



Whitepaper on The Second China Best Managed Companies Program



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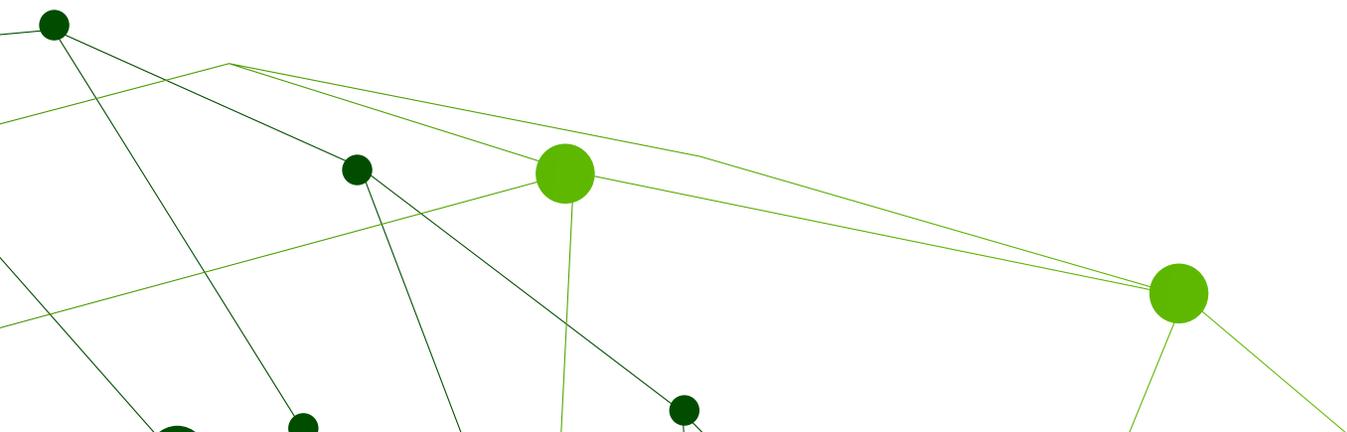
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Preface

The Best Managed Companies (BMC) program is a global initiative of Deloitte. Since its launch in Canada in 1993, BMC has been introduced in over 20 countries and regions in the world and participated by more than 10,000 private companies. In 2018, Deloitte China, with partners including Bank of Singapore, the Business School of Hong Kong University of Science and Technology, Harvard Business Review China and the Federation of Shenzhen Commerce launched the BMC program in China. The selection was made among the nearly 90 recommended companies and according to 20 management areas corresponding to the four cornerstones of the global framework of Best Managed criteria: strategy, capability, commitment and financial strength. The second BMC selection in 2020 pays more attention to the enterprise's "systematization" and "equalization" capabilities, and evaluates the core competitiveness of the enterprise from perspectives such as unique values and strategic goals, outstanding management ability to integrate values with customer focus, lean management and operational excellence.

The year 2020 is a special year. It is also of special significance for us to release the Whitepaper on the Second China BMC

Program. The global spread of COVID-19 and the deepening trade frictions between China and the United States have exacerbated the global economic turmoil and the complexity of geopolitics. Weak overseas demand and supply chain disruptions pose many challenges for China's private enterprises. Although the government introduced a number of support policies during the epidemic and emphasized the overall direction of encouraging the development of China's private enterprises during the two sessions, private entrepreneurs are still under the pressure of business recovery after the epidemic, and need to think about how to persist in innovation inputs, improve their resilience and achieve high-quality development.

The main findings of this report are as follows:

I. China's economy on recovery path, challenges ahead

China's economy has shown signs of recovery and a V-shaped reversal may occur in the second half of the year. However, the further spread of the global pandemic and the uncertainty about the evolution of the novel coronavirus still pose challenges to economic recovery. Meanwhile, the growing trade frictions

between China and the United States have caused heavy losses to the economic exchanges between the two countries and also cast a shadow over scientific and cultural exchanges. In particular, import and export companies with products subject to additional tariffs imposed by China and the United States will be negatively affected by increased tariff costs and operational risks. Against this background, private enterprises are facing more challenges in expanding domestic and foreign markets, as well as internal operations management.

II. Private companies face challenges from survival to thrival

After the two sessions, policies to support the development of private enterprises continued to increase, but many private enterprises are still facing challenges after the epidemic. During research and interviews, private enterprises stated that the development challenges include the following seven points, namely, precise selection of the "second and third tracks" suitable for development, opening up a more globalized market, expansion of emerging areas and disruptive competitors, and reserve of more capital and human resources, returning to the essence of business to quickly understand the real needs of customers, establishing a more flexible organizational structure and

coordinating development, and effective response to reputation risks (to avoid the reputation of auxiliary businesses from affecting the development of the main business), etc. However, after the epidemic, the leading private enterprises will focus more on three challenges: first, the ability to integrate strategically in diversified sectors, second, whether the agility of the organizational pattern can effectively support rapid business iteration, and third, the implementation of innovation mechanisms and innovation commercialization. Thus it can be seen that, if the leading private enterprises want to achieve sustained growth, they still need to improve their core competitiveness in terms of integration, collaboration and innovation.

III. Break through dilemma and build resilience

Under the influence of macroeconomic uncertainties, it highlights the urgency of private enterprises to build a "second curve", requiring them to break through traditional business models, strengthen innovation mechanisms, and seek new markets and breakthroughs. BMC companies emphasize the continuous improvement of overall management capabilities. Through multiple rounds of research and interviews, we have found that the following four dimensions are the main investment focus for excellent

companies from “survival to thrive” in the context of the post-epidemic, and they need to achieve development across the economic cycle by enhancing their “resilience”.

- **In terms of strategy, develop a good economy.** The more uncertain the prospects are, the more the enterprises need to stand at a higher level strategically to achieve steady governance. Enterprises should regard “social enterprise” as the core of their strategic development, and combine enterprise income and profit growth with solving social problems and improving overall social welfare. This is also the expectation of the society for private enterprises after the epidemic.
- **In terms of capability, strengthen the construction of digital ecology.** The pandemic is accelerating the global digitization process, and the ability of innovation and digital business implementation in the post-epidemic era is no longer a multiple-choice question for enterprises, but a survival question. The implementation of the “new infrastructure” strategy will

strengthen the basic technical support for the development of China's digital economy, and promote the generation of more technological innovations and application scenarios. It not only brings opportunities for private enterprises, but also raises the demand for their digital capabilities.

- **In terms of commitment, develop agile leadership and focus on the training of efficient talent systems.** Agile leadership is one of the essential qualities of managers, which requires managers to change their mindsets consciously and systematically according to the situation, make quick response to opportunities and threats, and break through difficulties to achieve operational excellence. Under the background of the 14th Five-Year Plan, it will become an important trend to build a team of digital, international and innovative talents. In the wake of the epidemic, strategies and training plans for agile leadership and efficient talent systems must be put on the agenda.

- **In terms of financial strength, enhance cash reserves and tighten cost control.** The resilience of the enterprise is reflected in its sound financial strategy, healthy cash reserves and cost control ability. In the context of the escalation of the global epidemic, enterprises are facing unprecedented pressure on cash flow and the risk of cash flow disruption. Industries that are deeply involved in the global division of labor, such as medical, pharmaceutical, automotive, and semiconductor industries, face both the risk of supply disruptions in the upstream and the pressure of insufficient demand

in the downstream. Especially for manufacturing private enterprises, the level of the supply chain system determines the competitiveness of the enterprise. Improving inventory turnover, reducing accounts receivable, breaking down barriers between departments, and realizing comprehensive visualization and digitization of "resilient" supply chain are important links for private enterprises to revitalize their cash flow and realize "cost reduction and efficiency increase". At the same time, due to the complexity of geopolitics, overseas M&A investments also need to return to rationality.

2020 China Best Managed Companies

BMC Evaluation Background and Criteria

Leveraging a global framework of Best Managed criteria, this selection is based on the four cornerstones of excellent management: strategy, capability, commitment and financial strength. This framework covers best practices in 20 segment management areas.

Figure 1: Deloitte’s Global Framework of Best Managed Criteria



Strategy

- Well-defined strategies, underpinning key business
- In-depth reflection upon strategies on a regular basis
- Efficient team communication and strategy execution
- Leader in certain industry segments

Capability

- Higher productivity
- Strong resource integration capability
- Strong capability to commercialize innovative digital solutions
- Leading position in brand value
- Strong global operation
- Risk intelligence

Commitment

- Continued investment in talents
- Individualized, flexible, and holistic incentive mechanism
- Enhanced corporate culture centered on “Work As One”
- Future leadership development and succession plan
- Social responsibility

Financial strength

- Excellent financial performance
- Transparent and effective financial management
- High asset efficiency
- Well balanced corporate governance mechanism
- Effective tax management

Source: The Global BMC Program

Since the launch of the project on August 1, 2019, Deloitte and its partners have recommended nearly 90 companies to participate in the BMC selection. From August to December, the selection team conducted a preliminary screening of the recommended enterprises from the perspectives of industry ranking, enterprise size/management level, financial strength, shareholder/executive situation, risk compliance and so on, and issued registration forms to a total of more than 30 enterprises. Since late December, according to the registration information submitted by the enterprises, the selection team has conducted research, analysis and comparison, and held the "Best Managed CEO Lab" for more than 20 shortlisted excellent enterprises.

The "Best Managed CEO Lab" starts from the 20 management fields corresponding to the four cornerstones of the company's strategy, capability, commitment and financial strength, and forms an on-site review committee with over 30 Deloitte experts and more than a dozen experts from the Bank of Singapore, who will conduct comprehensive and in-depth discussion with the CEOs and senior management teams of the shortlisted enterprises to sort out the current status of enterprise management and summarize excellent management practices and management characteristics. The implementation of the "Best Managed CEO Lab" has won high praise from the candidate private enterprises. After more than five months of research, review and communication, we selected the following 14 new award-winning enterprises, and 19 enterprises passed the re-election list. At last, a total of 33 enterprises were shortlisted for the 2020 China BMC List.

2020 China BMC new winners (in alphabetical order)

Company Name	Sector
Fosun International Limited	Life science/Consumer/Financial services
Wison Engineering Ltd.	Energy
Jiajiayue Group Co., Ltd.	Consumer
iFLYTEK Co., Ltd.	IT
Lakala Payment Co., Ltd.	IT
360 Security Technology Inc.	IT
BGI Genomics Co., Ltd.	Life science
Shenzhen YUTO Packaging Technology Co., Ltd.	Manufacturing
WeDoctor	Life science
New Hope Dairy Co., Ltd.	Consumer
Joy Wing Mau Corporation Limited	Consumer
CIFI Holdings (Group) Co., Ltd.	Real estate
Agile property land limited	Real estate
Intime Retail (Group) Company Limited	Consumer

Honorees of China BMC for two consecutive years (in alphabetical order)

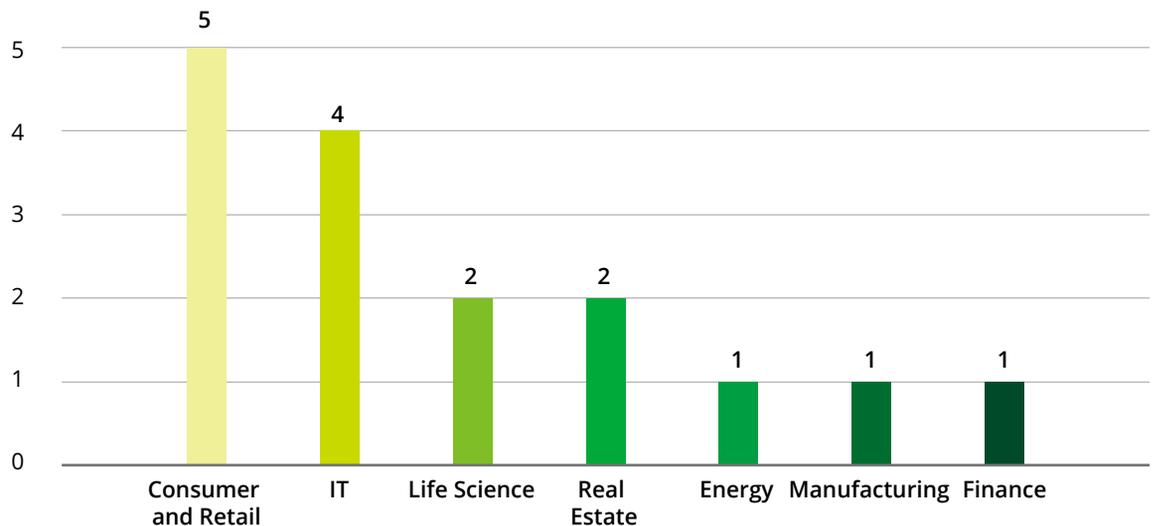
Company Name	Sector
iKang Healthcare Group, Inc.	Life science
Better Life Commercial Chain Share Co., Ltd.	Consumer
Skyworth Group Co., Ltd	Manufacturing
Daqo Group Co., Ltd.	Manufacturing
Kidswant Children Products Co., Ltd.	Consumer
Haidilao International Holding Ltd.	Consumer
Hengan International Group Co., Ltd.	Manufacturing
Jack Sewing Machine Co., Ltd.	Manufacturing
9F Inc.	IT
Longfor Group Holdings Limited	Real estate
Shandong Weigao Group Medical Polymer Company Limited	Life science
Shanying International Holding Co., Ltd.	Manufacturing
Shenzhen Mindray Bio-Medical Electronics Co., Ltd.	Life science
Shenzhen Absen Optoelectronic Co., Ltd.	Manufacturing
Shenzhen Inovance Technology Co., Ltd.	IT
Topchoice Medical Corporation	Life science
New Oriental Education & Technology Group Inc.	Consumer
Yantai Jereh Oilfield Services Group Co., Ltd.	Energy
China Education Group Holdings Limited	Consumer

Overview of BMC Award-winning Companies

Among the 14 enterprises awarded in 2020:

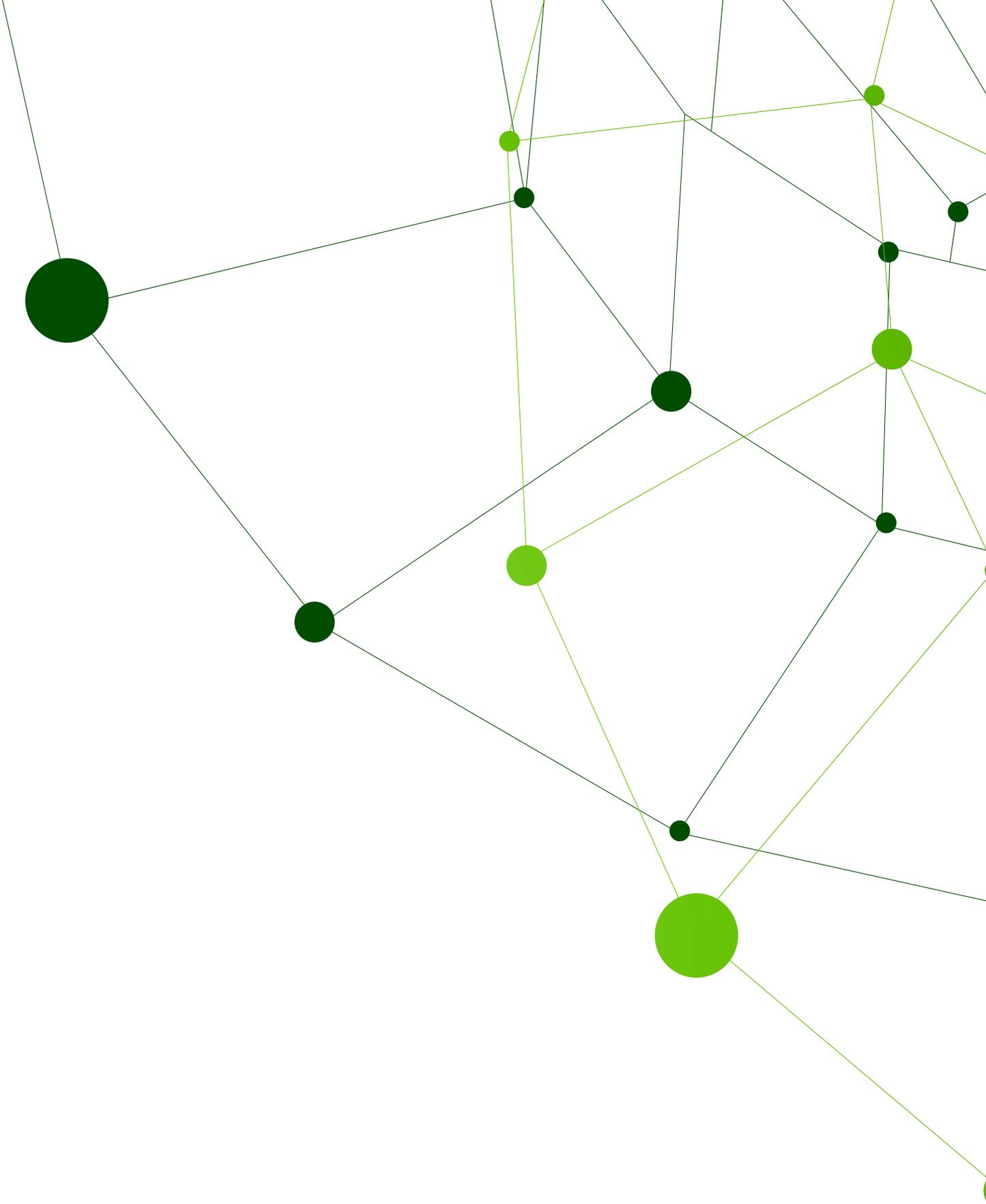
- **Revenue scale distribution in fiscal 2019:** 3 enterprises >50 billion yuan, 3 enterprises between 10-50 billion yuan, and 6 enterprises among 2-10 billion yuan (another 2 not disclosed)
- **Revenue growth rate in fiscal 2017-2018:** 3 enterprises >30%, 7 enterprises between 10-30%, 3 enterprises <9% (another 1 not disclosed)
- **Net profit margin in fiscal 2019:** 3 enterprises >15%, 5 enterprises between 5-15%, 3 enterprises <5% (another 3 not disclosed)
- **ROE in 2019:** 2 enterprises >20%, 5 enterprises between 10-20%, and 4 enterprises <10% (another 3 not disclosed)
- **The industry distribution of the 14 enterprises:** 1 in industrial manufacturing, 4 in consumer goods and retail, 4 in information technology, 1 in life science, 1 in energy, 2 in real estate, and 1 involves life science, consumer goods and retail and finance.

Figure 2: Industry distribution of BMC Winners



Source: Deloitte Research

Against the background of an overall slowdown in economic growth, BMC winners still generally show excellent return on assets and growth potential. It can be seen that **the continuous upgrading and forging of the comprehensive management capabilities of an enterprise will be directly reflected in the realization of its economic value.**



Volume 1:

Questionnaire analysis on China BMC after COVID-19

2.1 Economic situation observation

The epidemic has aggravated the uncertainty about the global and Chinese economic outlook

At present, global economic growth is entering a cycle of slowdown, and the worldwide epidemic caused by COVID-19 has cast a shadow over the global economic outlook. The rise of protectionism and populism, and the deepening of trade frictions have also exacerbated the uncertainty of the global economy, and global economic growth expectations have continued to decline. After the COVID-19 outbreak, the International Monetary Fund (IMF) has lowered its forecast for global economic growth in its latest World Economic Outlook Report released in April. It is expected that global GDP will shrink by 3% in 2020, which is the worst economic recession since the Great Depression of the 1930s. If the epidemic can be effectively controlled in the second half of this year and supported by a series of policies, the global economy is expected to make a recovery in 2021 with a 5.8% increase in growth.

China's GDP contracted 6.8% in the first quarter of this year compared with a year earlier. From the perspective of "three carriages" (investment, export and consumption), the total retail sales of consumer goods saw a 19.0% reduction year-on-year in the first quarter, with consumer staples and physical merchandise online sales bucking the trend; investment in

fixed assets dropped by 16.1% year-on-year, but the investment in e-commerce, professional technical services and anti-COVID-19 related industries have taken off; exports are facing heavy pressure, with year-on-year declines of 13.3 per cent in exports and 2.9 per cent in imports (in US dollars). With the gradual control of the epidemic and the resumption of work and production in China, and with unexpected stimulus measures, China's economy is expected to improve significantly in the second quarter. However, the Chinese economy should recover strongly in the second half provided the COVID-19 infection curves flatten in the US and western Europe by late Q2. A meeting of the Political Bureau of the Central Committee of the CPC held on March 27 proposed to raise the fiscal deficit ratio, issue special treasury bonds, increase the scale of special bonds for local governments, and guide the interest rates to decline in the loan market to promote economic recovery.

For other Asia countries, the external demand from major developed economies (which are generally in recession) has dropped, and as the largest economic partner of their Asian neighbors, China's recovery will support their economic development. We think that China's GDP growth rate in 2020 will be around 3%, and most emerging Asian countries will achieve varying degrees of positive growth.

The sudden outbreak of the epidemic has affected the operation of private enterprises in many ways. First of all, the epidemic in China has reduced consumer demand and orders, resulting in a shortage of operating cash flow for many private enterprises and the interruption of supply chains. With the outbreak of the epidemic overseas, private enterprises that are highly dependent on external demand are facing a sharp decrease in orders. The epidemic has accelerated the online process of enterprise operations and business models, and put forward new requirements for the digital transformation of private enterprises. The epidemic has also impacted the fund raising and follow-up investment of private enterprises interested in overseas expansion.

China-US trade frictions have affected China's foreign cooperation

More than two years of trade frictions between China and the United States was eased after the signing of the phase-one economic and trade agreement in January, but the epidemic outbreak has exacerbated the tense trade relationship between the two countries. Given the impact of COVID-19, it is

unlikely that China can deliver on its promises to increase imports of U.S. goods and services by \$200 billion over the next two years, so we should not be blindly optimistic. Even in the absence of a trade war, trade tensions between China and the United States could well be a long-term theme that is further complicated by domestic politics in both countries and the geopolitical overlay.

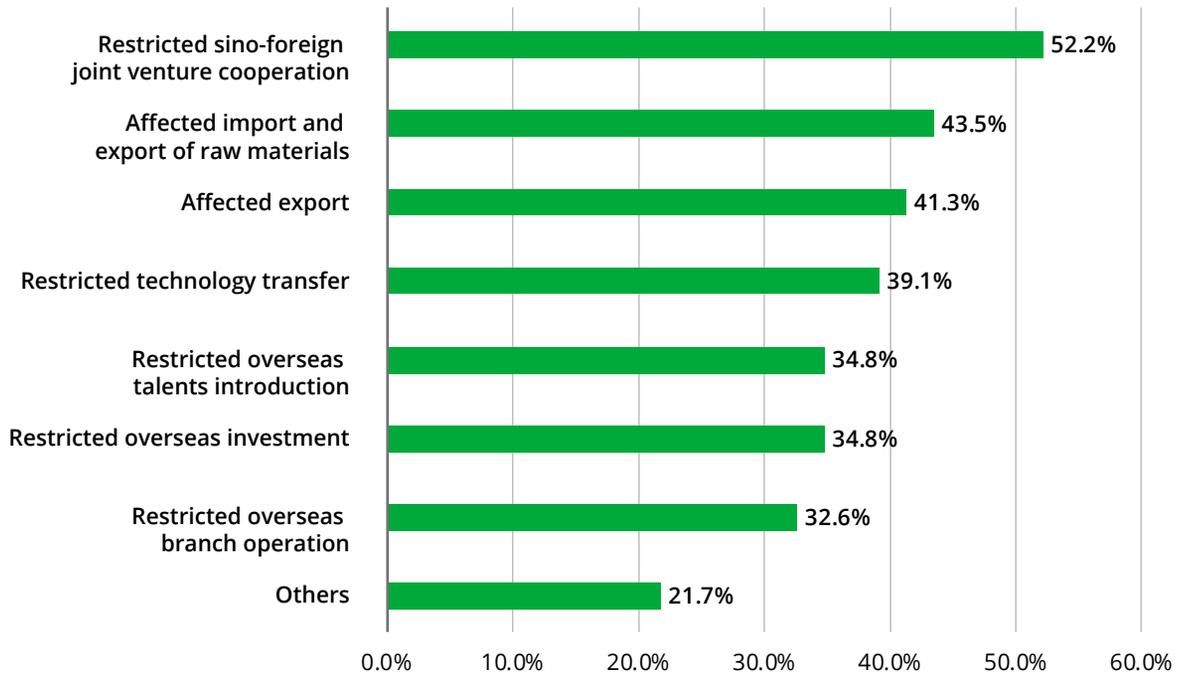
The China-US trade frictions have had a relatively negative impact on most industries in China. Multiple rounds of tariff increases have raised the cost of major export commodities, making the competitiveness of the products decline. The technology ban has forced some enterprises to interrupt the core technology R&D and the procurement of core components. The investment ban has blocked some Chinese companies' overseas acquisitions and market expansion. Trade tensions have also drawn attention to global corporate supply chain strategies. Fundamentally, global supply chains are built on the principle of profit maximization and inventory minimization, but the trade-off between profit and certainty has become more and more important.

During the period of sending and receiving the questionnaire, the epidemic has not yet spread to the whole world, but the trade frictions between China and the United States have had a significant impact on the strategies and operations of many private enterprises. In particular, import and export enterprises that impose additional tariffs on products of China and the United States will bring negative effects such as increased tariff costs and business risks. According to the survey results (see Figure 3), the major impacts include: restricted Sino-foreign joint venture cooperation (52.2%), affected import and export of raw materials (43.5%), and affected export (41.3%). In addition, the upstream and downstream enterprises of related products may also be affected by the increased tariff costs of their customers or suppliers.

As the mainstay of China's economic development, private enterprises have actively taken a series of measures to cope with the situation of supply chain obstruction and insufficient external demand caused by global political and economic uncertainties. According

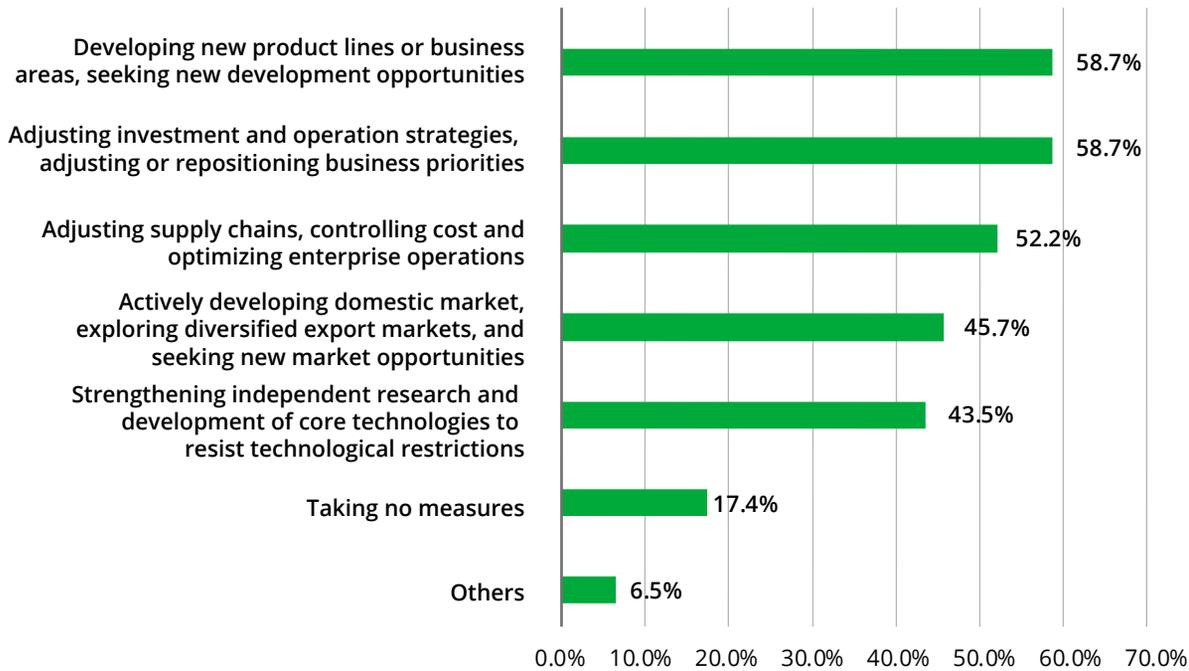
to the survey results (see Figure 4), the countermeasures taken by private enterprises at present mainly focus on five aspects: expanding business areas(58.7%), adjusting investment and operation strategies (58.7%), adjusting supply chains (52.2%), developing domestic market (45.7%), and strengthening the research and development of core technologies (43.5%). By developing new product lines and business areas, private enterprises actively adjust product mix and optimize and upgrade production capacity. Through timely adjustment of investment and operation strategies and repositioning of business priorities, private enterprises are gradually turning to high-quality, innovation-driven development; And by adjusting the layout of overseas supply chains, they control costs and optimize enterprise operations. Simultaneously, the resilience of Chinese consumers has attracted many private enterprises to pay more attention to the needs of the domestic public and actively expand the domestic market. However, these measures have had little effect as trade frictions and geopolitical turmoil between the US and China still persist.

Figure 3: Since the Sino-US trade frictions, what do you think is the most serious impact on your company?



Source: Deloitte Research

Figure 4. In order to deal with the long-term impact of the Sino-US trade frictions, what countermeasures did your company take?



Source: Deloitte Research

After the NPC and CPPCC sessions, policies to support the development of private enterprises have been strengthened to stabilize employment

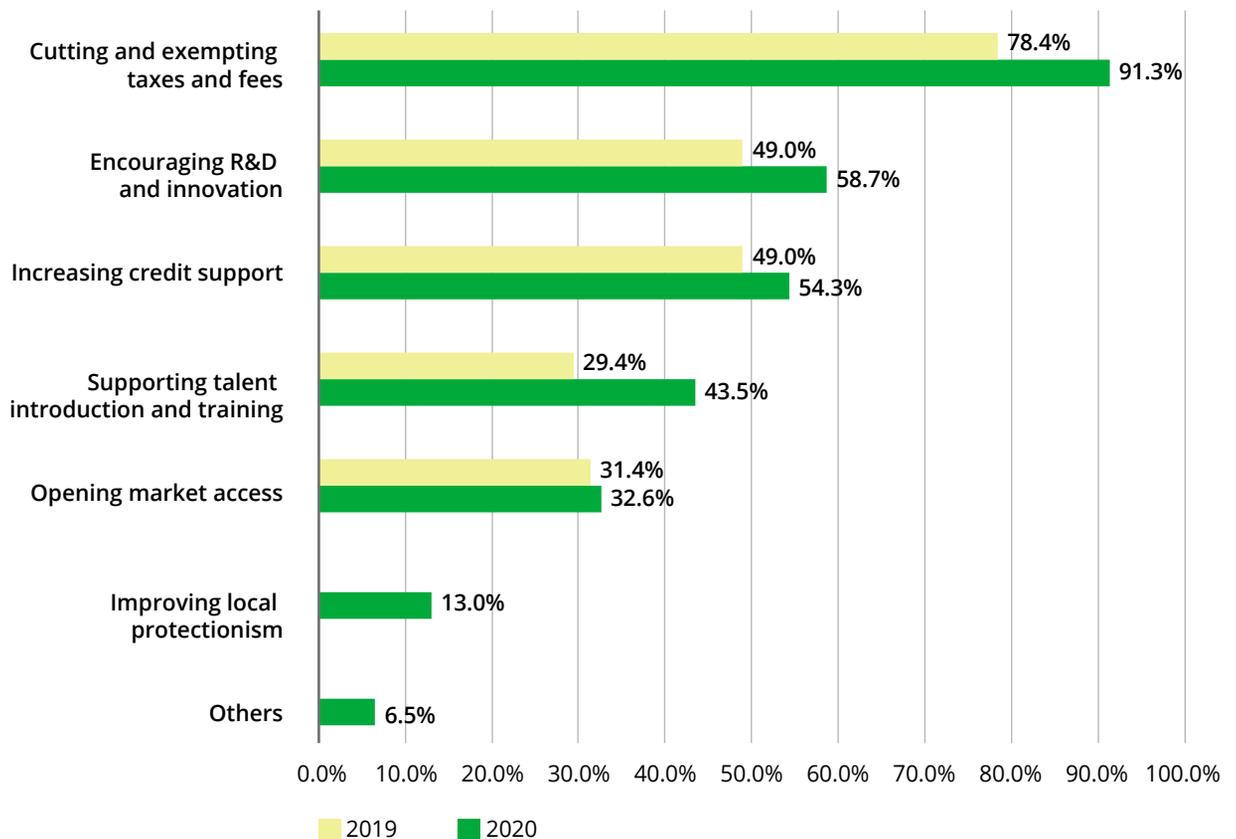
China has issued a series of policies to effectively help private enterprises reduce expenditure and support their innovation. At the just-concluded two sessions, the central government has placed employment stability above economic growth. In terms of creating new jobs, the target is 9 million in 2020, which is lower than the actual completion in 2018 and 2019 (both above 13

million). Private enterprises will undertake more than 80% of urban labor employment and over 90% of new employment. If policymakers make employment stability a top priority, fiscal expenditures will be more sensible than in the past, rather than tied to big investment projects. The government can introduce stronger fiscal measures to reduce costs and burdens for private enterprises, prevent large-scale layoffs, and strengthen protection and support for private enterprises

Especially in recent years, the Chinese government has actively promoted supply-side structural reforms and introduced a series of policies that benefit enterprises. The questionnaire survey (see Figure 5) shows that “cutting and exempting taxes and fees”, with a proportion of 91.3%, far exceeds “encouraging R&D and innovation” (58.7%) and “increasing credit support” (54.3%), which are the best policies to help private enterprises solve their difficulties. On December 22, 2019, the Central Committee of the CPC and the State Council issued the Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises, which adopted 26 measures to support the development of private

enterprises, among which “further reducing the tax burden of enterprises” is an important measure. According to data from the State Administration of Taxation, in the first three quarters of 2019, taxpayers in the private sector, including private enterprises and the individual economy, received an additional 964.4 billion yuan in tax cuts, accounting for 64 percent of the total additional tax reduction, making them the biggest beneficiaries of the central government’s tax reduction measures. Due to the epidemic, the state has introduced a series of tax and fee reduction policies, such as phased reduction and exemption of corporate social insurance premiums.

Figure 5: Among a series of policies recently issued by the state, which ones can most efficiently help private enterprises solve the difficulties?



Source: Deloitte Research

In addition to reducing taxes and fees, the Chinese government has also been committed to creating a more fair business environment for private enterprises. However, from our survey we can see that so far, enterprises have limited sense of gain in this area, only about 30% and 13% of enterprises believe that "opening market access" and "improving local protectionism" can help private companies solve their difficulties.

The Chinese government has also realized that it needs to make continuous efforts to improve the business environment for private enterprises. On the eve of the two sessions in 2020, the CPC Central Committee and the State Council announced the Opinions on Accelerating the Improvement of the Socialist Market Economy System in the New Era, which makes a more complete top-level design for China's economic reform after the COVID-19 epidemic. The Opinions mentioned private economy as many as 11 times, showing that it needs to improve the market, policies, rule of law and the social environment that support the development of private economy and foreign-invested enterprises, clearly put forward to protect the property rights of private economy, improve and build a new type of cordial and clean relationship between government and business, encourage private enterprises to participate in the implementation of major national strategies, and stabilize the confidence of private enterprises.

The government work report further proposes to foster an enabling environment for the development of the private sector. It ensures that private enterprises will have equal access to production factors and policy support, abolish those unreasonable regulations that unfairly differentiate enterprises according to form of ownership, and promote the healthy development of the non-public sector. This indicates that in addition to reducing the burden on private enterprises in the future, the government will make more efforts to create a fair development environment for private enterprises.

To sum up, no matter it is a series of policies from the central government or local governments, the biggest help for Chinese private enterprises at the present stage is still the "reduction" of tax revenue, which can help enterprises reduce operating costs and improve living space and competitiveness in a changing market environment. At the same time, innovation and development of private enterprises is an irresistible trend and over 70% of technological innovation achievements come from private enterprises. Therefore, improving the financing environment and credit barriers of private enterprises and promoting the introduction of excellent scientific research talents are also powerful policies to further encourage private enterprises to develop towards innovation.

A series of scientific and technological innovation measures are adopted to help private enterprises “shift and speed up”

Since the reform and opening up, the private economy has not only become a strong engine for China's economic growth, but also gradually become a pioneer in leading technological innovation and industrial upgrading. The government is also committed to providing a better innovation environment for private enterprises and helping them achieve digital transformation and upgrading.

The opening of the Science And Technology Innovation Board(STIB), which represents the new economy, has provided diversified opportunities for private science and technology enterprises and improved their financing efficiency. Its market mechanism of "survival of the fittest" is conducive to the innovative development of private enterprises. As of May 29, 2020, the Board had received 289 enterprises, and private enterprises and mixed-ownership enterprises accounted for more than 90%, becoming the backbone of fund-raising. Among them, the new generation of computer and information technology still accounts for the largest proportion, reaching about 38%, while among this, semiconductors, cloud computing, Internet of Things and artificial intelligence are the most fragmented industries¹. From the perspective of R&D personnel, the proportion of R&D personnel in private enterprises in the total number of employees is increasing year by year. Among the top 500 private enterprises in 2018, there were 184 companies with R&D personnel accounting for more than 10%(including 10%) of the total employees², while the number of R&D personnel in the Science And Technology Innovation Board

enterprises accounted for 29% of the total employees on average³.

The "new infrastructure" provides new development opportunities for innovative and technological private enterprises, and brings opportunities for digital transformation and upgrading for traditional manufacturing-based private enterprises. On April 20, the National Development and Reform Commission (NDRC) for the first time defined the scope of the new infrastructure, which had once again become the core of public attention. In the short to medium term, the new infrastructure under development will become an important driving force for "expanding domestic demand, stabilizing investment and maintaining growth", and an important measure to stimulate a rapid recovery of the domestic economy. In the long run, the new infrastructure aims to build a modern economic infrastructure system comprehensively, and achieve sustainable and efficient economic development with the strategic goal of building a world power in science and technology innovation by 2050. Technology, as the "raw material" of economic construction, is linked with Internet economy and digital economy, and its model is also different from traditional infrastructure. Traditional infrastructure projects need large investment and long cycles, while often have large social benefits but small economic benefits. However, new infrastructure projects do not necessarily require a large amount of government investment. As long as the government formulates proper policies, a large number of private enterprises will be willing to participate in new infrastructure. The commercial value of the new infrastructure

1. Data source: WIND Terminal.

2. Economic Department of All-China Federation of Industry and Commerce (ACFIC), Research and Analysis Report on China's Top 500 Private Enterprises in 2019, August 2019.

3. Data source: WIND Terminal.

is also immediate. Once the data center is put into operation, it will bring benefits immediately, and private enterprises will have more opportunities to actively participate in the new infrastructure construction. The new drivers and new economic track provided by the new infrastructure will put private enterprises and state-owned enterprises on the same new starting line. At the same time, we will further tap the development potential of digital platform-based private enterprises to fully drive the many upstream and downstream enterprises they contact.

Major challenges for private enterprises in the post-epidemic era

Today, private enterprises are facing more external uncertainties, continuing global political and economic turmoil and weak external demand, including China-US trade conflicts, COVID-19 epidemic, increasing regulatory requirements, complex and volatile customer requirements, supply chain pressure and so on. Enterprises and organizations must have strong organizational resilience to take the initiative in competition and maintain sustainable growth. This forces private enterprises to re-examine their strengths and weaknesses to better meet the challenges.

During research and interviews, the development challenges faced by private companies include the following seven aspects, namely, precise selection of "second and third tracks" suitable for development, development of more globalized markets, expansion of emerging fields and disruptive competitors, and reserves of more capital and human resources, returning to the essence of business and agilely understanding the real needs of customers,

establishing a more flexible organizational structure and coordinating development, and effectively responding to reputation risks (to avoid the reputation of auxiliary businesses from affecting the development of the main business), etc. However, leading private enterprises after the epidemic are more focused on challenges in three directions: first, the strategic integration capabilities of diversified sectors, second, whether the agility of the organizational pattern can effectively support the rapid business iteration, and third, the implementation of innovative mechanisms and innovative commercialization. It can be seen that if the leading private enterprises want to achieve cross-cycle growth, they still need to enhance their core competitiveness in three aspects: integration, collaboration and innovation.

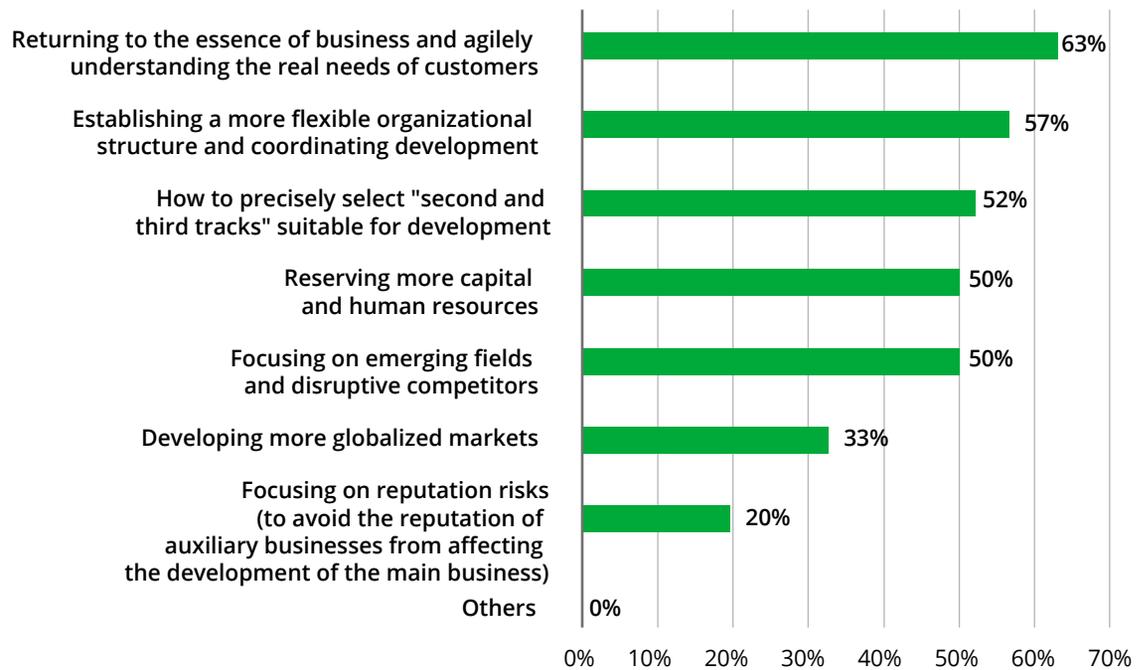
On the whole, the size and scale of China's private enterprises are large, but the contradiction of weak scientific and technological strength is still outstanding. In 2019, China accounted for only one of the world's top ten technology companies selected by Forbes Magazine. Since the China-US trade war, some private science and technology enterprises, led by Huawei, have suffered from external constraints. This has further stimulated private enterprises to carry out technological innovation. The top 500 private manufacturers continues to increase their investment in R&D, and R&D expenses have raised from 240.3 billion yuan in 2016 to 339.9 billion yuan in 2018. In 2018, the top five of the top 500 private enterprises spent over 10 billion yuan on R&D, among which, Huawei continued to top the list with 101.5 billion yuan in R&D expenses, 1.7 times the sum of the R&D investment of the other four enterprises.⁴

4. Ministry of Economy of All China Federation of Industry and Commerce (ACFIC), "2019 Research and Analysis Report of Top 500 Private Enterprises in China ", August 2019.

At the same time, the epidemic highlights the urgency of private enterprises to build a "second curve", break through traditional business models, strengthen innovation mechanisms, and seek new markets and breakthroughs, so as to overcome the obstacles of the economic cycle. In the process of seeking the second curve (see Figure 6), the biggest challenge for private enterprises is how to return to the nature of business to serve the needs of customers (63.0%). Over the past few years, China's consumer groups, consumption preferences

and patterns have undergone tremendous changes, and the epidemic has accelerated the transformation of consumption digitalization. To break through the bottleneck and rediscover the blue sea in the red sea, the key for private enterprises is to return to the nature of business and grow with consumers, suppliers and partners. Only by focusing on customers and grasping market changes, private enterprises can precisely select the "second and third track" suitable for their development, and achieve the goal of collaborated development by adjusting the organization.

Figure 6: What is the main challenge in the process of realizing "cross-cycle development and construction of the second curve"?



Source: Deloitte Research

In an increasingly complex environment of external challenges, if private enterprises want to further achieve high quality development, they need not only continuous national policy support. At the same time, the internal transformation and development of enterprises in terms of strategy, capabilities, talents and finance is the way to achieve resilient development, and is the "resilience" of private enterprises to deal with uncertainties.

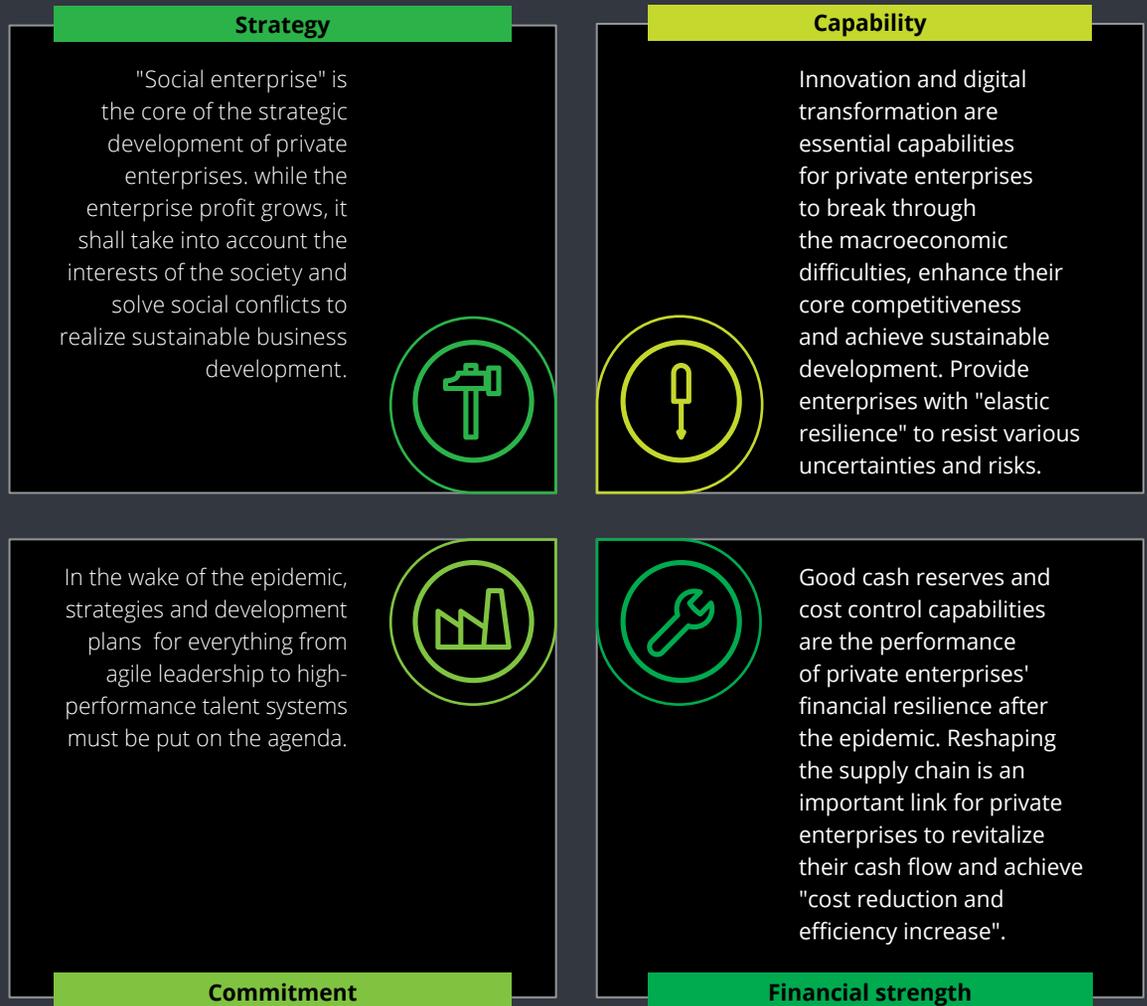
2.2 Responding to unknown changes with “resilience”

In the post-pandemic period, many experts are discussing "resilient enterprises", but most of them focused only on how to respond to emergencies. Indeed, in the past 30 years, companies have experienced a "once-in-a-lifetime" crisis every three to four years. These events are neither rare nor isolated but complex, interconnected and are the product of a confluence of systemic events. Resilient enterprises can not only survive for a long time, but also prosper across multiple economic cycles and stand the test of time. At the same time, these enterprises can predict, prepare for, respond to and adapt to changes and sudden disturbances to ensure survival and sustainable development. This is an important capability that Chinese private

enterprises need to build in the post-epidemic era, not only to "survive" in the short term, but also to enhance the "long-term strategy". The combination of the two is very significant, and crisis response is closely combined with the normal management of enterprises.

For Chinese private enterprises, we believe that building comprehensive and systematic management ability is still the key to building core competitiveness. In the post-epidemic context, in order to better realize the goal of "from survival to thrival", we see that excellent management enterprises generally increase their investment in the following aspects to better build their "resilience" for sustainable development.

Figure 7: Four elements of “resilient private enterprises” in the post-epidemic period



Source: Deloitte Research

- **In terms of Strategy**, enterprises should regard "social enterprise" as the core of their strategic development and focus on solving broader social problems at the this level. In the current complex international environment and social reality, social companies should incorporate the resolution of social conflicts into business models and product development, and incorporate the environmental, social and governance (ESG) factors into their business strategies to build a bridge between society and business. Social enterprises serve the whole society through commercial innovation and cutting-edge technology, and are committed to improving the life quality of the people, promoting social and economic development, creating employment opportunities, and enhancing social cohesion. At the same time, the good social reputation of social enterprises builds a positive image for enterprises in front of customers and talents, enhances their competitiveness on the international platform, and in turn improves their profitability. Therefore, social enterprise is a higher-level business model to fulfill corporate social responsibility and sustainable development. While the enterprise profit grows, it shall take into account the interests of the society and solve social conflicts to realize sustainable business development.

- **In terms of capability**, the capability of innovation and digital business implementation in the post-epidemic era is no longer a multiple-choice question for enterprises, but a survival question. Especially for private enterprises, the promotion of digital transformation is not only to meet the needs of adapting to the digital wave, but also an essential way for enterprises to break through the macroeconomic difficulties, reduce costs

and increase efficiency, enhance their core competitiveness and achieve sustainable development. It provides enterprises with "elastic resilience" to resist various uncertainties and risks.

- **In terms of commitment**, Agile leadership is one of the essential qualities for managers, who need to consciously and systematically change their thinking mode according to the situation, respond quickly to opportunities and threats, break through difficulties and achieve operational excellence. Under the background of the 14th Five-Year Plan, it will become an important trend to build a digital, international and innovative talent team. In the wake of the epidemic, strategies and development plans for everything from agile leadership to high-performance talent systems must be put on the agenda.

- **In terms of financial strength**, the resilience of enterprises is reflected in sound financial strategies, good cash reserves and cost control ability. With the escalation of the global epidemic, enterprises are facing unprecedented pressure on cash flow and risk of cash flow rupture. Industries that are deeply involved in the global division of labour, such as medical, pharmaceutical, automobile and semiconductor industries, face the risk of supply interruption in the upstream, as well as the pressure of insufficient demand in the downstream. Improving inventory turnover rate, reducing accounts receivable, breaking department barriers, and realizing a comprehensive visual and digital "resilient" supply chain are important links for private enterprises to revitalize cash flow and realize "cost reduction and efficiency increase".

2.2.1 Develop social enterprises and create a “good” economy

Social enterprises, from mission and vision to strategic action

In the post-epidemic era, the leading companies at home and abroad are thinking about how to balance the creation of economic value and the creation of social value in the transformation process of “from survival to thrival”, so that the vitality of the enterprises will be longer, and they can not only survive, but also create greater and more lasting social value with changes in political, economic, technological, and social trends.

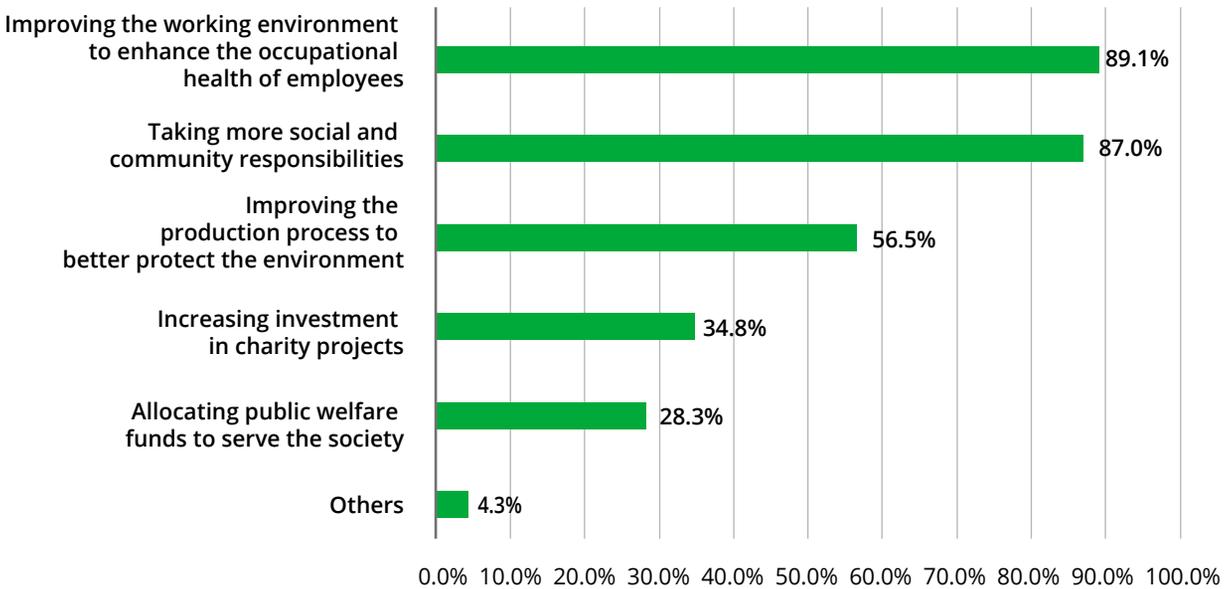
In terms of corporate social responsibility and sustainable development, the concept of social enterprise is further proposed as follows:

“A social enterprise is an organization whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network. This includes listening to, investing in, and actively managing the trends that are shaping today’s world. It is an organization that

shoulders its responsibility to be a good citizen(both inside and outside the organization), serving as a role model for its peers and promoting a high degree of collaboration at every level of the organization. Becoming a social enterprise is not only a corporate social responsibility, but also needs to change the operation mode of the organization to balance the multiple demands of the organization itself and the broader business ecology.”

At present, the definition of "social enterprise" varies from person to person in the international community. The concept of "social enterprise" has not been widely recognized among Chinese private enterprises, and most of them are still in the development stage of fulfilling corporate social responsibility(CSR), and have not yet promoted the concept of "social enterprise" to a strategic level. This year’s survey show that the majority of private enterprises believe that their CSR is mainly invested in their internal employee welfare (89.1%), external community responsibility (87.0%), and environmental protection (56.5%) (see Figure 8).

Figure 8: Which of the following social responsibilities will your company invest in in the future?



Source: Deloitte Research

Through the selection of Best Managed Companies, we can see that some outstanding private enterprises have gradually elevated the core concept of "social enterprise" to their strategic actions, which is to combine the revenue and profit growth of the enterprises with their respect and support for the society and environment. In Deloitte's survey of nearly 9,000 business and human resources leaders in 119 countries, 50% of the respondents believe that their organizational mission extends broadly to all stakeholders, including the communities they served and society as a whole. Google, Wal-mart, Huawei, Alibaba and other industry giants have adjusted and upgraded their mission and vision to adapt to social development.

Why is the concept of "social enterprise" so important in the post-epidemic era? Because

to create a sense of security in a reshaped world, enterprises must "put people first and restore value". Enterprises no longer only make donations, but use their business model, ability and resources, and even technological strength to solve the fundamental contradictions of society, which has become an important support for the operation of society.

- **Mission:** Instead of talking about mission, organizations shall embed their values into all aspects of daily work.
- **Potential:** Design and build an organization that can allow humans to maximize their unique thinking, creativity and action in a mechanized environment.
- **Vision:** To encourage and embrace the future, organizations shall not only optimize the status quo, but also pursue the creation of future value.

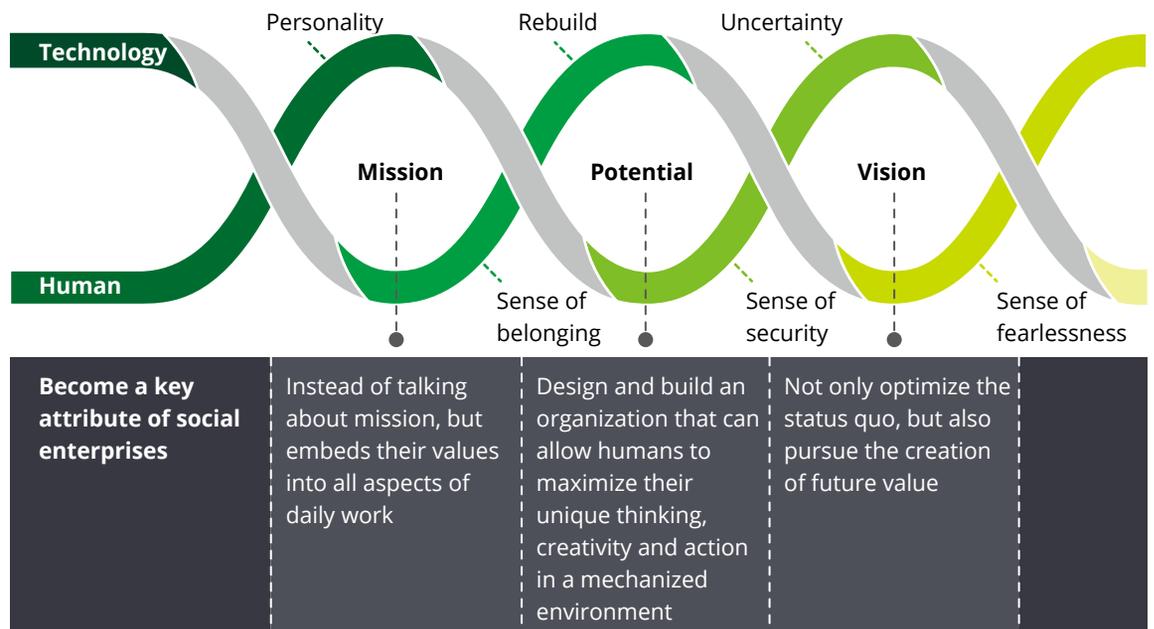
2.2.2 Lay emphasis on digital ecological construction and stabilize innovation and reform capacity

Construction of new infrastructure accelerates digital upgrading

In the context of vigorously developing new infrastructure and digital economy, all walks of life have embarked on the road of accelerating digital transformation. For private enterprises, especially small and medium-sized enterprises, the promotion of digital transformation is not only to meet the needs of adapting to the digital wave, but also an essential way for enterprises to break through difficulties, enhance their core competitiveness and achieve sustainable development.

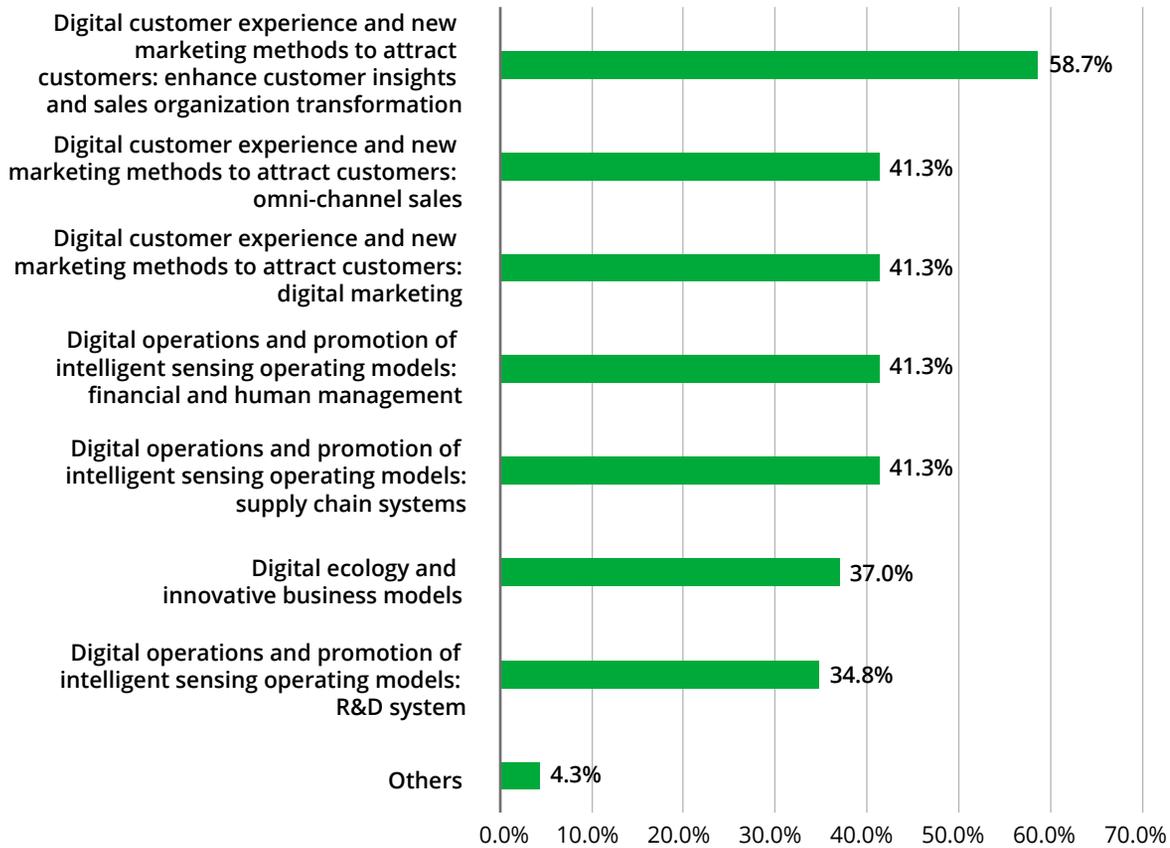
A large number of private enterprises in China are distributed in the manufacturing sector. According to the results of this year's Deloitte survey, more than half of the surveyed companies regard strengthening customer insights and sales organization transformation as the main goals of digital transformation in the short term. It achieves the most significant effect to enhance product experience and sales through digital customer experience and new marketing methods to attract customers. Omni-channel sales, digital marketing, financial and human management, and supply chain systems rank next (see Figure 10). Private enterprises are superior to state-owned enterprises in terms of strategic awareness, execution and operational capabilities of digital transformation.

Figure 9 A series of new attributes showed by social enterprises in their work: mission, potential and vision



Source: Deloitte Research

Figure 10: In the short term, what are your main goals for deepening the digital transformation?



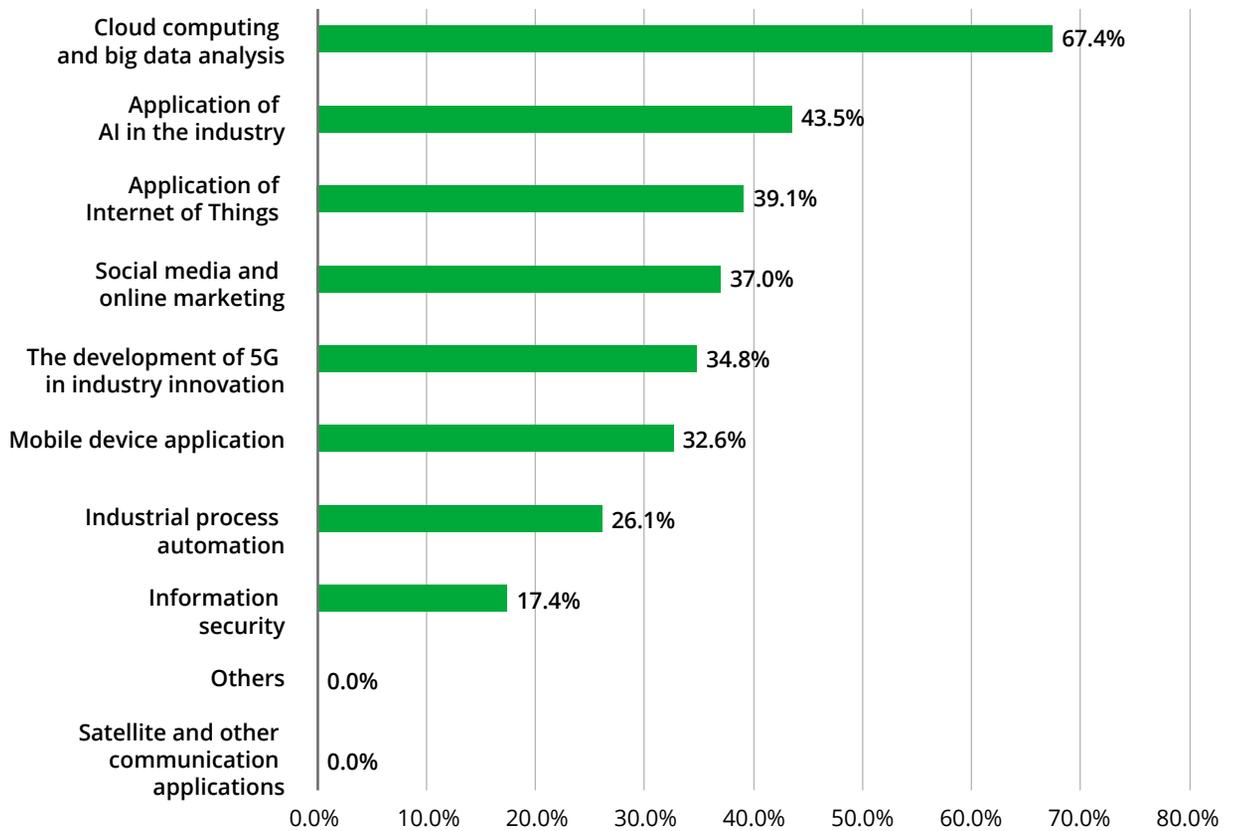
Source: Deloitte Research

The main approach to digital transformation is to use digital technologies (such as cloud computing, big data, artificial intelligence, Internet of Things, blockchain, etc.) and capabilities to drive the business model innovation and business ecosystem restructuring. According to the survey, cloud computing and big data analysis are the most widely used digital technologies in enterprises,

accounting for 67.4% of the surveyed enterprises.

The followings are artificial intelligence, Internet of Things, social media and online marketing (see Figure 11). However, innovative technologies such as industrial process automation and information security have not yet attracted private enterprises.

Figure 11: Which areas of innovation and technology are most relevant to your company?



Source: Deloitte Research

Core technology R&D drives innovation

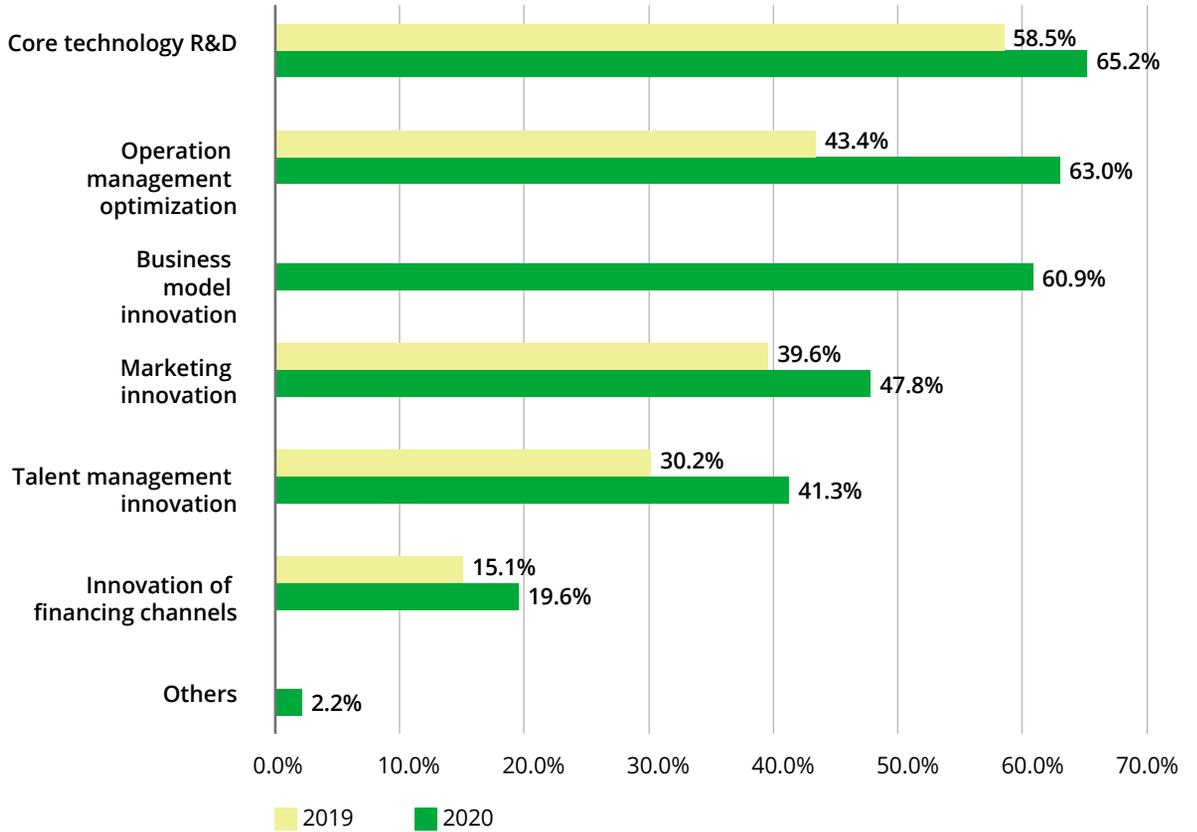
With the escalation of Sino-US scientific and technological disputes and the promotion of industry digital transformation, enterprises have gradually realized that core technology-driven innovation is more important than business model innovation and management innovation at the current stage.

In terms of innovation investment, for two consecutive years, the majority of surveyed companies have made core technology R&D as their key innovation investment area (see Figure 12). Compared with last year's survey results, the proportion in this year has increased by another 7 percentage points. Innovation in operational management optimization rose from fourth place last year (43.4%) to second place this year (63.0%), exceeding business model

innovation (60.9%). However, we are still seeing insufficient investment in innovation in talent management and financing channels to indirectly enhance corporate competitiveness.

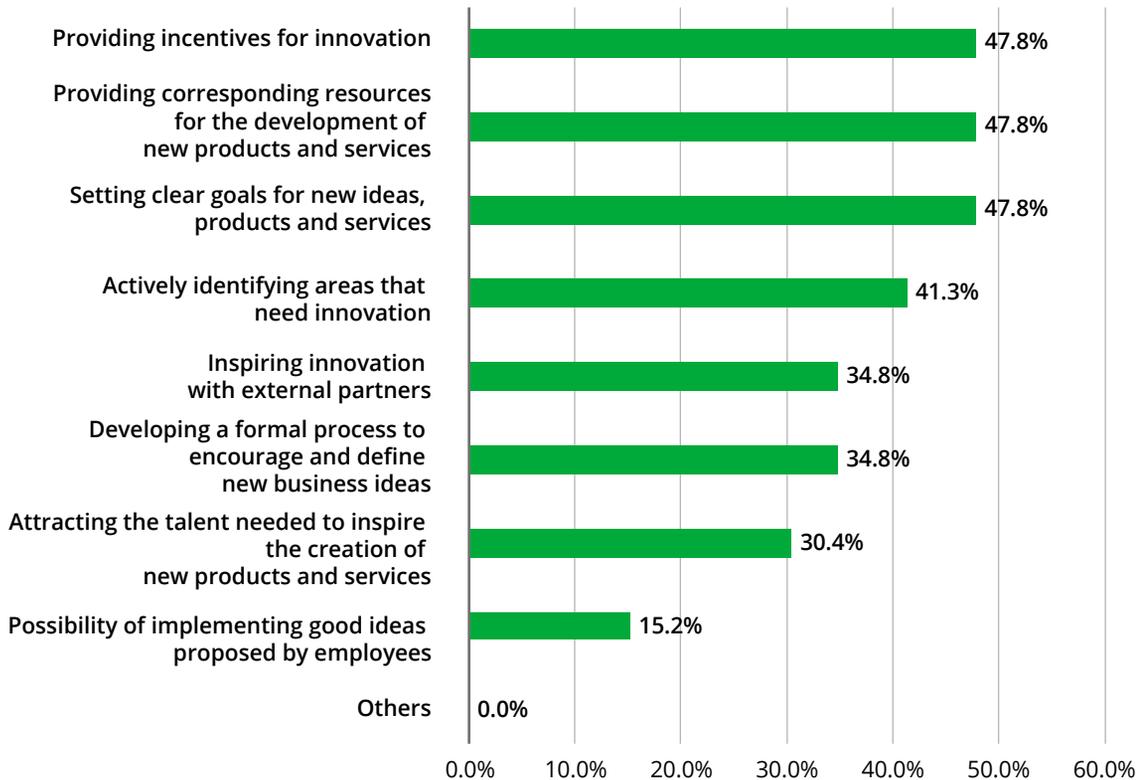
From the perspective of internal innovation systems and measures in private enterprises, nearly half of the enterprises choose the following three methods to encourage internal innovation (see Figure 13): providing incentives for innovation (47.8%), and providing corresponding resources for the development of new products and services (47.8%), and setting clear goals for new ideas, products and services (47.8%). At the same time, enterprises pay little attention to attracting innovative talents and encouraging internal staff to innovate, and talents have always been one of the weak links in the innovation and development of Chinese private enterprises.

Figure 12: Which of the following aspects does your company's mainly invest in innovation?



Source: Deloitte Research

Figure 13: What are the most suitable innovation measures for your company?



Source: Deloitte Research

2.2.3 Talent training and inheritance has become a crucial link in the construction of enterprise soft power

Developing agile leadership is an enterprise's top priority

Under the epidemic situation, many companies realize that management needs to actively respond to emergencies and take actions quickly. In order to predict, prepare for, respond to and adapt to changes and sudden disturbances to ensure the survival and

sustainable development of enterprises, agile leadership has become an important part of "resilient" enterprises. Agile leadership requires a conscious and planned change of mindset according to the situation, taking risks, and responding quickly to opportunities and threats.

With the continuous outbreak of emergencies and the increasing uncertainty of the external political and economic environment, enterprises are faced with a large number of urgent problems, which seem to involve many aspects. Agile leaders focus on the most pressing issues, identify key areas, and achieve rapid linkage effects.

At the same time, given that the leadership is facing an unexpected situation, leaders at all levels of the company should have more initiative and decision-making power. It is believed that teams and individuals in a specific situation may be the most likely to find innovative solutions to unexpected problems. It shall clarify the goals of the organization, but at the same time enhance the flexibility of local management. Traditional organizations are easy to form hierarchical concepts, and leadership can be demonstrated by positions, but for an agile organization, enterprises need to develop leadership by empowering employees, guiding directions, and providing insights.

The proportion of training and reserve of innovative talents should be increased

The improvement of independent innovation ability of private enterprises is closely related to the introduction and training of innovative talents. According to the 2019 China Top 500 Private Enterprises report by the All-China Federation of Industry and Commerce, talent introduction is the second largest source for private enterprises to acquire key technologies. In 2018, there were 345 enterprises, accounting for nearly 70 percent of the surveyed enterprises.

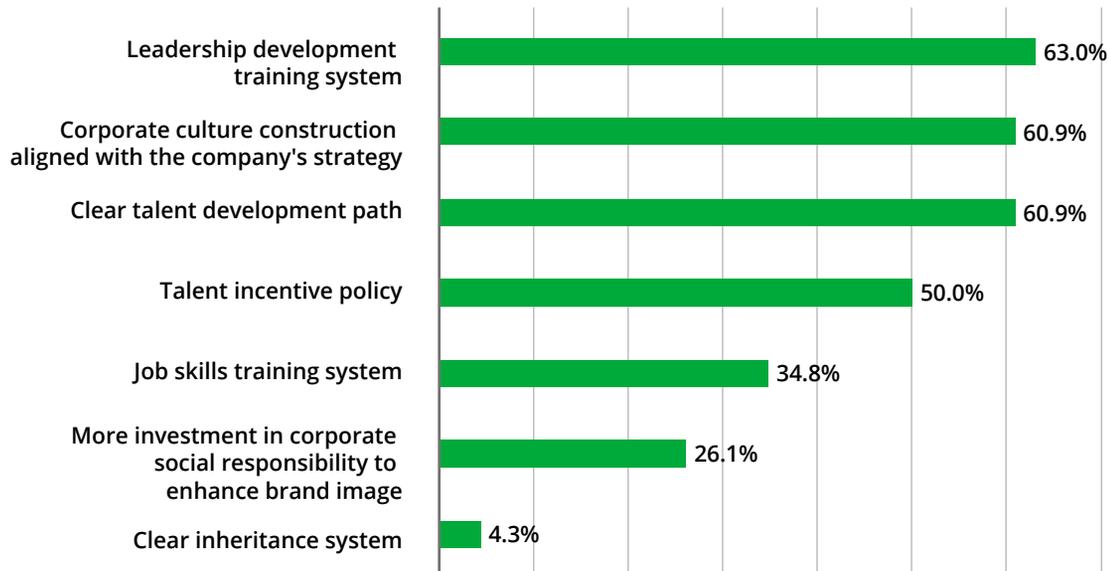
The report also revealed that private enterprises still have a gap in high-end talents. One of the biggest obstacles faced by private enterprises in the development of overseas markets is the talent gap (247 companies), among which 172 companies lack international management talents and 103 companies lack professional and technical talents. One of the main motivations for top 500 private enterprises to "go global" is to acquire elements of enterprise development, such as brand, technology and talent.

The lack of high-quality human resources in private enterprises has become an important reason for restricting their steady development. In this year's Deloitte survey (see Figure 14), private companies also show that the leadership development training system (63.0%), the corporate culture construction aligned with the company's strategy (60.9%) and a clear talent development path (60.9%) are currently the most deficient aspects in the talent development system.

The talent growth and training inside the enterprise is an important source of talent reserves. Private companies worry that after spending a lot of money and manpower to train people, they may end up with nothing, so they often put little effort into training systems. Due to the lack of a complete talent training system, the talent reserve is insufficient. Even if high-end talents can be recruited and introduced to enterprises, the maximum play of the talent team will be limited by lack of effective support from grassroots talents.

Small enterprises rely on talents, medium-sized enterprises rely on management system, and large enterprises need to rely on the construction of enterprise culture. And this is exactly where private enterprises need to strengthen their talent development. Many private enterprises do not have a mature and distinct corporate culture. They only require employees' input and the realization of collective interests, focus on economic activities but ignore the construction of corporate culture, which cannot be in line with the development of the times and society. High-end talents are not only working for enterprises for salary and treatment, and the realization of self-worth is also gradually showing its importance in talent development.

Figure 14: What aspects of your company's current talent development system need to be strengthened



Source: Deloitte Research

Under the background of the 14th Five-Year Plan, it is an irresistible trend to build a digital and international team of innovative talents. Enterprises should pay attention to the cultivation of innovative talents, the construction of digital leadership, and improve the construction of corporate culture. At the same time, under the conditions of high-level opening up, more enterprises will need overseas talents to improve the quality of the talent teams. At last, a sound training and evaluation system for scientific and technological talents will broaden the career development channels of technical personnel and attract and retain more talents.

2.2.4 From survival to thrival, improve the financial operation ability of private enterprises
Supply chain rebuilding further reduces cost and increases efficiency

Under the shadow of the epidemic, the production, operation and supply chain of private enterprises are facing new challenges. At the beginning of the epidemic in China, production, logistics and transportation were blocked, equipment operation rate was reduced, payment collection from downstream customers was not smooth, capital chain was periodically tight, and the operational cash flow of enterprises appeared problems. Many private enterprises were unable to repay the loans due on time, and financing channels were further blocked. The main financial strategy of private enterprises during the epidemic period is to "increase revenue and reduce expenditure" from three aspects of operation, investment and financing, and "protect the cash flow". And supply chain management is an important link for private enterprises to revitalize cash flow and realize "cost reduction and efficiency increase". Private enterprises are mainly allocated in the technology, manufacturing and retail, wholesale and distribution industries, which are heavily impacted by the supply chain:

- **Significant changes in demand-side forecasts.** Statistics and forecasts based on historical demand are no longer reliable as the pandemic's global development has driven abnormal consumption behaviour. Companies are not able to plan key business decisions such as production, supply, supplier orders, transportation arrangements and financial forecasts based on historical demand and sales data.
- **Consumer demand has shifted to online channels on a large scale.** The closure of large-scale offline retail channels has prompted wholesalers and manufacturers to consider rapid deployment of online channels to compensate for lost sales due to blocked offline sales channels, and reduce the risk of personal contact infection.
- **Some suppliers cannot meet the supply demand.** At the same time, enterprises often have limited understanding of suppliers other than first-level suppliers, so they cannot quickly find new and alternative suppliers, which may affect their ability to meet customer orders.
- **Inventory is crucial to the survival of an enterprise.** The outbreak has exposed the shortage of raw materials for many companies that use just-in-time inventories. Given the current changes in market supply and demand and cash flow constraints, enterprises need to re-evaluate inventory to build resilience and agility in their supply chain.

The uncertainty in the future has prompted China's private companies to re-examine their supply chain management capabilities. **First of all**, for private enterprises located in the manufacturing center, they need to explore the path of self-reliant R&D transformation and move up to the high end of the value chain.

Second, private companies can respond to risks by building flexible supply networks. This epidemic has further made enterprises realize the importance of digitalization, accelerate the digitalization of end-to-end supply chain, and implement a series of digitalization transformation of supply chain from digital procurement to intelligent logistics. When facing external challenges, enterprises can more clearly understand and control their supply chain status.

At the same time, enterprises can manage demand fluctuations by implementing a flexible "order to delivery" model. Companies need to reassess their supply chain and manufacturing strategies to respond to and meet fluctuations from the demand side in a timely manner.

Finally, enterprises can also identify and repair the "weak links" in the supply chain by evaluating the maturity of each module such as production and operation process, IT system and organizational structure, so as to strengthen operation improvement and further reduce costs and increase efficiency.

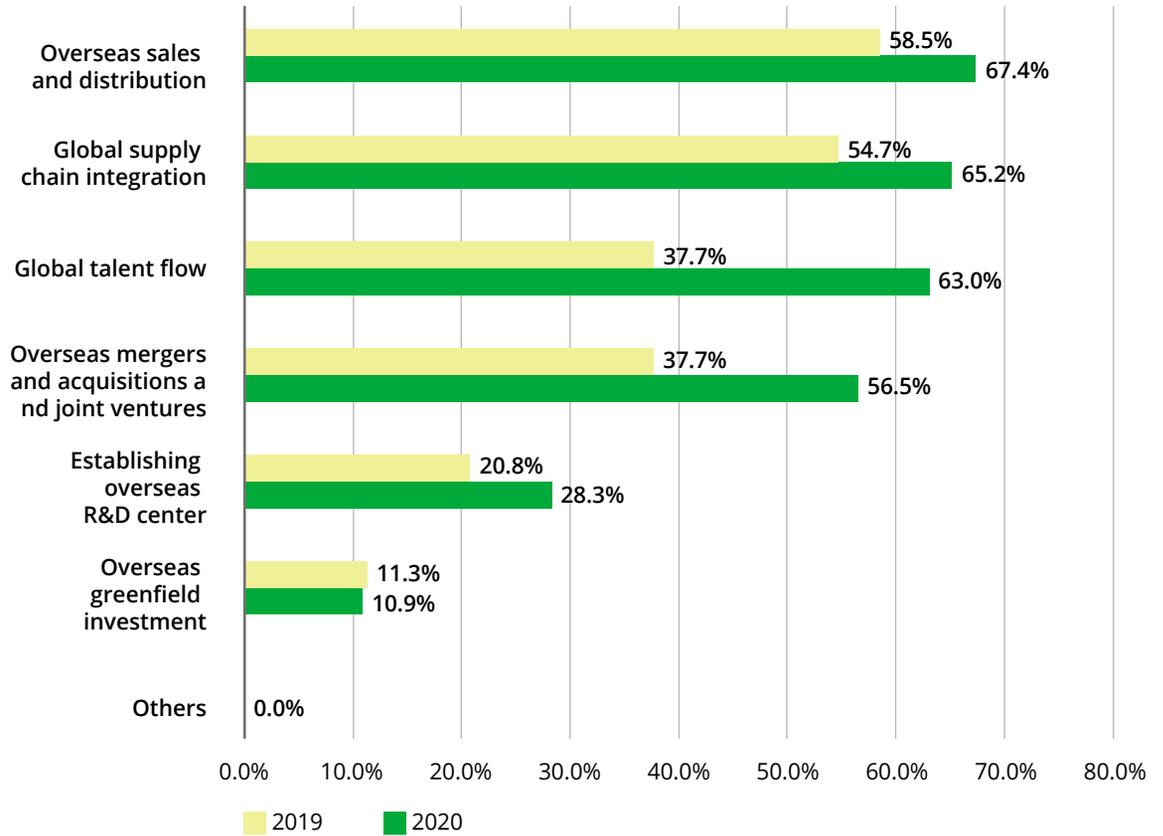
Overseas investment and M&A further return to rationality

Private enterprises are the main force for Chinese enterprises to "go global", and international development is the only way for private enterprises to become bigger and stronger. The results of this year's survey show that the major means of internationalization of private enterprises are still focused on the trade level (see Figure 15), with overseas sales and distribution (67.4%) and global supply chain integration (65.2%) ranking first and second. The proportion of overseas mergers and acquisitions and joint ventures has increased from 37.7 percent last year to 56.5 percent this year, ranking fourth.

In recent years, Chinese private enterprises have faced many obstacles in overseas investment and mergers and acquisitions, and geopolitical factors such as trade frictions have made M&A more difficult. The turnover and price of cross-border mergers

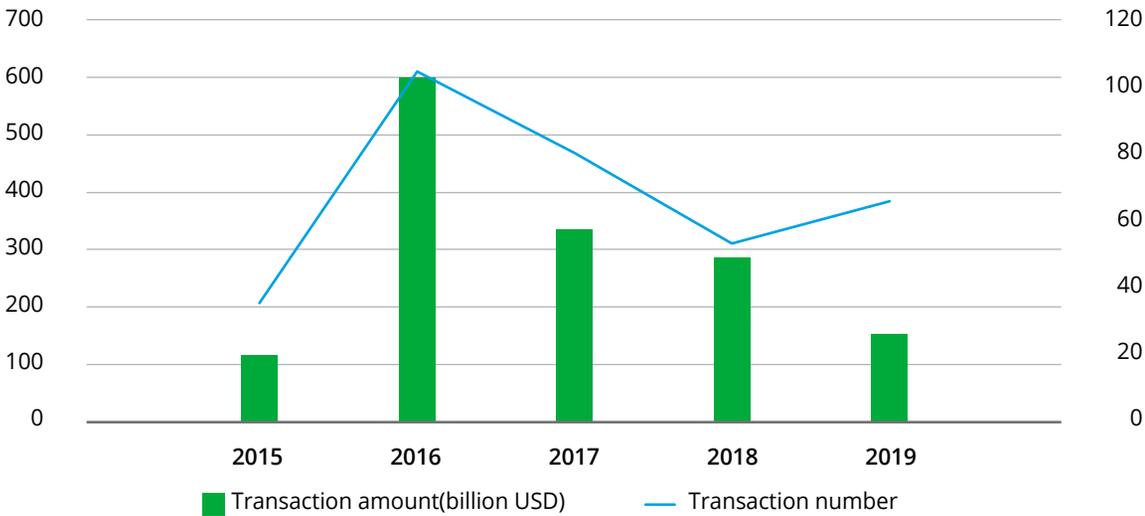
and acquisitions by Chinese companies have fallen (see Figure 16), from a peak of 609 deals in 2016 to 384 in 2019. Coupled with the impact of the COVID-19 outbreak, many private enterprises have experienced a sharp increase in financial pressure, and some overseas mergers and acquisitions have been shelved temporarily. At present, in the process of overseas investment and mergers (see Figure 17), the main challenges faced by private enterprises are the risk management and control before, during and after mergers and acquisitions (76.1%) and the organization and strategy of the parent company's management and control over overseas companies (71.7%). The cross-border investment and mergers and acquisitions of private enterprises will return to rationality and pay more attention to the link of post-investment management. Many mergers and acquisitions in the past does not achieve the effect of 1+1>2. The transaction architecture design and legal service process can be optimized to achieve the maximum synergies.

Figure 15: What are the main aspects of your company's internationalization process?



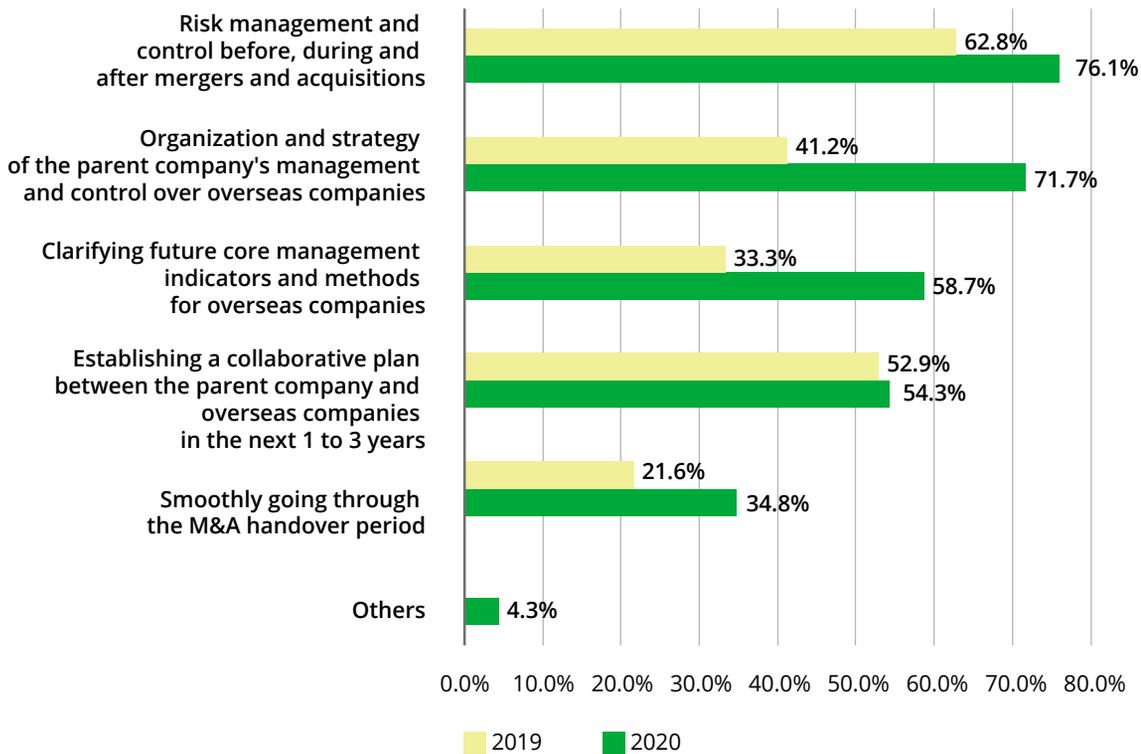
Source: Deloitte Research

Figure 16: The number and amount of overseas mergers and acquisitions by private enterprises



Source: Deloitte Research

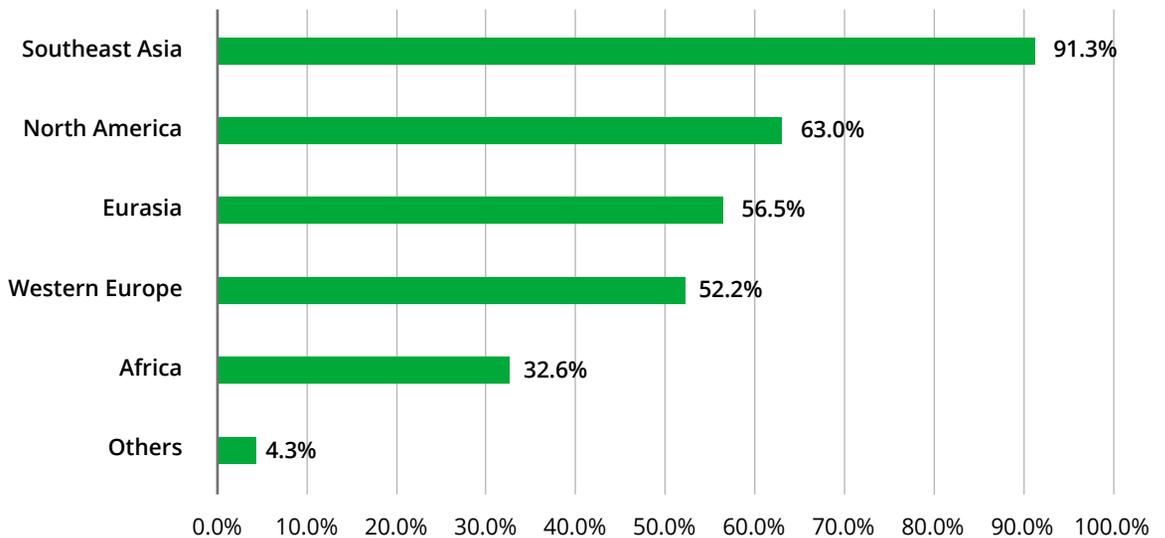
Figure 17: In your opinion, what are the main difficulties in overseas investment and mergers and acquisitions?



Source: Deloitte Research

Driven by the "One Belt And One Road" initiative and supply chain migration, the number of transactions targeting Asian countries or regions has increased to a certain extent (see Figure 18). Southeast Asia has become the preferred region for private enterprises to expand overseas investment in the next five years (91.3%). Eastern European countries are more receptive to Chinese mergers and acquisitions.

Figure 18: If your company decides to invest/expand overseas in the next 5 years, which region is your first choice?



Source: Deloitte Research

With their own business development needs, as well as the emphasis on "going global" and "One Belt And One Road" at the national policy level, Chinese private enterprises will continue to become important participants in the global M&A market. After the epidemic, China, as the world's first economy with full economic recovery, will present new opportunities for overseas investment and mergers and acquisitions by private enterprises.

First, the valuations of overseas assets have fallen. On the one hand, many small and

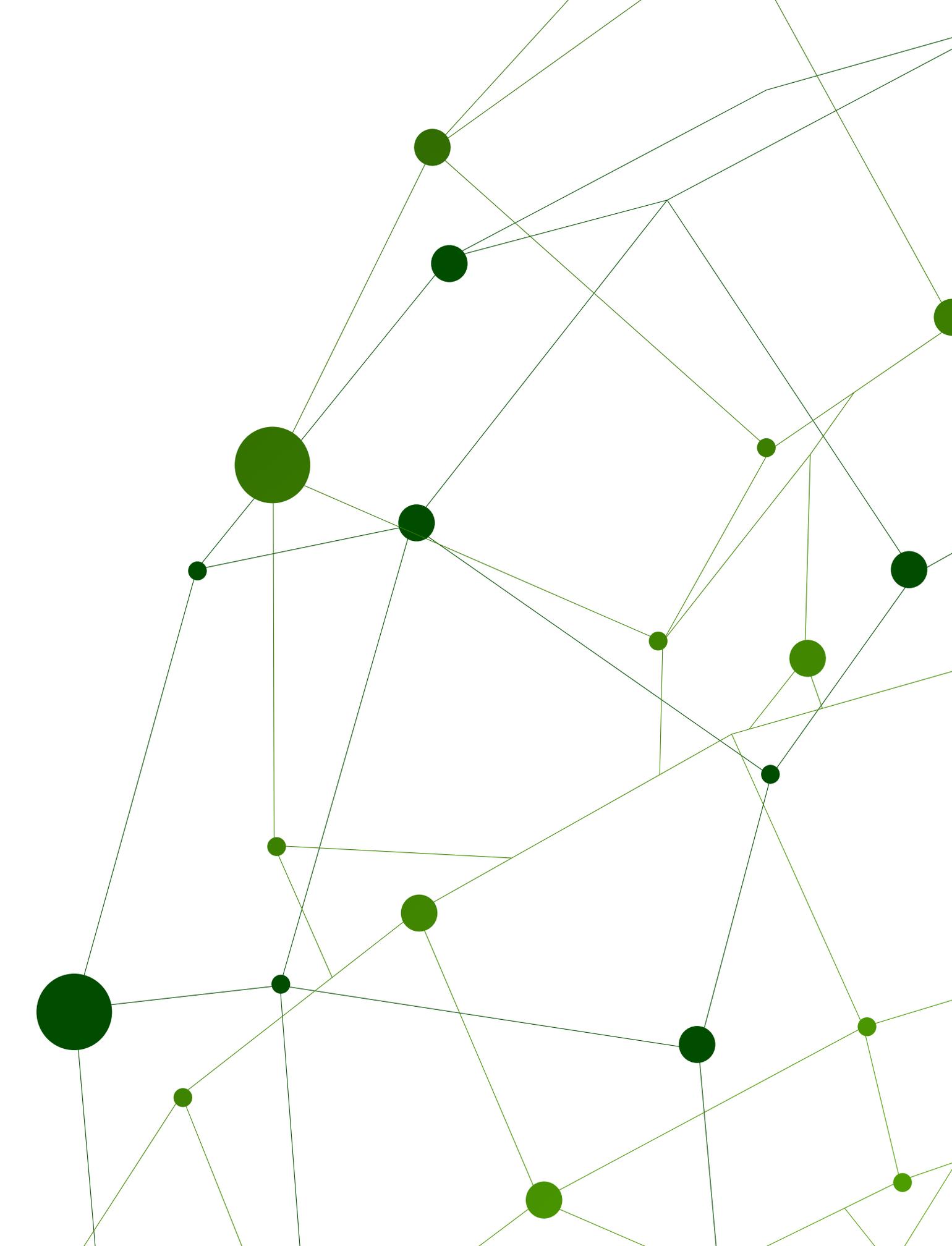
medium-sized enterprises in Europe and the United States are in a state of suspension of production and business, with their revenue plummeting and cash flow under severe pressure. enterprises' willingness to sell/ companies' financing needs is increasing, providing opportunities for private enterprises to carry out overseas mergers and acquisitions. On the other hand, impacted by the decline in global asset prices and financial market fluctuations, the overall valuation of some overseas high-quality M&A targets has declined, and the expectation of seller's price has decreased, which creating a good time for private enterprises to acquire high-quality

Second, the need for Chinese companies to build global supply chains has increased.

In the past few years, private enterprises' overseas mergers and acquisitions have mainly focused on expanding international customers, seeking new profit growth points, acquiring core technologies and expanding product lines. The outbreak of the epidemic has prompted more enterprises with sufficient funds to consider appropriate mergers and acquisitions to further deepen the global distribution of the supply chain, and improve their ability to resist risks in the future.

Finally, regional M&A opportunities may increase.

Due to limited overseas investment opportunities, private enterprises may focus their investment and acquisition opportunities on the domestic regional market to achieve the goals of improving the industrial chain, seeking new technologies, and expanding the growth market. In particular, high-quality projects in consumer goods, high-tech, medical and health care, intelligent manufacturing and other industries will still earn attention.

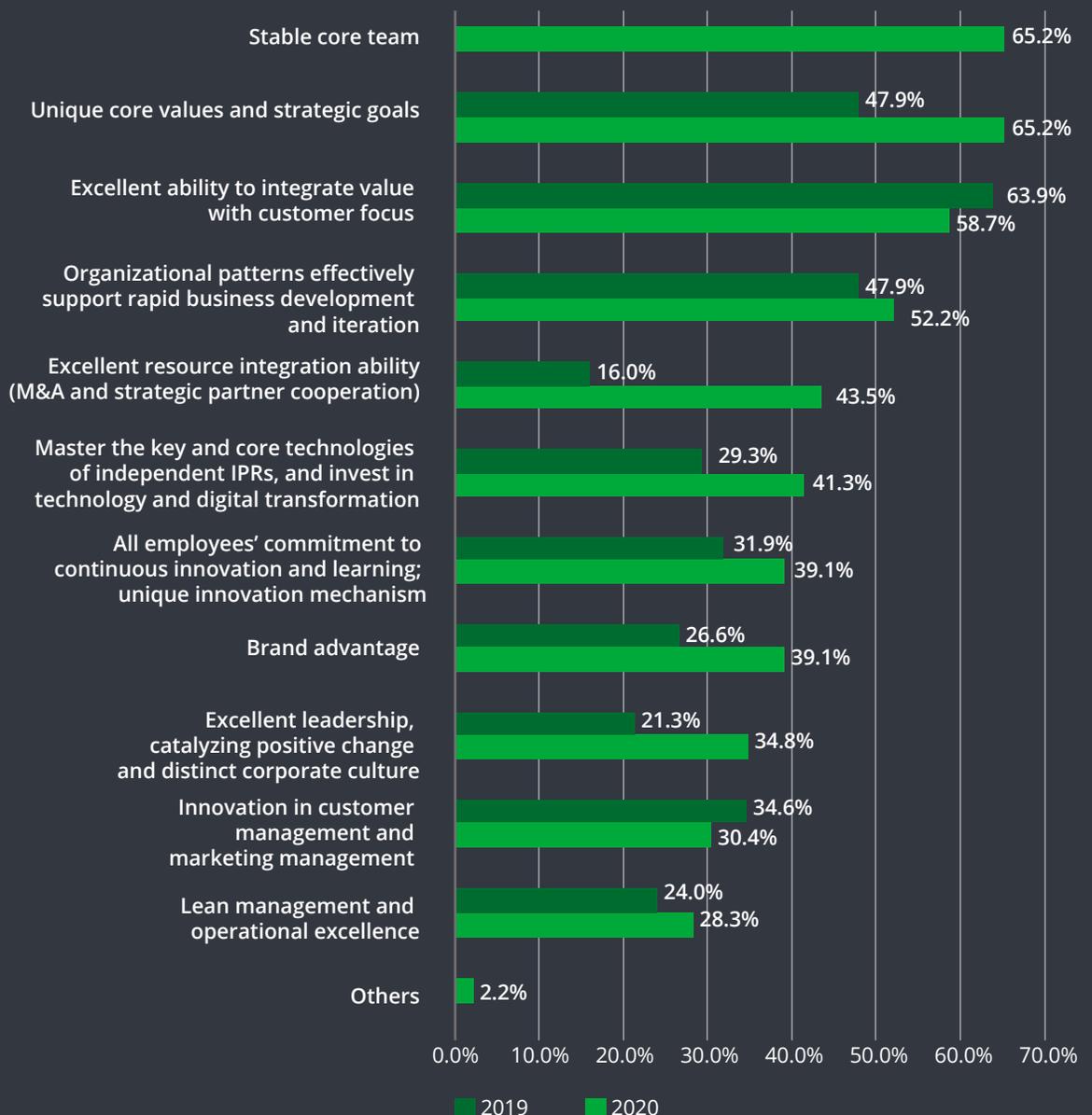


Volume 2: Practices of China Best Managed Companies

Overall portrait of BMC

With the continuous progress of China's economic structural reforms, more and more private enterprises with excellent management began to emerge. Standing on the threshold of preparing for the future, leading private enterprises not only emphasize the improvement of their financial strength, but also pay more attention to the construction of "systematic" soft power, to highlight their core competitiveness from the unique core values and the strategic targets, excellent ability to integrate values with customer focus, the lean management and operational excellence ability and so on.

Figure 19: What do you think is the greatest advantage your company has?



Source: Deloitte Research

We have made a general survey of the core competitiveness of best managed companies, and it can be seen that the distribution of core competitiveness of best managed companies presents a general trend of "the advantages are all strong". Compared with 2019, **best managed companies pay more attention to "systematization" and "equalization" in the construction of soft power**, among which the external resource integration and ecological cooperation ability generally make great progress.

However, as the epidemic casts a shadow over the global economic development, **many excellent private enterprises begin to attach extra importance to the cultivation of "resilience" ability in the process of building "soft power"**, so as to maintain better "flexibility" and "adaptability" to against the turbulence and changes of economic, social, environmental and global order. Resilience refers to the ability to flexibly adapt or adjust in a timely manner according to the environment. The more resilient an organization is, the more flexible it becomes. A highly resilient enterprise means that an organization can not only survive for a long time, but also thrive across multiple economic cycles and stand the test of time.

In this survey of best managed companies, we can also find that the truly excellent management enterprises are often capable of quick response, rapid resumption of work under the impact of the epidemic, and even keenly aware of opportunities brought by the crisis to achieve trans-regional growth. Fundamentally, we found that the reason why the "high resilient enterprises" can develop "from survival to thrival" is that they have **steady financial policy, good cash reserves and cost control ability in terms of finance**. High resilient enterprises generally have the following three core characteristics in its operation and management on the kernel: at the strategic level, they have strategic management systems with strong adaptability and foresight, and strive to build "social enterprises"; **at the capability level, they focus on the improvement of organizational management ability, risk management ability and digital transformation ability; at the management level, they focus on the construction of information ecology and the cultivation of talent echelon; at commitment level, they pay attention to talent inheritance and innovation echelon construction, with a sense of long-term mission.**

Strategy:

Best managed companies generally have high strategic adaptability, and can predict and manage changes. In the short term, best managed companies have the ability to timely analyze the impact of external environment on the fundamentals (demands and user behaviors) and reflect on relevant decisions. In the long run, best managed companies focus on the long-term trend of industry development, carry out strategic reflection for different "scenarios", and ensure that there are adaptive solutions. Meanwhile, best managed companies pay more attention to "multiple stakeholders", innovate business models, better integrate enterprises and society, shape "social enterprises", and build an economic system that puts "goodness" first.

Capability:

Digital transformation capability-Pay attention to the construction of digital ecology, actively adopt digital technologies (such as cloud computing, big data, artificial intelligence, Internet of Things, blockchain, etc.) and capabilities to drive the innovation of organizational business models and the reconstruction of business ecosystem.

Leadership and organizational capability

- Stick to "core values" and have strong, agile organizational skills. This capability means that the organizational management model is more open, inclusive, trusting, and agile.

Risk management capability-Respond rapidly to threats, has plans to deal with risks, and has generally establish "business continuity management", crisis management ability and strategic risk management ability, as well as solid risk response plans.

Commitment:

Talent echelon cultivation and enterprise inheritance are the key links for best managed companies to build long-term "soft power". In the short term, more and more private enterprises consider to choose professional managers, that is to use the management inheritance model of separation of family business ownership and management power to establish a modern corporate system; and continuously increase the proportion of investment in the cultivation and reserve of innovative talents. In the long run, best managed companies generally have a high degree of "commitment" and innovation culture, concise and efficient corporate management model, and self-driven organizational execution ability.

Practices sharing of BMC from survival to thrival (in alphabetical order)

The BMC selection ended in May 2020. This year's selection spanned two cycles before and after the epidemic outbreak. We learned about the past success of these award-winning companies, the performance of "social enterprises" during the epidemic and the focus of strategic adjustments after the epidemic through the CEO laboratory, webcasts of award-

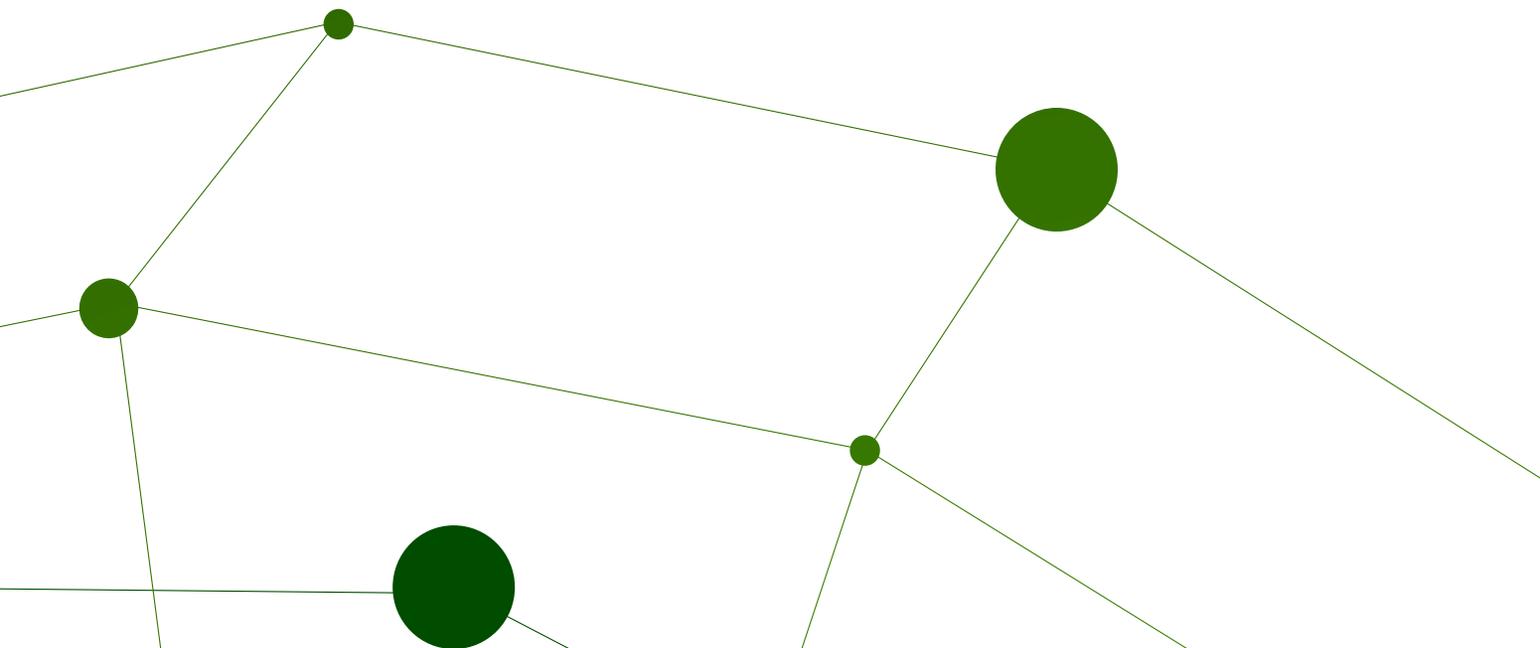
winning companies, and in-depth interviews with entrepreneurs before and after the epidemic, which provide us with great inspiration. We condense the experience of BMC award-winning enterprises into a brief case, hoping that other enterprises in relevant fields in China can find lessons from it and prepare for future uncertainties and challenges.



Portrait of Corporate Management Practice

FOSUN 复星

Fosun International Limited is the most representative resilient enterprise in China. It has a management level that spans the economic cycles, and enables China's speed and promotes the growth of ecosystem companies. Fosun's three core business segments are wealth, health and happiness, providing products and services through in-depth industrial operations, industrial investment and globalization. Enterprise drives the household consumption industry with science and technology, and has highly innovation and research and development capabilities to form strong vertical industry consolidation and industry technical barriers. It has a strong sense of social mission, and its commitment to society is: root in China, serve one billion families worldwide, intelligently create a healthy, happy and wealthy ecosystem. Fosun International has a unique vision and strategy. It drives the household consumption industry with science and technology and adopts strategic modes such as deep industrial operation + industrial investment, 1+N, science and innovation leading and globalization, making the world different because of Fosun. It searches for and carries out investment projects through three guidelines, namely "insurance + investment" drive, "Chinese power + global resources" and "prosperous, healthy, happy" lifestyle. The enterprise lays out three major ecosystems of "health, wealth, happiness", pays attention to the "cycle", seize and empower underpowered companies in the global economy and industry cycles, and help the growth of enterprises in the ecosystem. The brand value of Fosun is at the forefront of the industry. It focuses on innovation and R&D, continuously invests in pension services. While it also integrates the ecosystem in some businesses through investment and acquisition to open up the industrial chain; the company adopts a unique C2M model to quickly meet the preferences and needs of audiences, fans, consumers and clients. It consistently emphasizes entrepreneurship, adopting a dynamic global partnership and phasing partners out regularly. Fosun's financial status is good. In 2019, its assets exceeded 710 billion yuan, and its revenue exceeded 140 billion yuan. Its annual revenue from 2015 to 2019 reached an average compound growth rate of 18%. Its financial income continued to be higher than the industry average, and its ROE increased steadily.





Wison Engineering Ltd. Has always adhered to the enterprise purpose of "developing science and technology, benefiting people's livelihood". Driven by the core of global technology integration, Wison actively practices the strategy of "comprehensive internationalization, competitive differentiation, and lean management", focuses on the key markets of the Middle East, North America, Russia, and continuously develops its core competitive advantages. It emphasizes the design and optimization ability based on technology, and highlights the improvement of core customer values such as EPC's effect on overall cost reduction and efficiency enhancement of investment projects. Its management features are: gathering the most elite professionals in the industry (mostly state-owned enterprises) + the innovation mechanism and bright culture of China's private enterprises = taking into account the global customer service characteristics of the energy engineering industry + the continuous release of organizational efficiency and vitality under the combination of Chinese and Western systems. Wison is also committed to the upstream and downstream extension of the industrial chain, actively expanding the field of new materials and leading the industry to the next new pattern of development. Through the advantages of technology application and leading practice in digitization, intelligence and modularization, it creatively expands the new value of customers in the world. As the largest private enterprise in the energy engineering industry in China and the representative of outstanding overseas Chinese enterprises, Wison has undertaken and delivered several benchmark projects in the core market with the most fierce global competition, creating many leading achievements in China and in the world. The best talents in the industry are the core competitive advantage of Wison's technological innovation and continuous growth. Wison people's action culture is "bright and efficient, realistic and pragmatic, mutual love and win-win". Under the flexible and diversified incentive mechanism, Wison will release greater vitality in the industry competition and create a better world with excellent energy service!

家家悦 JIAJIAYUE

Jiajiayue Group Co., Ltd. is the leader of the retail industry in Jiaodong region of China. The enterprise adopts the development strategy of regional density, urban and rural integration, and simultaneous development of multiple formats, to build the supermarket as its core business, becoming a multi-format, omni-channel, whole-industrial chain and national retail enterprise. Jiajiayue adheres to the business philosophy of "being a good neighbor for residents and a good helper for families". Sticking to the concept of "social responsibility creates value", it uses the fresh distribution center and rural comprehensive supermarket to build a platform for agricultural products to enter the city. It promotes an emergency response mechanism for the purchase and sale of agricultural products, to rapidly alleviate the difficulties in selling agricultural products. At the same time, it sets up agricultural collaboration industry bases for poverty alleviation in poor areas, establishes files for poor farmers. It promotes farmers to get rid of poverty and become rich through long-term acquisition of agricultural products and stable income growth. The enterprise pioneers the mode of connecting farmers with supermarkets and established a stable and efficient supply chain system. According to the business philosophy of "developing chain and logistics first", the company has built its own logistics system, which has formed a strong ability to manage its own brand of fresh goods. Enterprise succession plan is clear, each manager has a B role. The company ranks first in the retail industry in Shandong market, and its financial position is stable.



The mission of iFLYTEK Co., Ltd. is "make the machine listen speak, understand and think, and build a better world with artificial intelligence". It is engaged in the research of core artificial intelligence technologies such as speech and language, natural language understanding, machine learning reasoning and autonomous learning, and has always maintained the international cutting-edge technology level, and actively promotes the R&D of artificial intelligence products and the implementation of industrial applications. The company has undertaken the construction of the first batch of national new-generation artificial intelligence open innovation platform, the first national key laboratory for cognitive intelligence, the first National Engineering Laboratory for Speech and Language Information Processing and other national platforms. iFLYTEK's development strategy has two characteristics: first, "hold up the sky and support the earth" : "hold up the sky" means that the source technology has reached the international leading position and broken through the threshold of use; "support the earth" refers to the applications that solve the social rigid demand, focusing on the three standards of "having visible and tangible application cases, large-scale promotion, and statistical data to prove the application effectiveness" and the key track to truly solve the social rigid demand. The second is the development of industrial ecology: it has establish the extensive and long-term cooperation with colleges and universities to set up research institutes, regards industry demand as the guidance, and jointly cultivate technical talents in the field of artificial intelligence, cooperate with top scientists to research and develop cutting-edge technologies and empower the development of enterprises in the ecosystem through the platform. At the same time, it actively makes strategic investments to accumulate upstream and downstream resources in the industrial chain and expand the boundaries of capabilities. The enterprise takes the lead in putting forward the industrial development strategy of "platform + track", which adopting the ToB and ToC dual-wheel drive mode, and makes the hardware and software go hand in hand to build the vertical entrance or the rigid demand + generation difference advantage of the industry. It combines the industrial track with the technological ecological platform through the dual wheel drive of market and technology. The company adheres to the principle that technology is the highest level of charity, perfectly combines corporate social responsibility, and resolutely implements the vision of "changing the world with artificial intelligence". It also has a clear talent development channel, improving the talent reserve and training mechanism by training its own managers, establishing iFLYTEK University, executive training camp, and introducing external talents in cooperation with universities and research institutes. The company has shown a strong growth momentum from 2015 to 2019, with an average revenue growth rate of 42% and a revenue of over 10 billion yuan in 2019. It is an industry-leading enterprise capable of combining "high R&D investment" with "steady and high growth".



Lakala Payment Co., Ltd. If the first batch of third-party payment companies in China to obtain a license issued by the central bank. With the development of 15 years, Lakala has become a leading enterprise in the third-party payment industry. It has been listed in A-share market in 2019, and the enterprise strategy focuses on "taking payment as the entry point, integrating information technology, serving offline entities, and empowering the operation of small, medium and micro businesses in all dimensions". During the process of development, Lakala has created a unique enterprise management culture. It pursues the bottom-up innovation and encourages the continuous emergence of "heroes who open up new territories" internally. Lakala divides the business management into "twelve regulations, management methodology, business methodology, mission, vision, core values" and other different levels to ensure that strategy implementation is a leading management culture system in the industry, effectively guarantee Lakala's 15-year sustainable development, and continuously launch innovative products and services to meet user needs. As of the end of 2019, the number of merchants it served exceeded 22 million. In 2019, the net profit attributable to shareholders of the listed company reached 806 million yuan, and the revenue reached 4.9 billion yuan. The net profit has maintained a high growth rate for five consecutive years.



The vision of 360 Security Technology Inc. is to "constantly create black technology and be an all-round guardian" and the mission is to "make the world safer and better". Strategically, 360 has implemented the "3+1" development strategy in the era of great security, and devoted itself to ensuring network security, urban security and family security in this era. It provides strong support for security technology innovation by commercializing Internet content, helping 360 create a "new growth pole" in the era of great security. As the largest provider of Internet and mobile security products and services in China, it has covered several business scenarios of the three business segments of T0 C, To B and To G. In terms of technology, 360 has a leading strength, and is the world's largest security database and the largest "white hat" security expert team in the Eastern Hemisphere, with R&D personnel accounting for more than 70%. The strong innovative research and development ability helps the enterprise to accumulate a large number of security resources and expert team to effectively serve users. The combination of large and small platforms can help each business line develop flexibly according to demand while ensuring that the overall resource utilization of the enterprise is controllable. With "safety brain" as the core, it builds diversified businesses and integrates resources of the industry to build a big safety ecology and actively empower the industry while developing its business. In terms of management, 360 trains future leaders through class committee system, realizing "small team, true innovation and true entrepreneurship". In 2019, the company achieved operating revenue of more than 12 billion yuan and net profit of nearly 6 billion yuan.



BGI Genomics Co., Ltd. is one of the few technology companies in the world that master the whole industry chain and key elements in the whole application field of the gene industry. In 2018, It became one of the top three global gene sequencing companies, and ranked first in the domestic gene sequencing industry. BGI is adhering to the mission of "genetic technology to benefit human beings", guided by the goal of "reducing birth defects, strengthening cancer prevention and control, precisely curing infections and assisting precision medicine". Combining with China's national conditions and technology advantage, it has strengthened the multilateral cooperation with the international. With inclusive healthcare as the driving force and starting point, the big data platform as the support and drive, it further promotes the full coverage of genetic technology, digs deeper into the law of life behind the genetic data, provides humans with accurate testing and practical prevention and control guidelines, and strides forward the human common goal of eugenics and less diseases. With strong R&D capabilities, its performance growth is always driven by innovation, and the R&D expenses account for 24% of its annual revenue. It has established the core theme of "prevention" is greater than "treatment", and built the model of inclusive and precise medicine, to realize the high-value service output that is affordable and accessible to all. It has introduced advanced quality methods to improve production efficiency and reduce quality risk. Its business covers more than 100 countries and regions, and the overseas competitiveness is strong. The enterprise emphasizes the spirit of scientists, establishes flexible internal management, and encourages an innovative culture. It has formed the development of two career paths of management and specialty, matching different career development paths according to employees' business needs, ability attributes, career planning and other factors, to fully realize the value of employees. BGI adheres to the principle of "benefiting the people with continuous low prices" and develops new livelihood projects all over the country. It has excellent profitability, steady financial performance, and a growth trend. Its revenue has maintained growth for 11 consecutive quarters.



The vision of Shenzhen YUTO Packaging Technology Co.,Ltd. is "committed to becoming a printing and packaging company that is trusted by customers, loved by employees, respected by society, domestically leading, and internationally renowned", and the mission is "focusing on printing and packaging, and continuously creating value for customers by providing advanced products and services". In order to carry out globalization layout, it has established bases for production and service in 25 cities, including China, Vietnam, India, Indonesia, Thailand, the United States, providing differentiated products and services for customers with "iron triangle" units. Since the establishment of 24 years, it has developed into a global top 500 brand packaging solution provider. Internally, the enterprise continues to achieve management innovation through refined production, process optimization, and innovation platform construction; through the construction of informatization and automation capabilities, builds smart factories, to realize digital operations and smart manufacturing innovation. Adhering to the principle of "collaboration and win-win", it has strengthened the integration of upstream and downstream resources of the industry by building an integrated supply chain management platform, so as to achieve a win-win situation with customers, suppliers, partners and other stakeholders. By continuously improving talent development paths and channels, it achieves staff and enterprise growth together. YUTO has always been firmly committed to the research and development of new technologies, new materials and new scene packaging. It has obtained over 100 patents and dozens of industry standards, and built a series of cutting-edge industrial layout including intelligent packaging, environmental protection packaging and multi-format functional packaging. In 2019, its revenue was 9.8 billion yuan, and its profit margin and other key financial indicators were far higher than the industry average. Since 2016, it has ranked first among the Top 100 packaging and printing enterprises in China for three consecutive years.



WeDoctor is the leading digital health unicorn in the world. The company's core business covers medical treatment, pharmaceutical, medical examination, health care and other fields. It is the only digital health platform covering the whole industry chain of "Internet + medical health" in the industry. The digital platform is used to provide the whole-process closed-loop medical and health services for 2C, 2B and 2G users. Through the joint payers (medical insurance + commercial insurance + individual), it promotes the improvement of the medical and health service supply-side process and the expansion of service scenarios, and constructs a unique competitive advantage that is different from the peers. The company adheres to the innovation-driven approach. By replicating the ability of medical experts through AI and assisting doctors in diagnosis and treatment, the company expands the capacity of medical supply side and "reduces the expenditure" of medical costs. It also conducts in-depth research and development in health management, medical research, teaching and training, drug R&D and other fields, so as to comprehensively improve the level of the medical and health industry. With good resource integration ability, it links upstream and downstream resources through the "micro medicine" platform to save circulation costs and ensure business development. The enterprise has a clear incentive mechanism, attaches equal importance to power delegation and assessment, introduces the horse racing mechanism to accelerate business development, and provides flexible incentive mechanism for employees. WeDoctor has a strong sense of social responsibility. Its mission is "not getting medical care and being healthy and healthy". Its founder Liao Jieyuan was awarded the "2019 National Poverty Alleviation Award" by the state council for his pioneering contributions to targeted poverty alleviation through "Internet + medical health". During the epidemic, the platform actively fulfilled its social responsibilities by launching "real-time rescue platform", "global anti-epidemic platform" and online free medical treatment. From the end of January to the end of May, the anti-epidemic platform has served nearly 2 million people. The company is invested by Tencent, AIA, Fosun Group and other investment institutions. As of May 2018, the company was valued at us \$5.5 billion; it has reached long-term cooperation with local governments and the company has stable cash flow.

新希望乳业

新鲜一代的选择

New Hope Dairy Co., Ltd. is the leading dairy enterprise in western region, and ranks among the top five in the national liquid dairy industry in China. It has 39 holding subsidiaries, 13 major dairy brands, 14 dairy processing plants and 12 self-owned farms. The company distinguishes itself from its top competitors with its differentiated "fresh" strategy of "fresh, trendy and new technology". It takes root in the core area with "new hope + regional brand", and expands its national layout through investment and mergers and acquisitions. The integration of investment, mergers and acquisitions is a unique development mode of the company. It attaches importance to cultural integration and combines the situation of the invested enterprises with unity and flexibility, so as to make management more powerful. Through strategy, culture, mechanism, brand, product, marketing, supply chain management and functional system management, it is able to realize the sustainable and effective development of the invested enterprises and form a unique and efficient "1+N" mode. With high-quality supply chain management ability, the upstream side carries out strategic cooperation and layout, and stabilizes the upstream milk supply. As for the transportation, it is equipped with leading cold chain transportation capacity (one of the top five cold chain suppliers in China) to ensure product quality. The sales side establishes the business model of direct selling and distribution, and builds a three-dimensional marketing network system. The company attaches great importance to the development of talents, and has set up enterprise university as a platform for cultural inheritance, talent growth, strategic practice and co-creation and sharing. It has set up effective and flexible incentive mechanism for different levels and dimensions to promote the sustainable development of the enterprise. Through the four-in-one financial organization of "headquarters finance, business finance, shared finance, expert team" and sound financial strategy, it ensures the safety and efficiency of enterprise financial management, improves financial risk control ability, management efficiency and business insight. Through the establishment of science and technology innovation research institute and the promotion of the company's digital transformation strategy, the company continuously improves the biotechnology and digital technology capabilities, strengthens the research and development innovation capabilities, improves the enterprise management efficiency, and establishes the smart ranch, smart factory and digital marketing system, so as to promote the company to achieve its strategic objectives.



By taking "Better Fruit, Better Life" as its mission and "Hard work pays off", JWM will open up the four major platforms of R&D, products, logistics and channels, link global fruit resources and provide all-channel professional services. JWM's development strategy path is as follows: solution strategy with customer value demand as the core, supply chain service strategy with scale and intelligent operation as the core, category strategy with variety and brand as the core. These three strategies drive JWM continue to create value for customers, form supply chain scale effect, and create product competitive advantage. Based on the above three strategies, JWM has a global fruit resources and omni-channel sales matching ability, and forms a "value system analysis" innovative management method: based on creating value for customers, building the core competitiveness of products, creating value and sharing value with partners. In the future, the group will promote the development of commercial civilization in the fruit industry with professionalism, value and long-term philosophy as the core concept of management. And with "God rewards the diligent, do well and achieve well" as the management philosophy, the internal management pursues the unique culture of integrity and sharing; Externally, it exerts positive influence on consumers from three aspects, namely knowledge, sports, and goodness, and constantly promotes the progress of the "good" industry, which is beneficial to society, health and nature. The group has standardized its financial management, and established a sound financial management system in each business field. The group has strong and steady financial strength. From 2015 to 2019, the company's operating income, net profit, gross profit margin and other indicators maintained a steady growth, which are higher than the average level of the industry.



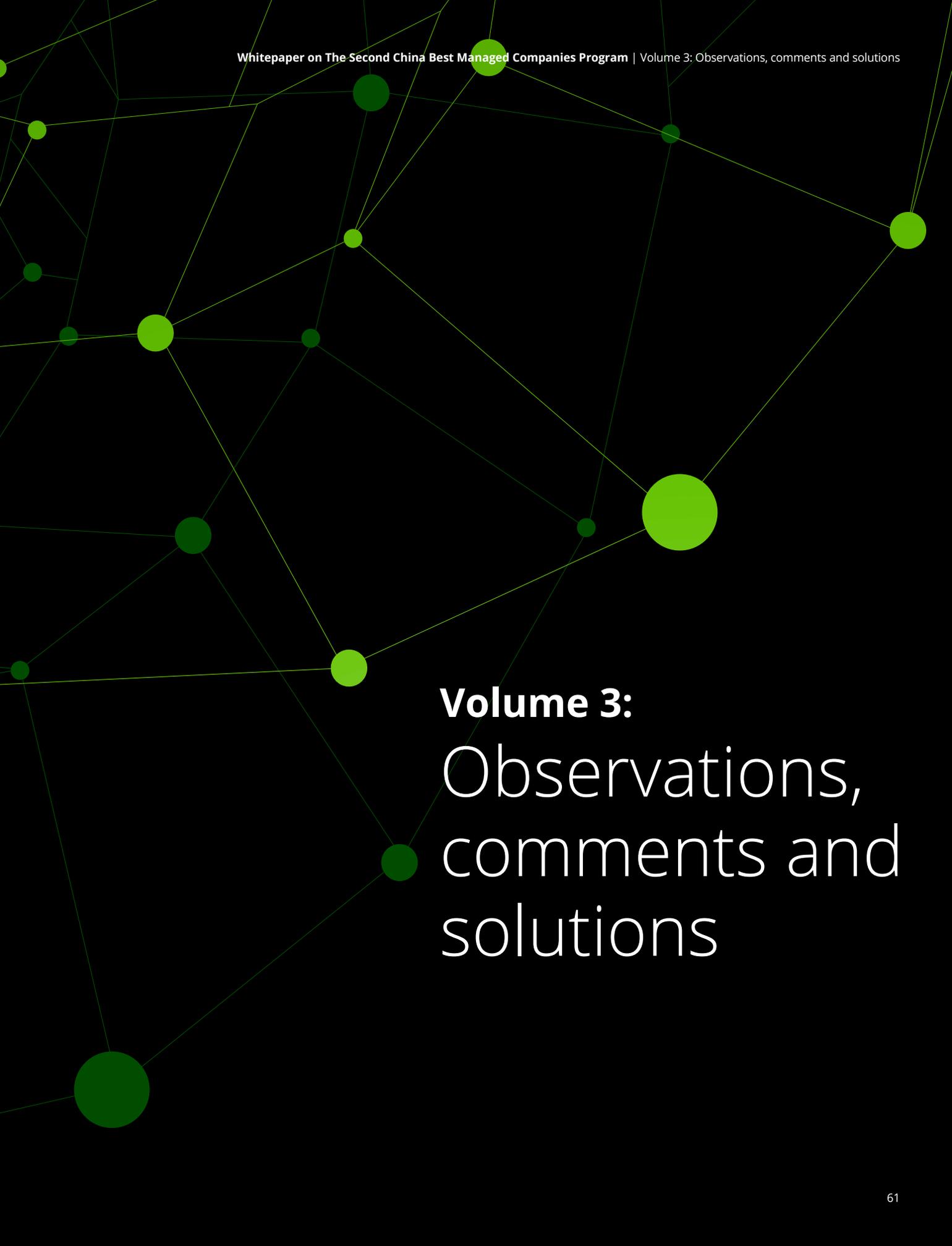
CIFI Holdings (Group) Co., Ltd. takes "becoming a global top 500 enterprise" as its vision and "building a better life with heart" as its mission. The company implements the group development strategy of "one body two wings", with the "main channel strategy" as the "one body", the "real estate +" strategy and the "real estate financialization" strategy as the "two wings", focusing on resources. While strengthening and expanding the main real estate business, the company uses the resources, platforms and advantages of the main business to expand independent and diversified businesses in the industrial chain, extend vertically, and look for business growth points. Switching from developer to operator, it starts a dual-wheel drive strategy, namely residential development and commercial dual-wheel drives. The organizational structure of "large platform + small group + project cluster" optimizes regional integration and improves regional efficiency and benefits. It screens investment projects through four aspects of "strategy, market, finance and operation", and has strong ability of resource integration. It implements the organization with high salary, high standard, high performance, high care and high growth, and the talent development model of "talent strategy + industry elite", and increases the proportion of internal promotion year by year. In 2019, the contracted sales volume exceeded 200 billion yuan, ranking TOP14 among China's top 500 real estate developers. The financial management strategy of the enterprise is the triangle balance of scale, return and risk, to achieve a balanced capital market. The core competence is the combination of "balance finance, investment, operation and cooperation".



As one of the most competitive comprehensive real estate development companies in China, Agile Property Land Limited ranked among the 100 billion real estate enterprises in 2018 and won the honor of TOP23 in the comprehensive strength of Real estate enterprises in China and TOP 6 in the comprehensive strength of Mainland China real estate companies listed in Hong Kong. Agile has always been committed to becoming a service provider of quality life and "a century-old enterprise with employee satisfaction, customer satisfaction, partner satisfaction, shareholder satisfaction and social recognition". The strategic key words of Agile in 2020 are "improving quality and increasing efficiency, innovating and build momentum". The company hopes to pursue quality growth while developing steadily. Agile takes the traditional real estate business as the core, the industrial real estate and urban renewal as the two wings. Through the diversified development mode, it adheres to promote the strategic layout of the deep cultivation of the national city, to achieve the steady growth of scale and profit. Based on customer needs, Agile is committed to providing customers with high-quality products and services; the company has created a "4+1" product system to meet the diverse needs of customers comprehensively. We adhere to innovation and change, dynamic optimization of the organization and business process, and constantly promote the high-quality development of the company with the times. It has set up a training system covering college students to core executives, and built corporate cultural brands such as Lechuang, Lejia and Lexing. It has created a simple, transparent, efficient and pragmatic working atmosphere, which has effectively enhanced the cohesion and fighting capacity of the organization. Over the past 28 years, Agile has always adhered to quality and ingenuity, and paid attention to people's pursuit of a better life. Guided by the concept of "live a happy life", We believe that Agile will continue to innovate, surpass and break through in the future and stride to a new height!



Intime Retail (Group) Company Limited is a sample of the new retail reconstructing department stores, is one of the eight new Alibaba retailers, and the first Internet department store comprehensively built on the cloud. Intime is committed to becoming a big data-driven consumer solution provider with the mission of "making business easy in the world". Based on Alibaba's business operating system, Intime has established a set of new store operating system, with digital reconstruction of people, goods and places. It has established a digital membership system based on new retail, allowing customers to feel the same products and services online and offline. It has set up 44 "Intime areas", where customers can enjoy regular delivery services of counter commodities, serving more than 50 million customers. It has taken the lead in building a live broadcast e-commerce network. All 65 physical stores have achieved live broadcast sales and counter delivery, and 6,000 shopping guides have been transformed into anchors with goods to become the new force of Taobao live broadcast. The innovation and transformation of the company has ushered in growth. On November 11, 2019, it increased by 24.2% overall, and MiaoStreet orders increased by 7.5 times, significantly higher than the industry level.



Volume 3:
Observations,
comments and
solutions

Practices of Best Managed Companies 2020: Chinese Resilient Companies

Written by Qi Jing

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The global COVID-19 outbreak in 2020 has asked a key question of all Chinese businesses. In the face of economic, social, environmental and global order turmoil and uncertainties ahead, how does the enterprises maintain their flexibility and adaptability? Chinese companies pursuing excellence need to consider systematically building their resilience.

BMC (Best Managed Companies) is launched by Deloitte China, Bank of Singapore, HKUST Business School and Harvard Business Review China(HBRC). The global BMC program has a history of 27 years. Its purpose is to find companies with advanced management ideas and excellent business performance. In global selection for the BMC program, we comprehensively evaluate a company's management ability based on its strategy, capability, commitment and financial strength. The significance of resilience in excellent management systems has never been greater.

HBRC recently interviewed Zhao Yi, CFO of Longfor Group, Rosa Yang, partner of Deloitte National Markets and Global Network, and the Deloitte's BMC project team to discuss the common characteristics of highly resilient companies, global best practices, Chinese companies' "resilience performance", and the direction of future improvement.

What is a resilient enterprise?

Rosa Yang says, "Deloitte had research on the global Best Managed Companies, showing how they are equipped with the quality of resilience. This fundamental quality is an adaptability that enables organizations to survive in the face of challenges and uncertain risks. Deloitte Global recently published a professional view on how to deal with the COVID-19 and build resilience leadership. A resilient company is able to achieve sustainability, emerging from economic downturns and remaining steadfast while facing growing uncertainty. The longer a company has a sense of mission and is related to the well-being of society, the more resilient it will be."

Deloitte found that highly resilient companies have the common characteristics of 'strategic resilience' and 'organizational invulnerability', as well as extraordinary competency in innovation, leadership, organization and risk management. As companies continue to grow and develop, they need to consider the continuous upgrade of these three capabilities.

Sustainable innovation in products and services. Setting highly flexible strategies with an ability to predict and manage change. In the short term, this requires enterprises to promptly analyze the impact and consequences of external environment changes on their fundamentals and consider strategy adjustments. In the long term, CEOs need to guide their enterprises to perceive long-term trends and make contingency plans for unforeseen or unpredictable crises that can have extreme consequences. At the same time, they should pay more attention to multiple stakeholders, innovate business models, and better integrate their enterprises and society.

Leadership and organizational capacity. Enterprises adhere to "core values", build and establish responsive leadership and systematic organizational capacity. In the short term, leadership teams are required to take prompt and appropriate action during a crisis, blunting its impact and helping their organizations emerge stronger. In the long term, it is necessary to establish a high level of "commitment" and an innovation culture, a simple and efficient corporate governance model, and a self-driven ability to execute.

Risk Management ability. On one hand, this means enterprises can respond quickly to threats; on the other hand, it emphasizes that enterprises should plan to deal with risks in advance. In the short run, enterprises need to establish sound financial strategies, substantial cash reserves and cost control capabilities; in the long run, enterprises need to systematically establish business continuity, crisis and strategic risk management capabilities. Indeed, crisis response is closely intertwined with the normal management of enterprises. "Resilience" is an important capability that Chinese enterprises need to build in the post epidemic era. This is not only about "survival" in the short term, but also to create "long-term strategy".

Global practices of highly resilient companies

Zhao Jian, BMC managing partner, says resilience creates sustainable value for enterprises all over the world. Long-lasting foreign businesses and first-class enterprises have experienced several economic cycles, and will have more comprehensive and sophisticated strategies. The greater an enterprise's long-term mission, the greater its vitality. Resilience is very important to the sustainable development of a company and is equal to the resistance of the company, while the strength of the resistance determines the response ability of the company. Therefore, "highly resilient enterprises" have developed strong immunity.

Change and Unchange at Amazon. When Jeff Bezos founded Amazon in 1995, he was determined to promote social efficiency. Amazon's business has evolved from an online bookstore to e-commerce and Kindle to streaming media, intelligent hardware, cloud services and drone delivery. However, its original intention of creating social value has always been pursued. The orderly realization of Amazon's strategic objectives involves thinking about change and constants, and adapting to the complexity and diversity of customers' needs in different regions of the world at the fastest possible speed. Amazon achieves its financial objectives of maximizing long-term free cash flow through the core values of putting the customer obsession, long-term thinking, a passion for innovation, and vision and leadership.

The centennial inheritance of Japanese family business Brother Industries. Japan's Brother Industries is the world's leading manufacturer of sewing machines, and has been running for

110 years. In the 1990s, Brother Industries, which was highly export dependent, was hit by changes in international exchange rates. After this, the group developed diversified operations to disperse business risks, but it was difficult to benefit from economies of scale due to scattered operational resources and weak performance. To overcome the difficulties posed by business combination and economic cycles, the company established the "21st Century Committee" to discuss its vision and business structure, putting forward a medium and long-term reform plan. The highlight was to focus the structure of the company on the creative sectors and fashion, adhere to its corporate heritage of "making goods with heart", carry out more thorough structural reform, and build a comprehensive business management system. This enabled Brother Industries to adhere to its values in response to crises, establish new strategic visions, promptly adjust its business mix, and continue to flourish to this day.

Rosa Yang says, from many similar cases of international companies, we can see that uncertainty is an important growth driver for large-scale leading companies. The development of technology has lowered the barriers to entry and created opportunities for emerging startups, which requires enterprises to respond keenly. Both strategy formulation and execution require greater flexibility to grasp fleeting opportunities and maintain long-term competitive advantages.



Chinese practices of resilient companies

The BMC team looked into case studies on leading companies in different sectors, noting that the practices of Longfor Group and Fosun Group are highly representative of how best to "cross economic cycles and realize sustainable operations".

Longfor Group has adhered to a sound, clear business strategy since its establishment. Longfor formulated its strategic approach and improved operation systems based on customer needs. It also actively adjusted in reaction to changes in its external environment, and constantly improved its organizational adaptability. In recent years, Longfor has been exploring "platform and efficient regional business units" model, aiming to improve the sensitivity and execution of its operations in a fluctuating market. This is a typical approach among highly resilient enterprises. Longfor adopted an approach based on "change, determination and action" to start 2020. Change means embracing new developments; determination means firm strategy; and action means putting knowledge into practice. It could be interpreted as Longfor Group's mindset and exemplifies the qualities of a highly resilient enterprise. No industry can thrive all the time, but there will always be dynamic enterprises. The key lies in finding a pivot point in strategy and embracing change, as well as effectively

empowering the organization's front line. Zhao Yi, CFO of Longfor Group, says the long-term implementation of its corporate culture and adherence to a sound financial approach are the foundations for its thriving through multiple cycles. At the same time, the strategic efficacy of its organization, data background, use of space and customer stickiness are well balanced. Longfor has realized a resilient management approach that balances stability and innovation.

In the article "One Formula, Four Dimensions, Winning the Next 10 Years", Guo Guangchang, founder and chairman of Fosun Group, believes that "height \times speed \times time \times (1 deviation)" approach to identify those hidden "sustainable enterprises" which can survive from global economic cycle and industrial cycle is one of Fosun's core competitiveness. Height refers to the twin engines of global and Chinese operations; speed refers to accelerating supply chain capacity building and digitalization; time refers to ingenuity and innovation; and reducing deviation refers to sticking to the right path. Height, speed and time are the three drivers of Fosun's future growth, but reducing deviation is of even greater importance. To reduce deviation, in addition to constant introspection, Fosun is also encourage cooperation-competition theory. Cooperation-competition theory means the fear to uncertainty.



Helen Gui, BMC director, explained how the program team analyzed BMC winners and candidates, finding that several private enterprises in China have some of the characteristics of "highly resilient enterprises". However, for most enterprises, how to build "long-term thinking" and "systematic organization and management ability" is still a huge challenge. There are four cornerstone criteria in the BMC program: strategy, ability, commitment and financial performance. Chinese enterprises perform well in every aspect except commitment. In terms of their commitment, they are still falling some way short of management excellence. The main elements of commitment are corporate culture, sustainable investment in talent development and having a complete corporate social responsibility management system.

"It is foreseeable that uncertainty will become the norm," says Rosa Yang. "Chinese enterprises generally have a good understanding of 'tangible ability', but lack training and cultivation of 'intangible ability'. A Best Managed Company must constantly transmit its values internally and externally, and always 'do the right thing'.

Employees also attach great importance to a company's sense of mission. They will be more passionate and feel more valued when working for a company with a social mission. Meanwhile, if clients feel an enterprise has a social mission and responsibility, they will also feel relieved to choose its products and services."

Zhao Jian, says the Best Managed Companies are those able to adhere to their corporate missions and core values. Their "unique positioning" is not limited to business value; they are also committed to having an indelible influence on the world. At the same time, they know how to highlight their unique advantages and what they do best in the world. They are "stable and sustainable", work according to flexible strategies and organizational design adjustments, and maintain a constant mission and consistent positioning, creating responsive strategic and operating models. First-class enterprises generally have "strategic patience" and "organizational resilience", enabling them to generate lasting internal strength so they can constantly reinvent themselves and thrive into the future.



New thinking on enterprise human resources management under the epidemic situation

Ramona Yan, Deloitte China consulting partner
Hu Yuan, Deloitte China consulting manager

With the pneumonia caused by COVID-19 gradually brought under control, Chinese enterprises are generally stepping into the stage of recovery. The sudden epidemic has also exposed the obvious problem that many enterprises have insufficient "resilience" in the face of public health emergencies. In the face of external challenges, we find that those leading enterprises that can truly achieve agile response and quickly recovery are not only concerned about the impact of external shocks on the business and market, but also pay more attention to the challenges posed by external shocks to organizational capabilities. In order to better deal with such challenges, the professional team of Deloitte summarized suggestions on management improvement from the perspective of human resource management in the following three stages.

1. Coping stage: reducing cost and increasing efficiency to ensure survival

Set up a task force to coordinate the overall situation

A temporary crisis management committee or epidemic response team shall be established on the basis of the existing organizational structure to undertake the functions of overall crisis decision-making, emergency

plan formulation, public communication, resource allocation, etc., so as to help the organization to have a sound emergency coordination system, good crisis awareness and efficient cooperation in emergencies. The crisis management Committee can also help the organization to continuously improve its perception and ability to respond to the crisis in the future.

Control cost and optimize structure

In the temporary profit decline caused by the epidemic, the adjustment of organizational structure, personnel structure and quantity should be carried out centering on controlling labor costs, so as to avoid unnecessary losses in the future caused by ill-considered organization simplification. Although streamlining the organization can reduce the labor costs in the short term, but the high cost of layoffs, brain drain, recruitment difficulty and cost will cause huge losses to the enterprise. The enterprise should make an in-depth analysis of the human cost and value before this, improve the matching degree of people and posts from the perspective of personnel structure optimization to avoid the loss of key talents.

Adjust the system, use labor flexibly

Companies should thoroughly analyze the employment demand and staff supply fluctuations caused by the epidemic, sort out the key roles with flexible employment demand, and design the corresponding flexible employment dispatch scheme such as remote collaboration, odd jobs, freelancers, etc., so as to solve the problem of unexpected personnel demand or shortage caused by the epidemic. Among them, the working mode of remote collaboration is the most important and flexible employment mechanism which is easy to adopt in the short term. Remote collaboration should focus on output, take task completion as the orientation, make full use of task definition and refinement, comprehensive communication strategy, digital tool application and other guarantee business to ensure remote and efficient implementation, supplemented by effective remote training.

Transparent communication and positive atmosphere

When the epidemic breaks out, the organization should provide employees with a sense of direction through open and transparent crisis communication to build their confidence in dealing with the crisis. First, management should disclose key information such as operating conditions and the next steps of the company to employees to inform them of the prospects of their career development. Secondly, the company should establish a positive atmosphere to face the epidemic together, and unify the staff's thoughts based on the same epidemic response strategy of the whole company, so as

to avoid the negative emotions of the staff, and work together with colleagues and customers to overcome the difficulties. Finally, it shall establish a crisis communication mechanism within the organization to increase the participation of employees in major decisions, and help employees build the confidence to overcome difficulties together.

2. Development stage: consolidate the core and restore orderly

Analyze the impact of the epidemic and adjust the organizational system

In the middle and later stages of the epidemic, human resource managers should comprehensively analyze the impact of the epidemic on the organizational system, and thus adjust the organizational system, so as to ensure the orderly recovery of business. In response to the impact of the epidemic on business and profitability, the company should adjust work processes and performance management systems, such as appropriately lowering performance targets for the first quarter and adjusting performance indicators for remote work. At the same time, according to the changes in costs and personnel structure, the compensation and welfare system can be adjusted to deal with the pressure of compensation cost, and the long-term incentive mechanism can be considered to deal with the uncertainty risk in the future. During the resumption of work, the adjustment of the enterprise's organizational system should be dynamic, and it shall timely communicate with employees according to the adjustment of policies and make plans for possible labor disputes in advance.

Protect core talents and provide sustained driving force

Talent is the primary driving force for enterprise development and change, and it is very important to protect the core existing talent. During the epidemic, organizations need to optimize the talent structure, comb and identify key talents and key positions, and ensure the minimum number of competent persons to ensure a good operation. In the medium-to-long term, enterprises should start to lay out the medium and long term talent development after the environment changes, and reserve the needed strategic talents in advance. At the same time, they should continuously pay attention to various enterprise subsidies and other policies that the state issued, to obtain and implement various employee welfare policies.

Control the mobility of talents to avoid personnel crisis

The statistics and monitoring of employee mobility can help enterprises avoid negative impact on the organization due to personnel management problems during the epidemic. The trend analysis of staff turnover based on employee recruitment and resignation information can help enterprises identify the talent impact brought by the current crisis and predict the future crisis.

Put people first, care for employees

Companies should adhere to the people-oriented approach, and take the safety and health of employees as the first priority. The management should create an atmosphere of love and mutual assistance within the organization and build trust between the organization and employees. The negative emotions of employees should be channeling rather than suppressing, so as to establish the emotional bond between the organization and employees.

Human resource managers should provide adequate care to employees in a timely manner from employee health testing, employee isolation and treatment period salary and benefits, and medical expenses processing, and in the future, they should carry out employee health training and improve the medical security system to establish an employee health risk defense system, and enhance the company's ability to resist public health emergencies.

3. Long-term stage: organizational upgrade and transformation breakthrough Improve organizational readiness, cope with uncertainties calmly

In an evolving environment, crisis events are everywhere. To build a strong organization that is comfortable with uncertainties, it is not only necessary to build a professional risk management team to develop a comprehensive risk response plan, but also need to improve the organization's ability to adapt to changes. Through the analysis of organizational characteristics such as organizational structure and management mechanism characteristics, labor concentration degree, talent type, etc., it shall evaluate the adaptability degree and speed of the organization in the face of changes. In future crises that may persist, the organization should develop the basic principles of the organization's crisis response to quickly locate the organization's impact and respond in a timely manner. The crisis management committee within the enterprise can also conduct regular organizational crisis simulation to improve the enterprise's readiness in a rapidly changing environment and build a more agile team.

Open organizational boundaries and cooperate with partners

In the face of uncertain environment, organizations that can open organizational boundaries and cooperate with other enterprises in the ecosystem with an open mind will have more advantages. Therefore, the epidemic is also a good opportunity for enterprises to adopt the open source model, establish partnerships and improve their anti-risk capabilities. In the face of the epidemic, enterprises should consider working with their upstream and downstream partners or even competitors to jointly develop crisis response measures, pool wisdom and share resources. At the same time, the crisis also suggests that organizations should establish contacts with various resources to improve their professional competence. For example, professional service organizations and social resources such as law firms and consulting companies owned by large enterprises in crisis events can provide strong support for them.

Drive digitalization and respond to risk

To a certain extent, the epidemic has become an opportunity to develop digital organizations. In this epidemic, in addition to the demand growth of online marketing and new retail models, which puts forward higher digital requirements for auto enterprises from the business side, strong digital capabilities can also greatly improve the level of organization management, thus increasing the organization's anti-risk capability. For example, the collection, analysis and application of big data can improve the efficiency of staff management;

the development of digital office system can realize remote empowerment and improve work efficiency; the digital reconstruction of management mechanism can make the organization ability match with the existing digital technology ability.

Develop corporate culture and fulfill social responsibility

The enterprise should develop a corporate culture centered on a sense of mission and responsibility, to stimulate employee initiative and enhance organizational vitality, to support adaptability in an uncertain environment. Through the corporate culture, it should provide internal motivation for employees, mobilize employees to develop the habit of actively paying attention to market customers and development opportunities, and help enterprises to resume business as soon as possible during the outbreak of crisis.

In addition, during the epidemic, many auto companies actively fulfill their social responsibilities in their own ways, which bring a great positive impact on their corporate image, enhance the pride of their employees and lay a foundation for the establishment of a good corporate culture. For example, major car companies actively donate funds, actively produce negative pressure ambulances, transport medical supplies, etc.

The business impact of disruptive technology

Rob Dighton, Deloitte's Tech and Digital Risk Director

In many ways, technology is now allowing businesses to do what they have always wanted to do by making the previously impossible, possible. The irony now is that many of the barriers to achieving true digital transformation are no longer technology related, but related to culture, skillset, execution capability and ability to manage risk. A combination of these attributes are required to decide on, and clearly articulate, the business case for further adoption – something many organisations appear to still be coming to terms with.

Opinions converge across all regions, industries and functions – disruptive technologies have the potential to create huge value for organisations. From a faster time to market, to getting to know your consumers better, to the creation of new product categories with global scale, survey respondents suggest new business models can unlock huge commercial value. But such opportunities do not come without obstacles.

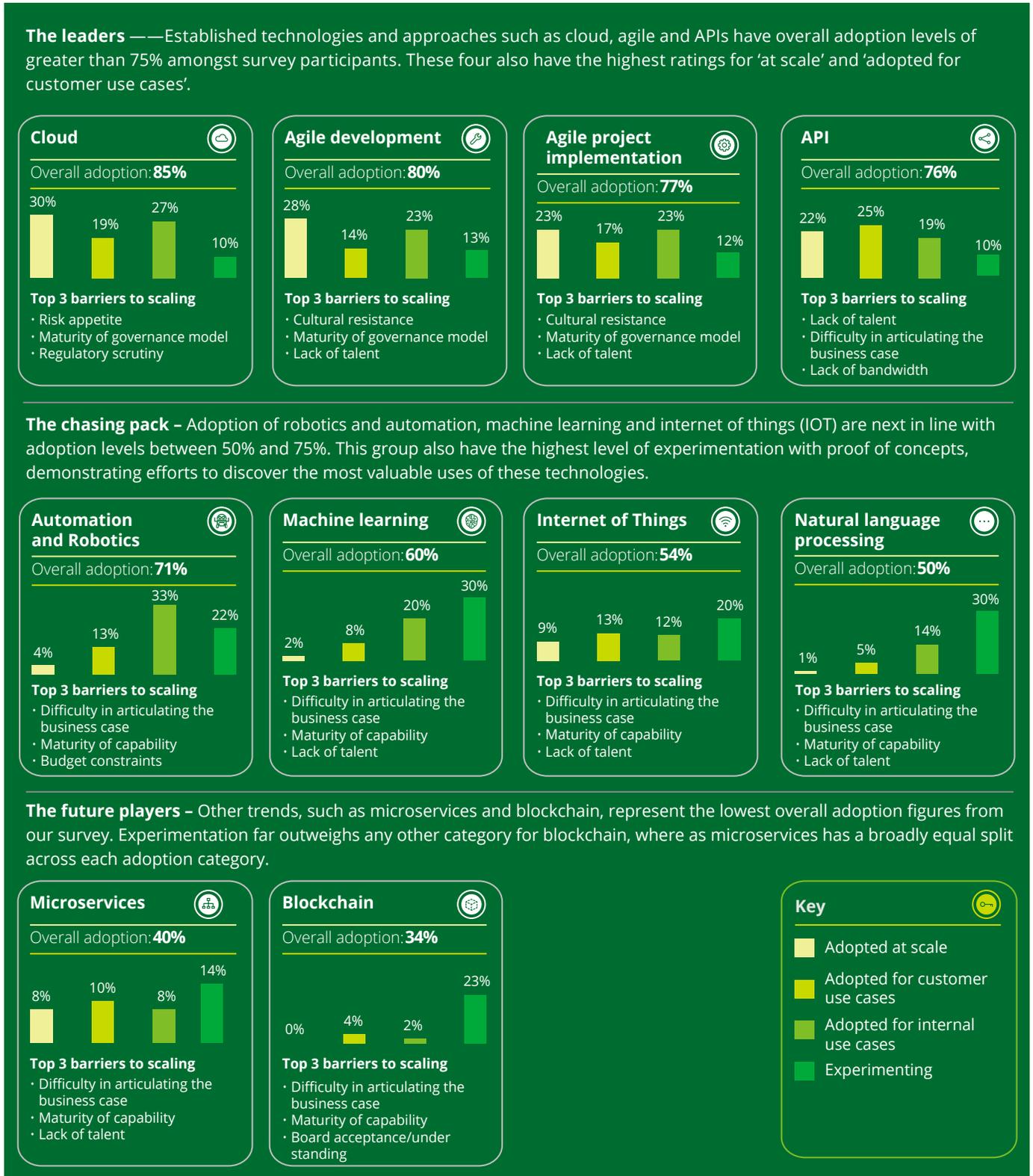
The barriers to digital transformation highlighted by respondents vary – from legacy processes to cultural resistance, lack of talent and capability to aged infrastructure.

What is having the biggest impact right now?

Our survey shows that when it comes to overall adoption trends, cloud (85%), agile development (80%), agile delivery (77%) and application programming interfaces (APIs) (76%) are leading the way. Large scale adoption of many other emerging technologies appears to still be in its infancy, with 'adoption at scale' figures for the likes of Internet of things (IoT), robotics, machine learning, blockchain and natural language processing all below 10%.

For a detailed list of disruptive technologies, see Figure 20.

Figure 20. Breakdown of adoption trends by overall adoption level and type of use



Which regions are leading the way?

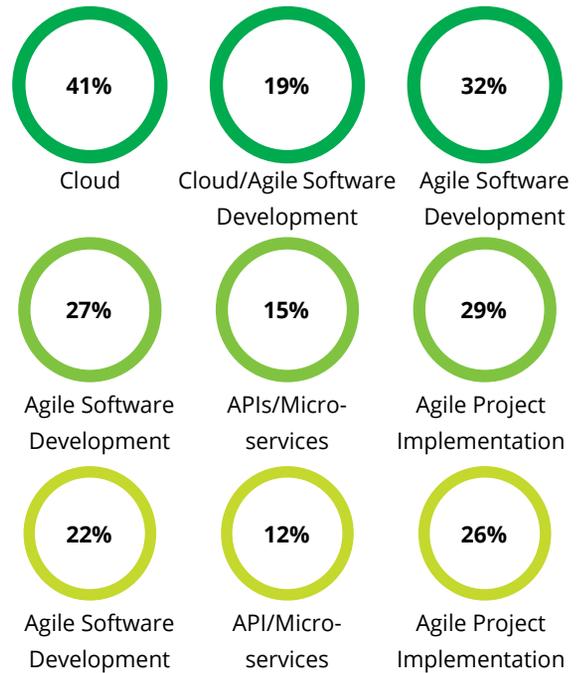
Adoption levels in each region broadly mirror the global adoption trends, with cloud, agile development, agile delivery, and APIs featuring in the top four most widely adopted trends. Cloud came top of the list of technologies adopted at scale across APAC and the Americas, with agile development techniques most common in EMEA. The results point to the APAC region as the leader in adoption of cloud technology, with the percentage of organisations adopting the technology at scale nearly double that of the Americas.

What are the most common barriers to scaling adoption?

Difficulty in articulating the business case (20%) was the most common barrier to scaling adoption (see Figure 22). With so many options now available, it appears that organisations are grappling with deciding on how best to apply new technologies to generate commercial value. Perhaps tellingly, the second and third most popular answers related to capability maturity and lack of talent, both of which play a large part in being able to articulate how technology can be applied.

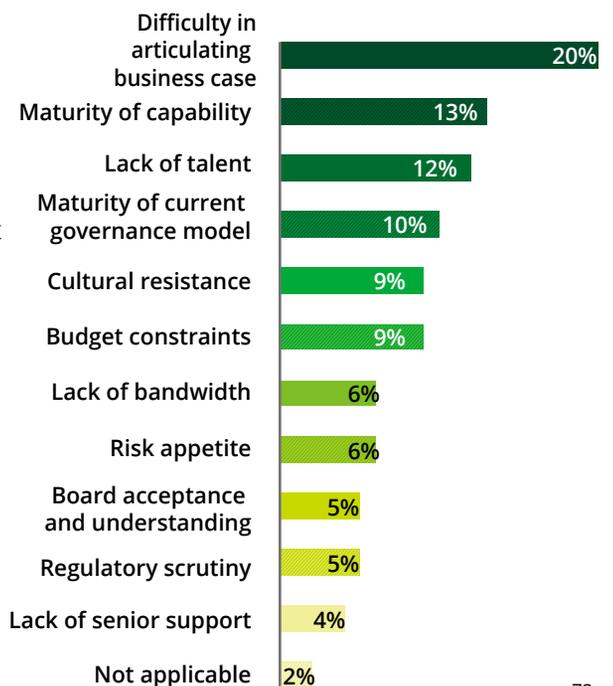
Who and what is leading the way?

Figure 21. Percentage of respondents by region who have adopted disruptive technologies at scale



Barriers to scaling adoption

Figure 22. Difficulty in articulating the business case stated as the most common barrier to scaling technology adoption



How quickly are organizations able to convert ideas into live solutions?

The vast majority of organizations (69%) reported that they are struggling to take ideas to market in under six months (see Figure 5). Although this varies slightly between regions, with the Americas and APAC regions reporting quicker times taken to deploy along with Manufacturing and IT when looking by industry. However on the whole, the results indicate there are no significant differences across geography or industry, which implies many are struggling with the same challenge - how to decrease 'time to value' whilst still maintaining control.

For organisations that take six months or more to convert ideas into live solution the obstacles are primarily around culture (e.g. such as a more conservative, waterfall approach to funding allocation), legacy processes (e.g. manual environment provisioning) and lack of talent. For organisations that are able to deploy quicker, culture and legacy processes are less of an issue but lack of talent remains as the biggest obstacle to going even quicker (see Figure 6 for the full breakdown).

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Just over one third of respondents (36%) report experiencing significant incidents due to disruptive technologies going wrong. Of that group, many saw more significant impact, lower frequency incidents arising from technologies further down the adoption curve (automation, blockchain) and lower impact higher frequency incidents with technologies being used currently (Cloud, APIs). Whilst there will be outliers to this observation, it demonstrates how the risk profile of disruptive technologies varies along the adoption curve. As adoption grows, the likelihood for service disruption increases, demonstrating the need for governance approaches to be scaled up in line with adoption.

Plotting the way forward - where should organizations be focusing their efforts?

Due to the fast market dynamics of a digital environment, any barriers to achieving scale and speed can become strategic risks with a significant level of potential impact to the business. As a result, Risk functions have a significant role to play in helping organizations overcome these barriers by influencing the approaches taken to adopt new technologies quickly, but in a safe and secure manner.

- **Focus on the business need for transformation, not the technology** – in a world of such rapid technological change, it can be easy to focus primarily on the technology. However, the business need for transformation should be the primary driver. Once real business needs have been identified, focus should then be on the creation of well researched, compelling business cases and finding employees with the skillsets required to make them reality.

- **Understand and break through the barriers to speed**–the survey results suggest that legacy processes, skillset gaps, culture and approaches to addressing risk and control requirements are the primary factors impacting speed of change execution. Form a view of what the real issues are on the ground are that impact time to value and tackle them one by one.
- **Incorporate flexibility into governance frameworks and prioritize technologies that are relevant now**–business executives are unlikely to want to carry excessive risk unnecessarily, but they can't afford for inefficient or overly rigid governance processes to get in the way either, or for them to limit innovation and risk taking. Governance and risk management becomes increasingly important as adoption grows and therefore a common methodology that allows for tailoring of approaches, whilst still remaining consistent with the common risk framework, should facilitate and encourage safe adoption.

ESG Investing-A virtuous circle is developing

By Conrad Tan, Investment Strategist of Bank of Singapore

Public interest in sustainable investing – also known as ESG (environmental, social and governance) investing – has been steadily gaining momentum in recent years.

This has been driven in part by greater awareness and activism on global sustainability issues such as climate change and worsening inequality, spurring more individuals to seek positive change through sustainable investing and other means.

For those still new to sustainable investing, the explosion in recent developments may prove daunting. It is therefore useful to revisit some basic concepts.

What is sustainable investing?

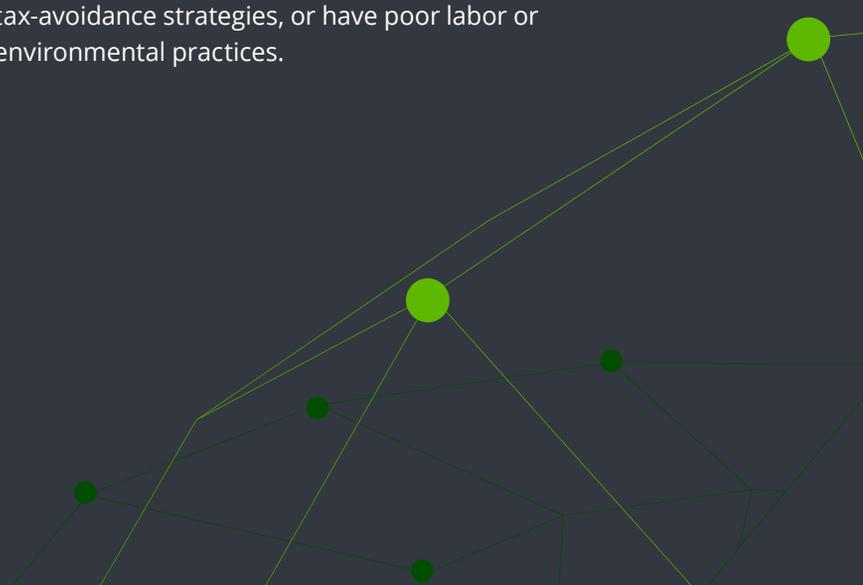
While precise definitions vary, sustainable investing – also known as socially responsible investing – can be described broadly as an investment approach guided by the aim of achieving a better and more sustainable future for society as a whole – and not just the individual investor. Sustainable investing thus

requires consideration of environmental, social and governance (ESG) factors in the investment process, and is often also referred to as ESG investing.

Broadly, the practice of sustainable investing today can be categorized into three main strategies:

1. Selective exclusion of companies or whole industries engaged in activities that are inconsistent with investors' views on what constitutes sustainable or responsible practices. Common examples are weapons, tobacco, fossil fuels, gambling and pornography.

2. Integration of financially relevant ESG factors into investment decisions. An example would be incorporating the risk of future taxes or legal costs in analyzing the future profitability of businesses that use aggressive tax-avoidance strategies, or have poor labor or environmental practices.



3. Impact investing, where investors explicitly aim to achieve positive ESG outcomes via their investment decisions – directing capital allocation for social good. Examples include fighting climate change; alleviating poverty; eliminating gender or racial discrimination; and improving access to clean water, healthcare and education for disadvantaged groups.

In its early days, sustainable investing was widely viewed as demanding the sacrifice of investment returns by excluding lucrative industries (defense, fossil fuels and tobacco); or requiring investments in high-risk ventures such as unproven clean-energy technologies or social enterprises where the profit motive is explicitly subordinated to ESG goals.

Unsurprisingly, many investors keen to effect positive social change initially preferred to base their investment decisions primarily on financial criteria, and set aside a separate budget for engaging in philanthropy, thus effectively treating their wealth generation and ESG activities as distinct.



Over time, however, this view has evolved significantly. Many investors now take a more sophisticated approach to sustainable investing, systematically incorporating ESG factors into their investment process, and engaging more directly in impact investing to improve the ESG outcomes they seek.

There is also a small but growing body of evidence that shows that ESG factors can be integrated successfully into the investment process without sacrificing returns.

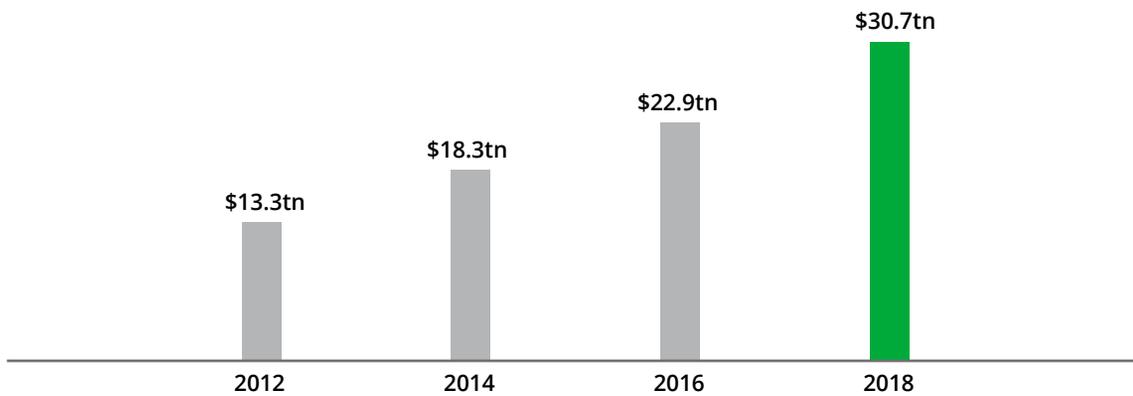
A 2018 review of academic research by NYU Stern and investment firm QMA found no strong evidence of a significant difference in the returns earned by firms with high or low ESG ratings. Overall, companies with better ESG profiles are able to raise debt and equity financing more cheaply, and enjoy higher valuations, the review showed.

Recent surveys also suggest that sophisticated investors engaged in sustainable investing no longer believe that returns must be sacrificed in the process.

The Global Impact Investing Network's latest survey published last month shows that two-thirds (66%) of the 266 impact investors surveyed principally target risk-adjusted market-rate returns, while the rest aim for returns close to but below market rate (19%), or capital preservation (15%).

Sustainable investing assets under management across equity, fixed income, real estate, and private equity grew to US\$30.7 trillion in 2018, more than double the US\$13.3 trillion in 2012, latest data from the widely tracked annual survey by the Global Sustainable Investment Alliance show.

Figure 23: Estimated total global sustainable investment assets (2012-2018, in US\$ trillion)



Source: Global Sustainable Investment Alliance, Global Sustainable Investment Review 2018

Improved ESG frameworks and greater sense of urgency to tackle ESG issues driving sustainable investing trend

We see three key, mutually reinforcing developments that are driving interest in sustainable investing.

- Enhancements and greater availability of ESG scoring frameworks used to distinguish between investments using ESG criteria, supported by the deployment of more resources to research sustainable investments.

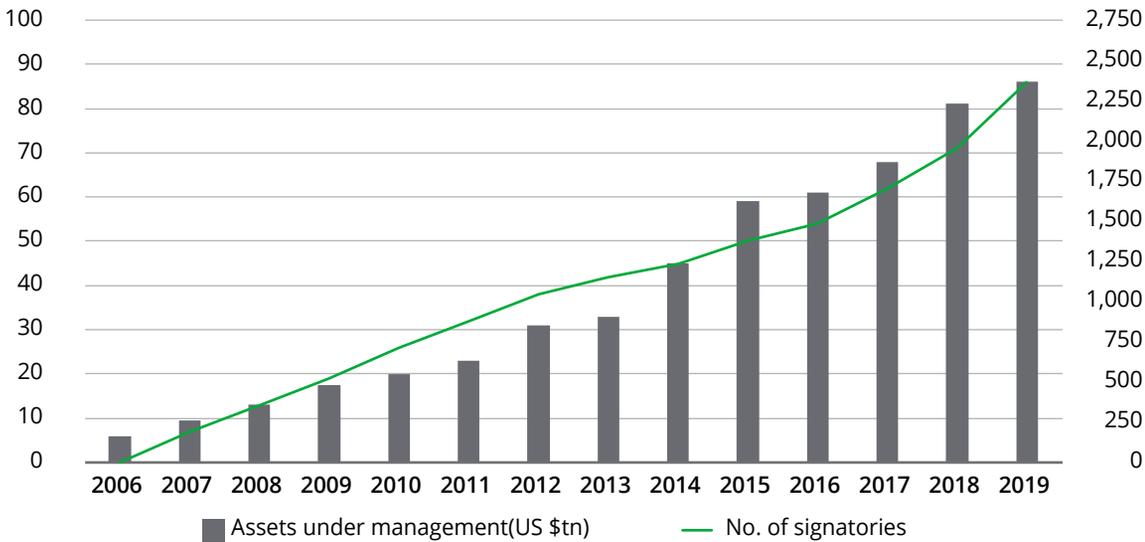
Many global financial data providers such as Bloomberg, Refinitiv, MSCI, FTSE and S&P Dow Jones Indices now offer progressively more refined ESG securities ratings and benchmarks. This has helped to improve and expand investors' ability to integrate ESG criteria into their investment process.

- Greater awareness and activism around global issues such as climate change, and wealth and gender inequality, supported by the increasingly sophisticated use of social media. This has encouraged more individuals to seek ways to shape both public policy and private business practices related to these issues.

- Companies' desire to manage ESG-related reputational risks. With greater public scrutiny and improved tools for assigning ESG scores, businesses are also increasingly conscious of significant downside risks to brands and reputations if they are perceived to be socially irresponsible. In particular, scoring low on published ESG metrics relative to their industry peers is a risk that could hurt their market value.

A useful indication of sustainable investing's growing penetration into the mainstream is the steady rise in the number of signatories committing to the UN-led Principles for Responsible Investment. Nearly 2,400 asset owners and managers representing US\$86.3 trillion in assets under management (AUM) have signed up so far, compared to just 63 signatories with US\$6.5 trillion of AUM in 2006 when it was launched.

Figure 24: Growth in number and total assets of global signatories committing to the UN Principles for Responsible Investment



Source: UN Principles for Responsible Investment

As ESG methodologies improve, industry standards emerge and social awareness on global issues grows further, we believe that sustainable investing principles will become an increasingly essential part of the investment process – in the same way that sophisticated investors today expect a minimum standard of financial due diligence done before risking their capital.

We see signs of a virtuous circle developing, with growing interest in sustainable investing supporting the development of improved ESG metrics and industry standards – leading to more consistent and timely ESG data, closer integration of ESG factors into investment decisions, and greater availability and customization of ESG products, further reinforcing demand for better ESG offerings to help investors to invest sustainably.

“Stabilization•Cooperation•skills”: explore a new model of supply chain risk management-internally and externally, and build risk immunity systematically

Gong Geliang Deloitte China Supply Chain Lead Partner
Xu Lina, Deloitte China advisory director

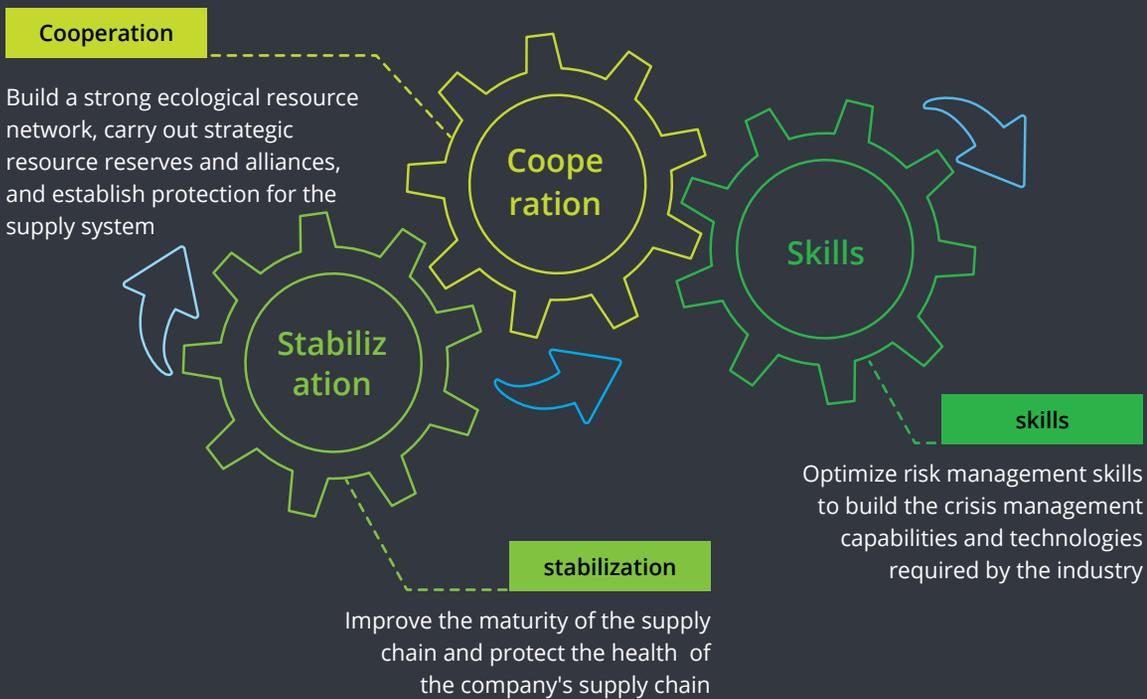
In the past few years, Deloitte has conducted in-depth and detailed research on the increasingly hot topic of supply chain risk management. By continuous tracking the evolution and development of leading enterprises in supply chain risk management in all walks of life, in-depth research on the outstanding successful practices and failure lessons of the industry after each major risk event occurred, Deloitte comprehensively analyzes hundreds of cases and conduct in-depth interviews with industry experts. It has gradually sorted out the key success factors of supply chain risk management in the current political and economic environment, and summarized the latest methodology for systematically establishing and optimizing supply chain risk management systems.

In the above research, Deloitte found that many outstanding corporate managers have abandoned the traditional concept of starting with risk, and have gradually explored more systematic internal and external anti-risk methods. Deloitte summarized it as:

- Improve the maturity of supply and build a solid operational level;
- Optimize risk management skills to achieve capacity building for technical expertise;
- Cooperate to build an ecological network.

Create excellent supply chain risk immunity through these three approaches from three dimensions.

Figure 25: Supply chain risk management system model



With these three approaches, companies can fundamentally improve their risk resistance

The three key dimensions of continuously improving the maturity of the supply chain, strengthening risk management skills and optimizing the layout of the ecological resource network are indispensable in a complete supply chain risk management system.

Supply chain management maturity is a "health indicator" that reflects the quality of a company's supply chain management. Through continuous consolidation of the foundation, the companies can effectively prevent many "unnecessary risks" and will also have stronger resistance in the event of a crisis.

Although it is difficult for companies to predict all potential risks, they still need to have sufficient emergency response capabilities for risks related to the high supply chain, that is, when a crisis occurs, they need to accurately and quickly assess the impact of the crisis on the supply chain and deploy responses measures.

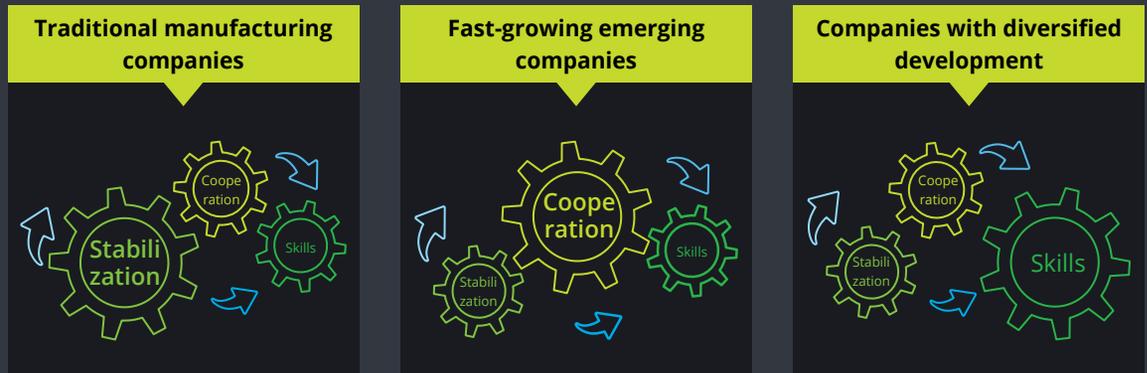
Finally, relying on the growing interconnection of various industries, companies will build a strong ecological resource network, make full use of external superior resources to effectively build a protective barrier for the supply system, rather than relying solely on its own resources and capabilities to deal with all risks.

Match the corporate strategies and deploy in a targeted manner

Although the three approaches are the top priority to fundamentally improve risk resilience, in actual implementation and construction, different companies should start from their own industry attributes, competitive advantages, and corporate strategies, and choose the deployment strategy that best suits their own development according to local conditions. For example:

- For traditional manufacturing enterprises with relatively stable business, they should focus on the improvement of the maturity of the supply chain, to continuously improve the management level, and avoid unnecessary risks to the greatest extent.
- For fast-growing emerging companies, due to rapid changes in their business structure and supply model, they will inevitably face more supply assurance challenges. At this time, the primary task is to ensure the continuity of supply flexibly. Therefore, companies need to establish corresponding resources and talents for rapid rescue to ensure the normal development of the company.
- For enterprises with diversified development, due to their wide range of industries and fields, they can efficiently build ecological capabilities, resist risks through cooperation, and create another barrier against risks for enterprises.

Figure 26: Growth in number and total assets of global signatories committing to the UN Principles for Responsible Investment



In the supply risk management model, there is a certain degree of support and complement relationship between each dimension. For example, when an enterprise's supply chain maturity improves and potential risks decrease, the enterprise's ability to manage acute risks will focus more on the key risks that have the greatest impact on the enterprise. In addition, supply chain management with high maturity leads to greater operational transparency and helps companies accurately trace the source of risks and formulate countermeasures. In a major crisis, a company with a strong ecological network can make full use of ecological resources and make more comparisons and choices when planning countermeasures, which can often help the company better survive the current crisis.

Next, let's analyze the three key dimensions one by one:

1. Stabilization: Improve the maturity of supply chain, systematically check and repair the "key signs" of the healthy operation of enterprise supply chain

Supply chain maturity is an important indicator to measure the performance of enterprise supply chain management, which can relatively and comprehensively reflect the overall operation level of an enterprise's supply chain. This indicator aims to help management understand the current operation status of supply chain integration, find the core gap of their own operation, and clarify the key points for the future work planning.

The maturity of supply chain is mainly based on the mutual verification and combination of two dimensions. On the one hand, from the perspective of function, the company thoroughly evaluates the six core supply chain functions of R&D, procurement, planning, production, delivery, and returns, and conducts a comprehensive analysis of each key function and evaluates the integration and collaboration between different functions. At the same time, it also sorts out the supply chain from top to bottom, from strategy, operation, process to organization and tools.

Any kind of crisis is often the best time to test the quality of an enterprise's supply chain management. Good supply chain management does not mean to go smoothly, but to persevere in the storm. At the moment of crisis, it is often easy to expose the immaturity of supply chain hidden in the daily life of enterprises, such as the lack of sorting and control of upstream resources, the lack of scientific support for inventory level setting, data distortion and fraud, etc. These kinds of supply chain management problems are often the biggest incentive for enterprises to produce supply risks in crisis.

2. Cooperation: Build a strong ecological resource network and quickly gather shared resources and capital networks

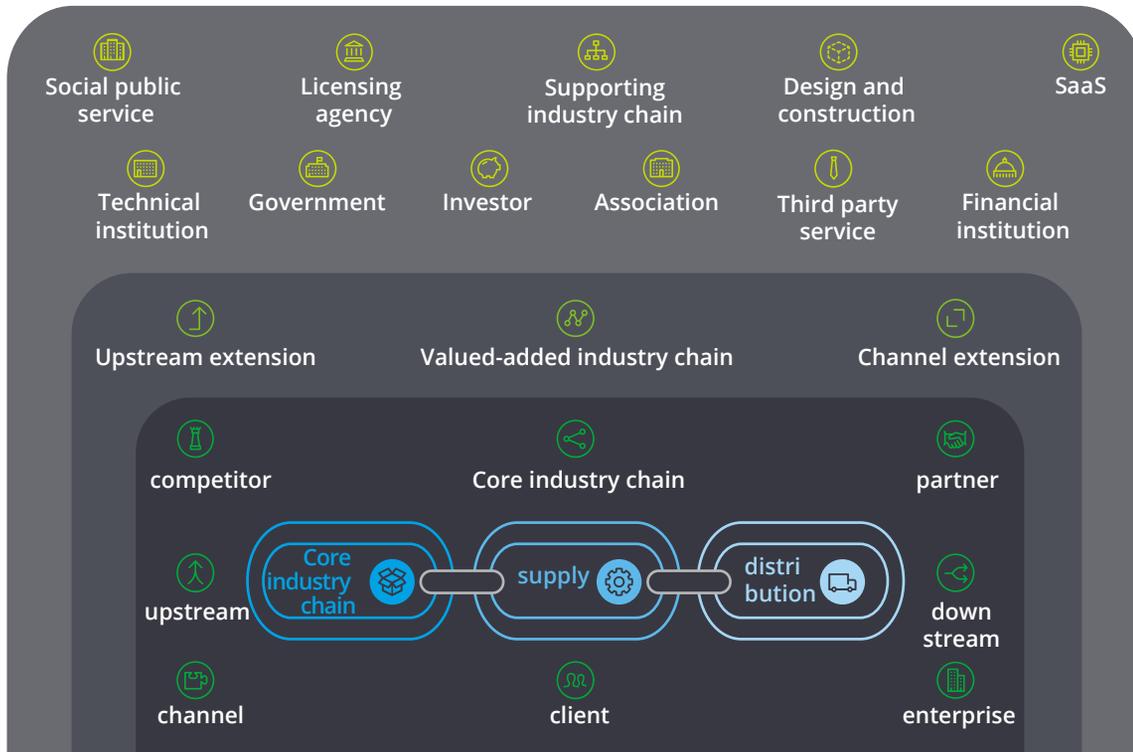
Nowadays, many enterprises regard ecological construction as a strategic market strategy. In the crisis, how an enterprise can quickly find "allies" in the industry and how to build or join the ecological resource network (Figure 27) will play a crucial role in boosting enterprises from business to supply chain. This practice has shown a large number of successful cases in various global crises in recent years. There are several key elements in the construction and management of ecology:

- When building ecological networks, enterprises should abandon traditional thinking, "unite all forces that can be united", and dynamically examine the roles of various partners, that is, competitors can become potential partners. For example, giant enterprises with competitive relations in some industries may form a temporary alliance to purchase bulk materials and jointly resist the fluctuations of material costs.
- On the other hand, enterprises need to broaden their horizons, comprehensively sort out various resources of cross-industry/related institutions, and identify various

cooperation opportunities. For example, during the financial crisis, some enterprises had cash flow problems, they may look for feasible financial solutions from cross-industry partners and institutions to smoothly tide over the difficulties. For another example, when material shortage occurs in some industries, some leading enterprises will make use of strong ecological network to carry out material secondment across industries to make up their own gaps.

- Finally, companies need to realize building ecological network is a key task for a long time. They need to set up a dedicated department/resources, and comprehensively sort out the resources of competitors, partners, and customers in the industry/adjacent industries for a long time, and carry out contacts and exchanges with the highest management to help the two parties to quickly work together to formulate plans and implement them when a crisis occurs.

Figure 27: Growth in the number of global signatories and total assets that pledge to comply with the United Nations-supported Principles for Responsible Investment(UNPRI)



3.Skills: optimize risk management skills, and deploy risk response capabilities with high industry attributes

Based on the leading practice research, Deloitte summarized the method of optimizing risk management skills into a four-step methodology of "industry scanning, risk assessment, plan design and data empowerment".

- **Systemic risk scanning:** With the continuous development and growth of enterprises, internal operations become increasingly complex, external supply network is intertwined, and companies need to deal with the changing macro environment in real time. Enterprises should comprehensively carry out global economic insight and cross-industry scanning, formulate countermeasures from the perspective of the company through forward-looking prediction and screening, and systematically guarantee the operation of the supply chain, so as to truly escort the "evergreen foundation" of the enterprise. In addition, due to different industries, business structures and scales, various enterprises will face different types of supply chain risks, such as shortage of labor, shortage of upstream materials, sharp fluctuations or decline in demand, etc. Therefore, enterprises need to systematically sort out the potential supply chain risks in the upstream and downstream of the industrial chain, summarize the historical risks, and think diversely about the potential new risks, so as to draw the "risk map" throughout the industrial chain.
- **Quantitative risk assessment:** Conduct TTR analysis of all kinds of risks in the enterprise's overall value chain, and assess the time required from the reconstruction after the occurrence of risks to the full recovery of capacity before the occurrence of risks, so as to help the enterprise decide the way to deal with risks. An enterprise can set TTR evaluation criteria based on historical risk cases and industry realities. For example, when evaluating TTR of a supplier to resume production, it can only consider the rebuilding time needed for its lost production facilities, or it can choose to evaluate the rebuilding time needed for its lost production facilities and production molds.
- **Countermeasures for key risk points:** Based on TTR sorting, enterprises should consider to deploy certain preventive measures and countermeasures in advance for key risks with relatively long reconstruction time. In addition, detailed backup or alternative supply plans should be considered for the few links that have a "fatal" impact on supply. Such schemes often have no conventions to follow and require a lot of brainstorming and creative input, so they must be planned in advance. The planning of risk response measures should be updated regularly based on the changes of the external environment and the status of the enterprise, which is a routine work.
- **Digital empowerment of risk management:** with the rapid development of digitalization, technologies such as artificial intelligence, big data, blockchain, and the Internet of Things will effectively assist companies in strengthening risk monitoring and early warning capabilities. At present, leading companies in various industries are gradually building digital risk management systems to achieve broader scanning, more accurate identification, and more complete measures.

Figure 28: Examples of risk response measures

Examples of measures	Description
<p>Proactively intervene and manage upstream risks</p>	<p>As a leading enterprise in the industry, each link of the entire industry chain will have a great impact on it. Therefore, risk management does not only focus on its internal operations, but also needs to intervene in the upstream supply resource risks such as capital risk and material shortage risk in advance. Assist and guide suppliers to check and prepare in advance, and provide certain support and subsidies at high-risk points</p>
<p>Downstream dredging and expansion of supply chain</p>	<p>An efficient and smooth downstream network can not only guarantee the efficiency of the supply chain, but also feed back business by improving customer satisfaction. Therefore, enterprises need to pay close attention to their downstream capacity allocation and expansion plans, and customize various scenarios in advance with third-party logistics partners to ensure smooth delivery</p>

Figure 29: Examples of digital enablement

Case example	Description
<p>Digital risk warning</p>	<p>Use database, crawler and other technologies to carry out real-time monitoring of internal and external key indicators, and use big data /AI and other functions to automatically analyze and evaluate supply chain risks, so as to realize real-time and efficient early warning of potential supply chain risks</p>
<p>Emergency digital tools</p>	<p>For example, certain special inspections that rely on professionalism, S&OP meeting, core equipment operation and maintenance, etc. Enterprises can quickly deploy some technical means such as camera identification, AR/VR technical solutions and video conferencing systems to solve some problems</p>

Digital transformation is about talent, not technology

Written by Becky Frankiewicz, Tomas Chamorro-Premuzic
Edited by Liu Jun

As The Economist recently noted, one of the most obvious consequences of the current Covid-19 pandemic will be “the infusion of data-enabled services into ever more aspects of life.” We expect digital transformation to be an even bigger imperative for organizations in the short-term future.

Contrary to popular belief, digital transformation is less about technology and more about people. You can pretty much buy any technology, but your ability to adapt to an even more digital future depends on developing the next generation of skills, closing the gap between talent supply and demand, and future-proofing your own and others’ potential.

As it turns out, most of us end up in jobs and careers for serendipitous reasons, and stay in them for a long time, rarely pausing to rethink our potential: Am I in the right job? Is my career the best fit for by interests and abilities? Would I enjoy my life more if I had chosen something else? Furthermore, while every job requires learning, we are prewired for

familiarity, routine, and simplicity, which is why most of us end up learning less on the job, the more time we actually spend on the job. This is good in the short run, because we can do our jobs on autopilot, freeing up mental resources; yet it’s counterproductive in the long run, because what we gain in experience,

we miss in new learning opportunities. An even bigger loss is that we may go through our entire working lives without discovering, let alone unlocking, our true potential. As Winston Churchill once said, we should never waste a good crisis. Perhaps this is the biggest gift of the current pandemic, that it provides us with the opportunity to rethink our potential and ensure that we are positioning ourselves toward the future. To be sure, it is too soon for most people to realize this, yet in the long-term, a significant number of people will likely end up in better careers and look back on their less meaningful and less engaging past careers like someone who looks back without regret on the end of a less fulfilling personal relationship, even one where it wasn’t their choice to exit.

With this in mind, we wanted to provide a few suggestions: some based on science, and some based on our own experiences leading, coaching, and mentoring current and future leaders across a wide range of industries, helping them ready themselves for an even-more-digital future. Our main assumption here is straightforward: While the future is more ambivalent and uncertain than ever, we are confident that a pretty strong bet on the future is to focus on reskilling and upskilling people so that they are better equipped to adjust to change. Just as our past efforts have enabled us to adapt to our more digital and virtual present world (and a non-trivial fact is that we are writing this, and you are probably reading this, in physical isolation), there are few reasons to suggest that this trend will go away or be reversed anytime soon. If anything, an even bigger proportion of jobs, tasks, activities, and careers will find ingenious and novel ways to coexist in the digital world. Here's how we can all prepare for that eventuality:

- **Put people first:** Technology is always about doing more with less, yet that combination is effective only if you pair technology with the right human skills. Just as technological disruption has generally led to automation and the elimination of outdated jobs, it has also always created new jobs. This is why innovation is commonly described as creative destruction. But the creative aspect of innovation is entirely dependent on people. If we can leverage human adaptability to reskill and upskill our workforce, then we can simultaneously augment humans and technology. It's really quite simple: the most brilliant innovation is irrelevant if we are not skilled enough to use it, and even the most impressive human minds will become less useful if they don't team up with tech. The main implication is that when

leaders think about investing in technology, they should first think about investing in the people who can make that technology useful.

- **Focus on soft skills:** Just as digital transformation is more about people rather than technology, the key technological skills are soft skills rather than hard skills. Sure, the recruitment market is hot for cybersecurity analysts, software engineers, and data scientists. But as we recently argued in our article, "Does Higher Education Still Prepare People for Jobs?", there's an even bigger need for people who can be trained in the next wave of IT skills. Paradoxically, higher education is always playing catch up, because where universities perceive employer demand, they follow up with relevant courses and learning programs, creating a future surplus of talent supply in those areas. In our view, the best way to make your organization more data-centric and digital is to selectively invest in those who are most adaptable, curious, and flexible in the first place. Since nobody knows what the key future hard skills will be, the best action is to bet on the people who are most likely to develop them. Our own talent development philosophy is to combine this dual focus on potential for soft skills, and knowledge for hard skills: we select people with high learnability (people with a hungry mind) and match their interests to in-demand skills, while understanding that those hard skills may soon become outdated — so the key is that their curiosity remains intact. Technical competence is temporary, but intellectual curiosity must be permanent.

- **Drive change from the top:** The idea of bottom-up or grassroots change is both romantic and intuitive, but in reality, change is much more likely to happen if you drive it from the top down. This does not mean that you have to embrace an autocratic or hierarchical structure, or that you need a culture of fear. In fact, it's a simple matter of leadership, whether transactional or transformational. In the context of digital transformations, the main implication is that you cannot expect big changes or upgrades to your organization unless you start by selecting and developing your top leaders in that vein to begin with. It has never been clearer that leadership — both good and bad — cascades down to impact every single aspect of the organization, with as much as 50% of the variability in group or unit performance being attributable to the individual leader. This is why when we are asked about the single most important factor in determining the effectiveness of an organization's transformation, our answer is always the same: the CEO or head of the firm. Sure, industry, context, culture, people, legacy, and actual tech all matter, just as resources do. Yet most of these things tend to be rather similar among direct competitors, whereas the mindset, values, integrity, and above all, competence of the most senior leaders will stand out and be the main differentiator. Needless to say, everything in business can be copied except for talent, so if you are looking for impact, do invest in top talent, which is where you will get the most value. The distinguishing feature in the war for talent is always leadership: in-demand skills such as software engineering are what we talk about, yet the key is to find the people who can manage the software engineers and get them to work as a team to outperform other software engineers.
- **Make sure you're acting on data insights:** So much of the current discussion on data is focused on AI (artificial intelligence), or specific types of computer intelligence, such as machine learning, deep learning, or natural language processing. These powerful advances in AI are exciting, yet we don't see them as the main differentiator for future-proofing your organization. A much bigger competitive advantage is to harness valuable data, having the necessary skills to translate that data into meaningful insights, and above all being able to act on those insights. In our view, data without insights are trivial, and insights without action are pointless. We cannot overemphasize the importance of this point, because too many business leaders operate under the false assumption that if they hire smart data scientists or buy fancy AI tools, their problems will go away, or they will somehow become more high-tech. The big difference between Google and the rest, between Amazon and the rest, between Facebook and the rest, is not the brain power of their data scientists, or the actual functionality of their technology (and, yes, we may see them as first-in-class), but their radical data-driven cultures. They have harnessed amazing data assets and have great algorithms to interpret (and monetize) that data, but their key strategic advantage and biggest asset is that they live, breathe, and act according to the data. Data truly is their oxygen, and that is something you cannot buy; you cultivate it, nurture it, and harness it with time — and above all, with leadership (back to point 3).

• **If you can't fail fast, make sure you succeed slowly:** The statements that speed is king, that action is key, that perfect is the enemy of good, and that you should be willing and eager to fail fast, have all become clichés in management thinking. But, the only way to adapt to a constantly changing and rapidly disrupted present is to speed up and operate at pace. Of course, there is always a trade-off between speed and quality, so if you cannot fail fast enough — meaning you don't have a culture in place that tolerates quick experiments with the view that the lessons learned from those failed experiences will make you stronger and smarter, then you need to be sure that your long-term bets are working out. In other words, it's okay to succeed slowly if you can't fail fast. At the end of the day, failure is only a strategy for getting to success in the long run, so if you pick another strategy, that's fine — just make sure you can actually get there. However, remember that few things breed stagnation and a false sense of security like an obsession with success. Indeed, we often hear leaders rationalize their failures with a self-congratulatory "we have learned from our mistakes," yet it's much harder to learn from your successes.

As the last several weeks have demonstrated, we are agile as a global community. This agility has been people-led and technology-supported. Human beings are the common denominator to the concept of future proofing, whether it's as a complement to the technology being unleashed for remote working, or whether it's because we possess the soft skills and leadership needed to navigate a historic crisis, or because we have the insights needed to drive slow success or fast failure for a cure. It all starts with each and every one of us, and those we are responsible for developing. The key is to nurture curiosity, so we have options, even outside of a crisis.

Becky Frankiewicz is the president of ManpowerGroup North America and a labor market expert. Before joining ManpowerGroup, she led one of PepsiCo's largest subsidiaries, Quaker Foods North America, and was named by *Fast Company* as one of the most creative people in the industry.

Tomas Chamorro-Premuzic is the Chief Talent Scientist at ManpowerGroup, a professor of business psychology at University College London and at Columbia University, and an associate at Harvard's Entrepreneurial Finance Lab. He is the author of *"Why Do So Many Incompetent Men Become Leaders? (and How to Fix It)."*

The Exploration of Chinese Social Enterprises

The Best Managed Companies (BMC) program is a global initiative of Deloitte. Since its launch in Canada in 1993, BMC has been introduced in over 20 countries and regions in the world and participated by more than 10,000 private companies. Deloitte China, with partners including Bank of Singapore, the Business School of Hong Kong University of Science and Technology, Harvard Business Review China, integrate global resources and use the mature global framework of "Best Managed criteria" to comprehensively evaluate the excellence of enterprise management from four aspects: strategy, capability, commitment and financial strength.

A sudden outbreak of COVID-19 has cast more uncertainties on economic growth in 2020. Deloitte has found that private companies at the forefront can not only get back on their feet in tough times but also integrate social resources to solve social problems. These enterprises are collectively known as "social enterprises". What are the common characteristics of China's "social enterprises"? During this outbreak, what practices can reflect the "social nature" of the enterprises? In the post-epidemic era in 2020, how can enterprises practice the "social enterprise" approach? The Deloitte BMC project arranged a series of webcasts of BMC award-winning and candidate enterprises and relevant experts. The theme of one webcast is The Exploration of Chinese Social Enterprises.

Panelists

The rise of Chinese social enterprises: Carol Zheng, Partner, Deloitte HCAS

Interpreting the 'social enterprise' concept and exploring global best practices in social enterprise innovation: Professor Xu Yan, Vice Dean, HKUST

The social enterprise practices of New Hope Dairy: Zhu Chuan, CEO, New Hope Dairy

The challenges Chinese companies face in becoming social enterprises: Zhang Jian, CEO, Joy Wing Mau

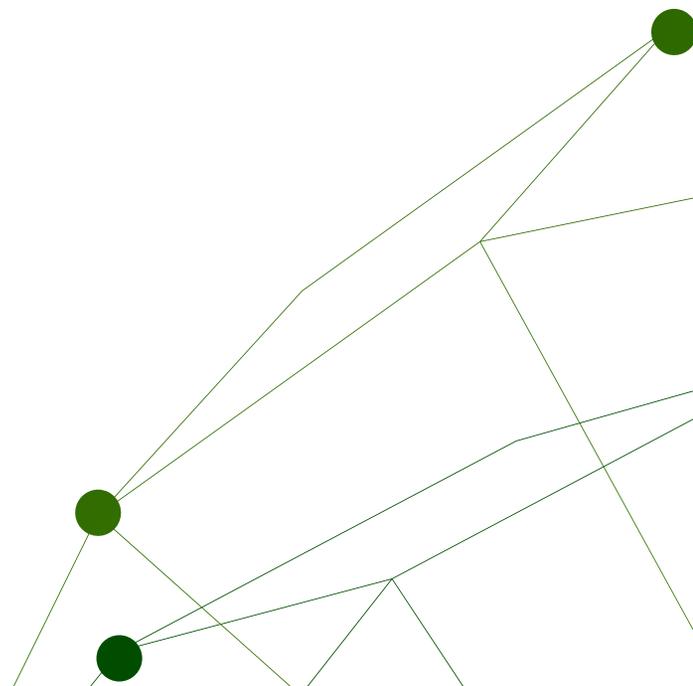
Topic 1:

At present, there is no consistent global definition of 'social enterprise'. How would you define the term? What are some of the best practices you have seen in social enterprises across the world?

Carol Zheng:

By studying large, leading global enterprises, Deloitte has found that social enterprises typically have a mission to combine revenue growth and profitability with respect and support for their environment and the needs of stakeholders. This includes listening to, investing in, managing and shaping global trends. A social enterprise is also an organization charged with acting as a good corporate citizen (internally and externally). They are role models for their peers, and work to promote highly-integrated cooperation at all levels of the organization. To become a social enterprise requires far more than fulfilling corporate social responsibilities. It needs the organization to change its mode of operation to balance its own demands and those of the broader business ecosystem.

A social enterprise, as an organization that pursues revenue growth and profit while respecting and supporting its environment and stakeholder network, has emerged from an interesting, new idea to a business reality in just a couple of years. In 2018, Larry Fink, chairman and CEO of BlackRock, asserted in his annual letter to CEOs that "society is demanding that companies, both public and private, serve a social purpose". Two years later, a letter from Business Roundtable redefined the purpose of corporations, stating they should not only serve shareholders, but also share a fundamental commitment to all of their stakeholders. The letter was signed by the CEOs of 181 top companies around the world, and the signatories have been growing in number. Corporate mission objectives and social ethics topped the agenda at the World Economic Forum in 2020.



This is how we summarize what a social enterprise refers to, and it is also what leading enterprises in China and across the globe think as they thrive on transformation in the post-pandemic era. Organizations need to achieve a good balance between economic and social values, so they can maintain long-lasting vitality and become more adaptive to political, economic, technological and social changes. This will allow them to survive and create greater, more sustainable value for society, making them sustainable organizations that share values with customers and value chain partners.

The concept of a social enterprise is extremely important in the post-epidemic era, as companies must put people first and reshape their values to build a sense of security in a disrupted world. Such companies:

- **Act on mission.** They integrate their values into every aspect of daily work instead of just talking about "mission";
- **Develop potential.** They design and build organizations that allow people to maximize their unique abilities to think, create and act in a technology-driven environment; and
- **Look ahead.** They encourage and embrace the future, not just to improve the present, but also to create future value.

Professor Xu Yan:

Yes, I totally agree with Carol. Social innovation refers to leveraging business mindsets and models to solve problems that cannot be solved by government or the market. A social enterprise is an institution established to realize social innovation. Apple Inc. is a good example of the three dimensions of social responsibility – providing valuable products and services for society, complying with ethical rules in business processes, and enriching and creating a new value system.

We worked with HKUST Business School, the top institution in the global EMBA rankings for more than 10 years, and found many best managed companies that have led their industries in China. Most of them have developed differentiated competitive advantages by virtue of their practices as social enterprises. Apple, for example, is known to place strong emphasis on its commitment to environmental protection. YUTO Packaging Technology Co. (YUTO Tech), the largest printing and packaging company in China, uses 100 percent recyclable bamboo as raw materials for its packaging products to achieve full environmental protection. Their mutual efforts in special and sustainable product innovation drove Apple to connect with YUTO Tech and, through a strict supplier selection process, eventually use YUTO's products as packaging for its products, fulfilling Apple's commitment to sustainable development. ASB Biodiesel's kitchen waste recycling program initiated by graduates of HKUST Business School is another case. By introducing new concepts to create shared values, and discovering areas of value in business operations, they turned costs into a profit center of their business and helped many restaurants in Hong Kong and the Chinese Mainland turn waste into treasure to create sustainable value.

Topic 2:

New Hope Dairy has been developing as a social enterprise. Can you share how you do it?

In the post-epidemic era, how will New Hope Dairy proceed with social enterprise practices?

Zhu Chuan, CEO, New Hope Dairy:

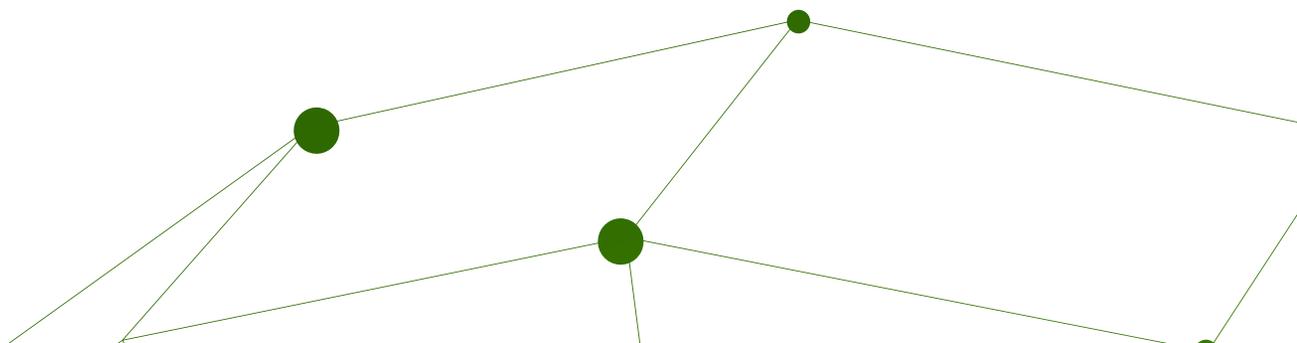
New Hope Dairy is a leading dairy enterprise in Southwest China. We have been pursuing "sustainable development of business and society", and working as a social enterprise across four dimensions:

- **Customers:** Food safety is the best reflection of our social responsibility. Conceptually, we proposed the idea of "three priorities in quality" in our early stages of development. From a technical perspective, we have improved product quality through technological innovation to deliver the greatest value for consumers.
- **Employees:** We provide wellbeing for employees including basic welfare, support for their personal difficulties and vocational growth.
- **Clients:** We have established an effective and efficient industrial ecosystem and a community of shared interests. We work with our partners to build standards, achieve mutual development and fulfill social responsibility.
- **Social responsibility:** We were one of the first companies to provide nutritional meals to ensure healthy growth of students. We have organized a series of charity events over the past decade. Our precise poverty alleviation campaign has lifted more than 2,000 people out of poverty in mountainous regions.

During the coronavirus epidemic, we worked hard to ensure production and secure supplies for the market and price stability. In addition, we have also been supplying products to ensure the health of medical workers in affected areas.

As for how to act as a better social enterprise in the post-epidemic era, I believe that:

- The concept of "society" now has a broader meaning that requires multi-dimensional visions and higher standards;
- The world is becoming more fragmented and individualized, and requires more targeted social responsibility practices with digital and technological capabilities; and
- Making life better requires a stronger and longer-term belief in social enterprises



Topic 3:

What are Joy Wing Mau's practices as a social enterprise? What's the biggest challenge for Chinese companies to become social enterprises? How should they address it?

Zhang Jian, CEO of Joy Wing Mau:

Joy Wing Mau is the top company in China's fruit supply chain sector, with dominant leadership in business scale, resource network and profitability. We have been progressively performing as a social enterprise in our strategy, organizational structure, and balancing brand commitment to society with financial performance, especially in the following three aspects:

- **Basic responsibilities:** Product safety; employees' rights of basic legal protection; value creation for customers; providing an environment for employees to learn and grow; ensuring smooth, continuous operations; and delivering reasonable returns for shareholders.
- **Industry responsibilities:** Proactively conveying the industry's value and purpose to society to enhance social influence and give practitioners a sense of value and dignity; using our leading edge and resources to make the industry more globalized; pursuing fairer, more transparent and cheaper development patterns to promote the industry's business culture and create an open, innovative industry atmosphere.
- **Public welfare undertakings:** Actively promoting poverty alleviation and rural revitalization, such as using our market advantages to help farmers out of poverty. During the epidemic, our distribution center provided fresh fruit to medical staffs to ensure their health, making a contribution to society at a critical time.

Joy Wing Mau has tangibly fulfilled its social public welfare responsibilities and actively invested in national and social public welfare according to its own strength, such as the national strategy of poverty alleviation and rural revitalization in the past few years, and national epidemic prevention war in the past few months. Invisibly, Joy Wing Mau are promoting the power to make society better. Joy Wing Mau has always passed the health concept of knowledge, exercise and good to consumers, clients and the society through its own products, to fulfill the mission of making your life healthier with fruits.

The biggest challenge in the post-epidemic era will be bringing more companies together to work towards the same purpose. We also hope that institutions like Deloitte and Hong Kong University of Science and Technology can organize more meaningful events like this.

In this conversation, Professor Xu and Carol Zheng added: *Social enterprises have no national boundaries, and leading enterprises at home and abroad, regardless of industry (high-tech, food or financial) or size (independent bakeries, New Hope Dairy or Joy Wing Mau), are performing social enterprise practices. Social enterprise refers more to the core values of an organization. As China's economy develops ever faster and enterprises grow increasingly stronger, social enterprise practices have become crucial for the survival of most companies. There will be an increasing number of social enterprises in China.*

Towards a Better World Empowered by AI

The Deloitte BMC program has found that uncertainty is an important growth driver for scale leaders. The coronavirus pandemic in 2020 has brought many industries to a standstill. However, some enterprises have been able to keenly detect opportunities in AI and react quickly to seize fleeting opportunities to maintain long-term competitive advantages. In future, uncertainty will be the norm.

Chinese companies generally have a good understanding of "tangible capabilities", and far exceed the average growth rates of their international counterparts. We invited two outstanding innovative Chinese technology enterprises and a renowned professor in AI from HKUST to discuss how to seize this opportunity, take the initiative and continuously empower enterprises through technological innovation in the post-epidemic era. At the same time, in the process of technology development, they considered a key question: what rules should we abide by to make better use of science and technology to build a better world?

Panelists

Jacky Zhu: Managing Partner of Innovation/Digital and IDDC Deloitte China

Duan Dawei: CFO of iFLYTEK

Qiu Zhaoqiang: Vice President of 360 City Security and General Manager of 360 Vision Technology Company

Professor Yang Qing: Chair Professor, Department of Computer Science and Engineering, HKUST and CAIO of WeBank

iFLYTEK's Best Practices in AI

Jacky Zhu:

Among iFLYTEK's many businesses, can you share with us which areas have the strongest AI attributes?

Duan Dawei:

Scientists from iFLYTEK divide AI technology into three stages: "Computational Intelligence"; "Perceived Intelligence"; and "Cognitive Intelligence". "Platform" in our ongoing "Platform + Raceway" strategy refers to the Group's strong R&D capabilities, while "Raceway" refers to the application of AI technology to corresponding vertical industries, such as education, healthcare, finance, justice and urban governance. These fields illuminate and reflect the integration and application of AI technology and the industry's characteristics. We are undergoing the fourth industrial revolution in the history of mankind. In the future era of intelligence, AI tech will be as normal as water and electricity were during the industrial revolution. The internet is gradually becoming a fundamental technology, integrated and associated with many industries.

Jacky Zhu:

Could you share details of some targeted iFLYTEK services or products and the role they played during the epidemic?

Duan Dawei:

The coronavirus epidemic also opened a window for AI applications to play a unique role. In China, follow-up visits during the epidemic supported by iFLYTEK's "intelligent outbound technology" have been utilized more than 50 million times, which has effectively helped government and social organizations at all levels manage communities while greatly improving the efficiency of prevention measures to safeguard

communities. In terms of education, in response to the National Ministry of Education's advocacy, " iFLYTEK launched "Online Education", helping teachers and students in many provinces and municipalities continue their study at home; In relation to medicine, based on big data analysis, iFLYTEK launched "Coronavirus Pneumonia Diagnostic " to help with diagnosis. During this special period, iFLYTEK contributed to social management and health management by combining its own business operations.

Jacky Zhu:

How does the AI practice of iFLYTEK build a better world? Please give some examples.

Duan Dawei:

iFLYTEK 's vision is to build a better world with AI. We didn't choose to go down routes such as gaming that can show immediate economic returns, but rather chose other tracks that require time to excel, such as the education industry, which relates to the future welfare of mankind, and the medical industry, which relates to the future welfare of mankind, and the medical industry, which relates to mankind's health and happiness, as well as other fields like justice that represent fairness in society. To give a technical application example, iFLYTEK has helped the visually impaired community hear text and people with hearing impairments hear sound. In addition, iFLYTEK is always actively supports human language exchange and became the only language translation technology partner selected for the Winter Olympics, to provide communication for people from all over the world at such a prestigious sports event, free of barriers. We view all of this work as meaningful and worthwhile for our long-term commitment.

360 Security Brain" Empowered by AI

Jacky Zhu:

We know 360 is used in many operations, but public awareness seems to be that it is traditionally focused on the security industry. Could you illustrate the characteristics of the business you are in charge of?

Qiu Zhaoqiang: 360 may give everyone the impression of focusing on the security industry, but in recent years we have also been expanding our business layout in the To B, To G and To C sectors. I am in charge of the vision business, which is mainly responsible for AI-based facial recognition. 360 has also witnessed the rapid development of AI tech in recent years. With related industries becoming more intelligent, many security issues and worries have been exposed. Based on more than 10 years of industry experience, 360 is able to imbue AI technology with security, making AI devices not only smart but also secure. In addition, 360 also pays great attention to the development of business partners in the ecosystem. We've decided to recruit 100 agent companies, 1,000 integrated partners and 10,000 ecosystem alliance partners this year to achieve mutual benefits from opportunities in new infrastructure.

Jacky Zhu:

What kind of change or subversion does AI account for in this field? Could you give us a few examples from your daily work?

Qiu Zhaoqiang:

Everyone seems to be paying attention to the intelligence application of AI products while ignoring the security application. To make

products more intelligent, AI will collect a large amount of users' private information, yet many AI companies are not capable of defending against cyber-attacks, which leads to leaks of much of our private information. 360 security experts mention the "5 minutes theory" about hackers: power on in the first minute, enter the system in the second, copy information in the third, erase traces in the fourth, and shut down in the fifth. Our products have potential privacy and security issues, therefore 360 proposed the concept of a "security ecosystem alliance", hoping to help our partners build security capabilities and use AI technology to create a better society.

Jacky Zhu:

What is your understanding and vision of "AI for Good"?

Qiu Zhaoqiang:

The incentive of any technological advance is to improve productivity and people's lives. However, in the process of technology advancement, there are always some bad actors who want to profit from other people's toil due to financial temptations. During the epidemic, 360 has intercepted more than 40 international APT attacks in China, so we put forward the concept of building a "security ecosystem alliance". This is also a reflection of "AI for Good", whereby we use our years of security experience to conduct comprehensive detection and testing on our partners' equipment and systems to enable their security defense abilities. 360 has shared its ability to contribute to the entire industry, society and the whole world.

AI Building a Better World

Jacky Zhu:

What are the advantage and disadvantage of the situation in China compared with global AI practices?

Yang Qiang:

Artificial intelligence has been developing for more than 60 years, and many aspects of AI are now quite mature. From this point of view, most of AI's various branches have been studied across the world. Therefore, in terms of algorithms, there is no major gap between China and other countries. In recent years particularly, data accumulated from the population and the increase in online activities have become the prerequisite for vigorous development of AI technology. In addition, the Chinese Government's tremendous support has greatly accelerated China's AI development, making it the world leader in the application of AI technology. The locations of major universities with AI courses, and talent distribution across the world, indicates there are AI researchers and laboratories in every state of the United States. It's plausible to assume that the United States will generate more new theoretical research. In this space, we are still trying to catch up, which is another reason we should keep striving in future.

Jacky Zhu:

As CAIO of WeBank, could you share with us what disruptive changes AI technology has brought to Bank 4.0 (WeBank) compared to traditional banks?

Yang Qiang:

The vigorous development of WeBank in recent years is the fruitful result of collaboration between hundreds of banks, financial institutions and internet giants. Each company contributes its own data to establish comprehensive user portraits as the premise for AI technology. After I joined WeBank, I established a new academic branch called "Federal Learning". This approach effectively avoids "information silos" by improving regulations and personal attention to privacy, solving these issues for good while ensuring data security. Federal Learning has plugged the "wings" of WeBank so more people can join and benefit from the alliance.

Jacky Zhu:

Could you talk about your understanding of the theme "AI for good" from the academic and financial perspectives?

Yang Qiang:

"Transfer learning" is able to apply a well-trained AI model in one field to another with a whole

new set of data to achieve the same function, enabling small companies with small amounts of data to also build powerful AI models. This idea is not only being considered from an academic and financial perspective, but also from the perspective of observing human intelligence. We believe the most cutting-edge AI tech can not only build accurate models derived from small datasets, but also ensure data security.

Moderator Zhu Lei concluded this session's dialog by saying: *We discussed the relationship between AI and big data today. Professor Yang let us know about new fields such as "Federal Learning" and "Transfer Learning". The operating mechanisms, talent management and daily process models of 360 Security and iFLYTEK are different from those of traditional enterprises. If all enterprises are able to apply AI as a productivity approach like the above two excellent companies, the revolutionary disruption it can bring to traditional enterprises could be enormous, even infinite. Through the introductions of senior management from these two companies, the tremendous application of AI technology in different industries, as well as the willingness to achieve compliance, have been revealed. Building prosperous industries and a better world is only possible if companies hold firm to the bottom line of compliance.*

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