

advancing through *headwinds*

WHERE ARE ORGANIZATIONS INVESTING?



Introduction

As we step into 2023, boardroom discussions are focusing on economic downturn and the looming possibility of recession. As organizations battle rising prices, volatile supply chains, climate issues, talent scarcity, and the ongoing repercussions of the disruption caused by the pandemic, more than half (53 percent) of executives in our research describe a bleak economic outlook for the next 12–18 months.

Despite the general gloom, however, they are optimistic on resilience of their

individual organizations. Many foresee only a “short and mild” recession, from which they expect to bounce back quickly.

Against this backdrop, we wanted to find out how organizations are managing costs while undertaking transformation of their portfolios. Specifically, we examine changing investment strategies in areas such as digital transformation, supply chain, talent and skills, and sustainability. To do so, we surveyed executives from 2,000 unique organizations across 15 countries, in sectors such as automotive, consumer products,

industrial and capital goods, banking, insurance, retail, energy and utilities, public sector, life sciences and healthcare, telecom, media, and hi-tech manufacturing. To complement the quantitative insights, we also conducted in-depth interviews with senior executives across sectors. (Please refer to the methodology for more details on the survey.)

Organizations remain confident of recovery, despite ongoing economic uncertainty

Drawing on this extensive research, we have identified a number of critical themes:

- 01** Organizations remain confident of recovery, despite ongoing economic uncertainty



- 02** As organizations become more cost-conscious, they are taking a watch-and-wait approach to investment in the next 12–18 months:

- ▶ In light of persistent supply-chain disruption, supply-chain diversification and digitization are priorities for a majority of organizations
- ▶ As organizations look at driving efficiencies and savings, we expect technology investment to increase for nearly 40 percent of organizations
- ▶ However, many executives are still unclear about the business case for sustainability and view it as an unwelcome cost driver
- ▶ Due to the imminent economic downturn, only one-third (33 percent) plan to increase investment in sustainability
- ▶ However, a large majority (55 percent) plan to maintain investment in talent and skills, as there is a hesitation on bigger investments

33% of organizations plan to increase investment in sustainability in the next 12–18 months

40% of organizations plan to increase investment in technology in the next 12–18 months



01

ORGANIZATIONS REMAIN POSITIVE IN THE FACE OF ECONOMIC HEADWINDS IN 2023

EXECUTIVES EXPECT ECONOMIC PRESSURES AHEAD

The IMF has cut its global growth forecast for 2023 to 2.7 percent from 2.9 percent previously, amid inflationary pressures, the worsening energy crisis, and ongoing supply disruptions caused by geopolitical conflict.¹

For almost all large organizations, economic slowdown has also been the main point of discussion during the last round of earnings calls and analyst briefings. Jamie Dimon, CEO of JP Morgan Chase, comments:

"While consumers and companies are currently in good shape, that may not last much longer... Inflation is eroding everything... These things may well derail the economy and cause this recession that people are worried about."²

A majority of executives in our research are expecting economic pressures to rise in the next 12–18 months.

They mention the following expectations, as shown in Figure 1:

- 50 percent of executives see stagflation (a combination of low/negative economic growth, high inflation, and rising unemployment) as the most likely economic scenario in the next 12–18 months. Of these:

- 22 percent are expecting slow/stagnant economic growth along with high inflation

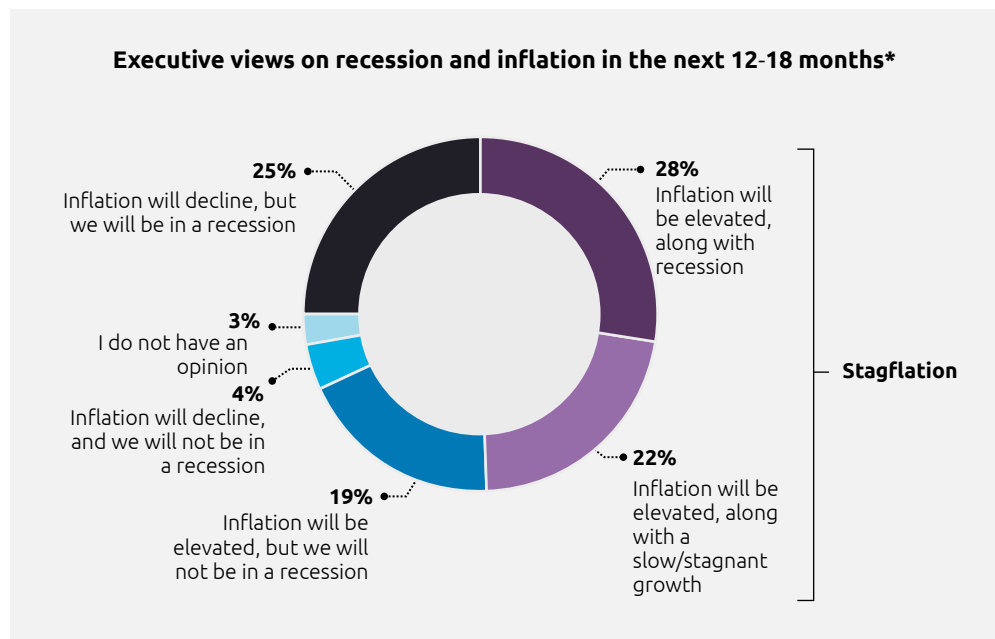
- 28 percent are expecting recession along with high inflation

- One-quarter of executives (25 percent) expect deflationary recession
- And nearly one in five (19 percent) expect high levels of inflation but not recession

In summary, 53 percent of executives expect recession, and an additional 22 percent expect slow/stagnant economic growth rate in the next 12–18 months; 69 percent believe that inflation levels will be elevated. Our ongoing research into consumer behavior highlights that, in the light of the rising cost of living, a majority (61 percent) of consumers globally say they are extremely concerned about their personal financial situations.³

FIGURE 01

Executives anticipate a recession and elevated levels of inflation



Of those executives that expect recession in the next 12–18 months, 20 percent believe their domestic economy has already entered the recessionary phase and 30 percent expect it to occur in the next six months (see Figure 2). An additional 35 percent expect the recession to hit in 12–18 months.

- Nearly 27 percent of executives in Western Europe believe that the region is already in recession, and a similar percentage (26 percent) expect the region to enter into recession in the next six months
- Nearly 32 percent of executives in the US believe that the country will enter a recession in the next six months
- Executives in India and Singapore are most positive about averting a recession in the next six months

* Data reflects opinions of executives on the economic condition of their country of residence.

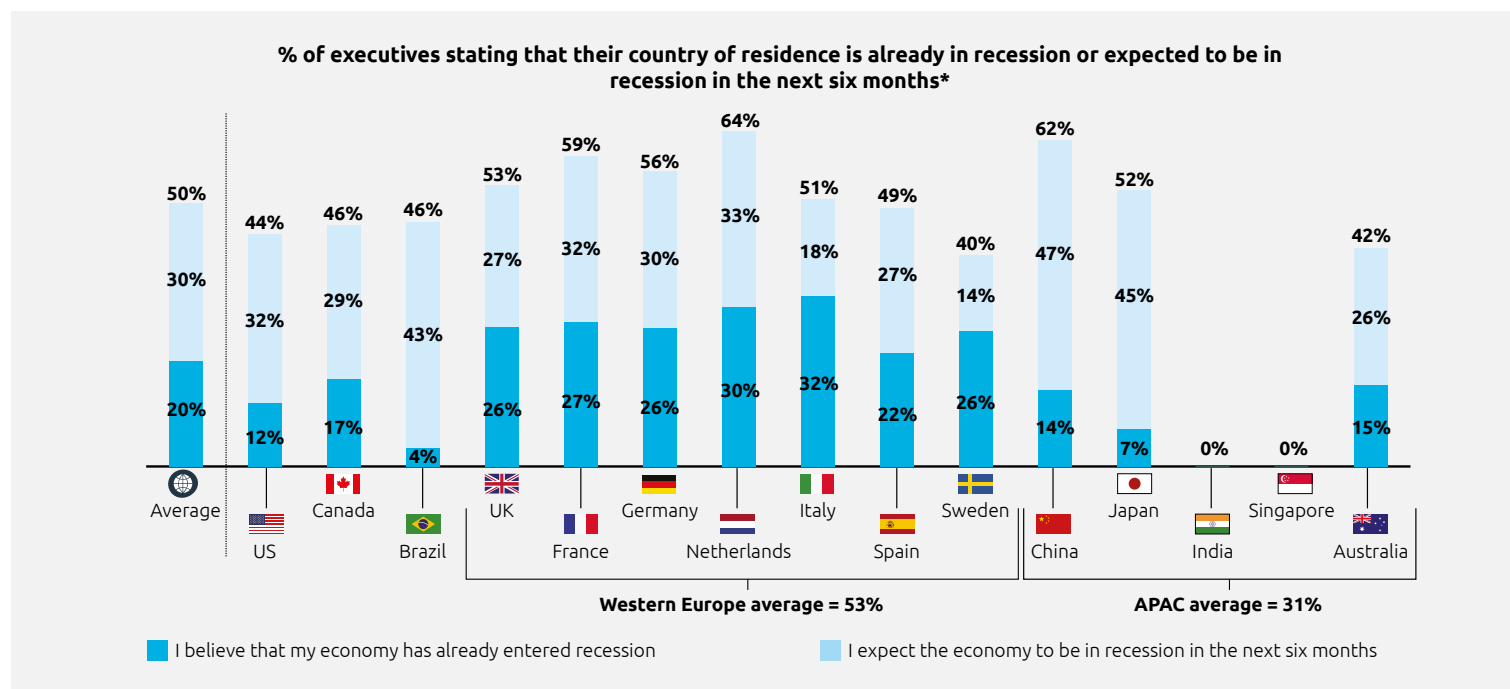
Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

61%

of consumers globally say they are extremely concerned about their personal financial situations

FIGURE 02

Around six in 10 executives from the Netherlands, China, and France believe that their countries are in recession or will be in the next six months



* Data reflects opinions of executives on the economic condition of their country of residence.

Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=1,059 respondents from unique organizations that anticipate a recession in the next 12–18 months.

“While consumers and companies are currently in good shape, that may not last much longer... Inflation is eroding everything... These things may well derail the economy and cause this recession that people are worried about.”

JAMIE DIMON

CEO of JP Morgan Chase

ORGANIZATIONS ARE ALREADY SEEING A SLOWDOWN IN BUSINESS GROWTH

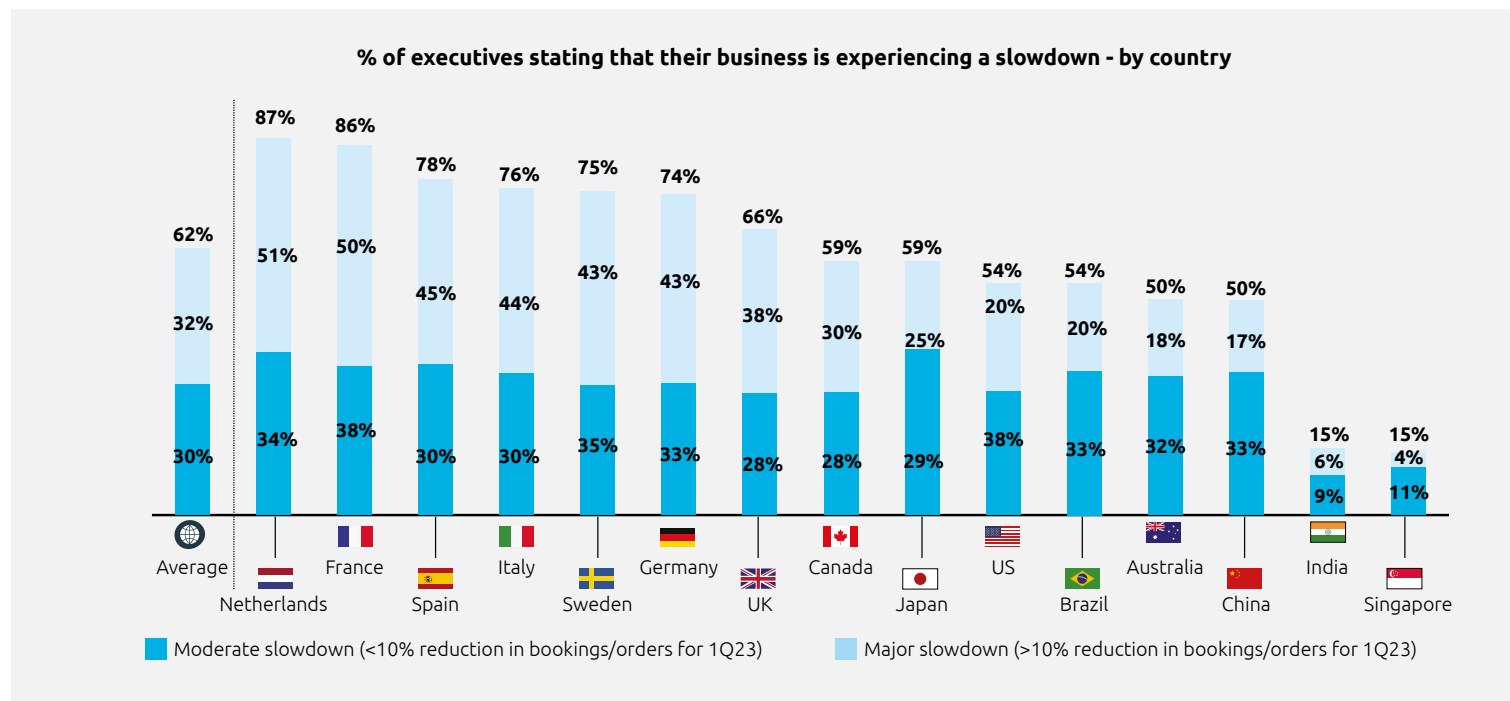
Amid this forbidding economic scenario, 62 percent of executives say that their organization is already experiencing a slowdown. One-third (32 percent) of organizations have seen a major reduction (>10 percent) and 30 percent have seen a moderate reduction (<10 percent) in bookings/orders for 1Q23. By country, nearly half of organizations in France and the Netherlands have seen a major reduction in bookings/orders for 1Q23.

Retail and banking and capital-markets sectors seem to be most heavily impacted (see Figures 3 and 4). At a recent financial conference, Brian Moynihan, CEO of Bank of America, offered a grim outlook for investment banking (IB) for 4Q22, although he notes that trading will be a bright spot. Moynihan expects IB fees to decline by 55–60 percent, year on year, while trading revenue will grow by 10–15 percent (with major support from fixed-income trading).⁴

62% of executives say that their organization is already experiencing a slowdown

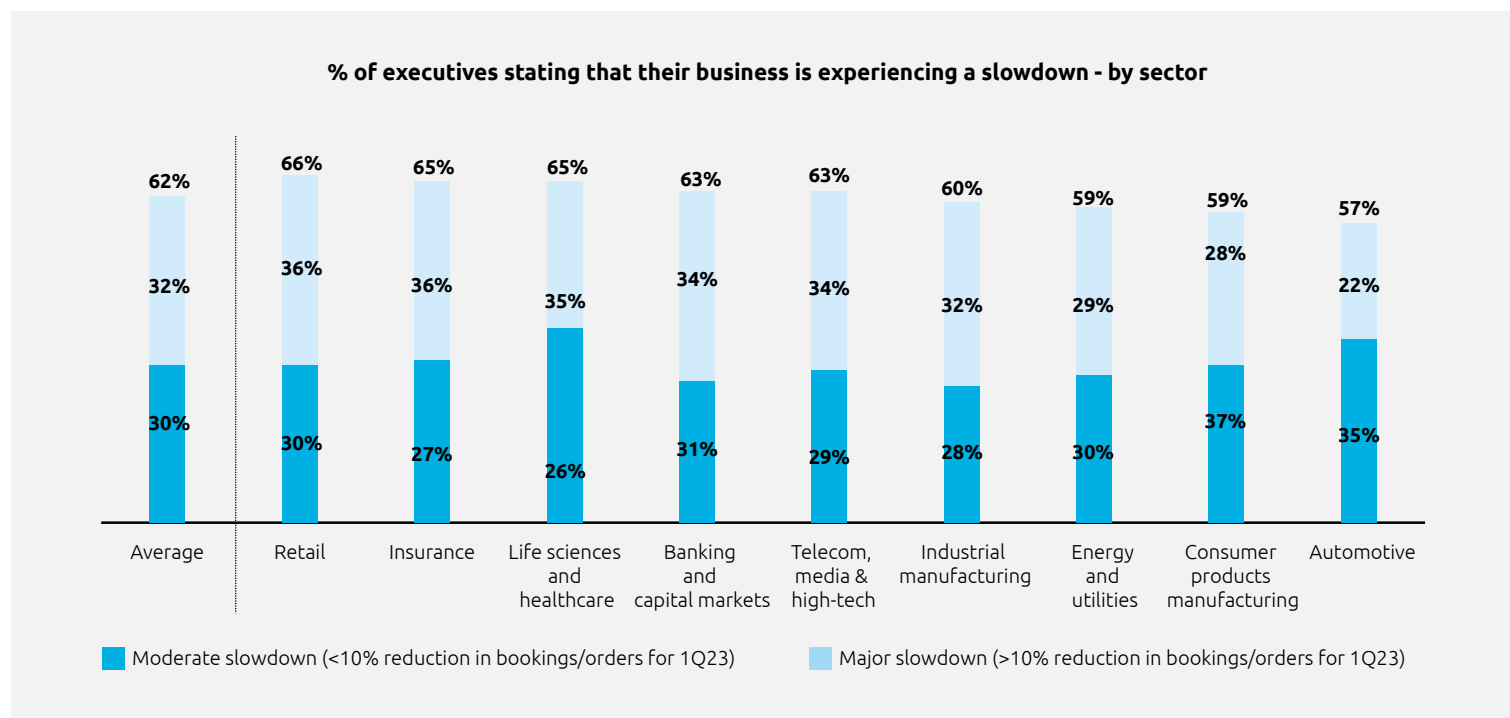
FIGURE 03

On average, four in 10 organizations in Western Europe are experiencing a significant slowdown in business



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=1,800 respondents (excluding public sector) from unique organizations.

FIGURE 04
Organizations across sectors are witnessing a slowdown in bookings



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=1,800 respondents (excluding public sector) from unique organizations.

Supply-chain disruptions, rising prices of raw materials, and the ongoing energy crisis are some of the key risks for organizations (see Figure 5). Across sectors, supply-chain bottlenecks are a high risk for industrial manufacturing (92 percent of executives agree), life sciences (91 percent), retail (91 percent), and automotive (90 percent) sectors. On supply-chain issues, Masakazu Yoshimura, MD and CEO of Toyota Kirloskar Motor, says: *“There is the semiconductor*

*issue, logistics congestion, and content shortages. All these combined affect [delivery time of vehicles]. No one could have predicted that kind of situation after COVID-19 ... There are shortages of gantry cranes at all major ports in the global logistics chain, and that is affecting the supply of components, regardless of whether it is semiconductors or normal components.”*⁵

89%

of executives see supply-chain disruption as the biggest short-term risk for their organization

There is the semiconductor issue, logistics congestion, and content shortages. All these combined affect [delivery time of vehicles]. No one could have predicted that kind of situation after COVID-19 ... There are shortages of gantry cranes at all major ports in the global logistics chain, and that is affecting the supply of components, regardless of whether it is semiconductors or normal components.

MASAKAZU YOSHIMURA

MD and CEO of
Toyota Kirloskar Motor

FIGURE 05

Supply-chain disruption is the biggest short-term risk for organizations



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

HOWEVER, THERE IS OPTIMISM FOR BUSINESS RECOVERY

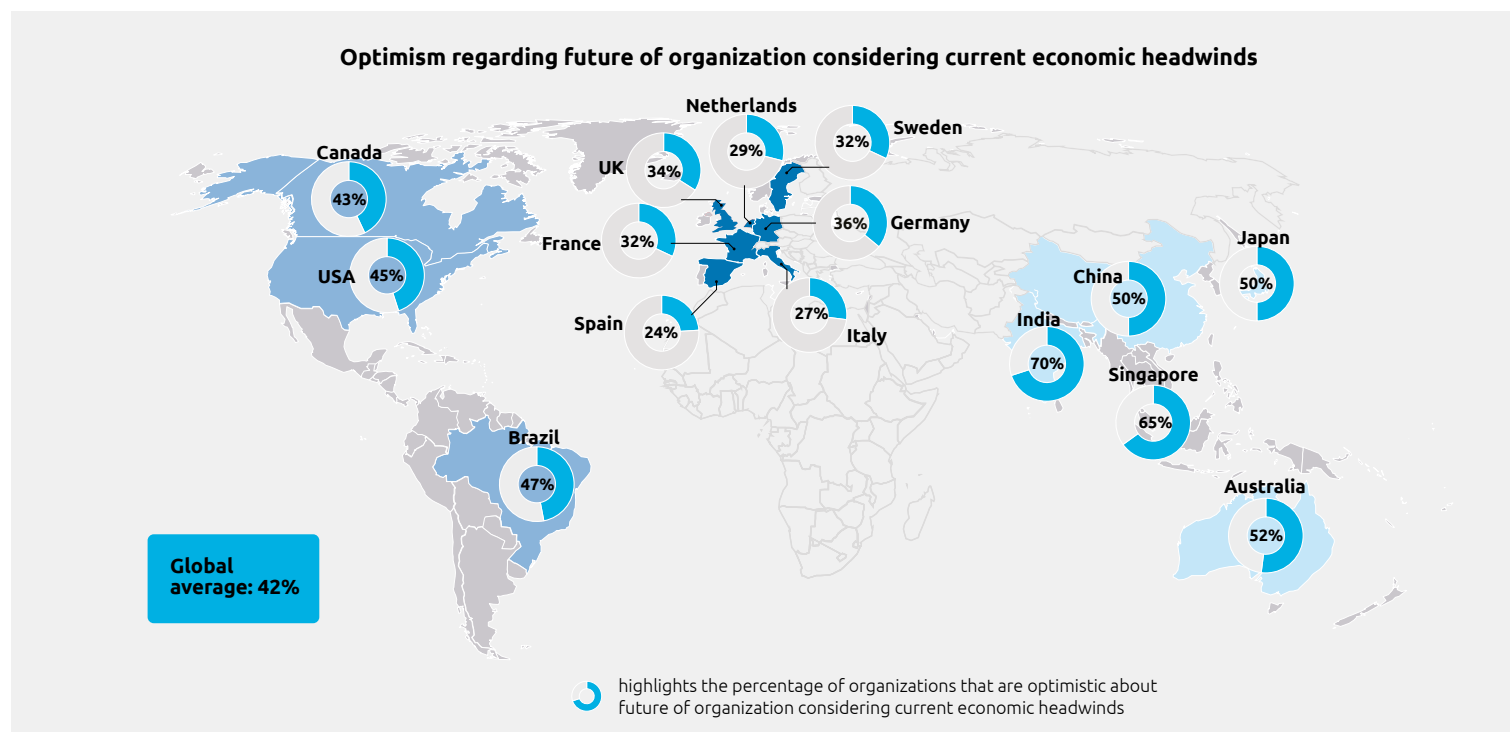
Despite growing global uncertainty, high inflation, the energy crisis, supply-chain disruption, and a fear of recession, a majority of executives in our research have a positive outlook.

Of those executives who anticipate recession in the next 12-18 months, 71 percent expect it to last up to a maximum of 12 months. Moreover, 66 percent of executives expect the economy to bounce back within 1-2 years of recession. James S. Tisch, CEO of US hotels conglomerate Loews, comments in regard to his earnings call: “...[Our] *‘fearless forecast’ is for recession, but not one that would be as ‘cataclysmic’ as ‘08 or ‘09.*”⁶

Overall, 42 percent of executives are positive about the future, whereas nearly one-quarter (25 percent) are neutral. Figure 6, below, highlights business optimism by region.

FIGURE 06

Nearly seven in 10 executives in India and Singapore are optimistic regarding the future of their organizations

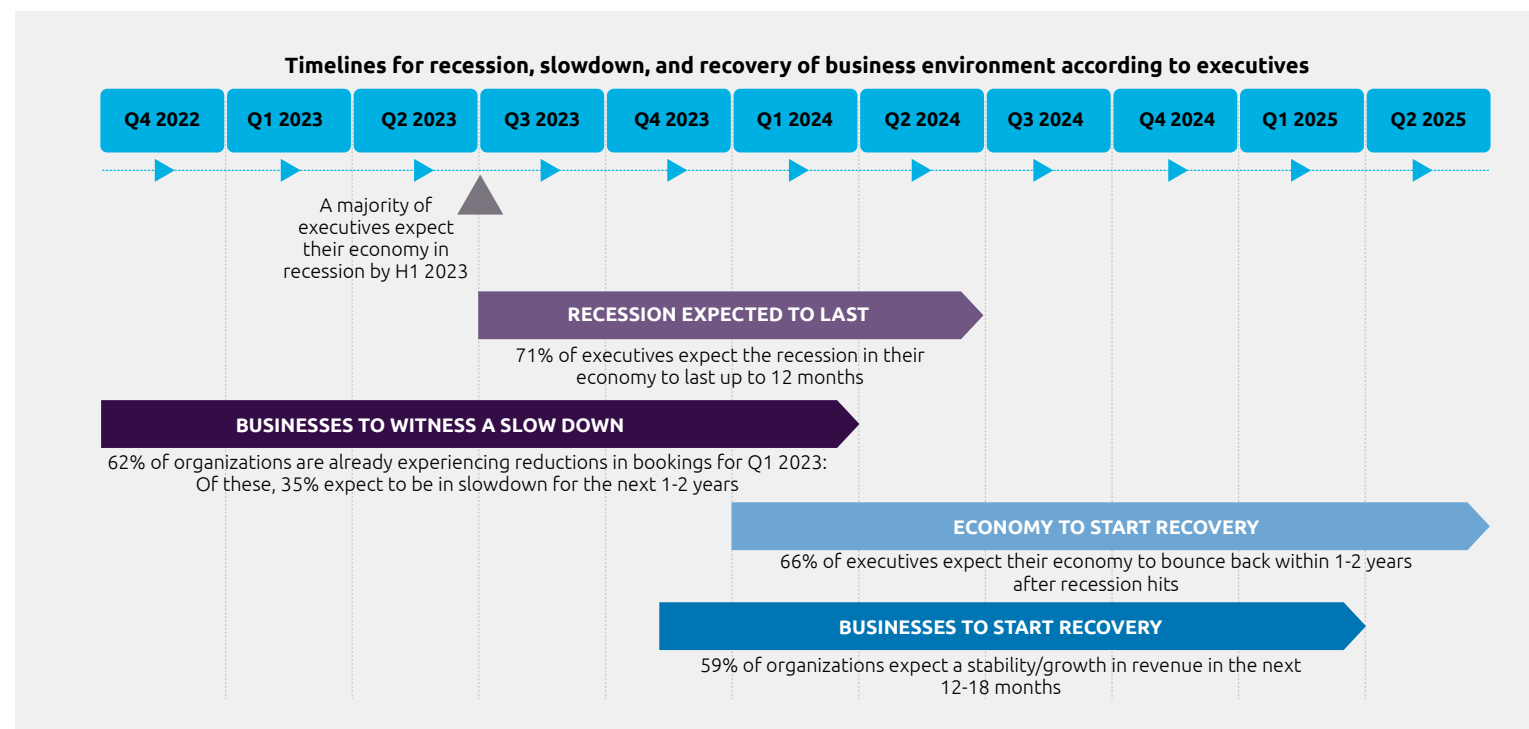


Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

FIGURE 07

Nearly 60 percent of organizations expect to see revenue growth in the next 12–18 months

Moreover, in the next 12–18 months, one-third (32 percent) of executives expect to maintain current revenue levels, and 26 percent expect revenue to increase (by around 4.4 percent on average). Michelin's CEO, Florent Menegaux, adds: *"[I forecast] that we will not go back into real recovery before mid-2023. The auto [industry] recovery looks more likely to happen in 2024, absent a deep recession."* He adds that he foresees only "a mild recession."⁷ Figure 7 summarizes executives' views on expected timelines for economic and business recovery.



Source: Capgemini Research Institute Analysis; Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

In the next 12–18 months, 32% of executives expect to maintain current revenue levels, and 26% expect revenue to increase



66%

of executives expect the economy to bounce back within 1-2 years of recession

42%

of executives are positive about the future, whereas 25% are neutral

[I forecast] that we will not go back into real recovery before mid-2023. The auto [industry] recovery looks more likely to happen in 2024, absent a deep recession.

FLORENT MENEGAUX
CEO, Michelin



02

ORGANIZATIONS ARE TAKING A CAUTIOUS APPROACH TO INVESTMENT

ORGANIZATIONS ARE EVALUATING NEW BUSINESS MODELS AND ARE CLOSELY MONITORING OPERATING EXPENSES

In preparation for the likely downturn, organizations are taking a number of measures:

- The most-cited step (by 60 percent of organizations) is evaluation of new business models to offset the current slowdown (there was a widespread move to develop new business models during the pandemic; for instance, it took less than 30 days for PepsiCo to launch two direct-to-consumer (DTC) channels to fulfil demand during the first phase of the COVID-19 crisis).⁸ Many organizations are also evaluating subscription-based or as-a-service models. Our [previous research](#) highlighted that 68 percent of organizations are planning to pivot to “servitization”-based business models in the next three years
- Nearly half (44 percent) of organizations are reviewing their workforce management – including rethinking workforce locations, limiting hiring, etc.

44%

of organizations are reviewing their workforce management – including rethinking workforce locations, limiting hiring

40%

percent are focusing on preserving cash/liquidity (through measures such as cost optimization, revenue protection, etc.)

- And 40 percent are focusing on preserving cash/liquidity (through measures such as cost optimization, revenue protection, etc.). Of these:

▶ 74 percent are focusing on curbing operating expenses

▶ 71 percent are reducing discretionary spending

▶ 64 percent are evaluating non-core aspects of business to improve P&L

Torbjörn Sannerstedt, ex-CFO of Sweden-based waste disposal, recycling, heating, and electricity services provider Halmstad Energi & Miljö, comments:

"In times of uncertainty and downturn, the need to work with the company's cash flow increases significantly [...] Freeing up capital and reducing short-term variable costs are the immediate measures to strengthen cash flow."⁹

Some organizations are pre-emptively securing additional borrowing capacity to sustain them during economic downturn. Canadian aircraft maker Bombardier, for example, is setting up a new credit facility.¹⁰

68% of organizations are planning to pivot to "servitization"-based business models in the next three years

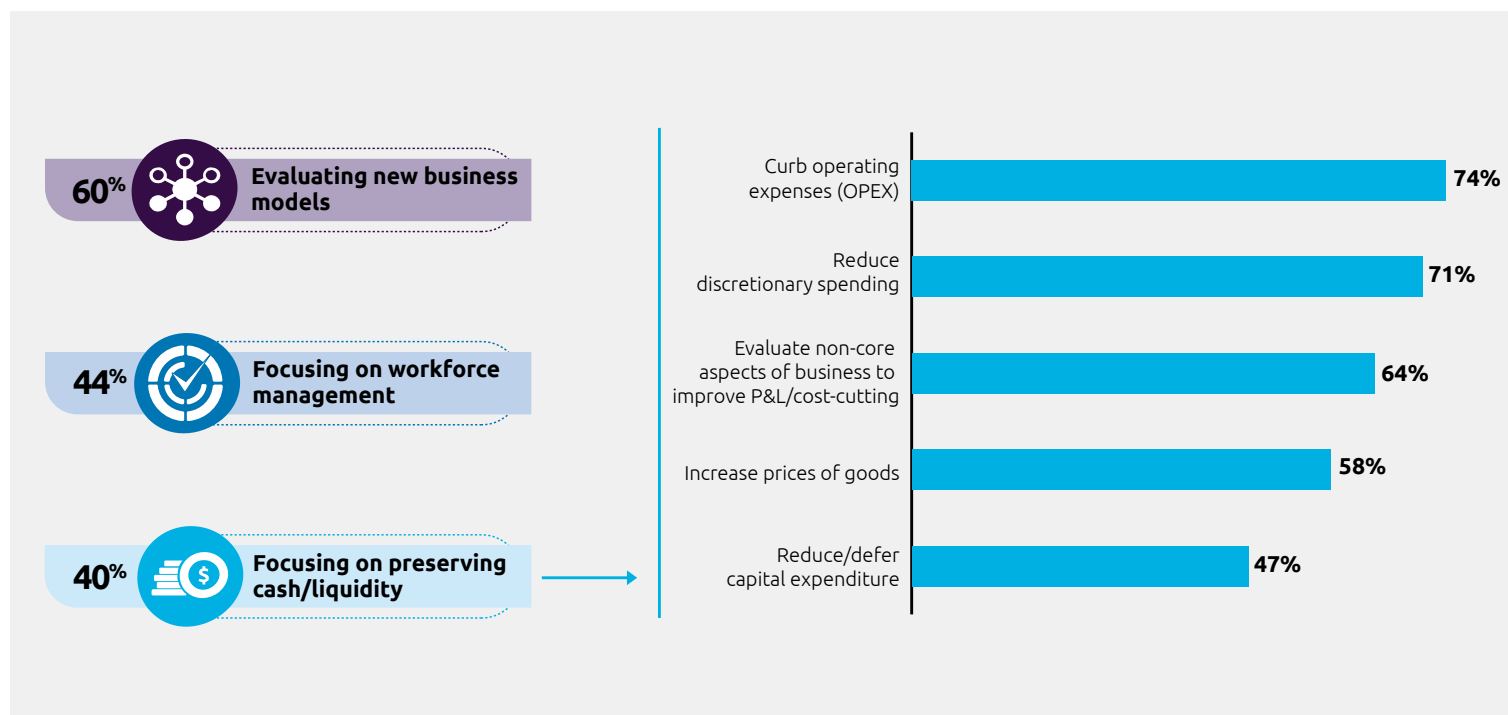
"In times of uncertainty and downturn, the need to work with the company's cash flow increases significantly [...] Freeing up capital and reducing short-term variable costs are the immediate measures to strengthen cash flow."

TORBJÖRN SANNERSTEDT

Ex-CFO of Sweden-based waste disposal, recycling, heating, and electricity services provider Halmstad Energi & Miljö

FIGURE 08

Organizations are currently focusing on evaluation of new business models, workforce management, and cash preservation to offset the impact of the anticipated economic downturn



Source: Capgemini Research Institute Analysis; Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations, N=807 respondents from unique organizations that are prioritizing cash/liquidity preservation.

ORGANIZATIONS ARE PRIORITIZING COST-REDUCTION TECHNOLOGIES

Our research shows that overall investment in technology is going to increase in the next 12–18 months:

- 39 percent of organizations plan to increase investment in technology in the next 12–18 months
- a similar proportion say they will maintain their current level of investment
- overall, investment is forecast to increase by 7 percent on an average on the current levels in the next 12–18 months

During times of economic uncertainty, organizations look to technology to drive growth and create added economic value at speed. Steve Miller, CTO of Steelcase, a provider of office architecture and furniture with a trading history stretching back over

a century, confirms this: *“It’s when times are hard that you invest in technology. It’s the one thing that helps you survive the storm.”*¹¹ In our research as well, a majority are investing in technology towards the new digital economy – focusing on competitiveness, capability, and resilience as increasingly companies become software companies.

As cost reduction is a key focus area for organizations, we find that, in the next 12-18 months:

- Nearly three in four (72 percent) executives will be looking to make significant technology investments to reduce long-term cost, while 59 percent will look to make technology investments that support faster decision-making

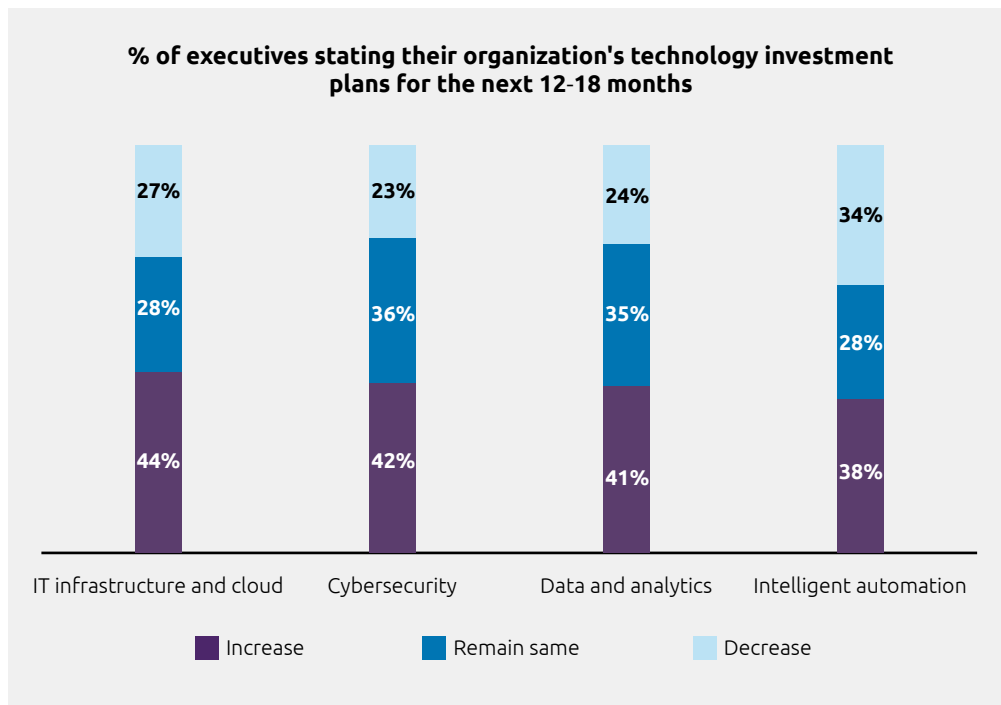
- Consequently, as Figure 9 shows, we see technologies such as IT infrastructure and cloud, data & analytics, and intelligent automation, among others, attracting investment in the next 12–18 months. Analyzing by revenue size, we found that 40% of very large organizations (with revenue more than \$50billion) agree that their cybersecurity spend is expected to increase in the next 12-18 months.

72%

of organizations plan to make significant technology investments to reduce long-term cost in the next 12–18 months

FIGURE 09

In the next 12–18 months, organizations plan to increase their investment in technologies that aid in cost saving and faster decision making



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

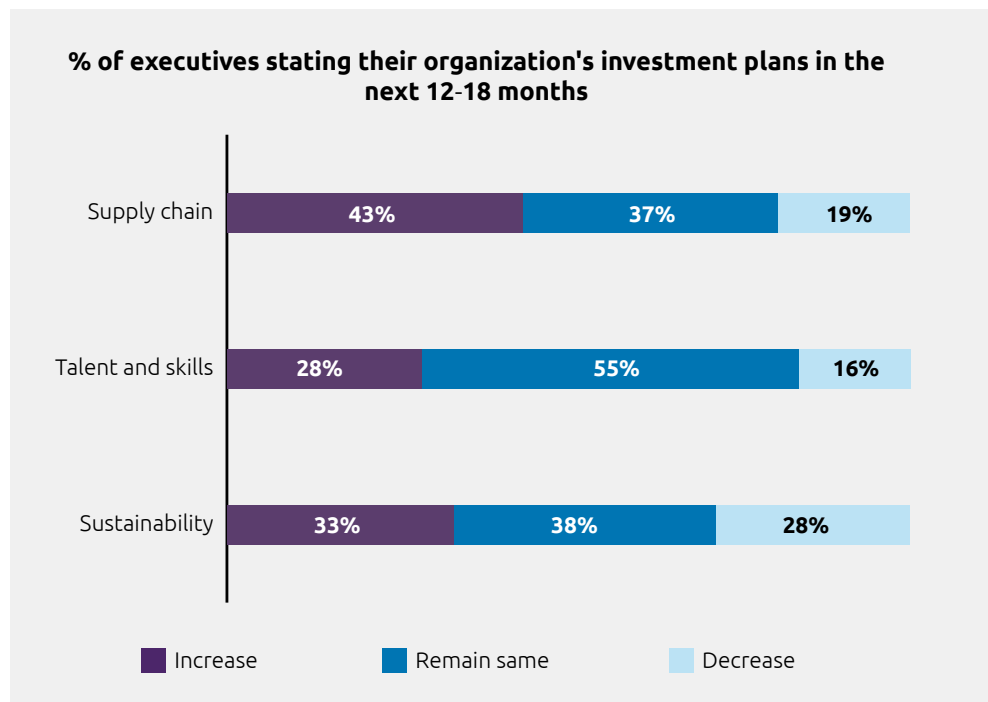
SUSTAINABILITY AND TALENT TAKE A BACK SEAT AS ORGANIZATIONS FOCUS ON SUPPLY-CHAIN INVESTMENTS

One of the cumulative effects of the crises of the past three years has been to reorder supply-chain priorities. Organizations are now focusing on building more resilient, flexible, and dynamic supply chains before the next shock hits. Our research found that **supply chain** is the area where organizations are planning to increase investment most strongly in the next 12–18 months.

More than half of organizations plan to maintain investments in **talent and skills**. As mentioned previously, the expectation of a recession is driving a hiring freeze, rethinking of workforce locations, as well as downsizing in many organizations. Figure 10, gives an overview of the new investment priorities. In the next sections, we deep dive into each of these areas.

Sustainability is frequently seen as a cost center, rather than a value center, and the expected downturn only makes finance teams more wary of channeling funds towards sustainability investment.¹² Our research shows that only one third (33 percent) of organizations are increasing their sustainability investments, and 28 percent are decreasing their sustainability investment. If organizations are going to meet their sustainability targets, evidently something will have to change.

FIGURE 10
Organizations are planning to increase investment in supply chain in the next 12–18 month



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.



ORGANIZATIONS PLAN TO INCREASE INVESTMENT IN DIVERSIFYING AND DIGITIZING THEIR SUPPLY CHAINS

The supply chain is no longer an afterthought in business meetings today and is at the heart of organizations' ongoing transformation efforts. Supply-chain trade-offs are driven by two recognized forces: the need for a personalized and real-time customer experience, and for a global value chain that continuously optimizes manufacturing and production costs. Resilience and sustainability are also key supply chain topics. Resilience is essential for organizations to overcome external "black swan events," such as the COVID-19

pandemic, the ongoing geopolitical crisis in Europe, and rising energy shortages. Such events are becoming more frequent and severe, impacting both top and bottom lines. Over half (54 percent) of organizations acknowledge that their supply chains have altered significantly in the past two years.¹³ Our research found that 45 percent of companies absorb a significant portion of the cost increase themselves, due to resilience, sustainability, and customer-centricity efforts, while remaining unaware of their true end-to-end baseline. Global

supply chain bottlenecks and trade/logistical disruptions are perceived to be the biggest risk to growth in the next 12–18 months.

In line with that, 43 percent of executives across sectors including life sciences, retail, industrial manufacturing, and consumer products, say that their organizations will increase investments in the supply chain in the next 12–18 months, by 10.4 percent on average from current levels. Nicole Ghezali, SVP of Global Merchandizing at

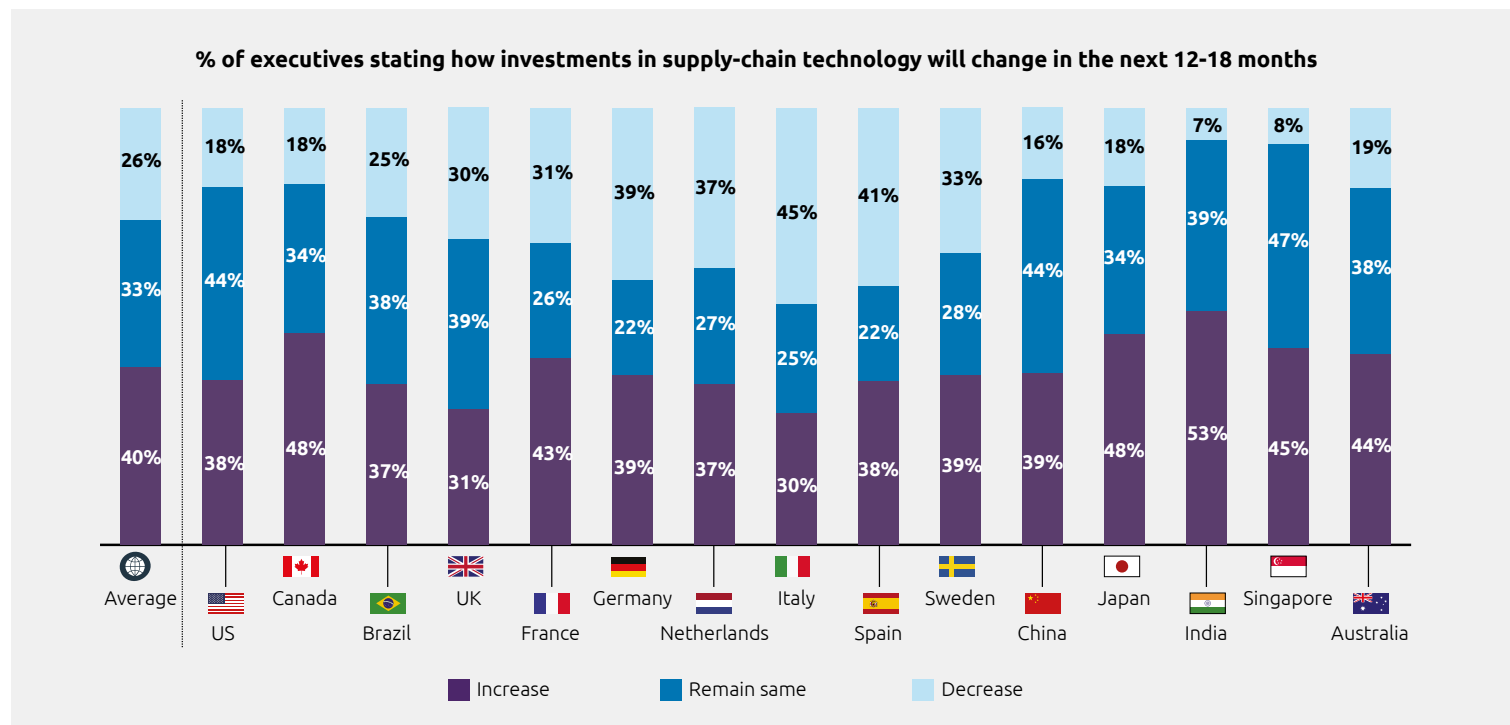
43% of executives, say that their organizations will increase investments in the supply chain in the next 12–18 months

sportswear retailer Adidas, adds: *“Consumer goods’ markets have slowed down globally, affecting inventory and price positions. 2023 is going to be about right-sizing inventories to ensure a balanced inventory position.”*

As organizations consider the supply chain as a revenue driver rather than a cost center, they are focusing on new operating models around alternative sourcing, de-globalization or localization, and investment in technology to do manage the trade-off between cost and service more intelligently. Our research also shows that the principal focus areas for investment will be in supply chain technologies (enabling agility/transparency/visibility of supply chains) and diversification (of supplier base, production, and transportation partners). Nearly 40 percent of executives agree that their organizations are planning to increase investment in these areas in the next 12–18 months (see Figures 11 and 12).

FIGURE 11

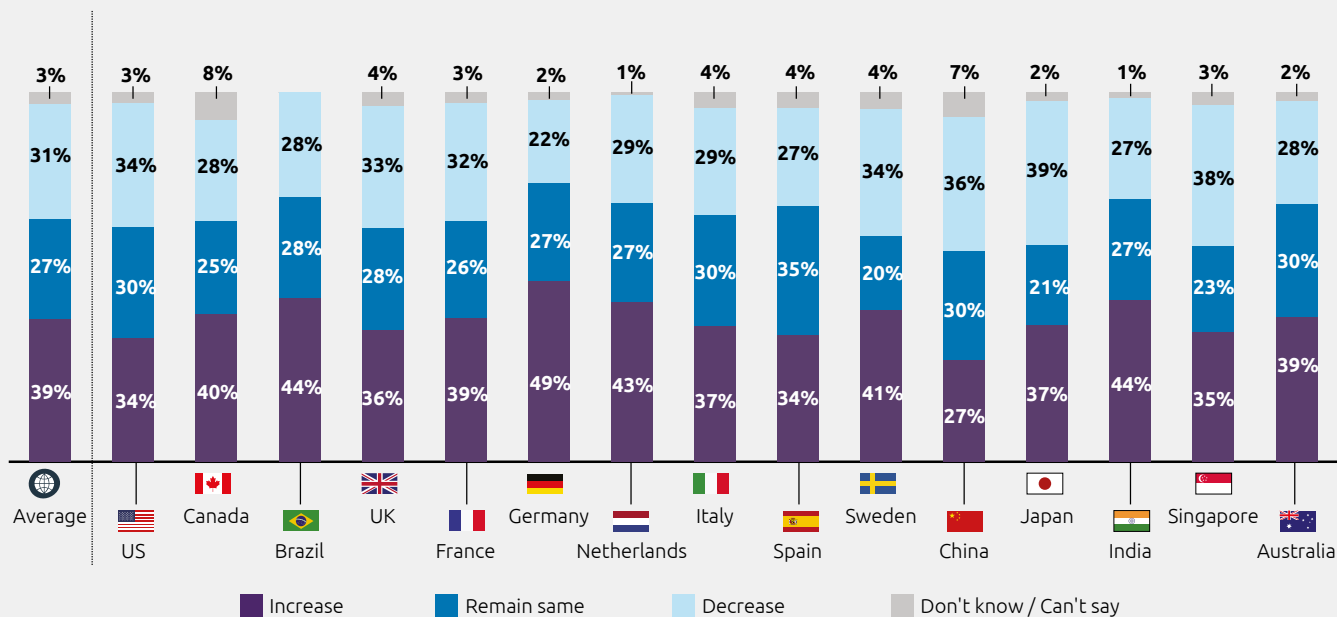
APAC countries plan to invest more in supply-chain technology in the next 12–18 months



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

FIGURE 12
European countries plan to invest more in supply-chain diversification
in the next 12–18 months

% of executives stating how investments in supply-chain diversification will change in the next 12-18 months



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

Over the past three years, the COVID-19 crisis has drastically exacerbated supply-chain fragility: three-quarters of organizations globally have been impacted by the closing down of facilities, supply disruptions, employee absences, and the imperative for remote work, while less than 20 percent are well equipped to handle these changes.¹⁴ As many as 92 percent of organizations say the ongoing relocation of the global supply chain will impact them, but only 15 percent are well equipped to handle it.¹⁵ Actions that organizations are undertaking to diversify the supply chain include:

- onshoring or nearshoring to bring production bases closer to sources of demand (72 percent)
- regionalizing and localizing supplier base (65 percent)
- diversifying manufacturing base (i.e., reducing our reliance on a single geographic region) (62 percent)

Key action areas:

Assess core capabilities required to develop resilience across the network

Measuring vulnerability and targeting transformation is crucial. Amid global uncertainties, organizations face restrictions on the movement of goods across borders. In response to this threat, many have taken steps to strengthen relationships with top suppliers to secure an uninterrupted supply of critical parts. Organizations should revisit core and non-core activities in their supply

chains to increase resiliency. For example, should transportation be considered as a core competency, given rising freight costs, freight disruptions, and labor shortages? It should also be noted that greater localization of products requires organizations to build relationships with regional transport providers. Similarly, organizations need to adapt their operating models in response to new trends. Consumer products (42 percent), retail (39 percent), manufacturing (42 percent), and life sciences (41 percent) organizations have cited the emergence of new operating models (such as omnichannel fulfillment and remote working) as a key challenge.

Build data-driven technology-enabled capabilities

Build and deploy a composable, integrated, and customer-centric architecture, combining a transactional backbone, ERP, best-of-breed industry solutions (notably for execution), as well as data-sharing and collaborative platforms to break down siloes and enable end-to-end management, from simulation to AI-based event monitoring. Although control towers have been around for more than a decade, implementation has been patchy. Often, organizations have different control towers

54%

of organizations acknowledge that their supply chains have altered significantly in the past two years

72%

of organizations are looking at onshoring or nearshoring to bring production bases closer to sources of demand in the next 12–18 months



for different parts (outbound logistics, for example) of their supply chain. There is a need to upgrade the control-tower model into an integrated and connected solution that provides improved visibility for the entire supply chain.

A digital twin is a virtual replica of a physical system that can model, simulate, monitor, analyze, and constantly optimize its counterpart in the physical world. Through its ability to answer questions such as “what is best?”, “what if...?”, and “what next?”, a digital twin can not only provide visibility of how dynamic, real-world systems are currently performing and propose how to improve them, but also predict how they will perform in different scenarios. For instance, home-improvement retailer Lowe’s created a digital twin of one of its stores to help its associates improve efficiency of operations.¹⁶

Use data to create value within the ecosystem to drive growth

There are multiple untapped data sources like geopolitical risks, the impact of weather on demand and logistics, and product and provenance data that could help organizations generate better insights to improve relationships with suppliers and customers to deliver uninterrupted service despite disruption. There are new demands being placed on organizations' supply networks driven by factors such as:

- Vendor accountability for sustainable sourcing and procurement

- The imperative to secure supply and enhance visibility of critical-parts supply chains, with organizations requiring visibility of supplier operations at tier 2, tier 3, and other levels
- The requirement to establish traceability of parts to guarantee authenticity and track the movement of products
- Improving resilience to external shocks
- Nurturing agility in responding to trends
- Increasing diversity and inclusion criteria for supply-chain vendors (such as sourcing agri-commodities from small farmers)

Alcoholic beverages organization
Diageo has kicked off several initiatives to encourage close collaboration with

suppliers and customers. With real-time shipment tracking, the organization could determine the status of all global customer shipments during the Suez Canal blockage, for instance. It determined that the ship blocking the canal did not contain Diageo products, but that the organization would be impacted by the resulting backlog of vessels. This insight allowed the organization to communicate proactively with shipping lines and customers.¹⁷

Collaborating with partners in the ecosystem through insights generated by advanced analytics tools including ML, could proactively guide organizations during disruptions, make faster decisions, and provide a competitive advantage.

"Consumer goods' markets have slowed down globally, affecting inventory and price positions. 2023 is going to be about right-sizing inventories to ensure a balanced inventory position."

NICOLE GHEZALI

SVP of Global Merchandizing at sportswear retailer Adidas





ORGANIZATIONS FOCUS ON REMOTE AND HYBRID WORKING WHILE NEGLECTING EMPLOYEE EXPERIENCE, LEARNING, AND DIVERSITY

As organizations look at preserving costs, 60 percent of executives say that they are actively downsizing to reduce headcount. Our research also shows that a majority (55 percent) of executives agree that their organizations are planning to maintain investment levels in talent and skills in the next 12–18 months. While maintaining this status quo, organizations are actively investing in and implementing:

- hybrid working options for employees (65 percent of executives agree)
- permanent remote working options for roles that require less supervision and teamwork (61 percent of executives agree)

However, while they are focusing on investment in hybrid/remote working conditions, organizations will reduce investment in other critical areas, such as employee experience, learning, and diversity in the next 12–18 months (see Figure 13). Jonathan Parsons, Senior Director HR at Hitachi Rail, adds: *“Despite*

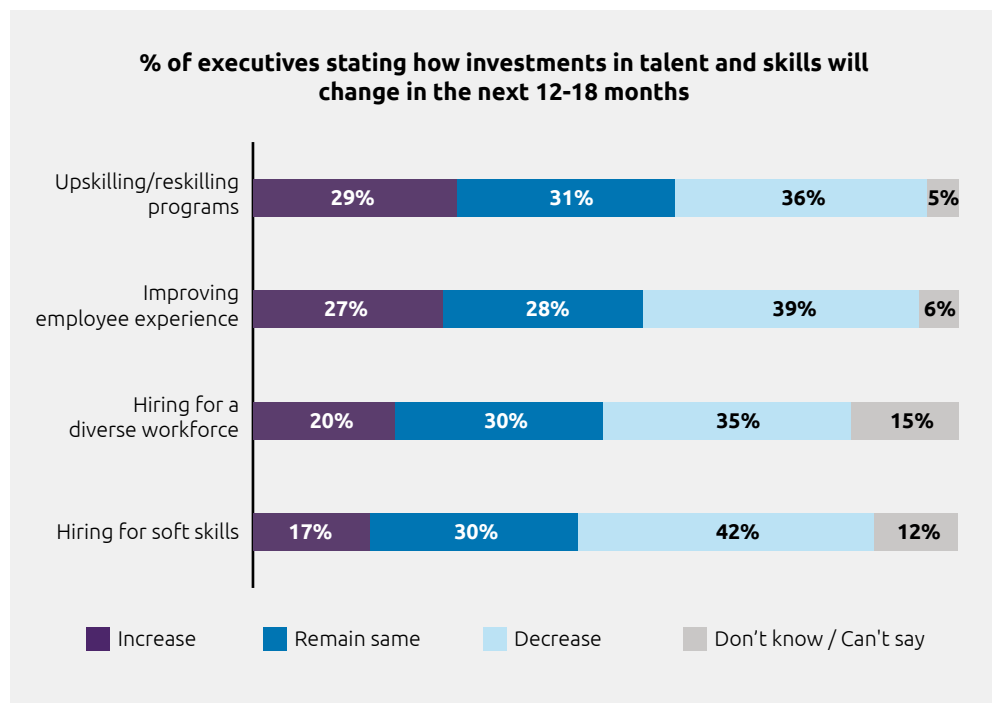
the prevailing economic winds and tough trading conditions, its important that we maintain the investments we have made in improving employee experience, upskilling our employees and hiring for a diverse workforce so that once conditions improve, we are able to retain our talent.”

55%

of organizations are planning to maintain investment levels in talent and skills broadly unchanged in the next 12–18 months

FIGURE 13

Only one in five executives agree that their organization will increase diversity investment in the next 12–18 months



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

Key action areas: _____

Ensure flexibility in your workforce strategy

Organizations need to develop an enterprise-wide workforce strategy that includes permanent employees, but also temporary workers, remote and hybrid roles, etc. based on business criticality. A centralized strategy can help smooth out disparate employee experiences. At the same time, organizations should allow for localized, personal components to be built into the broader strategy, ensuring the possibility of a more nuanced, tailored offering. A flexible plan also allows organizations to pivot quickly as the business scenarios evolve. This strategy should be reviewed and updated on a regular manner based on employee feedback as well changing market demands.

Focus on continuous upskilling to mitigate the skills-gap

To future-proof the business, stop the skills-gap from further widening, and reduce hiring needs – organizations should focus on continuous upskilling of their employees. Our [recent research](#) found that the majority (65 percent) of employees say learning and skill development is the most important aspect of their work; however, employees are largely dissatisfied in this respect, with only 28 percent saying their organization enables them to learn and develop new skills. This, coupled with our finding that only 29 percent of organizations are planning to increase spend in upskilling and reskilling programs in the near future, paints a worrying picture in terms of working conditions.

Organizations need to define, design, implement, and update the entire learning portfolio from time to time, based on the individual needs of all employees, and providing the opportunities that the workforce wants and needs. This can only be done through a collective and sustained effort from HR as well as business leaders.

Technology can be harnessed to develop learning systems to encourage employees to upskill, or take advanced certification courses. Such systems can also help employees establish clear career trajectories and identify roles within the same company to which they can aspire, facilitating internal mobility. Louis-Laurent Preux adds: *“When we recruit young employees, i.e., Gen Z, the most important thing for them is to have good training. The next most important thing for them is internal mobility. They want to know where they will be in three years’ time.”*¹⁸

Moreover, organizations need to invest in retention of employees with critical skills. A recent study highlights that the average cost of replacing just one employee ranges from one-half to two times their annual salary.¹⁹

Use technology to enhance collaboration and productivity

Providing employees with adequate tools, technologies, and a robust data infrastructure is key to succeed in a hybrid operating model and a must to reduce ineffective tasks and increase productivity. However, many employees are underwhelmed by their current technology experiences at their workplaces. Moreover, only one-third of them say they have access to the technology and data they need to do their jobs and make informed

decisions.²⁰ Equipping employees with the tools and technology to carry out their jobs effectively is critical, especially for remote workers who can feel isolated without appropriate support. The need is for a holistic and user-friendly technology architecture – connecting various functions and solutions and enhancing the experience with more nimble applications that serve specific employee needs in all circumstances.²¹

The provision of appropriate online collaboration tools is also important, as it will enable greater agility and allow symbiotic interaction between people from various designations, backgrounds, and experiences.

Finally, employees have differing experiences when interacting with other support functions (e.g., IT, HR) on an

everyday level (for example, submitting a timesheet), which leave them feeling frustrated or overburdened. Smoothing out this technology experience is equally important: *“There is a need to reorganize, simplify, and streamline several processes in the company (such as finance, admin, performance management) as, today, employees need separate validation for each process and have to memorize different sets of guidelines to access and work with different software,”* says Françoise Bragard, Digital HR Manager at a luxury goods organization.²²

Safeguard wellbeing and promote diversity

[Our research](#) shows that only 27% of employees feel good, both physically and mentally, at work, and over half (57%)

of employees suggested that a better work-life balance could dissuade them from leaving their current organizations. Increased employee churn because of burnout could lead to greater hiring and retention costs for organizations. Fostering employee wellbeing should be a priority, with an emphasis on preventive measures to anticipate (and thereby avoid) burnout. Organizations can tailor programs using the results of their employee listening programs to address the specific needs of all employee groups.²³

A study indicates that 83% of millennials feel they are engaged at work when they believe the organization fosters an inclusive culture.²⁴ Diversity, Equity, and Inclusion (DEI) has a ripple effect on revenue and profitability. In fact, companies with above average total diversity had both 19 percentage points higher innovation

revenues and 9 percentage points higher profit margins, on average.²⁵ [Our research](#) also indicates that, of those employees planning to leave their organizations within a year, 45 percent could be persuaded to change their minds if their organizations were to implement a more inclusive and diverse culture. Given this, organizations need to put process and policies in place to create a fair, inclusive, and diverse environment for all employees. They should build a supportive, inclusive culture based on collaboration, engagement, support, and care, and empower it with continuous monitoring of employee engagement, matched by swift and relevant actions to answer the evolution of perception trends and expectations.²⁶ This could include the following initiatives:

- Thinking critically about how to access a wider recruitment pool, including

people from the wider class/ethnicity/gender spectrum. Nike, for instance, has a dedicated diversity-sourcing team to ensure diverse candidates are considered for vacant roles. They have also built an inclusive hiring process involving writing inclusive job descriptions, and blind reviewing of resumé.²⁷

- Providing employees, especially women and those from ethnic minority communities, with equal opportunities for career growth and progression. Salesforce, for instance, has built “Equality Groups,” which represent and advocate on behalf of underrepresented communities. Volunteers contribute considerable time and effort – and are compensated for doing so.²⁸

“Despite the prevailing economic winds and tough trading conditions, it’s important that we maintain the investments we have made in improving employee experience, upskilling our employees and hiring for a diverse workforce so that once conditions improve, we are able to retain our talent.”

JONATHAN PARSONS

Senior Director HR at
Hitachi Rail



ONLY ONE-THIRD OF ORGANIZATIONS PLAN TO INCREASE SUSTAINABILITY INVESTMENTS IN THE NEXT 12–18 MONTHS

More than half of executives (51 percent) say their organizations have reduced their environmental sustainability investment in the past 12–18 months, owing to adverse economic conditions. In the current environment, organizations have low levels of confidence in customers' willingness to pay. Seventy-four percent of executives feel that the demand for their sustainable products/services has declined as customers are unwilling to pay more for these in the current environment. The business case for sustainability is currently largely underestimated or misunderstood (i.e., executives fail to perceive it as a source of strategic value creation). Pia Heidenmark

Cook, former Chief Sustainability Officer at Ingka Group, explains: *"A perception many organizations have is that sustainability is more expensive. However, they do not realize that initiatives such as waste reduction and energy efficiency will reduce operational costs. The key challenge to sustainability is change management: showing the business case, why it makes sense, and influencing and inspiring people to understand why it makes a difference."*²⁹

In light of this:

- 28 percent of executives say that their organization is reducing overall sustainability investment in the next

12–18 months, with the average extent of planned decrease being 12 percent. The top three sectors which plan to decrease sustainability investment in the next 12–18 months are consumer products, banking, and industrial manufacturing.

- 38 percent plan to maintain sustainability investment at current levels
- one-third (33 percent) plan to increase their sustainability investments in the next 12–18 months, with the average extent of planned increase being 12 percent

51%

of organizations have reduced their environmental sustainability investment in the past 12–18 months, owing to adverse economic conditions

33%

plan to increase their sustainability investments in the next 12–18 months

"Integrating sustainability into the business strategy has become an imperative in every sector for attracting investment, customers, and talent."

TOM SCHALENBURG

Sustainability
Development Director,
Toyota Material Handling Europe



With half of the organizations already reducing their sustainability investments in the past 12–18 months, and only one-third planning to increase their investments, clearly organizations are not setting themselves up to meet their sustainability targets. In fact, our [recent research](#) on sustainability finds that the average annual investment in environmental sustainability initiatives and practices across industries represents 0.91% of total revenue. Larger companies are investing less as a percentage of total revenue – on average, only 0.41% of total revenue compared to 2.81% among smaller companies. In comparison, in 2020, companies in the

S&P 500 spent on average 4% of their total revenue on research and development.

Further, a report by United Nations Environment Programme (UNEP) finds that annual investments in nature-based solutions will have to triple by 2030 and increase four-fold by 2050 from the current investments. This highlights the need for investment in sustainability to be much larger than what it is to tackle interlinked climate, biodiversity, and land degradation crises. It urges governments, financial institutions, and businesses to overcome this investment gap by placing nature at the heart of economic decision-making in the future and stresses the need to rapidly

accelerate capital flows to nature-based solutions.³⁰

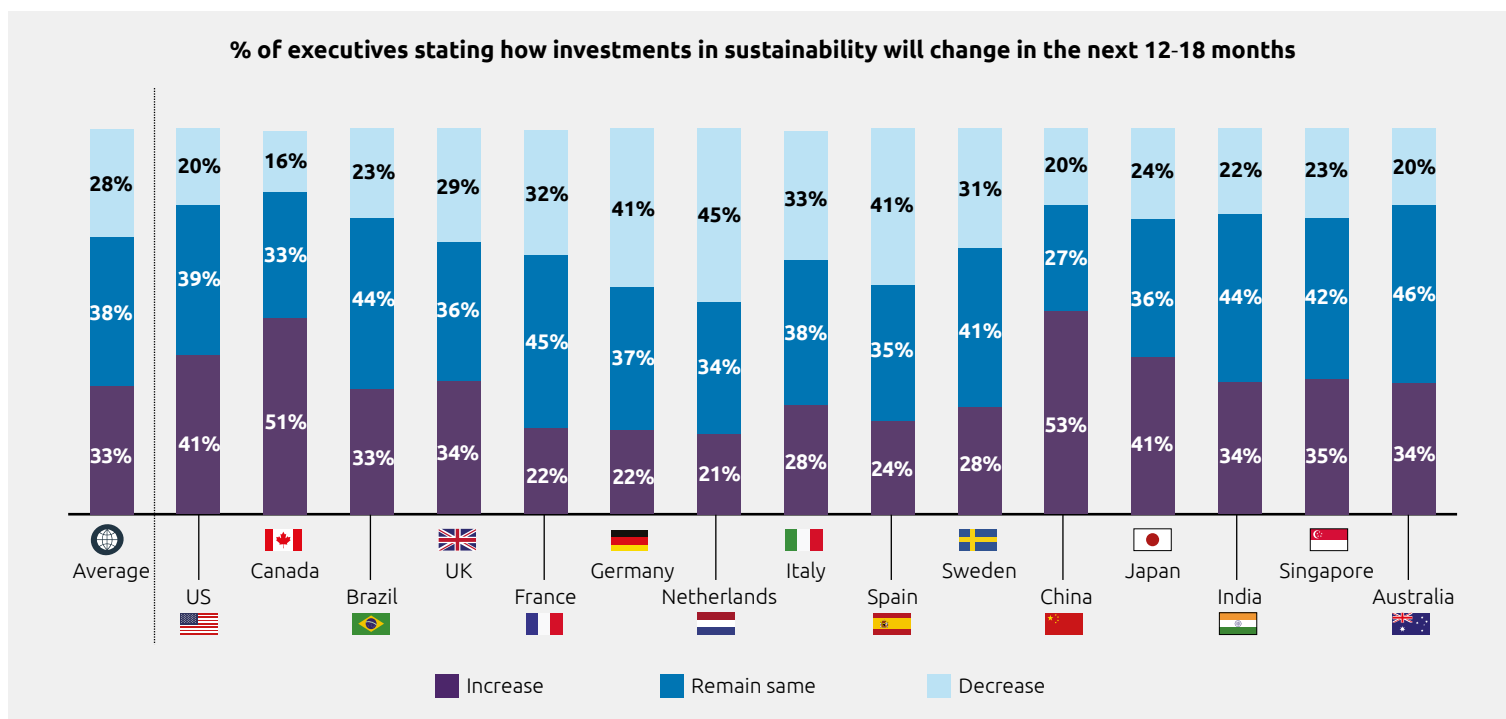
Analyzing investments by region, we see that, in the next 12–18 months, 45 percent of organizations in the Netherlands plan to decrease sustainability investment, while 53 percent of those in China plan to increase it (see Figure 14).

**31%**

of organizations are on track to their sustainability targets on the current trajectory

FIGURE 14

In the next 12–18 months, a larger share of European organizations expect to decrease sustainability investments, while a higher share of Asian organizations plan to increase them



Despite widespread professions to the contrary, sustainability seems to have little influence on the business decisions of many organizations and is also the first area from which they look to cut funds when conditions are unfavorable. Current and projected investments are unlikely to meet ever-tightening regulations and fulfill ambitious sustainability targets. Our research shows that only 31 percent will meet their sustainability targets on the current trajectory.

Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.

Key action areas:

Embed sustainability in your strategic decision making

Sustainability is not just the remit of the Chief Sustainability Officer; all business leaders must be accountable for their organization's sustainability practices. Rather than being treated as a compliance issue and a "cost of doing business," sustainability needs to become part of corporate culture. Anthony Coletta, Chief Investor Relations Officer and former CFO for SAP North America, comments: *"For CFOs, now is the time to explicitly link finance and sustainability – to take advantage of the burgeoning moral and economic opportunity. We must factor climate change into the decision-making*

*process in the same way we would interest rates or cash flow."*³¹

One of our [recent reports](#) suggests that organizations do not regard sustainability as a long-term investment, and over half (53 percent) of executives believe that the cost of pursuing sustainability outweighs the potential benefits. However, empirical evidence suggests that sustainability and a healthy bottom line are far from mutually exclusive. In fact, frontrunners in sustainability realize 83 percent higher revenue per employee and 9 percent higher net profit margin than the industry average.

Tom Schalenbourg, Sustainability Development Director at Toyota Material Handling Europe, confirms: *"Integrating*

*sustainability into the business strategy has become an imperative in every sector for attracting investment, customers, and talent."*³²

Vance Merolla, Worldwide Director, Global Sustainability, Colgate-Palmolive, adds: *"In 2020 we launched Colgate's 2025 Sustainability & Social Impact Strategy, with three 'ambitions' and 11 actions, including one to 'accelerate action on climate change.' This is embedded in our overall business strategy and spans our entire value chain, across supply, operations, and products, to reduce, replace, and remove emissions over time. Most importantly, we are working to build a mindset that uses decarbonization as a lens through which to view all business activities and decisions."*³³

“A perception many organizations have is that sustainability is more expensive. However, they do not realize that initiatives such as waste reduction and energy efficiency will reduce operational costs. The key challenge to sustainability is change management: showing the business case, why it makes sense, and influencing and inspiring people to understand why it makes a difference.”

PIA HEIDENMARK COOK

Former Chief Sustainability Officer
at Ingka Group

Support employees in their sustainability journeys

The whole workforce should be engaged in the sustainability effort. Therefore, it is important for business leaders, as well as employees, to translate sustainable objectives into practicable activities. Aligning individual activities and processes with sustainability and linking remuneration with sustainability goals can push the agenda. Laurence Pessez, Global Head of CSR at BNP Paribas, comments: *“Boards are realizing the importance of sustainability, especially with growing regulations, and are taking bold action, such as linking sustainability targets to compensation.”*³⁴

Organizations should recruit and upskill employees with the necessary sustainability skills and fluency in sustainability and climate-change issues, as well as relevant

hard skills such as carbon accounting and environmental engineering.

Magdalena Gerger, VW Group Sustainability Council Advisory Board to the Management Board, comments: *“A culture that considers sustainability in day-to-day decisions is critical. There needs to be a strong top-down, bottom-up approach that pulls together innovation and skill-building. It is about spending time getting leadership walking side by side, training your employees and involving them in your decisions.”*³⁵

Come Perpere, Chief Sustainability Officer at Microsoft France, adds: *“We have created progressive upskilling paths [i.e., 4–6 training hours one week, increasing to 8–10 hours the next, with more advanced content] for employees to gain deeper knowledge of sustainability.”*³⁶

The integration of sustainability should extend to include the broader ecosystem of vendors and suppliers. Organizations must set sustainability goals for suppliers, with clearly defined KPIs, and collaborate with them to help them meet these goals. Neither should they balk at taking stringent action in cases of non-compliance. For instance, as part of its long-term goal to phase out coal from its supply chain, H&M decided to reject any prospective supplier if their factories use on-site coal-fired boilers.³⁷

Use technology and data to expedite the transition to net zero³⁸

Several technologies, such as AI, automation, blockchain, and digital twins, can assist organizations in making design



and operational efficiencies, leading to reduced emissions. For instance, digital twin helps in optimizing design; allocation of resources; balancing energy needs; optimizing supply-chain networks; and building resilience. Blockchain is effective in creating transparent supply chains (i.e., with visibility of operations at every stage); monitoring, reporting, and verification of energy consumption and waste across the enterprise; enabling green financing; and verifying sustainability claims.³⁹

Further, data is a significant lever in accelerating the transformation towards sustainability. Our [previous research](#) found that organizations can achieve an average annual reduction of 4.6 percent in emissions by embedding emissions data in decision-making. Hence, organizations will need to have a robust data-management framework incorporating the following steps:

- Automate the collation of emissions data

- Develop a single data platform to provide a consolidated view of emissions data
- Develop emissions-data analytics and visualization capabilities, in order to make use of the data and derived insights
- Invest in a dedicated carbon-management solution to facilitate carbon accounting and reporting

Spanish financial services firm BBVA has adopted a cloud-based carbon-management solution that automates data entry and calculations; enables granular analysis of global energy consumption; and provides alerts based on key indicators. Desirée Granda, Global Head of Premises and Services at BBVA, comments: ***"This new development allows us to make faster, more agile decisions and to follow up on the objectives established in our Global Eco-efficiency Plan."***⁴⁰

"We have created progressive upskilling paths [i.e., 4–6 training hours one week, increasing to 8–10 hours the next, with more advanced content] for employees to gain deeper knowledge of sustainability."

COME PERPERE

Chief Sustainability Officer at
Microsoft France

+ CONCLUSION

To tackle current risks and navigate turbulence, businesses must continue to make considered, directed investments, especially in diversifying and digitizing their supply chains; they must adopt digital tools and technologies that drive cost savings; and expand hybrid and remote working conditions. However, certain key areas have been overlooked: Sustainability continues to be treated as an afterthought for businesses, while allocation of investment to employee issues such as improving experience, learning, and diversity, have also taken a back seat. Lack of investments in these areas is a significant risk hampering business resilience, profitability, brand value, employee engagement, and environment.

However, despite these risks and challenges, it's encouraging that most businesses expect only a short recession (up to 12 months) and are optimistic about their future growth prospects. As businesses

continue to insulate themselves against the effects of the downturn and drive growth, they should also focus on:

- Identifying core capabilities required to develop resilience across the supply chain network, building an end-to-end connected architecture to improve supply chain visibility, and creating data-driven relationships to improve collaboration across internal and external ecosystems
- Improving employee experience, ensuring continuous upskilling of workforce, and developing robust practices to promote diversity and wellbeing
- Accelerating sustainability efforts, recognizing the impact of improved sustainability on financial performance, and using technology to expedite the transition to net zero



+ RESEARCH METHODOLOGY

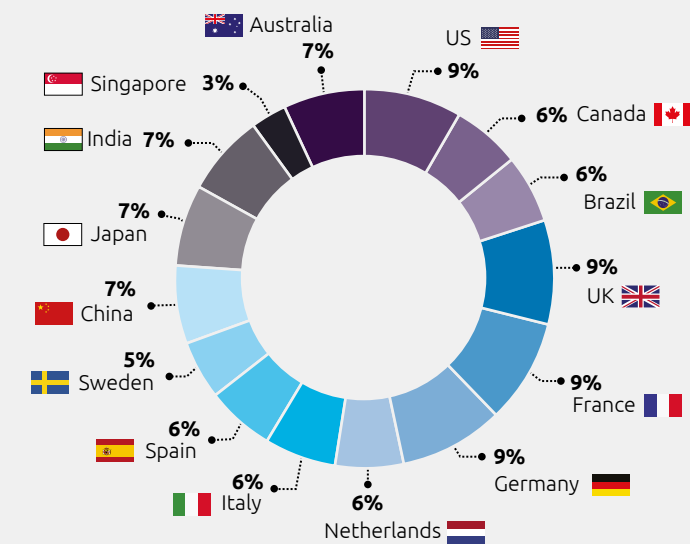
To understand the global economic scenario and how it impacts the investment landscape, we carried out extensive research, with both qualitative and quantitative components.

We surveyed 2,000 respondents from unique organizations with more than \$1 billion in annual revenue, across 15 countries. The respondents were at director level or above, spanning various functional areas, including General Management, Finance and Risk, IT/Technology, Operations, and Human Resources. The executives who participated in the survey were responsible for/highly aware of their organizations' investment plans and priorities. The distribution of respondents and their organizations is provided in the following figures.

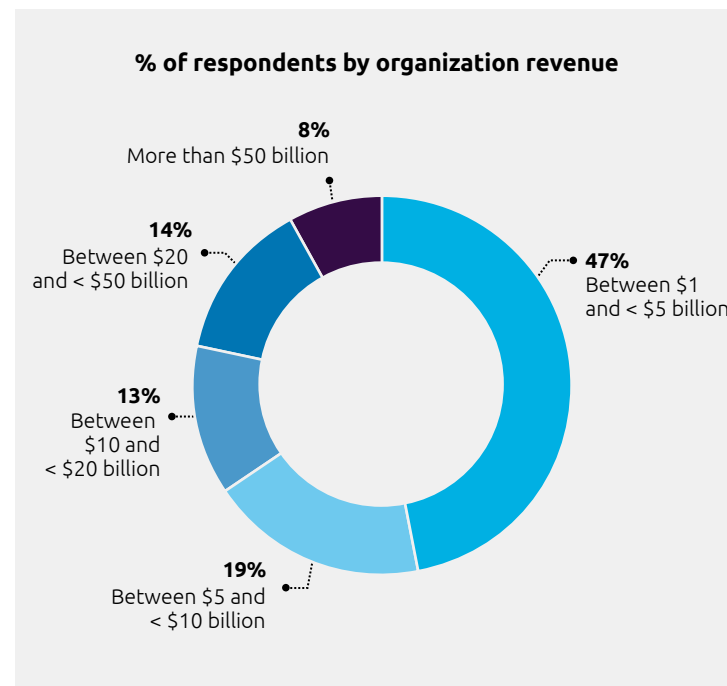
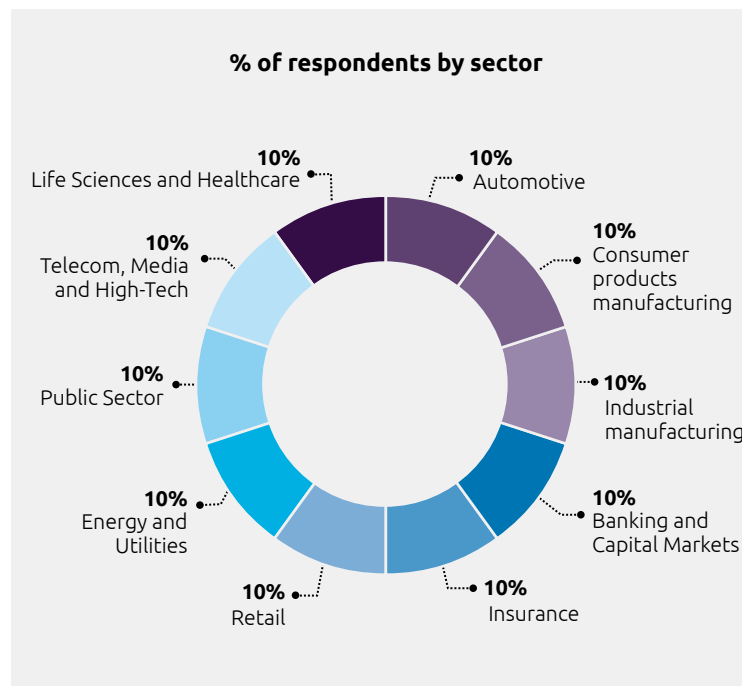
We also conducted in-depth interviews with industry executives from various sectors and functional areas. Interviewees are responsible for/highly involved in creating their organization's investment plans and priorities.

The study findings reflect the views of respondents to our online questionnaire for this research and are aimed at providing directional guidance. Please contact one of the Capgemini experts listed at the end of the report to understand specific implications.

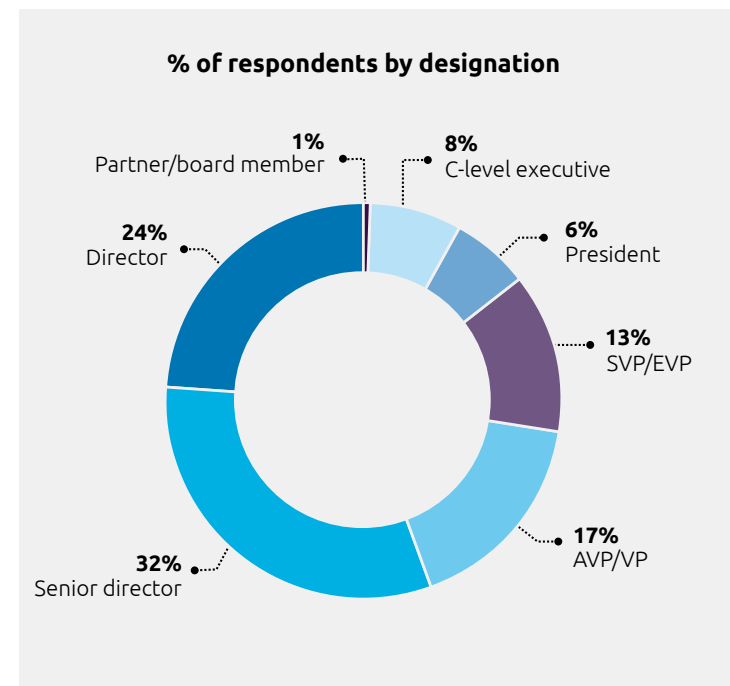
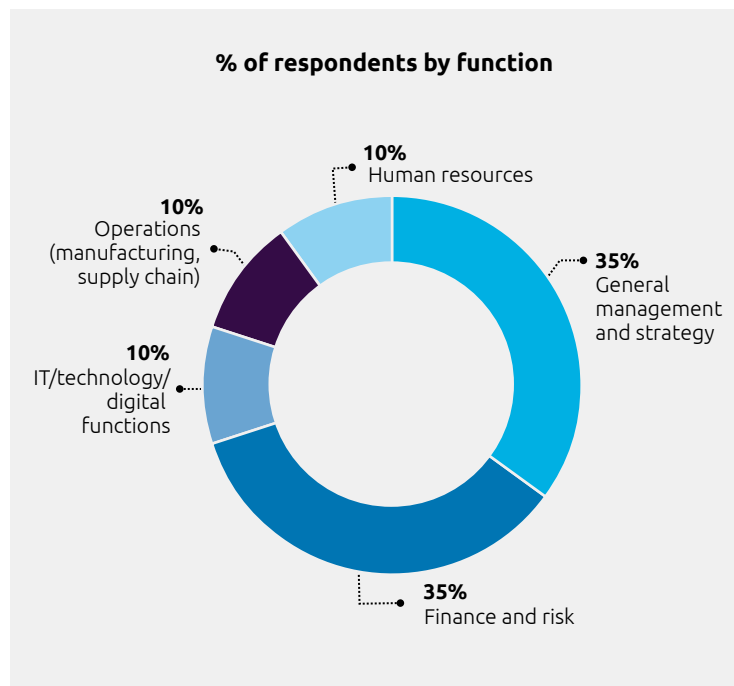
% of respondents by location of company headquarters



Source: Capgemini Research Institute, Global Investment Research, November–December 2022, N=2,000 respondents from unique organizations.



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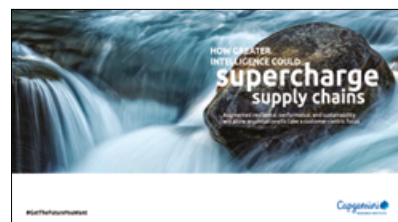
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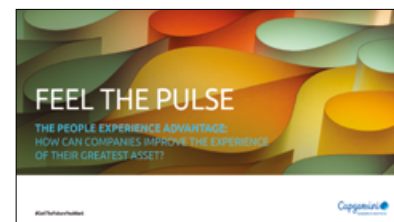
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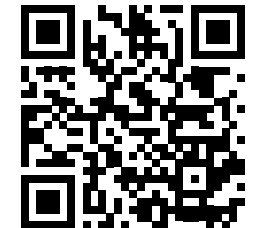
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