



# How can NextGens act as agents of change amid digital disruption?

PwC's Global NextGen Survey 2019  
China Report

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# Introduction

China's private sector and in particular traditional family businesses are grappling with the impact of digital disruption. Over the last decade there has been a shift away from manufacturing and toward a more consumer and service-oriented economy. In the process, technology giants and unicorn start-ups focused on leveraging emerging technologies are challenging existing business models in industries such as financial services, retail, and healthcare, to name a few. Family-run companies that are set in their ways run the risk of getting left behind if they don't keep up.

Can these companies rely on the next generation (NextGens) to act as 'agents of change' to transform their businesses to keep up with the evolving landscape? What challenges do NextGens face in championing enterprise transformation, and how can these be overcome? PwC's Global NextGen Survey 2019 China Report seeks to address these questions. The report draws on the findings of the Global NextGen Survey 2019 which was conducted between June and September and surveyed more than 950 NextGens from 69 territories globally across five continents and 11 industries. The China report focuses on the perspectives of 73 NextGen respondents in China. For the purposes of this report, 'China' refers to the People's Republic of China, including Hong Kong survey respondents.



## Section 1

# NextGens plan to take on leadership positions but feel they lack internal support

NextGens in China have a genuine and conscious interest in the family business as future owners or managers. According to our 2019 China survey findings, 56% are actively engaged in their family business today (a smaller proportion than the global average of 70%), and a further 25% expect to be in the future (Global: 13%).

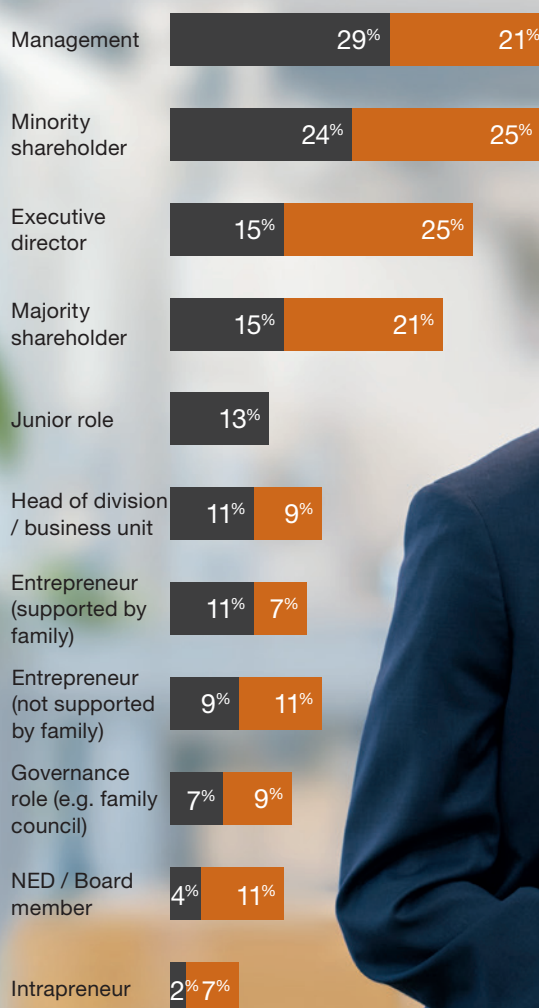
In terms of the roles they are undertaking, currently 29% of NextGens in China are in managerial positions (Global: 39%) and 24% are minority shareholders (Global: 28%). Only 15% are executive directors today (Global: 26%) and by 2025 this proportion will increase to 25% (Global: 41%). Another 15% are majority shareholders today (Global: 14%) and 21% expect to be in this position by 2025 (Global: 29%).

A lower percentage of NextGens in China are engaged in the family business today relative to their global peers, and a higher percentage plan to get involved in the future. Fewer NextGens in China are currently in management positions (compared to the global average). By 2025, NextGens in China expect to move into senior positions, however the proportions that expect to be majority shareholders or executive directors still trail behind the global figures.



**Figure 1: What role do you have in your family business?**

Today 2025



While NextGens in China expect to advance professionally over the next five years, 33% still feel they need to prove themselves before they can put forward ideas for change (Global: 21%). Only 18% of NextGens in China compared to 36% globally, are treated as a sounding board. Perhaps this gap is related to the fact that family businesses in mainland China in particular are relatively ‘young’ compared to their global peers and have only been in existence over the past thirty to forty years (re-emerging after the country’s economic reforms in the early 1980s).<sup>1</sup> Therefore the founders are still at the helm of their companies and are as yet reluctant to relinquish control to their heirs. This aligns with the findings from the China report of PwC’s Global Family Business Survey 2018 which found that only 21% of mainland Chinese respondents had a succession plan in place (compared to 49% globally).<sup>2</sup>

1. The evolution of family business in China: An institutional perspective, January 2014, [https://www.researchgate.net/publication/264814661\\_The\\_evolution\\_of\\_family\\_business\\_in\\_China\\_An\\_institutional\\_perspective](https://www.researchgate.net/publication/264814661_The_evolution_of_family_business_in_China_An_institutional_perspective)

2. Global Family Business Survey 2018 - China Report, November 2018, <https://www.pwccn.com/en/entrepreneurial-and-private-business/2018-family-business-survey.pdf>



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“The current generation can listen to ideas suggested from the next generation and provide them with more opportunities to perform and learn.”

— Third generation, China

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“Leaders can give the next generation more decision-making power and more trust.”

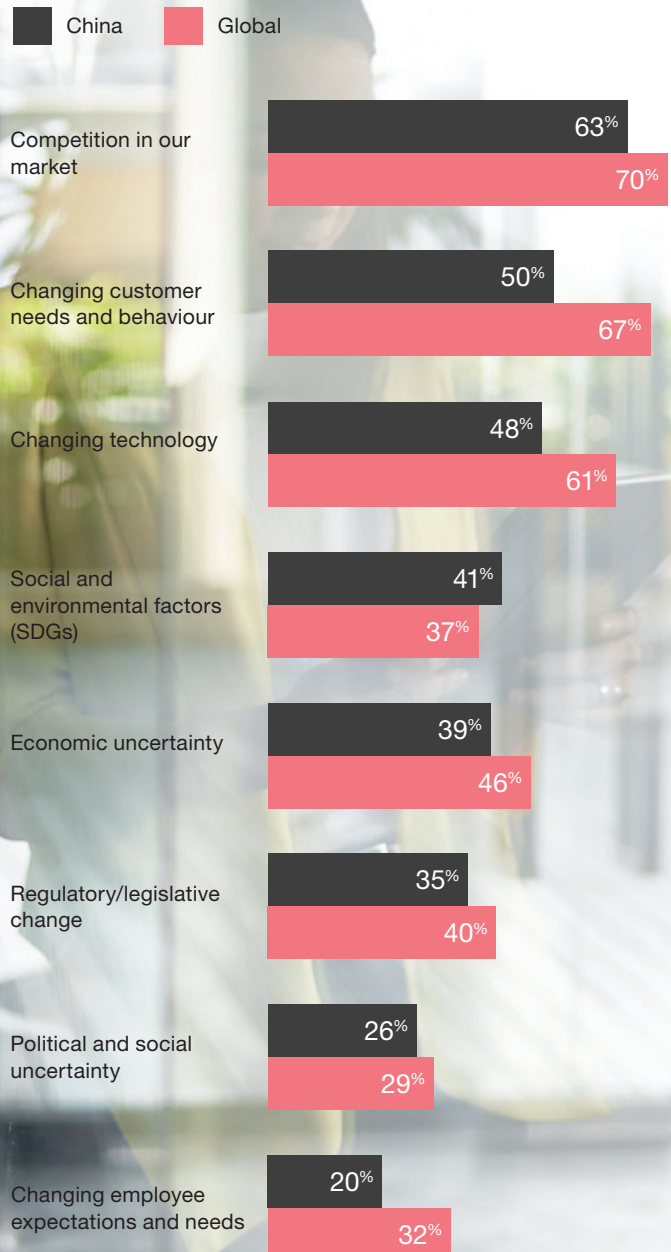
— Second generation, China



## Market competition, customer needs and technology are driving change

It goes without saying that family businesses in China are facing multiple disruptive threats to their future particularly as a consequence of digital transformation and related factors. According to the survey, these top three drivers of change include market competition (63%; Global: 70%), changing customer needs (50%; Global: 67%) and changing technology (48%; Global: 61%).

Figure 2: What are the drivers of change for your family business?



**91%** feel upskilling staff should be a key business priority

Against this backdrop, the key business priorities that NextGens in China believe their family businesses should be focussing on largely revolve around upskilling staff (91%; Global: 89%), professionalising and modernising management practices (90%; Global: 90%) and product and service diversification (85%; Global: 84%), such results are generally comparable with the global survey findings. Having a business strategy that is fit for the digital age also ranks high in the list of key business priorities (83%; Global: 90%).

Figure 3: What priorities do you think the business should be focussing on?

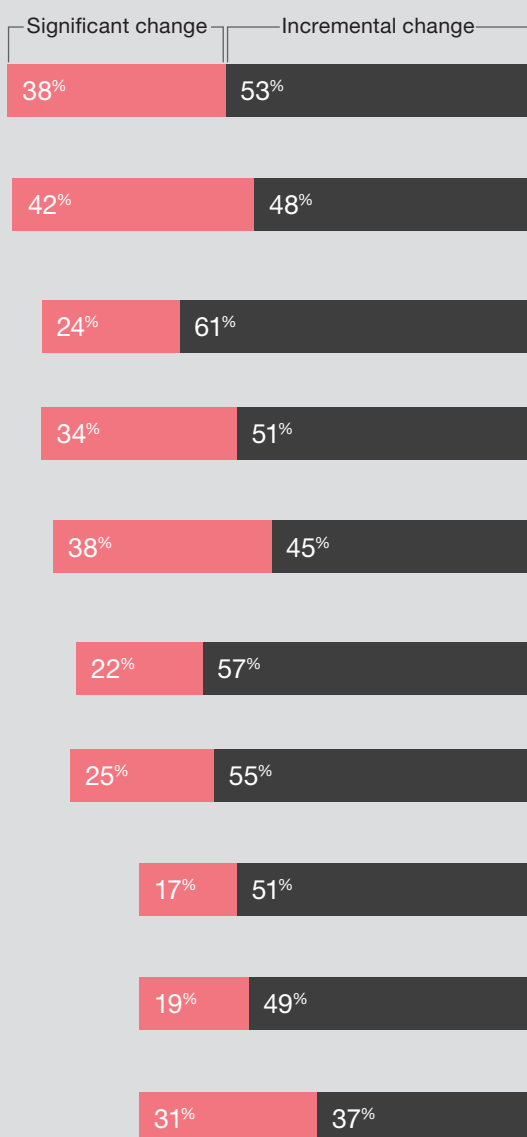
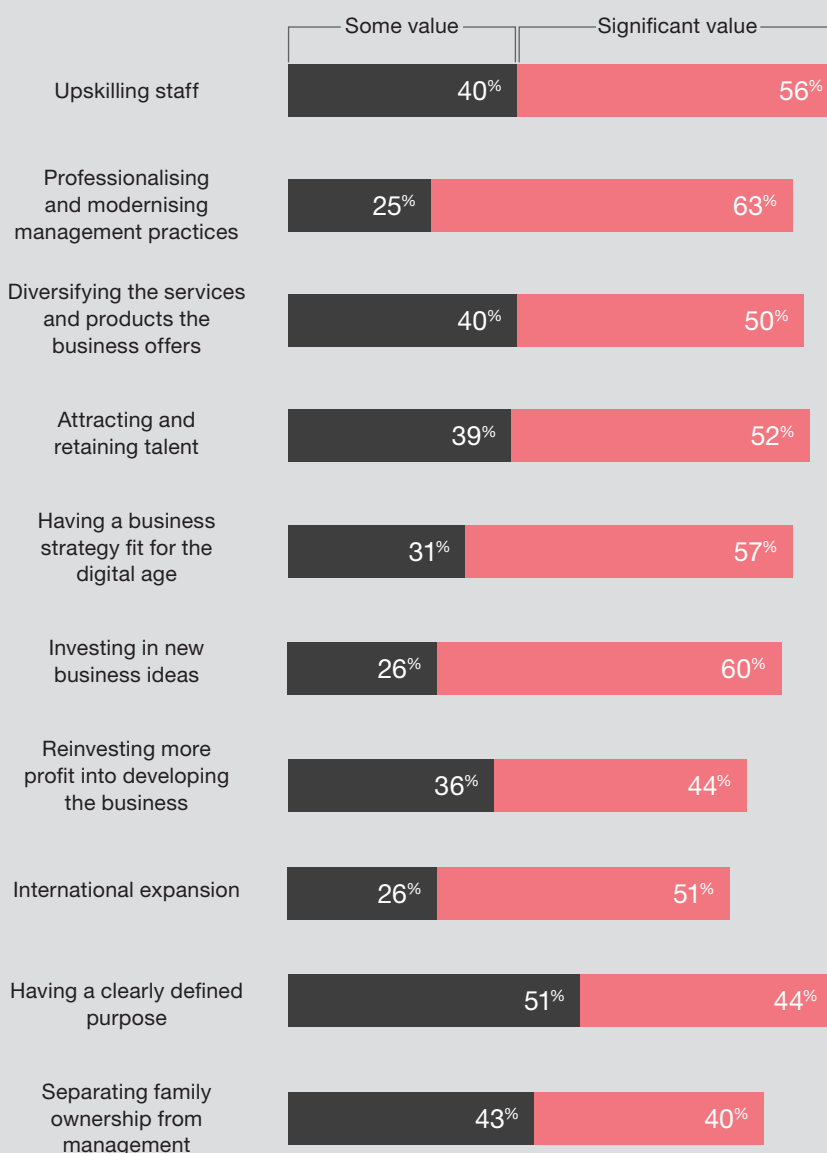


Figure 4: Where do you think that you can personally add the most value to realising the family business' goals?



“It is important to update work flows and procedures to adapt to the modern technological age.”

— First generation, China



These priorities directly relate to the drivers of change that NextGens' family businesses are tackling. In the face of technology and digital disruptions, it is important for Chinese family businesses to focus their efforts on upgrading their talent to ensure their workforce is agile enough to react to external market forces. For example, in order to tackle competition from technology giants as well as disruptions from unicorn start-ups, family businesses can upskill their own workforce, recruit the relevant talent or even collaborate with start-ups/unicorns, in order to promote and drive innovation, leveraging and capitalising on emerging technologies. In fact, NextGens in China were asked which emerging technologies in particular would be relevant for their family business in the future. The key technologies they cited include Internet of Things (IoT) (78%), AI (74%) and robotics (48%) which exceed the global figures of 71%, 63% and 47% respectively.

Professionalising and modernising management practices are also at the top of the agenda for family businesses both in China and globally. As they grow, it is important for family businesses to develop formal policies and procedures to conduct their businesses, establish appropriate governance and internal controls, so as to manage risks and drive operating efficiencies, sustaining their long-term profitable growth. In fact, some family firms may even choose to hire outside professionals to run the business while they focus on ownership and overseeing the governance structure. Research suggests that professionally managed firms are more likely to have higher levels of productivity, faster growth rates and are more likely to survive in the long run.<sup>3</sup> Business owners in China may also have to look externally to professionalise due to the low participation rate of family members in the business in the first place.<sup>4</sup>

NextGens in China are well-equipped to tackle the aforementioned drivers and become agents of change: they are generally tech-enabled, have a strong customer focus and are solution-oriented. As shown in Figure 5, there is close alignment between business priorities and where NextGens think they can add most value, particularly in the areas of professionalising management, having a digital strategy, upskilling staff, and attracting and retaining talent.

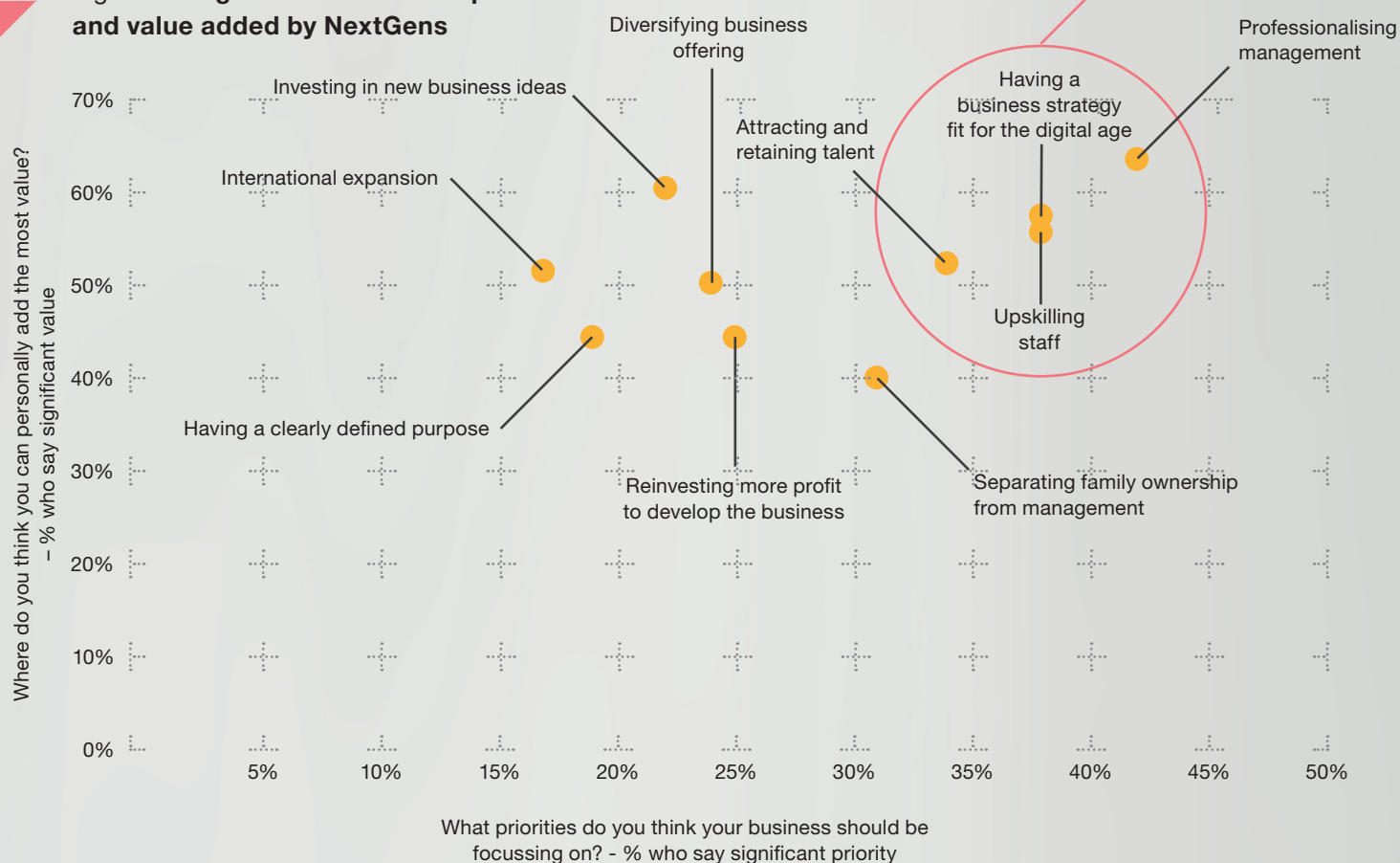
However, a key area of strength for NextGens that is not being realised to its full potential is in providing a sense of purpose by ensuring the business is not just about making profits. 95% feel they can add value in this area (which exceeds the global average of 87%) whilst only 68% of NextGens in China feel that pursuing social responsibility is a priority for their family business (Global: 68%).<sup>5</sup>

3. Professionalisation of Family Business: Managing Process and Governance Challenges, December 2017, <https://isbinsight.isb.edu/professionalisation-of-family-business-managing-process-and-governance-challenges/>
4. This aligns with the findings of the China report of PwC's Global Family Business Survey 2018 which found that fewer mainland Chinese businesses reported having next generation family members on their leadership team, board of directors or senior management compared to the global averages.
5. NextGens may have the impression that financial viability is more of a priority for their family businesses than social responsibility given the fact that China's economic growth has been slowing in past years.





**Figure 5: Alignment of business priorities and value added by NextGens**



“The current generation  
can move from family  
management to  
professional management.”

— Second generation, China



# NextGens view their level of experience as a key barrier to making business impact

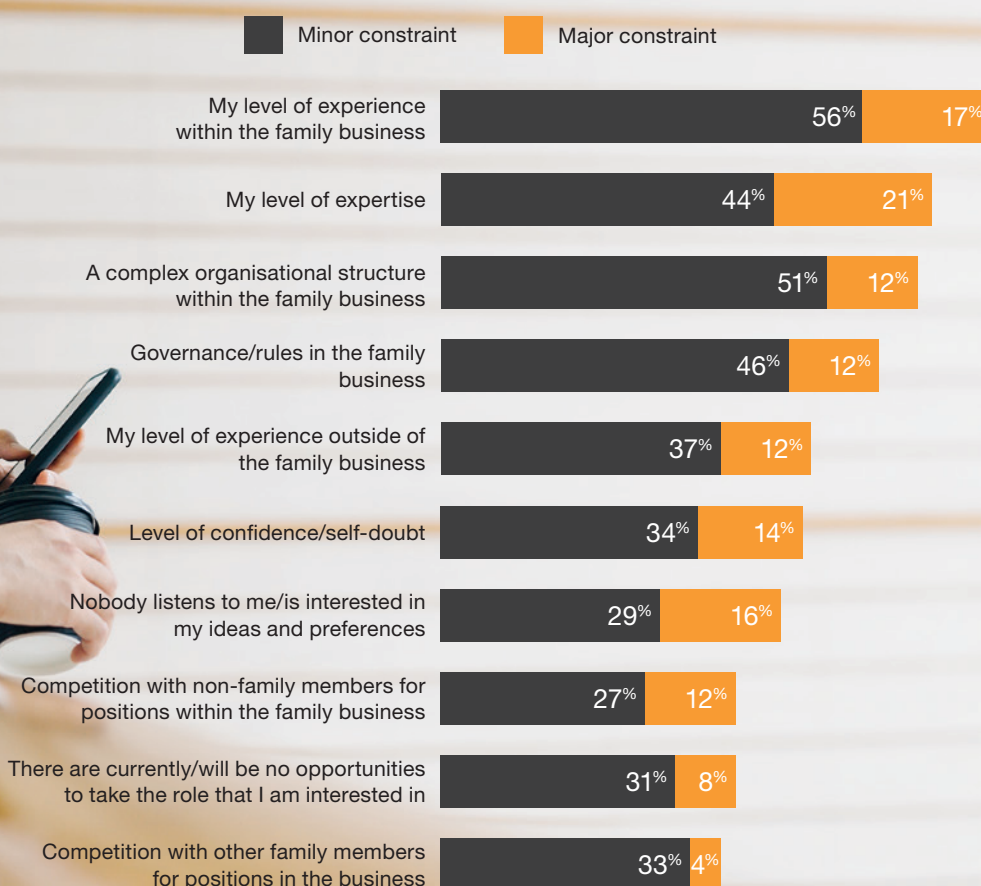
Although NextGens in China are well-placed to harness the tools to support business transformation through organisational culture, structure, and technology solutions, they still face barriers in their efforts to make an impact.

The challenges faced by NextGens are typically around communications and cultural differences between generations, legacy restrictions and self-doubt or psychosocial factors. Expectation misalignment between different generations also means that NextGens need to show where they can add value to the business and they need to have more confidence in what they can offer. As mentioned in the previous section, NextGens in China feel they can add value in the areas of digitisation, professionalisation, talent management and social responsibility.

According to our 2019 survey findings below, the barriers that prevent NextGens from having the impact they would like to have on the business today, include their level of experience within the family business and their level of expertise as highlighted by 73% (Global: 59%) and 65% (Global: 64%) of NextGens in China respectively. The complex organisational structure within the family business was also a barrier for 63% of NextGens (Global: 44%).

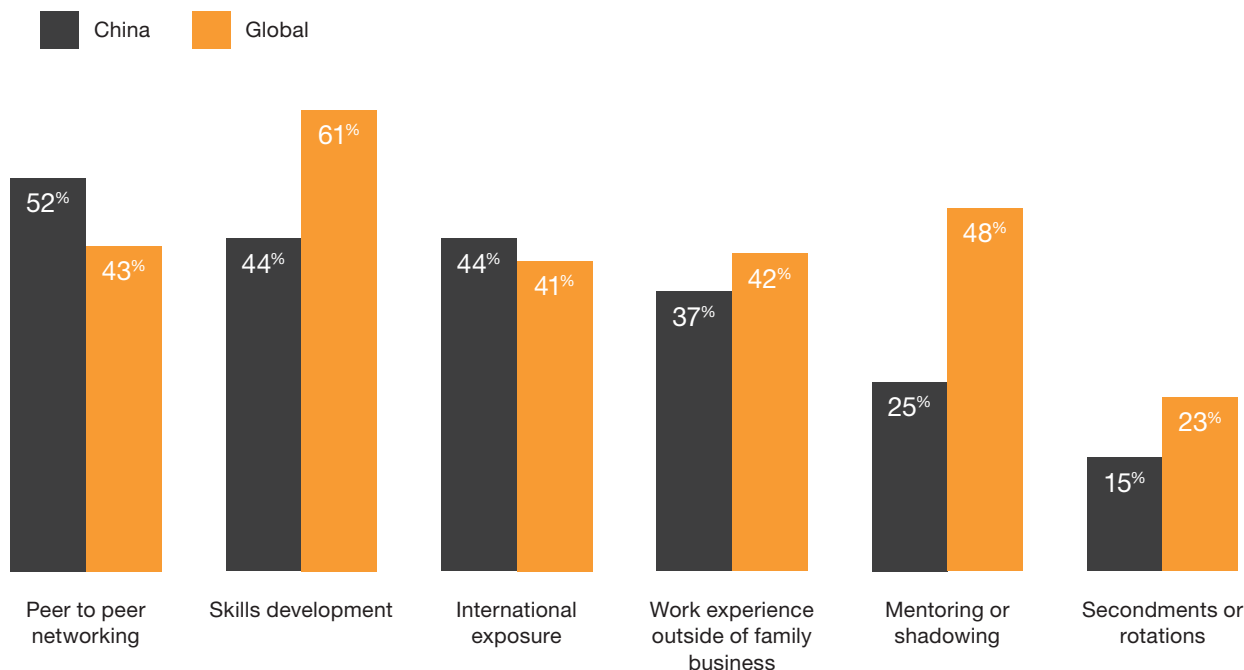


**Figure 6: To what extent do the following potential constraints prevent you from having the impact that you would like within the business today?**





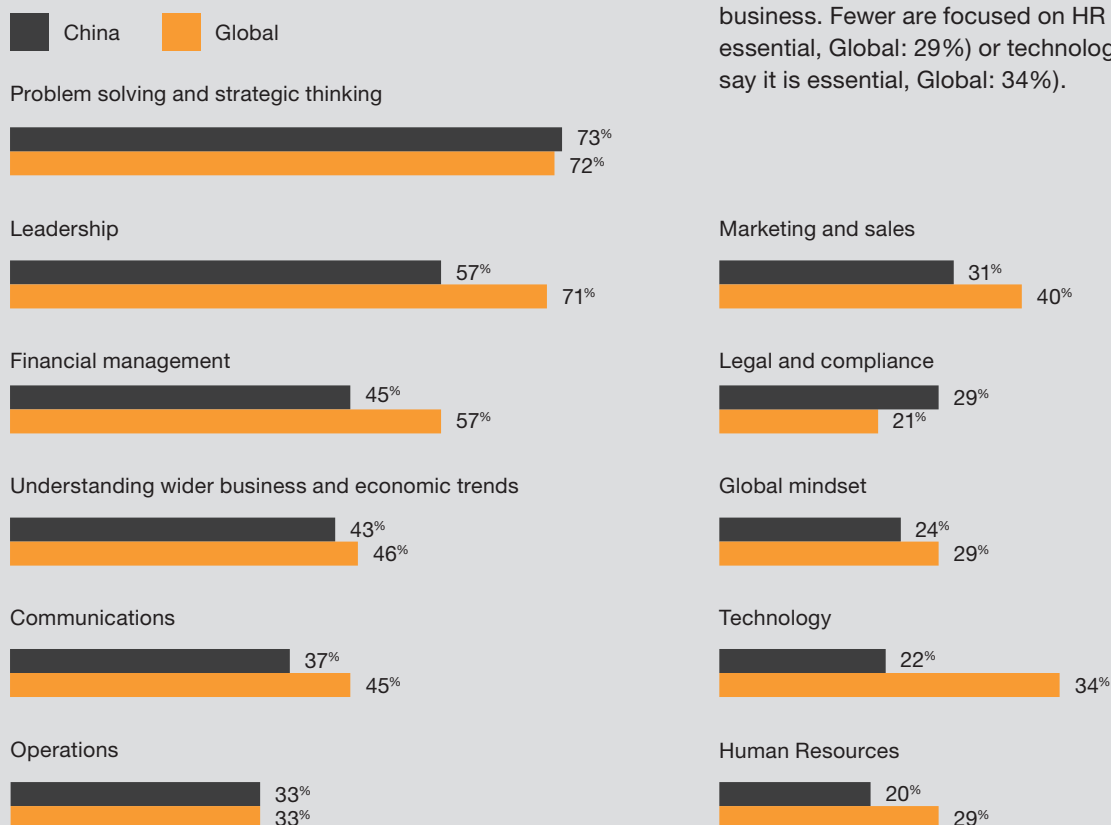
**Figure 7: What would help you add more value to the family business?**



When asked what would help NextGens in China to add more value to the family business, peer to peer networking (52%; Global: 43%), skills development (44%; Global: 61%) and international exposure (44%; Global: 41%) were the most popular solutions chosen by the respondents.



**Figure 8: How important are the following skills for the role that you want within the business?**



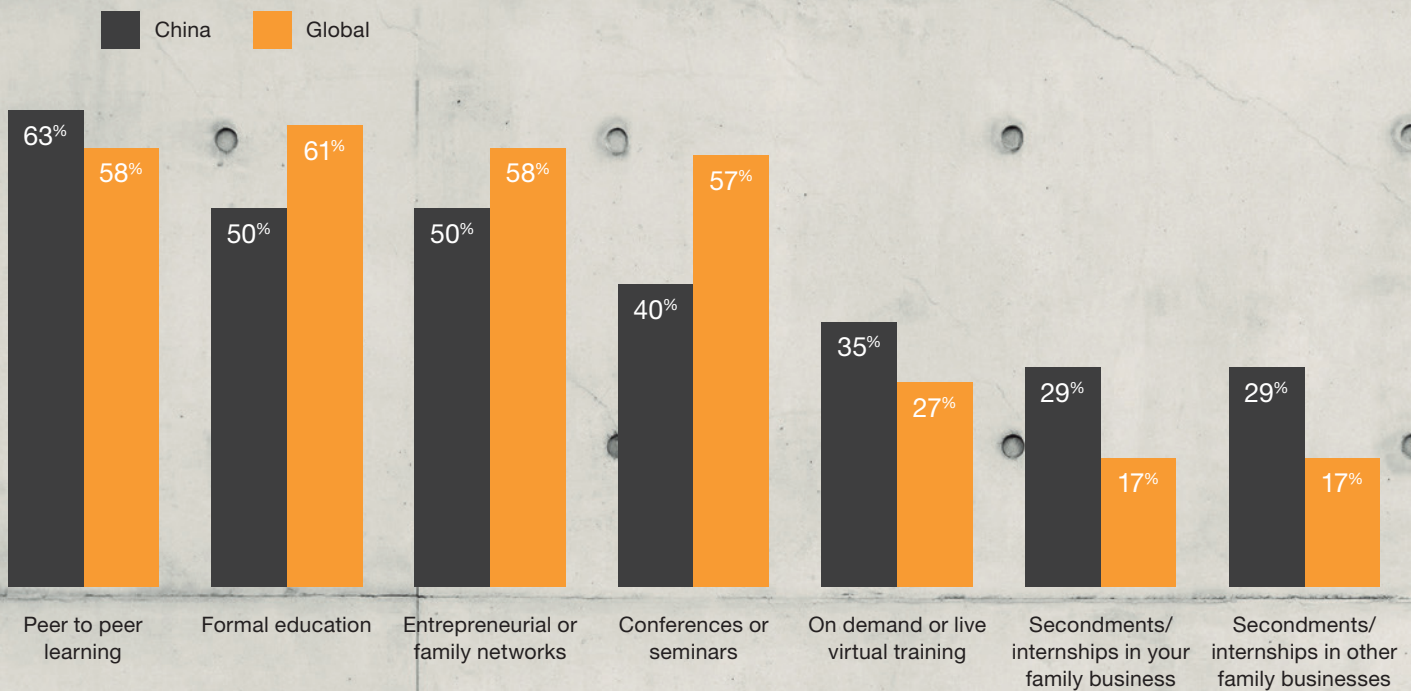
In order to succeed, NextGens need to align their skills development with future needs of the business. Most NextGens in China say problem solving and strategic thinking (73%; Global: 72%) as well as leadership skills (57%; Global: 71%) are essential for the future role they want to play in the business. Fewer are focused on HR (20% say it is essential, Global: 29%) or technology skills (22% say it is essential, Global: 34%).




The majority of NextGens in China are developing their skills and competencies via peer to peer learning (63%; Global: 58%). Aside from this they are using traditional methods such as through college and university (50%; Global: 61%) or are using entrepreneurial or family networks (50%; Global: 58%).



**Figure 9: How are you acquiring these skills and competencies?**








“Current business leaders should teach or mentor the next generation and set up an apprenticeship system in developing essential tangible and intangible skills”

— Second generation, China

When we conducted our survey, NextGens were also asked to identify how current leaders of the family business can best support them. The answers centred on building trust, providing mentoring opportunities (particularly to develop technical and leadership skills), as well as offering on the job training and rotations in different departments.

Additionally they were asked to recommend one change to the current generation that would have a positive impact on their own personal development. Common replies focussed on innovation and investment in R&D, business diversification, embracing technology as well as addressing the organisational culture and talent issue through the promotion of ethics and performance measurement, professionalising management and improving talent utilisation and retention.



“This generation can actively give us opportunities to learn by doing and give guidance and encouragement at the right time.”

— Second generation, China



# Business implications of the findings

The implications of the survey findings give rise to the following recommendations for NextGens in China to help their family businesses navigate digital disruption and for the current generation to support them in their aspirations.

### Recommendations for NextGens:

#### Be confident and act as agents of change

Given the rapid development and increased applications of 5G and emerging technologies (including IoT, AI and robotics) in today's businesses, NextGens should focus on leveraging these areas with confidence. They should devote energy and resources to enhancing their digital proficiency and ability to innovate in order to transform the existing family firm or to set up new ventures with or without family support.



#### Continuously reskill and upskill

Gaining the necessary skills to succeed in the business will enable NextGens to enhance their credibility. Tapping into resources such as an international education, external work experience and robust entrepreneurial or family networks are invaluable in this regard. Once the skills are obtained, NextGens should also have the self-assurance to demonstrate the value they can bring to the job at hand.



#### Network and learn from your peers

By connecting and learning from their peers globally, NextGens can bring a wealth of knowledge to bear in terms of the best practices currently in use by other family businesses. They can use case studies from their peers to evaluate what works and what doesn't and may even collaborate with them in the future. The relationships and network they build will strengthen over time and help to put them ahead of the game.<sup>6</sup>



#### Seek out support from the current generation

As they progress in their careers, NextGens should actively seek constructive feedback from the current generation to review and track their own progress. By understanding how the business leaders got to where they are today and how they plan to grow their business in the future, NextGens can help them to realise these goals.



6. PwC's NextGen Club is one such avenue that connects more than 2,500 NextGen members from 26 different countries and regions. The club connects NextGens aged between 25 and 40.





## Recommendations for current generation:

### Trust NextGens and give them freedom

NextGens are agile, well-educated digital natives that can drive innovation and out-of-the-box thinking. It is critical to provide them with opportunities to thrive within the business or enable them to set up their own ventures. By giving NextGens the freedom and support to grow, the current generation can nurture future business leaders. As one second generation NextGen puts it: 'Offer a large enough platform, rich resources, more flexibility, and experience of both success and failure.'



### Provide mentoring and on-the-job training

While NextGens can gain necessary expertise in a classroom or from an external professional role, nothing can compare to the invaluable skills gained by on-the-job training in the family business itself. Current leaders should encourage NextGens to rotate across different departments and should actively mentor them over the long term to prepare them for the leadership positions they will inherit.



### Empower the NextGens to drive innovation and business transformations

Current leaders can inspire NextGens to innovate and upgrade their digital skills to keep pace with the growing applications of 5G and emerging technologies in the private sector. In doing so NextGens will be able to act as agents of change in enabling the family business to transform, or in setting up a business of their own.



### Communicate effectively to drive change

The current generation should build a culture of openness and transparency to encourage two-way dialogue with NextGens. By effectively communicating with NextGens on the firm's strategy, the achievements and setbacks the business is currently experiencing, and how they think the NextGens themselves can add value, current leaders can ensure they will hit the ground running.



# Research methodology

The sample composition is represented by the following charts in terms of the respondents' role, the annual global revenue of their family business and the industry breakdown.

Figure 10: **Distribution of China sample by generation**

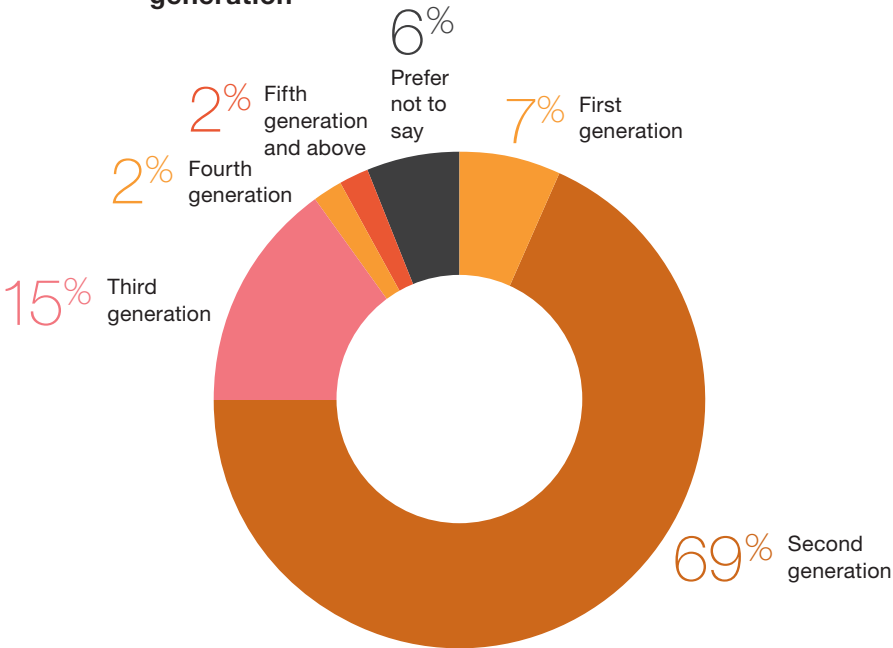


Figure 11: **Distribution of China sample by age group**

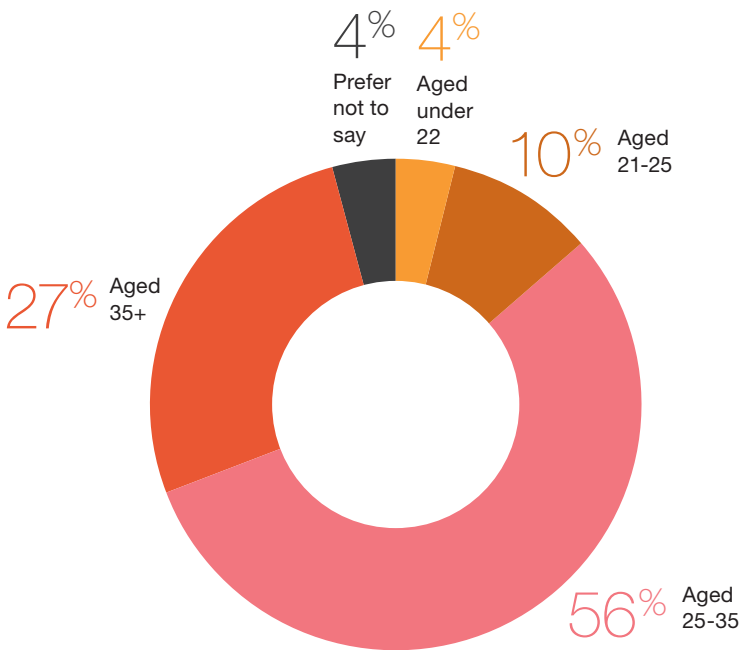


Figure 12: **Distribution of China sample by gender**

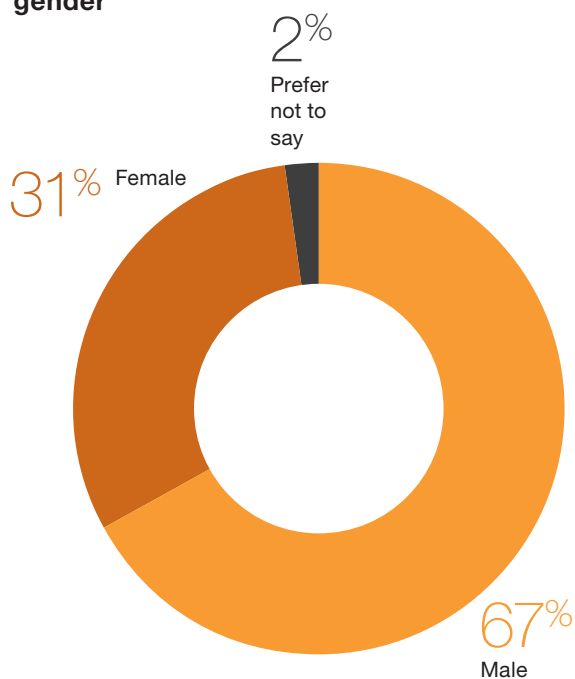


Figure 13: **Distribution of China sample by organisation's annual global revenue (US \$)**

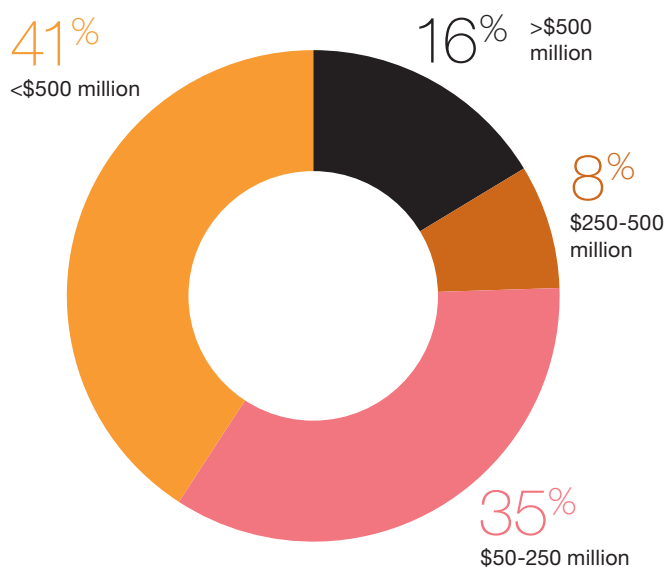
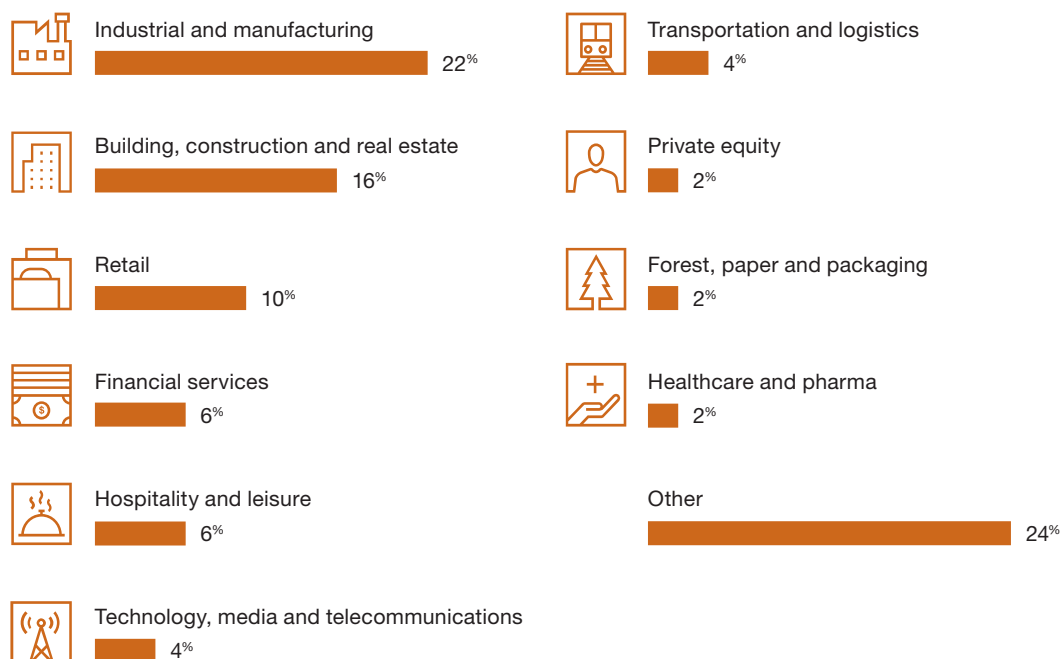


Figure 14: **Distribution of China sample by industry**





# Four NextGen personas

In PwC's Global NextGen Study 2017, NextGens were described according to four different personas each with an associated career path, namely: stewards, transformers, intrapreneurs and entrepreneurs.<sup>7</sup>





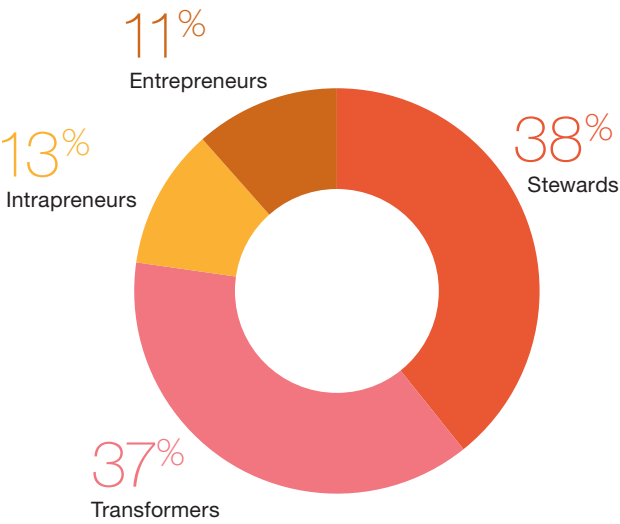
 <b>Stewards</b> Stewards focus on protecting the profitability of the family firm, and ensuring its long-term sustainability.	 <b>Transformers</b> Transformers take on the task of driving significant change in the family firm, with the scope and support to do so.	 <b>Intrapreneurs</b> Intrapreneurs set up their own venture within the family business, often with family financial backing.	 <b>Entrepreneurs</b> Entrepreneurs set up their own separate venture outside the family firm, with no profits going back to the family business.
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Figure 15: **Distribution of China sample by four NextGen personas**



NextGens in China that responded to the 2019 survey have also been classified according to these four categories. This is based on their responses to two questions in the survey: the role they would like to play in the family business by 2025, and the areas in which they personally felt they could add most value to realising the family business's goals. Each of the multiple-choice responses to these two questions were assigned to one of the four segments, and each respondent's answers were analysed and attributed to the most closely aligned segment.

Note: Not all figures add up to 100%, as a result of rounding percentages and exclusion of 'neither/nor' and 'don't know' responses.

7. Same passion, different paths, September 2017, <https://www.pwc.com/gx/en/family-business-services/assets/next-gen-study-2017.pdf>

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