The Crowe business challenges survey: Part I

Amid a lack of clarity, companies look to organizational strength to weather COVID-19
Nearly three out of four C-level executives expect at least a moderate revenue decrease this year. They have little certainty about when COVID-19’s impact on their organizations will lessen. And they’re not particularly comforted by government efforts to mitigate the pandemic’s economic impact so far.
That’s according to the “Crowe Business Challenges Survey: Part I,” the first in a new research series by Crowe. This report stems from a pulse survey, conducted in three phases between late April and early June 2020, of more than 300 C-suite executives spanning industries such as financial services, manufacturing and distribution, construction, healthcare, and the public sector. Examining the three distinct survey phases allows sentiment to be charted as it changed on a near-weekly basis, and the findings reveal leadership’s understandable worry during an unprecedented moment in history.

Respondents expressed greater confidence in their organizations than in the broader economy. Simultaneously, they are weighing difficult decisions in the wake of the pandemic while remaining most – and increasingly – concerned about the health and safety of their workers.

“We need to keep our employees safe,” one respondent said, “while attempting to operate our businesses and limit losses and negative cash flows.”

Throughout this report, we analyze the underlying uncertainty and pessimism, respondents’ top concerns and resulting actions, and whether and how respondents tapped into the resources from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and other government programs. Many respondents featured are from the financial services sector – including banks, credit unions, and other financial organizations. We expect to focus on other industries in future editions of this research.

72% of respondents expect at least a moderate decrease in their organization’s revenue this year.
A LACK OF CERTAINTY – AND PLENTY OF WORRY

Respondents’ optimism about how soon COVID-19’s impact on their organization would lessen faded over time. In the survey’s first phase, a low plurality of 32% said the pandemic’s effect on their organizations would ease by the fourth quarter of 2020. That dropped to 19% in the survey’s second phase and rose to 23% in the third. But uncertainty was also present, as evidenced by the second most common choice over the three phases: “Do not have enough information to predict.” Financial services respondents expressed slightly more uncertainty and less optimism early on about a fourth-quarter revival – likely because memories of the global financial crisis in 2007-09 and the subsequent slow recovery are fresher in their minds. It also is possible that respondents in that sector were processing a bevy of Paycheck Protection Program (PPP) loans during the survey’s phases.
When respondents expected COVID-19’s impact on their organization to meaningfully lessen

All respondents

Financial services respondents

0% 5% 10% 15% 20% 25% 30% 35% 40% 45%

Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 2022 or after Do not have enough information to predict

Phase 1 Phase 2 Phase 3 Overall

Q3 2020 Q4 2020 Q1 2021 Q2 2021 Q3 2021 Q4 2021 2022 or after Do not have enough information to predict

Phase 1 Phase 2 Phase 3 Overall

crowe.com
One point of consistency stands out across all survey groups: A belief that 2020 would be a bleak year financially – as between 70% and 75% of respondents in each phase predicted a moderate or severe decrease in revenue this year. Interestingly, financial services respondents were less likely to predict a severe decrease than respondents in other sectors – likely a function of that sector’s battle-tested executives, robust risk modeling, and fees generating from processing PPP loans.

Overall, the results from the three phases indicate that 59% of financial services respondents predicted their revenue would drop moderately and 11% said it would drop severely. For the sector, this was essentially consistent across the three phases, though the expectation of a severe drop climbed 5 percentage points in the third phase to 14%.
How respondents estimated their 2020 revenue and/or profits will compare with 2019

All respondents

Financial services respondents
The survey also revealed a general lack of optimism about the government’s ability to help turn the tide. In no survey phase or industry segment did more than 50% of respondents express confidence in the government’s ability to meaningfully help the economy over the following six months. That said, more than 20% of respondents in each phase said they were neutral, meaning the landscape is changing and a great deal of uncertainty persists.

How confident respondents were that the government response to COVID-19 would meaningfully help the economy within six months
ORGANIZATIONAL STRENGTH VERSUS ECONOMIC PESSIMISM
We asked respondents about their present and six-month views of both the economy and their organizations. They were much more bullish on their businesses, which could be a promising sign. But it also could reveal executives’ comfort in what they know and where they have control – versus the sea of unknowns in customers’ and vendors’ operations, and the broader economy – as well as some pride in their people and organizations.

We asked respondents to score the economy on a scale of 0-100, and the current view improved from 33 in the first phase to 40 in the third. Things got rosier, and more consistent, in the six-month view, with scores for each phase hovering around 56. Organizational strength, meanwhile, didn’t vary much, with current and six-month overall scores between 63 and 69 – a sign that, again, business leaders feel better about their organization’s ability to weather the downturn than they do about the broader economy.

Compared with other respondents, financial services leaders were just slightly more pessimistic about the six-month view of the economy and largely in step on the current view. Looking deeper at financial services responses reveals additional pessimism. While non-financial services respondents got more optimistic about the current state of the economy in the third phase – in late May, when some parts of the economy were reopening – financial services leaders didn’t follow suit. Additionally, financial services respondents’ view of their current organizational strength went from 10 points ahead of the full respondent pool in the first phase to just two points ahead in phase three.
Financial services executives probably feel more optimistic about their organizational strength because, as noted earlier, the depths of the Great Recession left them battle-tested. The industry also has models to manage strategic risks around matters like credit, liquidity, recessions, and other external economic factors, helping to somewhat prepare for scenarios like this one. But the declining optimism among financial services executives in the third phase likely reflects their resignation that hope for a “V-shaped” recovery has all but evaporated. Additionally, the longer the economic downturn, the more likely that banks will be negatively affected by sustained low interest rates and more credit losses.

How respondents viewed the conditions of the economy and their organization – presently and projecting ahead.
(Rated on a 100-point scale where 0 = very negative and 100 = very positive.)
TOP CONCERNS – AND WHAT COMPANIES ARE DOING ABOUT THEM

The health and safety of their employees ranked as the top concern among respondents across all three phases. Far from becoming less of a worry over the course of the survey, that concern jumped from 60% of respondents in the first phase to 75% in the third. This is a good sign – it shows that executives are putting people ahead of profits. Indeed, much of the survey showed a desire to safely maintain human connections while helping reboot the economy.

But why the increased worry? Wouldn’t leaders have started to get a better handle on dealing with the virus as the months went on – and therefore be less concerned?

It’s likely that respondents’ concerns grew between late April and late May when a sense of COVID-19’s severity and staying power truly set in. Respondents also might have grown more concerned in May as some states eased restrictions, adherence to health guidance became inconsistent, and fears of a virus resurgence increased.

68% said the health and safety of employees was a concern.
Other common and fairly consistent concerns across the three phases also became evident: Decreased top-line revenue (55%), the effect of lockdowns or shelter-in-place orders (53%), and cost-management and reduction efforts (41%).

In open-ended answers, respondents elaborated on their top organizational pain points: “Making the remote working arrangements and the safety enhancements better suited for the longer term (we believe 12 months or so). Although we have seen an increase in shelter-in-place order activity in the last 45 days, the outlook is impossible to predict.”

Not detailed in the exhibit that follows is that financial services leaders were much more concerned than other industry leaders with keeping up with regulatory modifications (42%), likely a result of uncertainty stemming from banks’ role in the CARES Act. They also flagged cyber or data privacy risks (40%), which probably reflects security concerns over the work-from-home pivot – even though financial services institutions were likely better prepared in this area than other sectors.
Respondents selected up to five choices as their top issues

- **Health and safety of employees**
  - Overall: 68.4%
  - Phase 1: 60.2%
  - Phase 2: 69.1%
  - Phase 3: 75.2%

- **Decreased top-line revenue**
  - Overall: 59.1%
  - Phase 1: 54.3%
  - Phase 2: 54.3%
  - Phase 3: 56.4%

- **Impact of lockdowns or shelter-in-place**
  - Overall: 53.5%
  - Phase 1: 50.5%
  - Phase 2: 63.0%
  - Phase 3: 49.6%

- **Cost management/reduction**
  - Overall: 36.9%
  - Phase 1: 36.6%
  - Phase 2: 33.6%
  - Phase 3: 38.3%

- **Keeping up with regulatory modifications**
  - Overall: 23.3%
  - Phase 1: 28.4%
  - Phase 2: 29.6%
  - Phase 3: 27.2%

- **Enabling a remote workforce**
  - Overall: 29.1%
  - Phase 1: 28.9%
  - Phase 2: 30.8%

- **Company culture/morale**
  - Overall: 29.1%
  - Phase 1: 28.9%
  - Phase 2: 29.4%
  - Phase 3: 29.1%

- **Cyber or data privacy risks**
  - Overall: 22.3%
  - Phase 1: 22.3%
  - Phase 2: 26.2%
  - Phase 3: 21.4%

- **Supply chain resiliency**
  - Overall: 21.9%
  - Phase 1: 21.9%
  - Phase 2: 26.2%
  - Phase 3: 23.5%

- **Shifting to digital delivery channels**
  - Overall: 13.6%
  - Phase 1: 13.6%
  - Phase 2: 17.1%
  - Phase 3: 20.6%

- **Near-term liquidity and cash flow**
  - Overall: 15.0%
  - Phase 1: 13.6%
  - Phase 2: 17.5%
  - Phase 3: 19.7%

- **Long-term financial obligations/solvency**
  - Overall: 6.8%
  - Phase 1: 6.8%
  - Phase 2: 9.9%
  - Phase 3: 10.3%

- **Other**
  - Overall: 6.2%
  - Phase 1: 8.6%
  - Phase 2: 9.4%
  - Phase 3: 8.7%

- **Executive succession plans**
  - Overall: 7.0%
  - Phase 1: 7.0%
  - Phase 2: 8.6%
  - Phase 3: 9.4%

- **Access to capital/financing**
  - Overall: 6.6%
  - Phase 1: 6.6%
  - Phase 2: 7.8%
  - Phase 3: 7.2%
We also wanted to know how companies were responding to the pandemic. Overall, the results from the three waves illustrate that some actions were common and unsurprising, such as enabling a remote workforce (82%), forming a centralized COVID-19 response team (72%), and enacting a hiring freeze (49%). Others displayed a wait-and-see approach. Just 33% have implemented significant cost containment beyond staff reductions, though 36% said such moves were under consideration. Twenty-seven percent had reduced staff, 15% had reduced salaries, and 16% reported a modified M&A strategy.

The fact that so few companies had cut workers or their salaries in the pandemic’s early days shows that companies were trying to get through difficult times without inflicting economic damage on their people – perhaps in hopes of simultaneously steadying the broader economy.
# Actions respondents said their organizations were considering in planning for what’s next

## PHASE 1

<table>
<thead>
<tr>
<th>Action</th>
<th>Already implemented</th>
<th>Currently under consideration</th>
<th>Currently not being considered</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing staff</td>
<td>22%</td>
<td>17%</td>
<td>56%</td>
<td>4%</td>
</tr>
<tr>
<td>Reducing salaries</td>
<td>16%</td>
<td>15%</td>
<td>63%</td>
<td>7%</td>
</tr>
<tr>
<td>Hiring freeze</td>
<td>48%</td>
<td>10%</td>
<td>38%</td>
<td>5%</td>
</tr>
<tr>
<td>Enabling a remote workforce</td>
<td>83%</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Significant cost containment (beyond staff reduction)</td>
<td>37%</td>
<td>30%</td>
<td>32%</td>
<td>1%</td>
</tr>
<tr>
<td>Delaying investments</td>
<td>34%</td>
<td>20%</td>
<td>37%</td>
<td>9%</td>
</tr>
<tr>
<td>Modifying M&amp;A strategy</td>
<td>14%</td>
<td>17%</td>
<td>55%</td>
<td>15%</td>
</tr>
<tr>
<td>Forming a centralized COVID-19 response team</td>
<td>68%</td>
<td>9%</td>
<td>18%</td>
<td>5%</td>
</tr>
<tr>
<td>Adjusting supply chain</td>
<td>20%</td>
<td>29%</td>
<td>38%</td>
<td>13%</td>
</tr>
</tbody>
</table>

## PHASE 2

<table>
<thead>
<tr>
<th>Action</th>
<th>Already implemented</th>
<th>Currently under consideration</th>
<th>Currently not being considered</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing staff</td>
<td>32%</td>
<td>21%</td>
<td>46%</td>
<td>1%</td>
</tr>
<tr>
<td>Reducing salaries</td>
<td>15%</td>
<td>21%</td>
<td>60%</td>
<td>4%</td>
</tr>
<tr>
<td>Hiring freeze</td>
<td>54%</td>
<td>14%</td>
<td>30%</td>
<td>2%</td>
</tr>
<tr>
<td>Enabling a remote workforce</td>
<td>85%</td>
<td>1%</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>Significant cost containment (beyond staff reduction)</td>
<td>32%</td>
<td>41%</td>
<td>26%</td>
<td>1%</td>
</tr>
<tr>
<td>Delaying investments</td>
<td>41%</td>
<td>26%</td>
<td>23%</td>
<td>10%</td>
</tr>
<tr>
<td>Modifying M&amp;A strategy</td>
<td>20%</td>
<td>26%</td>
<td>35%</td>
<td>20%</td>
</tr>
<tr>
<td>Forming a centralized COVID-19 response team</td>
<td>75%</td>
<td>7%</td>
<td>14%</td>
<td>4%</td>
</tr>
<tr>
<td>Adjusting supply chain</td>
<td>16%</td>
<td>31%</td>
<td>37%</td>
<td>16%</td>
</tr>
<tr>
<td>Reducing staff</td>
<td>PHASE 3</td>
<td>OVERALL</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---------</td>
<td>---------</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Already implemented</td>
<td>Currently under consideration</td>
<td>Currently not being considered</td>
<td>Not sure</td>
</tr>
<tr>
<td>Reducing staff</td>
<td>26%</td>
<td>21%</td>
<td>49%</td>
<td>3%</td>
</tr>
<tr>
<td>Reducing salaries</td>
<td>15%</td>
<td>14%</td>
<td>64%</td>
<td>8%</td>
</tr>
<tr>
<td>Hiring freeze</td>
<td>45%</td>
<td>21%</td>
<td>29%</td>
<td>5%</td>
</tr>
<tr>
<td>Enabling a remote workforce</td>
<td>79%</td>
<td>9%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Significant cost containment (beyond staff reduction)</td>
<td>29%</td>
<td>38%</td>
<td>30%</td>
<td>3%</td>
</tr>
<tr>
<td>Delaying investments</td>
<td>32%</td>
<td>21%</td>
<td>35%</td>
<td>12%</td>
</tr>
<tr>
<td>Modifying M&amp;A strategy</td>
<td>15%</td>
<td>20%</td>
<td>50%</td>
<td>16%</td>
</tr>
<tr>
<td>Forming a centralized COVID-19 response team</td>
<td>74%</td>
<td>3%</td>
<td>17%</td>
<td>7%</td>
</tr>
<tr>
<td>Adjusting supply chain</td>
<td>18%</td>
<td>25%</td>
<td>38%</td>
<td>19%</td>
</tr>
</tbody>
</table>
THE CARES ACT
Respondents also were asked whether and how they’re leveraging the CARES Act, which took effect in March 2020. Fifty-one percent in phase one said they had applied for assistance – a seemingly low figure until you consider that many of the respondents, namely banks, were ineligible. Not detailed in the exhibit that follows is that two-thirds of non-financial services respondents sought relief, a number that likely would have been higher but for restrictions that come with the assistance, including the inability to cut staff for two years.

Whether respondents were considering, or had already applied for, government support through the CARES Act or other programs
Among survey respondents who applied for the various relief programs available, only one program was especially popular – the PPP. Still, just 74% said they applied for PPP. Some business leaders were likely deterred by associated restrictions on things like executive bonuses. It’s also possible that respondents represented organizations that did not qualify based on their industry or because they had more than 500 employees.

Indeed, not all organizations appear to be struggling, even those who applied for assistance. As one respondent said, “Our business saw a small decline for six weeks, but the rebound has been significant, and while we expect a slight slowdown in a month or two, 2020 should be as good or slightly better than 2019 given the PPP loan.”

Just 10% of respondents said they’d applied for education and training grants through the CARES Act and only 7% said they were considering doing so. It’s possible that will change in the months ahead – particularly as organizations attempt to train new employees amid evolving business models and a growing digital transformation.
How organizations were acting on elements of the CARES Act or other government programs

<table>
<thead>
<tr>
<th></th>
<th>PHASE 1</th>
<th></th>
<th></th>
<th>PHASE 2</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Already applied</td>
<td>Currently under consideration</td>
<td>Currently not being considered</td>
<td>Not sure</td>
<td>Already applied</td>
<td>Currently under consideration</td>
<td>Currently not being considered</td>
</tr>
<tr>
<td>Paycheck Protection Program</td>
<td>72%</td>
<td>6%</td>
<td>15%</td>
<td>8%</td>
<td>87%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Emergency Economic Injury Disaster Loan Program (EIDL)</td>
<td>6%</td>
<td>8%</td>
<td>68%</td>
<td>19%</td>
<td>4%</td>
<td>4%</td>
<td>84%</td>
</tr>
<tr>
<td>Emergency EIDL Grants (advance on EIDL loan)</td>
<td>8%</td>
<td>6%</td>
<td>70%</td>
<td>17%</td>
<td>2%</td>
<td>7%</td>
<td>84%</td>
</tr>
<tr>
<td>Education and training grants</td>
<td>6%</td>
<td>8%</td>
<td>68%</td>
<td>19%</td>
<td>7%</td>
<td>4%</td>
<td>82%</td>
</tr>
<tr>
<td>Employee Retention Credit</td>
<td>19%</td>
<td>11%</td>
<td>47%</td>
<td>23%</td>
<td>9%</td>
<td>18%</td>
<td>58%</td>
</tr>
<tr>
<td>Aid to state and local government</td>
<td>6%</td>
<td>6%</td>
<td>68%</td>
<td>21%</td>
<td>4%</td>
<td>4%</td>
<td>80%</td>
</tr>
<tr>
<td>Main Street Lending Program</td>
<td>2%</td>
<td>9%</td>
<td>74%</td>
<td>15%</td>
<td>2%</td>
<td>16%</td>
<td>76%</td>
</tr>
<tr>
<td>Industry-specific provisions</td>
<td>23%</td>
<td>9%</td>
<td>45%</td>
<td>23%</td>
<td>9%</td>
<td>7%</td>
<td>71%</td>
</tr>
</tbody>
</table>
## All respondents

<table>
<thead>
<tr>
<th>PHASE 3</th>
<th>OVERALL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Already applied</strong></td>
<td><strong>Currently under consideration</strong></td>
</tr>
<tr>
<td>Paycheck Protection Program</td>
<td>87%</td>
</tr>
<tr>
<td>Emergency Economic Injury Disaster Loan Program (EIDL)</td>
<td>4%</td>
</tr>
<tr>
<td>Emergency EIDL Grants (advance on EIDL loan)</td>
<td>2%</td>
</tr>
<tr>
<td>Education and training grants</td>
<td>7%</td>
</tr>
<tr>
<td>Employee Retention Credit</td>
<td>9%</td>
</tr>
<tr>
<td>Aid to state and local government</td>
<td>4%</td>
</tr>
<tr>
<td>Main Street Lending Program</td>
<td>2%</td>
</tr>
<tr>
<td>Industry-specific provisions</td>
<td>9%</td>
</tr>
</tbody>
</table>
METHODOLOGY

Crowe LLP, a public accounting, consulting, and technology firm with offices around the world, conducted this survey in separate phases between late April and early June 2020. There were 103 responses to the first phase, 81 to the second phase, and 117 to the third. Respondents represented such industries as financial services, manufacturing and distribution, construction, healthcare, and the public sector. Respondents included members of the C-suite, including CEOs, CFOs, presidents, senior vice presidents, directors, and board members. For some questions, results exceed 100% due to rounding or because respondents could select more than one answer.
Learn more

Ann Lathrop
Chief Marketing Officer
+1 317 208 2567
ann.lathrop@crowe.com

Mike Percy
Managing Partner, Financial Services
+1 954 489 7433
mike.percy@crowe.com

Nancy Leibig
Managing Director, Marketing, Development, and Sales Services
+1 312 606 7188
nancy.leibig@crowe.com