



Navigator Resilience: Building back **better**

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Context

Businesses face their **greatest challenge in a generation.**



Beyond the terrible human toll, the COVID-19 crisis has precipitated the worst global recession since the Great Depression.

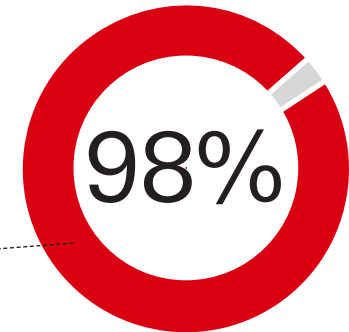
This survey of over 2,600 businesses across 14 countries, markets and territories was conducted between 28 April and 12 May 2020. These markets had varying degrees of business activity – from mainland China where domestic business largely resumed, to Europe under stringent lockdown.

This report considers actions taken by businesses to weather the crisis; and how they are shaping the new normal to seize emerging opportunities.



Overview

The Navigator survey results paint a picture of **challenge and change.**



Almost every business has been impacted by COVID-19 and short-term challenges dominate the thinking of 3 in 5 business leaders.

Even as restrictions necessitate physical distance, the data show that more than 4 in 5 businesses have **grown closer to employees, suppliers and customers;** acting on a clear preference for collaboration over self-sufficiency.

This crisis is also **catalysing long-term change.** Business leaders increasingly focus on culture. This enables firms to become more agile and responsive to change – learning a lesson from this crisis where agile companies have proven resilient. There is a broad focus on employees – both to build resilience and shape the transformation they are seeking.

This cultural change can enable emerging opportunities to be realised. **Technology and sustainability** are only becoming more ingrained in how businesses

operate. And technology is not only about automation, but also its ability to shape culture and enable agility.

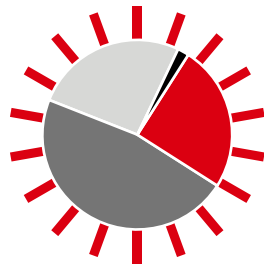
So while the results show that challenges are real, they also reveal self-awareness about the need to change and adapt. Accelerating technological change and sustainability are deep structural trends with potential to drive growth but also disruption. Companies are making rapid and quite fundamental changes in response. Supply chains are being **reshaped**, but **not reshored**, with a continuing trend towards near-shoring evident.

Broadly consistent findings across surveyed markets evidence the shared nature of the COVID-19 challenge, and the universality of the deep trends companies have identified. Resilience must be built into businesses' DNA to prepare for crises.

Findings

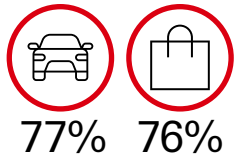
The **immediate impact of COVID-19** has been felt by almost every company surveyed.

Around 3 in 4 felt either strong or very strong impacts, reflecting the severity of the crisis. Yet 9 in 20 businesses felt as well prepared as they could be. And only 8% felt completely unprepared.



COVID impact level

- Very strong (25%)
- Strong (47%)
- A little (26%)
- None at all (2%)



Firms in the **automotive, wholesale and retail** sectors are most acutely impacted.

5%

of companies surveyed had fully ceased operations as a result of COVID-19.

These businesses are therefore excluded from the results within this report.

Companies that **build resilience** into their DNA will better weather crises.

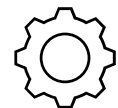
This becomes more important as the sources of potential disruption multiply: whether infectious diseases; environmental change; financial shocks; or political instability.

The data suggest firms are adopting new ways of working to better serve customers. Many are prioritising a change in culture to become more agile.

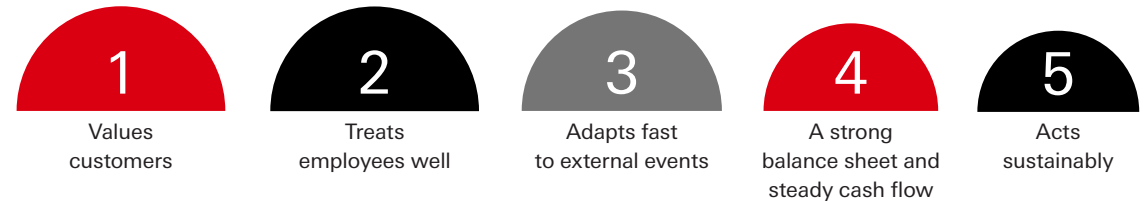
Factors such as **adaptation and management decision-making** were identified as key characteristics of resilient businesses by **3 in 4** companies surveyed.

The findings show that there is no blueprint for navigating crises, but reveal that resilience is multifaceted.

The importance of a strong financial foundation to weather storms is clear. But resilience runs deeper.



Top 5 characteristics of a resilient business



Findings

At a time of great challenge and change, culture emerges as a **cornerstone of business resilience**.

A healthy organisation can set a business apart. Culture can create sustainable advantage given it is unique to a business. Respondents are taking steps to improve employee wellbeing, through an emphasis on both innovation and inclusivity.

They are doing this because agility strengthens resilience and enables companies to grasp the long-term opportunities created by innovation, technology and sustainability.

New ways of working appear set to enable this cultural change. The data suggest an inflection point: with workplaces reimagined through flexible and remote working becoming commonplace.



37% of businesses expect remote working to become the norm in the next two years

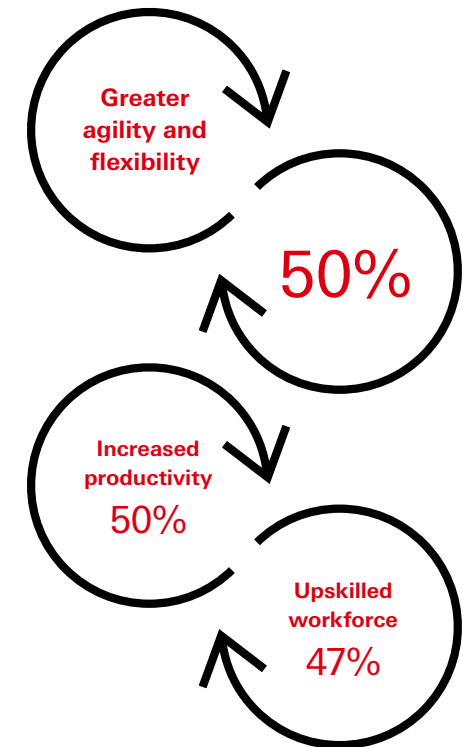
Technology is critical to business continuity. And more broadly it is seen to enable **cultural change** and **greater agility**.

The Navigator **Made for the Future** report, published in 2019, highlighted a trend of increasing investment as companies adopt new technology to improve productivity.

This year's survey shows technology investment is geared towards enabling collaboration and close working, rather than automation alone. This suggests cultural change is an increasing focus and that technology has a role to play.

Adoption of technology is seen to improve agility, productivity and help prepare employees for the future.

How businesses that prioritise adopting technology believe it will benefit them



Findings

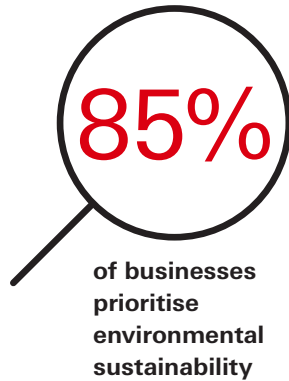
A crisis can bring **clarity** to decision makers' thinking.

Nowhere is this clearer than on sustainability. Far from being a 'nice to have' in the good times, it is increasingly integral to how businesses operate.

Environmental sustainability is one aspect of building resilience and a deep trend creating long-term growth opportunities.

Those businesses which prioritised sustainability felt better prepared for this crisis. This also matters for the future when, as the World Economic Forum's Global Risks Report highlights, environmental risks are intensifying.

More sustainable companies may benefit as both consumers and investors favour companies with superior Environmental, Social and Governance performance.



Top 5 environmental risks*

- 1 Extreme weather
- 2 Climate action failure
- 3 Natural disasters
- 4 Biodiversity loss
- 5 Human-made environmental disaster

Supply chains are undergoing change.

But the view that COVID-19 will only accelerate retrenchment and deglobalisation appears premature. The survey points to supply chains being reshaped, rather than reshored.

The importance of connectivity is evident. Businesses feel closer to their suppliers and have taken active steps to support partners. This collaboration facilitates the **control and transparency** businesses are seeking to become more resilient. This appears particularly timely, given the elevated level of threat felt by components manufacturers and also service companies.

As 2 in 3 businesses seek greater control of their supply chain (67%), they place greater emphasis on supplier resilience. More broadly, they are reconsidering the shape of their entire supply chain – variously pursuing diversification, digitisation and vertical integration – approaches which are considered in Section 6.

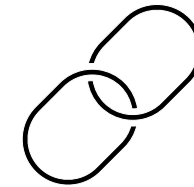
Beyond control, companies are seeking transparency (44%). This enables sustainability and also

resilience. Companies that identify as sufficiently agile have greater transparency and digitisation across their supply chain.

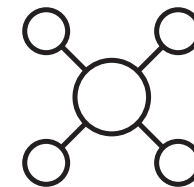
Businesses have also supported the companies they work with:

- 26% have **collaborated** to get products to customers
- 25% have offered **better payment terms**
- 26% have given **advice** to other companies
- 25% have **shared information**

As well as helping each other, 32% of businesses have changed their products or services to **support COVID-19 relief efforts**.



80%
feel closer to
strategic and
supply chain
partners



93%
have supported
the businesses
they work with

Following a 2012 fire in a German factory producing half the world's cyclododecatriene (a chemical used in the production of plastic parts), the Automotive Industry Action Group convened competing car manufacturers and suppliers to manage the limited supply.**

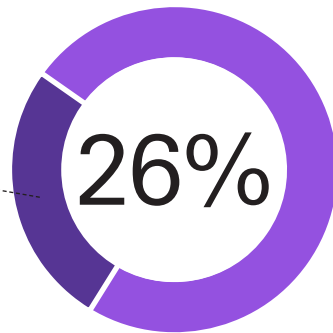
1. Impact of COVID-19

“Perhaps the **biggest crisis of our generation.** The decisions people and governments take in the next few weeks will probably shape the world for years to come.” Yuval Noah Harari

Key HSBC GDP forecasts*

	2019	2020f	2021f
World	2.6%	-4.8%	5.1%
Developed	1.7%	-6.7%	4.6%
Emerging	3.9%	-2.1%	5.7%
US	2.3%	-6.4%	3.6%
Mainland China	6.1%	1.7%	7.5%
Eurozone	1.2%	-8.1%	6.5%

The COVID-19 crisis is forcing many businesses to adapt. Rapid change has taken place in a condensed timescale, with more than 3 in 5 firms making adaptations. Only a quarter of businesses reported operating as normal, with only a small minority partially suspending trading (11%).



On balance, these findings are better than feared given the speed and severity of the shock, coupled with a negative outlook for global growth. HSBC forecasts global GDP to contract by 4.8% in 2020.

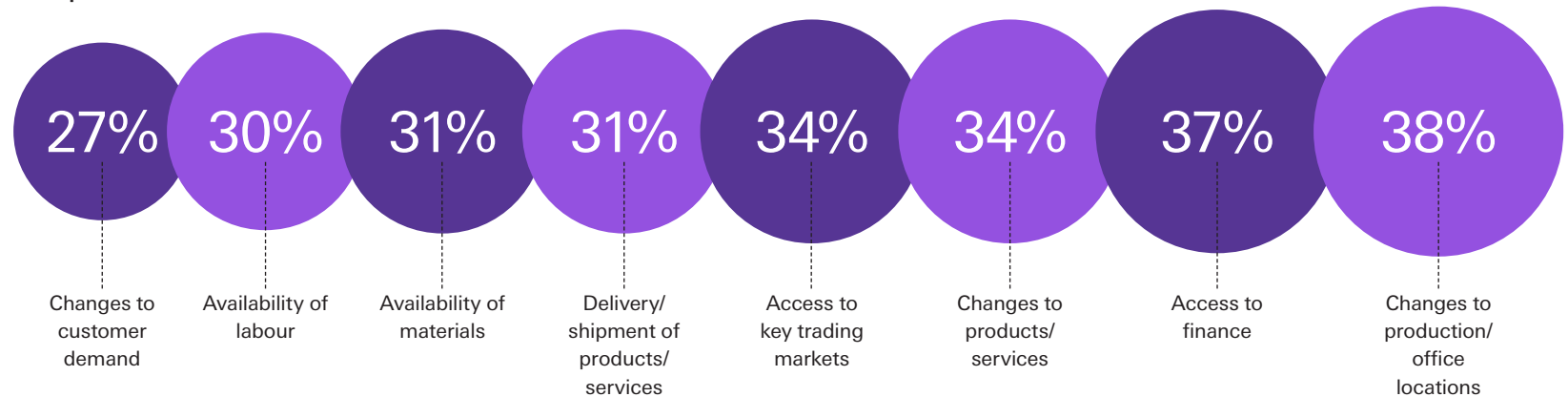
This short-term advantage may be bolstered by strong growth prospects. Furthermore, Asia has seen inflows of foreign direct investment, even as the rest of the world sees a decline, demonstrating that both local and global companies continue to recognise the structural opportunity.

Taken together, this suggests that the rebalancing of economic activity and opportunity towards Emerging Markets and Asia could accelerate. Companies looking to source suppliers or sell to new markets may therefore look to Asia.

In part reflecting easing COVID-19 restrictions, more respondents in Asia Pacific see their business as sufficiently agile to give stability.



Aspects of business that need a new solution



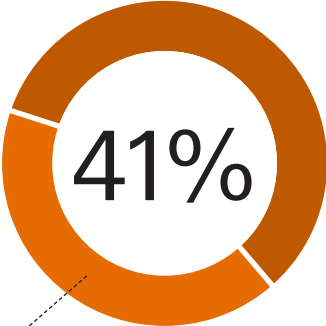
Around half have moved more of their business online (51%). And more than a third of businesses are finding new solutions through other means.

Reflecting both demand and supply side shocks, the split between those who have increased and decreased production is roughly even.

2. Building blocks of resilience

“There are but a handful of times in the history of our country when there occurs a **transformation so remarkable** that a moult seems to take place, and an altered country begins to emerge.” Doris Kearns Goodwin, US historian

Resilience is top of mind. It could influence future growth given the uncertain external environment. And it is increasingly a measure of value among investors as they shun fragile business models.



The importance of a strong balance sheet and efficient working capital are greater during times of stress.

A strong balance sheet was cited by 2 in 5 firms. With financial markets favouring firms with strong balance sheets, 13% named it their top priority.



62% of businesses are actively pursuing new prospects; 38% are focused on existing customers

Specific actions businesses have taken to consolidate or strengthen their financial position include: ensuring they have sufficient cash flow (29%) and sufficient financial reserves (28%); reducing their cost base (27%); and debt level (23%).

Just as descending is the most dangerous section of a climb,

business failure rates spike in the recovery phase. Resilience therefore goes beyond shoring up finances.

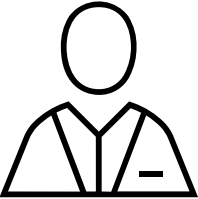
While a majority of respondents have spent more time on short-term planning, a significant proportion are planning ahead and actively seeking new customers. Larger and more established companies are more likely to plan long-term.

By necessity, many companies quickly adopted ways of working they had long aspired to during the crisis — from quicker decision making and fewer bureaucratic structures, to empowering employees to solve problems. The data suggest firms are looking to continue these new ways of working.

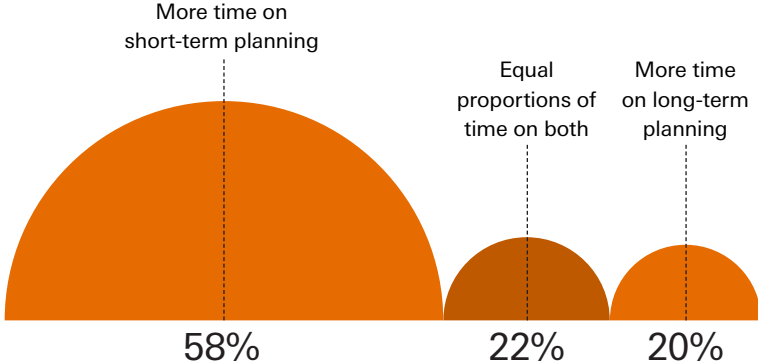
Conformity of routine can breed conformity of thinking, whereas businesses want diversity of thought and to act differently. Workforce and culture are therefore viewed as critical to resilience.

Shifts in business relationships

- Feel closer to customers 82%
- Feel closer to employees 83%
- Feel closer to strategic / supply chain partners 80%



Time spent on long-term vs short-term planning in the last 6 months



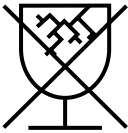
Building blocks of resilience (continued)

Signalling cultural change in action, the data show that decision makers recognise the importance of **relationships**. Businesses feel closer to their customers, employees and suppliers – a remarkable finding given the restrictions in place. This may also accelerate the trend of B2B businesses selling directly to consumers, as witnessed by consumer brands offering direct delivery to homes during this crisis.

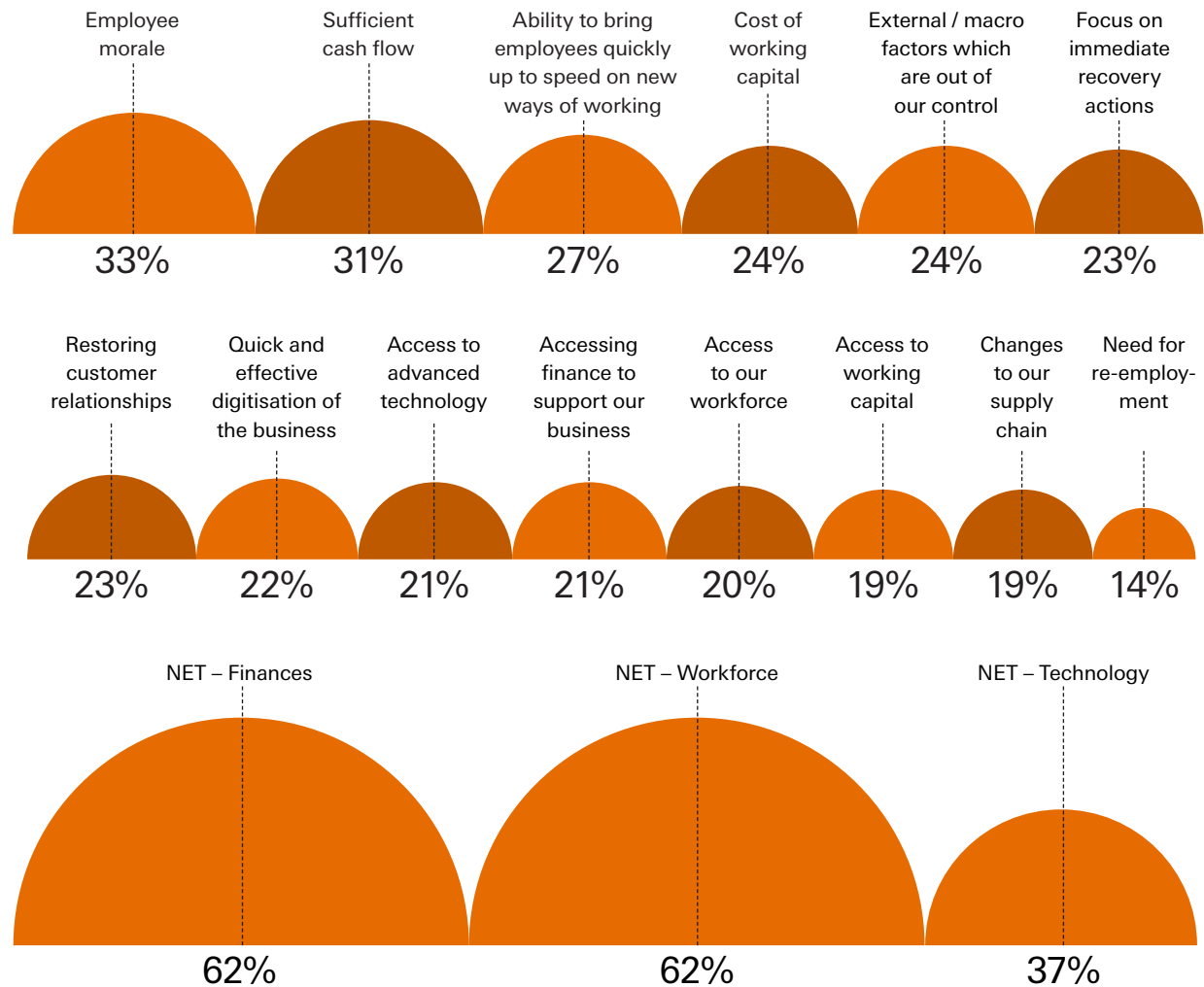
This also enhances **reputation**. A business's approach to employees, clients, customers and the local community during the crisis will remain imprinted long beyond the flattening of the COVID-19 curve.

62% identified cultural and financial factors as the biggest barriers to building resilience

Nassim Nicholas Taleb conceptualises an **"antifragile"** approach: moving beyond resilience and robustness so that companies can adapt to, and even thrive on, disorder. The resilient resist shocks and stay the same; the antifragile build back better.



What will be the biggest barriers to your business becoming more resilient over the next 6 months?



3. Culture

“Culture eats **strategy** for breakfast.”

Peter Drucker

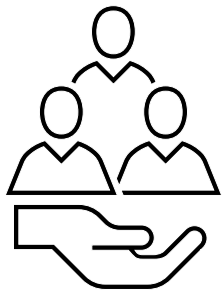
This crisis forced businesses to work differently. Change happened at speed, faster and flatter structures emerged, and this served as a reminder that people create organisational change.

Survey respondents emphasise culture, suggesting they view these changes positively. Companies are seeking to become more agile, both to build resilience and equip themselves for a future characterised by change.

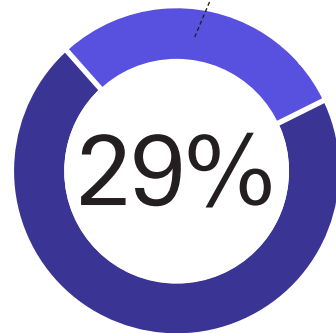
Only 1 in 5 businesses feel their infrastructure and culture are sufficiently agile. Yet its importance is clear – more agile firms felt better prepared for this crisis. Cultural factors stand out alongside the importance of purpose for the best prepared companies.

Firms further recognise that these good cultural practices can build employee loyalty over the long-term.

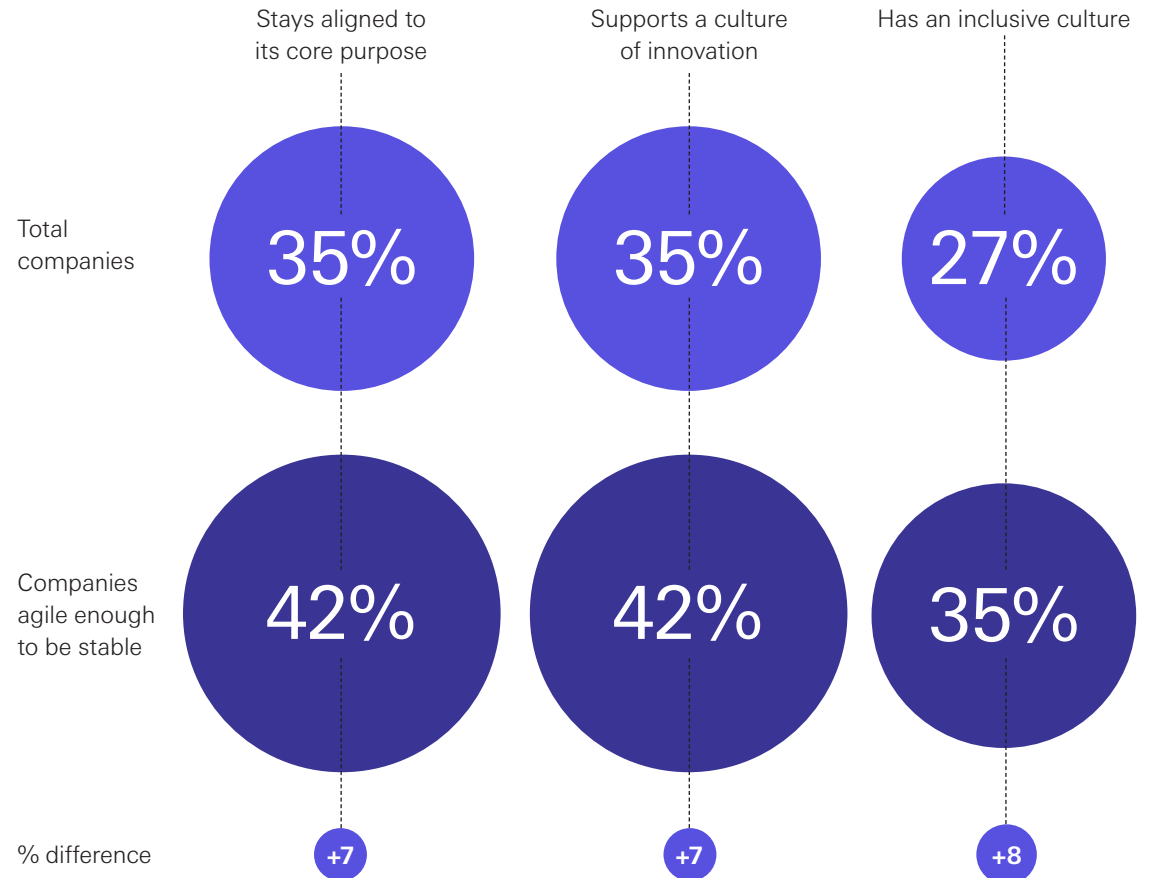
More than a quarter of companies said that building a culture to support retention and recruitment was key to preparing for future uncertainty.



Treating employees well is one of the top characteristics of a resilient business



Agile businesses put more weight on certain characteristics of resilience



Culture (continued)



Firms are adopting new ways of working to **create cultural change** and promote agility.

The data suggest the world of work will be permanently changed. This follows media reports of companies announcing employees may permanently work remotely, should they wish to.

The crisis left offices empty as employees worked remotely, often for the first time. Staff developed new skills, from video conferencing to managing teams remotely. And workarounds were found so customers could continue to be served.



69% expect that technology will enable more flexible working arrangements

Sixty-two per cent of employed Americans currently say they have worked from home during the crisis, a number that has doubled since mid-March*.

Remote working has risen in developed markets over a decade from roughly 10% of workers to over 20%**. The survey suggests another step change is underway.

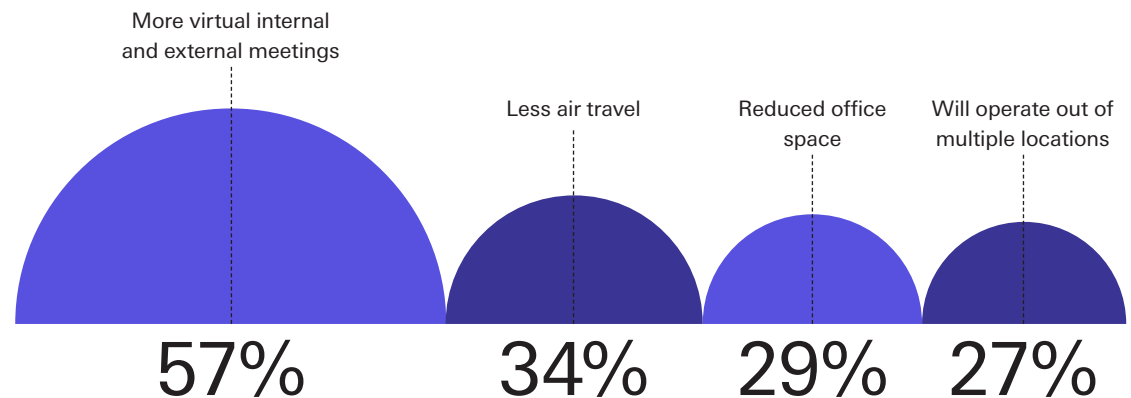
As part of this cultural change, workplaces may be reimagined from meetings to travel and office space. Technological investment

will support this shift, with 57% of businesses anticipating more virtual internal and external meetings over the next two years and 34% foreseeing a reduction in air travel.

Three in 5 firms (61%) see tools which enable virtual meetings and collaboration becoming standard business practice.

Remote working promises to promote inclusivity. In time it may remove the need to relocate for work, which would widen talent pools and ease skill shortages. Yet it is not currently equally available to all employees, with the ability and opportunity to work remotely far greater among higher income groups.

How technology will change working practices



4. Sustainability

“Firms that align their business models to the transition will be **rewarded handsomely**. Those that fail to adapt will cease to exist.”

Mark Carney, then Governor of the Bank of England

The trend towards sustainability is only accelerating for businesses around the world.

As previous Navigator reports note, environmental sustainability now permeates all aspects of business strategy. The current crisis has not caused firms to backtrack or change focus.

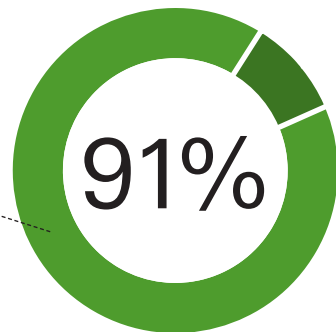
This underlines how environmental sustainability is increasingly synonymous with business sustainability. Those who claimed to be well prepared for recent uncertainty place greater emphasis on sustainability. They also understand sustainability to be more wide-ranging than those who were less prepared.

There is a near unanimous commitment among business decision makers to build back better; more than nine out of 10 agree that the need to reassess or review their operations would allow them to rebuild their businesses on firmer environmental foundations. This underlines how sustainability is a

key component of future business strategy.

This emphasis on sustainability is consistent or strengthening for 2 in 3 businesses (65%). It is a higher priority for international than domestic companies, and firms based in mainland China and Hong Kong.

Notably, consumer-facing industries such as textile and food and drink industries place a particular emphasis on sustainability. Beyond supporting business resilience, the low-carbon transition is also **creating growth opportunities**. Companies are responding to rising expectations

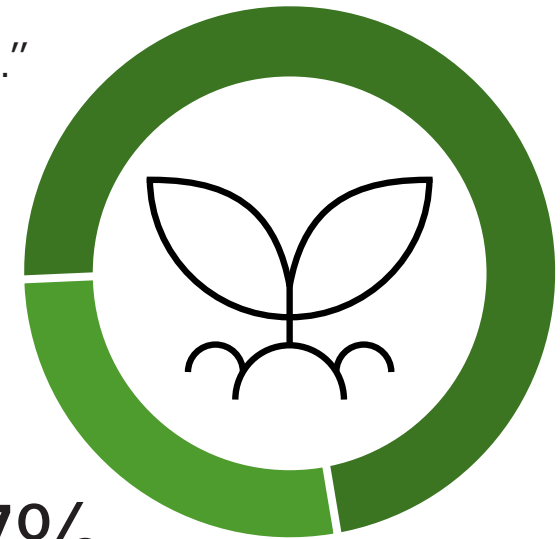


among customers, shareholders and wider society.

The data show businesses are feeling the greatest pressure from customers, suggesting that sustainability credentials are an opportunity to win new business rather than simply meet regulatory requirements. This is important because consumers – and particularly millennials – favour sustainable products and companies that share their values.

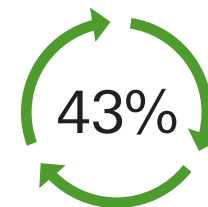
While external pressures weigh more heavily, around 1 in 3 businesses recognise the importance of sustainability to their employees. Sustainability therefore goes beyond winning new business to shaping the culture of an organisation.

Businesses are putting commitments into action through their supply chain. Promoting sustainability is a key reason for change within supply chains. Half of those businesses doing so cite environmentally conscious or ethically motivated consumers as a key factor.



27% intend to make their supply chain more environmentally sustainable in the next 1-2 years

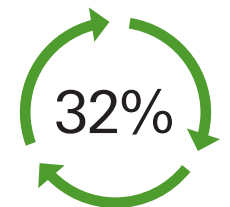
Anticipated sources of pressure to become more sustainable in the next 1-2 years



Customer demand



Government regulations



Employees

5. Technology

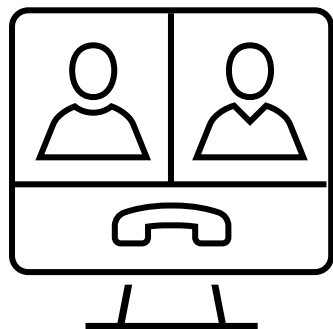
“Technology alone is not enough. It’s technology married with the liberal arts, married with the humanities, that yields the **results that makes our hearts sing.**”

Steve Jobs

The greater the impact of COVID-19 on a business, the more technology is seen as vital for business continuity.

The most resilient firms are looking to invest in innovation, rather than cut costs, as they emerge from this crisis. Taken together, the data suggest businesses are prioritising investment in automation, but this is not at the expense of the workforce.

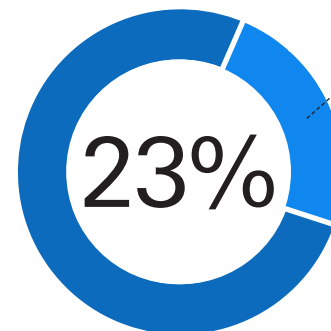
The adoption of technology and investing in innovation are going to be the top priorities for the next five years.



61%
said virtual meeting and collaboration tools will become standard technologies

Automated production processes are a clear differentiator in how readily firms managed this crisis. Companies’ focus on people includes a clear role for technology to enable internal cultural change. This recognises that upskilling employees makes the workforce more resilient.

Considering the relative use of technology today and future investment priorities reveals a dual focus on improving communications and relationships on the one hand, and automation on the other. Tools to enable virtual meetings and collaboration are the joint top development priority alongside automation. Digital payment tools are the second highest priority.



In terms of future business priorities, automation was the top business priority for almost one in four companies, of equal importance to tools to enable virtual meetings and collaboration.

Respondents appear to appreciate the broad-based potential of technology. It is expected to improve agility and productivity and ensure employees are prepared for the future. It is therefore important to both resilience and long-term growth.

Technology (continued)

The vast majority of decision makers surveyed agree that times of adversity showcase how businesses can leverage technology to enhance their business (94%).

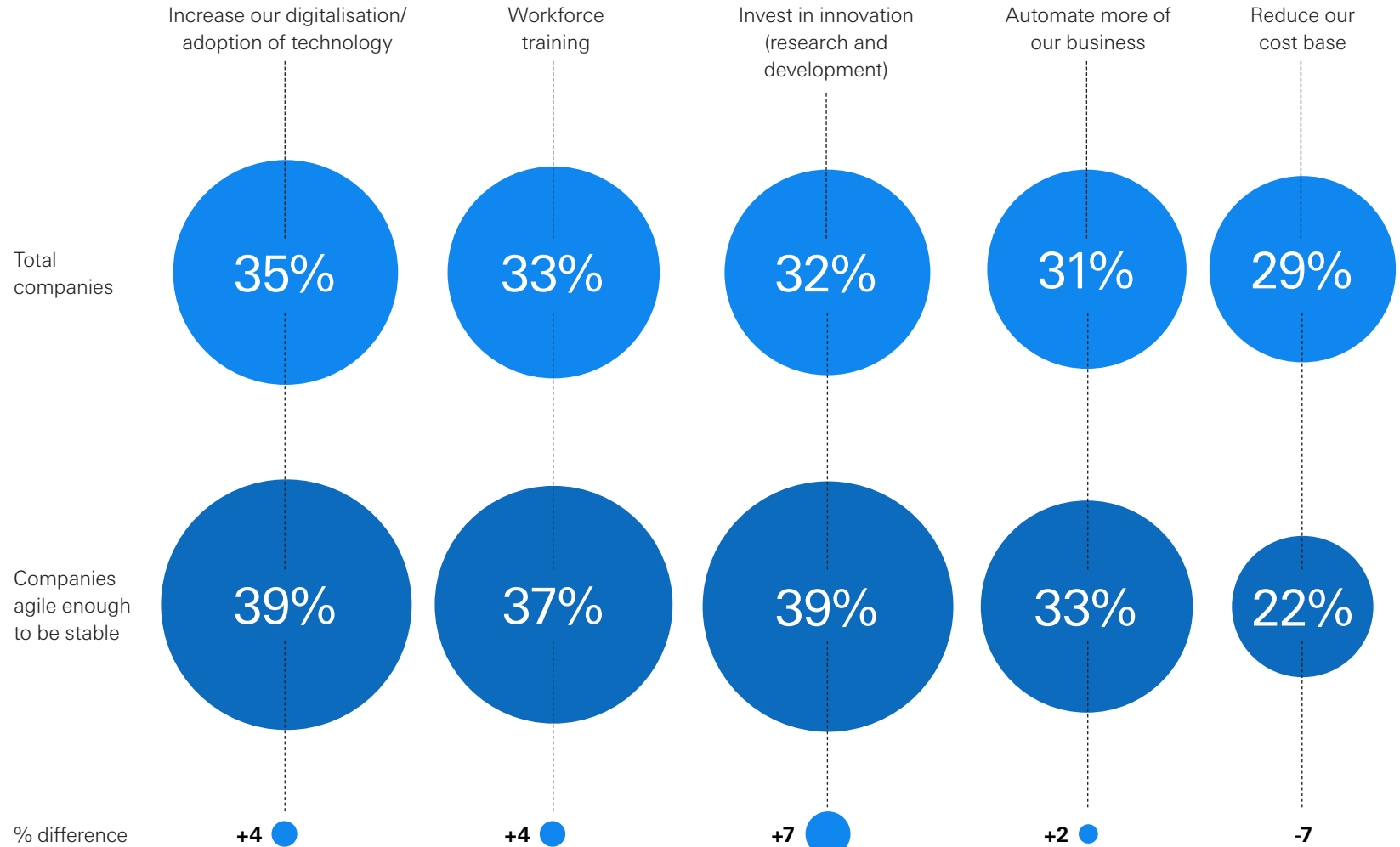
So while few companies could have anticipated the health pandemic, the early signs suggest a broad appreciation of how it may change the future. Technology is a deep trend reshaping industries.

The importance of digitisation of production processes and digital payment is strongest amongst businesses in **India, Indonesia, Malaysia** and **mainland China**.



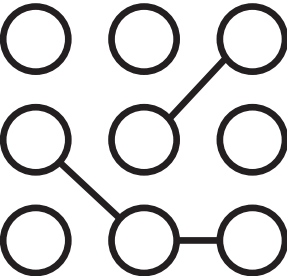
Just as technology fuelled post-war economy recovery in the 1950s, the survey points to major shifts in both how employees work and production processes.

Looking ahead 5 years, how will your business evolve to prepare for future uncertainty?



6. Reshaping supply chains

Supply chains have become a **strategic issue** for business leaders.



Businesses are building resilience by strengthening control and transparency. And approaches to achieve this vary, perhaps reflecting the complexity of global value chains.

A number of themes emerge in how firms will prevent and detect disruption. Through mapping suppliers and buyers, companies can unearth hidden dependencies and plan for interruptions down to the component level.

This end-to-end visibility could help manage supply and demand more efficiently. This challenge surfaced through the COVID-19 crisis as supply shocks were followed by

a collapse, then surge in demand. Being agile to allocate resource and financing rapidly can add capacity and avoid bottlenecks.

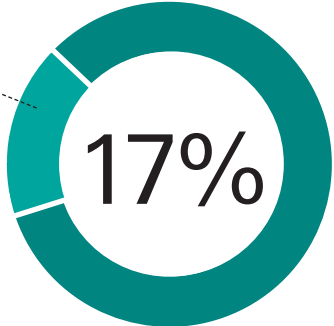
Digitisation, data and technology are key enablers of visibility for businesses seeking to avoid any single point of failure.

The data suggest restructuring will result in vertical and horizontal integration. But companies are not turning inward.

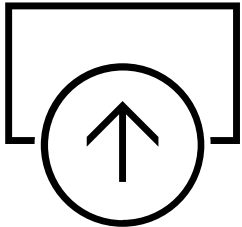
On balance, more businesses are diversifying rather than restricting suppliers. And fewer than 1 in 5 are narrowing geographically across markets. Far from a narrow focus on reshoring, 1 in 5 are looking to

expand suppliers within their region as a strategy to grow. Together, these steps could help mitigate the risk of one company or country being cut off.

Production moving closer to point of sale is a medium-term trend, aided by advances in robotics, AI and 3D printing. The data show steady investment in automation over the next few years, and it is the top development priority. This may see supply chains shorten in time to operate on a more regional basis.



The Fukushima nuclear disaster in 2011 triggered an unforeseen shock to global car manufacturers. Supply chains were dependent on a single electronics manufacturer so close to the Fukushima nuclear plant that it shut down. This abruptly cut supply of microcontrollers, a type of custom chip used in cars, by around 40% – interrupting car production around the world.*

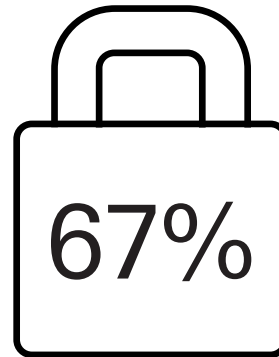


41%
of businesses say they will digitalise processing and adopt paperless documentation

21%
will utilise 3D printing technology to enable more production on site

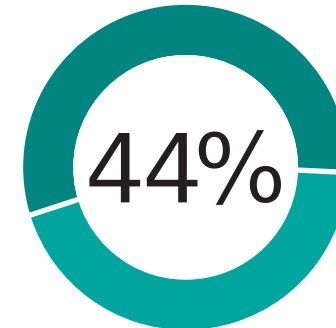
Reshaping supply chains (continued)

Changes businesses need to make across primary suppliers in the next 1-2 years



67% of businesses said their top priority was to increase control of their supply chain. This includes:

- Identifying and securing critical suppliers (31%)
- Reviewing the suppliers' ability to withstand future uncertainty (30%)
- Working with markets/countries that are more stable (26%)
- Owning more of the supply chain (vertical integration) (22%)



44% of businesses said their top priority was increasing the transparency of their supply chain. This includes:

- Increasing transparency in how their suppliers work – and who is in their supply chain (27%),
- Creating a more traceable supply chain (26%)

Survey methodology

The HSBC Navigator survey is conducted on behalf of HSBC by Kantar. It is compiled from responses by decision-makers at 2,604 businesses, ranging from small and mid-market firms to large corporations, across a broad range of sectors.

The respondents hold influence over their company's strategic direction and represent a broad range of roles: including c-suite, finance, procurement, supply chain, sales and marketing.

A total of 14 markets were surveyed between 28 April and 12 May 2020.

- Americas: Canada, Mexico, USA
- Asia Pacific: Australia, Hong Kong, India, Indonesia, Mainland China, Malaysia, Singapore
- Europe: France, Germany, UK
- MENA: UAE

Results have been weighted to be representative of markets international trade volume (World Trade Organization data for 2017-2018).

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Note: There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

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