Queensland, Australia

Strategic responses to COVID-19

STRATEGIC RESPONSES TO COVID-19: AN INVESTIGATION OF AUSTRALIAN FIRMS

Lili Mi, Heather Stewart and Harsha Sarvaiya

About the authors

Dr Lili Mi is a lecturer in the Department of Business Strategy and Innovation, Griffith University, a member of Griffith Asia Institute and a Fellow of Higher Education Academy. She holds a PhD in strategic management and international business from Massey University, New Zealand. She is committed to helping businesses sustain their competitive edge during current and future challenges. Her research topics include strategy, innovation and the impact of institutions on firm performance. Lili published her work in top tier journals such as Ecological Economics and Asia Pacific Journal of Marketing and Logistics. She currently leads two research projects investigating strategic responses to COVID-19 for international firms in Australia, US and China

Dr Heather Stewart is a senior lecturer in the Department of Business Strategy and Innovation, in the Griffith Business School and member of the Griffith Centre for Sustainable Enterprise. Prior to coming to Griffith, Heather had more than 25 years of management experience in both corporate and small business.

Heather is a researcher working in qualitative data collection and analysis and has established a publishing profile in high level CSR and sustainable business journals. Her focus is on qualitative research of collaboration, continual learning and sustainable management practices in the SME context. This includes organisational development, CSR and ethics in terms of SME practice and development; management issues such as collaboration, continual learning, problem solving and application of sustainable management practices; higher education learning and teaching strategies and practices; and teaching communities and practices within the online environment.

Dr Harsha Sarvaiya is a senior lecturer in the Department of Business Strategy and Innovation. She holds a PhD in management from the School of Management, Massey University, New Zealand. Her research expertise is in the areas of corporate social responsibility, sustainability, and business ethics. She has published papers in high-ranked journals such as the Journal of Business Ethics and the International Journal of Human Resources Management.

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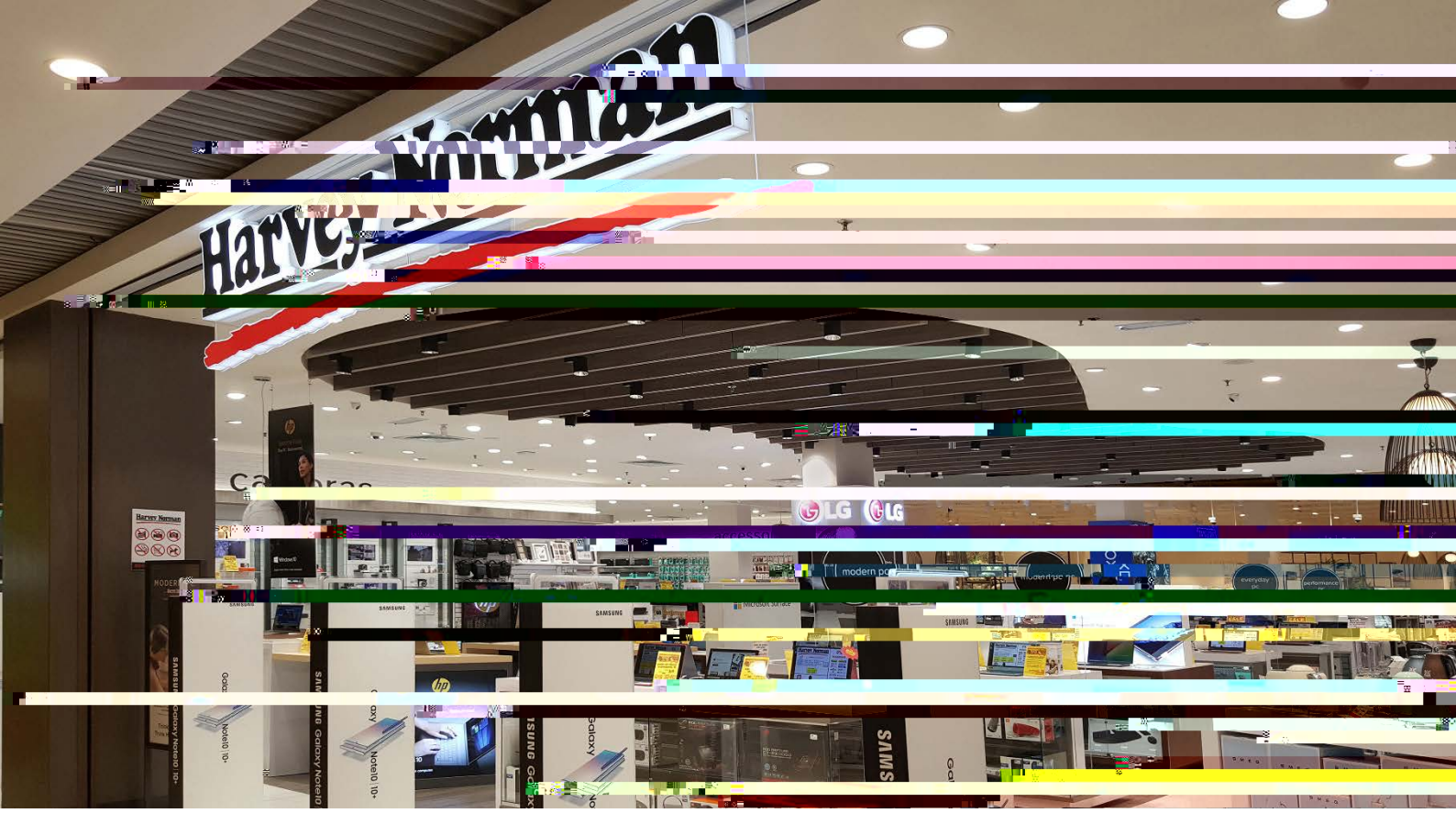
EXECUTIVE SUMMARY

The COVID-19 pandemic has had severe repercussions on world trade. 2020 had a precipitous decline in the volume of international trade, while 2021 saw a significant rebound. Despite the fact that global trade flows are now higher than pre-pandemic levels, the impacts of trade vary widely across different goods, services, and trading partners. In this report, we surveyed 361 Australian international firms in 2021. The focus was on the firms' strategic responses to identifying the firms' strategic changes in international markets, their perceptions of the external environment and firm performance to date. Data from these surveys enabled the analysis of the changes in the number of foreign subsidiaries, employees, assets, research and development (R&D) expenditure and product innovation pre and during the pandemic as indicators of different strategic responses to crises. To analyse the external environment, firms were asked to evaluate the level of competition and dynamism within their industry, the support they received from the government and the economic freedom in Australia.

The results of the investigation show changes in the number of foreign subsidiaries, employee numbers, assets, number of products, and R%D expenditure. It can be observed that 62% of the firms increased the number of foreign subsidiaries while 46.5% reduced the number of employees. In terms of assets, a

INTRODUCTION

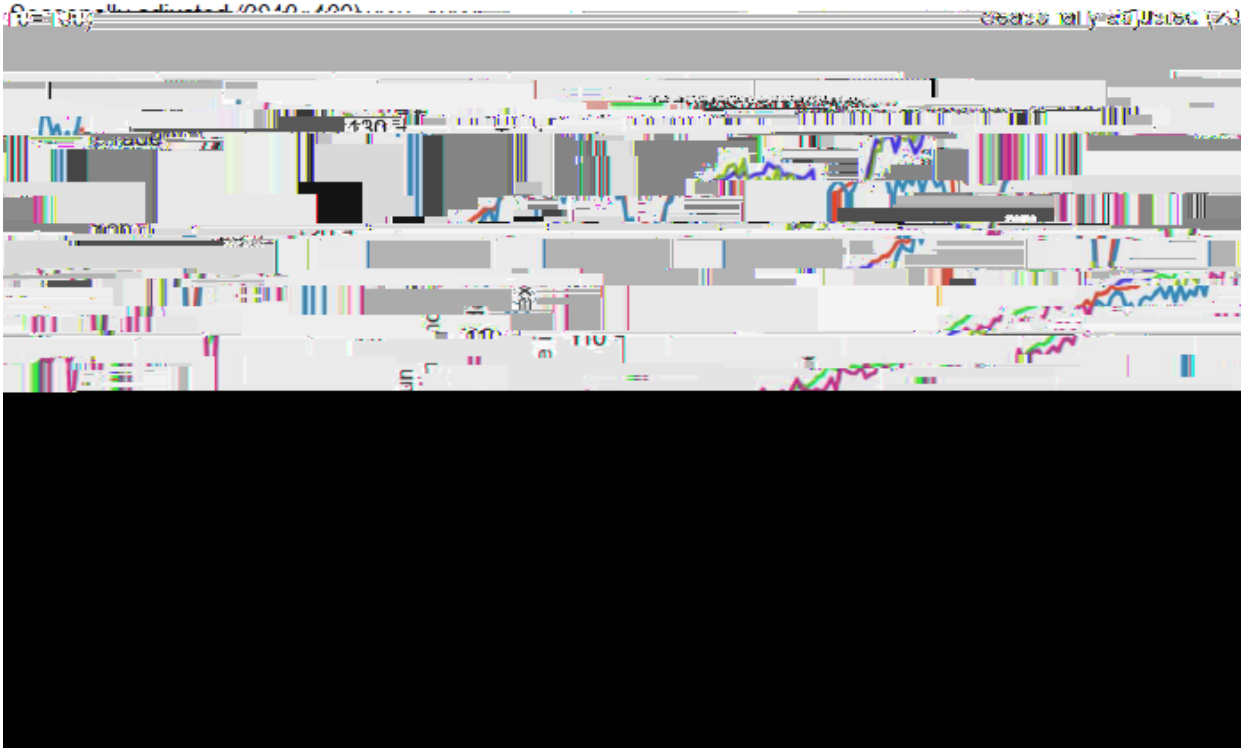
In this report



THE IMPACT OF COVID-19 ON WORLD TRADE

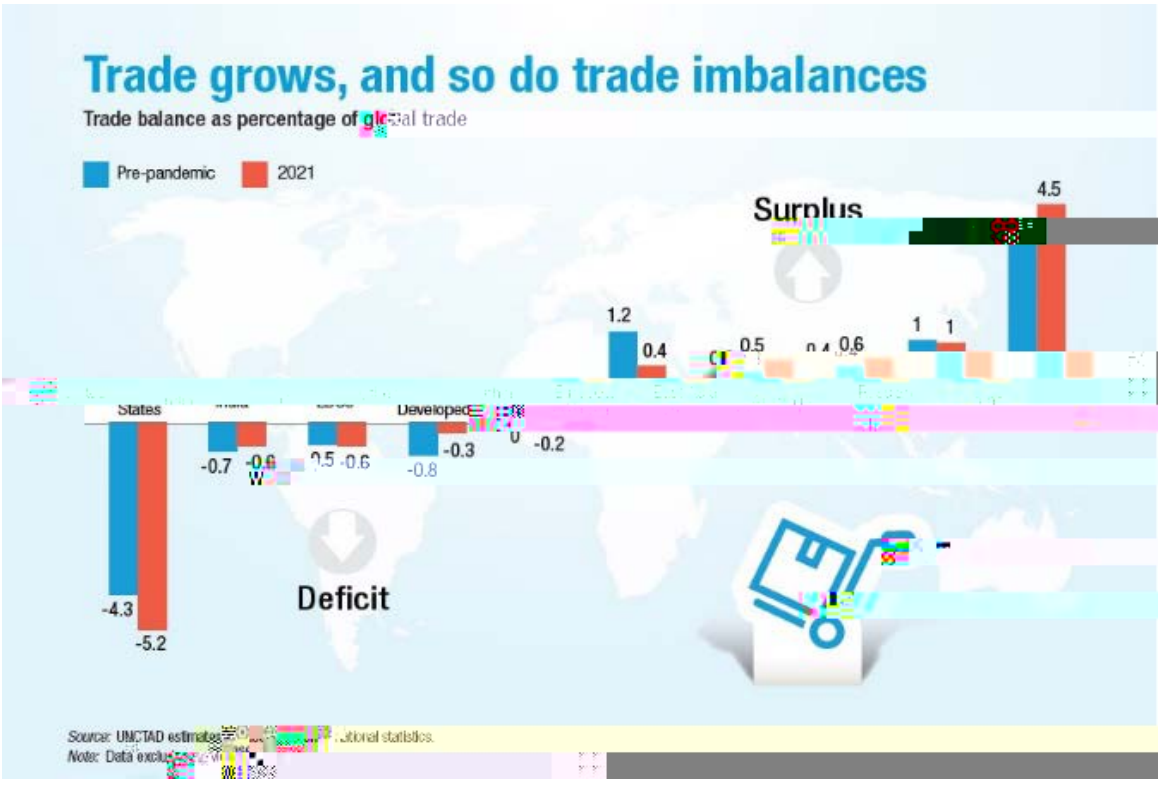
The COVID-19 pandemic has had severe repercussions on world trade. 2020 had a precipitous decline in the volume of international trade, while 2021 saw a significant rebound. Despite the fact that global trade flows are now higher than pre-pandemic levels, the impacts of trade vary widely across different goods, services, and trading partners. Changes in the trade structure caused by the COVID-19 pandemic in a single year were comparable to those observed over four to five years. Significant disparities between trading partners and products persisted through the end of 2021, and not all losses were recuperated. Differences in the trade impacts and changes in trade flows of diverse products, sources and destinations mean high ambiguity and modification costs, which suggests there should be an increase in incentives for consumers, business and governments to implement new or strengthen present risk mitigation strategies[1].

Figure 1: Volume of world trade and industrial production



While total trade flows are now above pre-pandemic levels[3], this has not happened at all levels. The impact on trade has not been the same across all sectors creating pressures on specific sectors and supply chains[4], creating trade imbalances[5].

Figure 2: Trade growth and imbalances[6]



In 2021, both the volume and (year-on-year) growth rates of world trade reached historical highs in May and June. The reason for this was the disruption of trade in the first half of 2020, with the effect of releasing demand from 2020, as well as shifts of demand from services to goods, and releasing the excesses in international supply chains.[6] In many countries, after a period of temporary de-confinement at the end of

In spite of the problems due to COVID-19 with supply chains, including national and international border closures along with other issues, exports remained steady. Australians exported high-quality wine, as reme pro 3.4 (ed)05 Tc -0ie t

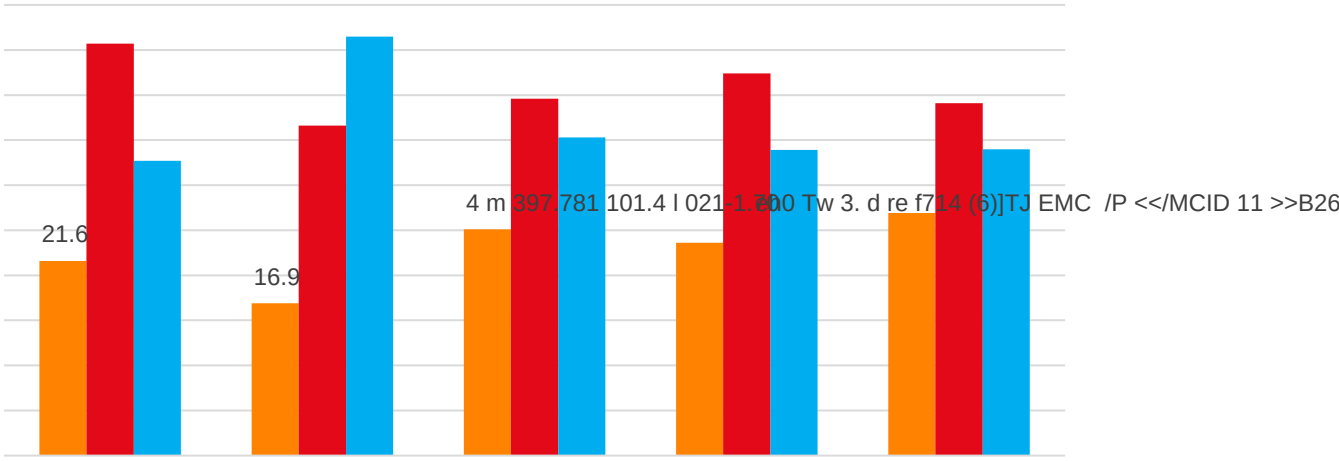
PROFILE OF RESPONDENTS

Position of respondents

We sent out 716 surveys to Australian firms who have been engaged in international business activities. Out of these, we received 361 completed surveys. Respondents to the survey hold different positions. The majority of respondents hold senior management positions (54%) in the organisations, while 34.6% have an executive management position. The third group comprises directors (8.3%) and the remainder of the respondents are business owners (3.1%).

Education level

Figure 16: Strategic Responses to COVID-19



Below is presented the findings of the research in the changes by industry

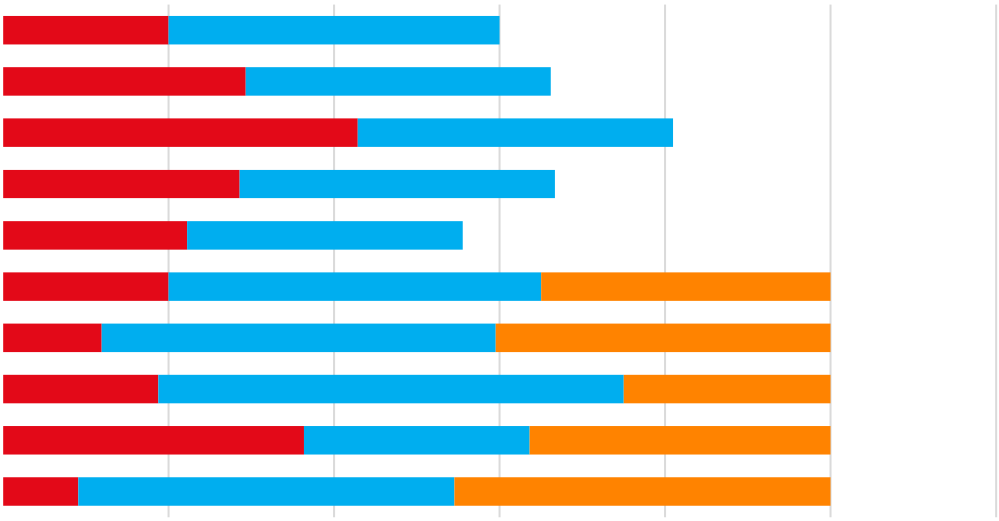
Figure 17: Changes in employee number by industry

Overall, all the industries suffered a large reduction in employee numbers ranging from 36.8% to 65.1%. The four industries that suffered the most reduction of employees were manufacturing (65.1%), retail trade (59.1%), wholesale trade (58.6%) and construction (56.3%). In contrast, the industry that hired the most people (27.3 %) were mining firms surveyed, augmenting the number of employees. Public administration (20%), services (21.6%) and finance, insurance, real estate (20.5%) industries also witnessed a relatively significant increase in employee numbers comparing to other industries.

Figure 18: Changes in assets by industry

With 60%, the public administration is the industry that reduced more expenditure in R&D. It is important to notice that other industries like agriculture, forestry and fishing, mining, manufacturing and wholesale trade reduced 40% or more in R&D expenditure. Only three industries, transportation and public utilities (55.6%), construction (56.3%) and wholesale trade (50%) did not make significant changes in R&D expenditure. Interestingly, mining has the highest expenditure in R&D with an increase of 50%. The remaining industries increased their R&D by less than 35%. The lack of R&D expenditure leads to a lack of innovation. Innovation is essential in the current business world so as to be competitive across different markets. This lack of innovation is in line with a strategy of retrenchment, cutting costs and reducing the scope of business activities.

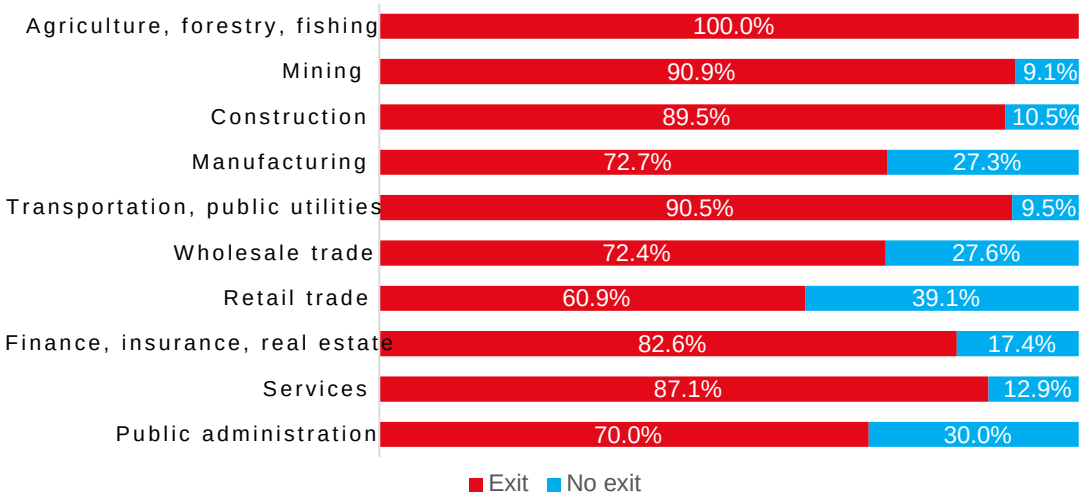
Figure 20: Changes in number of products by industry



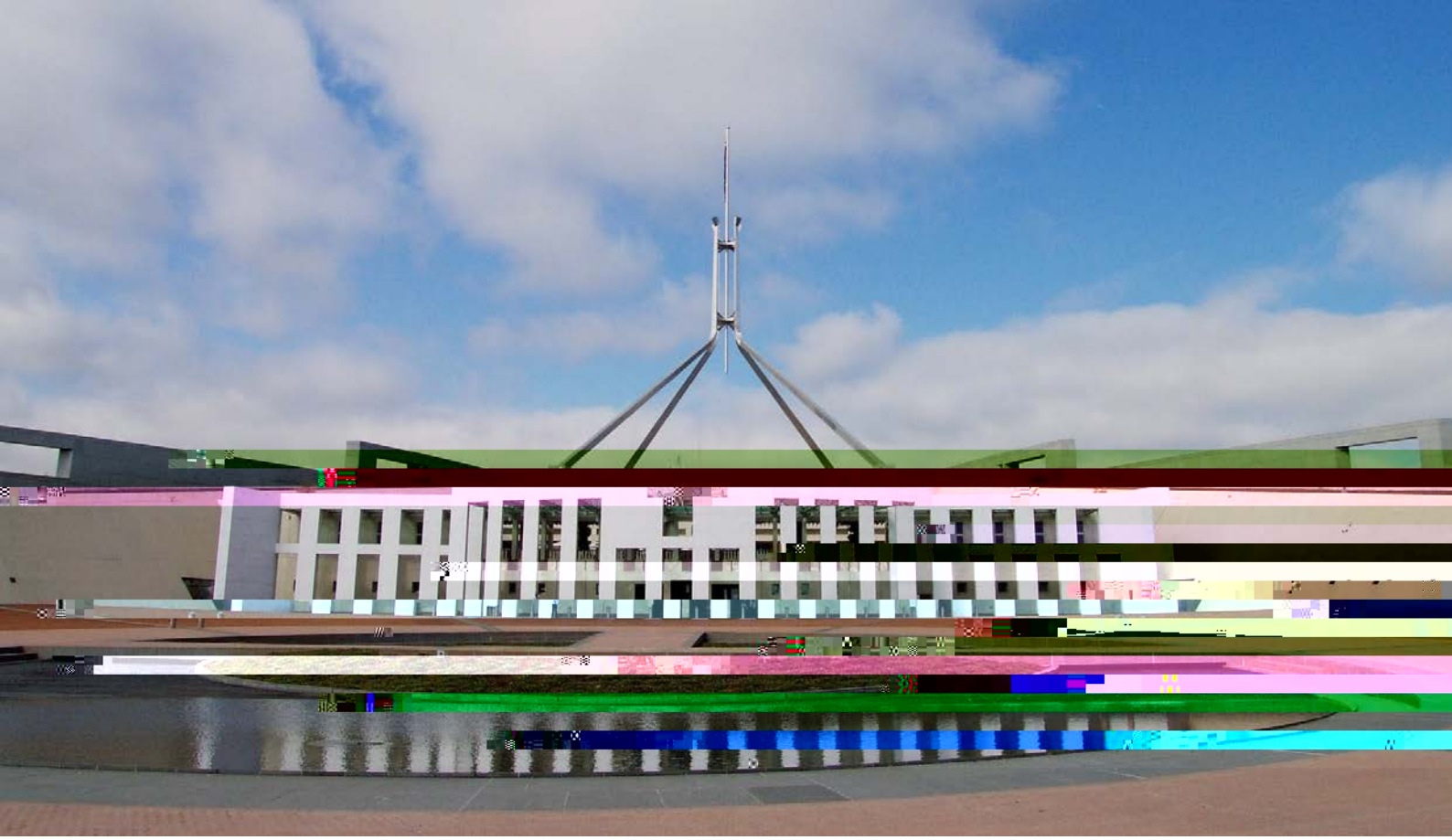
It is also disturbing to see that less than 43% of industries created new products, being finance, insurance, real state (42.9%) and mining (36.9%) as the ones who created more new products. The rest of the industries only increased their production below 30%. All the industries with the exception of agriculture, forestry and fishing industry (45.5%) decreased their product numbers by less than 45% and many industries decided not to make major changes in their products. To break this down, the construction industry having the highest percentage of no changes (56.3%) and mining the lowest (27.3%). The high number of firms making no changes and decreasing the number of products shows the lack of innovation with the decision of the majority of the firms to follow a strategy of persevering as they attempt to maintain the current state of the business activities from before the crises

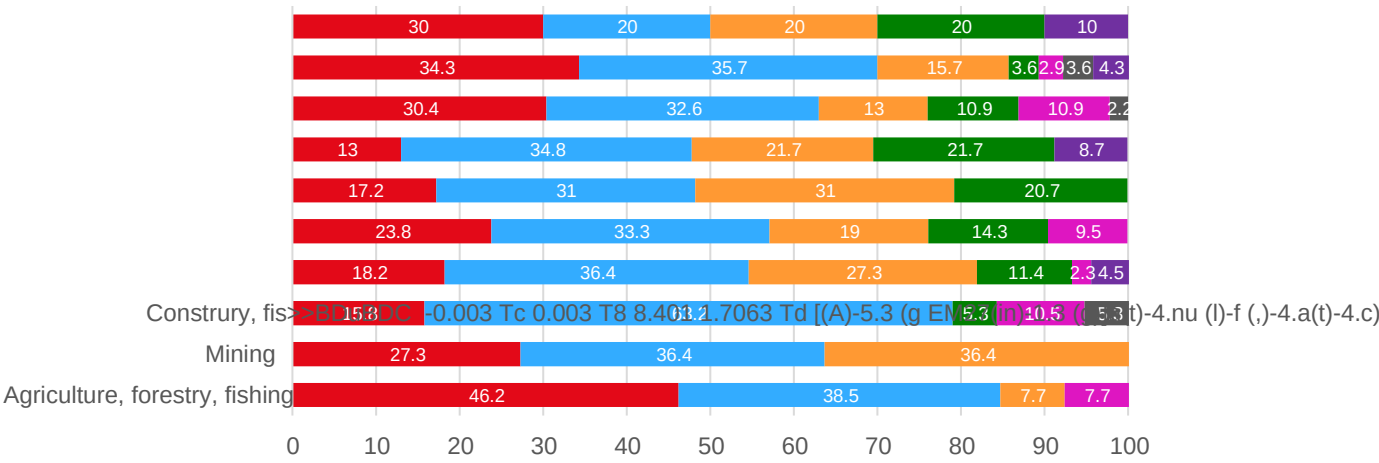
Since COVID-19, 82% of our respondents exited a foreign country due to unfaverable policies from that country even though it was a strategically significant location before the pandemic. The exit strategy clearly indicated a large portion of firms employing the exit strategy due to a crisis.

Figure 22: Percentage of market exit by industry



Although expected, it is alarming to note that a 100% of the surveyed firms in the agriculture, forestry and fishing industry exit the market due to the foreign country's policies since the start of COVID-19. Several industries such as mining (90.9%), construction (89.5%) and services (87.1%) were also impacted greatly from foreign policies and had to exit from the market. In comparison, the retail and trade industry has the highest percentage of firms staying in the host country (39.1%), followed by public administration (30%), wholesale trade (27.6%) and manufacturing (27.3%)

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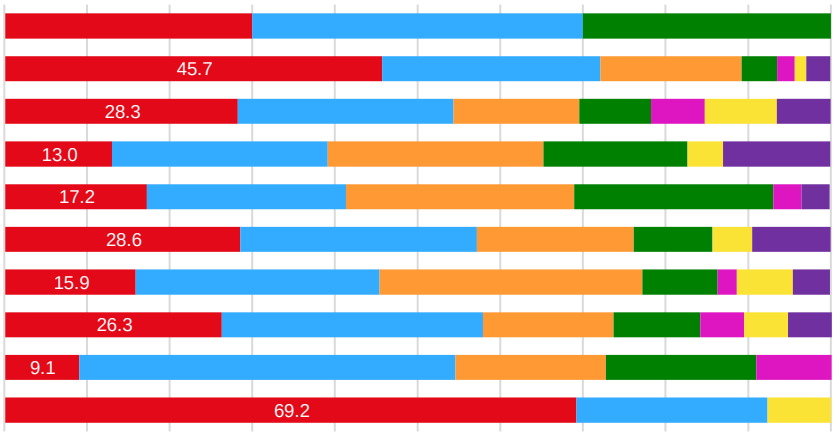
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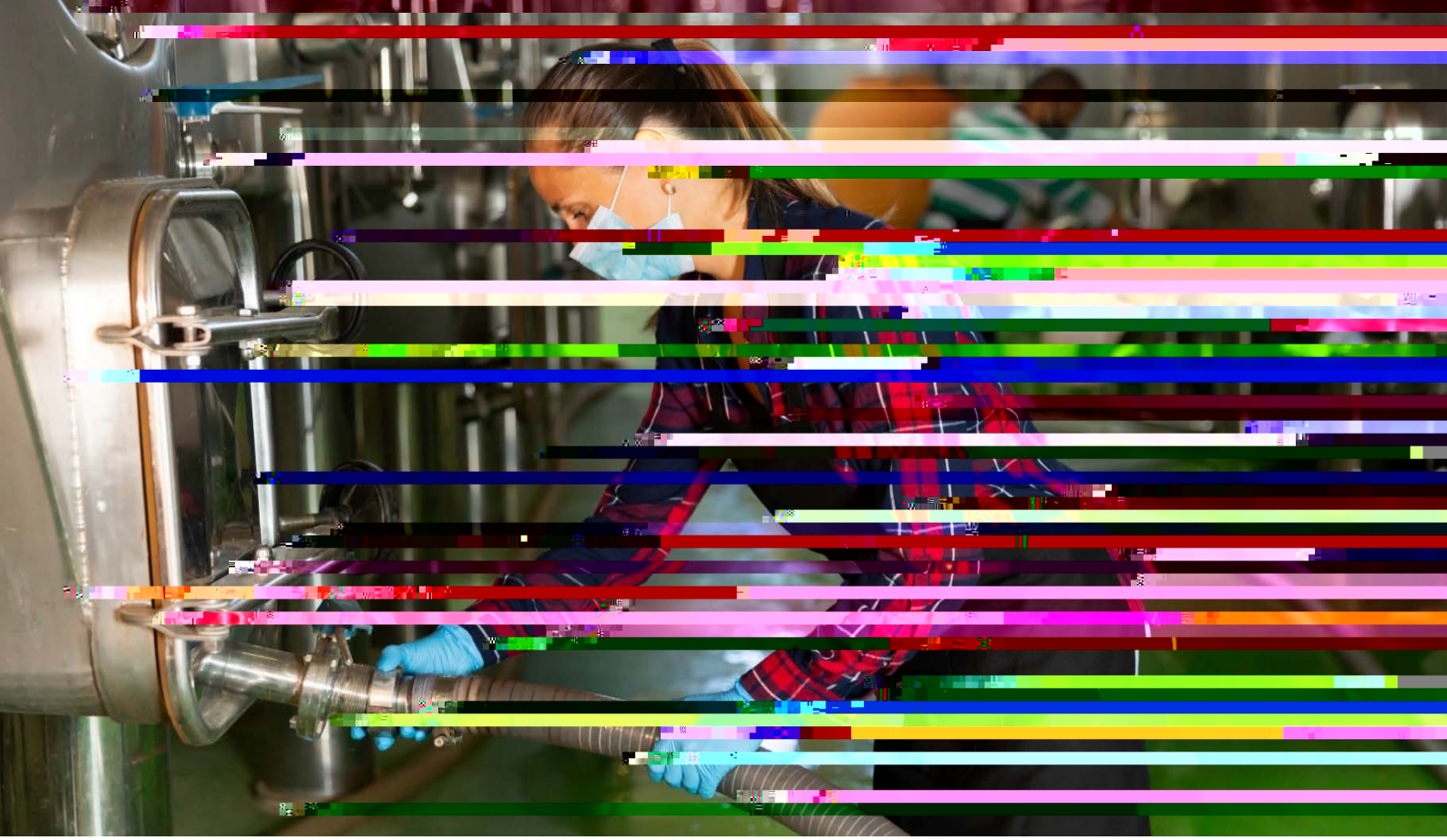

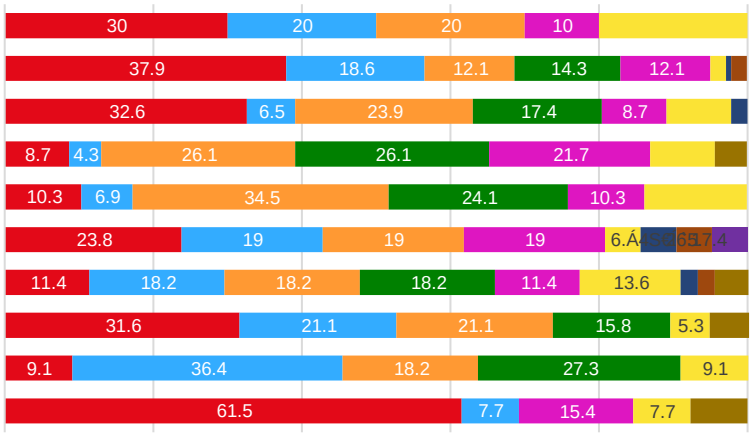
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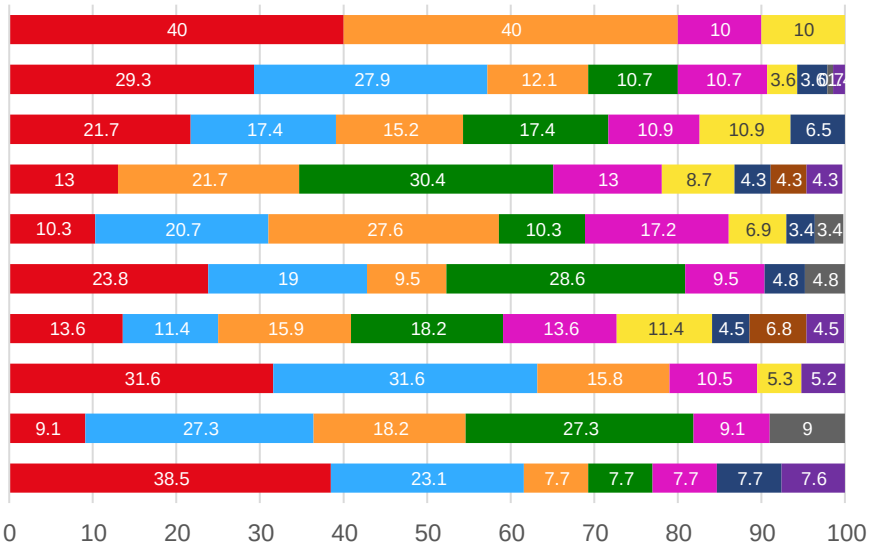
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CONCLUSION AND RECOMMENDATIONS

International trade plunged in 2020 but witnessed a quick recovery in 2021. While total trade flows are now over pre-pandemic levels, trade impact differs across different goods, services and trade partners, generating pressures on some sectors and supply chains. This report presents

Persevering relates to maintaining the current state of the business activities as they were pre-COVID, and mitigating the adverse impacts of the crisis. Firms taking this strategy are likely to use slack resources for strategic renewal and maintain a higher rate of firm survival than competitors. Innovating refers to conducting strategic transformations. It is believed that actively seeking new ways of doing business or seizing new investment opportunities can be effective strategic responses to crises. Exit means the discontinuation of a firm's business activities in a foreign market. Although it indicates an decrease in scope and scale, it does not necessarily lead to failures. On the contrary, it may free up critical resources to pursue new business opportunities elsewhere.

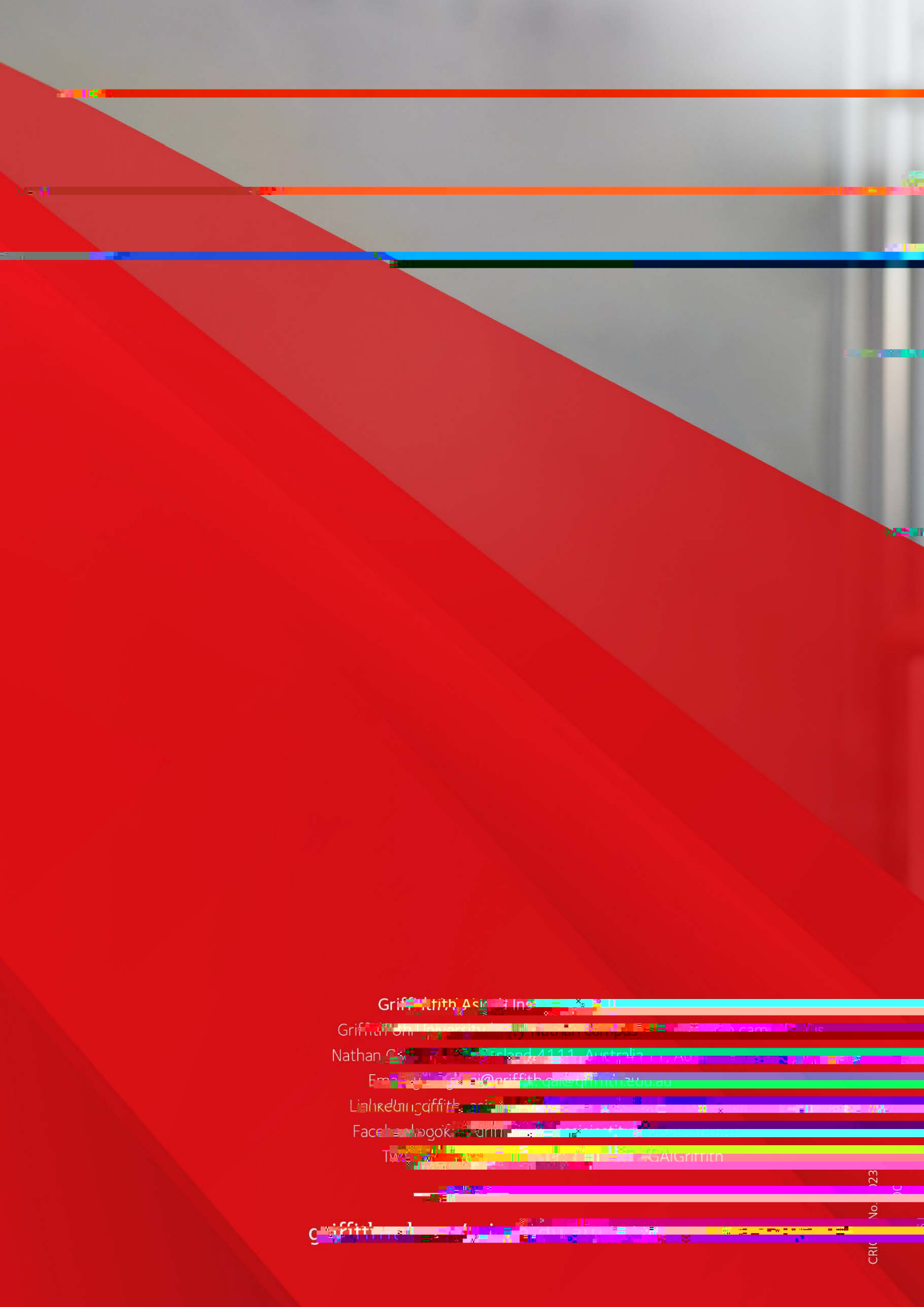
The retrenchment strategy is observed in the reduction of the number of employees and the number of foreign subsidiaries, firm assets, products, and the expenditure in R&D. Some firms decided to maintain a persevering strategy, observed from the fact that many of them did not make any changes. There are also firms undertaking the innovation strategy. For example, 26.9% of the firms surveyed created new products and 23.6% of firms invested more in R&D. Finally, 82% of firms surveyed mentioned that they decided to exit a foreign country due to unfaverable policies from that country even though it was a strategically significant location prior to the pandemic. As detailed in the report, the use of different strategies varies across different industries.

Based on this research, the report provides the following recommendations for policy makers and industry practitioners:

Government

Issue/ opportunity	Recommendation
More firms are using a retrenchment strategy compared to firms that are taking the opportunities to expand their business and innovate.	Government needs to provide financial support to help with

Issue/ opportunity	Recommendation
The percentage of firms spending in R&D is low.	Creating a scheme of different grants for businesses in the needed industries, or tax breaks related to research and innovationis important. This will help to find new markets, create new jobsand businesses,hence more revenuefor the businesses andmore income for the government.
There is a very high number of firms who exited the foreign marketsand 100% of the agribusinesses surveyed exited from overseas markets due to unfavorable policies from the the host country.	The government could negoticate better foreign policies and provide more assistance to firms doing business overseas especially the agribusiness sector.

NOTES AND REFERENCES

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