Harvard Business Review
ANALYTIC SERVICES

PULSE SURVEY

Leveraging Location amid Global Disruption

How Hong Kong Offers Organizations a Resilient Solution

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The devastating economic impact of Covid-19 has tested the resilience of businesses in virtually all sectors and markets; while many companies have managed to survive this unprecedented storm, some have failed, and others—notably those able to adapt quickly to embrace the digital economy—have flourished.

This new research from Harvard Business Review Analytic Services spotlights financial technology (fintech) as a common denominator for companies and governments around the world to become more resilient to disruption.

And while the digital revolution has been in full swing for a number of years, this report reveals the accelerated pace of development during the pandemic, a pace that will surely be maintained long after Covid-19 is contained.

Fintech is about finance and technology, but together they bring more than just a simple combination of both, as innovation and technology not only comprise a sector but also drive development in other sectors, financial services being the obvious one.

In Hong Kong, growing the fintech ecosystem depends on three key elements: capital, regulation, and talent. Our government strives to provide support on all these fronts. On capital, we launched in February the new Fintech Proof-of-Concept Subsidy Scheme to support fintech companies to partner with financial institutions to test their innovations.

As regulation is about dealing with risks while facilitating market development, we have proposed a new regime for licensing and regulating virtual asset service providers in Hong Kong. These two new initiatives provide financial incentives and bring Hong Kong's regulatory regime up to date, making the city a leading fintech hub in the region.

Capital and regulation aside, enlarging the fintech talent pool in Hong Kong is equally important. Apart from attracting overseas talent, various initiatives have been launched to cultivate local talent, including offering internships to university students and retraining for in-service financial service and banking practitioners.

The Financial Services and the Treasury Bureau of the Hong Kong Special Administrative Region Government has also launched the FinTech Anti-epidemic Scheme for Talent Development (FAST Scheme) for fintech companies and startups, a move to enrich Hong Kong's fintech talent pool by providing subsidies for creating 1,000 new jobs for our local people.

Beyond the scientific data, the results presented in this report include insights from stakeholders in the fintech ecosystem both in Hong Kong and overseas about the practical application of new technologies and the possibilities for further advancement of fintech.

We hope this will provide policy makers and business leaders with insights into building resilience through the advancement of fintech.

Christopher Hui

Secretary for Financial Services and the Treasury

Hong Kong Special Administrative Region Government

Leveraging Location amid Global Disruption

How Hong Kong Offers Organizations a Resilient Solution

The interplay of disruptive global forces can have a dramatic impact. Witness the massive shift to working from home and the increase in digital commerce in response to Covid-19 and how these developments have pushed many organizations that were lagging in digital transformation to see its importance in a new light. The chaos unleashed by the pandemic has quickly dispelled any doubts organizations may have had about the importance of resiliency and, especially, digitalization.

"Ironically, in the midst of the pandemic, digital transformation demonstrates that we've actually become more resilient to the changes of the world," says Duncan Wong, CEO of CryptoBLK, a Hong Kong-based financial technology (fintech) company that focuses on blockchain. "This is really a great time to demonstrate that digital transformation and mobility enablement actually make companies more productive and resilient."

Indeed, the collective impact of these disruptions and the proven benefits of the resiliency produced by digital transformation are prompting many organizations to reexamine foundational issues, such as their business model, their culture, their technical sophistication, and even their geographic footprint, so they can marshal the resources they need to become more resilient.

Eighty-three percent of the 415 business executives surveyed globally in January 2021 by Harvard Business Review Analytic Services agree that their organizations are feeling a significant or somewhat significant impact from global disruption. Meanwhile, nearly half (46%) of the respondents agree the attributes of the location where an organization bases its operations, including the business and regulatory environment, have a significant or somewhat significant impact on its ability to address challenges associated with global disruption.

HIGHLIGHTS

83% of respondents agree their organizations are **feeling a significant or somewhat significant impact** from global disruption.

80% see a **business-friendly regulatory environment as important or very important** to where an organization chooses to locate its base of operations.

46% agree the attributes of the **location where an organization chooses to locate its base of operations** have a significant or somewhat significant impact on its ability to address challenges associated with global disruption.

"I think the regulatory environment, access to capital, access to good people, and access to the right customers—those are probably the four things that I would call out as important to help a company thrive," says Matt Mills, chief commercial officer and general manager at Featurespace.

To become more resilient in the face of disruption, it's important for an organization to ensure that the places where it does business offer a rich combination of talent, technology, and financial resources; a supportive business environment; and easy access to cutting-edge tools such as fintech and regulatory tech (regtech). "I think the regulatory environment, access to capital, access to good people, and access to the right customers—those are probably the four things that I would call out as important to help a company thrive," says Matt Mills, chief commercial officer and general manager at Featurespace, a British developer of machine learning-based technology for enterprise financial crime prevention.

Because of its ample investments in fostering business-friendly conditions, particularly when it comes to access to capital and advancing emerging technology to manage regulatory change and mitigate compliance risk, Hong Kong offers many of the attributes that survey respondents have identified as helping organizations address current and future sources of disruption, according to observers.

"There's some natural advantage in Hong Kong in having highly business-minded talents and good access to capital," says Ric Cheng, CEO and founder of Gekko Lab, a Hong Kong-based developer of financial intelligence knowledge management software. Conferencing and networking opportunities make it easy to meet investors. "You can quickly get the latest ideas everywhere from all over the world because you can see people from all sort of nationalities; it's cosmopolitan," he adds. "It's very easy to quickly build a business relationship."

This paper explores both the internal hurdles, such as cultural resistance to change and inadequate talent, and external ones, including an unstable economy and regulatory requirements, that organizations face in their quest to become more resilient in the face of global disruption. It also examines best practices for building resilience and how organizations can address some of these challenges by leveraging the business resources available in the places where they choose to operate, such as Hong Kong.

The Impact of Global Disruption

The pain being felt by global disruption is widespread, with 39% of respondents surveyed calling the level of disruption impacting their organizations significant, rating it 8, 9, or 10 on a scale of 0-10, and another 44% rating the level of disruption at 6 or 7.

"When you look at geopolitical issues, overlaid with Covid-19, overlaid with a depressed economic environment with huge amounts of asset inflation and with stagnant actual real inflation, then the dynamics of the economy are kind of all pointing in different directions. And a lot of people are concerned," says Benjamin Quinlan, CEO and managing partner of Quinlan & Associates, a strategy consulting firm. "It is adding a layer of complexity to companies around their investment decisions and the way that they manage their workforces going forward."

Not surprisingly, most respondents (78%) regard Covid-19 as one of the three global disruption forces having the greatest impact on their organizations. But the pandemic is far from the only source of disruption right now. Other forces earning top-three status include widespread digital transformation initiatives (41%), rapidly evolving consumer expectations (35%), and emerging technology (32%).

Victor Fung, group chairman of Fung Group, a Hong Kong-based enterprise engaged in trading, logistics, distribution, and retailing, says there are many significant global disruptors currently in play at once. Forces including the shift from supply chains based on long-term projections of customer demand (push-based) to those based on actual demand (pull-based) as well as digital disruption, geopolitical forces, sustainability/climate change, and growing income inequality, all were making a marked impact even before Covid-19 came along to accelerate things. He cautions organizations to be prepared for more such disruptions to come. "Covid-19 is not going to be the last virus that we'll see," Fung says, "So we will have to look at that as a major ongoing disruption. This underlies the fact that the world must work on a multilateral basis."

Even though only 21% of respondents identified increased regulatory oversight as another top-three disruptor, economists and other experts say an established, predictable framework for operating in a location is crucial.

"The regulatory environment is very important, especially for financial, banking, and insurance," says Terence Chong,

More than three-quarters of respondents (77%) agree that their organization needs to improve its agility and innovation capability to better respond to disruption.

an associate professor of economics at the Chinese University of Hong Kong (CUHK). "[Those sectors] are subject to a lot of ever-changing regulatory requirements."

Despite the challenges these forces of disruption are causing, however, 48% of the respondents feel their organizations are more prepared than their competitors to quickly respond to global disruption.

"If a company has a good culture, good bonding among staff, it will be much more resilient in facing all sorts of different disruptions," says Gekko Lab's Cheng. "We encourage our frontline staff to handle stuff whenever they can, delegate as early as possible, transfer the knowledge. We talk to them and make sure the staff is very agile toward any changes."

Gekko Lab has leveraged its location in Hong Kong in several ways to thrive despite the forces of disruption currently impacting the world. The company received pandemic stimulus relief and took advantage of government programs connecting it to fintech talent coming out of local universities.

Six of the seven Hong Kong universities among the 1,000 global institutions surveyed in Quacquarelli Symonds World University Rankings 2021 have moved up the scale, with four among the top 50.

Global disruption has exposed both gaps and opportunities for many respondents. For example, 69% say it has opened up new opportunities they are exploring. Yet, 59% also report that global disruption has exposed considerable flaws in their organization's current business model, product line, and/or go-to-market strategy. More than three-quarters of respondents (77%) agree that their organization needs to improve its agility and innovation capability to better respond to disruption.

That need to improve agility and innovation capability isn't a new song, especially when it comes to addressing them with digital technologies. "Digital transformation agile frameworks, and is like a buzzword. People have talked about that for some years already, but not many really understood the core concept or really took it very seriously," says Cheng. "The pandemic triggered serious discussion of digital transformation and helped our company in winning some of the projects that we have been discussing with those customers for a long time."

What Resilient Organizations Look Like

The need to become more capable of withstanding the forces of global disruption is clear. But many organizations must overcome significant internal barriers to do so, particularly in ethos and organizational issues; 42% of respondents selected cultural resistance to change as one of the top three internal challenges they face in responding to global disruption, followed by inadequacy of talent/skills (38%).

After these people issues, respondents identified elements of the enterprise itself as top three internal challenges: organizational silos (33%), antiquated operational processes (33%), and budgeting challenges (32%).

"Some more traditional companies find it quite difficult to evolve because they just have too many existing cultural issues," says CryptoBLK's Wong. Legacy systems are also holding many organizations back by limiting both their speed and their ability to innovate, increasing their risk. "They need a very well-planned transition to transform from using mainframes to a more agile and high-tech way to do business," Wong asserts. "They also need to change their business workflows, and that's one of the hardest parts to change."

Organizations are taking a wide variety of steps to address these internal challenges so they can become more resilient when facing global disruption. The most common is undertaking a digital transformation initiative (48%), followed by adopting more agile frameworks (39%) and implementing process/change management (39%). **FIGURE 1** These initiatives are followed closely by hiring/reskilling to ensure the workforce is better prepared to cope with disruption (34%) and increasing technology investment (32%).

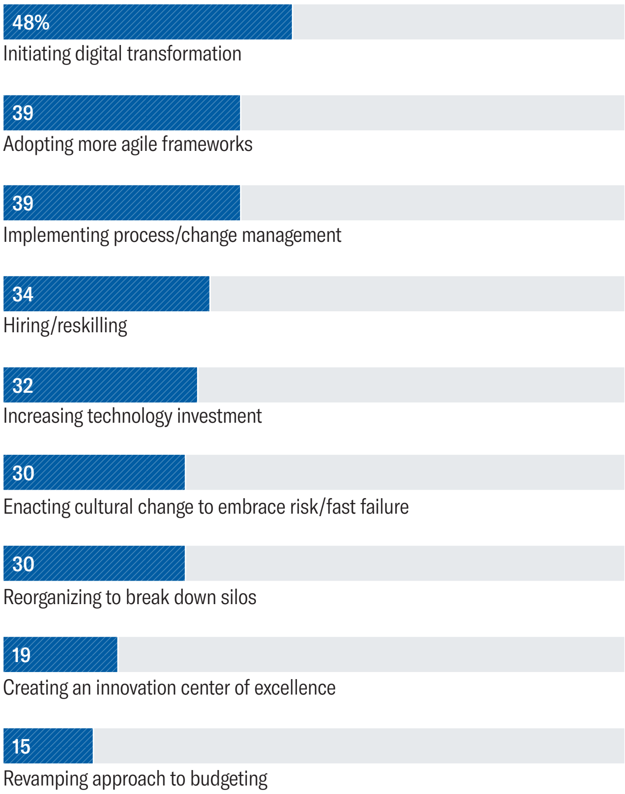
At the same time that organizations are addressing these internal challenges, they must also contend with several external forces. The largest group of respondents (47%) identified an unstable economy as one of the three external challenges having the greatest impact on their organizations. **FIGURE 2** Other top-three challenges include regulatory requirements (32%), insufficient access to talent (30%), and limited access to capital (24%).

Despite ranking economy and regulation as top-three external challenges, it's the third challenge, insufficient access to talent, that the largest number of respondents say their organizations are taking steps to address; 48% are taking new approaches to finding/developing talent.

FIGURE 1

Organizations Pursuing Multiple Paths to Resilience

Digital transformation, adopting agile frameworks, and implementing process change lead internal strategies



Source: Harvard Business Review Analytic Services Survey, January 2021

"Hiring is so different now. In the past, people visited a company physically to conduct the interview, but now they do a lot of things online, and you don't know whether you can find the right talent," says Cheng. In Hong Kong, "there are some university-level programs where the government sponsors a summer or winter internship to help us reach the right talent."

In addition, Hong Kong has a relatively more friendly working visa policy when recruiting talent from elsewhere, which was an issue for Gekko Lab in its early days as a startup in Silicon Valley in California, Cheng adds. The company moved to Hong Kong in 2016.

Other steps organizations are taking to address external challenges they face in responding to global disruption include investing in fintech (19%) and seeking alternative financing (18%). In fact, 40% of respondents report their organizations are finding it challenging to access the financing they need to make changes required to cope with global disruption.

"Since the global financial crisis, many regulators have clamped down heavily on money laundering," explains Quinlan of Quinlan & Associates. "A lot of the banks cut off correspondent banking relationships, the relationships with other banks to facilitate international money transfers. It caused a bit of a vacuum that many fintech companies chose to step into." These new fintech solutions include alternative credit scoring and virtual banks.

FIGURE 2

Economy Leads External Sources of Disruption

Regulation and insufficient access to talent are also top-three external challenges of global disruption

Source: Harvard Business Review Analytic Services Survey, January 2021

How Location Impacts Resilience

Organizations are finding that the location where they operate can make a difference in their ability to respond to global disruption. Location impacts the availability of talent, the regulatory environment, economic conditions, access to financing, and more. Twenty-one percent of respondents rate the impact of location on an organization's ability to address challenges associated with global disruption as significant, rating it 8, 9, or 10 on a scale of 0-10. Another 25% rate the level of impact at 6 or 7. In addition, 28% agree that changing the location of their operating base might enable their organizations to better withstand new global conditions.

Talent, and its availability, seem to be the most influential element when it comes to location. Eighty-five percent of respondents call access to talent important or very important to where an organization chooses to locate its base of operations, rating it the top attribute a location can offer in this regard. **FIGURE 3**

A deep pool of legal and financial talent, especially, awaits in Hong Kong. "The workforce [in Hong Kong] is flush with talent when it comes to lawyers, accountants, and bankers," says Quinlan. "So if you want to start a virtual bank and you need compliance professionals, lawyers, and people that understand the operation of an actual bank, Hong Kong is great for that."

Close behind access to talent are a strong and stable economy (82%) and a business-friendly regulatory environment (80%) as attributes respondents find important or very important to where an organization chooses to locate its base of operations. Businesses tend to avoid locations considered excessive in their regulation, but at the same time, they often appreciate protections such as anti-fraud laws that protect their well-being.

Hong Kong provides a lot of legal and financial flexibility under the current regulatory regime, according to CUHK's Chong. "This is very important for a company to control their risks," he says. "We also offer a lot of protection. We have a legal system to protect you if you have a dispute."

One clear indicator of the quality of a location's regulatory environment is its ability to keep up with technology advancements, says Featurespace's Mills. For example, "The best fraud prevention and anti-money laundering strategies in the world are not always compatible with most countries' financial services regulators' best practices," he explains.

Today's best anti-fraud practices rely on a high level of machine learning that is difficult to convey using explainable logic; however, Mills explains, regulators often require companies to explain how they came to a decision, the concept of model governance, rather than prioritizing model performance, the measurement of how well the model operates in pursuit of the objective. "The regulatory environments where they take a more pragmatic approach to

The largest group of respondents (47%) identified an unstable economy as one of the three external challenges having the greatest impact on their organizations.

FIGURE 3

Talent and Economy Are Most Important Location Attributes

Respondents call these attributes important or very important to where an organization chooses to operate

Locations where regulators are tech-forward are better not only for fintech companies but also for the growing number of organizations that use fintech to protect their assets.

model governance realize that, actually, model performance is paramount. Model governance is important but can be equal or even second to performance. You tend to find those environments are able to have better rates of fraud and lower cases of money laundering." In other words, locations where regulators are tech-forward are better not only for fintech companies but also for the growing number of organizations that use fintech to protect their assets.

Those attributes were among the reasons why Gekko Lab, a fintech company, found Hong Kong so appealing, says Cheng. "Hong Kong has the lowest tax rate among the peers in the region and also a very efficient business-oriented environment," Cheng says. "So, everything is down to business. People are very straightforward. This type of business culture is very good for us."

Financial Tools and Their Role Against Disruption

Because of the worldwide increase in regulation in response to the economic recession, fintech and its subset—emerging technology to manage regulatory change and mitigate compliance risk (regtech)—are becoming important tools to enable and protect businesses, helping them be more resilient in the face of global disruption.

"Fintech is fundamental to every single business," says Quinlan. "Many of the applications that can be used in fintech are applied across every single sector in the world, whether it's advanced accounting software, low-cost international payment and transfer capabilities, or e-commerce solutions. You are fundamentally helping the global economy connect better together, reduce costs, and just become more efficient in the way they conduct business. I see fintech as fundamentally intertwined with growth in the global economy, which is why it's such a hot sector worldwide."

Respondents see virtual banking (33%) as the emerging fintech technology or service most useful to help their organizations respond to global disruption. **FIGURE 4** Virtual banks tend to market themselves as offering easier onboarding for new customers, borderless financial access, and enhanced efficiency compared with traditional banks.

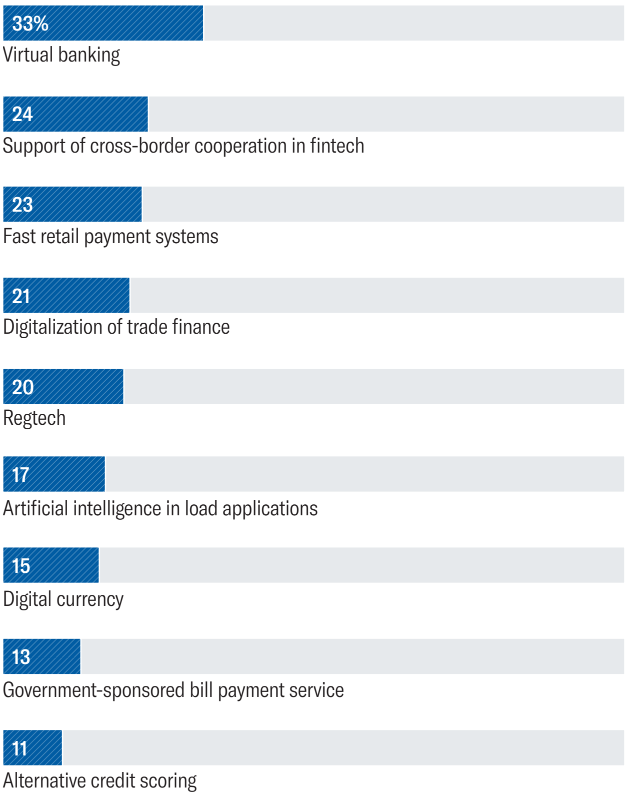
"Eight virtual banks were launched in Hong Kong in 2020," says Quinlan. "I think that sends a positive signal that, from a capability perspective, there was a lot of firepower here to launch and enough resources to get the right consortiums together to launch a full-scale bank on the back of a completely virtual platform. That says a lot about Hong Kong's power to rally the relevant resources. I think that's a really good testament to its strength as the financial center and as a global fintech hub."

Other emerging fintech technologies or services that respondents identify as most useful to help their organizations respond to global disruption include support of cross-border

FIGURE 4

Organizations See Fintech as a Resilience-Builder

Virtual banking leads all other technologies and services when dealing with global disruption



Source: Harvard Business Review Analytic Services Survey, January 2021

33%

of respondents see virtual banking as the emerging fintech technology or service most useful to help their organizations respond to global disruption.

“I think Hong Kong actually has a huge advantage because we have a very large global-scale financial market that could very easily facilitate links with global supply chains by providing trade finance capabilities,” says Victor Fung, group chairman of Fung Group.

cooperation in fintech (24%), fast retail payment systems (23%), digitalization of trade finance (21%), and regtech (20%).

“One thing that would actually bind the financial markets and the product markets together is the provision of trade finance. In fact, the decreasing availability of trade finance would hinder any recovery or increase in global trade,” says Fung. “I think Hong Kong actually has a huge advantage because we have a very large global-scale financial market that could very easily facilitate links with global supply chains by providing trade finance capabilities.”

Given that such linkage between the financial markets and supply chains is already commonly occurring in Hong Kong, Fung says it would be natural to “create a trade finance capability which is global” there. Undoubtedly, this capability would align with what respondents say their organization needs financially to manage risk and disruption globally. Financial tools or strategies respondents see as instrumental to their organizations’ ability to navigate global disruption include raising capital (36%), adjusting investments in alternative vehicles such as private equity or real estate (29%), wire transfers (21%), and trading in currency markets (14%).

“Access to capital makes a huge difference to how innovative companies can be, what risks they can take, but also how much they can invest in trying to win markets,” says Mills. “You tend to find that in some of the most competitive, high-growth organizations, there’s a natural correlation between those countries where high levels of capital from investors is available and the regions where you have the most innovative companies.”

Conclusion

Naturally, no location is perfect, especially given the wild vagaries of global disruption being thrown at organizations these days. Each locale brings trade-offs that organizations must weigh carefully when they are choosing where to base their businesses or establish regional offices.

The ability to pivot to address disruption is an increasingly critical capability for both well-established organizations and startup/scale-up businesses alike. Creating and executing new, more agile, and adaptive responses to disruption rely on the ability to leverage resources on demand from both inside and outside the organization. This capacity expansion is best achieved when the business operates where critical financial, technology, talent, and management resources are reliable and well established and government and regulatory environments are supportive. Hong Kong certainly fits the profile.

What is clear is that, in addition to considering how well a given location meets criteria such as access to capital and proximity to customers, organizations must increasingly consider what resources it offers to help them be more resilient in the face of today’s forces of global disruption, as well as those that are yet to come. Indeed, this resiliency support may become the single biggest consideration of them all.

METHODOLOGY AND PARTICIPANT PROFILE

A total of 415 respondents drawn from the HBR audience of readers (magazine/enewsletter readers, customers, HBR.org users) completed the survey.

Size of Organization

21%
10,000 or more employees

21%
1,000 – 9,999 employees

23%
100 – 999 employees

35%
Fewer than 100 employees

Seniority

40%
Executive management/board members

17%
Senior management

26%
Middle management

17%
Other grades

Key Industry Sectors

16%
Financial services

14%
Business/professional services

11%
Consulting services

10%
Manufacturing

8%
Government/not-for-profit

All other sectors less than 8% each

Job Function

23%
General/executive management

13%
Consulting

10%
Sales/business development/customer service

8%
Finance/risk

8%
Strategic planning

All other functions less than 8% each

Regions

37%
North America

24%
Europe

20%
Asia Pacific

10%
Middle East/Africa

7%
Latin America

Figures may not add up to 100% due to rounding.

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