



China LSHC Industry Survey Result: 'Future of Trust'

China Life Sciences & Health Care Team
January, 2022



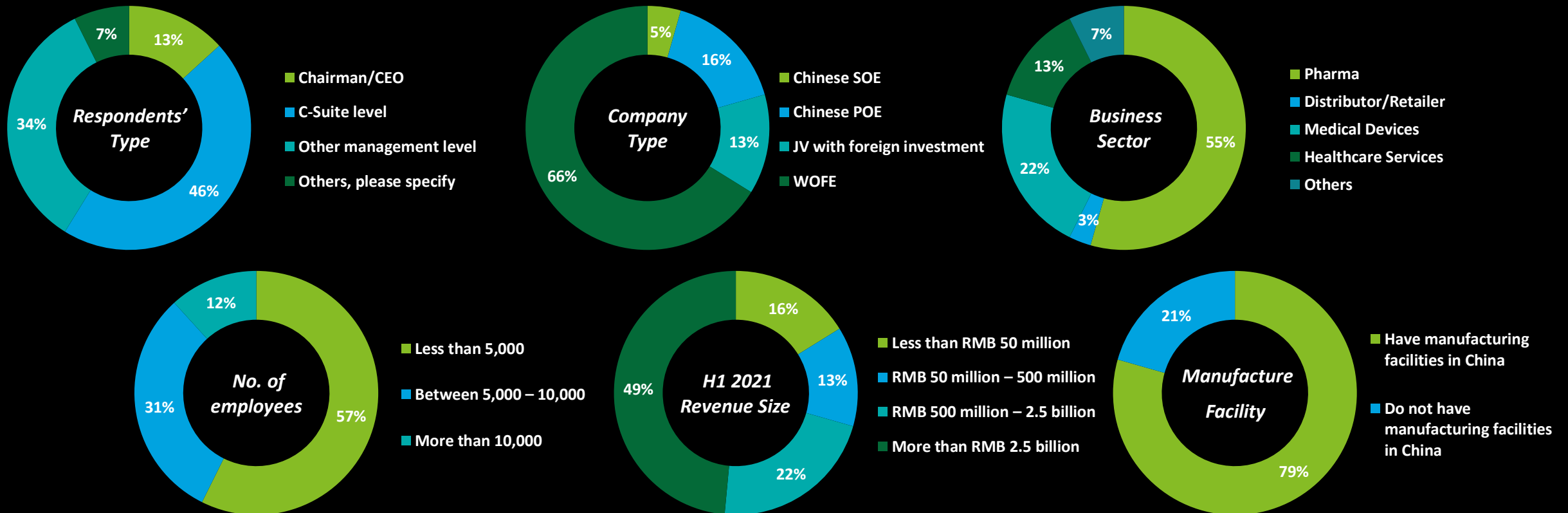
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2021 Survey for Future of Trust in China LSHC Industry

Framework

- The survey was conducted from 1st to 15th November 2021
- Engaged a total of 68 China based life sciences & healthcare (LSHC) operators and investors

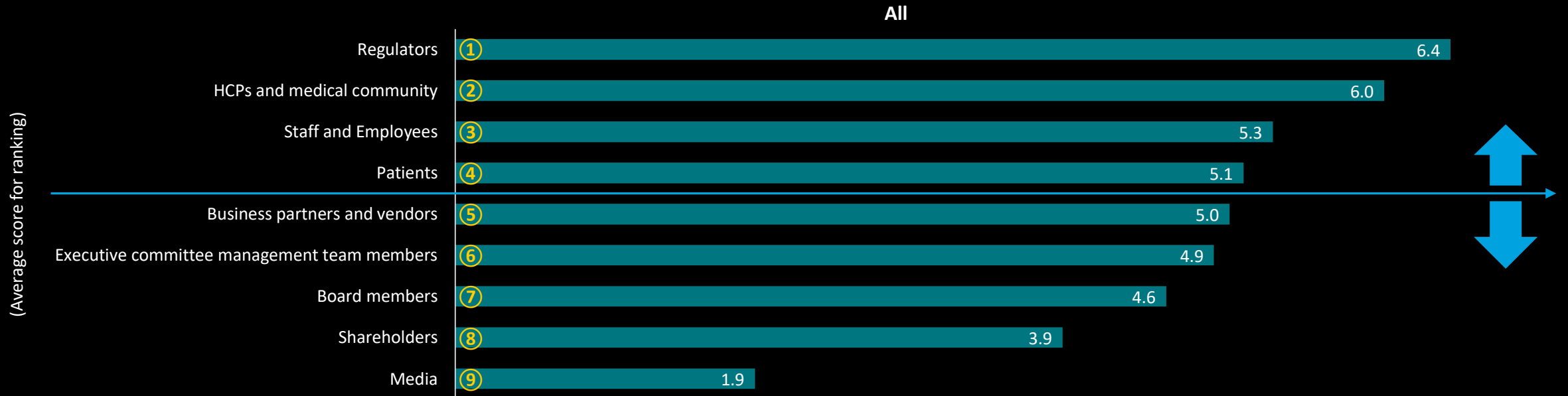


Note: [1] SOE – State-owned enterprises; [2] POE – Private-owned enterprises; [3] JV – Joint venture; [4] WOFE – Wholly foreign-owned enterprise

Trust: Key stakeholders and their perceptions

Which stakeholder's trust is most important for your company's success in China

Question #1 – While operating and managing in China, which of the stakeholders you consider most important in terms of Trust for you and the success of your organization(ranking of importance)

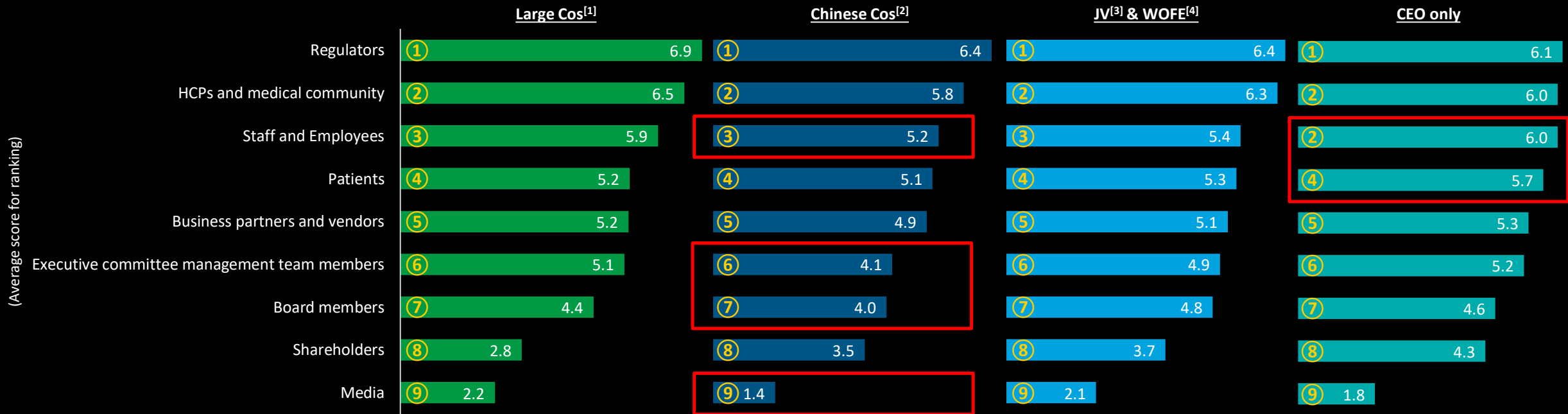


Insights

- Unsurprisingly in an highly regulated industry the most important stakeholders are **government authorities & regulators**
- **Medical practitioners**, essential for successful product adoption and usage are highly ranked as well
- Reliance on 'Media' as a resource to build trust is considered to least effective

Which stakeholder's trust is most important for your company's success in China

Question #1 Deep dive – By different company types (ranking of importance)



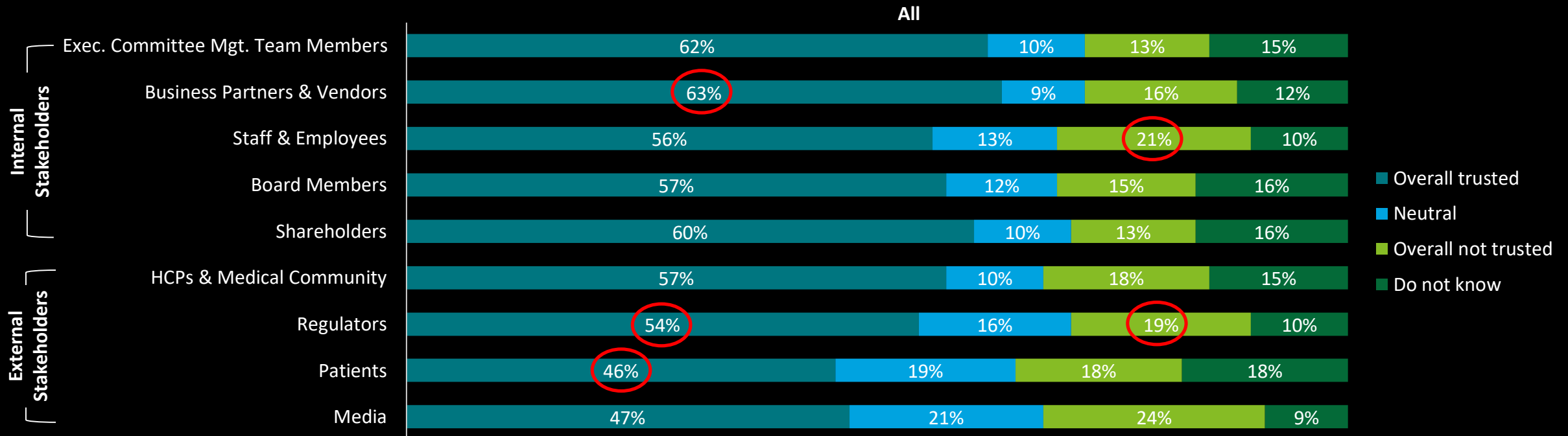
Insights

- All companies have the **same ranking** for the level of importance: the external stakeholders are leading in importance
- For domestic (SOE & POE) companies, interesting to note a slight gap in importance: staff & employees, exec. committee mgt. team members, board members, and media
- CEOs take the trust from staff & employee and patients more importantly compared to others

Note: [1] Large Cos – Companies with revenue larger than 2.5 Bln RMB; [2] Chinese Cos – Chinese state-owned enterprises and private-owned enterprises; [3] JV – Joint venture with foreign investment; [4] WOFE – Wholly foreign-owned enterprise

The opposite view: How is your organization viewed

Question #2 – What is your perception of these stakeholders' trust in your organization?

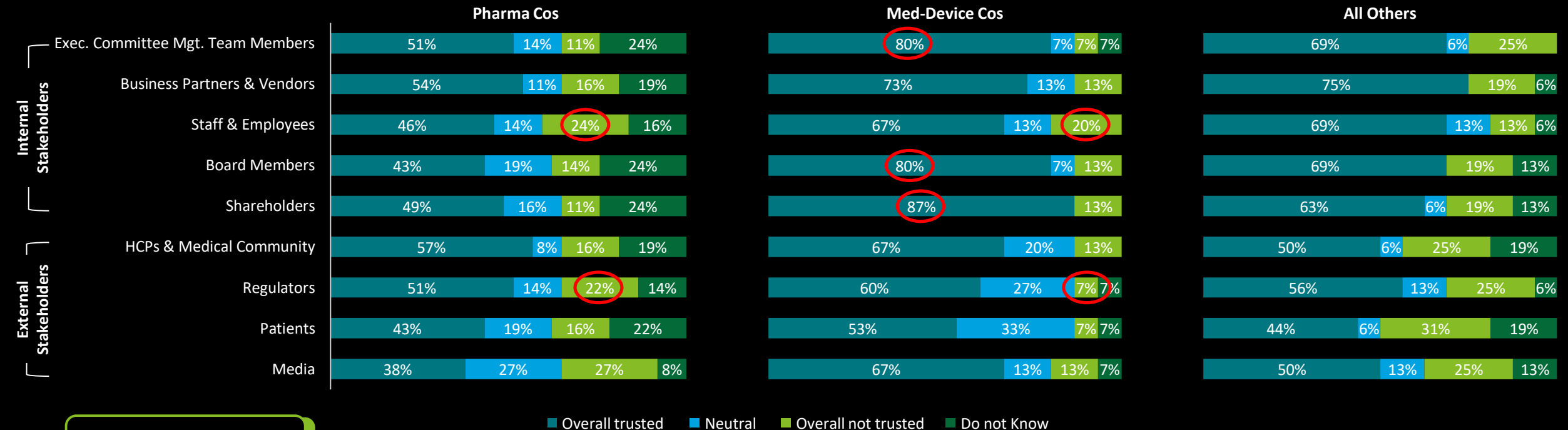


Insights

- **Business partners** have the highest trust assessment in the organization, as many organizations have formal processes to select their partners
- **Regulators and patients** – are among the lowest rankings of perceived trust (however, CEOs ranked regulators' trust at 66%, indicating better trust perception)
- **Employees & staff** have the 2nd highest mistrust perception
- We have noted that among those that selected 'Do not know', ca. 34% are C-level respondents, which indicates a number of companies have no – or at least unknown - internal risk (trust) assessment maps in place

The opposite view: How is your organization viewed

Question #2 Deep Dive – By different company types

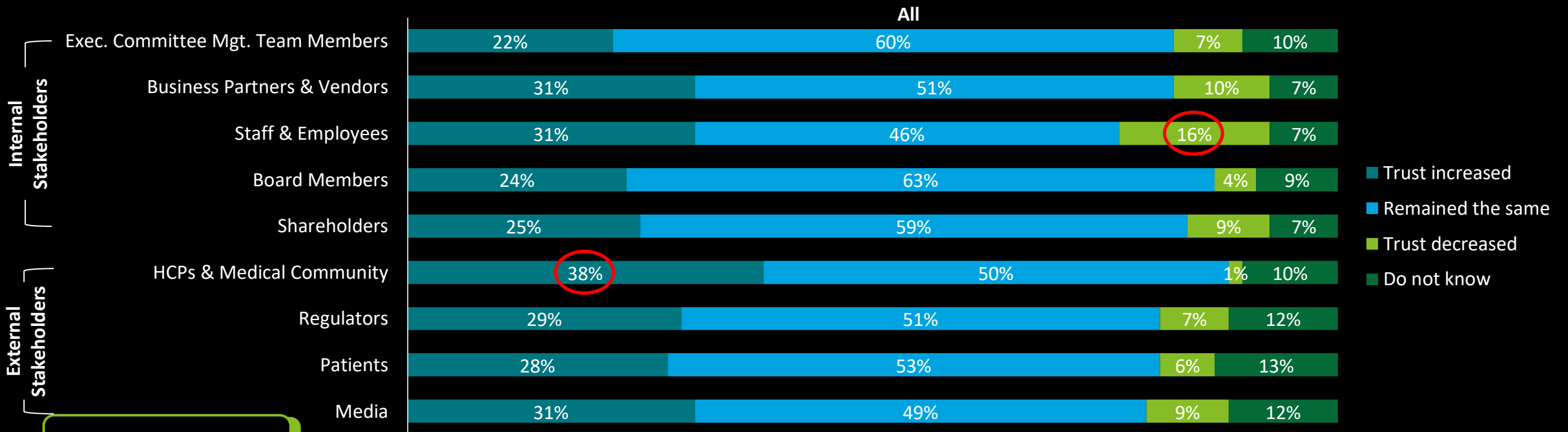


Insights

- From the industry perspective, med-device cos perceived overall higher trust from all types of stakeholders compared to pharma cos and all others
- Different from the all respondents' result, med-device cos perceived high trust from **exec. committee mgt. team members (80%)**, **board members (80%)**, and **shareholders (87%)**
- The mistrust from **Staff & Employee** is ranked 2nd and 1st place for pharma cos and med-device cos
- Surprisingly, the perceived 'not trust' from **Regulators** by pharma cos (22%) is distinct from med-device cos (7%) (C-level's have by 18% only)

How has Covid-19 time impacted the trust from stakeholders

Question #3 – During the time of Covid-19 pandemic, do you feel that the trust of these stakeholders in your organization has been changed?

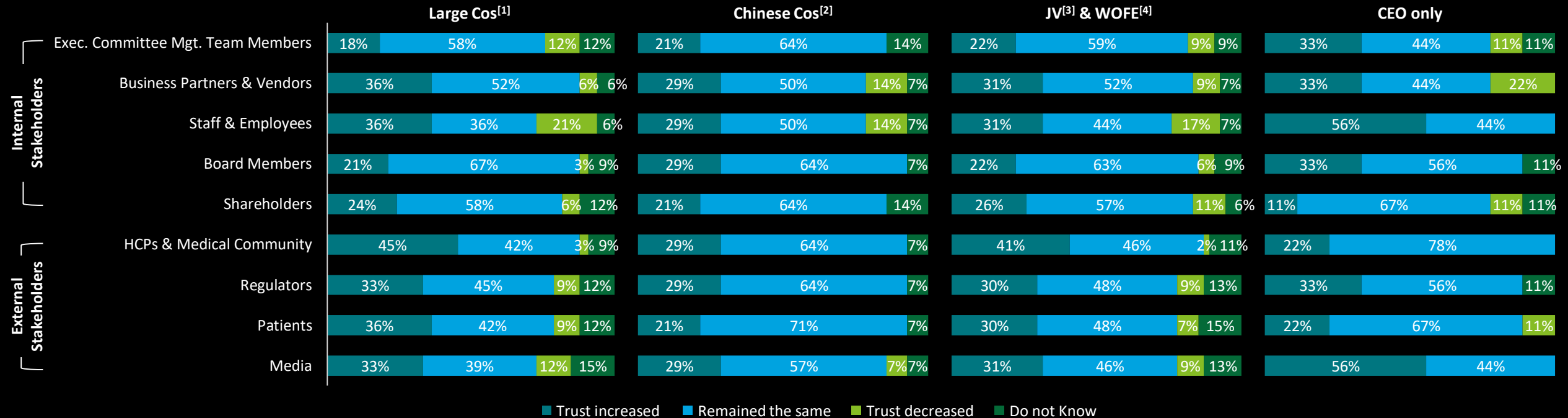


Insights

- In general, the COVID-19 pandemic **made less impact on the trust changes** across all types of stakeholders with around 50% of respondents all choosing 'remained the same' for all types of stakeholders
- The trust in '**HCPs & medical community**' has the highest ratio in 'trusted increased' and lowest ratio in 'trusted decreased' at the same time, thanks to the fast-response and great contribution from LSHC players that supported a lot to HCPs and medical communities regarding the disease control
- Trust from **staff & employees shows the highest decrease**, linked to the work habits adjustments that were implemented during Covid-time. **However CEO's** have responded (56%) that trust from their staff & employees has by large 'increased' (and 0% decreased)... An interesting misalignment.

How has Covid-19 time impacted the trust from stakeholders

Question #3 Deep Dive – By different company types



Insights

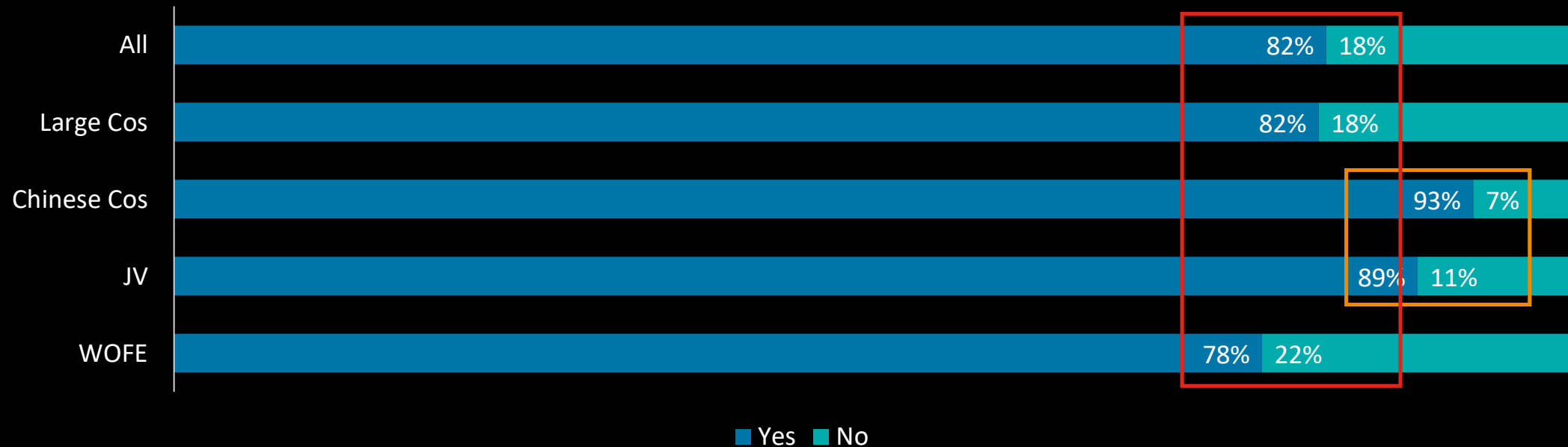
- JV has the highest 'trust decreased' ratio (33%) in business partners & vendors, staff & employees, and shareholders, which is quite the opposite to large cos and WOFEs, showing that the trust management from internal stakeholders for JV still needs to be improved
- Overall, the trust from external stakeholders are well managed during the pandemic for all types of companies, especially for Chinese cos with barely any decrease in all external stakeholders

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Trust: Actions and resources to manage

What are organizations doing to enhance trust

Question #4 – Does your organization have an action plan to enhance the trust of your key stakeholders in your organization?



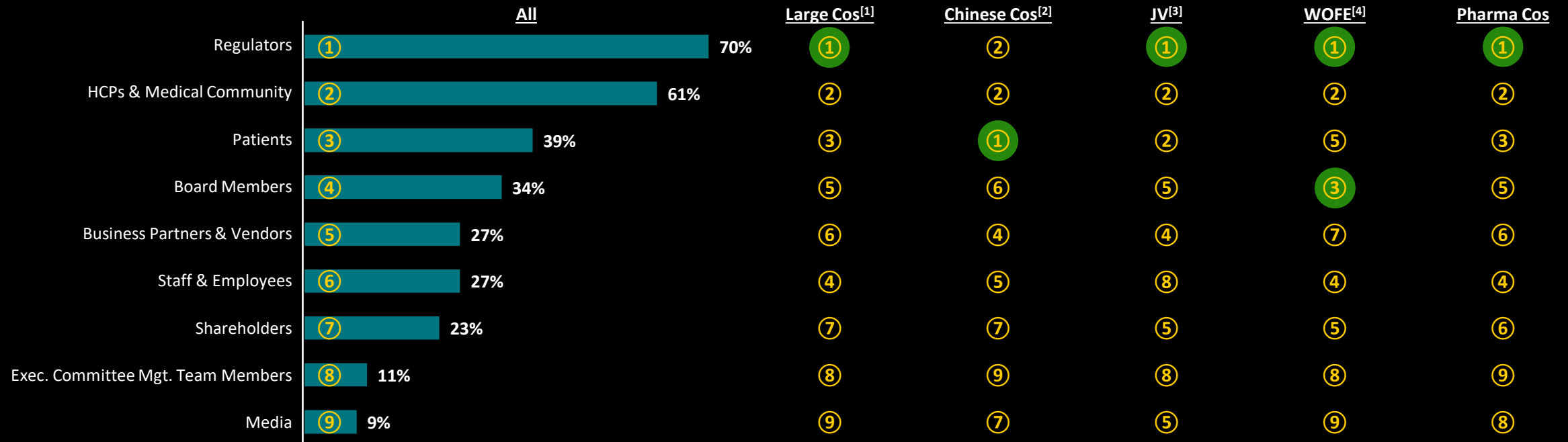
Insights

- Overall, most respondents' companies (82%) have plans to enhance the trust of key stakeholders
- WOFEs seem to be lagging behind – i.e., 10 out of 45 have responded negatively

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What are organizations doing to enhance trust : The Trust Plan focus

Question #4 Deep Dive – Among those who said yes, the top 3 priority stakeholders are...



Insights

- For all respondents, there is alignment with the stakeholders considered critical for success and an action plan: **Regulators and HCP's**
- Domestic companies (SOE & POE) rank **'Patients'** as their 1st priority action
- Large companies, pharma cos, and WOFEs have recognized **'staff & employees'** as critical for the trust related action plan going forward

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What external trust element will influence stakeholders

Question #5 – Which of the following do you think have increased or will increase the trust of the key stakeholders in your organization? (ranking of importance)

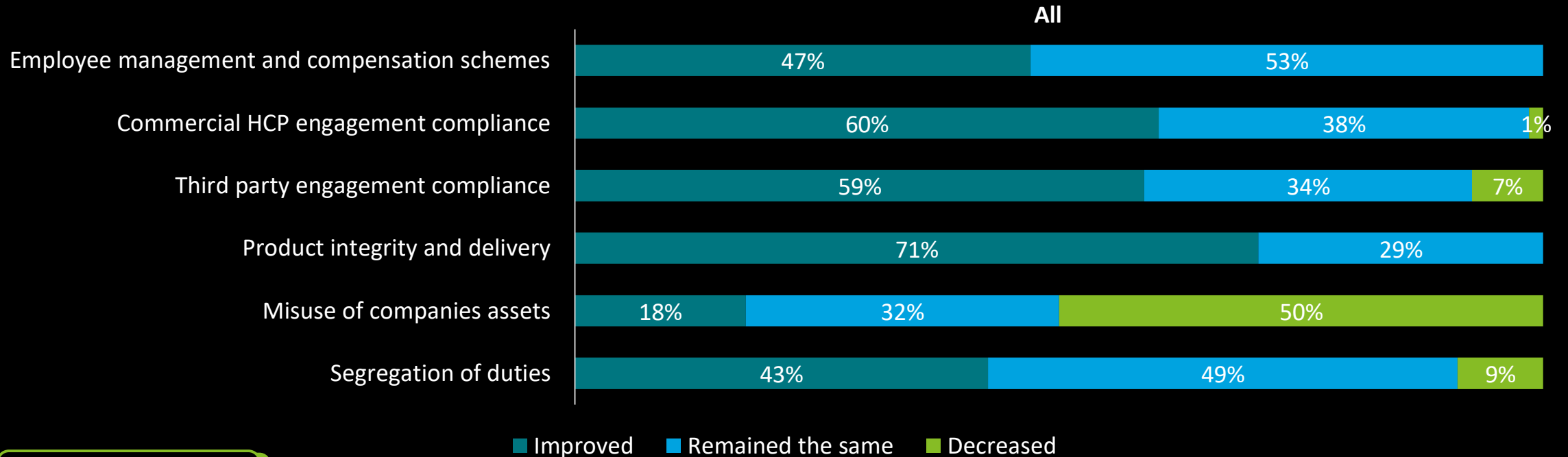


Insights

- **NRDL listing and internal compliance programs** are the top two key drivers in enhancing the trust of the key stakeholders for all respondents
- **CEOs make the exact same assessment and ranking**
- Investment in traditional channels (Hospitals, offline...) is perceived having **the least impact** on increasing trust with stakeholders
- Others topics mentioned included: increase physical engagement, promote more local R&D innovation or build stronger CSR projects

Does technology help in improving trust

Question #6 – With more and more technologies being used for internal management purposes and also external engagement purposes, has your trust changed when it comes to the following areas...

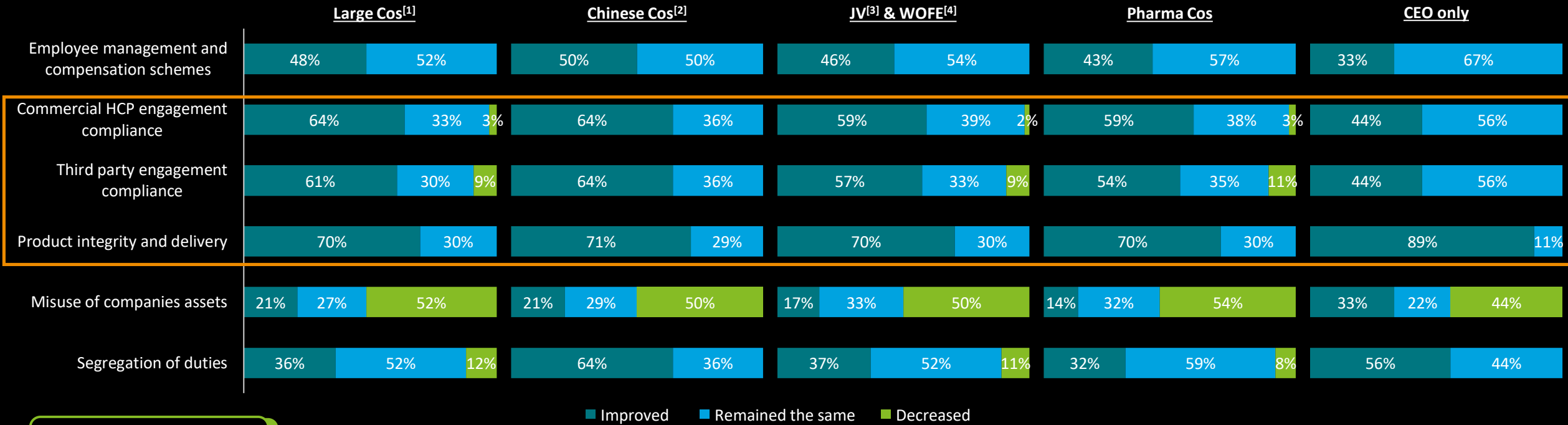


Insights

- **Targeted compliance programs** (HCP, 3rd Party engagement) have increased trust in processes and behaviors. However a majority (5/9) of CEOs (only) evaluate that the compliance programs have actually **remained the same** with new technologies.
- **Product integrity** and delivery stands out for the use of more technologies to **increase trust** (tracing, proof of origin ...)
- The misuse of corporate assets has very **significantly decreased** with the roll out of monitoring technologies

Does technology help in improving trust

Question #6 Deep Dive – By different company types



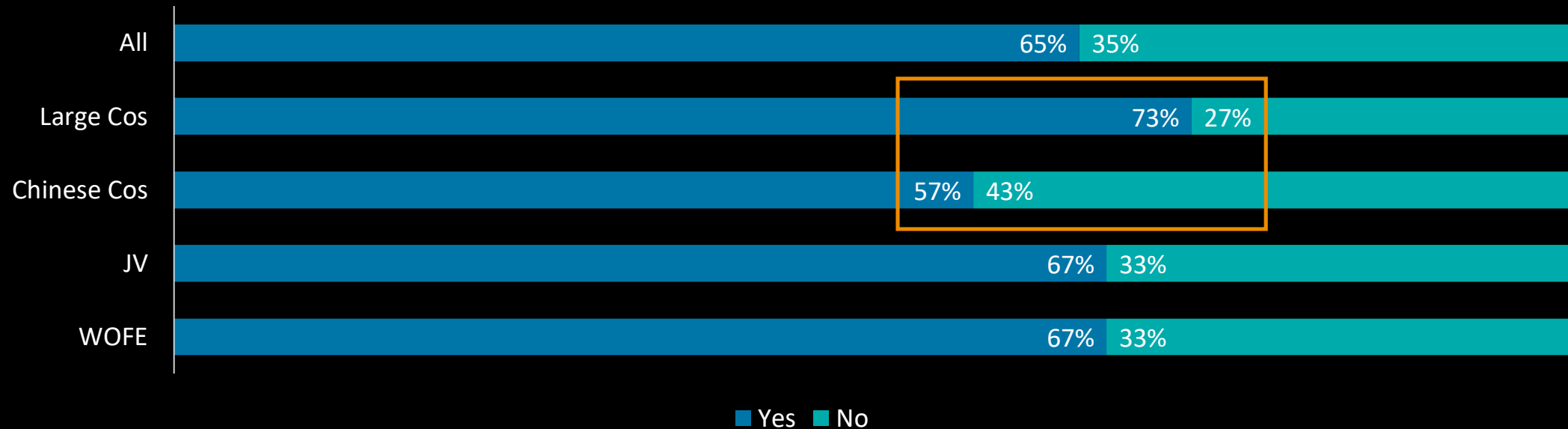
Insights

- Technology tools have increased the trust on nearly all areas – in particular largely contributed to decrease the misuse of company assets (tracking & monitoring capabilities have increased tremendously)
- CEOs interestingly view that the HCP engagement with new technology has not modified the trust in the relationship (56% remained the same)
- In contrast, CEO's view in product integrity and delivery with new technology has improved the trust significantly (89% with trust improved)

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How do you expect to use technology going forward to increase trust

Question #7 – Has your organization considered the use of new technologies for compliance monitoring activities, proactive fraud detection, or counterfeit detection?



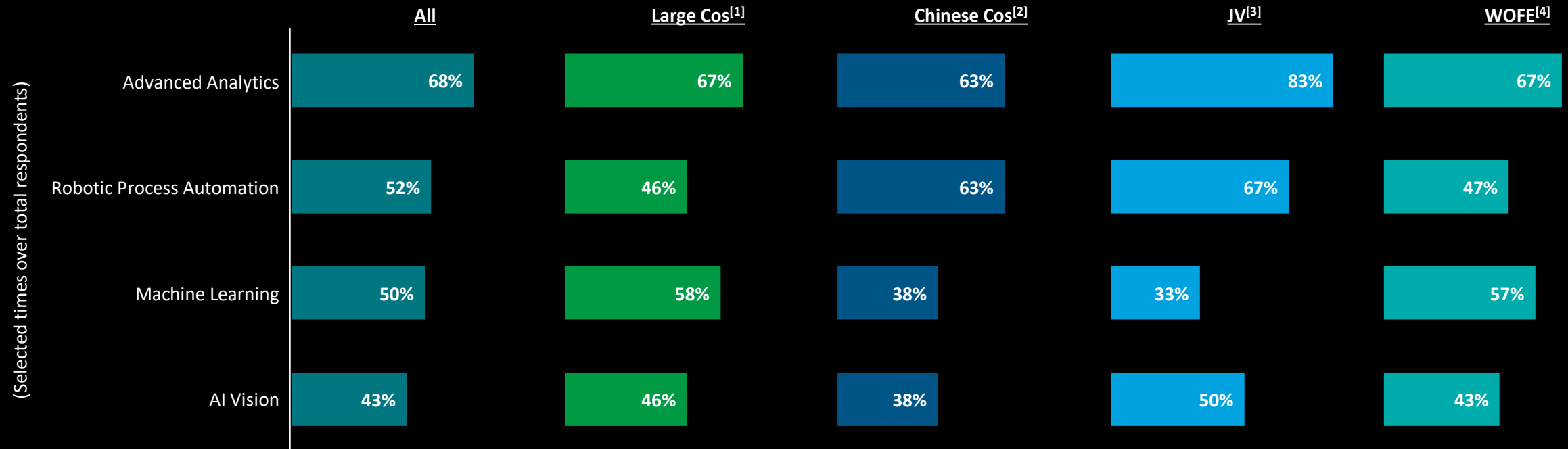
Insights

- Over half of all respondents' companies have considered the use of technologies for compliance and fraud related monitoring
- Large cos and Chinese cos showed quite a difference in the consideration of adopting new technology for compliance and fraud related monitoring: large cos have the highest proportion while Chinese cos have the lowest in the new technology adoption consideration

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How do you expect to use technology going forward to increase trust

Question #7 Deep dive – Among those who said yes, the technologies have been applied or planned to be applied include...



Insights

- Nearly 70% of respondents' companies prefer to apply advanced analytics related technology, especially for JV (83%)
- Chinese cos and JV are having a higher willingness in adopting robotic process automation as they usually run local manufacturing sites in China
- The adoption in machine learning is quite distinct between company types: over 55% of large cos and WOFE have applied or planned to apply while less than 40% in Chinese cos and JV

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How does China's data regulatory framework impact

Question #8 – China's new data security law and data privacy law have been taking effect, have you...



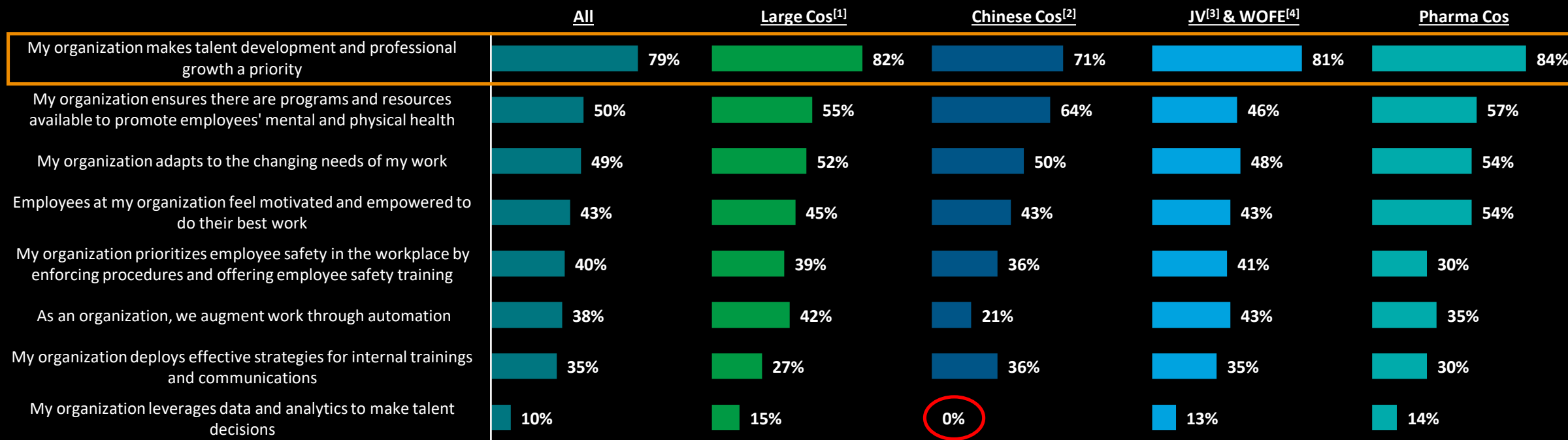
Insights

- The new data security law and data privacy law have significantly increased the resource allocation in IT & data compliance. For Pharma Cos (34/37) emphasize this area as **the** highest priority.
- Unsurprisingly, foreign invested companies (JV & WFOE) are focusing significantly on x-border data & IT arrangement. CEO's (only) responses seem to indicate that they believe this is already dealt with appropriately (only 10% cite this as a priority)
- Partnering with 3rd parties and investing into specific resources, i.e., 'Chief Data Officer' is top in mind for many

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Talent and trust – is this a management priority ?

Question #9 – Workforce experience is key to the trust of employees in an organization. How do you measure the following items regarding workforce experience in your organization?



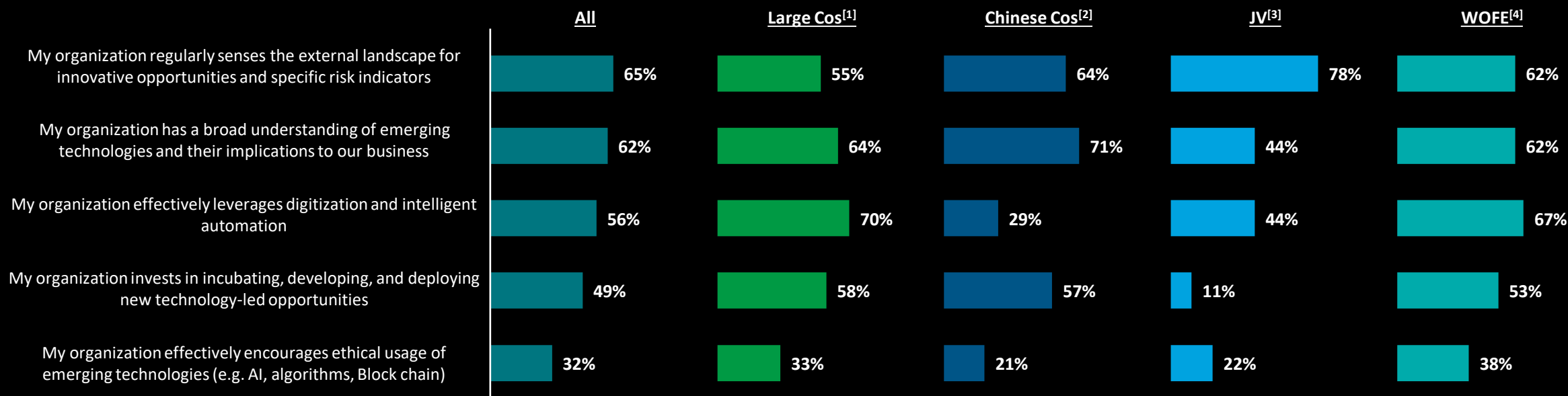
Insights

- The caring (50%) and development (79%) for talents are the top priority for all types of companies, especially in professional growth
- Pharma cos has the highest % (54%) in the employee motivation in works, contrast from the % in JV (22%)
- On the other hand, pharma cos have the lowest % (30%) in the workplace safety, where JV&WOFE has the highest (41%), showing a different focuses in workforce management
- Surprisingly, all types of companies are having the lowest % in leverages data in talent decisions, especially 0% in Chinese cos

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Innovation and trust – is this a management priority?

Question #10 – Innovation and digitalization have become so critical to the LSHC industry and continue to have a significant bearing on the trust of various stakeholder in an organization. How do you measure the following items regarding innovation, intelligence & technology in your organization?



Insights

- Over 60% of companies are regularly sensing the digital innovation opportunities and implications to their works, especially in large cos (55% & 64%), Chinese cos (64% & 71%), and WOFE (62% & 62%) yet only 44% of JV thinks their companies have a board understanding in digit-tech implication
- In addition, JV also has an extra low % (11%) in investment in new tech-led opportunities, which may result in a latter in capturing the digitalization opportunity compared to others
- Chinese cos have an extra low % (29%) in digitization and intelligent automation while large cos and WOFE have over 65%, making a clear differentiation in automation development among company types

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Summary Insights and the future

Key insights

From our survey result, we are seeing bigger gaps or alignments across different stakeholders in multiple perspectives, and we summarized these as below –

1 **Regulators** ranked as the most important stakeholder in terms of trust **yet** was the last second one in terms of perceived trust, i.e., just 50% of respondents believe regulators trust their organizations.

2 To **CEO** respondents, **Staff & Employees** was ranked the 2nd important stakeholders but assessed this group to be the one with lacking trust as most.

3 Despite the new-tech in compliance is ranked 2nd for trust enhancement, over 50% of **CEO** respondents believe it didn't improve the trust in the **HCP and third-party compliance** activities.

4 **Pharma cos** are ranked as 1st in employee motivation and empowerment, yet it also ranked the 1st in trust decreased during the pandemic for **Staff & Employees**

5 **Med-device cos** believe that they have perceived trust from internal stakeholders over external ones, yet they value the external trust more important for business success

6 For nearly all CEO's (8/9) and a large majority of all respondents (70%), the use & deployment of **new technologies increases the trust in drugs** (integrity & delivery).

7 90% of Pharma and large cos are allocating **more resources to data security** and privacy compliance, while only 40% consider cross border data exchange requires more resources.

8 Chinese cos are ranked as the last place in automation deployment across both workforce (21%) and digitalization (29%)

2021 Survey for Future of Trust in China LSHC Industry

Future outlook

The trusted relationship with external stakeholders^[1] are essential to all LSHC players in China

- Similar to many countries, China market is highly policy-driven, and regulators have been particularly active in recent time, requiring even more attention than ever to build trust with industry players (NRDL^[2], VBP^[3], etc.)
- External stakeholders (except media) are the most valued ones to LSHC players for trust relationships, yet with a relatively weak trusted relationships, driven by compliance & business ethics issues.

The trust with government authorities, HCPs, and patients are gaining more attention resulting from the speed up of the 'Healthy China 2030' plan.

The new technologies have led to a differentiated trust landscape for various stakeholders

- China LSHC players are aiming to increase trust through new technologies, such as IT and data compliance, advanced analytics for fraud, counterfeit detections, etc.
- The rapid digital development has raised the trust issue in clinical data security, patient privacy protection, ethical usage of emerging technology.

With patients becoming 'technology savvy consumers', digital technology will continue to raise the concern in data privacy and require highest attention to safeguard that trust

Employee trust while creating a healthy environment for both employee and company to grow

- From the study, most LSHC companies have their own focuses on enhancing the workforce experiences, aiming to shape an environment and phenomenon for talent development and professional growth
- To enhance the trust from staff and employees, companies are supporting the employees in adapting to the rapidly changing China LSHC market in both skillset level up and their mental and physical health

Talents are the foundation of the company, timely adjusting the employee development plans is the necessity to secure the staff and employees' trust

Note: [1] External Stakeholders – HCPs & Medical community, Media, Patients, Regulators; [2] NRDL – National Reimbursement Drug List; [3] VBP – Volume-based Procurement

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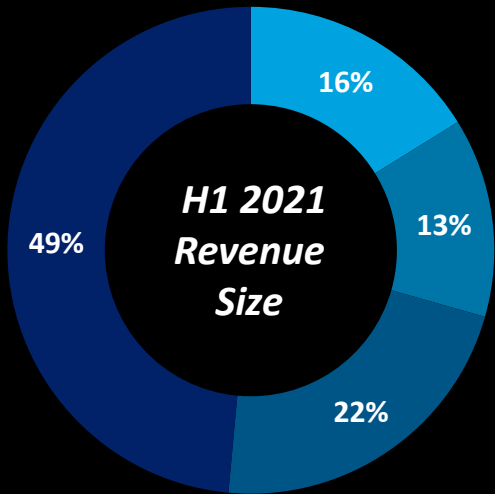
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Appendix

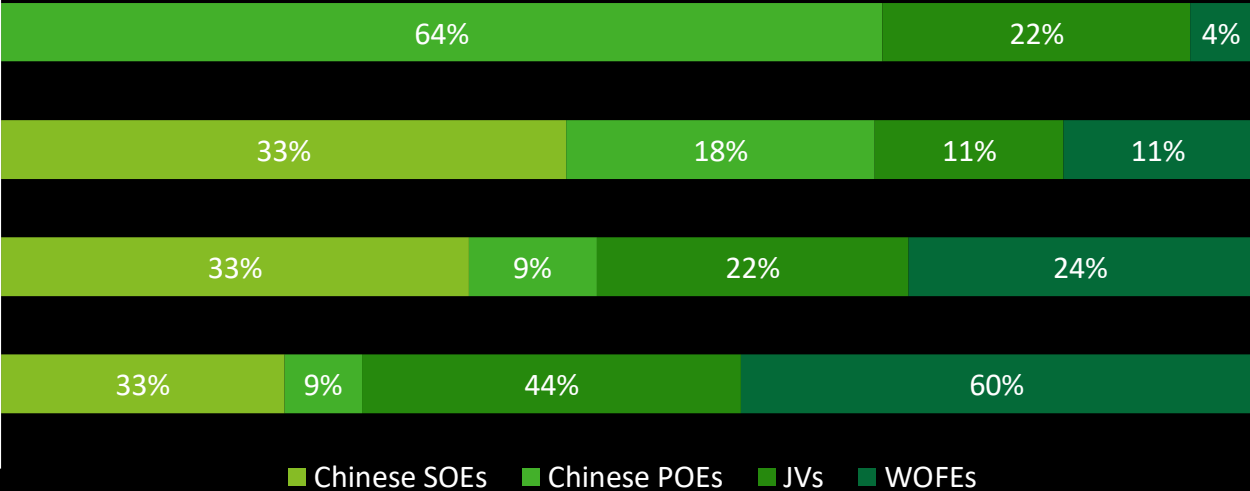
Appendix

Large companies' population composition

- What's the range of your enterprise revenue in H1 2021? (RMB)



- Less than RMB 50 million
- RMB 50 million – 500 million
- RMB 500 million – 2.5 billion
- More than RMB 2.5 billion



Comments

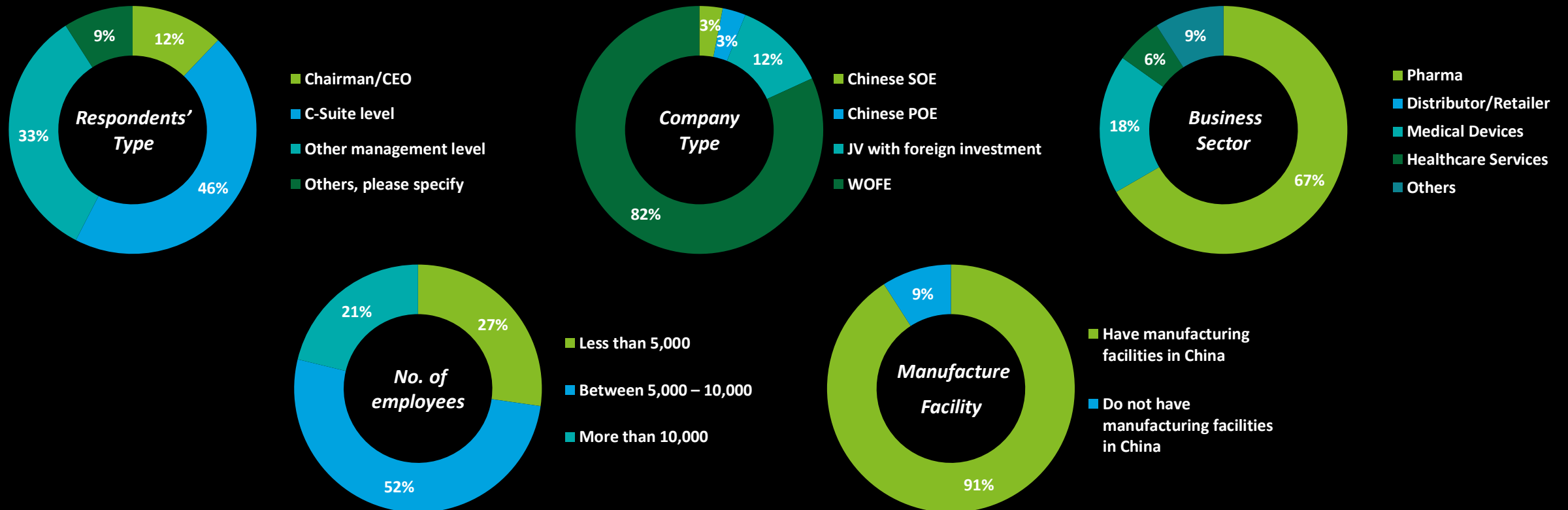
- Overall, the respondents population comprised 33 from companies that generated over 2.5 Bln RMB revenue in H1 2021
- Over 60% of POE's respondents are from smaller companies while 60% of WOFE's respondents are from large companies

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Appendix

Large companies' population composition

- Large companies (33/68) composition: companies with revenue above 2.5 Bln RMB



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Appendix

Calculation model for question #7 and #11

- The average score was calculated based on the weight of its rank in each answer
- The weight for each rank is different and is descending from rank 1 to rank 5
 - Rank 1 = 5 score; rank 2 = 4 score; rank 3 = 3 score; rank 4 = 2 score; rank 5 = 1 score
- The average weight score calculation formula: $[(\text{rank 1 \#}) * 5 + (\text{rank 2 \#}) * 4 + (\text{rank 3 \#}) * 3 + (\text{rank 4 \#}) * 2 + (\text{rank 5 \#}) * 1] / (\text{total respondent \#})$
 - For example, the option A was selected for 12 times: rank 1 for three times; rank 2 for four times; rank 3 for twice; rank 4 for twice; rank 5 for once
 - the average weight score of option A will be: $[(3 * 5) + (4 * 4) + (2 * 3) + (2 * 2) + (1 * 1)] / 12 = 3.58$
 - The average weight score of option A will be 3.58
- A higher average weight score represents a higher importance degree of the subject to respondents



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