

The Firms Fight Back Against the Pandemic Economic Crisis

By

Dr. Awa Shukla

Dr. Babasaheb Ambedkar
Open University

Supriya Singh
(Corresponding Author) Institute of Management, Nirma University
Email: supriyamkthr@gmail.com

“When written in Chinese, the word crisis is composed of two characters – one represents danger, and the other represents opportunity.”
John F. Kennedy

Abstract

The Coronavirus has triggered as a worldwide pandemic in a very short span. Losses are not limited to lives, it has laid severe restrictions on the daily personal as well as professional lives. Most of the businesses around the globe are being hampered due to sudden emergence of Covid-19 and its subsequent effects. Some of the companies might have taken this situation as a curse or disaster for business and some might have responded the opposite and have treated Covid as an opportunity. Therefore, the purpose of this article is to review strategic of firms or firm's response to the economic crisis like Corona Pandemic. Question this article wishes to respond to is, how does the businesses fightback a pandemic economic crisis like COVID 19 which is still not over?

Keywords: Economic Crisis, Firm response, Strategy, Crisis Management

Introduction

Corona Virus (COVID-19) has triggered an alarming outbreak of a health crisis all around the world. In most of the countries, the governments have adopted and applied sudden rules and regulations that have radically affected the daily lives of the people. Mobility and gatherings of people was restricted by applying the mantra of social distancing to stop/slow-down the spread and infections of virus. Restricted contact and the full or partial curfew or lockdown was imposed in almost all the nations globally.

Economic crisis is the phase of economic cycle when the economy of the country is in problem or faces issues for a long time. According to Galli (2019) Crisis is an inevitable “phase of economic cycle” that entails higher demands and scarcity of supplies, unemployment, reduction in investment, bank malfunctioning, stress and frustration, sales and consumption reduction, prices and salary reduction, slump of purchasing power, distrust and future uncertainty, etc. Dubrovski (2016) defines a crisis as a temporary undesirable serious situation in a company that directly threatens the survival and further development of the organization, and which is influenced by a combination of various factors simultaneously which is caused by external and internal sources (p. 266). when we talk about economic uncertainty, we imply The economy's future outlook is uncertain, and there is a strong possibility of adverse economic

developments including increased debt, a volatile stock market, unemployment, weak economic growth, etc. Likewise, we are facing economic uncertainties due to the COVID-19 pandemic, which often cause fear and contribute to a slow economy. Because of COVID businesses, markets and banks have faced great crisis globally.

Table 1. *Type of Crisis and its Definitions:*

| Cluster | Type of Crisis | Definition |
|--------------------|--------------------------------|--|
| Victim Crisis | Natural disaster | Natural disasters like earthquakes that cause harm to an organisation. A weather or environmental event affects the organisation. |
| | Rumors | A company is the target of false and inaccurate information. Evidence that the data is incorrect. |
| | Workplace violence | Attacks on on-site staff by current or former employees. A worker or former worker hurts or tries to hurt current workers. |
| | Product tampering/ malevolence | An organisation suffers harm from an external agent. The product has been changed by an outside party to become hazardous. |
| Accidental Crisis | Challenges | Stakeholders assert that a company is doing itself improperly. There is a public appeal based on moral or ethical grounds rather than legal ones. An industrial accident is caused by faulty technology or equipment. The accident was brought on by equipment or technology. |
| | Technical error accidents | A product is recalled as a result of a technological or equipment issue. Stakeholders are said to be harmed by a product. The reason for the recall has to do with technology or equipment. |
| | Technical error recalls | The cause of an industrial accident is human error. An individual or people who weren't performing their jobs properly are what caused the accident. |
| Intentional Crisis | Cluster Human error accidents | A product is recalled as a result of human error. Stakeholders are said to be harmed by a product. An individual or people who weren't performing their jobs |
| | Human error recalls | |

Organizational misdeed

correctly are what caused the recall.
 Management breaks laws or regulations, or management puts stakeholders in danger.
 Management staff members promote products or services that they know could harm stakeholders while also knowing they violate laws and regulations.
 Adapted)

Source: (Coombs, 2004,

Overview of the Situation: Corona Virus -19 (COVID) Crisis

As per many experts, such unusual state of emergency was not experienced by the world since World War II (Chakraborty and Maity, 2020). The Corona Pandemic (COVID-19) has been pointed as the largest worldwide warning after the “Global Financial Crisis” 2008-2009 by the

OECD and WTO (Sruthi, 2020). Indicating the global spread, the On March 11, 2020, WHO declared a pandemic of extremely communicable or transmissible disease called coronavirus i.e. COVID-19 (WHO, 2020). People experienced anxiety and fear due to unimaginable spread of disease, increasing death rates, lockdown, struggling governance, shortage of medical supplies, unawareness and rumours or misinformation via various medias (Kraus et al. 2020). It is obvious that, all type of business firms around the world except those dealing with necessary utilities like medicine, groceries, etc. suffered due to enforcement of lockdown.

A severe global threat was emphasized when the COVID-19 as a pandemic Table 1 provides a list of some the historical epidemics along with COVID-19 with number of worldwide confirmed deaths. Since this virus was the first global threat since the H1N1 influenza epidemic of 1918–1919 for which there was no known therapy (Ferguson et al., 2020), It required governments to take actions based on “mitigation or suppression strategies” (Kraus et al. 2020).

Table 1: *Some of the historical Epidemics*

| Time | Name of Epidemic | Number of deaths |
|--------------|--------------------|---|
| 14th Century | “Bubonic plague” | 25 million |
| 1918-1920 | “Spanish flu” | More than 50 million |
| 1981-ongoing | “AIDS” | More than 25 million |
| 2002-2004 | “SARS” | 774 |
| 2009 | “Avian Flu” | Around 151,000-575,000 |
| 2014-2016 | “Ebola” | Greater than 11000 |
| 2020 | “Corona /COVID-19” | 5541217 – ongoing (as of January 22, 2022) (Johns Hopkins University) |

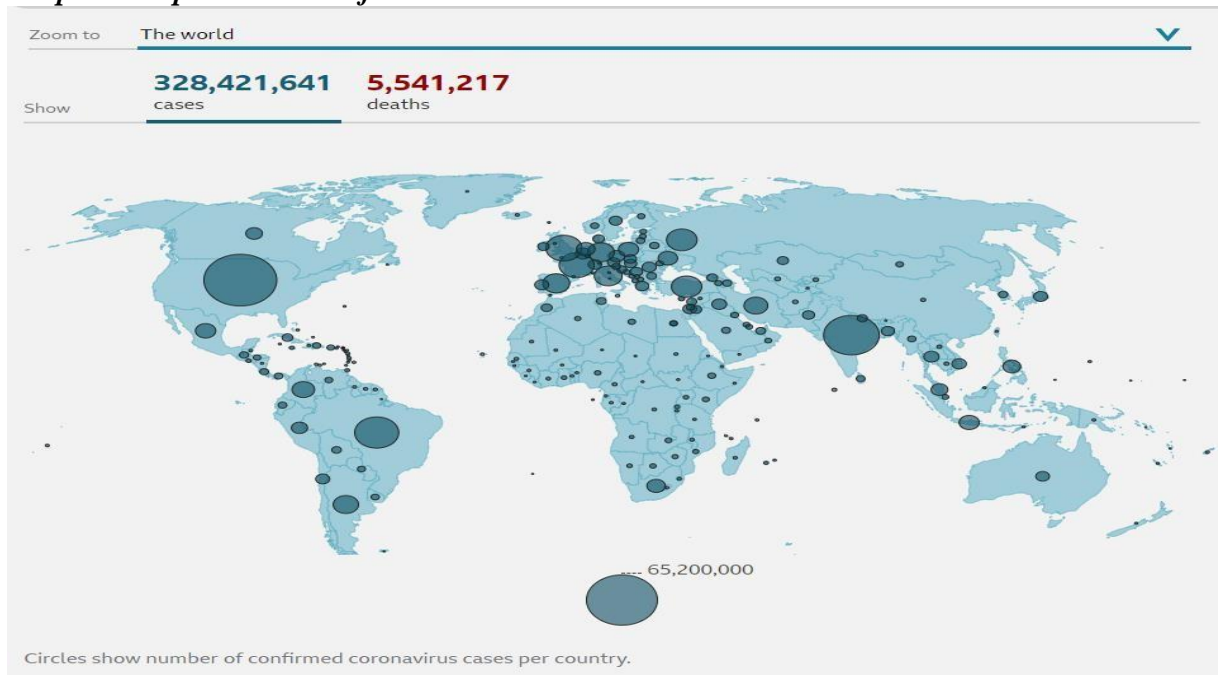
Source: (Baldwin and Weder di Mauro, 2020, adapted).

Governments all over the world have tried to tackle Covid through their own laws existing within their ambit. For example, India implemented the Outbreak Diseases Act of 1897 and the Disaster Management Act of 2005, both of which were deemed outdated but were the only options available to contain the epidemic. Lockdowns were initially considered as the only alternative to control the unruly spread of the pandemic in the absence of the right vaccine.

Despite the best efforts and in many cases even after the advent of the COVID vaccine, the lockdowns and various other curbs have continued due to varied reasons including slow progress of immunization, unwillingness to immunize, indiscipline among population to behave the right way during pandemic.

A global economic recession has taken place due to the advent and spread of the novel Corona Virus (Aktar, Alam & Al-Amin 2021). Due to strict quarantine measures the pandemic has perpetrated destruction on many economies of the world, by slowing down “international trade and commerce” and triggering a worldwide health crisis (Harapan et al., 2020). In response to the pandemic majority of the nations have entered in phase of stagnation, except a few (Aktar, Alam & Al-Amin 2021). Though the global economic effects of the Covid Pandemic crisis is highly uncertain (Yu and Aviso, 2020), the global estimated losses of GDP (Gross Domestic Product) in the year 2020 was probably between 1.3% and 5.8% (McKibbin and Fernando, 2020). India experienced a market crash due to inducement of COVID which impacted the market tally of companies with market capitalization of \$1 billion to almost one-fourth by March, 2020 (Business Today, 2021).

Graphical representation of the Covid:



Source: Johns Hopkins University, national public health agencies. (www.bbc.com) Figures are as of 17 January 2022.

The After Effects of Covid Crisis

1. Consumption Affected:

“Consumption, in economics, means the use of goods and services by households” (Britannica.com). Consumer spending habits have significantly changed as a result of the COVID-19 pandemic. Social distance in and Months long lockdown of COVID has forces the consumers to shop differently – prioritizing the essential goods over others and online shopping over physical checkout lines (JPMorgan.com, 2020). As a result of panic buying, retailers were forced to restrict sales of high-demand products like hand sanitizer and toilet paper. According to the world's largest personal care food and drink companies, data on the top-selling products reveals how consumers spent their time and money during lockdown (JPMorgan.com, 2020).

As a result of panic buying, retailers were forced to restrict sales of high-demand products like hand sanitizer and toilet paper. According to the world's largest personal care food and drink companies, data on the top-selling products reveals how consumers spent their time and money during lockdown (JPMorgan.com, 2020). As a result of panic buying, retailers were forced to restrict sales of high-demand products like hand sanitizer and toilet paper. According to the world's largest personal care food and drink companies, data on the top-selling products reveals how consumers spent their time and money during lockdown (JPMorgan.com, 2020). Consumer spending has seen a great variation across all industries since March 2020 due to lockdowns. In the US Household cleaners and soap, vitamins and supplements, hair color, sanitizers, disinfectants, coffee and ecommerce are seen boosting and growing, whereas there was a double digit (25% approx.) decline in the sales of cosmetics and sun care products (JPMorgan.com, 2020). The winner is the e-commerce globally, Pandemic forced the consumers to search online for everything – from hand sanitizers to medicines to cleaning supplies to skincare to groceries. The panic of ‘things going out of stock’ has normalized gradually (JPMorgan.com, 2020). The affected segments: Education; Health; Environment; Education; Infrastructure; Textile; Food processing, Strategic Defence; Entertainment, etc.

The consumer spending was observed to fell sharply during year 2020 is now gradually returning to the pre-pandemic levels (Deloitte.com, 2021). Assuming the pandemic is under control, a strong recovery in the United States is anticipated, though it will be different for households of different income levels and generations. "While many higher income households emerge largely unscathed financially, low income households have lost jobs or face income uncertainty, particularly from changes in the labour market caused by digitization and automation," says one study (Mckinsey.com 2021).

2. *Investment Affected:*

Investment refers to the acquisition of things that are not immediately consumed but are instead utilised to generate wealth in the future. Ex-Businesses spend money on machines & equipment, furniture & fixtures for business activities. In times of extreme uncertainty, where companies facing potentially dramatic negative impacts to sales, staff, and supply chains, that projection of business revenues is not clear. In such scenario, companies like General Motors, Ford and other automakers halted production in March 2019 as the depth and duration of this crisis were uncertain. Aggravated level of lockdowns across the globe led to widespread impact on economy and the investment ecosystem projected by the successive governments. Lockdowns followed by sweeping waves of COVID dealt a body blow to the various business sectors across vertical. the long term plans took a major blow with every subsequent wave . Several businesses went bankrupt. A heightened level of anxiety in the market and a volatile market due to the COVID, high oil prices, supply chain glut , tight liquidity scenario, complex geo political environment along with week market lead to a general fall in investment in developed and developing markets with few exceptions.

Less funding available for startups and businesses:

Venture capitalists and investors have closed gates to funds to startup firms because of uncertainty about whether new companies can sell their products & services or not. Hence, decrease in business investment leads to decline in productive capacity of an economy and decline in employment levels. This affects GDP.

3. *Government Spending:*

Government spending represents government consumption expenditure and gross investment. Ex- Governments spend money on education, healthcare, social protection etc. In the COVID 19 situation, Government spending has been skyrocketing in order to enhance

purchasing power and positively impact the economic growth as well as decrease negative impact of slowdown. Much of the expense are also aimed to support countrymen to avert any humanitarian crisis due to the COVID. For examples: The Government is spending billions of dollars to combat COVID-19 on Hospital services, Vaccines, Medicine and surgical instruments, economic stimulus, packages to every citizen, small business loans, unemployment benefits, free food coupons, tax rebates etc.

When both consumer spending and corporate investment see significant declines, it becomes more significant in comparison to other aspects of a country's GDP. In order to address the immediate repercussions of the COVID-19 crisis and protect financial stability, household economic wellbeing, and corporate survival, governments reacted swiftly and with an extraordinary outlay of fiscal spending. Most governments used deficit financing as a tool to step up investment across multiple affected sectors with the intent to provide solid kick start to a fledging economy down from waves of COVID. Countries like India spent a whopping 20 lakh crore to revive its economy with other nations like the US setting aside a trillion dollar to kick start its economy. This has brought the Indian economy back to the pre- COVID state with investments and growth finally picking up as can be verified from multiple available data. Deficit financing as part of the Government is accepted only as an emergency and is generally not continued for a longer period as it may have serious consequences on the nation's fiscal situation and foreign exchange reserves.

4. *Export and Import affected:*

The difference between total exports and total imports is known as net exports. All products and services that are sold to other nations are considered exports. Ex- India exports Textiles goods, gems, jewelries, to other countries. Imports refers to all goods and services purchased by domestic consumer from other countries. Ex- India imports, Petroleum, machinery, furniture, toys and sports equipment from China. The global pandemic was severely limiting the flow of goods between countries, with exports from India collapsing and imports from other nations continuing to decline due to Covid-19 shutdowns around the world in the first year of the pandemic but it soon recovered to the previous position due to strong undercurrents of growth and strong base of the economy. Despite the economic recovery, the pandemic has been casting its ugly shadow now and then which has been impacting the growth across multiple sectors. Not all nations have been lucky as India due to their rapid shrinking of foreign exchange reserves and mounting fiscal deficit. Many small nations have tourism as their main source of income but due to the pandemic have been at the receiving end. The impact of COVID during the initial days of the pandemic led to a decrease in fuel prices due to lack of demand from economic powerhouses from Asia, EU and US but rapidly climbed up due to several geopolitical situations other than spurt in demand. The Geo politics being played around COVID has also impacted the business and economy around the world as it has led to a supply and demand glut and ensuing rejig is underway to stave of dependence from certain dominating nations.

Business / MNC's/ Firms response to Corona Crisis:

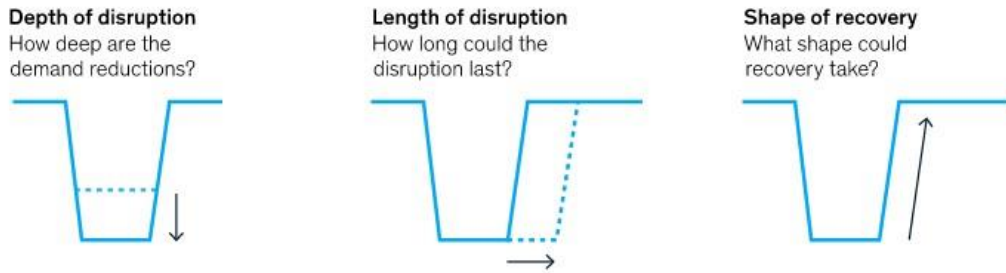
Organizational Crisis and Strategic Crisis Response: Simply said, crisis can be seen from an internal perspective and an external perspective. Thakur and Hale (2021) have presented three strategies – Defensive, Accommodative and Offensive that organisations adopt in order to thrive survive or die in the market during crisis. The context applies here is the type of strategies that a firm adopts in response to a crisis. In the literature we found “four strategic crisis responses” proposed recently by Wenzel et al. (2020):

1. **Retrenchment Strategy:** There are two type of retrenchment strategies – cost retrenchment and assets retrenchment. Cost retrenchment is when the firms adopts measures to decrease their costs (Pearce and Robbins, 1993). It refers to decreasing the needless expenses in the regular activities, like labor cost, advertisement cost, travel cost, etc. In the challenging situations companies must take controlling their costs into consideration (Morrow Jr et al., 2004). The situation when the net cash flow is short, this strategy can support production and daily operation by saving resources and improving efficiency. The cost retrenchment strategy helps in discharging resources instantly and realizing flexible application of the same and ultimately supports in promoting capital turnover Trahms et al., 2013). Asset retrenchment is cutting down fixed assets like land, machinery, buildings, etc. from the business (Schmitt and Raisch, 2013). The urgent requirements of the company can be fulfilled from funds of the sale of assets. There are both positive and negative effects of the retrenchment strategy. The cost cutting provides a strong basis for long term recovery and maintaining required liquidity of the company (Pearce and Robbins, 1994) and these strategies can considerably enhance the organizational capability to attain external support from the customers, capital market and the government (Trahms, 2013). But these retrenchment strategies are frequently accredited to reduce the performance particularly in the time of long-term crises by ensuring modifications in resource use and culture of company (Ndofor et al., 2013)
2. **Persevering Strategy:** This strategy concentrates on stabilising the organisation's ongoing operations. "the core of this strategy is not to start a strategic renewal at the wrong time, and that its success is linked to the duration of a crisis. The longer the crisis lasts, the scarcer the financial resources become" (Wenzel et al. 2020)
3. **Innovation:** focuses on the "strategic renewal of the business" (Kraus et al 2020). The hard times of aids the businesses to think amenably about innovative and new things (Roy et al., 2018). Crisis helps in validating the business model and recognize the parts - that can be some product line or some service category or revenue model or value creation approach is more robust in comparison to others (Clauss, 2017). This ultimately develops a basis for identifying the opportunities of innovation in the business model. Business model innovation is sparked by a variety of external developments, such as modifications to the "competitive environment" (Clauss et al., 2019) and new technology (Patel and Gigli's, 2005). Innovation is a coping technique that has long-lasting consequences and may make the company stronger in the future, according to Wenzel et al. (2020). The limiting factor to innovation in the time of crisis is 'low liquidity' Particularly as time passes by, managers here the right time of making right strategic change can be missed by managers (Kraus et al, 2020).
4. **Exit Strategy:** In the event that all other techniques are deemed failed, this is one option. However, a "successful corporate departure might free up new resources and offer new opportunities" (Carnahan, 2017). (Kraus et al, 20202). Exit can also lead to 'strategic renewal' and the base of a new business firm (Ren et al., 2019).

Overview on the situation of Business Firms during Corona Crisis:

Business houses across the globe are going through a tough patch in times of COVID. Small businesses and Micro and Mini enterprises along with MNCs have been facing a daunting task to predict the disruption and take affirmative actions to stave of negative reactions arising out of COVID. McKinsey & Co has highlighted a flow to analyse the disruption and the depth of the same which will assist organizations to forecast the same effectively.

Business leaders should consider these indicators in the coming weeks.



McKinsey & Company

Strategies Firms can adopt to sustain their Firms during pandemic

Experts suggest several ways on how companies can emerge from the pandemic intact — and maybe stronger than ever. One of the profound and most common strategy has always been to cut unwanted expenses to aid sustainability of the enterprise during tough times. But experts suggest to make strategic cuts keeping the requirements of their customers. Streamlining processes helps organizations in the long run then cut costs without taking factors of their consequences into account. It is one of the strategies to ensure the long-term sustainability of the firm. The organisations that will recover more swiftly in reality didn't tighten their controls too much or too rapidly. He said that the corporation has given manufacturing managers more freedom to act swiftly and that urgent clearances can be done over the phone with the chairman or board of directors. So here comes the question that we are trying to figure out the answer for, Is the pandemic (like Corona) A disaster or an opportunity for business?

India's Unicorn Club 2021



Source: Debarghya. S (2021) www.inc42.com

Discussion or Opinion or Conclusion

Looking at the figure 2, it can be seen that, India had only 12 unicorns in between the year 2011 -

2017, i.e. one or at max 3 unicorns in each year. There's an extensive surge in the number of unicorns companies during the Corona Pandemic period. As per INC42 (2021) the Indian Economy had the highest number of Unicorn Firms in the year 2021. Indian tech entrepreneurs have had being applauded internationally for excelling in the IT sector since a long now (India Times 2020; Silicon India 2015). And Corona had locked people into their own homes, hence people desired companies to serve everything they require at home. Grabbing this prospect, maximum number of companies getting a unicorn crown are innovative breakthroughs in the form of the web portals tackling the issues of some or the other sector. Therefore, it can be interpreted that the Indian entrepreneurial spirit has shown its true shade in the hard times of Corona Crisis and have treated it as an opportunity at large.

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