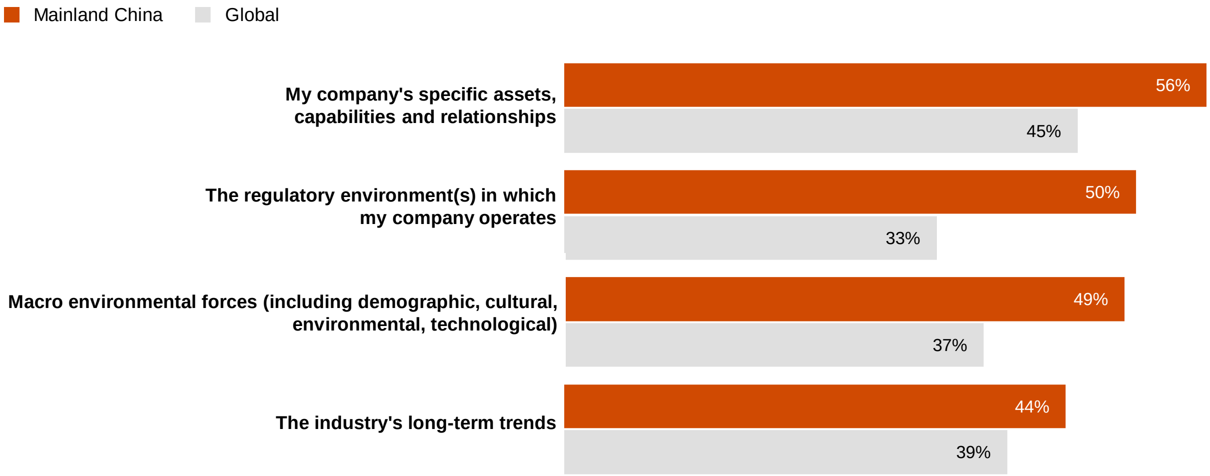
Given China's ambitious carbon neutrality goals and relevant policy measures adopted, it is not surprising that half of Mainland Chinese CEOs considered the regulatory environment favourable in achieving their GHG emissions goals, compared to 33% of global respondents. This may also partly explain the high proportion of CEOs reporting net-zero commitments in Mainland China in the first place.

Figure 13

Favourable factors for Mainland Chinese companies to reduce GHG emissions

With regard to your company's ability to reduce GHG emissions, how favourable are the following factors?

Favourable factors to companies' ability to reduce GHG emissions



Regulatory actions can swiftly move the needle for the ESG agenda. Nonetheless, companies should recognise the long-term benefits that an ESG strategy can have on their business, the environment and society, not to mention company reputation. It is time for CEOs to take proactive moves towards a greener and more sustainable future.

Session 4

Driving sustained outcomes with dynamic strategy

Zooming into organisations' strategic objectives and initiatives

Two years into the COVID-19 pandemic, new variants continue to disrupt business operations and society; the recent Delta and Omicron outbreaks put cities into lockdown and sent people back to working from home in China at the beginning of 2022.[18] In a time of uncertainty, health risks, macroeconomic volatility, geopolitical conflicts, among other threats will continue to impact companies' growth prospects in the short term. Having a robust and dynamic strategy is more critical than ever to business survival and success.

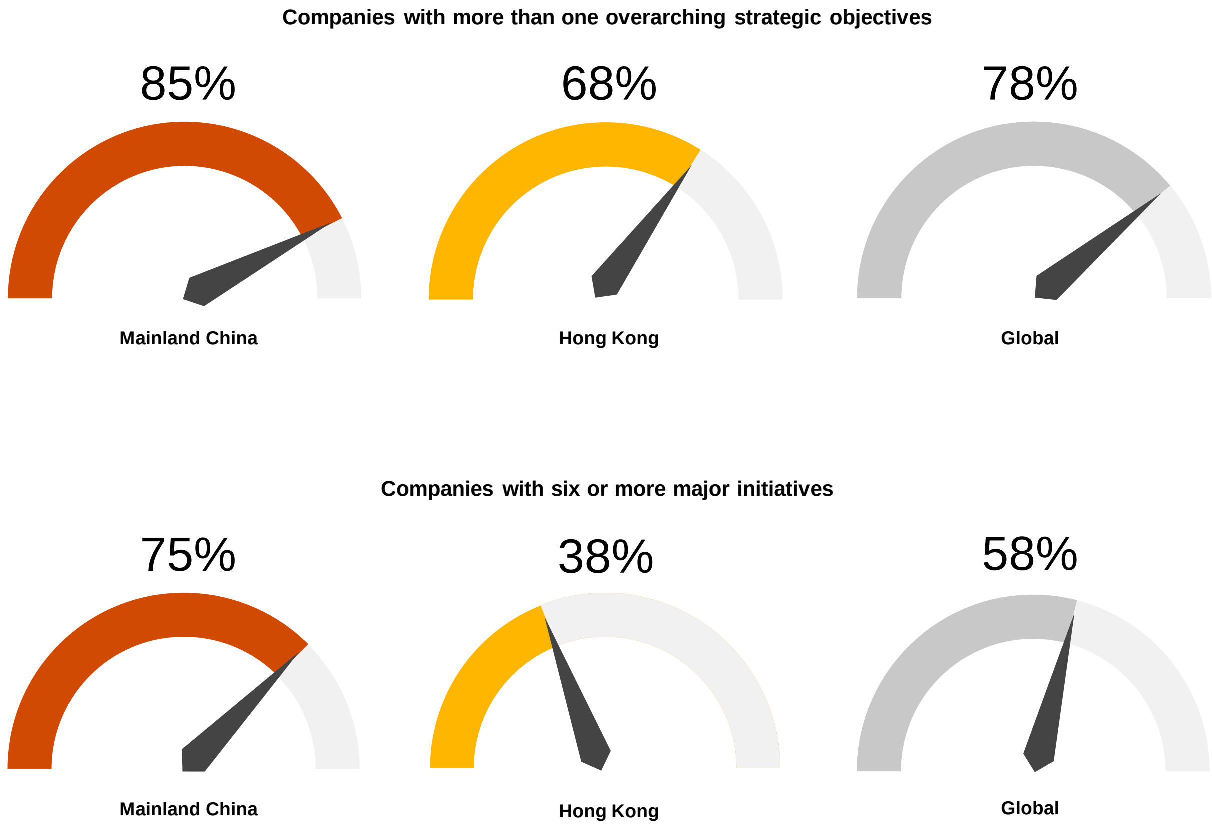
Chinese CEOs are doing so by setting diverse business objectives and initiatives. Our survey shows that 85% of Mainland Chinese companies had more than one overarching strategic objective (Global: 78%; Hong Kong: 68%) while 41% had more than three. Three quarters had six or more major initiatives in support of those strategic objectives (Global: 58%; Hong Kong: 38%) and 23% had more than 20.

Figure 14

Strategic objectives and major initiatives to support them

Typically, how many overarching strategic objectives does your company have?

Typically, how many major initiatives does your company have underway in support of those strategic objectives?

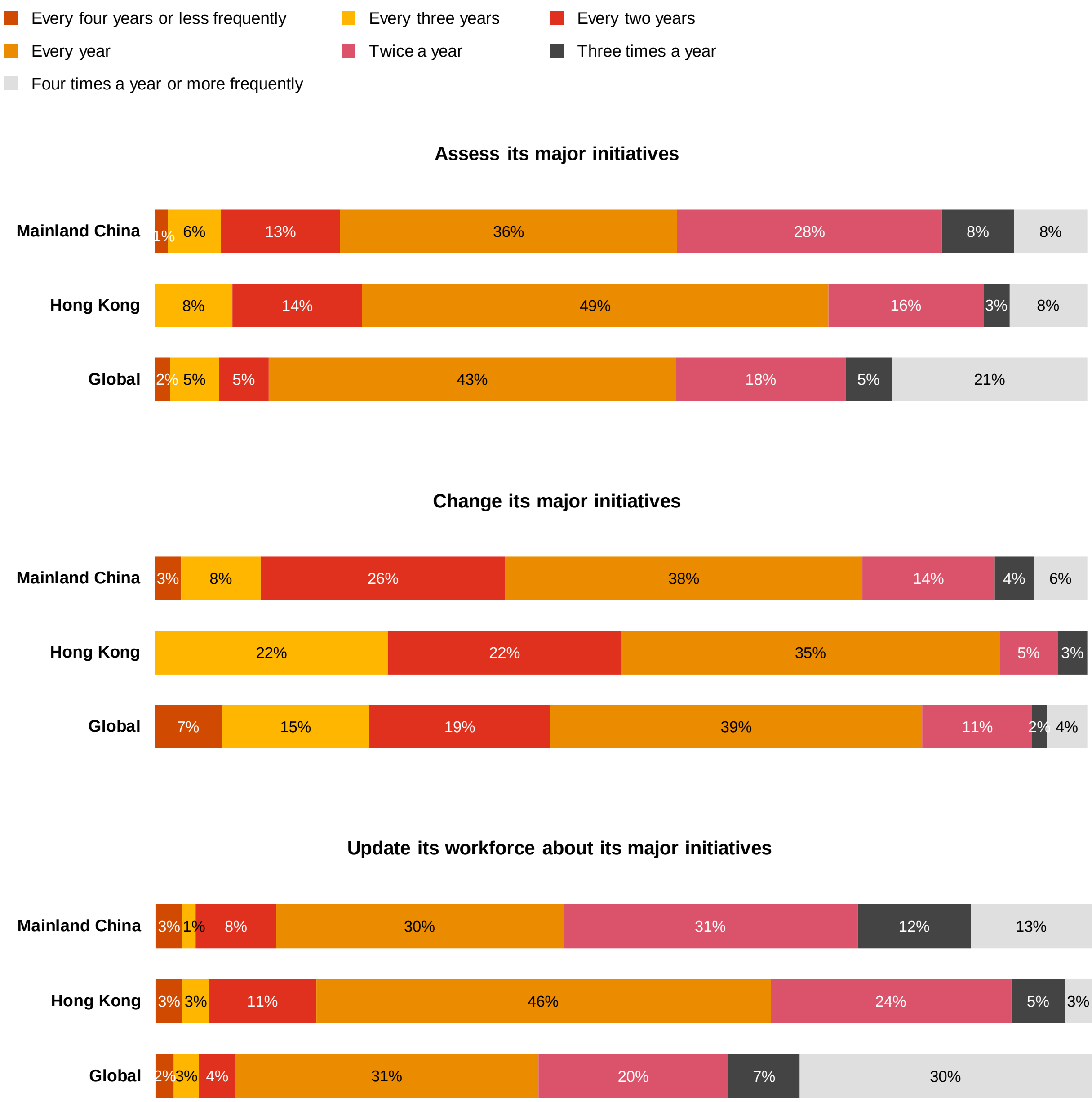


While a dynamic strategy can help companies navigate through turbulent times, too many objectives and initiatives may create communication challenges and make it difficult to keep track. Such correlation is revealed in our survey data – Mainland Chinese CEOs updated their workforce about major initiatives or assessed these initiatives less frequently. It also took them a longer time to approve or assign significant resources to new major initiatives.

Figure 15

Frequency of major initiatives

Typically, how frequently does your company…



A number of reasons could contribute to the compromised efficiency. But identifying the core strategic objectives and prioritising their supporting initiatives to a manageable number might be a good starting point for companies in China to improve business agility.

Driving sustained outcomes through non-financial metrics

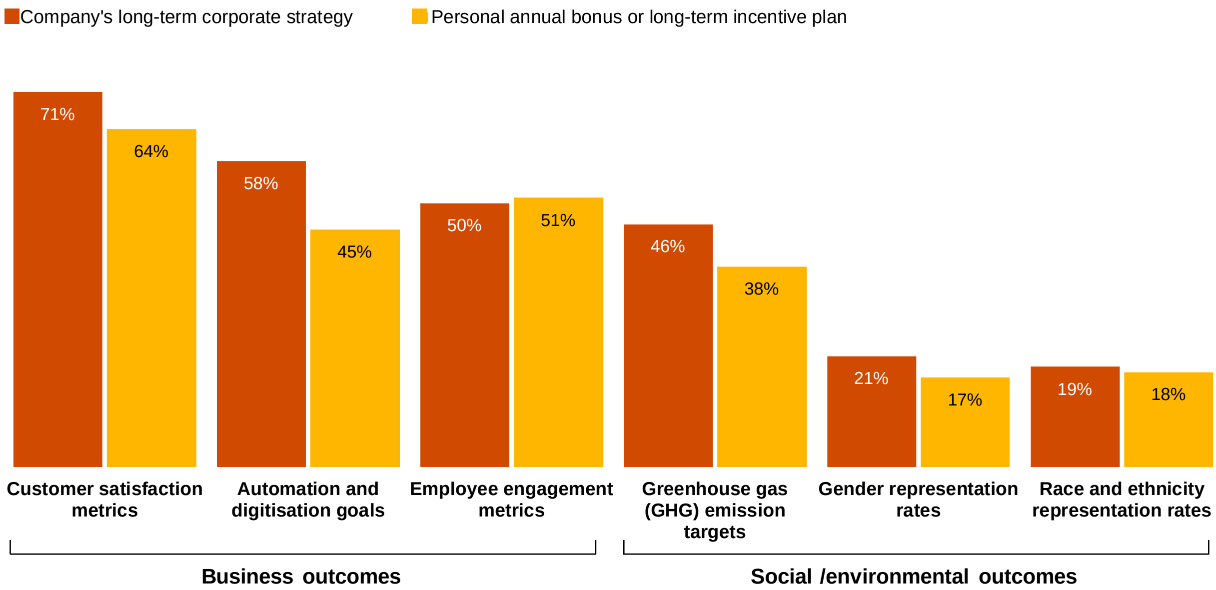
ESG-related issues such as climate change and social inequality are gaining a greater share of mind among businesses. However, despite rising interest in ESG adoption within organisations, the majority of Chinese CEOs indicated that their ESG strategy is still driven more by business outcomes or metrics than social or environmental outcomes.

Figure 16

Reflecting non-financial outcomes in corporate strategies and incentives (China)

Are the following non-financial related outcomes included in your:

a) company's long-term corporate strategy?
b) personal annual bonus or long-term incentive plan?



71% of Chinese CEOs have goals related to customer satisfaction in their long-term corporate strategy, followed by automation and digitisation (58%), and employee engagement metrics (50%). These non-financial outcomes are intertwined with day-to-day business performance. A similar (±10%) proportion of them also have these non-financial outcomes embedded in personal annual bonus or long-term incentive plan.

For 46% of Chinese CEOs, targets to reduce GHG emissions are also included in their long-term corporate strategy to align with the country's commitment to achieve carbon neutrality by 2060. Much less well-represented, in both strategies and compensation, are targets related to workforce gender representation.

Figure 17

Reflecting non-financial outcomes in corporate strategies and incentives (Mainland China vs Global)

Are the following non-financial related outcomes included in your:

a) company's long-term corporate strategy?
b) personal annual bonus or long-term incentive plan?

Company's long-term corporate strategy

	Customer satisfaction metrics	Employee engagement metrics	Automation and digitisation goals	Gender representation rates	Greenhouse gas (GHG) emission targets	Race and ethnicity representation rates
US	68%	74%	41%	53%	33%	51%
Mainland China	75%	50%	66%	22%	53%	20%
Germany	69%	41%	57%	38%	53%	7%
UK	71%	69%	45%	51%	47%	40%

Personal annual bonus or long-term incentive plan

	Customer satisfaction metrics	Employee engagement metrics	Automation and digitisation goals	Gender representation rates	Greenhouse gas (GHG) emission targets	Race and ethnicity representation rates
US	27%	27%	14%	18%	8%	18%
Mainland China	70%	54%	53%	20%	46%	21%
Germany	24%	12%	16%	9%	14%	3%
UK	31%	34%	17%	13%	19%	10%

Relative to other economies, Mainland China is well ahead with regards to incorporating automation and digitisation goals into long-term corporate strategy as the country continues to push innovation in smart manufacturing and emerging tech such as AI, blockchain and big data. It is also ahead of other countries in terms of incentivising executive performance to improve customer satisfaction metrics.

Nevertheless, we found that core business outcomes are still much better represented in Chinese companies' strategies and executive compensation plans than other non-financial outcomes. There is a long way to go for Chinese companies to address issues of gender, race, and ethnicity representation within their organisation. CEOs might also be missing opportunities to improve returns to shareholders as ESG performance is increasingly linked to corporate financial performance.[19] Many highly ranked companies on ESG indexes have also produced solid investor returns, such as Microsoft, Salesforce, and Oracle.[20]

At the same time, there is no lack of business opportunities in the ESG realm. Integration of ESG factors into investment decisions by asset managers is becoming increasingly mainstream; as of March 2021, collective assets under management (AUM) by United Nations Principles for Responsible Investment (PRI) signatories reached USD121tn.[21] The Glasgow Financial Alliance for Net Zero (GFANZ) represents over USD130tn in assets to achieve the global net-zero targets.[22] In China, the green, social and sustainable debt market expanded to RMB3.3tn in the first half of 2021.[23]

Finally, business success is more than just numbers. The impacts that companies have on society and the environment influence how we value business success today, urging companies to look beyond short-term survival and top-line growth pressures. Building ESG factors into their long-term strategies will help them build resilience and achieve sustained outcomes.

Conclusion

Conclusion

Following a strong rebound in 2021, global economic growth is expected to decelerate in 2022. While companies in China and around the world continue to recover from the lingering impacts of the COVID-19 pandemic, it is vital that CEOs build businesses that are resilient and agile with dynamic strategies to achieve sustained outcomes beyond near-term financial success.

Looking ahead, CEOs in Mainland China and Hong Kong will need to rethink their strategic roadmap for sustainable growth and consider the following key reflections and business implications:

- In light of reduced reliance on foreign markets for growth and China's stronger focus on domestic consumption and regional economic clusters, Chinese business leaders are likely to find more opportunities at home, where long-term success hinges on their ability to develop and execute domestic market strategies, and agility in responding to demand fluctuations and pandemic-induced supply chain disruptions.

- Although Chinese CEOs have shown lesser degree of concern across a spectrum of global threats, their risk perception does not necessarily account for high-impact events such as the Russo-Ukrainian crisis and surging Omicron spread. In order to navigate the rapidly changing business landscape, companies need a dynamic strategy that factors in multiple threats such as macroeconomic volatility and geopolitical tensions. The strategic objectives and their supporting initiatives should be easy to communicate and assess while enabling sufficient updates in response to global markets.

- Our study suggests that, aside from pursuing domestic opportunities, Chinese companies still have strong motivation to expand their overseas customer base for existing products and services and pursue new opportunities unique to target markets. Hence, Chinese business leaders need to pay closer attention to their global and regional strategies especially for international markets where China has stronger ties with such as Belt and Road countries and regions, and member economies of the RCEP pact. To strive for long-term business success, CEOs need to look beyond financial metrics. By tying non-financial outcomes such as GHG emission targets and gender representation rates to compensation, they can raise the priority of ESG in corporate strategies and close the say-do gap, increasing the prospects for long-term sustainable growth.

- The net-zero transition calls for companies to make climate change risk mitigation a core business priority, going beyond the mere compliance with government targets. Further action is required across the full value chain to address both upstream and downstream emissions.

- Digital transformation and digital upskilling are critical for operational resilience and post-pandemic economic recovery. Enhancing digital capacity also demands that companies continuously improve their resilience against cyber risks.

- Developing the right leadership, talent and skill mix required to solve today's multifaceted problems is a key challenge. Leaders need to build trust and engage with the full range of their companies' stakeholder groups to enhance capabilities.

The path towards a more sustainable future depends on coordinated efforts from the full range of society's stakeholders. Business leaders play a pivotal role by shouldering the responsibility of mobilising resources to create both economic value and positive social and environmental impact. Our survey suggests that Chinese CEOs are already ahead of the curve in terms of net-zero commitments. By reassessing corporate strategies and further prioritising ESG considerations, Chinese companies could lead by example in addressing the world's most pressing issues and delivering outcomes that matter.

Research methodology

PwC surveyed 4,446 CEOs in 89 countries and territories in October and November of 2021. Among them, 180 CEOs were from China with 143 from Mainland China and 37 from Hong Kong SAR. The global and regional figures in this report are weighted proportionally to country or regional nominal GDP to ensure that the CEOs' views are representative across all major regions.

In terms of the composition of firms in the sample, 39% of the executives in China surveyed represented publicly listed firms, compared to 34% in the global sample. 40% of companies in China have government involvement while globally the figure is 14%.

Firm segmentation by revenue

17% of the sample firms post annual revenue up to US$100m, 25% of the sample is constituted of firms that post annual revenue between US$101 to 999m; 28% of the sample firms post annual revenues between US$1 to 9.9bn and 24% of the sample companies have revenues of more than US$ 10bn.

Firm segmentation by size

36% of the sample firms have fewer than 999 employees, 28% of the sample firms have 1,000 to 4,999 employees; 13% of the sample firms have a company size of 5,000 to 9,999 employees and 24% of the sample companies have more than 10,000 employees.

Figure 18

Distribution of overall China sample by ownership

Is your company privately owned or publicly listed?

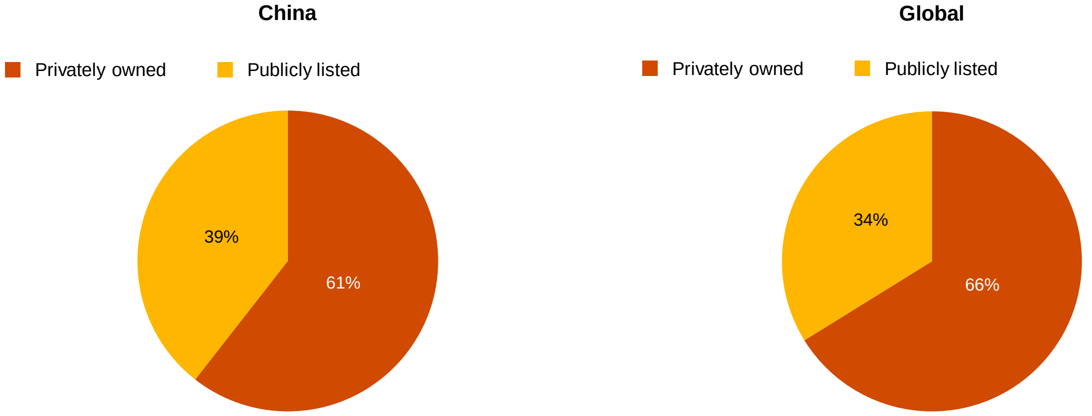


Figure 19

Distribution of overall China sample by private ownership

Is your company family-run, backed by private equity, a partnership or owner-managed?

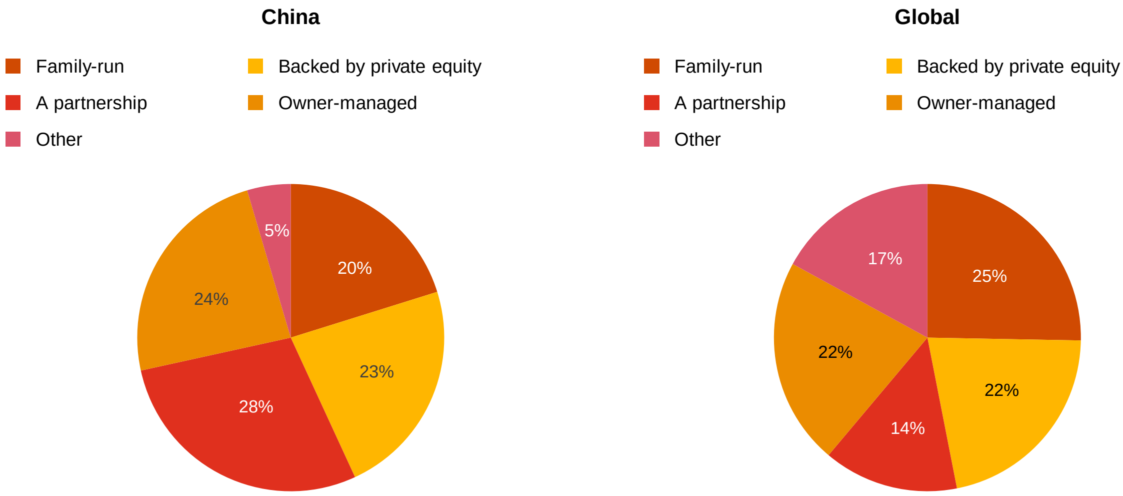


Figure 20

Distribution of overall China sample by government involvement

Does your company have any form of government ownership or backing?

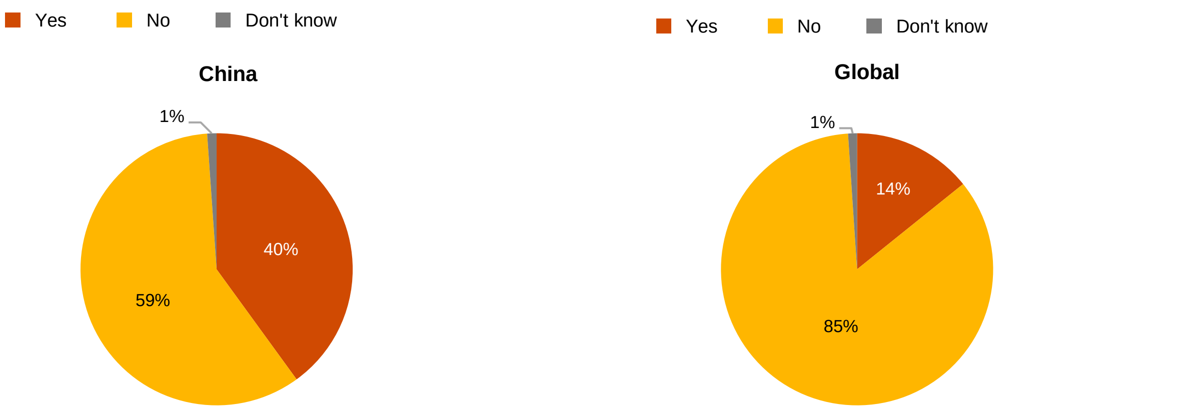


Figure 21

Distribution of overall China sample by revenue (USD)

What was your company's revenue in the last fiscal year?

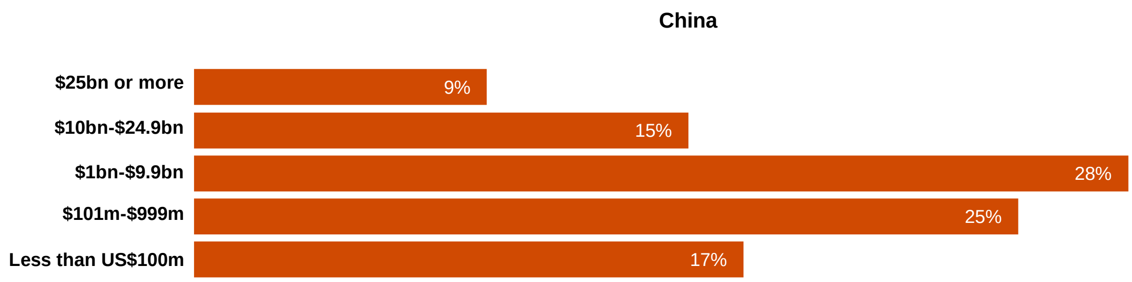
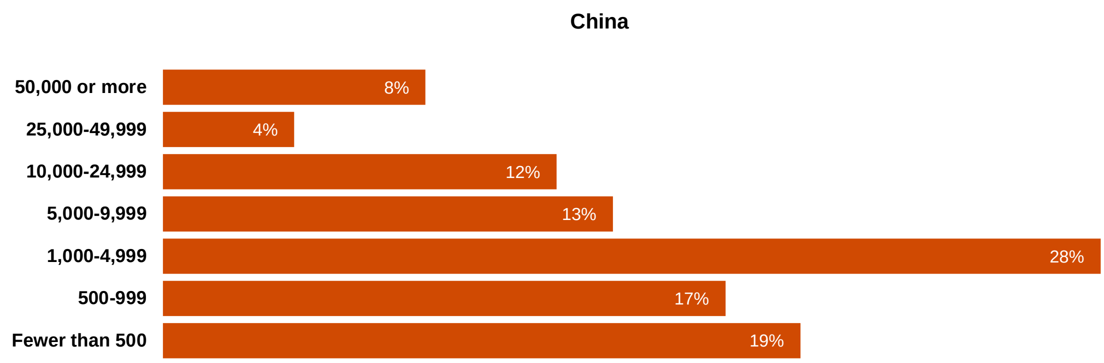


Figure 22

Distribution of overall China sample by company size

How many employees does your company have?



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