

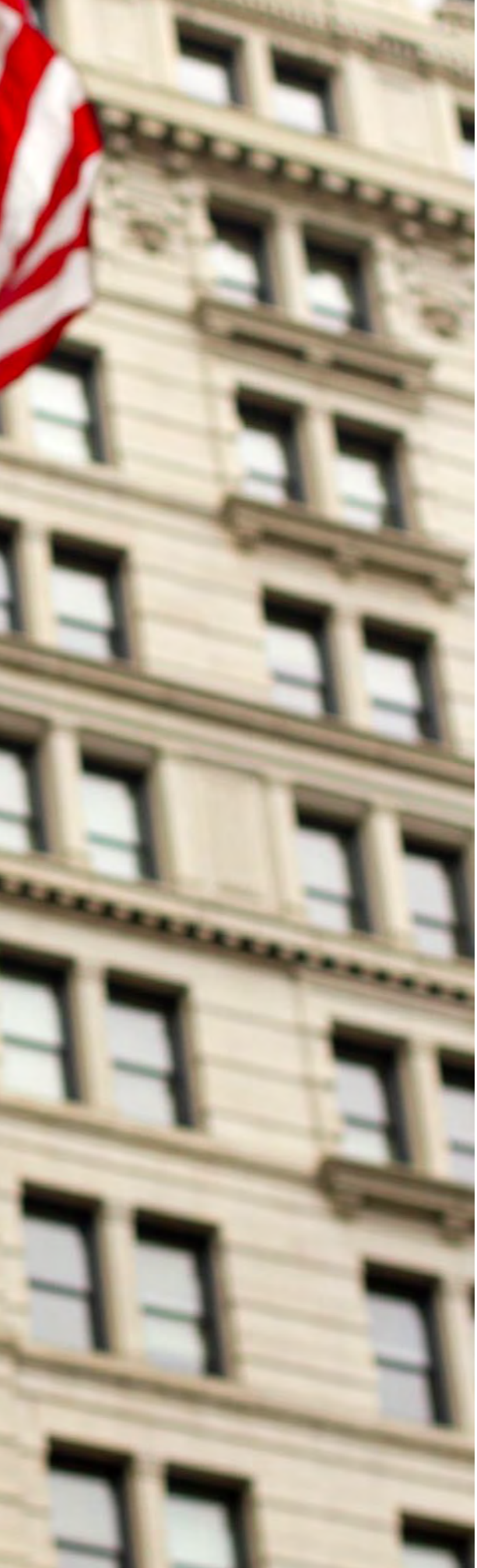


The Crowe business challenges survey: Part III

Organizations look to adapt to new normal







The year 2020 forced business leaders to grapple with a pandemic that prompted sudden, drastic shifts in the way businesses function, an economic shutdown that could have lasting effects, and a turbulent social and political atmosphere that might have permanently shifted expectations around civic participation. Can they adapt to a new normal?

MAYBE.

That's according to the "Crowe Business Challenges Survey: Part III," part of the firm's ongoing research series. This fall survey covered most of September and October – a period in which optimism about the coronavirus and improving economic conditions gave way to another pandemic spike and immediately preceded the U.S. presidential election. As in the previous surveys in the series, this one examines three time periods: Sept. 9-21, Sept. 22-Oct. 3, and Oct. 7-Oct. 22.

Early in this survey's first phase, the seven-day average in new COVID-19 cases in the U.S. had reached its lowest point since late June. Since then, that number steadily increased and nearly doubled by the end of the last phase in late October. But instead of increasing along with the virus, our respondents' pessimism spiked around the end of September and lessened in our survey's final phase.

This seems to indicate that business leaders, having spent much of 2020 in crisis mode, have learned to adjust to bad COVID-19 news – once they get past the initial panic. Put another way, the initial concept of another outbreak appeared to be more troubling than the reality. This is significant given that daily case volume was just more than 75,000 on our survey's last day, before topping 120,000 a little more than two weeks later. That means any newfound resiliency likely is being tested.

But our survey definitely found signs of resiliency. The percentage of respondents who said they were at least somewhat optimistic about the economy rose to 42%, compared with 30% in our summer survey. This time around, 71% said they were at least somewhat optimistic about their organizations, compared with 65% in the previous survey. And while 54% expected at least a moderate decrease in year-over-year revenue, that number is down from 70%.

Perhaps more significantly, 31% of respondents expected 2020 to conclude with at least a moderate revenue increase, compared with just 17% in the previous survey. Signs of organizational confidence, which were clear in the previous surveys, grew as well. While headlines point to layoffs, facility closures, and other operational changes from the pandemic, the fact that more than three in 10 businesses believed revenue ultimately will increase in 2020 is an important forecasting point as a new year approaches.

31%

of respondents expect
at least a moderate
revenue increase in 2020

Business leaders' top concerns in the fall survey were, unsurprisingly, COVID-19 and the economic recession, both of which became bigger worries during this survey's middle phase. Not far behind were concerns about the presidential election, which grew as Nov. 3 approached.

This report stems from a pulse survey of 256 C-suite officers and other company executives spanning industries including financial services, manufacturing and distribution, healthcare, and the public sector. The report digs into whether respondents were feeling somewhat better, their top concerns, the high marks they continue to give their own organizations, and the ways they plan to use technology to help in the months ahead.



HAVE ORGANIZATIONS ADAPTED TO COVID-19?

In all three surveys, we asked respondents when they expected COVID-19's impact on their organizations to meaningfully lessen. A slight plurality in our spring survey chose the fourth quarter of 2020, while the second quarter of 2021 was most popular quarter chosen in the summer survey. In this, our fall survey, a slight plurality at 21% chose the second quarter of 2021 and 19% said the third quarter of 2021. But that finding – essentially a growing optimism about the middle of next year, possibly tied to hopes of an emergent vaccine – wasn't the most interesting finding in this report.

In our first two surveys, about a quarter of respondents said they didn't have enough information to predict when COVID-19's impact would meaningfully lessen, compared with just 11% who answered that way in the fall survey. Additionally, for the first time we asked respondents if COVID-19's impact had already meaningfully lessened – and 16% said it had. Notably, just 7% of financial services respondents answered that way, likely because with some branches closed, many bank employees still operating remotely, and significant work still to be done assisting borrowers with Paycheck Protection Program (PPP) forgiveness, operations haven't returned to normal.

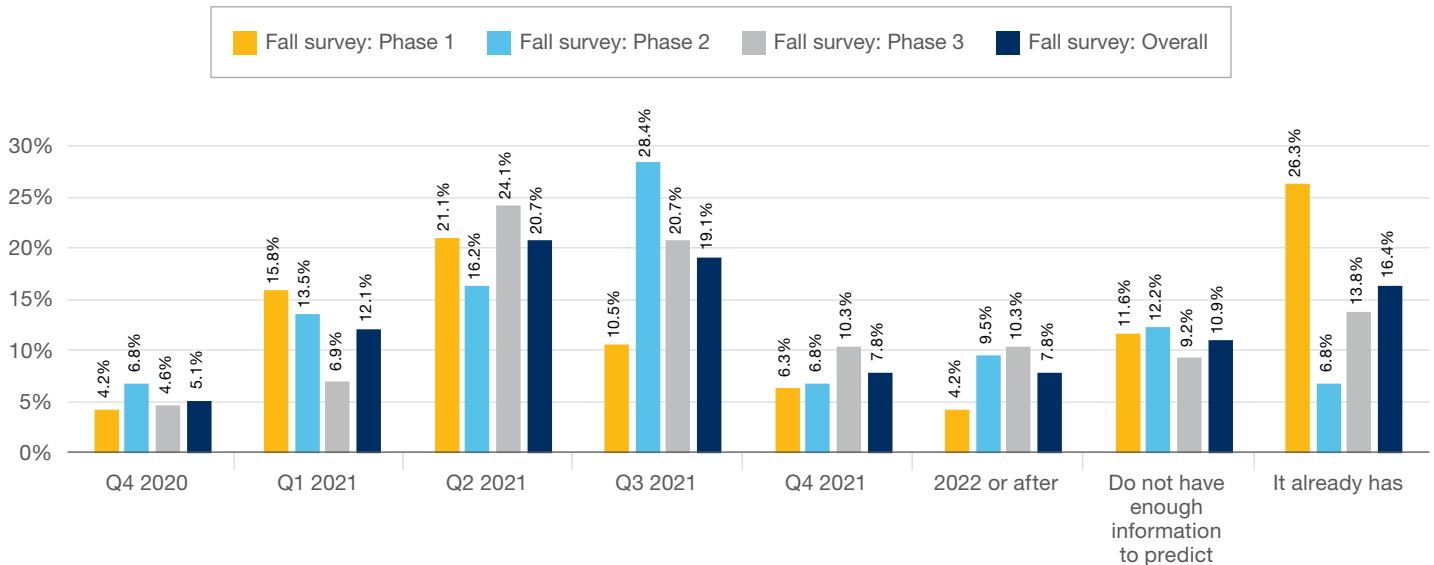
On the other hand, more than a quarter of nonfinancial services respondents said things were back to normal. While that’s surprisingly high, it might reflect the wild swings in industries like manufacturing that were forced to close entirely in some cases – whereas financial organizations stayed open throughout, albeit in new, remote ways.

Digging deeper, this question revealed two major trends. In our fall survey’s first phase, slightly more than a quarter of respondents said

their organizations had returned to a pre-pandemic normal. That dropped to just 7% in the middle phase (when infections began to spike) and then rose to 14% in the final phase. Additionally – and in a trend we will analyze more throughout in this report – financial services, compared to other industries, was less willing to say things were back to normal but more confident about having the information they needed to make predictions.

Improved picture about the lessening of COVID-19’s effects

Survey question: When do you expect the impact of COVID-19 on your organization to meaningfully lessen?



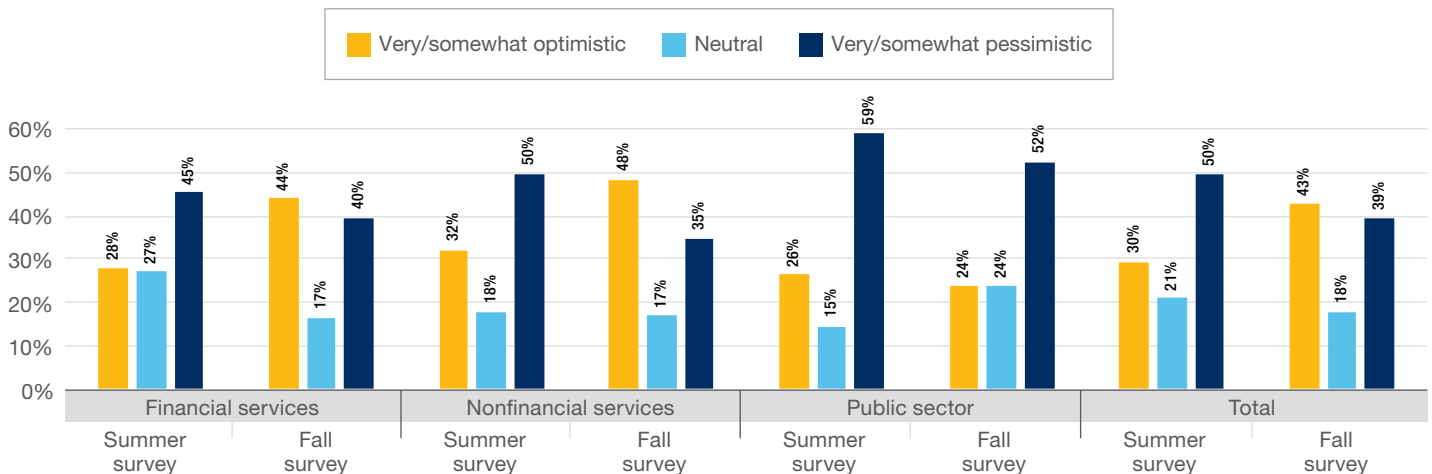
Optimism about the overall economy also increased, with 42% of respondents at least somewhat bullish compared with 30% in our summer survey. This likely reflects improving unemployment data, rising equity prices, and other economic resiliency indicators.

However, the high point again came in our fall survey's first phase at 51% before dipping to 35% in the middle phase and then bouncing back to 41% in the final phase. Financial services (faced with the prospect of low interest rates for years and worries about looming credit losses) and nonfinancial services respondents were fairly aligned, likely a result of government economic intervention early in the pandemic.

Public sector respondents notably were less hopeful. While just 24% said they were somewhat optimistic, none said they were very optimistic. Many respondents in that group are from government organizations that didn't receive assistance through the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act)* and simultaneously are girding for bad news in 2021 when plunging 2020 tax revenues likely will hammer their budgets. Those in higher education likely are facing declining enrollment fees just as not-for-profit organizations are facing declining charitable donations.

Increased optimism about overall economy

Survey question: What is your overall level of optimism, with regard to the economy?





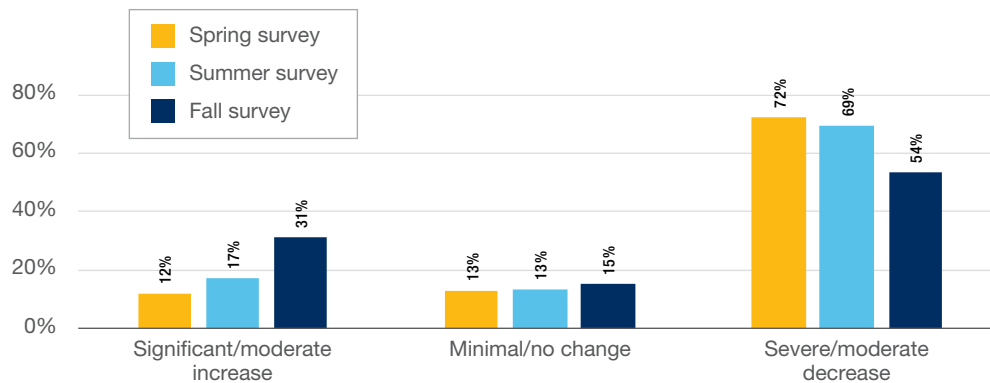
Our survey also found that into late October 2020, COVID-19’s impact hadn’t been as severe on respondents’ organizations as originally predicted. Thirty-one percent who said their annual revenues will be higher than 2019 is nearly double the percentage who answered that way in our summer survey and nearly triple the percentage in the spring survey. The percentage that expects a decrease also fell, hitting 54%, down from about 70% in both previous surveys.

Financial services respondents – faced with a “lower for longer” interest rate environment – were somewhat gloomier, with 60% expecting a decrease compared with about 50% from the other sectors. It’s possible that financial services leaders simply have a clearer picture that suggests the final months of 2020 will not buoy their revenue. Public sector projections for 2020 likely are not as dire because the economic downturn will affect 2021 budgets, not this year’s.

Improving 2020 revenue picture

Survey question: For 2020, what is the estimated change in your organization’s revenue and/or profits compared to 2019?

The following exhibit reflects results from respondents in all sectors.



Note: In the spring survey, 3% answered “not sure,” which was not an option in later surveys.

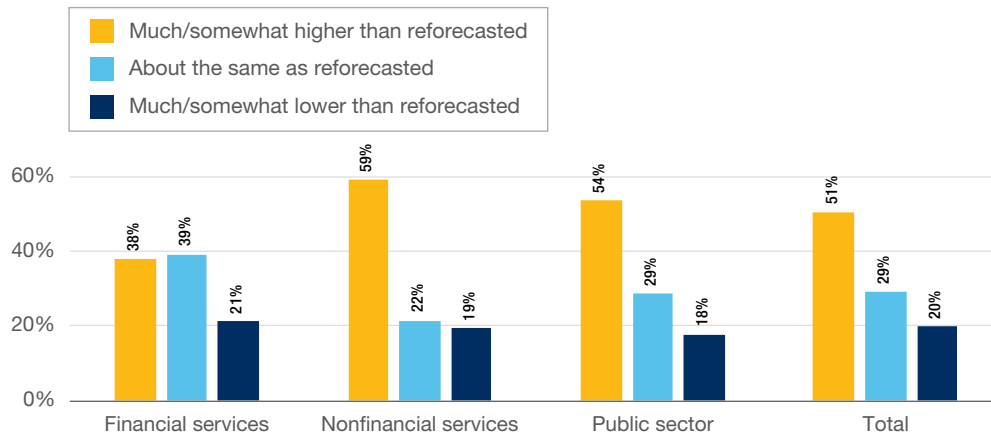
We also asked respondents whether the reforecasting their organizations did in March and April had been on target. In keeping with broader business sentiment about the economy, 51% said they were beating those forecasts and 29% said the revised projections had been about right.

Looking at the sectors, a lower percentage of financial services respondents said revenue was higher but 39% said it was close to what

they reforecasted. This reflects the financial services industry's stability and prowess when it comes to forecasting – especially compared with industries like retail and hospitality that were hit hard by lockdowns. That said, banks in regions more affected by the economic downturn – such as Texas and Oklahoma, which were hit hard by low oil prices – are likely among the 21% of financial services respondents who said revenue has been lower than forecasted.

Most organizations beat revenue reforecasts from March/April

Survey question: Compared to the reforecast in the March-April time frame, how would you say actual revenue and/or profits to date have been?



TOP CONCERNS: COVID-19, RECESSION, AND ELECTION

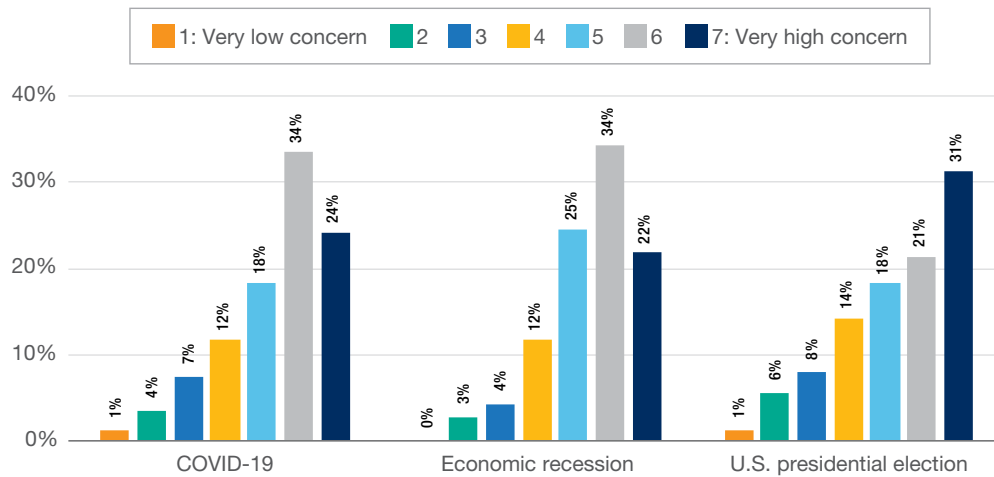


Not surprisingly, the pandemic, recession, and presidential election were respondents' top worries. We asked respondents to rate their concerns on a 1 (very low) to 7 (very high) scale. The election scored

the most 7s at 31%. Perhaps not surprisingly, these concerns intensified as the election drew near. Meanwhile, COVID-19 and recession fears peaked in the fall survey's middle phase, in line with the beginning of the infection spike.

Election concerns mounted as voting day approached

Survey question: What level of concern do you have regarding the impact of these issues on your organization?



Looking at the different sectors surveyed, two findings stand out. Public sector respondents were much more concerned about the pandemic, likely because many of them work in government or as first responders.

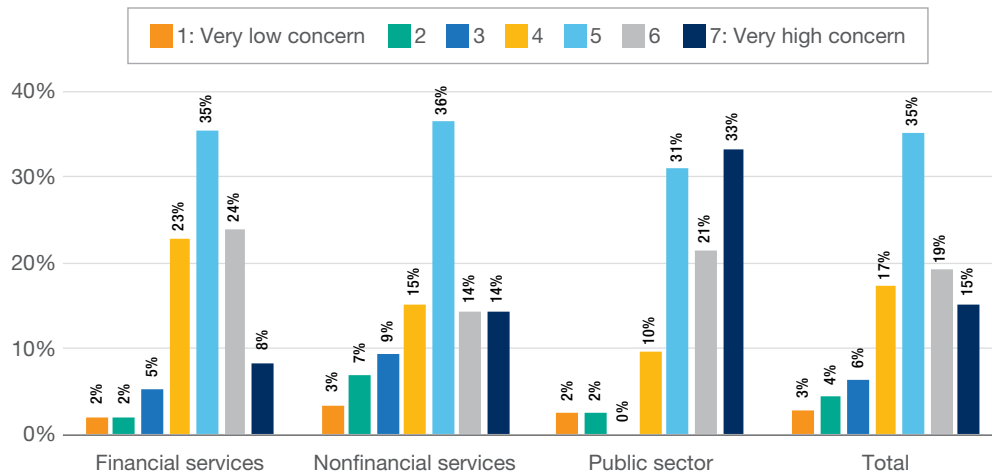
Financial services respondents were more concerned about the presidential election, likely because respondents in that sector became more concerned about the possibility of increased regulatory pressure under a Democratic administration.

We asked respondents to rank on a scale of 1 (very low) to 7 (very high) how concerned they are about additional waves or outbreaks of COVID-19. About 13% were in the low range of concern and 69% were in the high range, with similar results across the three phases.

Concern was most pointed in the public sector, likely for the first-responder reasons noted earlier. But financial services respondents were a little less worried, likely because the industry has adapted effectively to COVID-19 realities and because it is less prone to large revenue fluctuations.

Concerns about another COVID-19 wave

Survey question: How would you rate the level of concern you have about additional outbreaks of COVID-19?





As in the summer survey, we asked respondents to rate the government's response to these pressing issues. The biggest shift in perception was around the government's response to the pandemic, with 30% rating it as good or excellent in the fall survey compared with 22% in the summer.

In the fall survey, the sentiment was fairly constant across the three phases. Thirty-five percent of financial services and 30% nonfinancial services respondents said the government did a good or

excellent job. However, a little more than 40% in the private sector said it had done a poor or very poor job. The outlier was the public sector, only 15% of whom said the government's response was good and just 3% said it was excellent. Nearly two-thirds said it was poor or very poor.

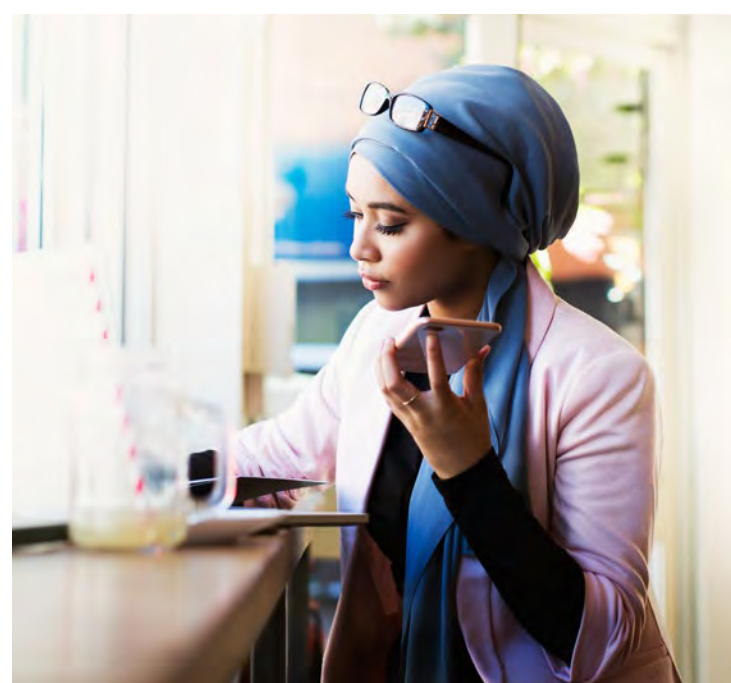
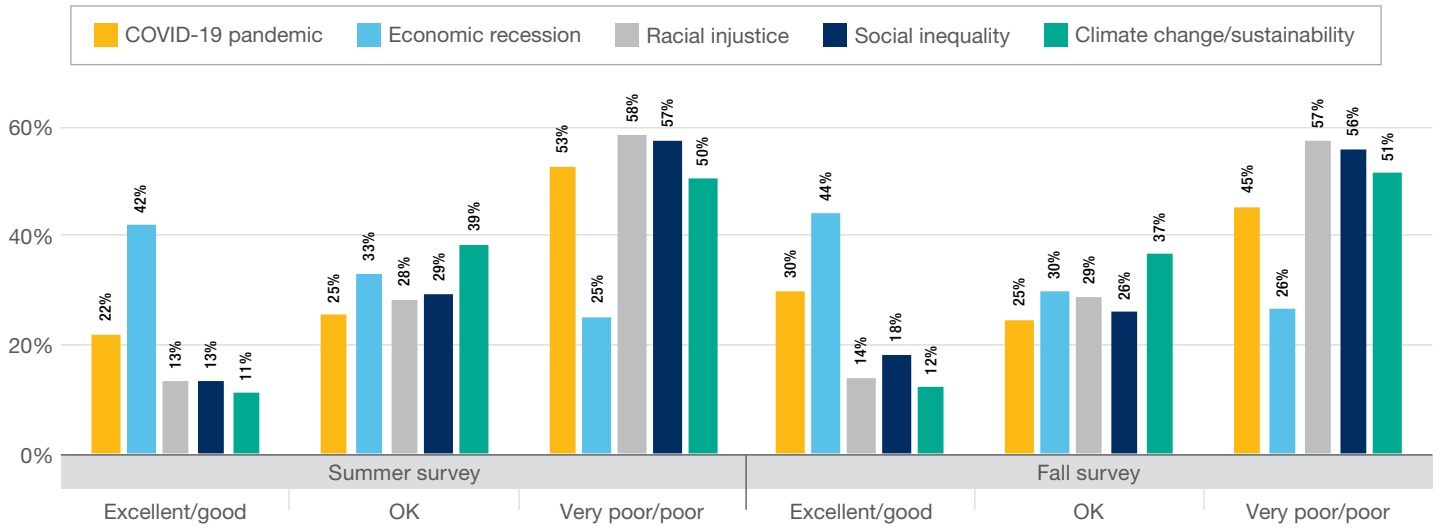
The public sector was much more critical of the government's response to the pandemic in the fall survey compared to its responses over the summer, while private sector respondents got slightly less critical.



Rating government response to pressing issues

Survey question: How would you rate the government's response, thus far, to the following factors?

The following exhibit reflects results from respondents in all sectors.



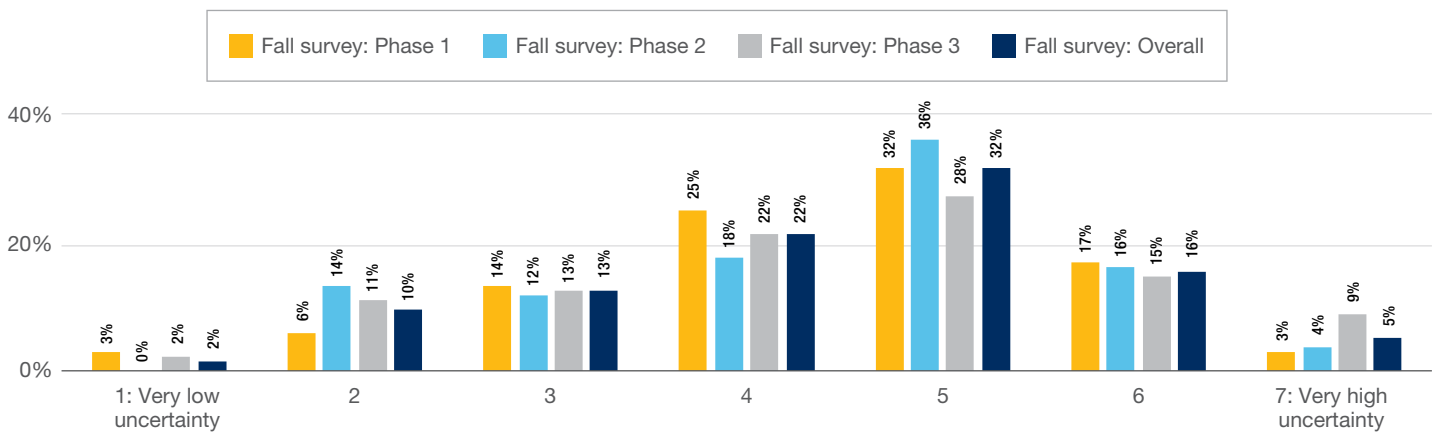
STILL HAPPY WITH ORGANIZATIONAL RESPONSES, DESPITE UNCERTAINTY

Understandably, uncertainty in the fall survey remained high among respondents. On our 1 (very low) to 7 (very high) scale, the most common

choices were 5 (32%) and 4 (22%). This remained fairly steady across the three phases and three sectors – and generally indicates consistent levels of uncertainty.

Uncertainty remains high

Survey question: How would you rate the level of uncertainty your organization currently is dealing with?



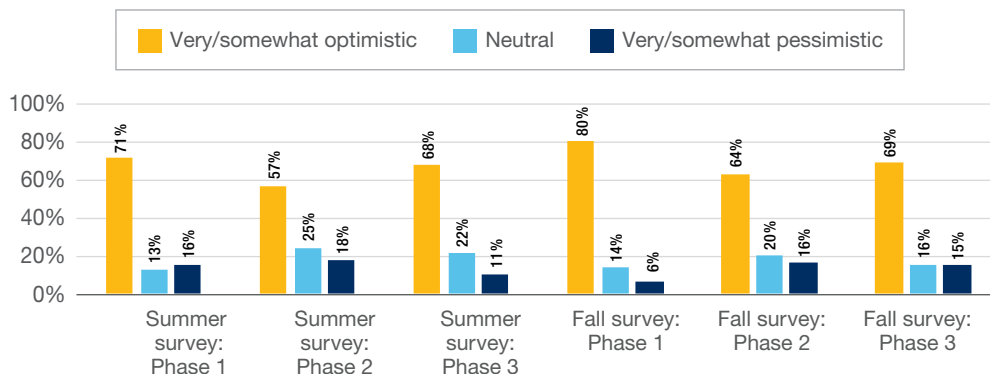


Respondents increasingly were optimistic about their own organizations – likely a sign that they continue to grow accustomed to dealing with the realities of COVID-19. Seventy-one percent of respondents in the fall survey said they were somewhat or very optimistic about their organization, compared with 65% of the respondents from our summer survey. This reflects a clear trend throughout our research: Respondents are more confident in their own organizations than in the economy generally. Simply put, executives generally know they can't control the world around them, but they can substantively shift their organizations to support profitability and the safety of their people.

Responses by sector were fairly consistent – with slightly more pessimism in the public sector – but again show a dip in optimism in the fall survey's middle phase followed by a leveling in the final phase. Eighty percent of respondents were at least somewhat optimistic about their organization in the survey's first phase compared with 64% in the middle phase and 69% in the final. This trend was especially pronounced in financial services, likely as growing third-quarter optimism – after losses earlier in the year weren't as bad as had been feared – was tempered by concerns about a virus spike.

Organizational optimism continues to rate highly

Survey question: What is your overall level of optimism about your organization?







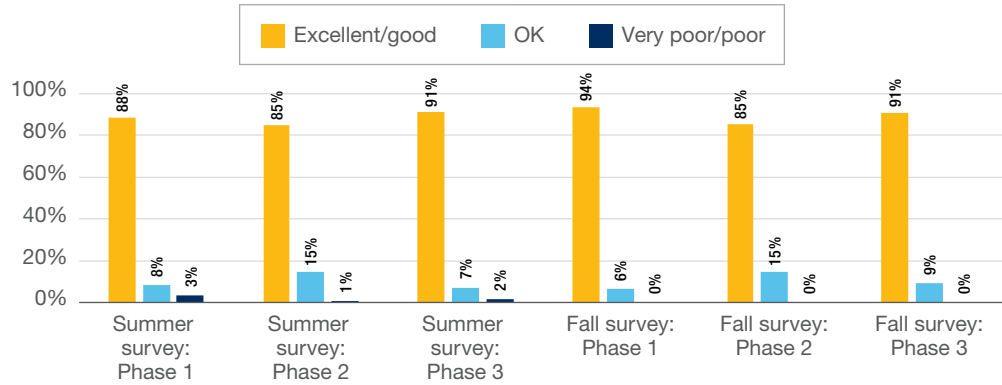
Relatedly, respondents grew happier with their organizations' responses to COVID-19 and especially to the recession. More than three-fourths rated their organization's response to the recession as good or excellent in the fall survey, compared with 61% in our summer survey. The virus spike didn't have much bearing on how respondents rated their organizations' responses to the economic recession, but there was a clear drop in the fall survey's middle phase followed by a recovery in the final phase in how they perceived their own responses to the pandemic.

Of the sectors, respondents in the financial services sector were far more celebratory of their own efforts, with nearly all of them (97%) ranking their organizational response to the pandemic as good or excellent. Banking executives were broadly pleased with their efforts to quickly ramp up PPP efforts and their pivot to remote work almost immediately in the early days of the pandemic.

The other sectors weren't far behind in their satisfaction with organizational efforts to address the pandemic, with 87% of nonfinancial services and 83% of the public sector reporting good or excellent responses.

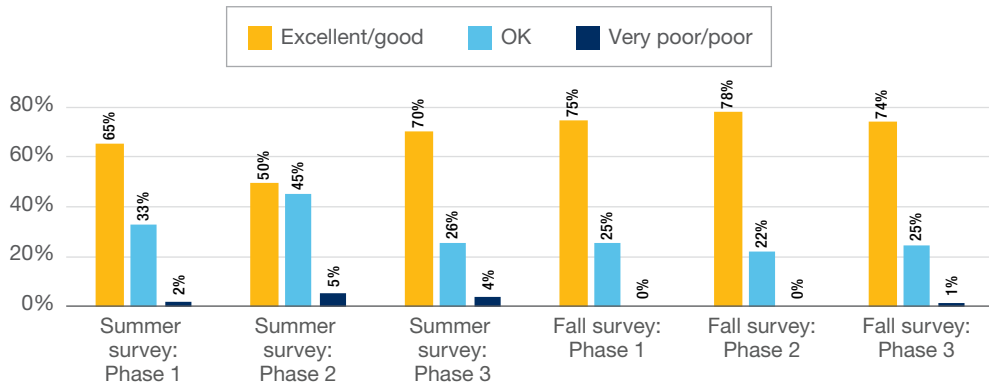
Perceived organizational response to COVID-19 keeps improving

Survey question: How would you rate your organization's response, thus far, to the COVID-19 pandemic?



Also satisfied with organizational response to recession

Survey question: How would you rate your organization's response, thus far, to the economic recession?



DESPITE REVENUE CONCERNS, ORGANIZATIONS TO INVEST IN TECH

We asked respondents about a variety of issues brought on by the events of 2020. Aside from keeping up with regulations and compliance – likely a concern in any year – the largest areas of worry fell into two categories: General economic problems and technology matters.

Decreased top-line revenue was the biggest challenge, with financial services executives noting the most

concern (those respondents also identified loan-loss provisioning and PPP loan forgiveness, issues specific to banking).

But issues related to technology are on respondents' minds across all three sectors surveyed – though concerns were highest in financial services, as illustrated by that group's worries about cyber or data privacy risks.

Falling revenue tops concerns

Survey question: To what degree is your organization challenged by the following issues? The following chart includes total percentages of respondents who marked these issues as 5, 6, or 7 on a 1 (not challenged at all) to 7 (extremely challenged) scale.

	Total	Financial services	Nonfinancial services	Public sector
Decreased top-line revenue	45%	54%	38%	45%
PPP loan forgiveness	41%	41%	N/A	N/A
Loan loss provisioning	40%	40%	N/A	N/A
Cyber or data privacy risks	38%	48%	30%	41%
Acceleration of digital technologies/transformation	38%	47%	32%	38%
Keeping up with regulations and compliance	38%	47%	31%	39%

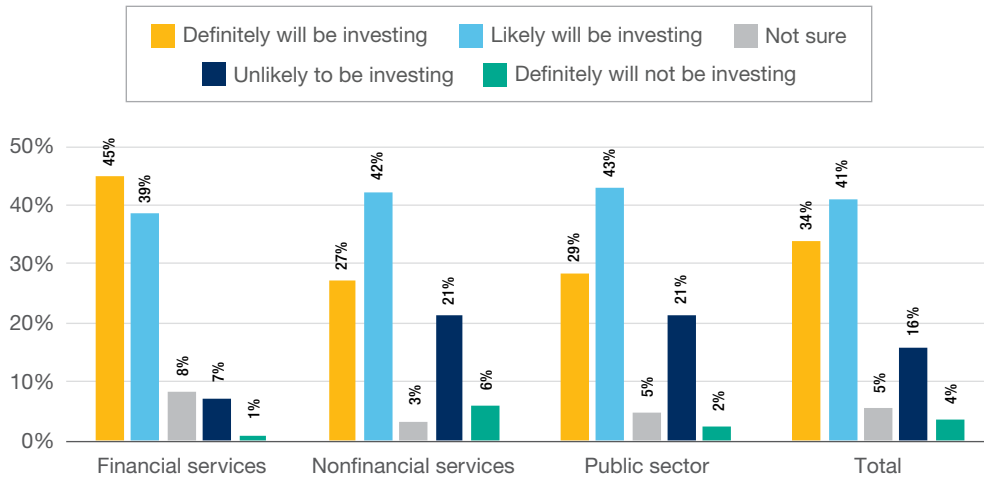


It follows, then, that financial services leaders are most focused on investing in technology – possibly inspired by the ability to pivot to a remote environment last spring. Eighty-four percent of respondents from that sector said their organizations were likely to or definitely will invest in technology in the coming months, compared with about 7 in 10 respondents from the other sectors.

Still, the overall focus among respondents is quite encouraging. These findings also indicate that organizations have the money to spend on technology – or that they’re willing to reallocate money after getting a crash course in technology’s value during the pandemic. This sentiment grew slightly over the fall survey’s three phases, rising from 70% in the first phase to 76% in its final phase.

Technology’s value made clear

Survey question: What is your expectation that your organization will be investing in new/additional technology in the next three to six months?





METHODOLOGY

Crowe LLP, a public accounting, consulting, and technology firm with offices around the world, conducted this survey in separate phases in September and October 2020. There were 95 responses to the first phase, 74 to the second phase, and 87 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 items, results do not total 100% due to rounding or because respondents could select more than one answer. Charts comparing responses from different sectors reflect the average scores across the three survey phases. Crowe's spring survey and summer survey are referenced throughout this report, which you can access [here](#).



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

crowe.com

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