IN A DIGITAL ENVIRONMENT, YOUR LOCATION MAKES THE DIFFERENCE

In a recent Harvard Business Review Analytic Services survey, 83% of respondents said the global disruption has had a "significant" or "somewhat significant" effect on their business. These disruptions continue to accelerate in both the digital and the physical world.

Stronger global cloud-based networks support more remote employees, erasing time zones and borders that once divided businesses from their partners and customers. So we might seem to be living in a post-geographic world, where your organization's location is now incidental, even irrelevant, to your goals and growth.

In reality, where you choose to locate your business has never been more important. Your resilience, agility, and capacity to channel and lead disruption depend in large part on where you're based.

In considering which external factors determine where an organization chooses to locate and operate, the survey's respondents cited three conditions as paramount: a strong and stable economy (82%), a business-friendly regulatory environment (80%), and the ease of setting up and doing business (77%).

If you're starting an organization or considering a relocation, selecting a setting that supports all three conditions may free you to focus on the conditions you can control: building the innovations, the internal culture, and the customer relationships that help you grow your business.

A Capital Opportunity

For many decades, Hong Kong has built its reputation worldwide as a thriving center for commerce, innovation, and culture. Today, organizations here benefit from reliable access to both capital and talent, as well as favorable regulatory and compliance conditions that foster the emerging financial technology (fintech) sector.

Taken together, these attributes position Hong Kong–based organizations for resilience and the flexibility they need to weather unpredictable external disruptions such as climate change, growing income inequality, and changing regulatory oversight.

"Access to capital makes a huge difference to how innovative companies can be, what risks they can take, but also how much they can invest in trying to win markets," says Matt Mills, chief commercial officer and general manager at Featurespace, a British developer of machine learning (ML)-based technology for enterprise financial crime prevention. "You tend to find that in some of the most competitive, high-growth organizations, there's a natural correlation between those countries where high levels of capital from investors is available and the regions where you have the most innovative companies."

Organizations' biggest external sources of disruption, the respondents said, include restrictive regulations and insufficient access to capital, talent, and government support. But the biggest factor by far—identified by nearly half of the respondents—is an unstable economy.

In response to the challenges arising from the Covid-19 pandemic, the Hong Kong Special Administrative Region (SAR) Government in 2020 provided a number of pandemic stimulus relief packages that benefited companies like Gekko Lab, a Hong Kong-based developer of financial-intelligence knowledge-management software at Cyberport. In Hong Kong, Gekko Lab finds it can also source much of its talent from the area's highly ranked universities.

"Hong Kong has the lowest tax rate among the peers in the region and also a very efficient business-oriented environment," says Ric Cheng, CEO and founder of Gekko Lab. "Everything is down to business. People are very straightforward. This type of business culture is very good for us."

Technology-Minded Regulation

Many companies that feel constrained by ever-changing regulatory environments elsewhere find Hong Kong's climate less stringent, says Benjamin Quinlan, CEO and managing partner of Hong Kong–based strategy consultants Quinlan & Associates.

"Since the global financial crisis, many regulators have clamped down heavily on money laundering," Quinlan says. "A lot of the banks cut off correspondent banking relationships, the relationships with other banks to facilitate international money transfers. It caused a bit of a vacuum that many fintech companies chose to step into."

With a worldwide increase in regulation, fintech and its subset, regulatory technology (regtech), are emerging as important tools for supporting business resilience. Some emerging fintech companies find Hong Kong's favorable regulatory environment ideal for building such innovative solutions as alternative credit scoring and virtual banks.

At the same time, the Hong Kong SAR Government stringently adheres to anti-fraud measures and other guardrails that help businesses feel secure, says Dr. Terence Chong, an associate professor of economics at the Chinese University of Hong Kong. "This is very important for a company to control their risks. We also offer a lot of protection. We have a legal system to protect you if you have a dispute."

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Supporting this level of business protection requires regulatory governance to keep pace with technological advances, including ML and artificial intelligence (AI).

"The best fraud prevention and anti-money laundering strategies in the world are not always compatible with most countries' financial services regulators' best practices," Mills says. "The regulatory environments where they take a more pragmatic approach to model governance realize that actually, model performance is paramount. Model governance is important but can be equal or even second to performance. You tend to find those environments are able to have better rates of fraud and lower cases of money laundering."

Virtual Banking, Real-World Innovation

The technological expertise of Hong Kong's regulatory governance helps both fintech companies and the organizations that use fintech protect their assets.

"Many of the applications that can be used in fintech can be applied across every single sector in the world," Quinlan says, "whether it's advanced accounting software, low-cost international payment and transfer capabilities, or e-commerce solutions. You are fundamentally helping the global economy connect better together, reduce costs, and just become more efficient in the way they conduct business."

The fintech respondents cite virtual banking as most useful against global disruption, offering easier onboarding, borderless access, and enhanced efficiency. "Eight virtual banks were launched in Hong Kong in 2020," Quinlan says. "There was a lot of firepower here to launch and enough resources to get the right consortiums together to launch a full-scale bank on the back of a completely virtual platform."

Local and Global Advantages

The platforms may be virtual, but the real world remains real. "I think Hong Kong actually has a huge advantage, because we have a very large global-scale financial market that could very easily facilitate links with global supply chains by providing trade finance capabilities," says Dr. Victor Fung, group chairman of Fung Group, a Hong Kong–based multinational enterprise engaged in trading, logistics, distribution, and retailing.

Cheng of Gekko Lab concurs: "There's some natural advantage in Hong Kong in having highly business-minded talent and good access to capital," he says. "You can quickly get the latest ideas everywhere from all over the world, because you can see people of all nationalities. It's cosmopolitan. It's very easy to quickly build a business relationship."

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