Understanding Family Businesses in China: the Path, the Trend, and the Future
Understanding Family Businesses in China: the Path, the Trend, and the Future

Editor: IE Foundation / IE University & CKGSB (Cheung-Kong Graduate School of Business). C/ de María de Molina, 11. 28006 Madrid. Tel. 915 68 96 00
FOSTERING LEADERS OF NEXT GENERATION DISRUPTION

- World-class faculty, contributing to economic disruption including 35 unicorns
- Global learning platform
- Unrivaled alumni network

CKGSB GLOBAL MBA
- 14 months
- English MBA Program
- Full-time
- Beijing

MBA Admissions Office:
+86-10-85181052
mbaadmissions@ckgsb.edu.cn
SUMMARY

Understanding Family Businesses in China: the Path, the Trend, and the Future .................................................. 7

- I. The engine of growth .............................................................. 8
- II. The “vanishing” family in a growing business ...................... 10
- III. In the time of pandemic and uncertainty ........................... 11
- IV. The influence of culture on post-pandemic recovery ......... 13
- V. Cultural comparison takeaways .......................................... 14
- Conclusions ............................................................................. 15

Double Transformation for family businesses in China ............................................................ 16
THE WORLD SEEN FROM 3020
JOSÉ FÉLIX VALDIVIESO.
Chairman of IE China Center ................................................. 06

UNDERSTANDING FAMILY BUSINESSES IN CHINA:
THE PATH, THE TREND, AND THE FUTURE
Dr. BIN MA.
Academic Director of IE China Center. ........................................ 07

DOUBLE TRANSFORMATION FOR FAMILY
BUSINESSES IN CHINA
Dr. XINYU FAN.
Assistant Professor of Economics, Cheung Kong Graduate
School of Business................................................................. 16

THE SPAIN-CHINA FOUNDATION’S VISION OF
RELATIONS WITH CHINA
CARLOS MORALES.
Former Secretary-General of the Spain-China Council
Foundation, Ministry of Foreign Affairs, the European
Union and Cooperation ....................................................... 18

CHINA’S ECONOMY AND THE “GREAT
LOCKDOWN”
GONZALO GARLAND.
Prof. of Economics. Executive Vice President at
IE Foundation ........................................................................ 19

FAMILIES IN BUSINESS: A BRIGHT FUTURE IN
EUROPE AND CHINA
CARLOS MAS.
President, IE Center for Families in Business ......................... 20

WHY CHINESE FAMILY BUSINESSES WILL BE CRUCIAL
TO GLOBAL TRADE OVER THE NEXT DECADE
MARGARET CHEN.
Optimus Horizon, Founder. ................................................... 21

ARE WE HEADED TOWARD A MORE CHINA-
CENTERED FORM OF GLOBALIZATION?
RAFAEL BUENO.
Casa Asia Director of Policy & Society & Educational
Programs .................................................................................. 23

CHINESE INVESTMENTS ABROAD: RECENT
PATTERNS AND POTENTIAL PATHS GOING
FORWARD
PEDRO GETE.
Professor and Chair, Department of
Finance IE Business School and IE University. .................... 24

HOW TO DO BUSINESS WITH FAMILY-RUN COMPANIES IN
THE WEST
MANUEL BERMEJO.
Director - Family Business Programs in IE
Exponential Learning ............................................................. 25

WHAT’S THE BEST APPROACH TO DOING
BUSINESS WITH CHINESE FAMILY-RUN
COMPANIES?
LISA WANG.
Founder of Link The World Advisers. ................................... 26

IT IS NOT ABOUT THE WEST. THE FUTURE OF FAMILY
PHILANTHROPY IN CHINA
REGINA LLAMAS.
Associate Professor in the Humanities,
IE University ........................................................................ 27
The world seen from 3020

If, in a bid to unravel the knots of our recent history and identify the most important events of the first two decades of the 21st century, we were to tele-transport ourselves into the living room of a historian in the year 3020—and in the absence of a further surprise by the goddess Clio—I believe our historian would undoubtedly highlight the impact of two things on our world.

Firstly, the fall of the Twin Towers in 2001, and secondly, today's economic/health crisis: both events can only be seen as creating an inescapable part of a new paradigm of globality, as yet to be defined.

Which is why I don't think our historian would be much interested in the Great Recession of 2008: too similar to other recessions in the past; nor in the digital revolution of the early years of the century, which is likely to be overtaken by future digital changes that will make the current technological transformations of our social, economic, and cultural networks pale into insignificance.

It is within this context of profound change and uncertainty that Cheung-Kong Graduate School of Business and IE China Center present Understanding Family Businesses in China: the Path, the Trend, and the Future. This report follows on Chinese vs. European Entrepreneurship: A comparison published by IE China Center in October, 2019. In both cases, the aim is to shed light on what we believe will continue to be one of the pillars of the global economy—regardless of ongoing change—namely family businesses and start-ups, and all this from the perspective of China, which will play a key role in this new century.

According to different estimates, family businesses (家族企业 jiazuqiye, to use the Chinese term) represent more than 70% of Global Domestic Product. Across the world, the family remains crucial for human survival, and for this reason its economic activities will continue to help drive the global economy, sharing many ways of working, regardless of where they are based.

I introduced last year’s report by referring to the Ancient Greek myth that Zeus released two eagles at either end of the world, East and West, decreeing that wherever they met, a sacred stone, the omphalos, or navel of the world, would be erected so as to provide a means to communicate with the gods. Developing the idea, I commented that may be we should start behaving differently and stop putting the center of things where it suits us, and considering, for example, that the center is our own planet.

The current pandemic has again reminded us of the fragility of our lives and how fickle we are in choosing our priorities. So, sitting in her living room in 3020, perhaps our historian would tell us that ours was a time when new approaches and perspectives, beyond national borders, began to be explored to try to solve the problems of the planet, rather than those of our own countries.

"If we were to tele-transport ourselves into the living room of a historian in the year 3020 I believe our historian would undoubtedly highlight the impact of two things on our world. Firstly, the fall of the Twin Towers in 2001, and secondly, today’s economic/health crisis: both events can only be seen as creating an inescapable part of a new paradigm of globality, as yet to be defined. Which is why I don’t think our historian would be much interested in the Great Recession of 2008: too similar to other recessions in the past."

It is also possible that our historian would not detect any such change and we would go largely unnoticed.

With this in mind, perhaps we should remember that there are families in every part of the world, which regardless of their apparent differences, are united by a range of factors as they work to strengthen their respective economies. Our hope in producing this report on China’s family businesses is to contribute to a broader understanding of the factors shared by this universally successful institution.
Understanding family businesses in China: the path, the trend, and the future

From Australia to Alaska, from South Africa to South Korea, family businesses are the unsung heroes of the global economy, supporting more families, industries and sectors than most people imagine.

Across almost every sector of the world’s economies, family-run enterprises include small, medium and large privately owned businesses operating as partnerships, trusts or a company. On average, the total economic impact of family businesses to global GDP is more than 70%.

China is no exception: since the economic reforms of the late 1970s, huge numbers of private family enterprises have been set up and now play a major role in the economy, helped by a raft of regulations and policies. A range of statistical sources suggests the contribution of the private sector to GDP in China has grown to at least 60% in recent years, of which 85% are from family-owned private enterprises, making a major contribution toward technological innovation, as well as creating jobs. Therefore, given their overall economic contribution, we believe that in the context of the post-pandemic economic recovery, research on private family-run enterprises in China is more timely than ever.

Family businesses have been defined in various ways from the perspective of ownership, governance, and/or management. In this report, in order to reflect the developmental trend of family businesses in China, based on the definitions in family business research, we accept a commercial organization as a family business as long as its decision-making process has been influenced by a founding family over an extended period of time; such influence may or may not have been weakened or transferred to a professional executive team by the time of the publication of this report.

Based on the records of 338 companies during a five-year time span, we have been able to achieve a more complete understanding of family businesses in China and their role in the country’s economic success, while anticipating some developmental patterns for the near future.

Additionally, in response to the question of how the COVID-19 pandemic may affect Chinese family businesses and their strategies in the post-pandemic economic recovery, we conducted semi-structured interviews with the owners of 20 family-run businesses. Based on an understanding of Chinese culture and the way it influences family business operations in China, we would like to explain the findings of our data analyses and interviews in a cultural context and, further, offer some takeaways for how best to do business with Chinese family enterprises in today’s global environment.
I. The engine of growth

As shown in Figure 1, the geographic location of sampled companies covers 29 provinces throughout China, which provides a foundation for us to demonstrate a general developmental record of Chinese family businesses from 2012 to 2016. Research on the economic growth of China usually pays more attention to the south-east of the country, where the economic reforms started more than forty years ago. However, after decades of development, as well as the Chinese government’s efforts to balance economic development throughout the country,\(^5,6\) it is necessary to geographically zoom out so as to provide a more comprehensive vision of China’s economic growth.

In addition, Figure 2 shows the industrial distribution of our sample, which covers eight sectors categorized by GICS (Global Industry Classification Standard) including energy, materials, industrials, consumer discretionary, consumer staples, health care, financials, and information technology.
In Figure 3, we show the growth trajectory of our sample of Chinese family businesses, which largely reflects GDP growth in China\(^7\), suggesting that (1) private family enterprises can serve as an engine of national economic growth, and (2) the growing national economy has provided private companies with a healthy business environment within which to develop. These patterns mutually confirm one another and, thus, give us confidence in the future growth of both family businesses and the national economy of China.

Furthermore, Figure 4 shows the increasing rate of gross profit of the sampled businesses, which provides further evidence of a healthy growth trend for these enterprises. It is not easy to maintain sustainable growth, and these firms typically face tough competition: Figure 5 illustrates the degree of competition Chinese family-run businesses operate under.

Overall, by applying financial indicators and illustrating their statistical patterns, we have revealed the growth trends of Chinese family businesses in terms of both assets and profits, as well as the importance of family businesses for the national economy. Next, in order to explain the underlying mechanisms behind their growth, we have to examine the founding families in these enterprises in the context of their control over the businesses.
II. The “vanishing” family in a growing business

THE ROLE OF FOUNDING FAMILY

Essentially, what makes a family business different from other forms of enterprise is the involvement of family members and the hybridity of both family and business systems within a single organization. Involvement in decision-making (e.g., being a member of the top management team - TMT) and the shareholding ratio of the founding family indicate its control over the enterprise. (4)

Specifically, Figure 6 shows the number of companies out of our sample of 338 under the control of the founding family, which can make decisions without the need to consult non-family members. It should be noted that while the number is relatively stable for the first few years, it has begun to show a significant decline more recently.

TMTs in family enterprises usually contain both family and non-family members, the proportion of which can also indicate the founding family’s control over the business. Generally speaking, in the history of a family business, we usually see fewer family members in critical administrative roles (e.g., CEO) as time passes, indicating a more modern and mature managerial structure. In Figure 7, we can see that the number of founding family members holding TMT positions is also gradually declining over the years, suggesting that the founding family is involved less and less in making strategic decisions. Similarly, in Figure 8, the shareholding ratio of the founding family also shows the same downward trend.

These results are consistent with the research on family business life cycles found in samples from western countries, (8, 9) which suggests that the control of the founding family usually diminishes as the business develops. In other words, while we are primarily concerned here with identifying what makes Chinese family businesses different, it is equally important to recognize the similarities they share with family businesses in the West. The declining involvement of founding families in general indicates that we may conclude that the Chinese family businesses in our sample are on the path to becoming more modern commercial organizations run by trained executives and management teams, which, in turn, provides insights on the general development of Chinese family businesses.
III. A time of pandemic and uncertainty

Figures 9 and 10 demonstrate that the average age of TMT members as well as their shareholding ratios are relatively stable, respectively. These are two more indicators showing that Chinese family businesses are enjoying a period of stability and maturity, which piques our academic curiosity about their strategies to handle the impact of external factors such as the COVID-19 pandemic.

![TMT AVERAGE AGE](Figure 9)

![AVERAGE SHAREHOLDING RATIO OF TMT (%)](Figure 10)

### INDUSTRY DISTRIBUTION OF INTERVIEW SAMPLES
(GICS 2ND TIER CATEGORY)

- HOTELS, RESTAURANTS & LEISURE: 4 companies
- TEXTILES, APPAREL & LUXURY GOODS: 8 companies
- FOOD & STAPLES RETAILING: 3 companies
- REAL ESTATE MANAGEMENT & DEVELOPMENT: 2 companies
- SPECIALTY RETAIL: 3 companies

### PERCENTAGE OF LOSS ON GROSS INCOME COMPARED TO THE SAME SEASON OF 2019
(NOTE: 0% MEANS NO DAMAGE)

- 80-100%: 7 companies
- 60-80%: 6 companies
- 40-60%: 2 companies
- 20-40%: 4 companies
- 0-20%: 0 companies
- GROWTH: 2 companies

(Note: Color codes for industries and growth categories)
In order to answer the questions related to the COVID-19 pandemic and any economic recovery, we conducted semi-structured interviews with 20 Chinese family business owners in late June of 2020, by which time the pandemic was relatively under control in China. As shown in Figure 11, the businesses include hotel and travel agencies, garment factories, food producers, real estate developers, and online retailers.

Figure 12 demonstrates the impact of the COVID-19 pandemic on the gross income of these family businesses. Although it varies across different industries, with two companies experiencing growth, we can generally conclude that the pandemic has posed a major challenge for most family businesses, which led to our further question about how long our interviewees thought it would take for their businesses to return to normality. The average expectation was two-and-a-half months, with a 4.28 rating of general confidence on the effectiveness of the Chinese government’s recovery policies (from 1 = little confidence to 5 = significant confidence).

In particular, these policies include government-initiated investment, monetary policy for lower financing costs, a tax break for small- and medium-sized enterprises, employment training and consultation services for both individual and company and, most importantly, a strict public health tracking system to prevent possible relapses of the pandemic, which provides the confidence in the stability of the business environment.

Further, we asked about the major challenges they will face in the recovery period, the results of which are depicted in Figure 13. The top-four common challenges are cash flow and financial issues, sales and marketing, hiring and HR, and logistics. Among the 16 family businesses experiencing cash flow and financial challenges, all considered their families and friends as the primary source of help, followed by business partners, local/community banks, and finally, national banks (Figure 14).
IV. The influence of culture on post-pandemic recovery

People in different countries and regions have reacted differently to the challenge of the COVID-19 pandemic, which can be explained, at least partially, by the cultural norms that shape people’s behaviors. Research in the cross-culture management field identifies six dimensions that distinguish cultures from one another: power distance; individualism versus collectivism; masculinity versus femininity; uncertainty avoidance; long-term orientation versus short-term orientation and indulgence versus restraint.\(^{(10)}\)

Based on an understanding of national cultural differences, we conjecture that, in the post-pandemic recovery period, the challenges, resources, and strategies that are critical for family business recovery will come in different forms and shapes in different countries based on cultural differences. In particular, Figure 15 shows the scores of the six dimensions of Chinese culture.\(^{(10)}\)

We will focus on the first five dimensions, which we believe to be most relevant in a business context, to explain the reactions and strategies of Chinese family businesses in the post-pandemic economic recovery period that we have discussed in Section 3 of this report.

Power distance describes people’s level of acceptance of unequally distributed power, regarding which, a score of 80 shows a high level of such acceptance. This dimension has a big impact on the relationship between government and society. In our case, the family business owners we interviewed expressed a high degree of confidence in the effectiveness of the Chinese government’s recovery policies, scoring 4.28 on average on a scale ranging from 1 = little confidence to 5 = significant confidence. This is a good example of such impact.

Individualism versus collectivism indicates the independence/interdependence among people in a society. A score of 20 shows a low level of independence and a high level of interdependence. In Chinese society, people tend to make collective decisions based on shared resources. Moreover, members of a collective society prioritize in-groups, such as family members. This is the reason why our interviewees primarily rely on family and friends for financial help.

A high score on masculinity, 66 in the case of China, indicates the extent to which Chinese society is driven by competition, efficiency, achievement and success, meaning that many people are prepared to sacrifice family and leisure time if necessary. The rapid growth of the Chinese economy provides some evidence of this shared quality among Chinese people, especially the owners of private family businesses.

Uncertainty avoidance describes how severely people feel threatened by ambiguity or uncertainty and, thus, tend to avoid them. A low score, such as 30 in the case of China, is viewed favorably at a time of crisis and uncertainty, showing that people in China can tolerate uncertainty and live and deal with it. In addition, a lower uncertainty avoidance score is also associated with more flexible, adaptable, and entrepreneurial solutions.

Long-term orientation shows a society’s link with its past while dealing with the presence and future. A score of 87 indicates that Chinese people are long-term oriented, plan ahead, and develop and maintain lasting relationships with their business partners. The fact that our interviewees put business partners as their second source of financial help, after family, demonstrated this point. Moreover, a high score is also associated with significant levels of saving and investment, which are particularly important during times of uncertainty. This may be why the business owners we interviewed expected a speedy recovery (two-and-a-half months on average).
V. Cultural comparison takeaways

Continuing with a cultural perspective, Figure 16 shows cultural comparisons between five major European countries (Spain, France, Germany, Italy, the United Kingdom), as well as China and the United States. Based on these cultural differences, we have developed the following practical takeaways for business owners in the West who are interested in working with Chinese family-run businesses. As we can see, although each country has a unique cultural profile, some share similar points on certain dimensions of culture, making the understanding of each other and further collaborations easier than those of other countries.

- Power distance used to be considered one of the biggest cultural differences between China and most Western countries. However, as shown in the figure, French culture also shows a relatively high score of 68, followed by 57 for Spain, which makes it easier for French and Spanish companies to understand the importance of respect in Chinese society. For those from a culture scoring low on power distance, we encourage you to work on the sense of power dynamics and respect, starting with small gestures. For example, in the initial stage of developing a business partnership with Chinese companies, we suggest that gift-giving, regardless of the value, is a good way to break the ice. This is especially the case if your Chinese business partner is significantly older than you or occupies a more senior position.

- Spanish culture enjoys a balance between individualism and collectivism, reflected by a score of 51. Compared to China’s 20 and significantly higher scores, ranging from 67 to 91 in the other five countries, this balance in Spanish culture provides an advantageous position for business owners from Spain to cope with the collective tendency of Chinese society. In China, people highlight the value of in-group friendships, dependency among family members and collective decision-making, even in a business and professional context. It takes time to break into an inner circle, but the effort usually pays off.

- For those from a country sharing a similarly high score of cultural masculinity (66 for Germany, 70 for Italy, 66 for UK, and 62 for France), understanding the importance of respect in Chinese society is crucial. Power distance used to be considered one of the biggest cultural differences between China and most Western countries. However, as shown in the figure, French culture also shows a relatively high score of 68, followed by 57 for Spain, which makes it easier for French and Spanish companies to understand the importance of respect in Chinese society. For those from a culture scoring low on power distance, we encourage you to work on the sense of power dynamics and respect, starting with small gestures. For example, in the initial stage of developing a business partnership with Chinese companies, we suggest that gift-giving, regardless of the value, is a good way to break the ice. This is especially the case if your Chinese business partner is significantly older than you or occupies a more senior position.

- For those from a country sharing a similarly high score of cultural masculinity (66 for Germany, 70 for Italy, 66 for UK, and 62 for France), understanding the importance of respect in Chinese society is crucial. Power distance used to be considered one of the biggest cultural differences between China and most Western countries. However, as shown in the figure, French culture also shows a relatively high score of 68, followed by 57 for Spain, which makes it easier for French and Spanish companies to understand the importance of respect in Chinese society. For those from a culture scoring low on power distance, we encourage you to work on the sense of power dynamics and respect, starting with small gestures. For example, in the initial stage of developing a business partnership with Chinese companies, we suggest that gift-giving, regardless of the value, is a good way to break the ice. This is especially the case if your Chinese business partner is significantly older than you or occupies a more senior position.

- Spanish culture enjoys a balance between individualism and collectivism, reflected by a score of 51. Compared to China’s 20 and significantly higher scores, ranging from 67 to 91 in the other five countries, this balance in Spanish culture provides an advantageous position for business owners from Spain to cope with the collective tendency of Chinese society. In China, people highlight the value of in-group friendships, dependency among family members and collective decision-making, even in a business and professional context. It takes time to break into an inner circle, but the effort usually pays off.

- For those from a country sharing a similarly high score of cultural masculinity (66 for Germany, 70 for Italy, 66 for UK, and 62 for France), understanding the importance of respect in Chinese society is crucial. Power distance used to be considered one of the biggest cultural differences between China and most Western countries. However, as shown in the figure, French culture also shows a relatively high score of 68, followed by 57 for Spain, which makes it easier for French and Spanish companies to understand the importance of respect in Chinese society. For those from a culture scoring low on power distance, we encourage you to work on the sense of power dynamics and respect, starting with small gestures. For example, in the initial stage of developing a business partnership with Chinese companies, we suggest that gift-giving, regardless of the value, is a good way to break the ice. This is especially the case if your Chinese business partner is significantly older than you or occupies a more senior position.
for the United States) such as China’s 66, the seeming obsession with efficiency and achievement in successful Chinese enterprises will come as no surprise. Meanwhile, Spain and France score 42 and 43, respectively on this dimension, which may pose some barriers for business owners from these two countries in terms of understanding their Chinese business partners’ “rhythm” at work. Nowadays, it is hard to overstate the importance of success and being seen to be successful in China, especially for family-run private companies.

- Perhaps the most drastic cultural difference shown in Figure 16 is uncertainty avoidance, regarding which we have a clear boundary between two similar-sized groups: China, the United States and the United Kingdom have very low scores, while Spain, France, Germany, and Italy have very high scores. For those from a country in the latter group, when doing business in China, please be flexible and ready for surprises: most rules, and sometimes the important ones, are unsaid. To avoid misunderstandings or mistaken assumptions, simply ask when you have any doubts. Your Chinese business partner will be more than happy to explain in detail, because your interest and seriousness can be taken as a mark of your respect.

- Building trust and creating collaborations takes time, especially in long-term oriented societies like China and Germany, which have a significantly higher score of 87 and 83 respectively. However, if you are patient enough to build a bond in these two countries, it is usually strong, sustainable, and beneficial. Moreover, long-term orientation is considered advantageous, especially in times of uncertainty and crisis, when your partnership with Chinese and German companies will be of extra value.

### CONCLUSIONS

Over the last four decades, Chinese family businesses have shown steady and healthy growth, becoming a key driver of Chinese economic development (Figures 3 & 4). With a presence throughout the country and operating in a wide range of sectors, China’s family-run companies provide a wide range of opportunities for global investment and collaboration.

At the same time, the impact of the founding families in managing their businesses has steadily begun to wane (see founding families’ control in Figure 6, family members in TMTs shown in Figure 7, and shareholding ratios of founding families in Figure 8).

This trend reduces the influence of family events (founders’ health, divorces, etc.) on the business, making the operation and performance of Chinese family businesses more predictable and transparent. In this sense, Chinese family businesses have become mature, modern commercial organizations interested in global joint projects, offering many opportunities for outside players.

Our interviews show that the COVID-19 pandemic has posed a huge challenge for Chinese family businesses; a general setback for family business development is expected in China. However, this influence varies across industries (Figure 12). Similar influential patterns have also been observed in other countries, showing growth for internet-based businesses such as distance education platforms, online retailers and gaming, etc.

Chinese family business owners show a high degree of confidence in a return to normality, based on their expectations of both a relatively short recovery period and effective assistance policies initiated by the government. This confidence is also built upon the cultural values of collectivism (e.g., prioritizing family and friends as financial sources) and a long-term outlook (e.g., maintaining high levels of saving) common to Chinese society.

Meanwhile, cultural values are also expected to shape the post-pandemic strategies of Chinese family businesses in terms of setting long-term visions and strategic goals, building synergy with business partners, reserving more cash flow for risk control, developing a close relationship with the government based on trust, and so on. Thus, we predict a relatively fast recovery of Chinese family businesses from the COVID-19 pandemic.

In general, Chinese culture still plays an influential role in the way Chinese family businesses are run, an understanding of which is a must for any Western company looking to create partnerships. (See Section 5 for practical takeaways.)

Last but not least, there is no evidence in this report that would question our confidence in China’s ongoing growth or that the country, with the help of family-run businesses, can be expected to continue playing a major role in the global economy.

### References

2. CampdenFB: http://www.campdenfb.com/
Few in history have witnessed a wave of wealth generation as China has experienced since 1978. The unprecedented economic reforms cultivated a large class of successful family businesses that have profoundly reshaped the Chinese economy. In addition to the economic growth, family businesses have also contributed to the institutional and operational transformation of China. From the early-days township-village enterprises (TVE) to the agile, smart-manufacturers of today, family businesses have played a pivotal role in China’s economic growth. Across the nation, family businesses continue to contribute to the on-going ‘Poverty Alleviation’ campaigns, where rural-born entrepreneurs return home to revive local villages, while e-commerce platforms link millions of products made in the countryside to tens of millions of urban consumers. In the past forty years, family businesses have always been in the spotlight of the Chinese economy. Now in the second decade of the 21st century, many experienced entrepreneurs find themselves facing common challenges in their family businesses as they struggle with succession, delegation, transition, and diversification – their choices thus will collectively define the Chinese economy in the generations to come.

A key challenge in family businesses is related to inter-generational communications. Business insights rightfully accumulated by the parents’ generation sometimes may seem overconfident, assertive, or even outdated to the next generation. Conventional wisdom is rarely sufficient to ensure consistent competitive advantages in the fast-paced reality of China’s business landscape. The next generation of entrepreneurs often must prove themselves in the business and to not only impress their parents but their experienced staff before they can put their own stamp to the company. In the NextGen Program at Cheung Kong Graduate School of Business (CKGSB), a reputed program designed to prepare next-generation entrepreneurs running some of the most successful private enterprises in China prepare for their roles, the most commonly asked question among the young entrepreneurs is “how to win a vote of confidence from senior family members.”

Meanwhile, industry landscapes in China and around the world are experiencing vast restructuring. Aided by AI algorithms and big data cloud computing, traditional manufacturers are becoming

“ We believe it is a unique opportunity for a "double transformation": the next-generation entrepreneurs use their knowledge and passion for technology to embrace and advocate for digital transformation in their family businesses. Meanwhile, digital transformation also facilitates the transformation of family businesses because the next-generation entrepreneurs accumulate authority, expertise, and management skills during the process". 
significantly more efficient through the use of data which allows companies to accurately predict consumption needs, and even preempt future trends. The digital transformation of companies is becoming a necessity for a way forward. Many of these manufacturers are, not surprisingly, family businesses (many are run by CKGSB alumni). At CKGSB, our Executive Education Programs, our Masters of Entrepreneurship and Technology and Innovation (METI) and Chuang Community (early stage incubator) not only equip tech entrepreneurs and traditional manufacturers the skills and knowledge to grow their businesses but also offer an environment for exchange in expertise. Manufacturers gain a better understanding of what sort of data technology are available and how it can improve efficiency, while technical experts discover where innovations may be needed in the production process.

In light of the transformations taking place in China’s family businesses and the digitization taking place inside companies, we believe this is a unique opportunity for a “double transformation,” where family-owned firms must transform themselves to meet the demands of today’s digital changes. On the one hand, we expect the next generation of entrepreneurs to use their knowledge and passion for technology to embrace and advocate for the digital transformation of their family businesses, while accumulating authority, technical expertise, and management skills in the process. On the other hand, digital transformation can facilitate the transformation of family businesses, as the next generation of entrepreneurs exemplifies their qualities and vision for the future.

With the ever-changing business landscape in China, CKGSB not only aims to guide the future direction of family businesses, but to also shed light on family-owned firms. As illustrated in the previous report, traditional family ownerships are “vanishing” as modern corporate structures take hold. But the essence of family business shall be passed on – not only in the physical assets or profit numbers, but in the entrepreneurial spirit that brought the founding generation and us here.
The Spain-China Foundation’s vision of relations with China

The Spain-China Council Foundation is a private, non-profit institution established in 2004 with the mission of fostering deeper knowledge and closer ties between our two countries and their peoples. It is a clear example of public diplomacy.

The initiative was set up under the auspices of the Spanish Ministry of Foreign Affairs at a time when new formulas were being sought to facilitate Spanish civil society’s contact with Beijing and with Chinese society in general, at a time of growing interest in China.

One of its characteristics is therefore public-private cooperation. With this in mind, the Board of Trustees, as the foundation’s administrative body, has brought together around 30 companies, universities, local authorities, business schools, cultural and sporting entities noted for their activities, interest and presence in China.

The foundation has been adapting to its environment in parallel with the evolution of bilateral relations and to the two countries’ internal transformation and international projection. The China of 2020 has little in common with the country of two decades ago. We have witnessed first-hand the changing reality of China, and worked to share these changes with civil society through forums, leadership programs, seminars, discussions and colloquia.

Connecting our two societies has been one of our earliest priorities. Social networks have provided a platform to generate and share knowledge for more than a decade, while one of the consequences of the current pandemic has been the need to rapidly adapt and digitize how we work.

The foundation has a presence on China’s most popular social network, Wechat, so as to establish direct communication with Chinese people interested in knowing more about Spain. The website www.spain-china-foundation.org covers bilateral current affairs, in addition to the activities of the foundation itself.

Technology is key among the topics explored at our China in-depth discussion groups, particularly 5G, the digital agenda, artificial intelligence and e-commerce.

At the same time, our Chinese Leaders of the Future visitor program, aimed at generating ties with China’s professional elite, has invited some of the leading figures in the Chinese technological revolution in areas such as startups, artificial intelligence or sustainability. Thirteen years on, a total of 95 Chinese business leaders have come to Spain to share their experiences.

In April 2019, inspired by the alumni chapters set up by prestigious business schools such as IE Business School, the Chinese Society of Friends of Spain was constituted at the Embassy of Spain in Beijing to bring together former participants of the Chinese Leaders of the Future program. The idea is to capitalize by keeping in contact with these professionals, while creating a talent pool, a network of influential professionals made up of friends of Spain and linked to the foundation, its patrons, and other Spanish counterparts that might serve as a channel to facilitate specific activities. In short: to nurture China’s ties with Spain and create knowledge jointly within the context of the program.

The pandemic and its impact on geostrategic relations, global supply chains and the ongoing technological revolution have led the foundation—in its capacity as a meeting point between civil society and government—to commit further to defending Spain’s interests in China.

With this in mind, its strategy and action plan for 2020-2021 focuses on activities to help with the economic recovery of our country, either by supporting areas that have suffered during the crisis such as exports, tourism, services and international mobility, or those looking to the future such as smart cities, innovation along with areas such as biomedicine, health technologies, the environment, smart manufacturing and the food industry.
Understanding Family Businesses in China: the Path, the Trend, and the Future

GONZALO GARLAND / Executive Vice President of the IE Foundation

China’s economy and the “great lockdown”

The International Monetary Fund’s April 2020 World Economic Outlook report defines the current global economic crisis as the “Great Lockdown”, following the tradition of the “Great Depression” of the late 1920s and early 1930s, and of the “Great Recession” of the late 2000s and the early 2010s. Time will tell whether this is eventually how history will remember the present crisis, but no doubt there is originality in maintaining the “Great” adjective to describe these three major economic crises, each one different but at the same time showing common elements.

There is no question that the world is undergoing - and will be for some time - one of its most profound economic crisis in history, on top of the very serious health and humanitarian crisis produced by COVID-19. In the economic dimension it seems clear that it will show significantly larger drops in GDP than the “Great Recession”, and this time not only will the high income countries be going through deep recessions, as was the case then, but most of the developing and emerging economies will as well, something that only occurred in some of these countries in years 2008 and 2009. So the most relevant comparisons will almost surely be centered around the severity of the present crisis with that of the “Great Depression”.

Under normal conditions the IMF publishes 4 quarterly reports on the World Economic Outlook every year in January, April, July and October. But given the extreme severity of the current crisis it decided to update its April forecasts in June instead of July this year. In these forecasts the world’s GDP is expected to fall by 4.9% in 2020, and all major regions and virtually all larger countries will be expected to fall into a recession. The advanced economies would see a drop of 8%, including decreases of 8% in the United States, 10.2% in the euro area, 5.8% in Japan, and 10.2% in the United Kingdom. The Emerging and Developing countries will also see a decrease of 3% in their GDP’s, with drops of 9.4% in Latin America, 5.8% in Emerging and Developing Europe, 4.7% in the Middle East and Central Asia, and 3.2% in Sub-Saharan Africa. Even the region defined as Emerging and Developing Asia, that includes both China and India, would see a decrease of its GDP of 0.8%.

Almost all of the large world economies will also go through recessions, including all of the euro area economies and Canada among the high income countries. This will also be the norm among the most important emerging countries. In fact, the IMF forecasts drops of GDP of 10.5% in Mexico, 9.1% in Brazil, 8% in South Africa, 6.8% in Saudi Arabia, 6.6% in Russia, 5.4% in Nigeria, and 4.5% in India. The only major economy of the world that would escape a yearly drop in GDP according to these forecasts would be China, which would grow a weak 1%, being the only exception among the major world economies in 2020. There are a few other smaller countries, mostly in Africa, which will be growing somewhat faster in 2020 due to among other things their relative isolation from the rest of the world.

This may be explained by several factors: the previous dynamism and higher growth rates of the Chinese economy, although recently slowing down; the fact that China experienced the worst effects of the COVID-19 epidemic earlier in the year, thus leading to a recovery over most of the rest of the year; and the more rapid containment of the larger effects of the pandemic. However, there is still high uncertainty on all fronts: the health situation, which may drastically affect the length and severity of the economic effects, both negatively but hopefully positively, or the magnitude of the economic crisis all over the world. The situation is rapidly evolving and time will tell how accurate the forecasts are. Although it does seem that again China will be showing more resilience amid the general negative environment.
Families in business: a bright future in Europe and China

Family-run businesses play a key economic role in Europe, as well as in China. In the absence of up-to-date or official information, estimates suggest that of more than 27 million private enterprises in China, around 80% are family concerns, some of which are major players in the role of growing and transforming the Chinese economy. As such, the increasing relevance of family businesses in China is similar to that historically observed in Europe and other parts of the world.

There are several reasons to be optimistic about the future of family companies. Firstly, we live in a world in constant change, where innovation is the key to success: business families have the flexibility and creativity to innovate. State-owned or publicly-listed enterprises may not have such advantages and are thus likely to be more cautious in decision-making. Whereas family-run firms, which have an entrepreneurial mindset, are more willing to take risks and create new products and markets. Moreover, the family structure encourages better management practices, thanks to their long-term vision and a higher shareholder commitment to the firm. These characteristics reinforce the competitive advantages of family firms, allowing them to navigate changing environments.

The IE Center for Families in Business contributes to the development and impact of business families by helping them to operate better in their environment through training resources and by leveraging our experience with families and our academic research, accompanying them throughout their professional and life journeys. The center has a global reach: through the academic, training and teaching activities of our team, we are in contact with members of major families in business across the world, especially in Europe, home to businesses dating back centuries, as well as in Latin America. This intense interaction with business families enriches our understanding of the challenges others may face. It has also created an international community of leaders who share knowledge and experience.

Among the many issues that we discuss with families in business, succession is among the most important, and can cause many problems when the handover to the next generation takes place. This will likely be a big issue in China over the coming years, in part due to the one-child policies implemented during the 1980s: a lower fertility rate means the pool of potential heirs to many family businesses will be smaller. Thus, the risks of not finding the right heir have increased for many firms. Some family businesses will have a hard time identifying and training well-prepared candidates in the family or, failing that, looking for external executives to bridge the gap. The expertise and knowledge we have at the IE Center for Families in Business helps to identify the factors that can aid a smooth transition of ownership.

Another major issue for family-run firms is how to grow without losing control, particularly when undertaking international expansion and teaming up with Western companies. Partnership with local families firms can be a very successful way into China, hopefully leading to a long-term win-win relationship. But the future partnership needs to be assessed and approached very carefully: it will involve a fit between both families based on values and mission, socio-emotional capital and risk and their mutual expectations, all of which are as relevant as the business opportunity under consideration. Sharing experiences with families that have been successful in building such partnerships can highlight best practices and help avoid common pitfalls.

To conclude, families in business play will continue to play a major role in the European and Chinese economies. Profitable and successful firms are already helping both to grow and improve living standards. As discussed above, these firms have specific advantages and challenges. Our mission at the IE Center for Families in Business is to help them make the most of their unique characteristics to harness opportunities for sustainable growth while pursuing family cohesion and a smooth succession.
Understanding Family Businesses in China: the Path, the Trend, and the Future

Margaret Chen / Optimus Horizon, Founder

Why Chinese family businesses will be crucial to global trade over the next decade

The private economy in China uses less than 40% of social resources, contributes more than 50% to state tax revenue, carries out more than 60% of fixed-asset investment and foreign direct investment, and is the home of over 70% of high-tech enterprises. At the same time, more than 80% of urban employment has absorbed some 90% of new employment, all of which has played a positive role in strengthening China's economy, which at present, is in the process of shifting from a stage of rapid growth to high-quality development, while the private economy is set to usher in new historical opportunities.

Family businesses account for about 90% of China's 21.6 million private firms, which are distributed as follows: manufacturing (38%), restaurant and food (22%), construction (6%) and agriculture (6%). Meanwhile nine out of the first 10 richest self-made female billionaires in the world are Chinese entrepreneurs, according to the Hurun 2019 Report.

Since the late 1970s, when China launched its economic reforms and opened up to the world, the country's private sector, including family businesses, has made considerable progress. At a time when some in the West still called China communist, the country's leadership was steadily working to lift 800 million people out of poverty and privatize the manufacturing and services sectors. Four decades later, thanks to this astonishing progress, by 2014, China's GDP (PPP) had surpassed that of the United States.

The private economy played a major role in this, and can be traced through the following stages:
- the start-up of 1978-1988
- the frustration and recovery of 1989-1991
- the adjustment and state guidance of 1992-2001
- the progress of 2002-2007
- the impact and growth of 2008-2012
- the transformation and take-off stages of 2013 - 2020
- the unknown post-covid19 stage from 2020

China's private sector has become an important part of the national economy:
- in building for a harmonious society
- as source of power for industrial transformation
- has been participant in market competition
- form part of technological innovation driver

Surveys show that about 25% of the top management posts in Chinese family-run firms are held by outsiders. Also, Chinese family-run firms tend to be relatively small and, based on the sample of listed companies, on average, have been set up over the last 12 years, compared to many of the older family companies in Europe and the United States, which date back half a century. As a result, most Chinese family businesses are still being run by the founding generation.

"China’s family-run firms are approaching what will likely be the largest generational handover in the world. About three million family businesses are due to be taken over by the second generation in the coming decade."

Margaret Chen
Optimus Horizon, Founder

China’s family-run firms are approaching what will likely be the largest generational handover in the world. About three million family businesses are due to be taken over by the second generation in the coming decade.”
Nevertheless, China’s family-run firms are approaching what will likely be the largest generational handover in the world. About three million family businesses are due to be taken over by the second generation in the coming decade. Managing this handover will require a combination of wisdom, creativity and innovation.

At the same time, younger Chinese family firms are facing the challenges of transitioning to the economic new normal: slower GDP growth, structural adjustments, stimulus policies, digital transformation, and deglobalization.

The backdrop to the growth of China’s private economy has been a healthy and stable political environment, scientific and institutional innovation, outstanding entrepreneurial spirit, abundant and effective labor supply, a harmonious and inclusive culture, and diverse and frequent social interaction. The continued development of the private economy will be focused on economies of scale, competitive advantages, effective corporate governance, the growth of multinational operations and a successful intergenerational handover.

Family businesses account for about 90% of China’s 21.6 million private firms, which are distributed as follows: manufacturing (38%), restaurant and food (22%), construction (6%) and agriculture (6%).

China’s family firms go global

The internationalization of Chinese family-run enterprises will be a four-stage process that will first see sporadic exports, then regular exports through agents, setting up marketing agencies abroad, and finally creating foreign manufacturing companies to manufacture and sell products locally. So far, although there are many successful examples of private enterprises transforming into multinational companies, most private enterprises have only entered the second and third stages of internationalization. There are very few companies in the fourth stage.

Meanwhile, in recent years, China-US economic and trade relations have entered a period of friction, reflecting wider political tensions. Faced with the trend of deglobalization and the sustained slowdown of the global economy under the effect of Covid19, the key questions are:

- How to maintain and improve China’s trade and investment relationship with Spain?
- How to maximize the opportunities in tourism, agriculture, food products, education, and industry?
- How to attract more investment from China?

We believe that more developing countries will participate in the global value chain. Meanwhile, developed countries have attracted domestic and foreign industrial capital and production, raising the threshold for investment and technical cooperation. At the same time, the space for seeking complimentary capacity cooperation among EU countries and China has greatly increased. If the potential for China-Spain collaboration is substantially promoted, high value-added, mutually beneficial scenarios can be created. Family firms represent 95% of Chinese companies venturing abroad. China has expressed its firm commitment to global collaboration and multilateralism. We are looking forward to a closer relationship with Chinese family firms.
Are we headed toward a more China-centered form of globalization?

This double circumstance, the re-emergence of China and a new American nationalism and anti-globalism embodied by President Trump, was already leading us toward a transformation of the system imposed after the Bretton Woods Agreement and the Yalta Conference of 1945.

While the United States has lost faith in globalization and all it represents, whether as represented by institutions like the WHO and UNESCO, or through international trade, climate change and multilateralism, the Chinese people increasingly believe in the decisive role its country must play as the guarantor of a new world order, and in the words of President Xi Jinping himself, as a community with a single, shared destiny.

What is interesting at this point is that this new self-confidence is not restricted to economy or politics, but encompasses the diplomatic, cultural and technological spheres. If there is one country capable of replacing the US empire in all its facets, it is China.

The world has changed profoundly since the end of the 1940s—when US purchasing power parity represented 27.3% of world GDP and China’s 4.5%—to the present day, with the former at around 15% and the latter now at more than 19%.

US voters will have to decide on November 3, when their presidential elections are held, whether they want to continue with their administration’s current anti-globalization stance while holding on to their country’s global primacy, or to opt for a new approach to multilateralism based on the idea of the state returning to the center and a rethink of the prevailing liberal order.

In either case, Washington has three options with respect to China at the global level: the first is the confrontational approach that President Trump has chosen in his first term; the second is cooperation, which is what Europe seems to be choosing, and the third is competition, which is what the arrival of COVID-19 seems to be forcing, while reminding us that the decisions we take now are more global than ever, as are their consequences.

It is our decision whether we move toward a more closed, less prosperous and less free world. This pandemic, if left unchecked, will lead to greater confrontation between the United States and China and toward a weaker, less integrated and exhausted European Union.

The solution to our problems may lie in finding a vaccine soon that will stop the virus and another that will allow us to create a more pragmatic, protective and fairer form of internationalism. Time is not on our side.

Sun Tzu in his Art of War taught us that if “you know the enemy and you know yourself, you do not have to fear the outcome of a hundred battles. If you know yourself but not the enemy, for every battle you win you will have a defeat. And if you don’t know the enemy and you don’t know yourself, you will perish in every battle.”

With each day that passes, China shows us that it knows itself perfectly and that it knows us. The way East and West have respectively managed COVID-19 has shown this all too clearly.
China’s growth trajectory over the past 30 years has been remarkable, with Chinese firms emerging as major players in the international market for mergers and acquisitions. For example, in May 2020, China Railway Construction Corporation bought 75% of Aldesa, a Spanish multinational family firm with revenues of around a billion euros and operations in multiple countries.

However, the overseas investment trajectory of Chinese firms has been on a downward path over the past four years. I expect this trend to continue, although some strong economic forces will cushion the fall.

To start with, it is useful to look at the latest data compiled by the Berlin-based MERICS think tank: the 2019 update on Chinese foreign direct investment (FDI) in the European Union (EU). The data shows three interesting patterns:

1) The downward trend in Chinese FDI in the EU that started in 2016 shows no sign of reversing. In 2019, Chinese FDI transactions in the EU-28 dropped by 33% and were back to 2013 levels.

2) China’s state-owned enterprises, which accounted for the lion’s share of investments between 2010 and 2015, are no longer the main investors. For example, in 2019 they accounted for only 11% of the aggregate Chinese investment in Europe (the lowest level since 2000).

3) Chinese firms are looking for alternative ways to equity investments to create partnerships with European institutions. Most notable is the increase in research and development collaboration.

There are several explanations for the above. On one side, during the last three years the Chinese government has tried to curb capital outflows to better control fluctuations in the exchange rate of its currency. At the same time, European policymakers have increased the regulatory obstacles to purchases by Chinese investors because of concerns about sensitive technology transfers. I expect these trends to persist because the strong political pushback against economic and financial globalization will not stop any time soon.

On the other side, there are several factors that point toward more Chinese investment in Europe. Among these are the lifting of restrictions on raising finance in the post-COVID world. Central Banks everywhere are willing to supply ample liquidity, while the main concern of the regulators is not excessive leverage but insufficient risk-taking and lack of economic activity. In the post-COVID world, access to financing will no longer be an obstacle to mergers and acquisitions. Moreover, COVID-19 has reinforced the role of technology in business activity. Developing technology is costly and subject to what economists call “increasing returns to scale”. In other words, there are advantages to being large when creating and applying new technologies, which is a motivation to grow and gain market size through mergers and acquisitions, particularly at times of crisis, when the valuation of a target can be depressed.

"There are advantages to being large when creating and applying new technologies, which is a motivation to grow and gain market size through mergers and acquisitions, particularly at times of crisis, when the valuation of a target can be depressed."
Given that family-run companies make up between 75% and 90% of Western economies, anybody coming to Australia, New Zealand, Europe or North America to do business is likely to find themselves talking to one at some point. The golden rule when doing business with a family-run company is that any outcome must be win-win. Only when a balance is established in which both parties understand that there is a reasonable and fair basis to what is given and what is received, can a lasting and viable relationship be created.

That said, this principle is likely to underpin any business venture, regardless of the type of ownership. However, if you’re thinking of doing business with a family-run enterprise, I would recommend focusing on the following factors, which reflect their particular personality:

1/ Shared values
Family businesses tend to have a highly developed culture that has been defined by the values of the founders over the years, and that will be reflected in the behavior of the people who are part of them. In short, it is very difficult to do business with a family business unless both parties’ values are aligned. Each company has its own values, but honesty, perseverance, resilience, excellence, commitment to home territory and its people or a spirit of innovation are part of the DNA of many family businesses. Only if there is an evident convergence of values with yours would I encourage knocking on the door of a family-run company to do business.

2/ Share a project with a long term vision.
Family business owners don’t usually think about one-off deals. Instead, they tend to take a long-term view. That’s why it’s usually a very good idea when presenting them with a business opportunity in which to collaborate by talking not just about today but tomorrow and beyond. What is the long-term sustainability of the opportunity you are proposing? In short, how can this proposed business opportunity contribute to the continuity of the family business?

3/ Building relationships of trust
I can’t imagine a lasting relationship with a family business in which the owners do not end up intervening at some point. There may be parts of the negotiation process in which only non-family managers are involved but, when it comes down to it, the owner will want to sit down with the top manager of the company proposing a deal. If there is a personal connection, if there is trust, the business will prosper and an agreement will be signed. Otherwise, it’s not going to happen.

4/ Be ready for “deal breakers” with family businesses
In this last section I would mention that when negotiating with family businesses you will have to deal with any number of singularities. In my long history of working in and with family businesses I have seen that, out of the blue, issues such as the name of the joint venture, or the place where to set up the first store or the specific person in the family who should be the CEO of the joint venture, became “deal breakers”. Behind these questions lies the undoubted desire for control that is often a critical factor for the owners of family businesses.

In conclusion: family businesses can make excellent partners who may end up considering you as part of the family over time. But to get to that point, you will need to arm yourself with patience, hone your communication skills, and above all, draw on your reserves of empathy.
Understanding Family Businesses in China: the Path, the Trend, and the Future

LISA WANG / Founder of Link The World Advisers

What’s the best approach to doing business with Chinese family-run companies?

In January of this year, the IMF predicted the global economy to grow from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% for 2021. Six months later, the World Bank’s Global Economic Prospects highlights the damage caused by the COVID-19 pandemic, estimating a 5.2% contraction in global GDP, the deepest recession in decades.

China, the first country affected by—and the first to emerge from—confinement, will be one of the few economies in the world that expect to report economic growth this year: between 1% and 2%. Therefore, doing business with this country continues to be attractive to many European companies.

By the end of 2017, there were around 27 million private companies in China, most of which were family-run. Doing business with these companies is not always easy, and the complexity of the market requires prior considerations and best practices.

Below are a few practical recommendations that may serve as a guide for working with potential Chinese partners and may also be helpful in dealing with negotiation.

Firstly, I would stress the importance of making a medium- to long-term commitment and devoting the necessary investment budget and resources. It should be borne in mind that an investment project in China typically needs from one to three years before it will become profitable on a regular basis. In short, a lack of financial and human resources or depending on unskilled personnel are often the reasons why European companies fail to succeed in China.

At the same time, creating a relationship based on trust is essential for doing business and ensuring the success of the project. Preparing access to potential partners through the right connections (Guanxi) is a good way to increase trust on the Chinese side. We must also be very aware of the role family, politics and social standing play in business. These subjective aspects can be a vital part of business relationships. With Chinese family businesses, the relationship of trust must be cultivated over time on an ongoing basis, and often outside of purely business meetings.

As a general rule, the foreign companies that succeed in China are those that have taken the time to study the market and have a product or service that meets local needs. A first step to understanding the market begins with recognizing the cultural and management differences between Europe and China. This will allow us to respect and adapt to them as much as possible and avoid culture shock.

For example, in terms of communication, we should not only pay attention to what is being said, but how it is said. We should bear in mind that our Chinese interlocutors may well be reserved and prefer to wait before speaking, while seemingly remaining impassive, avoiding externalizing their emotions. Most Chinese are good listeners: they first process information and then, after consideration, make their opinion known. When they do so, unlike many Westerners, who are more direct, they can give the impression of “beating around the bush”, but this is usually an inherent way of expressing an opinion without offending the other party.

A “yes” can mean agreement, but it can also mean expressing understanding or disagreement on many occasions in China. That is why knowing how to interpret messages is fundamental to reaching a meaningful understanding with the Chinese side and maintaining communication.

From the point of view of management differences or expectations, in general, it is more difficult for Chinese companies, which will likely have experienced the rapid growth of their businesses in recent years, to accept initial losses after setting up a joint venture with a foreign partner. However, factoring in losses during the early years of a new business is common in a Western business plan. The tension that may arise from this difference will need to be addressed through frequent and fluid communications between both parties.

Finally, before doing business in China, ask yourself if you have a win-win proposition. It may seem obvious to point this out, but it is unlikely that any relationship or negotiation will prosper if the Chinese party does not believe that there is anything to be gained by allying itself with a foreign company. Agreements can be reached in the short term, but an unequal strategic alliance will not work in practice.
It is not about the West. The future of family philanthropy in China

We all know the names of Ford, Carnegie, Rockefeller, Buffet and Gates when it comes to family philanthropy in the West, and especially in the United States. And most of us probably remember the pressure Bill Gates faced, shortly after becoming the richest man in the world, when there were still few signs of philanthropic bequests (criticism which soon receded after he established one of the largest philanthropic foundations in the world).

In China, philanthropy has a long history, albeit on a smaller scale, practiced by individuals and families. As the country grows richer, the generosity of individuals, again on a smaller, personal scale, is shown by payments made through the WeChat social network in response to, for example, family members eliciting donations to help someone in trouble, or in the wake of a natural disaster. But China has no experience establishing large philanthropic organizations of the modern model – founding museums, establishing hospitals and building large schools. Mobilizing profits and investing them in modern institutions (schools, universities, hospitals and the dissemination of culture) is largely a distinctly modern, American phenomenon.

There are, however, notable exceptions. For example, the ethnic Chinese Aw Boon Haw (Hu Wenhu, 1882-1954), better known as the Tiger Balm King, was an ethnic Chinese from Burma well-known at the turn of the twentieth century by those acquainted with East Asia for his eponymous balm, as well as for being a very generous philanthropist. His charitable donations, mostly for the building of hospitals and schools procured him symbolic capital and established him as a prominent member of society in China, Singapore, Malaysia and beyond. Aw was criticized for using philanthropy to further his business and political interests, but his defenders have often noted that the statutes of his core enterprise stated that 25% — and later 60%—of his company’s annual income should be allocated to public services. For example, between 1929 and 1939, Aw’s charitable donations built 11 hospitals and 17 schools in China, and an even larger number in Southeast Asia. Perhaps the form of philanthropy practiced by Aw in overseas Chinese communities was calculated in part to establish personal networks with these communities, and in the process raise his personal profile and social prestige, while at the same time benefiting his company through the publicity generated. But it would be wrong to dismiss these efforts solely as a cynical profit-making enterprise.

After the establishment of the Peoples’ Republic of China, there was little private capital in China to carry out any form of philanthropic activity. But in the last half century, as wealth in China has grown, philanthropy in the Chinese-speaking world has begun to appear. The names of Hong Kong tycoons like Li Ka-shing (b 1928) and Robert H.N. Ho (b 1932), or the Fujianese Cho Talk Wong (Cao Dewang, b 1946), chairman of the Fuyao Group, are known both for their large fortunes and their philanthropic foundations, which are extremely active both in Asia and in the West.

The case of Robert H. N. Ho is a particularly interesting case of a family profoundly involved in their philanthropic foundation. Robert H.N. Ho belongs to the third generation of the prominent Eurasian Hotung family from Hong Kong. His grandfather’s was a classic rags-to-riches story, rising from a middle-man on the Hong Kong docks to major investments in real estate, media and finance, and eventually, a knighthood. In 2005, Robert H.N. Ho decided to establish a family foundation. One of the guiding principles of the foundation is that the arts are fundamental to the growth and health of society at large and for the development of well-rounded individuals. To this end, the foundation focuses on the dissemination and promotion of Chinese Arts and Culture, as well as Buddhism. The interest in Buddhism was inspired by Mr. Ho’s late grandmother, who was a devout Buddhist.

The foundation is a family affair, now largely in the hands of his two sons. It has funded a new wing of the Victoria and Albert Museum, established university chairs in Buddhist Studies in North America and Europe, developed art education programs, sponsored art exhibitions, and worked closely with schools to examine current issues of identity, community and cultural heritage. It has also funded innumerable scholarships and supported many other projects throughout Europe, Asia and North America that engage in cross-cultural exchange, with a special emphasis on China’s cultural heritage.

One of the interesting questions in coming years is whether the new rich in Mainland China will adopt the model of the family foundation dedicated to philanthropy. This model exists not only among prominent families in the United States—like Gates and Jeff Bezos—but also closer to home, in Hong Kong. A second question is, assuming such family foundations do emerge, where will they direct their focus: on education, medicine and scientific research or, as in the case of the Ho Foundation, on culture.
RIDE THE WAVE OF TECH INNOVATION

TECH MBA

BRIDGE THE GAP BETWEEN BUSINESS, DATA AND TECH

SKILL UP TO BECOME A DIGITAL TRANSFORMATIONAL LEADER

IMMERSE IN DIGITAL TRENDS AND SHAPE THE FUTURE

IE.EDU/TECH-MBA