



Trending Insights

COVID-19 and the future of business in Japan

Post-pandemic opportunities

IBM Institute for
Business Value



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When everything is a priority, nothing is a priority. And as executives struggle to make sense of the post-COVID business environment, many find themselves leading from this gray area of indecision.

Two years ago, relatively few executives considered competencies in crisis management, enterprise agility, cost management, workforce resiliency, innovation, or cash-flow management as critically important to their business. But top executives tell us the crisis has caused a huge shift in thinking, with all of these competencies becoming highly prioritized today, and even more strongly in the future.

Change remains the name of the game

Leaders are expecting more from their transformation initiatives. They identify competitiveness and workforce resilience as the benefits they most want from ongoing digital transformation. Transformation is also accelerating among a majority of organizations. But strikingly, greater focus on transformation seems to be at the expense of customer relationships and partnering opportunities.

This special IBM Institute for Business Value (IBV) Trending Insights report integrates results from multiple proprietary surveys of consumers and executives. It primarily focuses on the responses of Japanese executives who collectively oversee over ¥160 trillion in revenue (see Research methodology details). Our overwhelming conclusion: Post-COVID-19, the reality for businesses has radically shifted.

Whether reflecting on current conditions or future plans, business leaders' needs for speed and flexibility have been amplified dramatically. Old barriers are being brushed aside under the pressure of unrelenting disruption, rapidly evolving customer expectations, and an unprecedented pace of change. There seems to be renewed clarity in their perspectives. Motivation is not aspirational—it has become existential.

Five epiphanies from leading executives

Our research suggests five key discoveries for the post-pandemic business landscape offering new perspectives on digital transformation, the future of work, transparency, and sustainability. Together, they provide a playbook for proactive leaders who understand old ways of working are gone.

Epiphany 1: Digital transformation was never about the technology

Anecdotal tales of “game-time” pivots—moving swarms of workers to remote platforms, rethinking and remaking supply chains, shifting manufacturing to produce in-demand personal protective equipment—aren’t just near-term business contortions. Adaptability is now a mandatory business competency, and an accelerated pace of change has become normal.

The COVID-19 pandemic has accelerated digital transformation at 59% of organizations we surveyed, and 66% say they have been able to complete initiatives that previously encountered resistance. While this data was recently collected from US executives, evidence confirms that this is a global phenomenon also affecting Japanese businesses.¹ This culture shift is in part defensive: reducing costs is the top benefit attributed to transformation initiatives.

But something bigger and more long-lasting than crisis management is underway. Before the pandemic, many organizations seemingly distrusted their own technological capabilities and doubted the skills of their own workforces. Yet, in the blur of this year’s pandemic-induced reactions, those anxieties proved largely unfounded.

Executives have become more trusting of what technology can do, and they are pushing ahead with digital transformation. They indicate they are planning for COVID-19 recovery to include investment in technologies such as AI, IoT, blockchain, and cloud. The benefits long extolled by technophiles have become more broadly embraced across organizational leadership. To stack the deck for success, organizations need to be sure their people are as capable, resilient, and adaptable as their technologies for the long term.

Epiphany 2: The human element is the key to success

While executives plan to expand almost all tech competencies during their future digital transformations, the secret to success lies in human resources. In one IBV data set, our analysis confirms that the business competencies that account for the largest part of an organization’s expected growth are those centered around employees and customers, such as workforce training and customer experience management.

But remarkably, these factors seem to have eluded executives. More than three-quarters of Japanese executives expect changed customer behavior to continue after COVID-19, trading face-to-face contact for more shopping and customer service interactions online. To that end, 81% of Japanese executives say that customer experience management will be a high priority over the next two years, compared to only 29% just two years ago. And yet, “improved customer service” sits in the bottom half of the list of benefits that executives seek from digital transformation.

If executives are conflicted about how they’re connecting with customers, they’re doing even worse with their employees. While workforce safety, skills, and flexibility are important, employee satisfaction has been deprioritized. Executives recognize that their employees have been under intense pressure, and they contend that employee well-being is among their highest priorities.

But our research highlights a gaping chasm between what executives think they are offering their employees and how those employees feel: employers significantly overestimate the effectiveness of their support and training efforts. Only about half of employees say they believe that their employer is genuinely concerned about their welfare. Clearly, there is massive opportunity for leaders who can get this right, when most seem to be struggling.

Epiphany 3: Traumatic stress has hijacked corporate strategy

Executives are tasked with defining their organizations' vision. But it can be hard to focus if they are continually putting out fires. While workforce safety and resilience, cost management, and organization agility emerge as top priorities for the short- and longer-term, the pandemic has amplified old business fears and introduced new ones. The result? Executives are enamored with the priority du jour.

Since the beginning of 2020, executive priorities have been a bit fluid, and they've reshuffled again the last few months. Now they seem to be focused on internal operational capabilities, which may be taking attention away from the customer service experience at a time when it could be critical. Corporate priorities are much more focused on crisis management, workplace safety, and security than they were two years ago. But in the future, 87% of Japanese executives expect cash-flow and liquidity management to be a priority—more than twice as many respondents as two years ago.

In the same vein, 88% of respondents say cost control will be crucial. Cybersecurity concerns have skyrocketed; Japanese executives show an increased commitment of 78% over the next two years, with 52% planning to use AI to enhance cybersecurity in the same timeframe. That is more than twice as many as deploy the technology today.

Pre-COVID-19 commitment to business agility, AI, data and analytics, and other emerging technologies has grown. With the promise of competitive advantage now augmented by a new appreciation of the risks posed by crises, 88% of Japanese executives plan to prioritize enterprise agility over the next two years, and a whopping 91% plan to participate in platform-based business models.

So, everything is important. Everything except improving the customer experience—the one thing that can help drive performance and growth when the competition is lost in the fog.

Figure 1

Executives are looking inward in the wake of COVID-19

Japanese leaders plan to prioritize operational capabilities—not external growth—over the next two years



Epiphany 4: Some will win. Some will lose. But few will do it alone.

The COVID-19 pandemic has not impacted all organizations and industries equally. Our findings show that executives expected health-related sectors to be the most likely post-crisis winners. Telecommunications, media, and entertainment were also expected to show positive impacts, buoyed by stay-at-home orders and habits. Atop the losers' list: travel and transportation, and manufacturing-intensive industries, including automotive.

Within sectors, expectations are growing that broader reach will help define winners. Our data also point to greater reliance on platform business models and partner networks, with 71% of Japanese executives planning significant partnering activity inside their industry and 58% looking outside. Either way, they expect such participation to grow by more than 300% over the next two years compared to two years ago.

The critical distinction here is that scale alone doesn't predict above-industry performance. Large enterprises that can operate with agility have been the ones to remain steady (in a troubled sector) or outperform. The melding of size and flexibility is the defining characteristic of those poised for success.

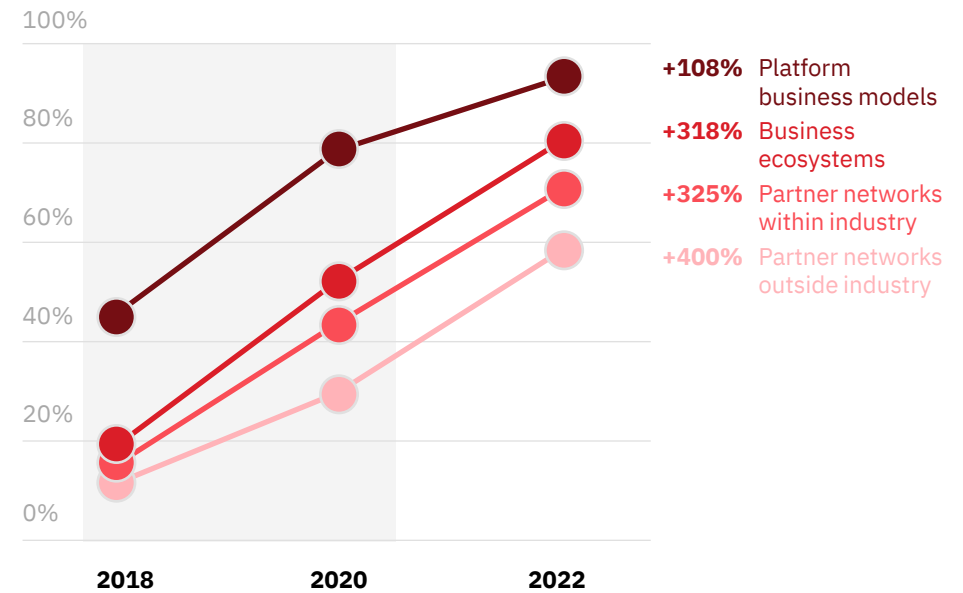
There's another point, too: When pandemic lockdowns were imposed, exceptions were made for services deemed essential—and "essential workers" became the most appreciated, cheered contributors in society. Alongside this heightened recognition of those who enable others to live, work, and play has been a refocusing on "the essentials" in all organizations and for all budgets.

In this time of disruption and its focus on the essential, it's not a surprise that many, perhaps most, organizations have doubled down on their core—the operational improvements and workforce enhancements that may best address a returning crisis. And yet, executives must keep these hard-to-reach goals in their sights if they are sincere in their desire to increase competitiveness. These efforts are where tomorrow's innovations and growth will come from. But approving and allocating resources for them will be scrutinized more than ever.

Figure 2

Businesses are partnering up

Japanese executives increasingly see platforms, ecosystems, and partner networks as key success factors



Epiphany 5: Health is the key to sustainability

Before coronavirus, sustainability strategies were largely centered on environmental issues: the risks to planetary health from pollution, climate change, and the like. Consumers were increasingly choosing products and brands that demonstrated authenticity in these areas, inspiring passion and allegiance. Regulators were echoing those concerns and priorities as well.

Yet, faced with a human health crisis, environmental sustainability became joined with issues of personal safety. Consumers have been wearing disposable masks and gloves, opting for more individual packaging than ever. To protect themselves and their loved ones from the virus, they've been receiving delivered goods to avoid going out in public. These actions seemingly pit protecting human health against protecting the planet.

But our research indicates that consumers' passion for environmental issues remains. In fact, health and safety have been conjoined in a new, expanded, and more complex definition of sustainability. New burdens are already appearing for corporations, as they must make good on existing sustainability goals—reduced carbon footprints, more efficient waste management, or otherwise—while simultaneously meeting new health-and-safety requirements.

This may be among the more challenging—and critical—implications of post-COVID-19 business. Meeting this bar will require not only new practices and new materials, but also new kinds of data and efficiency. For example: What is the environmental cost of meat spoiling or being discarded versus using more plastic to make it safer? How do we enable supply chains and last-mile delivery to get what businesses and consumers require, without being needlessly wasteful? More sophisticated questions are coming, and leaders will be expected to provide more nuanced and educated answers.

Where to from here?

The pandemic was a wake-up call that the unexpected and the unlikely are more tangible and plausible than anyone previously anticipated. Executives must accept that pandemic-induced changes in strategy, management, operations, and budgetary priorities are here to stay. Accelerated investment is coming in digital tech, transformation, and cloud adoption.

We are on the leading edge of a self-reinforcing process, promising even greater acceleration ahead. This presents an enticing opportunity for executives who can manage complexity and drive competitiveness by tying digital transformation to business priorities—while others are still waiting for things to “go back to normal.”

Take action now

In the race for competitive advantage, it is imperative that organizations react in real time—that is, now—to navigate this new environment. Businesses need to take action in three critical areas in order to survive and flourish.

- *Lead, engage, and enable the workforce in new ways:* inspirational leadership; driving trust; support for more flexible work options (like hybrid models of remote and in-office work); emphasis on employees' mental health and well-being, and skills development.
- *Apply AI, automation, and other exponential technologies* to make workflows more intelligent. Focus on supply chain resiliency, cybersecurity, and adoption of automation and AI.
- *Improve operational scalability and flexibility, including the prioritized use of the hybrid cloud and moving more business functions to the cloud.*

This new world permits no time for complacency or nostalgia. There is no going back to what used to pass as normal. Risks and opportunities are too great, the stakes too high. Executives need to prepare their businesses for ongoing uncertainty, inevitable disruption, and never-ending change.

Research methodology

The data referenced in this report were collected from a multitude of surveys:

- The IBM Institute for Business Value (IBV), in collaboration with Oxford Economics, surveyed 3,450 executives in 20 industries and 22 countries from April to June 2020, including 173 business leaders from Japan. We included executives across the C-suite to understand how the COVID-19 pandemic has affected organizational competencies and priorities, including investments, technologies, and ways of working.
- The IBV, again in collaboration with Oxford Economics, conducted in July and August 2020 an Executive Pulse survey of 400 CEOs, CIO/CTOs, COOs and Chief Transformation Officers in the US across 20 industries. We focused on how the pandemic has affected digital transformation, including speed, budgets, benefits, and barriers.
- The IBV has fielded a survey instrument with Survey Monkey since April 2020 with more than 50,000 adult respondents across eight countries, including the US, Germany, and China. We are collecting insights on how the perspectives and perceptions of individuals have changed or been impacted in numerous areas by the current COVID-19 crisis, including the economy, shopping, work, health and well-being, and travel and mobility.

See our related research

“Cost and value transformation in the era of COVID-19.”

IBM Institute for Business Value. September 2020.

To survive and thrive in the wake of a crisis, companies must find ways to cut costs—and make investments that position them for growth.

<http://ibm.co/cost-value-transformation-covid-19>

“COVID-19 Consumer Survey.”

IBM Institute for Business Value. September 2020.

The coronavirus pandemic is changing the way people work, learn, shop, and interact. We're surveying thousands of consumers around the world to better understand their rapidly evolving preferences, needs, and concerns.

<https://www.ibm.com/thought-leadership/institute-business-value/report/covid-19-consumer-survey>

“How to invest now to expedite COVID-19 recovery: Redirecting resources for enterprise transformation”

IBM Institute for Business Value. July 2020.

Digital transformation can help organizations adapt in the wake of the pandemic.

<http://ibm.co/covid-19-recovery>

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Notes and sources

- 1 “Despite being impacted by COVID-19 pandemic, 2021 fiscal year IT budget of domestic companies keeps on increasing (コロナ禍の影響を受けつつも、2021年度の国内企業のIT予算は増加基調を維持)”. ITR. November 12, 2020. <https://www.itr.co.jp/company/press/201112PR.html> (in Japanese).

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