Navigator

This Made for the Future report is based on survey responses from **2,500** Business Minds around the world

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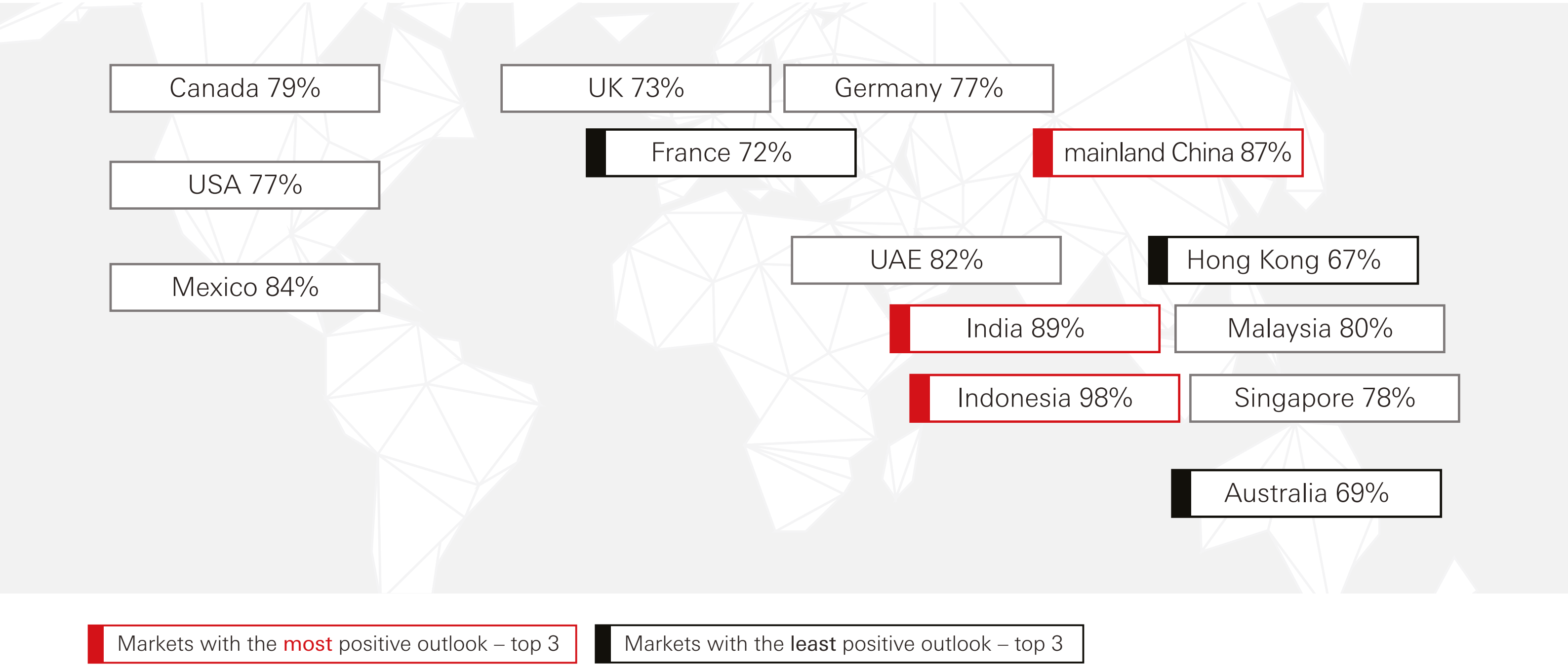
GLOBAL Report

Global businesses are confident that they can manage the risks posed by trade tensions, political uncertainty and the challenges of rapid technological change to continue – and in many cases – increase growth in coming years by becoming more efficient.

This survey of more than 2,500 businesses across 14 countries and territories paints a picture of optimism, almost four in five saying they expect to grow in the next couple of years, and 84 per cent saying they intend to increase investment, 57 per cent by more than 5 per cent.

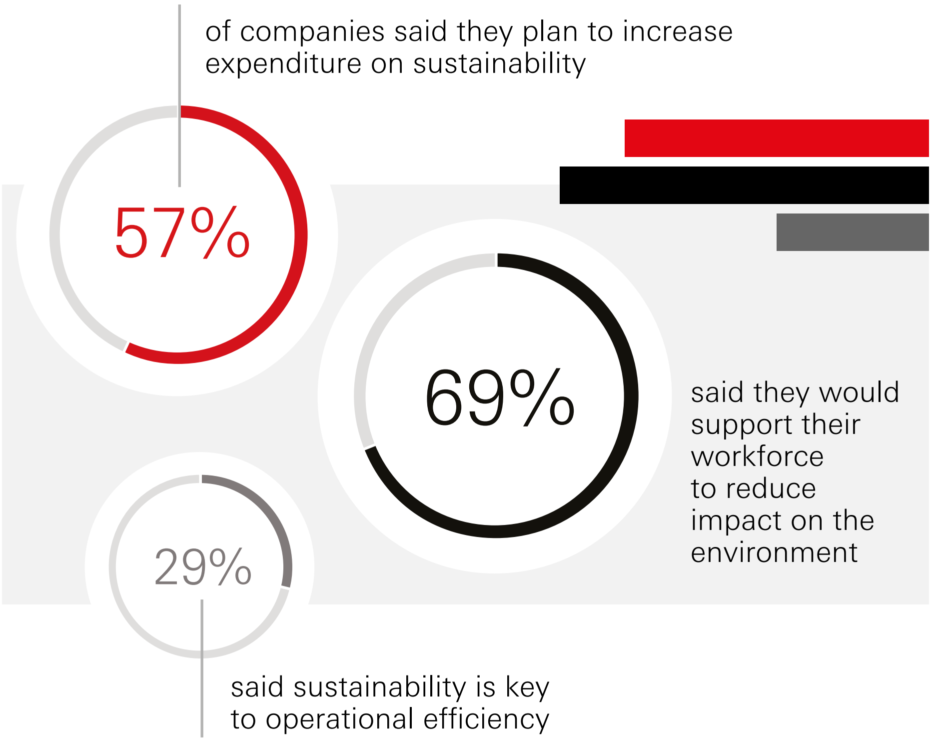
But the data indicate a clear emerging area of focus.

Globally, companies saw 'improving productivity' and 'Adopting New Technologies' as the most important sources of opportunity. This seems to indicate that as global growth plateaus, companies are concentrating on maximising their opportunities by becoming more efficient by investing in fields like research & development, technology, and people, in order to raise productivity, and improve customer satisfaction. At a time when markets are dogged by uncertainty – the survey was taken just as the US government raised tariffs for the third time – managing costs and quality become obvious ways to strengthen the bottom line and position to take advantages of new opportunities as they arise.



It seems that in the face of external risks over which they have little control – threats like rising trade tensions, political upheaval and disruptive technology – business leaders are minimising the risks they can control, working towards creating leaner, more efficient companies that can differentiate themselves by advanced products and services delivered through optimised production systems by staff that enjoy their workplace.

This decision is at least in part determined by threat perception. When asked about the biggest threats to growth, almost all regions and across producers of both goods and services, the largest **threat** cited was business competition, cited by 29 per cent of respondents, 5.6 percentage points ahead of political uncertainty, the next greatest threat, and 9.4 percentage points ahead of protectionism.



The next largest threat is cybersecurity, underlining that technology is a double-edged sword. It is both a threat to established business patterns and an opportunity for growth, but either way, the data show that companies see it as a vital business expenditure. More than 87 per cent of companies said they will either maintain or increase their investment in research, innovation and technology. 34 per cent of all companies said that they expect Innovation and Technology to 'totally change' their business over the next one to two years, but at 34 per cent the adoption of new technology was the second highest ranked business opportunity, just behind improving productivity (35 per cent).

But despite external uncertainty, companies are zeroing in on growth opportunities. The survey yielded evidence of a broad shift towards a more holistic business model that looks beyond the narrow parameters of profits and shareholder value to include environmental sustainability and people – including both staff and customers. These are not primarily defensive moves: in the case of sustainability, 48 per cent of respondents who said that innovation is important said that sustainability is key to their growth plans, compared to 39 per cent who said their focus on sustainability is defensive. Commitment to spending on sustainability tended to be higher in emerging economies, many of which have less stringent environmental rules, implying that this is a business prerogative more than a matter of compliance.

Environmental sustainability now permeates all aspects of business strategy. 57 per cent of companies which said they expect to make considerable investments in innovative technology plan to increase expenditure on sustainability; 69 per cent said they will help their workforce to use technology to reduce impact on the environment, and 29 per cent said it is key to operational efficiency. Sustainability has gone beyond being a luxury brand differentiator to become pivotal to long-term success, driven by competition, customer demand and, according to 24 per cent of respondents, it is now an aspect of recruiting and retaining the best people.

The drive to refocus on efficiency at a time of rapid technological change has highlighted the importance of people, not just in hiring, training and retaining staff, but also improving customer experience.

Companies seem confident that the skills are available, with only 21 per cent citing a shortage of talent as a threat to business growth.

52 per cent of companies said they intended to increase investment in training and improving skills, and 43 per cent said they would spend more on employee well-being, and this rises to 52 per cent for North American companies.

Figure 1: Regional divergences – Growth

Businesses expecting to grow by more than 3 per cent over the next 1 to 2 years

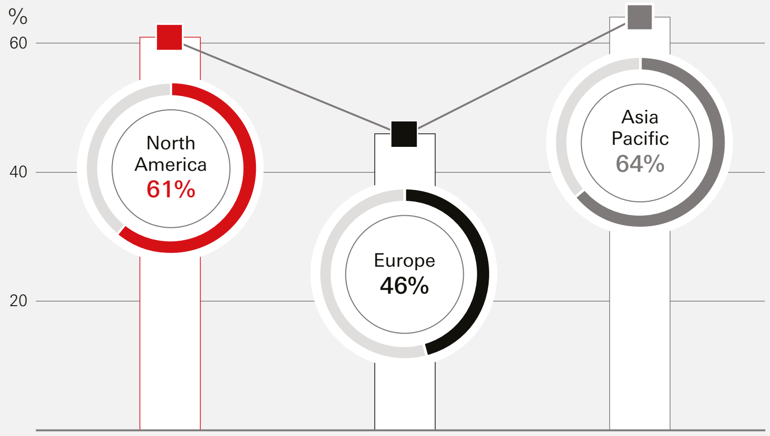
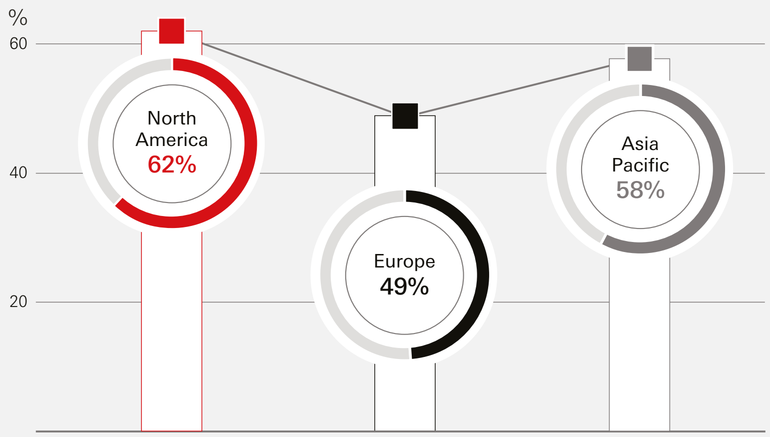


Figure 2: Regional divergences – Investment

Businesses planning to increase Investment by more than 5 per cent over the next 1 to 2 years



The result of a combined commitment to both improved technology and skilled, motivated people is innovation. Businesses across the board are most excited about the prospects of the Internet of Things, Artificial Intelligence and 5G telecommunications. Between 70 and 80 per cent of respondents said that they had either already integrated or were starting to integrate the Internet of Things and AI into their business model, citing improvements in productivity, customer experience and improvements in the quality and delivery of products and services as the driving force.

Although the tone of the respondents was generally upbeat, there were some notable regional divergences (see figures 1 and 2). Despite the ongoing trans-Pacific trade tensions, the outlook in both the Asia-Pacific region and North America regions was remarkably similar. But Europe was significantly less upbeat. For example, 64 per cent of respondents in the Asia-Pacific and 61 per cent in North America expected their business to grow by more than 3 per cent over the next 1 to 2 years, but only 46 per cent of Europeans feel the same way. This pattern is repeated elsewhere in the data: the number of European companies that expect to boost investment by more than 5 per cent was 11 percentage points below the average in Asia and North America; a significantly smaller number of European companies thought that innovation was vital to growth than either Asian or North American companies, and they were noticeably less enthusiastic about the potential for tech transformers like the Internet of Things, AI and 5G.

The survey paints a picture of businesses that remain upbeat despite continuing uncertainty. Business owners believe that by improving productivity, motivating their workforce, using technology to improve customer satisfaction and innovating to prepare for the opportunities of the future, they can continue growing strongly.

Business outlook / Optimism

Businesses remain positive about their outlook, with nearly four in five companies surveyed (79 per cent) expecting their business to grow in the next 1-2 years – including more than one in five (22 per cent) expecting to grow by more than 5 per cent

This comes as a surprise on two levels. One is that growth in global trade has been losing steam. The World Trade Organization (WTO) has forecast merchandise trade will grow by 2.6 per cent[1] in 2019, down from 3.0 per cent in 2018 and 4.7 per cent in 2017. This downward trend is clearly reflected in the WTO's World Trade Outlook Indicator (WTOI), which gauges momentum in global trade growth. The most recent WTOI reading of 96.3 is the lowest since 2010. Though it remains unchanged from the previous reading, the index had been declining over four consecutive quarters.

The positive business outlook is also surprising given the sudden escalation of trade tensions. The survey was conducted between 7 May and 21 May 2019, when President Trump had threatened to increase tariffs (on 5 May); when US tariffs on US$200 billion of Chinese goods were raised from 10 per cent to 25 per cent (on 10 May), and when mainland China announced an increase of the tariff rate covering some of the US$60 billion of US goods (on 13 May). It is therefore notable that more than half (53 per cent) are more optimistic than they were a year ago, while fewer than 1 in 10 were in any way more pessimistic.

Among the companies expecting their business to grow in the next 1-2 years, the two most cited growth drivers are the strength of the customer base, and the quality of the workforce (see figure 4) in meeting the needs and expectations of customers. Meanwhile, among the companies expecting their business to shrink in the next 1-2 years, tariffs represent only the fourth-most cited factor – behind new competitors and disruption, political uncertainty and a shrinking customer base. This suggests companies may have internalised the increased cost to trade and are more focused on becoming leaner, although given a growing focus on sustainability and caring for their workforce, not necessarily meaner.

Figure 3: Expectations for business outlook in the next 1 to 2 years

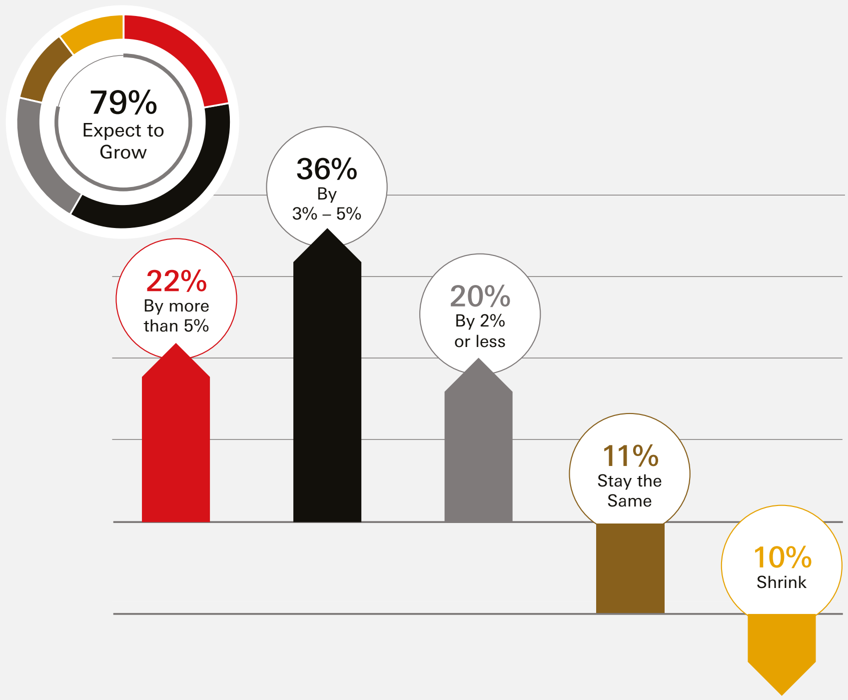
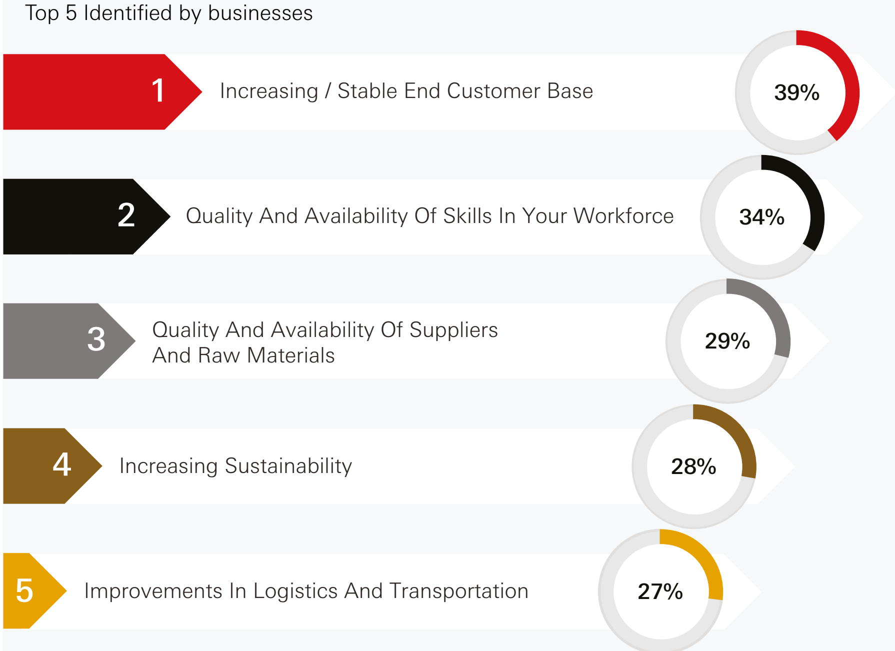


Figure 4: Expected Growth Factors

Top 5 Identified by businesses



1 www.wto.org/english/news_e/pres19_e/pr837_e.htm

Efficiency

Against a backdrop of a slower global economic growth and rising protectionism, the survey shows a clear corporate focus on production-side efficiencies including innovation and investment in improvements in productivity and customer experience.

Although a third of companies did say that entering new markets represented an opportunity for their business over the next 1-2 years, it ranked third behind improving productivity and adopting new technology. And three-quarters of businesses said that their aim is to drive productivity gains through adopting new technology.

Across the 14 countries and territories surveyed there was a clear gradient, with 41 per cent of emerging economy respondents citing productivity gains as an opportunity, against only 31 per cent of developed economy respondents. This would suggest that even in a slowing global economy, emerging nations and territories have both a strategy and enough headroom to maintain higher growth rates than developed markets over the short to medium term, a view also reflected in data which show that companies in emerging economies tend to be the most optimistic.

And there is a clear commitment to ensuring that products are delivered to customers more effectively. Almost three-quarters (73 per cent) of companies said that one of the aims of innovation in the workforce is to allow them to understand their customers' needs better (figure 5). This is backed up by responses to a question about technologies that represent opportunities. The top two were the Internet Of Things (67 per cent) and artificial intelligence (60 per cent) (see figure 6) both of which are designed to refine producers' knowledge of their customer's needs.

Figure 5: Innovation to understand customers better

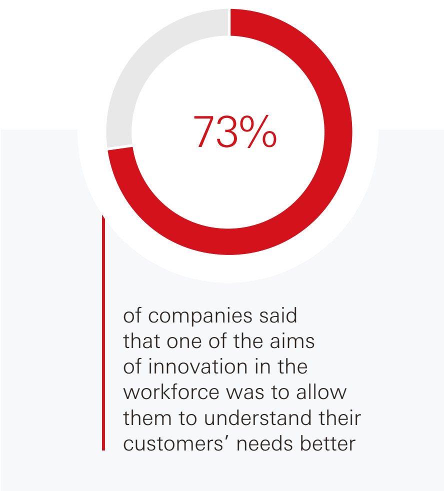
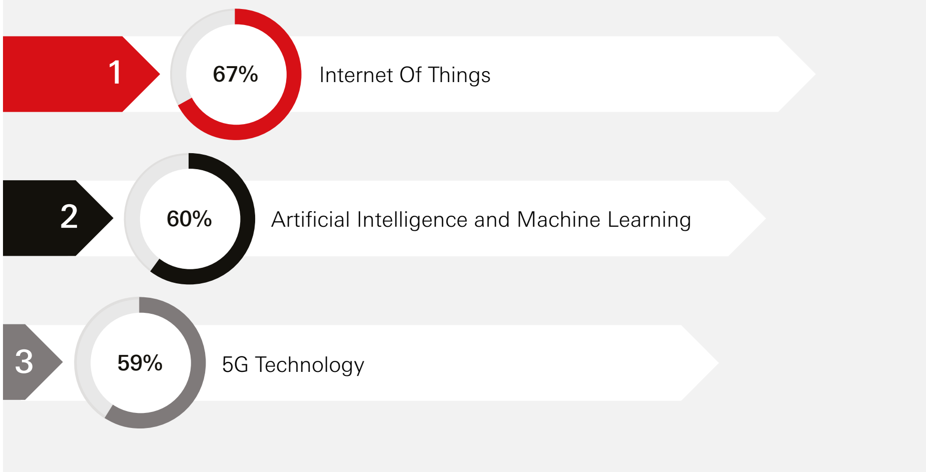


Figure 6: Technologies that represent opportunities

Top 3 Identified by businesses



Innovation

Research, innovation and technology are the top priorities for companies that intend to increase investment in the next one to two years

While four in five say innovation is very important, respondents were split almost evenly between those who said their focus was offensive – it is the only way to grow the business (41 per cent) – and defensive – those who said it was the only way to survive (38 per cent).

The data show that investing in innovation is both costly and uncertain. 71 per cent of companies who said that research, innovation and technology are an investment priority also said that they intended to increase investment by more than 5 per cent, and two in five who feel innovation is important cite cost as the biggest barrier. A quarter of respondents said that uncertain returns on investment are a barrier, with a notable divide between emerging economies (31 per cent, with mainland China at 35 per cent) and developed economies (20 per cent).

Although technological innovation was the most commonly cited requirement for future success, at 33 per cent it was far from the only priority. Investing in workforce skills (31 per cent), be more agile and responsive to change (30 per cent), bringing in new experience (29 per cent) and investing in the customer experience (28 per cent) were almost equally important (see figure 8), implying that companies are focussing on quality and delivery along with becoming more efficient.

Figure 7: Areas where businesses are planning increased investment

Top 5 Identified by businesses

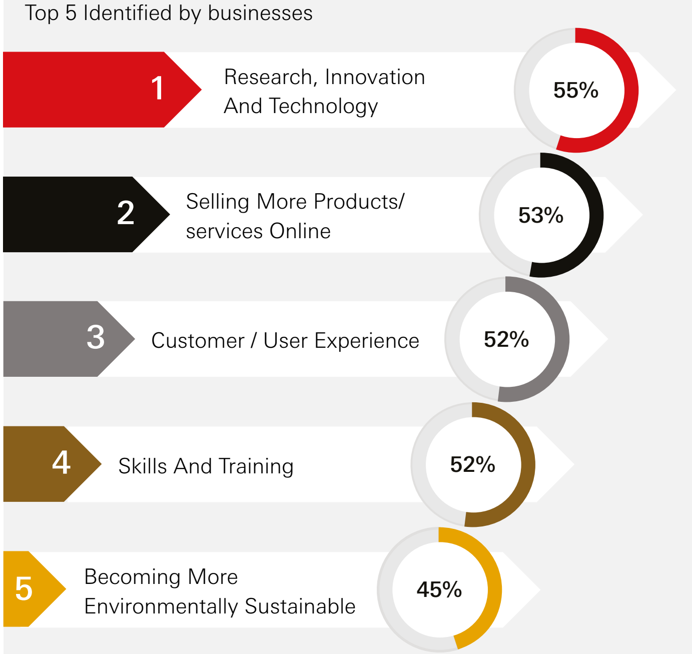
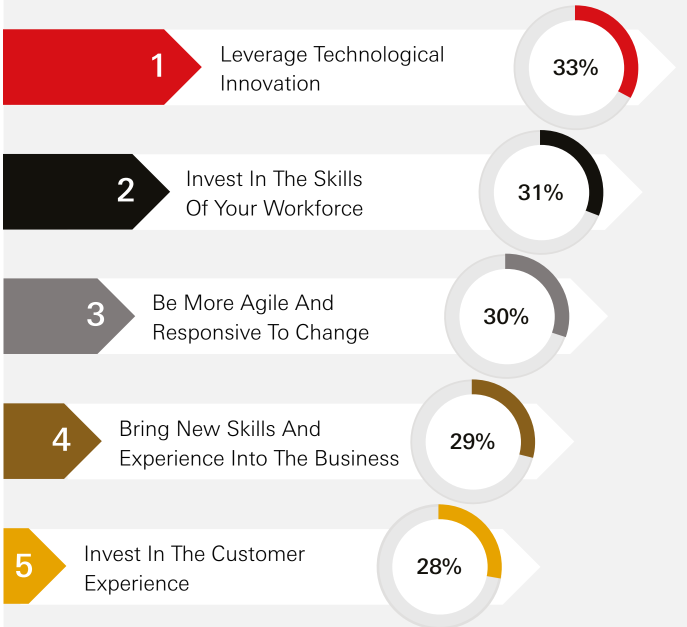


Figure 8: Requirements for future success

Top 5 Identified by businesses



Opportunities and threats

The number of companies that see more opportunities in the next 1-2 years outnumber those that see more threats by more than four to one.

Overall nearly five in nine companies surveyed (54 per cent) see more opportunities, about one in nine companies (12 per cent) see more threats, and about one in three companies (34 per cent) see opportunities and threats as equally balanced (see figure 9).

The top four opportunities identified are improving productivity, adopting new technologies, entering new markets, and growing the current market (see figure 10). These findings are consistent across different sectors (goods and services) and regions (Asia, Europe, and North America). Clearly, increased efficiency can help businesses improve the quality of their goods and services and expand their customer base.

A slight difference is that in Asia growing current market share is a top-three opportunity, while in Europe and North America expanding into new markets is the biggest and second-biggest opportunity, respectively – highlighting the market potential in much of emerging Asia.

Conversely, the three most cited threats to business growth are outside their control - competition, the political environment and cybersecurity. These findings are consistent across regions. More stable institutions and better data protection can help businesses fend off competition – foreign and domestic.

Among goods providers, increased protectionism, which includes higher tariffs, is cited as a top-three threat, which reflects escalating trade tensions across much of the world.

Figure 9: Most companies cited more opportunities

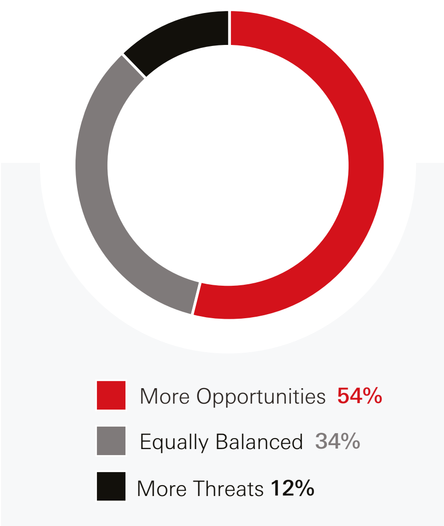
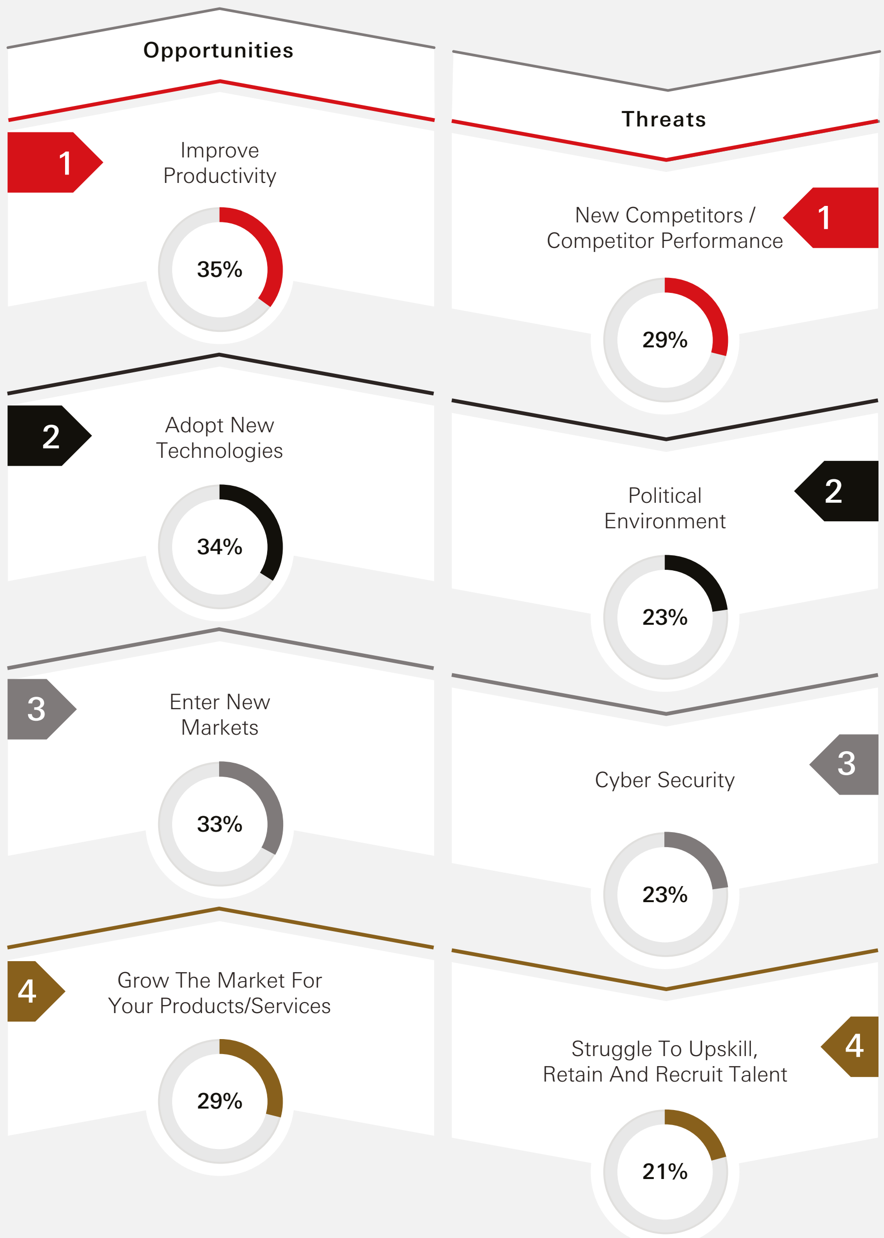


Figure 10: Opportunities and Threats

Top 4 Identified by businesses



People

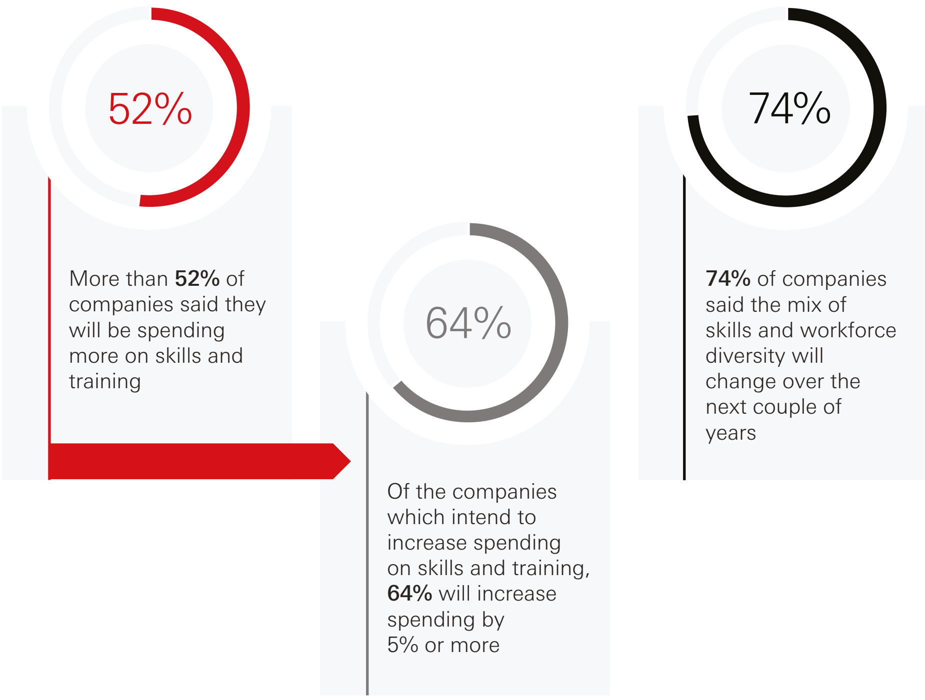
'Our people are our greatest asset' has been one of the pieties of business for decades, but as economic growth slows and producing more efficiently increases in importance, the data show companies putting greater emphasis on creating well-trained, productive and happy workforces.

The data paint a picture that is complex, and which seems to undermine the common narrative that businesses are happy to hire and fire at will in the gig economy. Businesses do not seem worried about skills shortages in themselves. Some 34 per cent of companies said the quality and availability of skills is one of their growth drivers, and only 21 per cent of companies think that difficulty in recruiting, training and keeping talent is a threat to growth.

But there is a clear willingness to invest in attracting and retaining employees. More than 52% of companies said they will be spending more on skills and training, and among companies which intend to increase spending on skills and training, 64 per cent will increase spending by 5 per cent or more. But the investment is not limited to just investment in employees: companies said they were investing for employees. 43 per cent of companies said they will spend more on employee well-being.

This seeming altruism has solid business reasons behind it. For example, nearly one in four companies said one of the driving forces behind their investments in sustainability is to improve their ability to recruit and retain the best people.

But the data also speak of a time of change. 74 per cent of companies said the mix of skills and workforce diversity will change over the next couple of years, 76 per cent said they will use technology to make their workforce more productive, and 59 per cent said innovation will lead to a reduction in their workforce.



Regional differences

HSBC Navigator surveyed more than 2,500 companies across 14 markets.

Including more than 500 in North America (Canada, Mexico and the US), 600 in Europe (France, Germany and the UK), and more than 1,300 elsewhere (Australia, mainland China, Hong Kong, India, Indonesia, Malaysia, Singapore and the UAE).

North America is the most bullish region, with more than three in 10 companies (31 per cent) expecting their business to grow by more than 5 per cent in the next 1-2 years, and a similar number (30 per cent) expecting to grow by 3-5 per cent (see figure 11). This would be above expected GDP growth. HSBC Global Research forecasts the US economy will grow by 2.4 per cent and 1.8 per cent in 2019 and 2020, respectively; Canada will grow by 1.1 per cent and 1.6 per cent in 2019 and 2020, respectively; and Mexico by 1.5 per cent and 1.8 per cent in 2019 and 2020, respectively (see figure 12).

This bullishness among North American firms is reflected in the opportunities they see on the horizon. 35 per cent of North American companies see "considerably more opportunities", more than twice the average in Europe (15 per cent) and in Asia (14 per cent). As a result, North American companies are more likely to increase their level of investment by more than 5 per cent in the next 1-2 years: 62 per cent in North America versus 58 per cent in Asia and 49 per cent in Europe.

Innovation is critical to the success of any company. In North America, 5 in 9 companies (56 per cent) believe that innovation is the only way to grow their business (ie, an offensive strategy) – significantly higher than Asia (37 per cent) and Europe (29 per cent) (see figure 13). Meanwhile, a similar percentage of Asian (43 per cent) and European (42 per cent) companies believe that innovation is critical to their survival (ie, a defensive strategy) – considerably higher than North America (29 per cent).

But barriers remain. While the cost to innovate is the biggest barrier for all regions, European firms cite cybersecurity and workforce resistance as the next biggest barriers, while for Asia firms it is skills shortages and an uncertain return on investment; and for North American companies it is skills shortages and an underinvestment in technology

Figure 11: Expectations for business outlook in the next 1 to 2 years

By Region

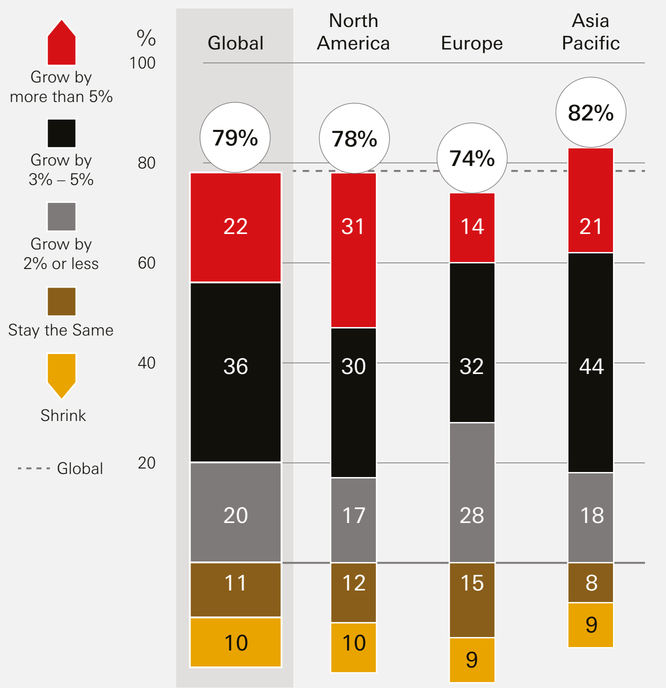


Figure 12: HSBC Global Research forecasts, Q2 2019[2]

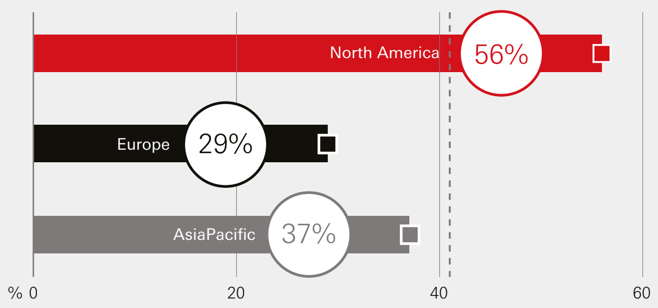
By country

	2019 forecast	2020 forecast	
Canada	1.1%	1.6%	▲
Mexico	1.5%	1.8%	▲
United States	2.4%	1.8%	▼
France	1.1%	1.2%	▲
Germany	0.5%	1.3%	▲
United Kingdom	1.2%	1.4%	▲
Australia	2.5%	2.8%	▲
mainland China	6.6%	6.5%	▼
Hong Kong	2.7%	2.5%	▼
India	7.2%	7.3%	▲
Indonesia	5.0%	5.0%	■
Malaysia	4.5%	4.3%	▼
Singapore	2.3%	2.2%	▼
UAE	2.1%	2.3%	▲

2. HSBC Global Research, Global Economics: Poised for slower growth, Q2 2019 www.research.hsbc.com/R/10/BGkssVrySZdH

Figure 13: Innovation cited as Very Important

By Region



Sustainability

The importance of sustainability has grown for companies across sizes, sectors and regions.

An increase in sustainability demands is the fourth-most cited growth driver among firms expecting their business to grow in the next 1-2 years, behind the strength of the customer base, the quality and availability of the workforce and the quality and availability of suppliers and raw materials.

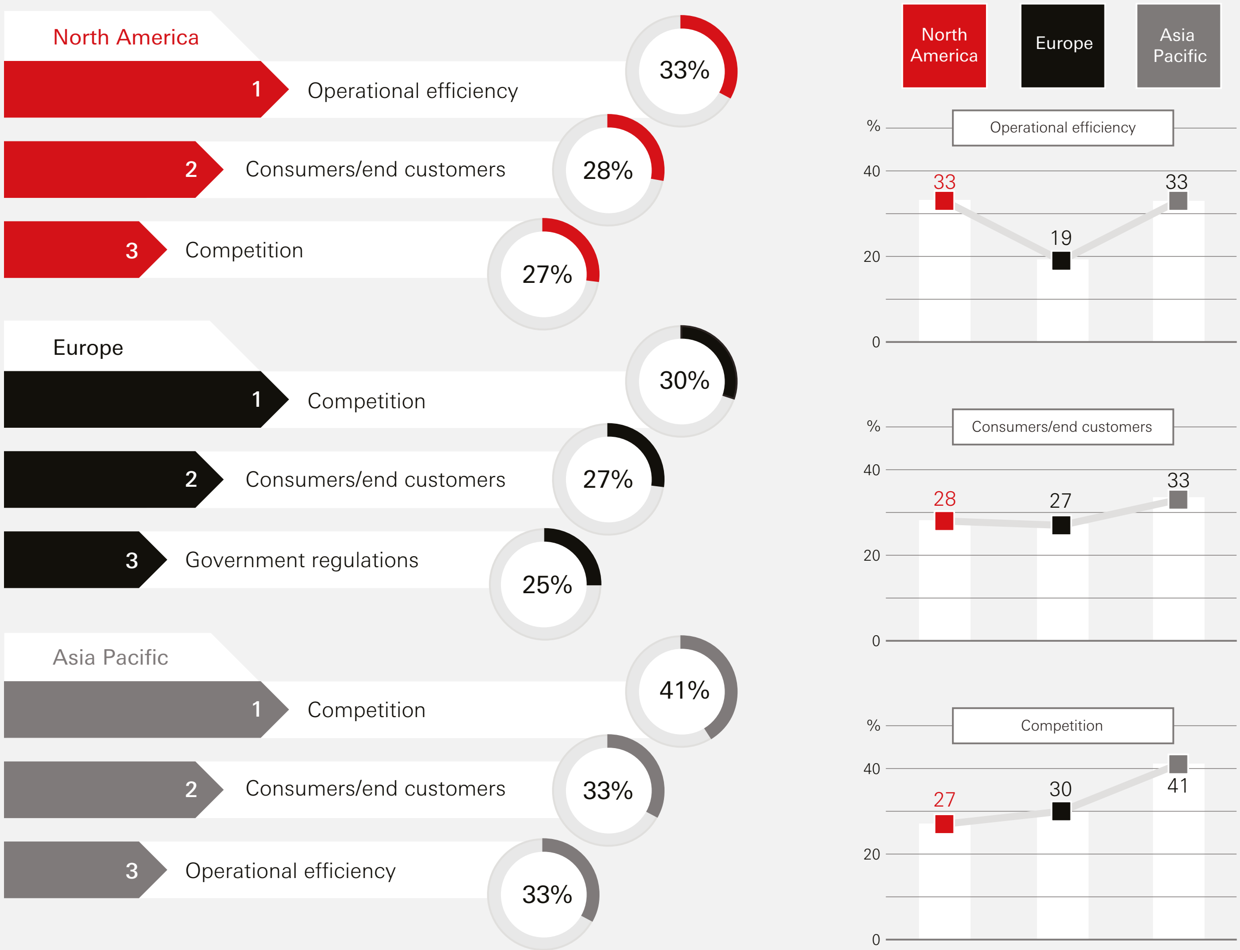
Internal and external pressures are helping move sustainability front and centre for businesses worldwide. The three biggest sources of pressure are competition, the end consumer, and the need to achieve operational efficiency (see figure 14). These findings are consistent across different sizes of business.

However, pressures vary slightly by region. Competition is the biggest source of pressure for companies in Asia as well as those in continental Europe, while in North America it is the need to achieve operational efficiency. Interestingly, operational efficiency is less a pressure for companies in Europe, where the three biggest sources are competition, the end customer and government regulations.

Companies are feeling pressure from their customers to become more sustainable, yet at the same time they acknowledge that sustainability is a growth driver. Therefore, it's little wonder that companies are increasing their level of investment to become more environmentally sustainable. 45 per cent of companies surveyed say they plan to increase investment in the next 1-2 years – among them 65 per cent plan to increase their level of investment by more than 5 per cent.

Figure 14: Pressures to become more environmentally sustainable

Top 3 by Region



Technology

Technology is both an opportunity and a threat.

In all, 34 per cent of companies identified the adoption of new technologies as a significant opportunity for business growth. It is notable that emerging economies were significantly more enthusiastic about the growth possibilities of tech than developed nations.

Companies expressed most interest in the opportunities presented by the Internet Of Things (67 per cent), Artificial Intelligence and machine learning (60 per cent), and 5G telecommunications (59 per cent). As in so many other areas, there was significantly less interest in Europe: only 51 per cent of European companies saw opportunity in the Internet of Things for example, compared to 75 per cent of Asian companies and 73 per cent of North American companies.

But for all the enthusiasm, technology is seen as a double-edged sword. Technology's ability to lower barriers to entry continues to disrupt industries: a third of the companies surveyed in Europe and North America which expect their business to shrink cited more online competitors and industry disruptors as the reason. Cybersecurity also featured heavily on the corporate threat horizon, with one in five companies saying they regard it as one of the top three threats to growth and one in four as a barrier to innovation.

The data also suggest that technological improvement is a major area of expenditure, 64 per cent of respondents expecting to increase their overall investment by more than 5 per cent over the next two years said their highest priority is research, innovation and technology.

Figure 15: Per cent of companies who identified 'adoption of new technologies' as a significant opportunity in each market

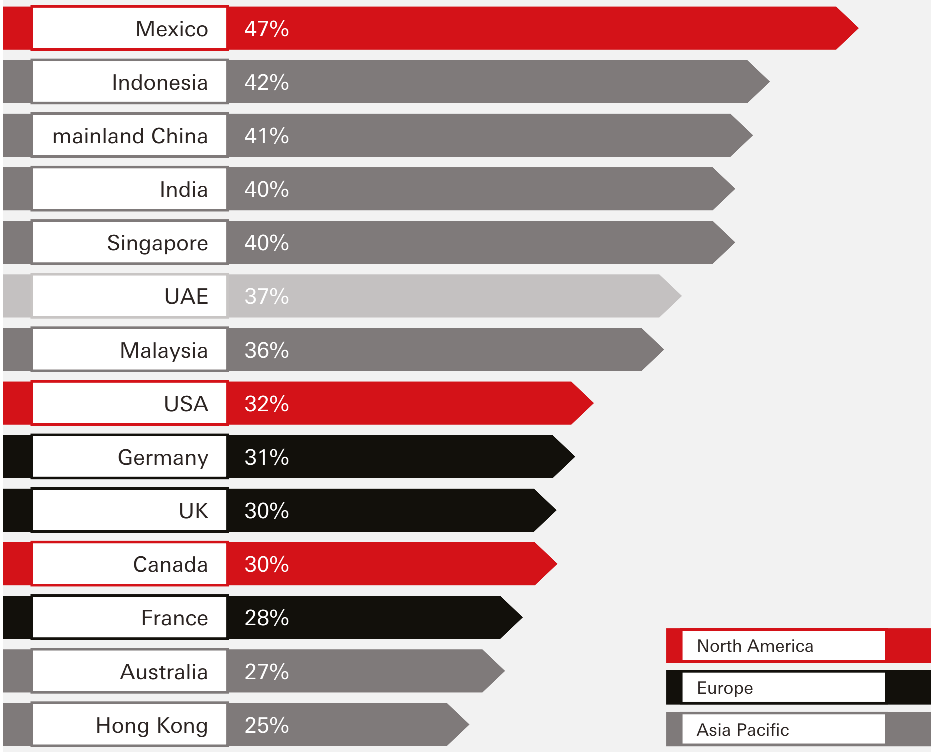
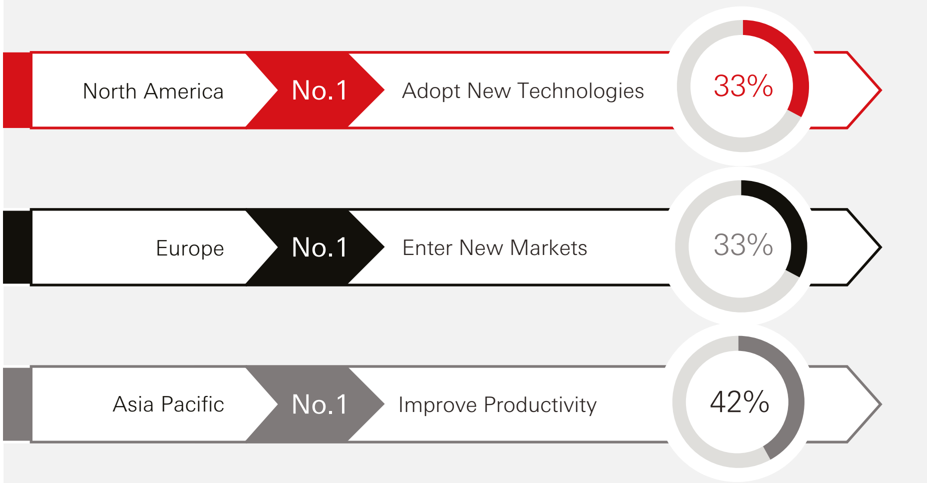


Figure 16: Identified Number 1 opportunity by Region



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About Navigator: Made for the future
HSBC's 'Navigator: Made for the future' report is based on research commissioned by HSBC and conducted by Kantar in May 2019. It surveyed over 2,500 key business decision makers with turnover of USD5m or above from 14 key markets globally, including: Australia, Canada, mainland China, France, Germany, Hong Kong, India, Indonesia, Malaysia, Mexico, Singapore, UAE, UK, USA.

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