COVID-19

French and German business communities in Japan in front of COVID-19

Which impacts, and how to overcome these unprecedented challenges?

pwc

PwC Japan
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Presentation of the survey

- PwC is tracking **sentiment and priorities** concerning the COVID-19 outbreak among leaders globally.
- This particular survey was conducted from **May 20th to 31st of 2020**, principally targeting French and German business communities in Japan.
- 51 responses were collected and **37 are being used in the data analysis of this report**. Responses from foreigners working in organizations headquartered in Japan have been excluded in order to provide an adequate comparison between the results of this survey and that of PwC's Japan CFO Survey conducted late April 2020.
- This survey aims to provide a screenshot of the situation in French and German communities in relation to COVID-19, to understand **common challenges**, and to start preparing for **ways to overcome them**.

Executive summary (1/2)

- While COVID-19 is strongly impacting the majority of respondents as expected, it is interesting to highlight that in contrast, there are organizations in specific industries (e.g. food, health, etc.) benefiting from it (increase in revenue, no impacts on workforce, etc.)

- Although customer reactions have yet to confirm the extent of crisis impact on the consumption and demand in Japan, most organizations surveyed have already been experiencing a clear decrease in revenue and profit.

- A majority of respondents are considering cost containment and cancelling planned investments. Furthermore, financial actions are expected to be activated carefully within the upcoming months, keeping in mind a possible domino effect (impacts on the supply chain, payment delays, change in vendor strategy, etc.). Stabilizing the supply chain is expected to be a major challenge for French and German communities in Japan to recover from the current crisis.

- Surprisingly, most respondents are not considering any changes in their business strategy yet. This could be due to the fact that strategic decisions are mostly taken at the headquarter level and have not yet been discussed locally. Understanding each market’s specificity in these times of crisis will be central in overcoming the challenges ahead: a one-size-fits-all solution could hinder its effect in a country such as Japan.

Executive summary (2/2)

- COVID-19 has highlighted the need for digital transformation among most respondents, which will most likely require a shift in culture and mindset. Thus, taking the time to clearly formulate a vision in terms of desired culture and behaviors will be a key factor in employee engagement.

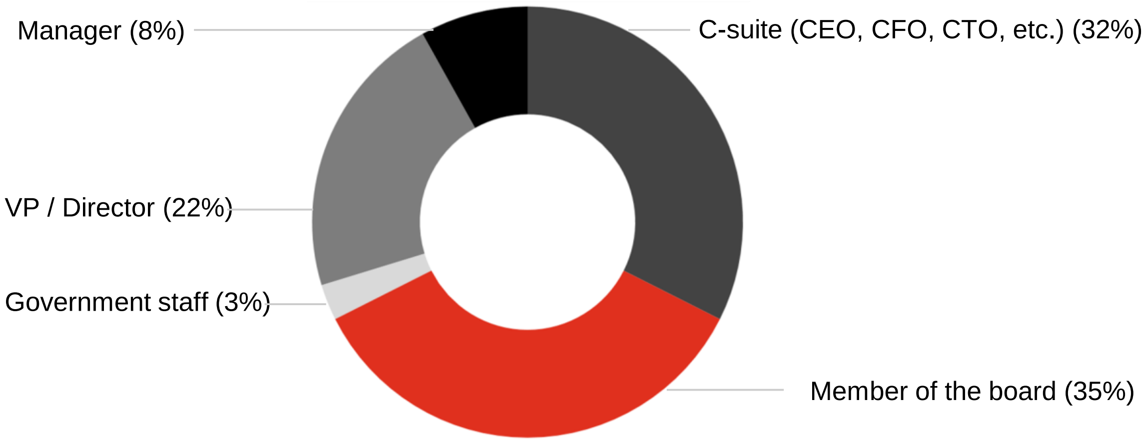
- Similarly, soft skills have been identified as a priority for upskilling, revealing a need to strengthen human relationships in times of crisis, where social distance is being established as a new norm globally.

- Through the expansion of remote working, COVID-19 is also an active driver in adopting a more flexible workstyle in Japan, a shift that has been sought in the past from the millennial generation. This could help French and German organizations step up in terms of workstyle and flexibility, and become more attractive to top talent in Japan.

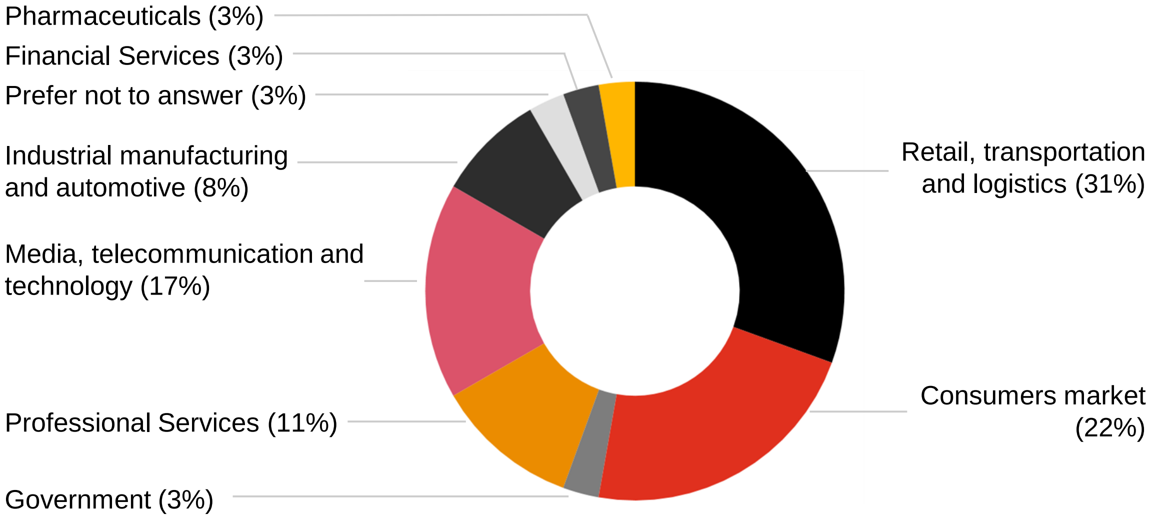
- As employees are facing new forms of anxiety in relation to COVID-19, foreign organizations in Japan have to ensure that they demonstrate transparency to their workforce. Workplace safety is certainly a top priority for employees starting to go back to the office, and consistent communications about travel restrictions should be established.

Demography of the survey respondents

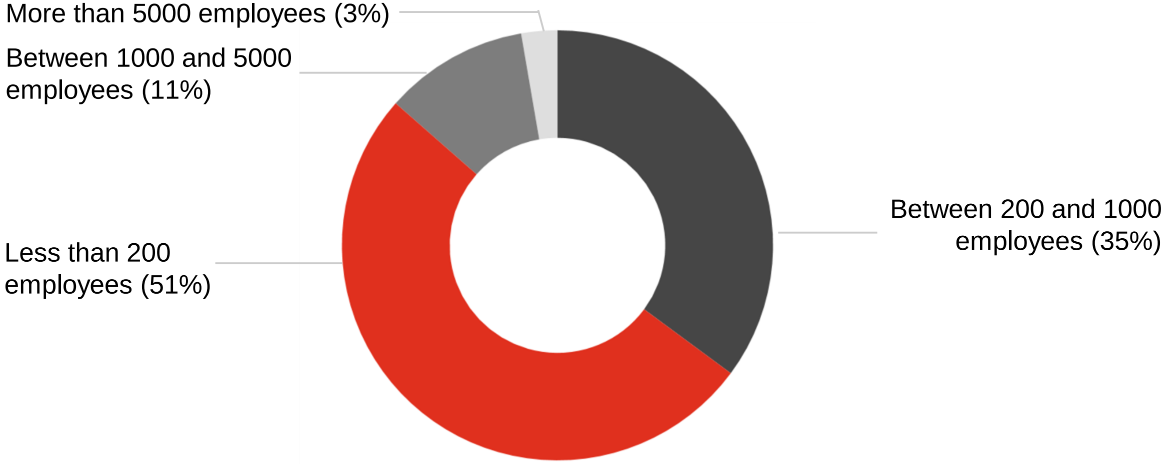
Role within the organization



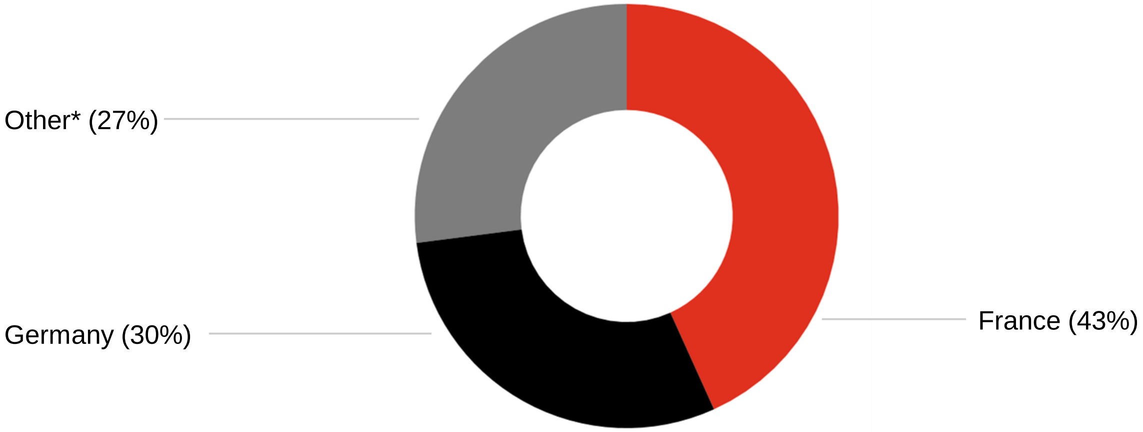
Industry



Company Size in Japan



Localization of headquarters



Other includes: China, Dubai, Finland, Luxembourg, Singapore, Switzerland, United Kingdom, USA

COVID-19, an unprecedented crisis impacting all businesses, is generally causing great concern

59%

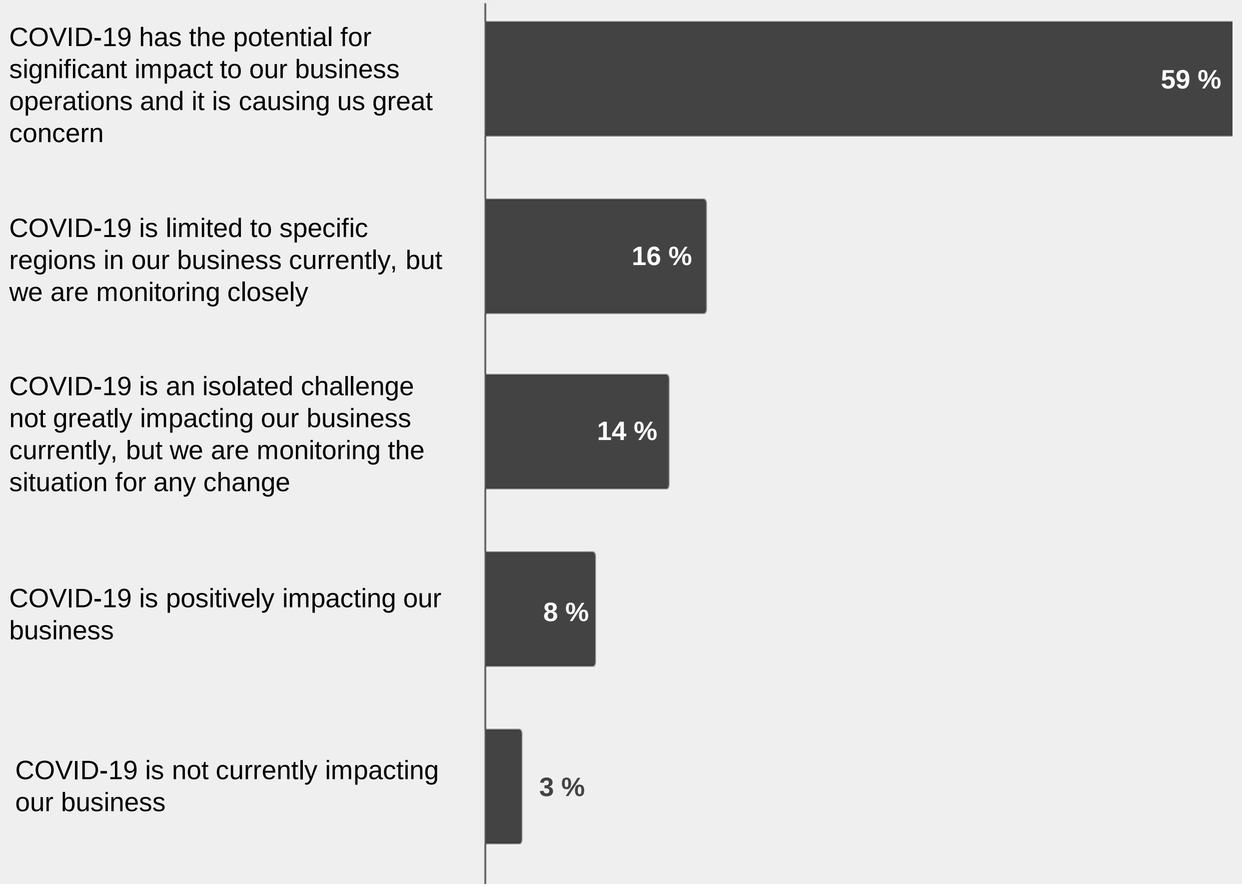
59% of respondents from foreign organizations in Japan say that COVID-19 has the potential of having a significant impact on their business operations and is causing them great concerns.

The survey also shows that 8% of foreign respondents are observing a positive impact of the COVID-19 crisis on their business, which can be explained by the industry of these organizations. More specifically, businesses in the food and health industry continued to be in high demand during the crisis and the state of emergency in Japan.

Takeaways

The COVID-19 pandemic by its suddenness and novelty is strongly affecting today's global economy. Whether organizations are negatively (for the vast majority of them) or positively impacted by it, it is clear that this crisis is going to influence how we do business and the way we work in the future.

1- What is your organization in Japan's current level of concerns related to COVID-19?



Compared to German respondents, the French feel less impacted than their home market. What does this tell us?

56 %

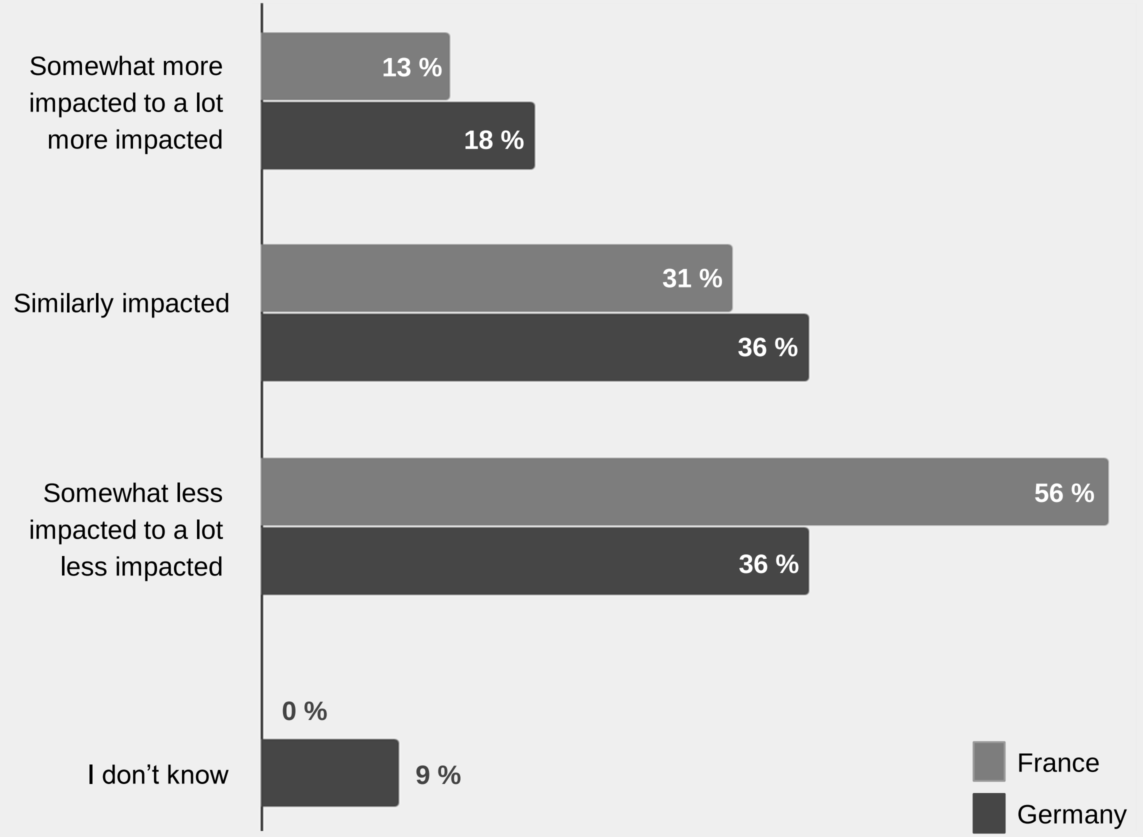
While French respondents feel that their organization in Japan is less impacted than their home market (56%), German respondents had more balanced answers with 36% mentioning that they feel similarly impacted and 36% that they feel less impacted.

Takeaways

Respondents' perceptions are likely influenced by the differences in the relationships between the organizations in Japan and their head office in Europe, as well as their understanding on how their home country is responding to the crisis (different government responses, business impacts, health system impacts, etc.).

Depending on how their head offices are responding (one-size-fits-all solution vs a country-by-country solution), leaders in Japan might have to manage a completely new type of relationship with their head offices in Europe.

2- How do you feel your organization in Japan is impacted from Covid-19 compared to your home market?



A decrease in revenue and profits is largely expected but has yet to be confirmed by customer reactions

70 %

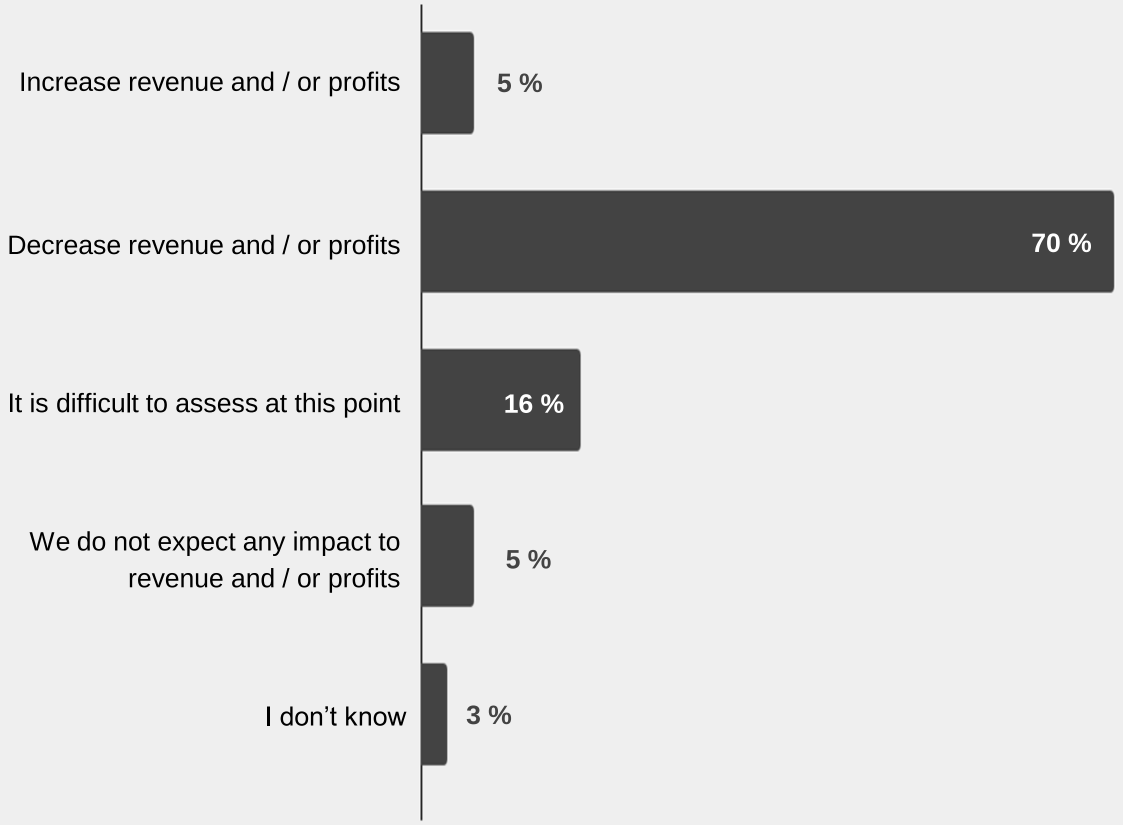
70% of the respondents from foreign organizations in Japan are expecting revenue and/or profits decrease.

At the same time, 10% of the foreign organizations in Japan are expecting no impact from COVID-19 or positive impact (increase revenue and/or profits). Some industries were particularly resistant to the COVID-19 economic downturn (e.g. essential goods and services, software and technologies, etc.)

Takeaways

After weeks of uncertainty and anxiety, consumer-facing companies are starting to reopen their doors and countries are easing their anti-virus measures. Transparency from these customer-facing organizations will now matter more than ever, as will brand trust, as impacts on revenue and profits will also ultimately depend on these reactions.

3- What impacts do you expect on your company's revenue and/or profits this year as a result of COVID-19?



As a result, most are considering implementing cost containment and deferring or cancelling planned investments

65 %

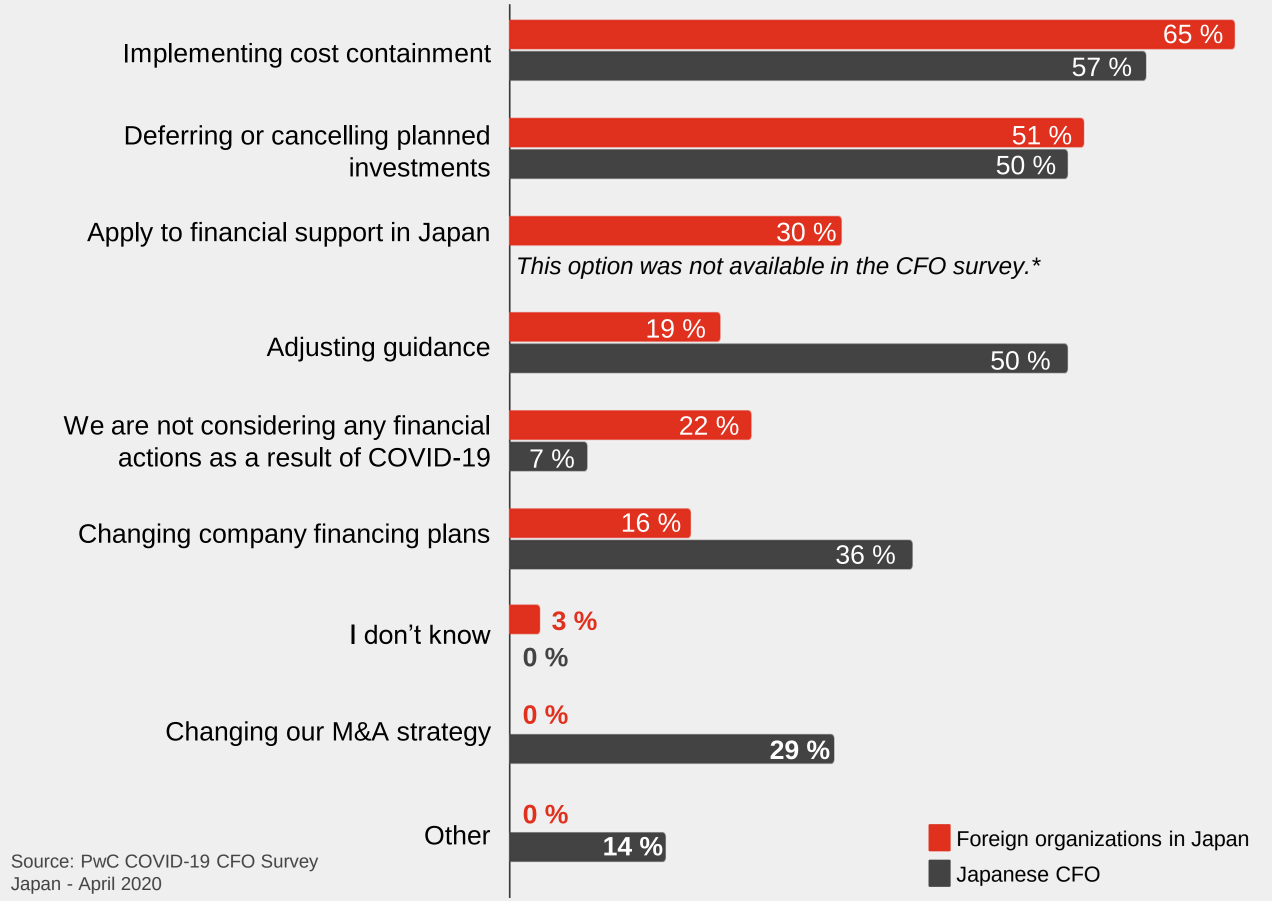
65% of the respondents from foreign organizations in Japan are considering implementing cost containment and 51% deferring or cancelling planned investments. This is similar to results from the Japan CFO survey, with respectively 57% and 50%.

On the other hand, Japanese CFOs have also largely mentioned that they are considering adjusting guidance (50% vs 19% of the foreign organization respondents), changing company financing plans (36% vs 16%) and changing their M&A strategy (29% vs 0%). This can be explained by the fact that foreign companies in Japan are more likely to rely on their headquarters to put these financial actions in place.

Takeaways

Financial actions are expected to be activated carefully within the upcoming months, keeping in mind a possible domino effect (impacts on the supply chain, payment delays, change in vendor strategy, etc.).

4- As a result of COVID-19, my organization in Japan is considering taking financial actions



Source: PwC COVID-19 CFO Survey Japan - April 2020

Monitoring Japan's consumption and demand will play a central role in anticipating impacts on profitability and productivity

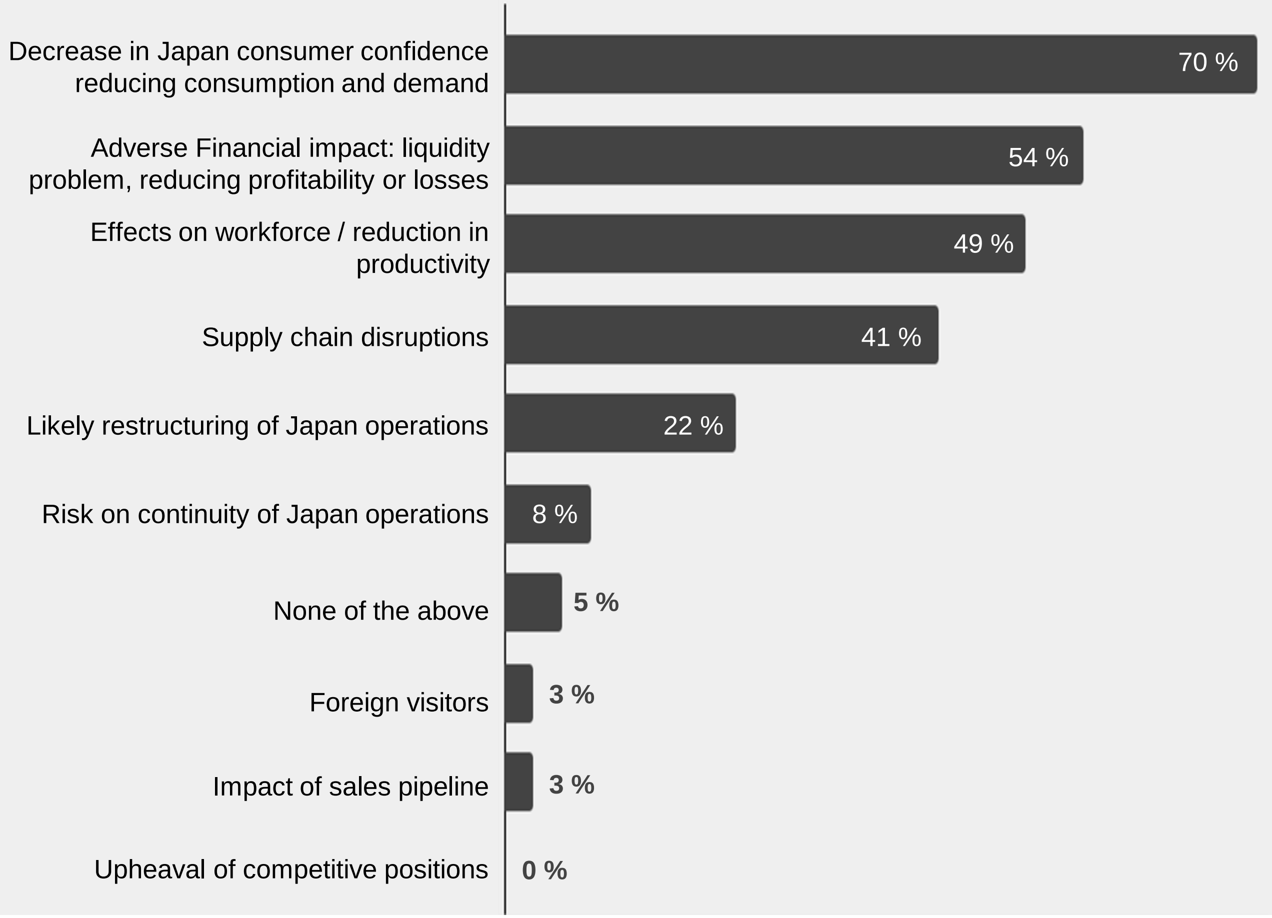
70 %

For 70% of the respondents, the top business concern with respect to COVID-19 in Japan is the potential decrease in consumer confidence that would reduce consumption and demand. 54% have also mentioned the adverse financial impact, 49% the effects on workforce/reduction in productivity, and 41% on supply chain disruptions.

Takeaways

The risks related to the consumer confidence in Japan, as well as the possible supply chain disruptions, could eventually affect liquidity, the workforce and its productivity. Keeping in mind these causes and effects can help the foreign business community in Japan to prepare for stronger impacts in the future, and to track the relevant KPIs connected to these challenges.

5- What are your top 3 business concerns with respect to COVID-19 in Japan?



And deepening the understanding on customer demand will also reinforce the stabilisation of the supply chain

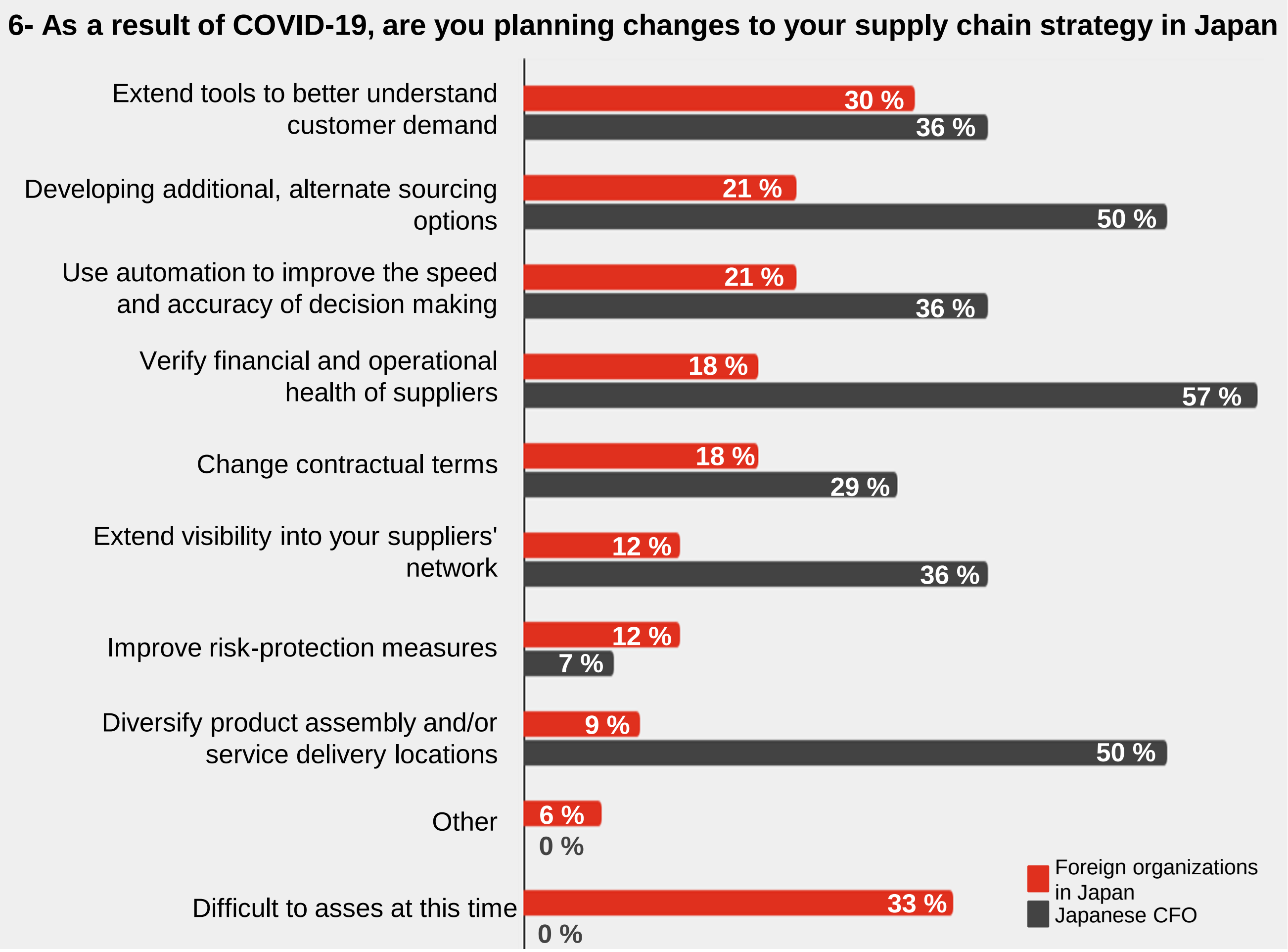
30 %

Deepening their understanding of customer demand is a top priority for 30% of the respondents, along with working through supply chain options (21%). This contrasts with the results from the Japan CFO survey where 50% of respondents said they are planning to develop new sourcing options.

Other differences are observable: verify health of suppliers (18% vs 57% for the Japanese CFO), extend visibility into suppliers' network (12% vs 36%) and diversify product assembly and/or service delivery locations (9% vs 50%).

Takeaways

Companies lost response time during the crisis, and they did not acquire the data they needed to make informed decisions around, for example, spending, taking pricing actions to move excess stock or identifying opportunities to shift their mix of offerings. Looking for more structure going forward, better managing risk control and having more consistency across suppliers will be key components.



Source: PwC COVID-19 CFO Survey Japan - April 2020

Despite the strong impacts mentioned, companies are still in the midst of assessing the need to change their strategies

43 %

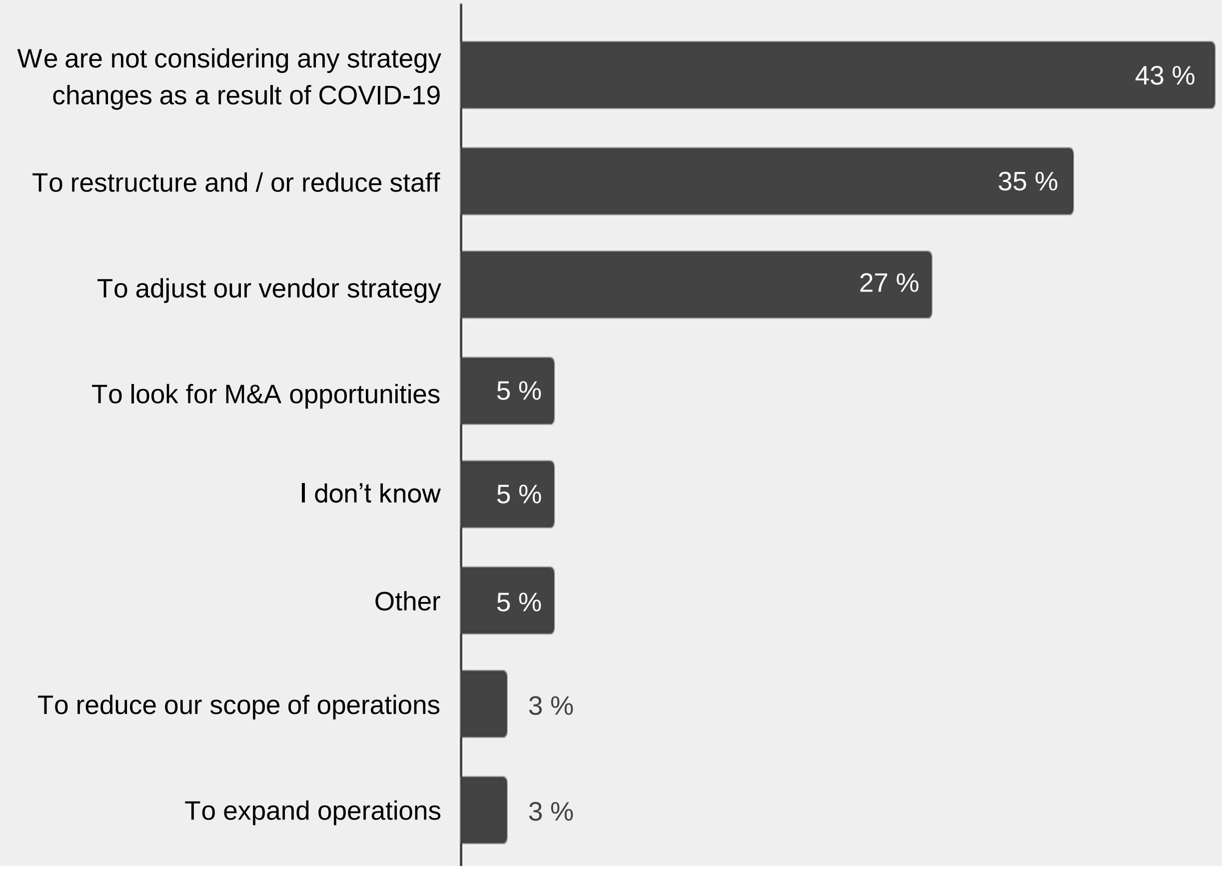
Despite the fact that a large majority of the respondents are considering taking financial actions (see Q4), 43% of them are not expecting any strategy changes as a result of COVID-19.

35% are considering restructuring and/or reducing their staff and 27% are adjusting their vendor strategy.

Takeaways

As much as this can seem surprising to not expect changes in strategy, this may be due to the fact that strategy decisions are often determined in the overseas head office. However, there may be changes to come later in time and to be applied on a global level.

7- As a result of COVID-19, my organization in Japan is expecting changes in its strategy.



Measures to reduce payroll costs are currently being implemented on a large scale, but should be adapted to local markets in the future

68 %

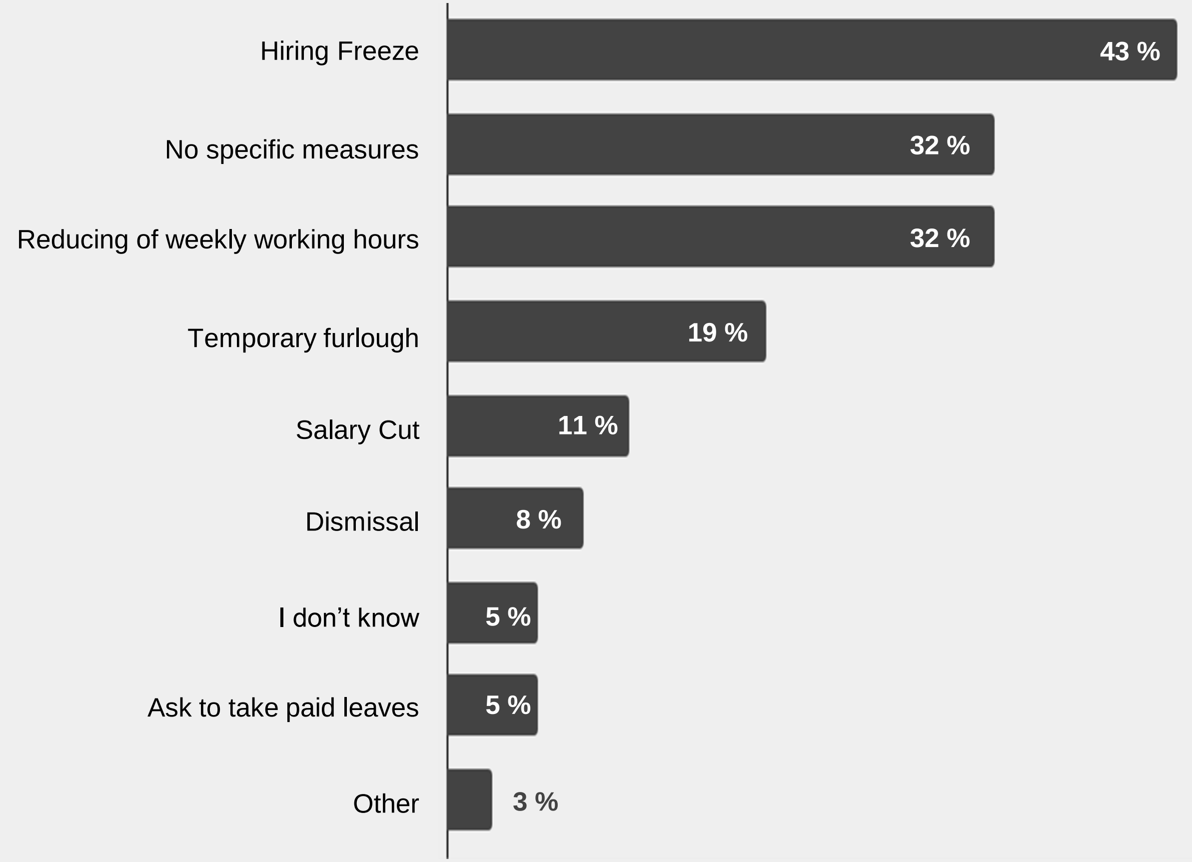
68% of the respondents have already taken measures to reduce payroll costs, including hiring freeze (43%), reduction of weekly working hours (32%), temporary furlough (19%).

32% of the respondents have not taken any specific measures yet. This could be explained by the fact that 41% of the respondents have not evaluated COVID-19 as something that could have “the potential for significant impact to our business operations and it is causing us great concern” (Q1).

Takeaways

Measures to reduce hours and payroll costs are either taken by the organizations’ head office as a global one-size-fits-all policy, either at a local level after having evaluated the crisis impact on the Japan workforce. In a near future, adapting those HR policies to each local market will become more and more essential to answer each territory’s specific needs.

8- As a result of COVID-19, my organization in Japan has already taken measures to reduce hours and payroll costs.



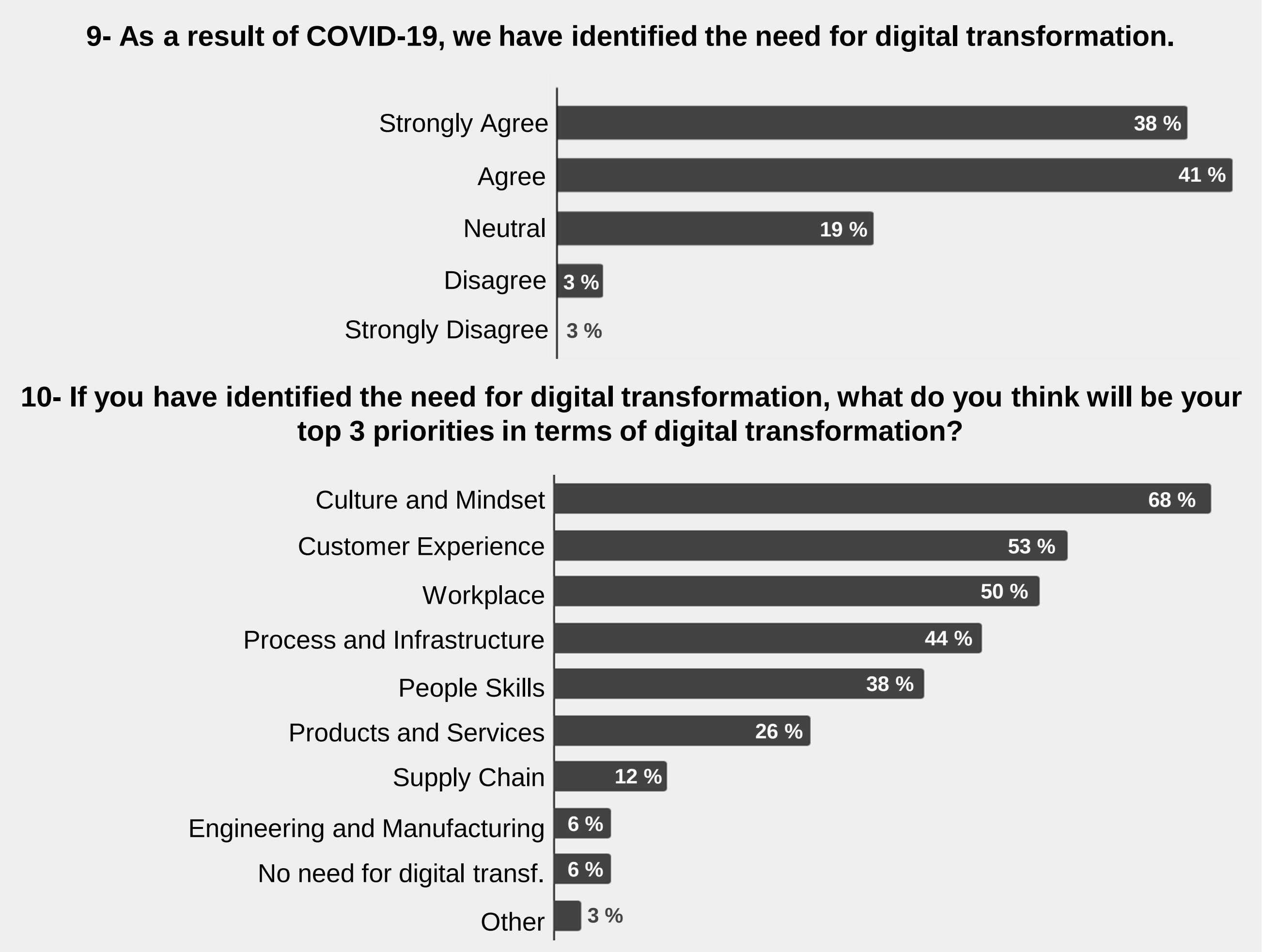
COVID-19 brought to light the need for digital transformation, with an emphasis on "culture and mindset" as a top priority…

79 %

79% of the respondents have identified the need for digital transformation (41% answered Agree and 38% Strongly Agree). 68% of those who agree or strongly agree with the need for digital transformation said that their priority would be to transform the "Culture and Mindset" in their organization.

Takeaways

For organizations to thrive in today's environment, an organizational culture that attracts top talent is more important than ever. Despite the significant time and effort invested by leaders in transforming their organizational cultures to support their digital transformation, many have struggled to overcome various challenges: employees resistance, difficulty to translate the desired culture into day-to-day actions, etc. The COVID-19 crisis offers leaders the opportunity to take a step back to evaluate their current culture, and to create a common vision for the future culture with their employees.



...and furthermore, it is revealing the need to boost “soft skills” such as resilience, creativity and empathy

50 %

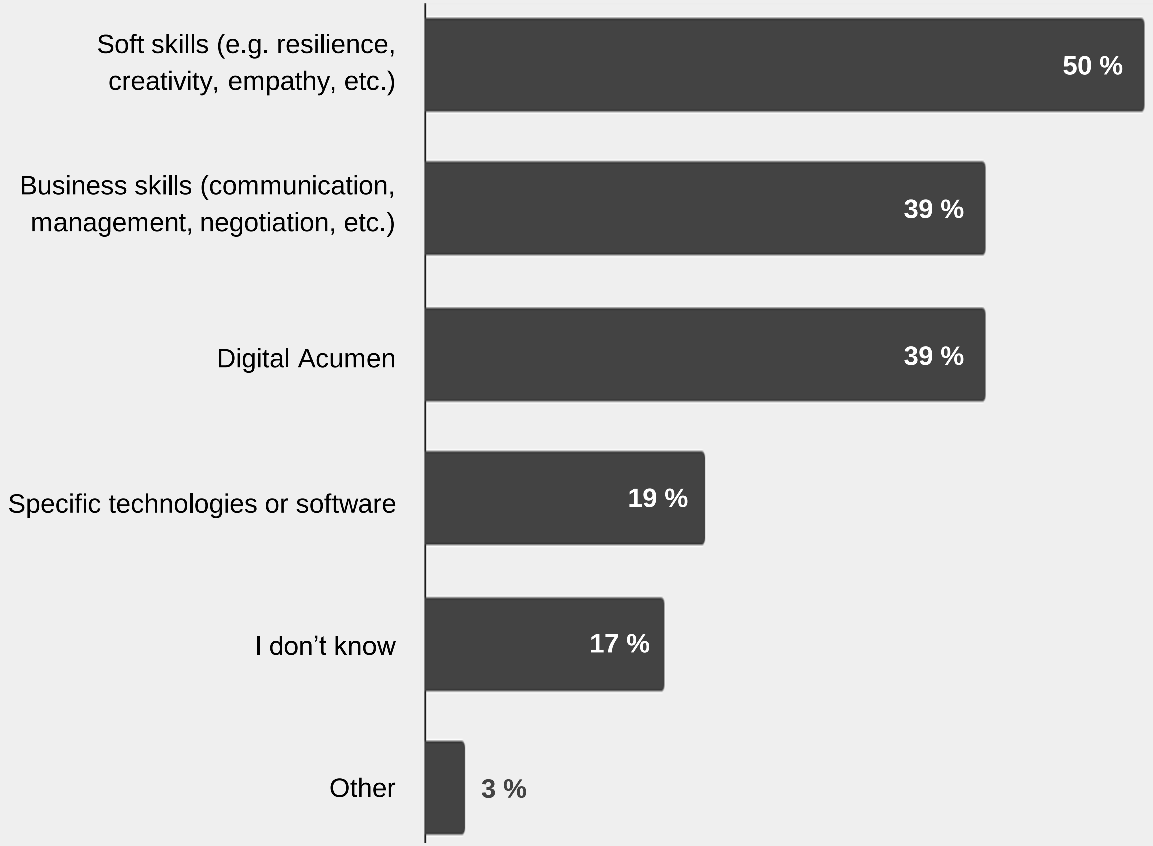
Soft skills (eg. resilience, creativity, empathy, etc.) have been identified as a priority in terms of upskilling by 50% of the respondents.

This contrasts with the results of a global PwC survey (“Upskilling for the digital world: Hope and Fear”) launched in 2019, where only 10% of Japanese respondents identified soft skills as a priority; with new or specific technologies identified as their top areas of concern. While this result can be explained as the impact of COVID-19, it can also be linked to the challenges inherent to the management of multicultural teams. Foreign leaders in Japan are working in multicultural environment where soft skills are increasingly important.

Takeaways

Improving soft skills often implies a cultural transformation within the organizations. Leading by example and showing strong appreciations to those demonstrating expected behaviors is one of the first step in transforming organizational culture in Japan. To learn more about managing culture change in Japan click here.

11- As a result of COVID-19, we will need to plan for upskilling our employees in Japan in the following domains.



Through the expansion of remote working, COVID-19 is also an active driver in adopting a more flexible workstyle in Japan

97 %

97% of the respondents said that most of their office employees were working remotely when they took this survey, among which 46% of them pointed out that some of their employees were still working on sites such as factories, stores, etc.

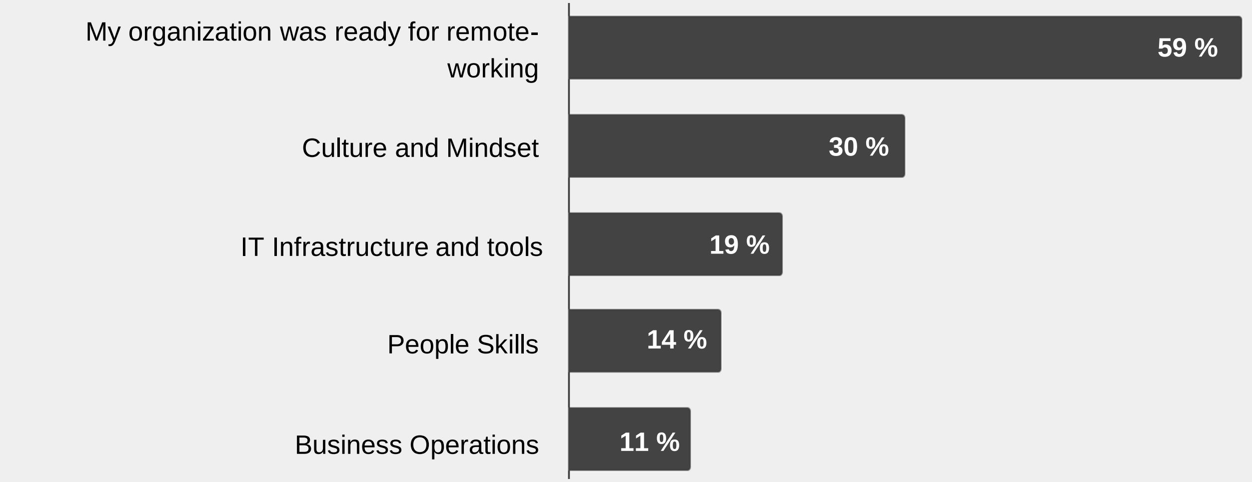
A large majority of the respondents felt that their organization was ready for remote-working (59%). In contrast, 41% of them did not feel fully ready for the move to remote working, particularly in terms of: Culture and Mindset (30%), IT Infrastructure (19%) and People Skills (14%).

Takeaways

COVID-19 might have been a significant accelerator for digital transformation for 41% of the respondents. This could lead to great consequences in the long run in terms of work flexibility, particularly in Japan organizations that seemed hesitant in implementing some of these changes.

12- As a result of COVID-19, the employees of my organization are currently working from home full time.

13- I feel that my organization was not fully ready for the move to remote working, I'm thinking in particular in terms of...



Workplace safety is now a number one priority while companies plan their transition to on-site work

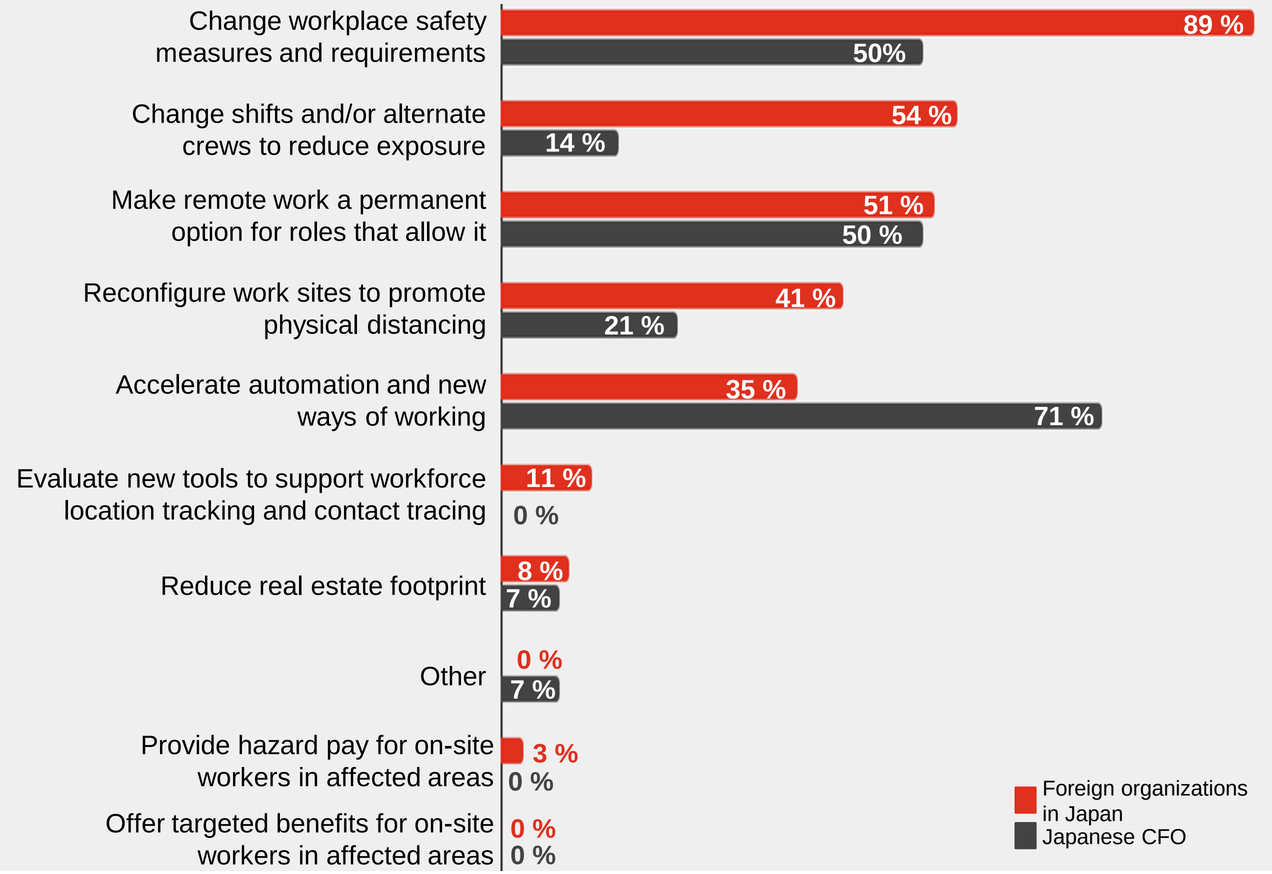
89 %

Creating a safe workplace has become one of the top priorities for the respondents: 89% of them are going to change their workplace safety measures and requirements, 54% will change shifts and/or alternate crews to reduce exposure and 51% will make remote work a permanent option for certain roles.

Takeaways

After weeks of anxiety in relation to the virus, job security, and working from home, visible efforts from employers will be central in easing tension with employees who are concerned about workplace safety. In PwC's employee survey, respondents have shown expectations from their employers to implement safeguards, but are also concerned about being monitored. Going back to on-site work will be an opportunity to discuss with your employees on how to provide a safe working environment while managing their well-being and morale.

14- Which of the following is your company planning to implement once you start to transition back to on-site work?



Travel restrictions are considered as the main pain point, requiring clear and consistent communications

49 %

Almost half of the respondents said that their foreign employees are worried about the travel restrictions still existing in Japan.

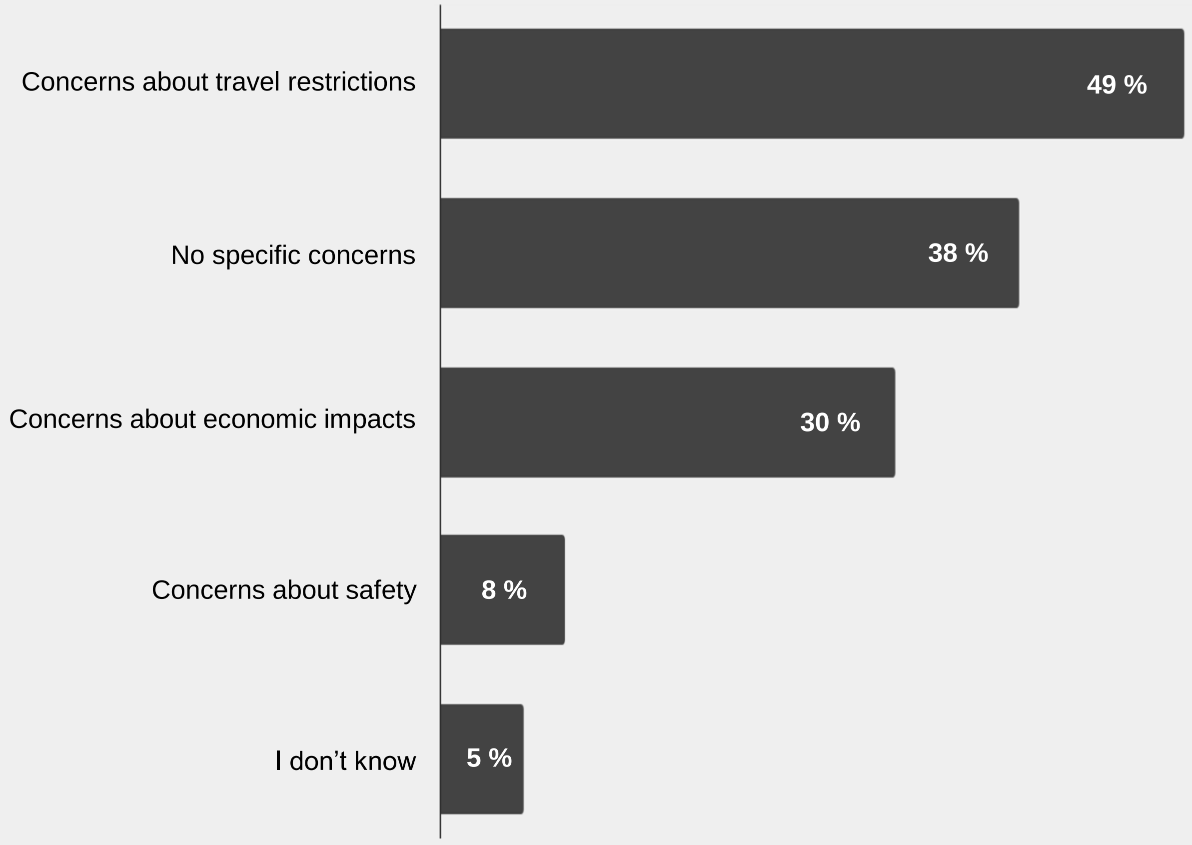
Safety seems to be a low concern for the foreign employees in Japan (8%). This could demonstrate confidence in the Japanese institutions and government to protect them from the pandemic, or it could be the expression of optimism following the control of the pandemic in their home territory at the time of the survey (France, Germany).

Takeaways
According to PwC’s Global Mobility Pulse Survey, the top 3 priorities relevant to the respondents’ mobile workforce are:

- Keeping up to date on regulatory changes and government announcements,
- Working on company-wide communications and planning
- Understanding who their mobile employees are and where they are

These actions could play a role in easing foreign employees’ concerns in Japan.

15- Have you experienced / heard specific concerns from your foreign employees about the situation in Japan?



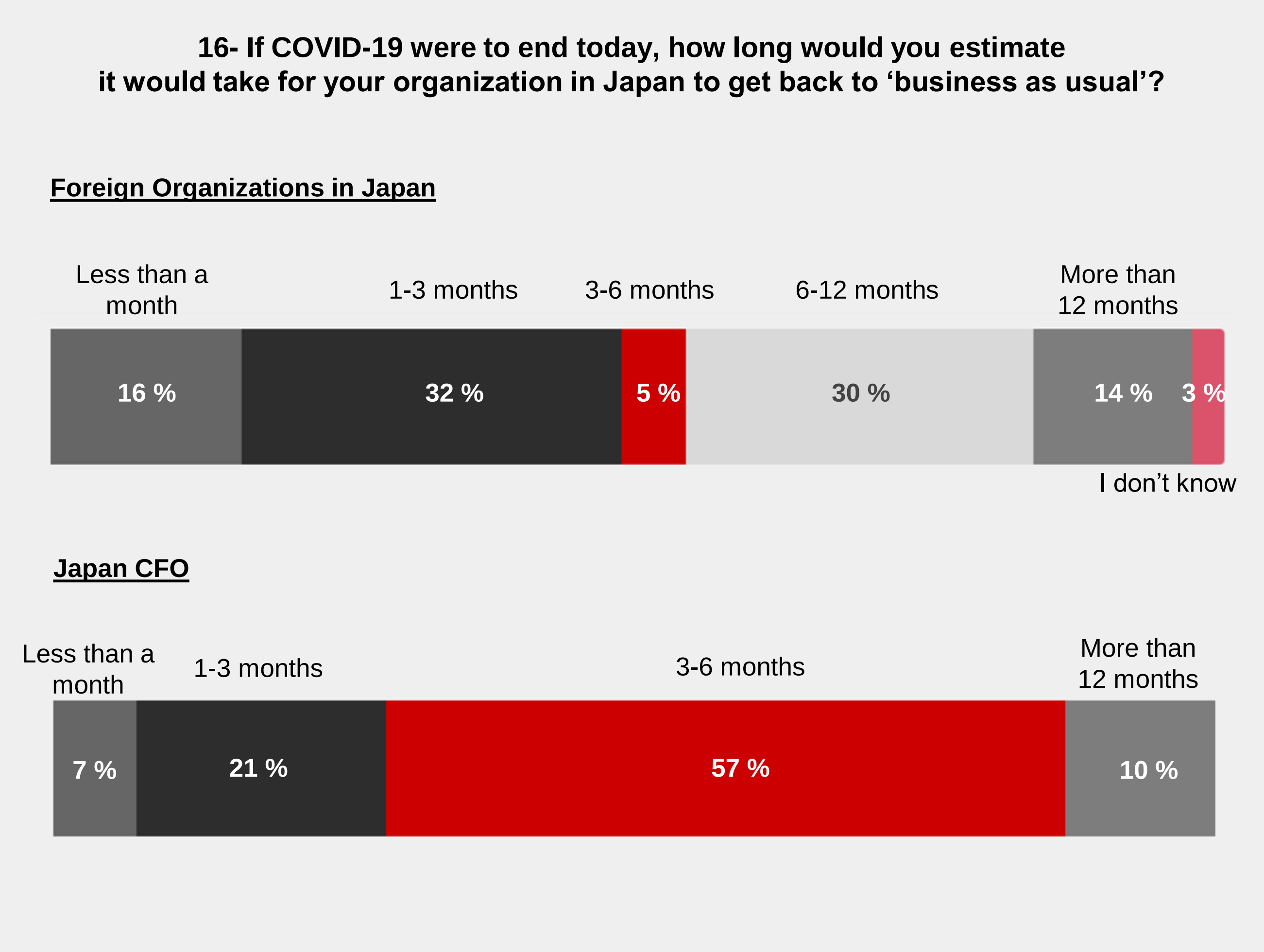
At this stage, establishing a timeline to go back to “business as usual” seems difficult

49 %

About half of the foreign organizations that responded to the survey mentioned that if COVID-19 were to end today, it would take less than 3 months to get back to “business as usual”. On the other hand, 44% think it would take more than 6 months. The Japan CFO survey results are more straightforward as only 29% think they could go back to “business as usual” in less than 3 months.

Takeaways

These widely distributed results show that at this stage, it is extremely difficult to determine with certainty when we could go back to “business as usual”. Firstly, the definition of “business as usual” might be completely different depending on the industry or country and secondly, the “end-of-covid” might be difficult to conceive as it is not clear yet if it could be eradicated anytime soon.



Thank you

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