

The Impacts of COVID-19 on Business Practice: Some Key Insights

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ABSTRACT

This paper provides an overview of some of the key economic impacts of COVID-19 on business practice, especially in the U.S. In particular, we synthesize some of the latest research, findings and developments from various academic literature and business sources to provide a managerial perspective of the effects of this pandemic. In addition, we show some characteristics of the so-called “new normal” and what kind of innovative business opportunities could arise as a result of the fundamental changes in the global economy. We conclude by highlighting how some emerging countries like India could tap into such opportunities despite the dire global situation.

Keywords: COVID-19, Pandemic, Economic Impacts, Business Practice, New Normal

INTRODUCTION: STATE OF THE COVID-19 PANDEMIC

As of September 2021, 4.7 million people have died worldwide due to the Coronavirus pandemic (World Health Organization, 2021). 228 million people have been infected and 5.7 billion vaccine doses have been administered (See Figure 1).

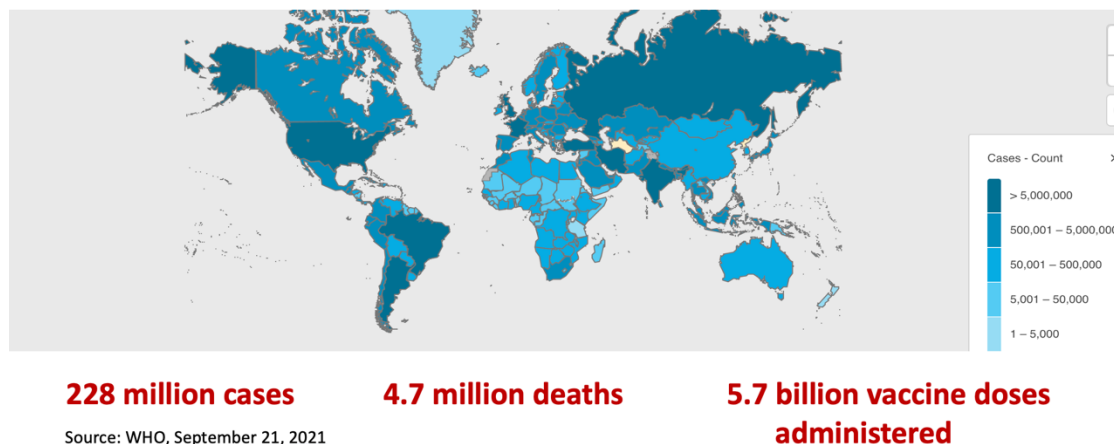


Figure 1. State of the COVID-19 Pandemic

Since the onset of the pandemic in China in late 2019, the global distribution of new COVID-19 cases has shifted dramatically during the past one and a half years. The proportion of new cases is shifting from countries in Europe, to North America, Latin America, and other Asian countries. However, the U.S. has been leading in terms of both the number of cases (40 million) and deaths (651,000) (Centers for Disease Control and Prevention, 2021). With the recent outbreak, India has registered more than 33 million cases and 440,000 deaths to date, and Brazil ranks third with 21 million cases and 584,000 deaths.

Different countries are at different stages of the epidemic curve. Some countries such as South Korea have been able to engage in strict containment of the disease. The U.S. is still trying to do a balancing act. Some others such as those in Africa, who are dependent on international trade and investment have opened up largely due to business and economic reasons, even though their populations have not been adequately vaccinated. There is significant uncertainty around the medium-term and long-term epidemiology trajectory of the virus spread, that is, there's still uncertainty about the peak and flattening of the epidemic (see Figure 2).

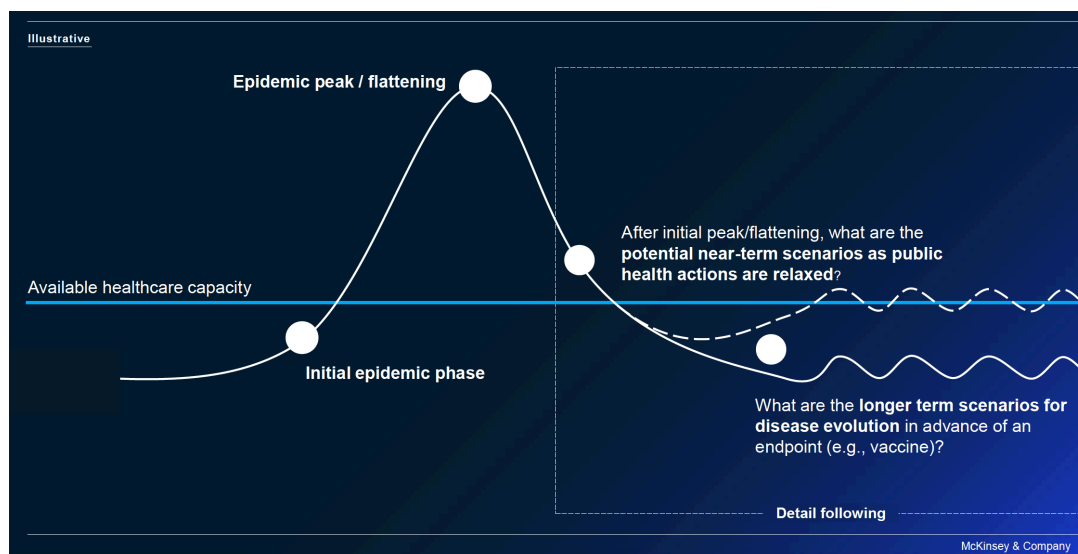


Figure 2. Epidemiological Trajectory of the Epidemic

In this paper, we set out to examine the economic implications of the COVID-19 pandemic on business practice. Our goal is to present a synthesis of the latest research, findings and developments from various academic literature and business sources to provide a managerial perspective of the effects of this pandemic on businesses. In addition, we show some characteristics of the so-called “new normal” and what kind of innovative business opportunities could arise as a result of the fundamental changes in the global economy. We use the U.S. economy as the reference point since much research and innovation particularly in the business and economic space (in addition to the scientific spheres) have been conducted in order to respond to the crisis. We conclude by highlighting how some emerging countries like India could tap into such opportunities.

MACROECONOMIC IMPLICATIONS OF COVID-19 IN THE U.S.

Before we set out to explain the impacts of the COVID-19 pandemic on businesses, we highlight some of the major macroeconomic effects of the crisis on the U.S. economy to emphasize the

magnitude and severity of the crisis and also to remind us about the dire economic environment and policy context in which businesses have had to operate.

The economic consequences of the COVID-19 pandemic have been very severe in the U.S. At least 30 million people have lost their jobs. U.S. unemployment hit a high of 15% in April 2020. Millions of other people have experienced a decline in their incomes. The U.S. Congress had approved a \$2.4 trillion package to combat the coronavirus crisis. The government spent billions to bail out industries, billions to rescue small businesses, and billions to boost unemployment assistance. That historical amount alone is larger than the economies, or GDP, of most countries in the world. The 2020's federal government spending were around \$4.7 trillion. To put things in perspective, Canada's GDP is \$1.7 trillion and India's GDP is \$2.9 trillion, so this \$4.7 trillion fiscal package would be the size of India's and Canada's GDP combined. In addition, the coronavirus stimulus was expected to more than triple the 2020 budget deficit to \$3.1 trillion (15% of GDP) and push the national debt to 128% of GDP. That is a level not seen since World War II (see Figure 3).

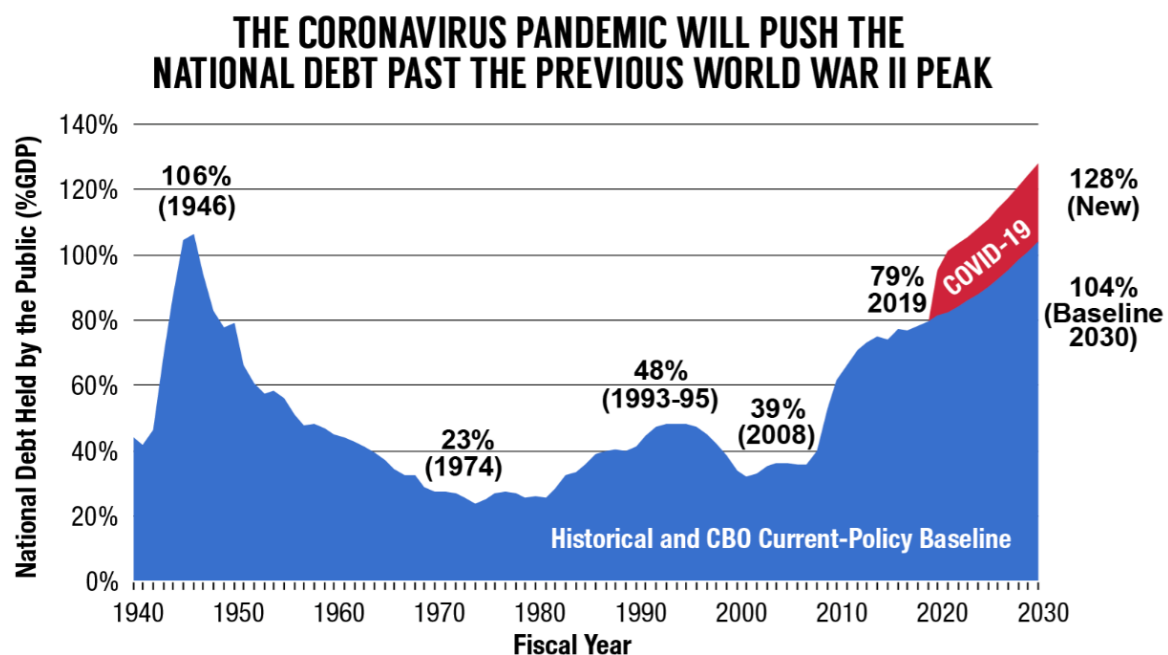


Chart: Manhattan Institute / Source: Estimated using Jan. 2020 CBO baseline and historical data, CBO bill scores, and author estimates of economic costs as of April 2020.
By Brian Riedl, Manhattan Institute (@Brian_Riedl)

Figure 3. National Debt Effect of Coronavirus

The fiscal impacts from COVID-19 on local governments have depended on factors that have been difficult to estimate. Public health expenditures skyrocketed due to the length of the crisis. The development of treatments, vaccines, testing capacity, equipment (such as ventilators and personal and protective equipment) and the behavior of the virus (variants) have added further complexity and uncertainty to the crisis.

In terms of monetary policy, the U.S. Federal Reserve Bank was printing money to try to save the economy from the COVID-19 crisis. The Fed's goal was to keep markets functioning. This strategy also made credit easier to obtain since there was a bigger money supply and lower

interest rates close to zero percent (see Figure 4). Without these and the Fed's other emergency measures, the economy would have crashed deeply. Central Banks around the world also struggled to engage in expansionary monetary and fiscal policy in an attempt to boost their economies.

Mandatory shutdowns and business closures led to layoffs of workers. Layoffs led to workers claiming more unemployment insurance benefits. Layoffs also led to lower consumption spending by households which further causes business closures. Cell phone tracking data has been an accurate predictor of consumer spending, and people have taken fewer trips to stores, hotels, restaurants, and other retail/recreational locations. As a result, there was reduced spending. Hence, the overall result was a downward spiral.

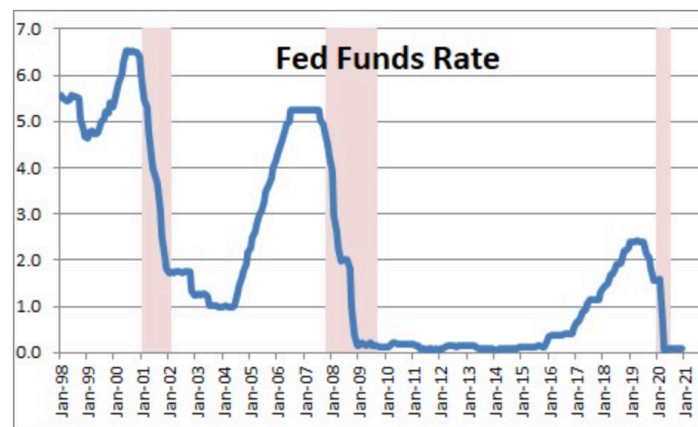


Figure 4. Federal Funds Rate Nearing Zero

In terms of the long-term economic effects of the pandemic, there are several factors at play: business survival rates, reemployment rates, consumer purchasing power, individual and corporate debt burdens, and many other factors will shape the economic recovery. With the variants of the virus, there is debate about whether the Omicron variant will make inflation worse. But what is clear is that many experts have dismissed the possibility that economies will completely bounce back in a "V-shaped" recession: a short and sharp shock followed by a return to previous levels of employment and economic growth. Instead an L-shaped or K-shaped economic recovery seems more likely (see Figure 5).



Source: Aldrich in Business Insider (2020)
Figure 5. Economic Recovery Scenarios

IMPLICATIONS OF THE CRISIS FOR BUSINESSES

At the core, the COVID-19 crisis has exposed many economic vulnerabilities, as Marin Economic Forum experts and others pointed out (MEF, 2020). First, and to the surprise of many, it has revealed that the U.S., despite being a highly advanced and sophisticated economy, was quite poorly equipped to deal with such a health pandemic. There was a lack of resources (physical, financial, human capital) in the health sector itself to confront the virus. Second, small businesses, which are the backbone of the U.S. economy and trade, did not have the liquidity to survive several months of business closure. People of color and women are those segments of the population that were experiencing the most negative economic impacts from COVID-19.

In several counties in the U.S., the job losses resulting from government shut-downs and lack of consumer consumption are concentrated in low-wage jobs, in the leisure & hospitality sector and retail sector. In some places in California for example, the leisure and hospitality industry experienced a fall in employment of 46% from 2019 and the retail sector's employment was down 16% from 2019. Front-line workers in the healthcare, janitorial, and grocery sectors have experienced higher infection rates than those residents in occupations accommodating work from home.

According to some researchers at Harvard Business School, businesses would be impacted in multiple ways. Below we examine some of the implications of the COVID crisis for business practice.

Supply chain will be redefined

Kaufman (2020) argues that supply chain managers will have a much more difficult job. Businesses have been surprised on how dependent they are on China, from key raw materials or parts to finished products. They did not realize the complexity of the supply chains, e.g. how the supplier to their supplier was impacted by the crisis. The implication is that many businesses will start thinking about diversifying their risk and trying to develop alternatives in other countries to reduce the reliance on China. This will change the Global Value Chain even further.

The biggest losers from the coronavirus in business are the service industries such as airlines, hotels, and the travel industry; these are losing revenue and will have a hard time replacing cash flows. Manufacturers can run overtime and make up for lost production and fill pent-up demand, but services demand is perishable and hard to replace.

Organizations will need to develop trust-based cultures with their employees

Beer (2020) suggests that organizations will need to develop honest conversations with their employees, thus creating a trust-based culture. Senior management would need to engage in conversations with employees on many issues and this requires trust, commitment and clear communications. There will be a need for strategic initiatives that involve more input from employees. In addition, management would need to tackle hard questions from employees if they would like to retain efficient workers, e.g. on issues related to sick days or time off due to health reasons: Employees may not feel comfortable to work in close physical proximity with team members because of concerns related to social distancing. This is already happening in the U.S.

Remote work from home versus from anywhere

Choudhury (2020) distinguishes between “working from home” and “working from anywhere.” He argues that the workplace will become more virtual but not necessarily in a synchronous way. In fact, since the onset of the COVID-19 pandemic at the end of December 2019, there has been a rise of not only synchronous communication (e.g. on Skype or Zoom), but also asynchronous communication, where individuals and professionals are not face-to-face on a screen. For example, employees and students in many parts of the world are using Google docs and employees are using Slack. Employees can work in Google doc and explain what they did, and some other employees can wake up in a different time zone or city, open it up, and see the work done. So, people would not need to be live as much since they are still on the same page.

Firms’ responses depend on stage of crisis – and context

Meyer (2020) from Ivey Business School in Canada identifies at least three stages related to the crisis and the need for businesses to have different response strategies. He argues that during the pandemic, the crisis has in fact been a catalyst for innovation; immediately after the pandemic, businesses need to be agile; and in the long run, businesses need to think strategically about what they need to do. Ritter (2020) from Copenhagen Business School argues that demands will be different based on the lines of business in which they operate. For example, during the crisis, restaurants, airlines and events management companies saw a substantive drop in demand but right after the crisis, demand would back up again until a new normal. On the other hand, medical firms and those such as Netflix and home office providers saw a bump in demand during the crisis but this would likely taper off right after the crisis to return to a new normal. Some industries like construction, banking and insurance have seen relatively more stable demand.

According to Meyer (2020), the key questions to ask are then the following: how will the firm be different and how will the customers be different? With respect to the firm’s resources, he suggests we reassess whether there will be technology breakthroughs, changes in human capital, changes in organizational systems and capacity, and brand value. In terms of the firm’s capabilities, there is a need to reassess their strategic agility and risk management practice. As regards customers, he suggests we reassess consumers; attitude to new technologies, their

familiarity with online platforms, their preference for local versus international products, and their attitudes towards risk. The practice of businesses and the technologies they use will also directly affect or define customer segments and preferences.

However, in addition to these, we argue that the markets and context themselves would need to be considered as an additional dimension. For example, in many emerging markets in Africa and Asia, demands have not picked up as the pandemic slowed down due to behavioral or cultural reasons. These have resulted in towns (which were once thriving with markets and shopping centers) that have now permanently experienced an exodus of businesses. Some of the key reasons are that those businesses could no longer afford to pay the rent, so with no demand and a high fixed cost, they could not sustain to be in business any longer. Government subsidies to aid those firms are also limited. And consumers prefer to relocate their shopping preferences elsewhere, e.g. where there are bigger and more technologically advanced malls rather than crowded downtowns, or customers simply prefer to shop online. Mauritius is a case in point as an emerging African country which is seeing exactly this fundamental shift.

How is the pandemic changing international business?

The Coronavirus crisis has disrupted the international business ecosystem leading to the emergence of a new world order. Restrictions on travel and mobility of labor and resources have forced businesses to alter their outlook in order to survive in this challenging business environment. Faced with changing business processes, value chains, lifestyles and market places, organizations are compelled to adapt their business strategies alternating between an agile short run approach and a sustainable long run one. The pandemic has also opened up new opportunities and international businesses are developing new innovative ways to build on resilience during this time of heightened uncertainty due to the shift in the epicenter of the pandemic from region to region.

Global Supply Chains being redefined

According to Wieland from Copenhagen Business School, the COVID-19 crisis has made international businesses realize the fragility of the functioning of the global value chains (GVCs) – a model which, according to Fortunato (2020) is characterized by high interdependence between firms and suppliers across continents. The pandemic raised production and transaction costs, altered demand and changed the scale of production in many countries. Policy makers are prompted to encourage self-sufficiency at the expense of efficiency and productivity gains. Stronger regional value chain models are adopted, especially in developing countries, with the objective to develop linkages with local firms. However, Beattie (2020) from Financial Times observed that contrary to the initial expectation of widescale reshoring, many international businesses have resisted from relocating production back home. Landing cost, tariffs, regulatory framework, intellectual property risks and government incentives are some of the considerations in reshoring decisions.

Rise in de-globalization and Techno-nationalism

According to Capri (2020) from Forbes, the pandemic has accelerated the rise of de-globalization and techno-nationalism. Policy makers, in their quests at becoming self-sufficient, have been designing policies aligned with mercantilist sentiments. This process is dubbed as the Fourth Industrial Revolution focussing on substantial transformation in Artificial Intelligence and Big Data, robotics, 3D printing, Internet of Things, 5G networks and advanced

nano manufacturing. It is against this backdrop that international businesses find themselves faced with their need for cooperation as well as the risks of an even more fragmented market. In this highly competitive environment, technology is a strategic asset requiring a well regulated environment.

Adopting new practices

During the pandemic, MNCs have vigorously adopted practices that the world was toying with in the last years but never had a major stimulus to use these as a mainstream. The crisis gave international businesses the impetus to implement Working from Home and organise Global Virtual Teams. Luo and Galasso (2020) pointed out that one good outcome of the pandemic for businesses is the introduction of risk mitigating technologies which consumers are willing to pay for to ensure higher safety. Crisis triggered innovation has developed into new emerging technologies for competitive advantage.

Agile Strategies and New Sets of Capabilities

The pandemic has shown that MNCs need to be more agile and develop new sets of capabilities to become more dynamic and deal with risks and uncertainties. In this new economic environment with changing lifestyle, markets, workplaces and production processes, investment in digitalization has unquestionable importance. COVID-19 has allowed MNCs to test the technological solutions that became a new normal for business communications. The post COVID-19 world will see a rise in global virtual teams (GVTs) with different technological solutions, including Augmented Reality and Virtual Reality.

Re-Globalization, E-Internationalization and Market Entry Modes Redesign

The Spanish Foreign Minister Laya (2020) defended the idea that the world will be re-globalized and the driving force of this process will be technology. International businesses will operate within new dimensions of e-internationalization, digital platforms, local innovation systems, global connectivity and a global orchestration of value chains. MNCs will have to observe new practices and norms and redesign their entry modes. Overall, multinationals are going to become more decentralized.

WHAT WILL SHAPE THE NEXT “NEW” NORMAL?

A study by McKinsey & Company (2020) reported that the economic situation in 2020 would worsen around the world before improving. In fact, in the second half of 2020, positive sentiments about the future were on the rise. Below are some of the factors that will shape the future of businesses according to McKinsey & Company and others:

- **“Metamorphosis” (transformation) of demand:** B2B purchasers and consumers are accelerating the adoption of digital. The new consumer shops online and is more willing to switch across brands and focusing on buying local and domestic (B2C). Doctors also prefer remote sales instead of pharmaceutical reps (B2B). Such metamorphosis of demand will change how businesses plan their strategies and investments, be they domestic or global.
- **An altered workforce:** The workforce has fundamentally changed and remote work has been a challenge in some areas. Managers who successfully led in-person teams don’t know how to lead virtual teams. It’s harder to read non-verbal and emotional cues when one is virtual so there’s a communication gap. Recruiting and onboarding workers virtually have in fact been a challenge. Besides, demand for labor is shifting, there is a

strong need for reskilling (e.g. in digital technology because of scarcity of labor who are savvy in digital marketing). Companies are facing difficulties in managing remote teams – people are working in silos, and there is a culture erosion or shift of the workplace culture. Front line workers or employees are pushing back – e.g. refusing to wear masks.

- **Changes in supply chain resiliency:** U.S. companies want business partners to be more resilient (e.g. ability to bounce back quickly from difficult situations) both financially and in terms of supply chain. They are engaging in assets divestments (i.e. sell off assets to increase cash in hand – e.g. PNC Financial Services sold its \$13 billion stake in BlackRock), and decreasing SKU (stock keeping units) – i.e. decreasing number of items they are selling to reduce costs – we see this in baby care products, tobacco, frozen goods, and household care.
- **Regulatory uncertainty and the rise of “Statism”:** There has been reportedly a declining confidence in the free market mechanisms. Governments are providing huge stimulus packages. There has been 3x greater response from G20 governments compared to the 2008 financial crisis stimulus package. In the U.S. the fiscal stimulus was 12.1% of GDP under COVID versus 4.9% under the 2008 financial crisis. The role of fiscal policy and big governments have become very important. There is also a growing political pressure for new regulations and legislation to favor and protect domestic economic activity, leading to the rise of protectionism and nationalism.
- **Evolution of the virus:** We’re still trying to understand the virus, its transmission, testing, and treatment. Several vaccines are out but with varying levels of effectiveness. People are tired and frustrated and are refusing to follow certain interventions such as wearing masks. Economies are reopening despite variants of the coronavirus impacting lives. So, there are various public health and economic realities across nations.

CONCLUSION: WHAT WILL THE FUTURE LOOK LIKE?

CEOs are saying ‘there is no turning back’ (McKinsey & Company, 2020). The pandemic has to a large extent broken boundaries and silos. The global economy has seen accelerated decision-making. Several organizations have given up using PowerPoint presentations in meetings because they would like to cut to the chase. Professionals would like to spend more time directly connecting with teams, managers and clients.

One of the significant changes that happened was the adoption of new technology overnight (e.g. Zoom and Google Hangouts). True that some firms or countries are resource constrained but what is working now are: speed, information, collaboration, resilience, and agility and these will drive performance in the future. Uncertainty is the next normal. So, we need to innovate and do it fast. Firms are faced with intense cost pressures. It’s critical to drive efficiency and operate with a lean core.

Fuller (2020) from Harvard Business School says the workplace will be different. He provides several examples of how this will play out: The talent market is flattening; remote work means geography is no longer a constraint. There will likely be more localization of talents. Top talent will leave organizations with bad cultures and will dictate terms of work (e.g. flexible hours, pay premium etc). People and firms will need to invest in reskilling existing workforce. There will be a rise of the importance of microcredentials (especially in technology sectors) and allegedly less reliance on traditional university degrees and CPAs (Certified Public Accountants).

Fuller (2020) also anticipates that because of the rise of the gig economy, more gig workers (working in jobs that last a certain time period, e.g. contractors, short-term commitments) will be required with specialized skills and therefore command premium pay. And because of digital distancing and the need to use Artificial Intelligence (AI), there will be more touchless technologies. So, several white collar jobs will be disrupted.

Besides, workers will need flexibility and also have more choices; employers will need to accommodate that, e.g. more flexible sick leave policy; allow workers to skip work without penalty if they feel unsafe; workers not required to travel for work if they feel unsafe. Employers need to prepare for workers who cannot go back to work (e.g. those with respiratory problems, or those who cannot get child care). In addition, employers need to prepare for workers who don't want to go back to work (e.g. due to anxieties about traveling in crowded cities).

A survey by Deloitte and Fortune Magazine on Fortune 500 CEOs (Murray, 2020) indicates that American executives are concerned about the digital skills gap (imbalance between demand and supply). Among the high paid white collar jobs, 80% of the executives don't have the digital skills or don't know how data works. They are only proficient in supervising over processes. Coupled with that, in the past decade, there have been increased private investments in AI startups in the U.S. from \$0.26 Bn in 2009 to \$18 Bn in 2019. So, there is a tremendous opportunity for countries like India in the digital and data space since it has a huge workforce trained or skilled in technology and hard skills (Fuller, 2020).

Another opportunity for a country like India is in the gig economy. Gig workers will be higher paid workers (freelancers earning a salary of \$100K or more) as premium workers. However, companies in the U.S. Midwest such as in Ohio have a hard time attracting AI experts because they will be competing with tech giants like Google and Apple, so it's difficult for them to get talent. This is not just in IT but also in operations, marketing, innovation, R&D, HR, finance (Fuller, 2020). Talent from India can benefit tremendously from this opportunity and while doing so revitalize the U.S. economy resulting in a win-win situation.

To conclude, we should note that although the COVID-19 crisis has created deep wounds and scars on human life, business and society at large, some experts like Fuller (2020), Choudhury (2020) and others would argue that efficiency in some sectors has improved significantly. Some companies have redeployed (or been forced to redeploy) talent and adopt technology overnight. Some have pivoted their entire production process, e.g. outdoor gear manufacturers in the U.S. have produced protective face shields for medical workers. Some companies have enforced shift operations, e.g. shipbuilding companies moved from a three- to two-shift model for thousands of employees by working with local officials, as Fuller (2020) pointed out. Businesses have also launched new business models and improved productivity and efficiency. For example, retailers such as BestBuy have launched curbside delivery in less time. Industrial factories have been running at 90% capacity with only 40% workforce, thus multiplying productivity. The COVID-19 crisis has indeed pushed or encouraged businesses to innovate in unprecedented ways. And managers need to take note of the new reality.

ACKNOWLEDGMENT

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