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ACT/EMP

▶ Business Resilience in Retrospect: Lessons from the COVID-19 Pandemic



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▶ **Business Resilience in Retrospect: Lessons from the COVID-19 Pandemic**

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Bureau for Employers Activities (ACT/EMP)
International Labour Organization

Foreword

Business resilience is not just a buzzword; it's an economic linchpin. In an interconnected global economy, the robustness of individual enterprises directly correlates with broader economic growth and employment recovery and is greatly determined by the business environment surrounding the enterprises. The ability of a business to adapt, recover, and thrive post-crisis impacts not only its bottom line but also the wider socioeconomic fabric. For nations and economies, fostering resilience within their business communities is critical. Practical lessons and real-world experiences are instrumental in this endeavor, allowing business leaders to craft business resilience strategies that ensure enterprises aren't merely survivors but emerge better prepared for future crises.

In this study, we provide insights from a tumultuous period – 2020 and early 2021 – when businesses globally grappled with the ramifications of the COVID-19 pandemic. Through the lens of business leaders from diverse sectors and regions, we explore the myriad challenges they faced and the strategies they employed. With a sample size of 20 companies, our focus isn't on broad statistical generalizations but on capturing the essence of practical adaptations during this global upheaval. As such, this study complements two other reports we published this year: “Determinants of Productivity Recovery and Business Resilience” and “A Conceptual Framework for Measuring Business Resilience”.

Conducting semi-structured interviews between August and October 2021, we enabled these leaders to articulate their experiences, free from the constraints of rigid questioning. Our aim? To understand the real-world strategies businesses adopted in the face of unprecedented challenges.

From these interactions, several pragmatic themes emerged:

- ▶ **Supply chain dynamics:** The pandemic underscored the need to comprehend and fortify the intricate web of global supply chains. Disruptions in one segment can have cascading effects, emphasizing the importance of holistic solutions.
- ▶ **Interdependence:** Our intertwined global economic structure, as evidenced in both the 2007-09 global financial crisis and the 2020-21 pandemic, underscores the value of collaborative, coordinated responses to global challenges.
- ▶ **Human centricity:** People remain at the heart of businesses. Values such as trust, fairness, and mental well-being played pivotal roles in steering enterprises through the pandemic.
- ▶ **Technological evolution:** The pandemic catalyzed technological adoption. Companies with proactive investments in tech were better positioned to navigate the disruptions.
- ▶ **Problem-solving in crisis:** During a crisis, agility trumps perfection. Rapid, informed decisions, combined with open communication, became key differentiators for businesses navigating the unknown.

Our objective is to present a treasure trove of experiences that inform and inspire. We hope that this study serves as a pragmatic guide, especially for the ILO's constituents. We are optimistic that employer and business membership organizations (EBMOs) will derive value from these insights, equipping themselves better for the challenges of tomorrow.

Deborah France-Massin



Director
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International Labour Office

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Mr Mounir Bissat	Owner	Mounir Bissat	Lebanon
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Mr Enrique Ignacio Gonzalez Bacci	Bancolombia	Vicepresidente Corporativo de Gestión Humana	Colombia
Mr Gianluca Fossat	Founder and CEO	Go-On Group	Monaco
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Executive Summary

The COVID-19 pandemic has profoundly affected businesses globally, creating unprecedented challenges. From interviews with business leaders, key lessons about business resilience during such upheavals has emerged, painting a clearer picture for the path forward.

A primary concern voiced by leaders is on the role of public authorities. During the pandemic, it became evident that they needed to be agile in identifying and addressing systemic economic risks. For instance, while the 2007–09 global financial crisis was about capital scarcity, the pandemic period saw significant disruptions in supply chains. Governments' proactive involvement became crucial to address the supply-demand imbalances, as evidenced by multinational companies adapting swiftly to changing workforce demands during the crisis.

Regulations, often viewed as rigid, were another area of focus. Business leaders highlighted that to navigate emergencies successfully, adaptive regulatory systems are essential. For instance, outdated emergency laws neglecting the importance of digital infrastructure were flagged by ICT enterprises. The rapid pace of technological advancements necessitates an equally responsive legal framework and skills development systems.

Keeping international borders open and ensuring fluid international relations became another critical lesson. Businesses operating globally experienced major setbacks due to border closures and incoherent regulatory laws and policies among countries fragmenting business operations. Moreover, essential services, like submarine cable installations integral for digital communication, faced significant challenges.

Another analysed area is the current educational systems' weak alignment with business needs. Business leaders expressed concerns over the preparedness of graduates entering the workforce. This called for a rethinking of educational policies, emphasizing not just technical skills but also fostering social and interpersonal competencies including critical thinking, teamwork, organizational skills, leadership values, integrity, emotional intelligence, and problem-solving skills.

Individual sector concerns provided a more granular view of resilience strategies. ICT companies emphasized the need for forward-looking digital policies. Clarity in investment agreements, the significance of efficient markets, and the importance of strategic investments in regions with growth

potential, such as North Africa, were stressed. There was also an acknowledgment of the need for governments to reevaluate certain traditional regulatory models. For instance, in healthcare, leaders suggested revisiting drug testing protocols to make essential treatments available faster.

Migration dynamics, especially in regions like Europe post-Brexit, were a key focus area. Efficient immigration policies facilitating the arrival and integration of qualified workers were identified as critical for maintaining a competent talent pool.

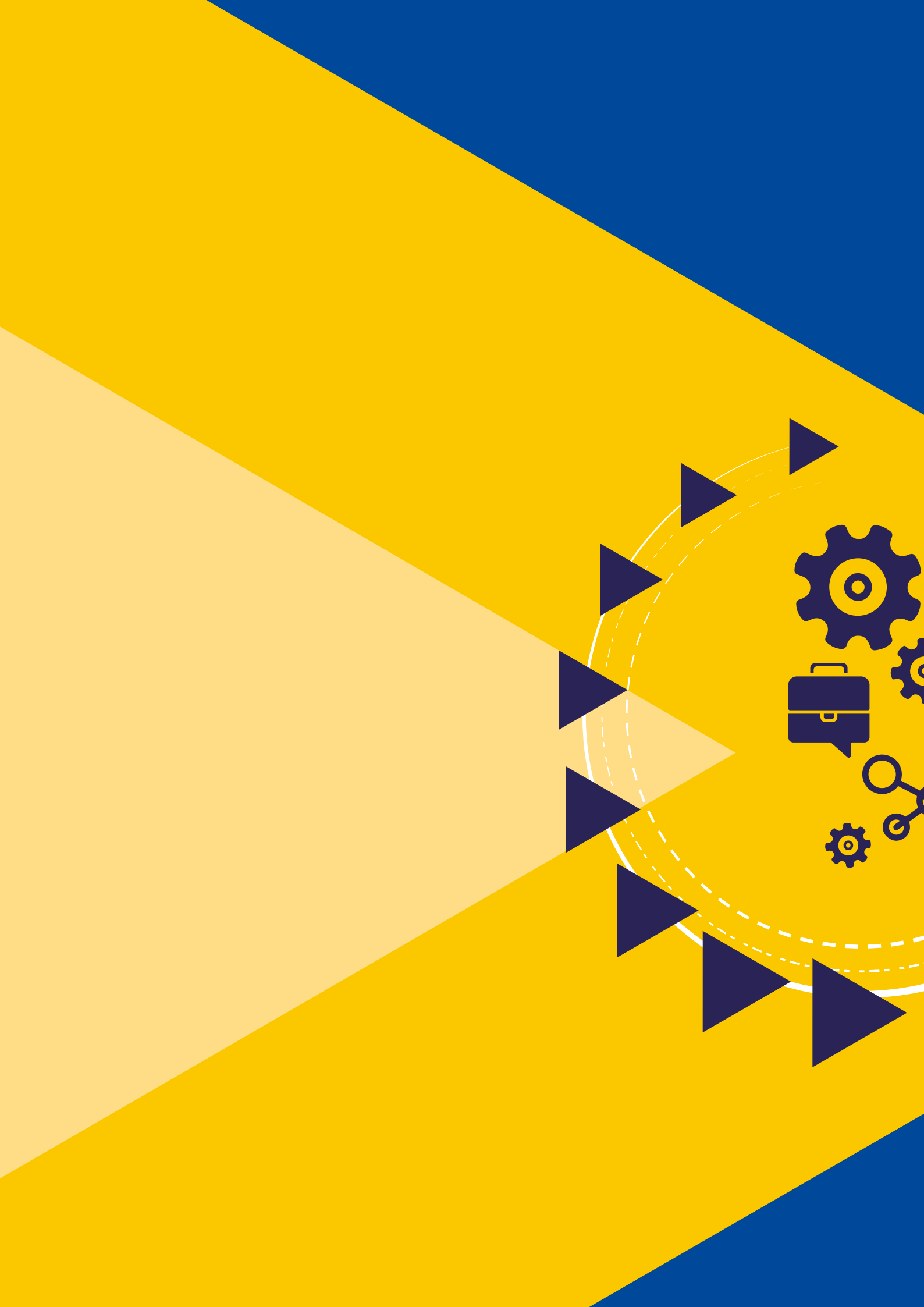
The informal sector, constituting a significant portion of many economies, need special attention. Business leaders

►► The informal sector, constituting a significant portion of many economies, need special attention. Business leaders urged governments to give due consideration to the formalization of the informal sector when framing public policies. Concurrently, there was a strong emphasis on fostering competition.

urged governments to give due consideration to the formalization of the informal sector when framing public policies. Concurrently, there was a strong emphasis on fostering competition. Equal opportunities and fair playing fields, especially in sectors like banking and labour intermediation services, were seen as fundamental for a healthy economic ecosystem.

Labour laws came to the forefront in discussions about the future of work. The rise in remote work has introduced new challenges such as an increased competition from regions with lower living costs and the need for diverse work arrangements. Furthermore, leaders underscored the importance of occupational safety and the need for clearer, updated regulations in all sectors.

In sum, the insights from the interviewed business leaders underscore that resilience in the face of challenges like the COVID-19 pandemic hinges on adaptability, proactive planning, and a pragmatic approach to addressing emerging issues. As the world grapples with an evolving array of uncertainties, it becomes increasingly vital for businesses to develop and strengthen their resilience strategy. By doing so, they not only position themselves to better navigate adversities but also to lead the way in post-crisis recovery, safeguarding jobs and bolstering economic growth. As we look to the horizon, potential challenges loom; yet, with an enhanced resilience, enterprises can be well-positioned to confidently chart a course through turbulences, seizing opportunities and catalyzing progress.





Introduction

Introduction

► About this research

This work presents a sample of the experiences, observations and ideas expressed by business leaders, across a cross-section of countries, concerning business resilience in face of the COVID pandemic. These leaders, in common with the rest of humanity, have had their own experience of the pandemic in the year 2020 and in the first part of 2021, and they report on what this pandemic has meant for their companies. This work does not have the value of a statistical inquiry, given the limited size of the sample, around 20 companies; however, it has value because it reports the points of views and ideas of people working in key roles in a diverse range of companies. While it cannot offer policymakers general answers, nonetheless it can illustrate the range and complexity of the issues that COVID has presented for business management and can identify themes for productive collaboration between managers and policymakers. The business leaders' reflections suggest the policy initiatives that may best help or may hinder the future prosperity of businesses and of the economies in which they operate.

This work is based on the views of decision-makers in sectors ranging from mining, food manufacturing to finance and information and communication technology (ICT) to banking in a cross-section of countries in four continents. The respondents' roles ranged from CEO to owner to VP for human resources, operations manager and procurement manager to senior legal counsel. The interviews were conducted between August and October 2021.

It is hoped that the approach of direct contact with companies, as facilitated by the ILO's experience, can provide the world of labour, and of policymaking for business, with practical information and relevant agendas for debate and negotiation.

The methodology employed was that of the semi-structured interview, on the grounds that this approach can spontaneously tap sources of information that more formal interrogation would miss. It was important that business leaders should engage in conversation with an interviewer that was flexible enough to let them express their judgements in their own terms. The remit that we gave to business leaders was deliberately loose to permit them to put in evidence what they really considered important.

Because this work surveys the point of view of 20 different spokespeople with varying and sometimes conflicting interests and opinions, it does more to reveal the complexity and heterogeneity of business's resilience strategies than to discover any general rules of how businesses or policymakers should react to a pandemic. Moreover, the interviewees did

not have the opportunity to debate their ideas with each other. Also, with limited time and resources, it was unavoidable that certain important geographic areas and certain important industries were left out, and that is a limitation of this work. For the future, the International Labour Organization (ILO) is well-placed to provide valuable public information along the lines of this initial survey, covering more sectors and industries in more countries. It is hoped that the approach of direct contact with companies, as facilitated by the ILO's experience, can provide the world of labour, and of policymaking for business, with practical information and relevant agendas for debate and negotiation.

► Participants' themes

Some of the participants' themes particularly attracted our attention:

On the supply chain:

- Final products often come at the end of a complex supply chain, involving the contributions of many suppliers and sub-suppliers, which in many cases we do not know. A problem far away may suddenly become a major problem for us.
- A supply chain that crosses national borders can be a channel through which we can receive and transmit economic growth, on one hand, or deep crisis, on the other. This implies that fighting a pandemic only in single countries or single regions can seldom produce a solution.
- In the 2008–09 crisis, we soon discovered that even experts did not know fully the different linkages among the different financial actors. In 2020–21 we discovered that most of its users do know know the real complexity of the supply chain.

On interdependence:

- In 2008–09 the interaction between financial institutions was severely reduced by well-founded suspicions that some of them could be exposed to the risk of toxic financial assets. In 2020–21 the interaction between human beings was severely reduced by suspicion that some were bearers of a dangerous virus. In both instances, the caution induced by the limits to knowledge reduced useful as well as harmful interactions.
- Humans tend to build complex interactions that they do not completely understand. This can pose serious risks.
- The experience of closed borders has put in evidence our dependence on foreign countries and their policies.
- The concept of “social interaction” has come to the forefront. Some businesses are more dependent on social interaction than others. The COVID crisis has been more punishing for business that depend on greater social interaction.
- Companies are part of an ecosystem, and their survival and success depend on the survival and success of their ecosystem.

On human values:

- Trust is a key asset of individuals, companies and governments. Organizations that are trusted by their employees, by their suppliers, by their customers, by their lenders and by their investors have greater resilience than those that are not.
- When people are treated fairly and with respect, they can repay their companies much more than what might be expected.
- Human beings need the presence of other other human beings; when they are isolated for prolonged periods, their mental health is at risk. The business world is, to a certain degree, moving to accept that mental health problems are not a shame to be hidden, but rather an issue that must be treated as any other disease, with competence and human respect.
- Human beings are the key assets of companies. They are the factor that uses technology to produce wealth.

On technological change:

- ▶ COVID has accelerated several processes that were already underway, in particular, digitization and automation. It has also shown the great ability to learn and adapt of individuals and organizations.
- ▶ When social interaction is constrained, ICT becomes even more important than usual. When COVID appeared, businesses that had invested in ICT and automation benefitted from those investments.

On problem-solving:

- ▶ In an emergency situation, the pursuit of perfection can be a liability. Instead, acting quickly can be key, using whatever limited information is available. This should also be taken into account when dealing with issues of responsibility. In an emergency we cannot apply the same metric of accountability as in ordinary situations. The accountability criteria need to be adapted to fit unprecedented circumstances. Rules should not block the actions of those who, in good faith and with a background that in a normal situation would be considered sufficient, try to resolve emergency situations. After all, by definition, hardly anybody is really prepared to face unforeseen situations.
- ▶ Having a solution to every problem sometimes is not possible, but communicating with your stakeholders to show them that you are looking for a solution is essential.
- ▶ Listening is often more important than expressing our own point of view.
- ▶ When dealing with a global problem, providing remedies in just a limited number of countries will slow down attaining a solution, and it will bring additional problems also to those countries that received the remedies.



Chapter

▶ 1

1. The experience of companies and what they learned

►► “It is too early to speak about this crisis. It has not finished yet, and we are too close to the events to draw conclusions.”

While the observation of this entrepreneur, an expert in business internationalization, is probably true, tentative conclusions drawn from the experience of business leaders nonetheless provide valuable insights. It is valuable to place on record how the views of business leaders reflect their context: this moment in time, the sector of activity, the country of operation and the economic and financial conditions of the company before the crisis.

► 1.1 Moving in and out of lockdown

The beginning of the pandemic was harsh in many countries. The exceptions were some Asian countries, where the experience of previous recent infections provided some initial confidence in the ability to fight pandemics and led to some successes.

Experience with previous viruses and the ability to test, trace and isolate cases initially yielded some successes. In some Asian countries initial containment of the pandemic was facilitated by the respect for authority rooted in the culture, some scrupulous behaviour and a predisposition to follow instructions. A big effort was made to keep production going through the definition of very specific and detailed procedures, designed to prevent viral transmission, concerning most aspects of daily life. In Asia 2021 was more complicated than 2020, because previous successes in dealing with viruses had dampened appreciation of the importance of vaccination. In some countries difficulties in vaccinating large sections of the population, the scarcity of the best vaccines and some mistrust of vaccination brought problems. This led to introduction of more complicated rules about behavior and resulting constraints on business activity in the whole economy. Limited vaccine production levels brought scarcity and price increases of several raw materials and components affecting also the economies of those countries with extended vaccination programs. The scarcity of COVID treatments in many countries of the world reflected bottlenecks in supply chains and resulted in the inflation of prices of goods and services in the countries that had the means to treat the disease with the most advanced tools.

1.1.1 Companies in lockdown

For companies subject to lockdowns, the closing arrived suddenly and unexpectedly. The initial reaction was some disarray and gloomy forecasts of losses. In some countries initial restrictions were effective in limiting the spread of the virus, but soon it became clear that they were generating high prices and

were unsustainable.. This led to a relaxation of measures and further spreading of the infection. The reactions to this were testing, quarantines and vaccinations. The effects were significant, requiring fast adaptation to an unforeseen event.

Manufacturing, especially when less automated, requires a considerable presence of staff on site, but certain manufacturing companies were fairly well prepared and could function with limited staff in warehouses. A Latin American bank has 20,000 employees in its home country, and 40 per cent of them work in the front offices, in direct contact with the public. Many customers are accustomed to visiting the bank offices frequently. Due to the pandemic, in less than a week, the bank sent 19,500 people to work from home. Since the bank branches could not be completely shut down, they worked on scheduling customers' admission to the offices, with the objective of protecting the lives of staff and customers. When the bank tried to convert more operations to digital, elderly customers who had little familiarity with digital banking services made almost a rush on the bank, coming to withdraw their money because they feared finding themselves without access to their money.

Working from home entailed the availability and cost of internet connections. Certain companies took care of this. For example, an international bank provided equipment to its employees remaining at home and financially supported them to set up their workstations at home, and the move succeeded, with no decrease in productivity.

"In India the lock down came really suddenly. In 4-5 days, we moved people from work in office to work from home and it worked amazingly well.

We had to move about 3-5 thousand people, half of them did not have laptops. We ordered the laptops and in absence of the laptops we picked the desktops; we ensured the transportation of the desktops to the houses of the employees and we ensured the set up of the desktops and the workstations and all of that in a matter of a week. The same we did in the Philippines, Malaysia, China. Actually, China was our test case. What we learned from China was then implemented everywhere. Even in China moving people from working from office to working from home situation overnight went well because of well laid down plans, people who could execute those plans and the technology which could back that plan."

1.1.2 The difficulty of going back to the office

In a Latin American bank, as in other companies, going back to the office presented challenges and was almost more difficult than the shift to working online at home.

In a global professional services firm, the decision to go back to work has been left to each employee, based on mutual trust, and no one has been obliged to return to the office.

In the Middle East branch of a telecommunication multinational, staff went back to their offices certain days of the week according to agreements between staff members and their direct supervisors. There and elsewhere this phenomenon reduced the need for office space in city centres, which in turn resulted in less employment in services provided for office workers in city centres.

► 1.2 Occupational safety and health

For many companies the initial priority was taking care of the safety of employees. A multinational producing electronic goods was concerned about the health of workers and the difficulty of also protecting workers' families at home. Working from home posed new challenges: How can the company take care of the workplace and the work station when they are in the private houses of workers? How to take care of the mental health of staff members?

Workers shared their limited home work space with members of their families. The working condition were often difficult, and the physical and mental health of employees had to be supported, even to the extent of virtual gyms, virtual recreation spaces and physical training. Pauses and rest from work were anticipated and planned. For example, in a manufacturing company, mental health came at the forefront. A topic usually less considered, became at the centre of many discussions and initiatives.

“I think mental health, which I don’t think it was ever a big topic within my company, it’s now being recognized as something that is a very important element of COVID-19. We see mental health concerns everywhere. It’s not only where people were in stress because the healthcare system was breaking down. We can also see it’s the who had to work from home five days week and felt isolated because they couldn’t see and meet their colleagues and were lacking the human interaction. People in Europe who were working from home, not having a good space to work from home. Children being there that also had to be educated because there was online schooling.

It was also not something that was about young or old or men or women, not blue collar or white collar. I think this was something that we realized we really must take care of. So, there was also quite a lot of communication around it”.

Online work blurred the borders between work life and private life, with the risk of working too much and its potentially serious health consequences. People are sometimes slow to complain, and, when they complain, it can be too late. Companies had to anticipate their staff’s needs. Working online presents new challenges and requires closer attention to working hours. The division between work life and private life must be monitored, respected and protected.

According to an international bank, the problem of workers’ health was less severe because safety measures were already in place – for example, tracking software, which controls the number of hours of online connection with the corporate server. In a Colombian bank, staff well-being is part of corporate objectives; attention to it affects the bonuses of top managers.

Companies noted that the duration of the pandemic affected staff members more than the severity of the specific moment. There have been long-term psychological effects of the pandemic period.

► 1.3 ICT investments paid off

The ability to work online or remotely became a big advantage. The successful companies acted swiftly to move all office work online. A process – introducing teleworking – that in normal time would have taken years instead took place in weeks or days.

Companies could move to online working if they had a strong technical infrastructure to start with and had already invested in a robust digital presence. For example, a big EU diversified holding company had moved its data to the cloud a few years before the pandemic. Some banks were in similar conditions, having previously invested in ICT. The transition to working online also made even more evident the differences among labour services providers. There were competitors with IT infrastructure and competitors without it.

The problem of moving online was relatively modest for a global ICT group already accustomed to work online. The problem was also modest for those with previous experiences of remote work, such as certain professional services.

Even some companies that usually worked face-to-face were able to jump into online work because they had the technology, often because people used it in their private lives. They discovered that they were able to work remotely, and the shift did not affect profits.

The transition to remote work occurred even in sectors where physical contact was considered essential, as training in self defense techniques. Within a sector the ability to work online provided certain players with an advantage, and the shift did not require them to stop operations.

For others the move to online work was more complicated. Still, it took place even in lower middle income economies such as Kyrgyzstan's. One interviewee noted, "The pandemic led to more online meetings and the acceleration of something which was anyway overdue." According to some observers, smart work was not a short-term exigency, but rather, to some degree, it came to remain.

1.3.1 The need for more automation

Before the pandemic the need for automation was clear only to some companies. With the pandemic this need became greater and clearer. Now companies feel that using only online spreadsheets to monitor activities is not enough; now you need controlled processes, i.e., processes with high degree of automation, where technology contributes to control every step.

Technical change leads people to learn to work with and alongside robots. With the pandemic, companies in the mining sector increasingly recognized the advantages of automation, reducing the need to send large numbers of people underground. This cast into relief the gap between current ways of working and what could be, raising the challenge of automating mining.

Even if the pandemic highlights the advantages of automation, the financial costs of investment and capital must be considered. Capital requires remuneration. For this reason, the ready-made garments (RMG) sector of Bangladesh is cautious and is not yet automating much.

1.3.2 Differences among sectors and among countries

The restrictions introduced by governments varied, not just between countries, but also from sector to sector. In many cases certain sectors were obliged to stop completely, or almost completely, activities at their normal working sites. However, companies producing food, pharmaceuticals or other output that national authorities deemed strategic for the country, for example, fundamental sources of foreign currency, were usually exempted from strict lockdowns and in most cases continued producing as much or even more than usual. In some cases, these exemptions attracted criticism of the government. While some sectors were exempted from legal sanctions, they were not exempt from the virus, which in some cases attacked their staffs and caused difficulties and damage.

As governments responded differently, global companies felt very clearly the existence of different jurisdictions, national and regional borders, and different approaches to the disease and the need to manage situations at national and local levels.

Different sectors fared differently; there were losers and (relative) winners. One participant commented, "There is little that companies can do when you are in the wrong sector in the wrong moment. You can work to reduce damages, but not much more." According to an observer in Indonesia, the sectors that proved to be relative winners were medical supplies, healthcare, food processing, food retail and ICT. Many others, including aviation and even construction, had problems. In contrast, global producers of electronic goods faced the (welcome) challenge of coping with buoyant demand. For a Japanese pharmaceutical company, the crisis played out better and was more delayed than expected, with few logistical problems. People were using hospitals less, and fewer drugs for hospital treatments, for example, oncology drugs, were sold.

For most of 2020, manufacturing in the EU and the United States of America, after moments of panic at the beginning of the first lockdown, was generally able to produce, even if some reorganizations were needed.

The problems occurred mainly in services with direct contact with consumers, for example, restaurants, although they were helped to some degree by food deliveries. Tourism and transport also experienced difficulties, as people traveled less. Will the travel industry rebound to where it was? For a while, probably not¹.

In Kyrgyzstan the initial lockdown lasted 45 days, with strict limitations on people's movement. The consequences of COVID have been increased unemployment and increased poverty.

¹ In 2023, two years later, it has not yet fully recovered. <https://www.cnn.com/2023/05/08/where-is-travel-recovering-the-fastest-two-regions-lead-the-pack.html>

In Asia a mining company struggled to keep its operations running, but the impacts were beyond expectations. The company faced increased costs and delays in the development of new projects. *Such experiences help us to understand why the prices of many commodities increased.*

An EU diversified holding company had direct contact with different sectors and so direct perception of the asymmetric effects of the pandemic.

“This crisis made us realize in terms of business continuity and business interruption, that some of our businesses were more impacted by social interaction than others. Even the concept of social distancing was not in our lexicon before this crisis. We are specialists of doing laundry lists of business risks when we invest, I can tell you this was not on the list. So, it was a surprise. So, we learned about the fragility and maybe the risk on some of the businesses that we had not identified before”.

The existence of different reactions in different sectors was also noticed by a global professional services firm.

► 1.4 Closed borders and limitation of movement

The pandemic often led to closed borders. Exporting and importing became difficult or impossible.

Kyrgyzstan usually consumes many imported goods; its trade balance is usually in deficit. Closure of the borders of some neighbouring countries brought about a scarcity of goods and the necessity to search for domestic substitutes.

Border closures also affected the international movement of workers. Closed provincial and national borders in some cases led companies to ask their staff to stay living near the plants, far from families, for long periods. This was done on a voluntary basis, although some employees, motivated by loyalty, may have felt obliged to stay.

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An Asian mining company operates mining sites far from the main cities and inhabited places. Usually, the company flies staff in for two weeks and flies them out for a one week to rest at home. The COVID epidemic led to lengthening these periods in order to limit movement and to limit the spread of the infection: four weeks on the mining site and two at home. Even this did not work sufficiently, and so time at the mining site was preceded by periods of isolation in hotels, with additional loneliness and sometimes mental health problems for workers and additional costs for the company. However, going to the mining site was never an obligation; staff received salaries even if they did not go. All this was in the context of the national rules, adapting corporate rules accordingly.

Chapter

▶ 2



2. Supply chain issues

► 2.1 Crisis transmission through orders and supplies

In a highly interconnected economy, it does not matter much that you are not heavily affected by a virus. It is enough that your customers or your suppliers are affected. Some sectors and some countries suffered from the pandemic even before the virus had created a serious health problem in their places of work. This aspect of the crisis originated in the customers, who, by buying less, transmitted the crisis to their suppliers.

The reverse of this phenomenon, crisis through the supply chain, occurred later, in 2021. Suddenly, some companies found that, even if they had money, they could not obtain the supplies that they wanted or when they wanted. In some cases, manufacturers in countries with high vaccination rates had production difficulties because they could not obtain sufficient supplies from countries with lower vaccination rates and, hence, reduced work forces and more government restrictions on movement. Transport services – for example, containers – are an essential component in supply chains. The shortage of containers in some locations and surplus in others caused problems for many sectors.

Supply chains can be quite complex, and certain interdependencies had not been apparent before the epidemic. With the epidemic, however, companies came to realize that they are more connected than they had thought, and they are connected in ways they had not been aware of. Even well-structured holdings realized that they do not know enough about their supply chains, and that this is true even when they purchase within their group. In the case of purchases from external suppliers, some situations became critical quickly.

As a result, damage sometimes came from unexpected corners. For example, companies realized more clearly their dependence on complementary goods, such as equipment that their customers install on the towers that the company builds. If customers did not receive that equipment from other suppliers, they blocked or delayed the construction of towers.

To draw a comparison with the financial crisis of 2008–09, in that case knowledge of the supply chain of financial capital was lacking; in the recent case of the COVID pandemic, knowledge of the supply chain for raw materials and components was lacking.

The Deputy-CEO of an EU diversified holding company says:

“We don’t know what the own suppliers’ issues are and at the same time we don’t know, of our customers in terms of supply chain, we do not know if they are full or not full. And so, are they going to reduce by 5% or 50% their orders? So, there is a lot of guess and even after the crisis when there was a little recovery, when we see the demand, we don’t know what pent up demand is, where everybody is refilling the stock, or what is actual demand. We are guessing but honestly, we don’t have clear view.”

“All these economic agents, they try to guess, and they make bets which are not good. And so they overreact. They over-cut their spending. At the same time when there is a recovery, they probably over-order to make sure that they get the right supply and they are ready, they don’t want to miss a sale. And so those erratic movements have a huge impact on the working capital requirements. It does increase the effect of the crisis at both the entry and the exit. At the entry we were over penalized with no orders because people had no idea and at the exit we were penalized because it was over ordering and it was booming demand. So more visibility on that would be helpful. I don’t know about an international organization that would help but some better views of where the supply chain is would be definitely helpful for a lot of economic agents, that’s for sure.”

Not all sectors and companies were affected by supply chain issues in the same way. For example, banks had some supply problems, but, basically, they could cope with them. The pharmaceutical industry was hardly affected by supply chain problems thanks to the specific nature of the technologies it uses. At the same time, the pandemic created great demand for certain goods, such as sanitizers, and so, initially, their supply was scarce. For some representatives of the electronics industry, increasing demand contributed greatly to the public perception that supplies were scarce.

In some cases, the supply chain brought good surprises – for example, the reduction of oil and other energy costs at the beginning of the lockdowns. Energy-intensive and chemical industries benefitted.

The complexity of the supply chain implies that even in more ordinary times companies only partially know who the suppliers of their suppliers are. Some governments ask multinational companies not to have in their supply chains companies which use slave labour, but for some companies, knowing if there is slave labour somewhere in the supply chain, according to an electronic multinational, is difficult.

► 2.2 The realization of dependence on foreign inputs

The pandemic led many companies and sectors to understand their dependence on foreign inputs. In Indonesia, for example, a local company in telecommunication and energy infrastructures realized its dependence on foreign-made microchips, fiber optics and other components for telecommunications or hydro-turbines. Similar realizations occurred in the Bangladesh RMG sector. In electronics dependence on China became obvious. An ICT multinational decided that reducing dependence on single-sourcing should become a priority; there is the opportunity for a “China + 1” strategy – the “1” being another country that can supply the same inputs. China is an important supplier, but, for the peace of mind of businesses elsewhere, it cannot be the only one. The effectiveness of the policy of single sourcing is put in discussion, because too risky.

The pandemic put in evidence the trade off between efficiency of supplies, lowering their cost, and their effectiveness, guaranteeing their availability. A solution may consist in fostering the creation of local suppliers, with less transport and border issues.

These considerations are compounded by the fact that long distance transport also has an environmental aspect.

A mining company depends heavily on foreign suppliers of services and equipment. It sees the importance of having ample stocks of supplies in their warehouse to avoid being caught without essential inputs. Maintaining more stock reduces dependence on suppliers short-term, increasing the security of continuing operation, but it requires higher working capital expenditure and the need to finance it. Effectiveness increases, but costs and prices too.

In this regard, a vertically integrated electronic multinational perceives a certain advantage in its lesser dependence on suppliers. Even so, diversification of sources is a must for them. The same applies to businesses based in Kyrgyzstan. They need to diversify their supply sources, which are largely foreign.

2.2.1 Labour supply chain disruption

The constrained mobility of labour in a pandemic may become a source of limitations and blocks. Workers may be prevented from crossing borders or even travelling to another city, and so industries face problems.

This implies new costs and new complications. For example, in many sectors there is demand of a certain type of labour only if there are the necessary supplies of raw materials and components. Thus, scarcity of components may reduce demand for labour.

In some sectors lockdowns and quarantines led some people to abandon their industry and move to another. When recovery eventually came, these sectors faced reduced capacity for lack of personnel. A rebound of demand in the face of reduced production capacity may contribute to inflation.

2.2.2 A stronger relationship between buyers and suppliers

Due to the pandemic, many companies have seen more clearly the need to establish strong ties or partnerships with their suppliers or even to acquire them. Some big buyers were aware of their dependence on suppliers and reacted proactively, building with them long term relations and supporting them in the moments of difficulty.

▀▀ Government policy may also push firms towards cultivating the local supply chain, for example governments may impose companies to choose local suppliers, in any case when this is possible.

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An illustration of a woman with short blue hair, wearing a white top and a dark blue jacket, walking on a path. The path is composed of a series of teal and red triangles pointing right. A dashed white circle with an arrow inside it surrounds the woman. The background is a bright yellow color with a diagonal split into a dark blue section at the bottom left.

Chapter

▶ 3

3. Attributes for survival

► 3.1 Attention to the ecosystem

The crisis has highlighted the importance of the business ecosystem, a set of small and large companies and organizations that are interdependent because they rely on each other, usually as suppliers, buyers, or because they compete². The larger companies must take into account their needs and support them, as the manager of a mid-east branch of a multinational telecom company noted.

“You can be big, but you depend on many little ones: the ecosystem. I think the lessons learned is yes, we are in a telco but we have a lot of suppliers who are working in different sectors. So, everybody’s culture, everybody’s technical know-how or technical ability cannot be the same at the same time. Sometimes we are running and waiting them to run with us. But we realize that firstly, we have to look and fill their basic needs and requirements about connectivity, about financial problems, because in the sector, also a lot of companies, especially the small and medium-size companies have financial problems, they have to downsize, to reduce their employment numbers. But we need them, so we have to support them. We have lots of distributors all around the country. So, they have to open their shop, they have to gain money. They have to make sales grow every day, but with restrictions nobody is going to their shops. There is no revenue from their site. So, we need to understand them, we need to support them. This is a very, very critical topic.”

A Bancolombia executive made clear that their ecosystem includes the workers of their suppliers. A major ICT company showed its understanding of the importance of the ecosystem by offering one of its products for video calls free, when lockdowns made such product vital for business survival. Some companies supported the society at large with training and medical equipment.

Also, Ms Susanne Kunschert, co-CEO of Pilz, a German automation company, stated that Pilz supports its suppliers when they have problems.

“Everybody has different dynamics so we have first to analyse them, we have to first listen, feel them and then we must be a solution, be a partner for them. This is also very important about the sustainability of the ecosystem. Otherwise, if they lose, you also lose because you are in the same ecosystem”.

By the same token, a telecom company argued that the needs of the ecosystem must be understood, and the ecosystem must be supported. Poligrup S.A. in Ecuador, for one, stresses the importance of dialogue with clients and suppliers.

A multinational electronic manufacturer expressed the need, in the face of the crisis, to work with governments, with the industry and with peers. Attention to customers, suppliers and the whole environment surrounding the company, according to an ICT multinational, is vital to a company’s destiny, and collective security depends on the contributions of all. According to a global professional services

² According to a seminal work on this topic “a company [can] be viewed not as a member of a single industry but as part of a *business ecosystem* that crosses a variety of industries. In a business ecosystem, companies co- evolve capabilities around a new innovation: they work cooperatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations” (Moore, James, F., A new Ecology of Competition, Harvard Business Review, May-June 1993, p 76).

firm, engaging with the system is essential to enable a company to cope with a crisis. Good relationships being key resources, customers and suppliers may help each other.

“The more well developed your ecosystem, and the connections within your ecosystem are; the more companies are successful in navigating through the crisis. We had clients that would turn to us, that were part of our ecosystem, and would rely on us to do certain parts of their day-to-day functioning for a month or two, while they were trying to put redundant systems in place; this was done not on the audit side, but for some of our consulting, or advisory clients. And what we found generally is, if you had great relationships with the whole system of stakeholders, you could often rely on your vendors, or you could rely on your customers to become part of the solution within the business.”

A Latin American bank suspended payments due from some customers to give them support in the most difficult moment of lockdown.

► 3.2 A healthy income statement and balance sheet

►► This crisis was easier to survive than the financial crisis of 2008–09 because there was less leverage across the system, i.e., on average fewer firms had a high ratio between debts and equity.

The economic and financial conditions of companies before the crisis amplified or moderated the effects of the pandemic on them. Companies that entered the pandemic with low fixed costs relative to their ability to generate revenue, that is, with a break-even point achievable with a limited level of production, were better able to cope with the crisis.

Some companies had already reached this condition through rapid turnaround procedures along with limited reductions in staff and major attention to lowering other costs. Excessive fixed costs do not occur by chance; some managers prefer a big size of the company over efficiency.

Companies that entered the crisis with a solid balance sheet, that is, with many valuable and cash-generating assets, substantial capital and little debt or risky

credits, faced the pandemic better. Some companies had improved their balance sheets because they had learned from the serious difficulties that they faced in the financial crisis of 2008–09, when their balance sheets were not as safe. This recent crisis validated the observation that every firm needs a very healthy balance sheet.

Excessive fixed costs do not occur by chance. According to Mr Enrico Luciano, CEO of Oxi Capital Italia and Olivo Dante:

“The problem is that too often business owners and managers are not oriented towards profit, but mainly towards growth, i.e., big size, big volumes and big revenues, even with modest unit margin, in the perennial hope to get to an higher total margin. This is done because being at the helm of a bigger company gives to its leaders greater prestige, greater salaries and, supposedly, greater freedom of action. They employ more people and capital than the optimal number and for this reason the general public appreciates them, but this strategy may backfire and put at risk the stability of all the jobs in the company as well as the banks credits.”

This crisis was easier to survive than the financial crisis of 2008–09 because there was less leverage across the system, i.e., on average fewer firms had a high ratio between debts and equity.

► 3.3 Attention to the human dimension

In the pandemic we learned that the human being is the most important element in the company. A company is made by its people. It is important to have a great product, but in the end, it is a matter of people.

According to the managing partner of Pilz, “Human resources are the key factor, and the ability of the company to communicate with them [that is, the workforce] is essential. Training staff is, therefore, essential”. A manager in a major bank emphasized that people are the key asset, together with technology. It is even more evident that the human factor is key when the employees have important responsibilities to manage funds of the clients.

In many companies there have been difficult moments, when staff and managers were very uncertain about the future. In such conditions empathy and communication were essential tools. Understanding the condition of the staff, customers and suppliers in lockdown was essential. Empathy is based on the ability to listen. It is an important element to making informed decisions. Listening and understanding are the bases for a better way of designing policies – “from the heart and from the head”.

The corporate attitude during the pandemic had consequences. It was important for managers to understand that staff members were working with their children next to them. When managers interacted also with the children, they helped staff members to be both workers and parents.

One respondent drew attention to the special dilemmas inherent in the position of CEOs;

“As we came along side the CEO and her or his personal leadership journey and walk through the crisis with them, what we found was that senior executives were so heavily focused on sustaining their people, sustaining the organisations, sustaining society, that often their work isn’t invested in sustaining themselves. They are dealing with thousands of things at work and they are dealing with the same family crises that we have dealt with.”

Resilience depends on the ability of people to cope with change. Ms Susanne Kunschert, co-CEO of Pilz, a German automation company, stressed the importance of belief and faith as a key component of the resilience of people and, therefore, of companies.

“In our company we have many believers in different faiths. It was impressive to see that people of different faiths were praying for our company, even in the official prayer of their congregations. I believe that the resilience of people who believe is enormous. Against corona virus we could do very little, but our ability of staying together was very strong.

My staff noticed that I was not afraid of the effects of Corona Virus on our company and asked why I was not afraid. I used to reply: - Why should I fear? We do whatever we can, whatever is in our hands, we fight against the corona virus, but we are in God’s hands.”

► 3.4 Trust

Many participants emphasized the key role in resilience that is played by trust. Trust is the currency of resilient leadership. As a manager told us:

“One of the things that we discovered was how absolutely critical trust is in resilience and restoration. We found that trust is not an ethereal concept, but rather trust is like a ten euro note. Sitting on the table it doesn’t mean anything, but when it is used in exchange, you can buy a meal, you can provide a gift, you can do a train ticket, etc. Trust only has value in the exchange: an exchange between a

corporation and its customers. E.g., restaurants showing visible signs that they were taking steps to improve their physical environment went to build trust with their customers. The same happens with airlines!"

When specific to employees, trust is multi-dimensional; it touches physical, emotional, digital, and financial aspects of the relationship between employer and employees. Bancolombia emphasized the issue of trust as a key management prerequisite in its relations with both customers and employees.

When companies surveyed the emotions and attitudes of their staff, some found that fair corporate behaviour is rewarded with employee loyalty. Findings in employee surveys are like to reflect corporate policies:

"We collect information every three months, on the general environment, on how we were and still are and on the degree of emotionality: it was very high. But it was basically a token of appreciation that in the midst of this complex situation, the bank, apart from continuing not to do layoffs, it also the tranquility that the suppliers' employees were not losing their jobs. The Inquiry shows that this generated a deep feeling of solidarity in the employees towards the company."³

Good behaviours do not go unnoticed and bring fruits.

► 3.5 Good communication

Many managers emphasized that communication was a key tool for dealing with the crisis. Communication was important, not only communication with the workforce, but also with the whole ecosystem. For example, some companies scheduled regular times for communication with the trade unions. Virtual meetings at different levels took place to make up for the lack of face-to-face contact. In some cases the need for communication among workers became more important than sticking to corporate procedures, and use of less secure means of communication were authorized.

A senior procurement manager in a global telecom company noted the key role played by internal communication and also meetings with top bosses on such topics as wellness. Something similar happened in a Latin American bank.

"When all this started, I established that every Friday at four thirty in the afternoon we had a meeting with the two most representative unions in the bank, in order to inform their presidents of the evolution of the issue. The CEO himself participated in some of those meetings and sat with the unions. His message was: - We are in an absolutely unpredictable situation. We are learning. We are doing everything in our power to operate. We are not perfect, but we have been advancing on the assumption that the primary interest of this organization is the health and safety of all its employees and customers. - This was a very positive experience about unionism. The union leaders thanked us enormously because from the beginning we had opened these spaces for conversation and in fact we established an extraordinary direct channel of communication with the Labor Relations manager."

► 3.6 Flexibility and agility

People and companies in many cases reacted to the pandemic with flexibility, creating task forces and adapting rapidly to the changing conditions. Flexibility could involve changes of positions and functions because the lockdown made certain roles unnecessary. In some case people were trained for new roles.

³ Mr Enrique I. Gonzalez Bacci, VP for HR of Bancolombia.

If quarantines prevented some workers from going to work, people from other departments substituted for them.

A company dealing with temporary work and agency work sees itself as a provider of flexibility when it is most needed, helping people to change sectors and functions.

The HR director of an EU diversified holding company noted the agility and the amplified cross-communication acquired thanks to the crisis.

“We achieved greater agility, by learning how to work together and by an amplified cross communication.”

I would say that we are much more agile globally. But that’s always a result of any crisis. You learn, when you are in the middle of the crisis, and you learn how to be very agile within your organization and to make sure that everybody can still work and still be connected. So, you learn how to work all together with a much more focused organization.”

Also, an ICT multinational emphasises the importance of being agile and of adapting the functions of staff to the changing needs:

“A shock of this nature means a need to be agile, and organizations who have built-in agility into their entire system would be critical.”

An airline decided to use their stewards and stewardesses to accompany business travelers, so that business investment doesn’t get interrupted. They get accompanied. Authorities allowed business travelers, but they had to be accompanied by the Airline stewards and stewardesses, so that they were compliant and they got to their business meetings”.

According to Mr Enrique I. Gonzalez Bacci, VP for HR of Bancolombia, successful strategies had in common rapid reaction and the ability to reinvent companies and rethink their business in the midst of the crisis. Agility must be considered in multi-years plans; companies must foresee that something unforeseen may happen.

3.6.1 Speed over elegance

Companies had to learn to act quickly, even when information was limited, accepting the potential for errors of staff and managers. Banks had to accept higher degrees of risk; in financial procedures involving the money of customers, sometimes good faith took the place of the electronic recording monitoring system and of procedural guarantees.

Also, public authorities moved in the same direction, allowing simpler procedures.

“Public authorities, usually rather cautious and sometimes slow to act, in this situation were ready to help and facilitated the transition to a lighter procedure.”

Mr Enrique I. Gonzalez Bacci, VP for HR of Bancolombia summarises the point so:

“When I look back, I would say that the greatest learning is that organizations have to learn to move in areas of uncertainty, ambiguity and where decisions have to be made.”

3.6.2 Balancing efficiency with effectiveness

Supply chain bottlenecks challenged the wisdom of single sourcing: It may be efficient, but in the crisis, it often became a risk. The pandemic drew attention to the trade-off between efficient procurement of supplies, lowering their cost, and guaranteeing their availability. A solution may consist of fostering local suppliers, with fewer transport and border issues. These considerations concerning local procurement are compounded by the fact that long distance transport also has an environmental cost.

Chapter

▶ 4



4. Risk management, business strategies and policies

► 4.1 Risk strategies

The pandemic caught some companies without a risk strategy. For example, a food company in Lebanon, which did not previously have a risk strategy, especially to face a pandemic such as COVID, had to improvise one in the early stages and to build up knowledge by learning from their mistakes and from others' experiences. Oxy Capital Italia did not have a risk management strategy for the pandemic. Now they may consider developing one. In any case they do not believe "certifications" concerning pandemics make much sense, as each pandemic may be different and the variables, too many.

For a pharmaceutical company, the recent period of crisis and a reorganization of the company, previously underway, propelled a substantial step forward in terms of risk management. The same can be said for a multinational group providing human resources services. Reorganization processes took place at the same time as the pandemic, but not necessarily as its consequence.

► 4.2 Business continuity plans

As the manager of an international bank pointed out, some potential risks are known and other are unknown, and companies must prepare plans for both.

Some companies faced the crisis with pre-existing business continuity plans. An electronics multinational, like other firms, considered a plan a priority for keeping operations running. A global professional services firm referred to the wider concept of "playbooks", documents that provide guidelines for dealing with exceptional events. Similar ideas emerged in an EU diversified holding company, which spoke about ready "protocols" to manage crises.

An international bank became well aware of the importance of continuity plans but also of their potential limitations, in particular the difficulty of implementing what is written on paper, concerning both the use of technology and people. This bank sees the need to plan both for the known and for the unknown. We cannot foresee certain events, but we can foresee the disruption of our activity. We can prepare a reaction to that.

► 4.3 Choices of strategies and policies

The resilient leader acts in the immediate situation, but with long-term survival also in mind. The Deputy CEO of an EU diversified holding company discussed the complicated situations of business leaders

► Too often there are incentives to avoid taking decisions; this often makes problems worse.

during crises and the need to find remedies. Too often there are incentives to avoid taking decisions; this often makes problems worse. According to this manager, in an emergency ideally one would want to take decisions and solve problems. However, there is great personal risk that, whatever you do, you will be sanctioned or reproved. But applying the same standards and the same criteria of responsibility in ordinary situations and in exceptional situations makes no sense and leads to crippling inaction. According to him, legislation must be adapted.

The COVID crisis has focused attention on a number of issues crucial to firms' survival. Perhaps the greatest concern has been the supply chain and logistics (see Chapter 3).

For an EU diversified holding company, the increased use of online activities brings more attention to cyber security.

The pandemic crisis has also put in evidence the need of financial stress testing. Oxy Capital Italia underlines the importance of low break-even points, the ability to balance the books with smaller volumes of production.

A mid-east procurement manager of a major telecommunication company sees learning fast and learning from the others as essential. Her colleague from a car manufacturing company is also concerned with the increased speed of change. These two procurement managers agree: The speed of change increased quite substantially with this pandemic.

In Indonesia some small and medium enterprises (SMEs) see new opportunities, for example, medical waste management. They want to grow, to find new business and to attract new funds.

In some ways, improving the business mix is the path, followed in recent years by Adecco, the international staffing and personnel services company. They have put more emphasis on providing their clients with services for career management, placement, and HR expertise for restructuring.

Still, a participant from an association of Kyrgyz businesses reminds us that classical rules of good management remain valid: reduction of costs, increased productivity, finding new niches, meeting contemporary needs, using IT and automation, obtaining scale through mergers, reducing waste and paying attention to the market. In order to build a sustainable business, it is important that organizations look at product diversification and at the success of their customers.

► 4.4 Company culture and mission

Some interviewees remarked that having a well-defined company culture and a clear awareness of the corporate mission were of great help, even during the worst moments; this was the case for a Japanese pharmaceutical company, for example. Similarly, Adecco sees company culture and a sense of comradery as key. Having a culture that accepts mistakes also is important.

A company assisting the internationalization of companies sees corporate culture as key, with specific emphasis on avoiding short-termism, choices cannot be only focused on short term results and must pay attention to their long-term effects too. An ICT multinational group mentions "cultural resilience", including having a clear idea why the business exists, and supporting employees, clients and suppliers. The representative of an EU diversified holding company expressed similar concepts, mentioning the

importance of the approach with customers as in the case of a company in their portfolio providing training for personal self defense.

“I think the relationship with their customers was higher and so when people came back to training, they went to this company and not the others. So, it’s a combination of brand with your product, everything you can do to make your product or business stickier. So, when the customer is coming back, who is going talk to?”

In the same company, also how they treated their staff during lock down made a difference. Competitors who treated their staff poorly during lockdowns had difficulties after the crisis finding the right people. Also, participants noted that the way one treats one’s lenders matters; with them, as with customers, employees and suppliers, a solid relationship of trust, transparency and clarity, including about bad news, is the cornerstone.

A middle-sized German company cited an example of what business ethics mean for them: Even without a written contract, they paid for a non-working prototype because they had given their word.

4.4.1 COVID caution

According to the Metropolitan Chamber of Commerce and Industry, Dhaka (MCCI), businesses must be ready to live with COVID for some time. Mounir Bissat, a Lebanese food company, considers awareness of the pandemic (medical and social) symptoms and its characteristics to be essential. In this environment there has been much caution and no great desire to invest big sums.

Almost everybody sees the possibility of working remotely as a great advantage – for those who have it. However, this is not the case for those managing minimally automated manufacturing processes and, to varying degrees, for various parts of the manufacturing sector. In this context protocols to guide activities become important; they must be diversified and differentiated for sectors and regions in light of the best international experience, and stakeholders and experts should be involved in their development.

In some developing Asian countries, COVID has caused deep wounds, with many firms out of business and higher poverty rates. In Ecuador the crisis impoverished consumers, and firms felt it necessary to offer products at prices that consumers could still afford. Still, by autumn 2021 in other Latin American countries – for example, Colombia and Guatemala – the mood was much better, according to a bank operating on the continent.

While some industrialized countries managed the third vaccine dose, even the first dose was scarce in many developing countries. Without a effective global and well funded vaccination programme, keeping COVID-19 under control was hard.



Chapter

▶ 5

5. Major risks

The respondents raised concerns about various risks, some in the short term and some in the medium term. The type and the nature of the risks that they perceive often reflect the industries and the countries where they operate. These risks are related to technological change, to the evolution in the markets for goods, to regular supply of inputs and to the availability of capital or labour.

► 5.1 Digitization

The pandemic has strengthened the case for digitalization, which is a major issue in many sectors and is clearly perceived by many companies.

Since the start of the pandemic, many companies have been able shift to digital operations more quickly than in earlier years. Digitalization requires great internal change in processes and procedures. To banks it presents huge challenges. Not only must they help customers to adapt speedily to new digital procedures, but they must also guarantee the security and confidentiality of their operations. For banks, as in other sectors, those who started digitalization long before the pandemic are in an advantageous situation. The pharmaceutical industry, too, faces major challenges with digitalization, not only of logistics, but also of R&D, marketing, training and communication.

► Since the start of the pandemic, many companies have been able shift to digital operations more quickly than in earlier years.

5.1.1 Digitalization, firm size and the future of competition

Even in such countries as Germany, where the structure and the tradition of mid-sized companies is well-rooted, keeping ahead of digitalization is difficult, but whether one is following or leading the digitalization trend has big implications. Those who have developed their own programming capabilities, hiring software programmers on a permanent basis, feel that this is an advantage. In contrast, firms that did not invest previously now find it harder to digitalize their businesses. Even in advanced economies, introducing the concept of digitalization in mid-sized and small companies is difficult. Investments and training are required. Some mid-sized companies provide training and consulting to help small companies adapt to digitalization. Even companies that have usually been ahead of technology now feel the pressure of some of the big companies that are leading this process.

Software is at the centre of the transformation. Some big groups are buying several software companies, because they have the money to do this, while mid-sized companies have more limited means. In some advanced industrial economies, mid-sized companies feel in danger, because they perceive that there is more political support for very large groups: Nice words about the importance of mid-sized companies are not matched by real supportive actions. Even in political speeches, it is stated that big companies are the future. Big companies, according to mid-sized companies, more frequently obtain tax advantages. All this may lead to more concentrated markets, with fewer players and less competition.

Also, for banks the basket of competitors is changing. Some of banks' competitors are not obliged to follow banking regulation and, therefore, have much wider freedom to manoeuvre and can take greater risks. Moreover, these competitors in some cases do not follow most labour protection standards in terms of employment stability and social protection. Technology has brought many things together. How

bank customers interact with the bank is changing, as digitization makes it easy for customers to execute their own transactions online. This may both make the skills of banks' staff obsolete and make the search of new staff difficult. Digitalization implies that the location of workers becomes less and less related to the locations of the company's offices. Not only may employees be in different places, but, as a result, their employment may be regulated according to different rules. Some companies have high standards, believe in decent work and want their employees to be protected by social security or health insurance. Some competitors, in contrast, may keep some of their staff in jurisdictions where labour standards are much lower. Dodging those costs may give them a strong competitive advantage.

Other risks of digitalization range from vulnerability to hackers, to disruption of power supplies or communications by magnetic storms, to increasing dependence on a single large ICT firm.

5.1.2 Hackers

Digitalization implies a bigger risk of cyber crime. Working remotely makes companies more vulnerable from attacks on the IT system because now much is done remotely and through IT. A lot of money must be spent for security. Some companies are investing heavily, but cyber attackers are becoming more sophisticated as well. This is becoming a big issue for all companies.

5.1.3 Potential damage to telecom infrastructure

According to an ICT multinational, possible damage to the network of undersea cables is yet another risk connected with digitalization. During this pandemic we were able to continue many business activities because we had digital infrastructure. This enabled us to come online almost overnight, whether for school or with family and friends, to stay connected and to conduct some economic activity. Without online connectivity, the impacts of the pandemic on mental health, people's livelihoods and the global economy would have been much worse.

But, if we are in a pandemic and the international cables are cut or fail, international finance will come to a standstill. While we may talk broadly about the economic impact of the pandemic and business resilience, at the end of the day a crucial factor is the dependability of individual components of the digital infrastructure. It comes down to the submarine cables. Upwards of 95% of international digital communication takes place over the world's 400+ submarine cables.

Laying underwater cable and repairing it requires specialized ships and equipment. Not many ships have this capacity.

The International Cable Protection Committee (ICPC), an international body dealing with these problems, made a statement in 2020 calling on governments and industry to allow cross-border cable repairs because of the pandemic. The committee pointed out that such a move would enable countries and businesses to recover more quickly.

As companies and organizations think about building business resilience, governments and international organisations need to think about assuring a robust digital infrastructure. With this in mind, governments are competing to attract investment in undersea cables from the big tech players. A robust digital infrastructure is crucial not only to business and the economy but also to the immediate well-being of the public. For example, water and electricity supply are critical national infrastructures, but the digital infrastructure that controls these supplies is also crucial. Some countries were heavily affected when their critical national information infrastructure was attacked. No one poisoned the water. It was the digital system managing the water system that was hacked.

►► As companies and organizations think about building business resilience, governments and international organisations need to think about assuring a robust digital infrastructure.

► 5.2 Lack of clarity on the terms of the ecological transition

Inadequate clarity on the process of fighting climate change and on the ecological transition can pose a major risk for business, which, most of all, needs clarity, knowing which products will be allowed and which products will be forbidden or heavily taxed.

Car producing countries face the challenge of transition to electric engines for cars and other vehicles. In Europe a clear decision on this topic has not been taken yet. When will combustion engines be phased out? Companies need precise dates in order to plan their investments.

The automotive industry in some countries has not wanted to change to the electric car, but it probably has lost this fight. According to a manager in the automation industry, [Sometimes] “you cannot keep what you want; you have to go with the time. It would have been better leading this process instead of fighting it. You must lead technological change, not follow it.” A procurement manager of a car company perceives the electric car as both a risk and an opportunity. The transition affects both the big players and, even more, their suppliers because this changes their structure. Many small companies are on the way to closing or are at serious risk.

Producers of the raw materials extensively used in electric cars – for example, copper, lithium and nickel – should benefit from the change, but in some cases their geographical, sometimes landlocked, position or the fact that they face just one or a few potential buyers may considerably reduce their benefit.

► 5.3 Natural disasters, political instability and security

Companies perceive natural disasters as something they have to deal with. In the moment of the emergency, they can build emergency teams, with representatives of each department, to do their best to face the situation. However, the economy and the human race have to change how we deal with such occurrences. The only way to address not only climate change and natural disasters, but also political instability or authoritarian regimes, is collective response.

Disasters can coincide. For example, in 18 months of the COVID pandemic, Indonesia also faced four major earthquakes and three volcano eruptions. Similar story for Lebanon: COVID, came together with the enormous explosion in Beirut, social, economic, political crises, and currency depreciation. According to the Lebanese businessman Mounir Bissat, companies in very unstable countries, political and security instability can be a lethal threat.

► 5.4 Mental health

Mental health is an issue that worries business leaders in different part of the world and in different sectors. Talking about mental health has become less taboo than it was before the pandemic. The problems are more apparent today than at the beginning of the pandemic. Managers often assumed that the big trauma was at the beginning and then it would diminish. But the opposite happened. The beginning was, in the drama of the initial lockdowns, relatively easy; everyone adapted quickly. More problems occurred later, when some staff members showed symptoms of burn-out and withdrawal from social interaction. Some companies have contracted psychologists and set up help lines to assist their staff and their families.

► 5.5 Supply chain disruption

Several business representatives agreed that, even though COVID situations differ among their countries, the major risk still lies in disruption of the supply chain.

Travel limitations due to the pandemic and the scarcity of airline flights prevented some mines from receiving the specialized engineering services from abroad that they need. Even when foreign consultants were fully vaccinated, in some mining countries they still had to go through two weeks of hotel isolation on arrival, as mandated by government. The slow movement of people delayed mining projects and increased costs, which may cause upward pressure on the prices of commodities. Mining costs are also under pressure for the additional salary that mines pay to their workers facing periods of isolation, harder conditions and in some cases the consequences of COVID infection.

Supply chain disruptions are a substantial problem in many industries and countries. Different countries have different policies, different financial means and different vaccines. Countries are concerned about, and spend money to fight, the pandemic within their borders, but the supply chain crosses borders. A problem in a country has consequences on production in distant countries. Companies can partially hedge their risks by having a diversified supply chain – not all eggs in the same basket. Companies accustomed to operating in less stable countries may be more familiar with the problems of unstable sources of supplies and in some cases are more ready to cope with them.

Still, many companies rely heavily on a few major sourcing countries, such as China. Any company suffers if China shuts down a harbour because of COVID-19 and so goods cannot be shipped out or in. The entire supply chain, not only in production but also actually in the transportation of goods, is at risk. Many companies saw their transport costs rise because of such closures and also because ships or containers were in the wrong places and could not reach the places that they were needed.

► 5.6 Closed borders and protectionism

The closure of borders for health reasons is a part of a more general risk of closed borders shutting off free trade. Protectionism can take many forms; for example, it may consist of limitations to cabotage carried out by foreign vessels, even when it is a matter of repairing international submarine cables. As the representative of an ICT multinational noted, to build a sustainable business, it is important that organizations look to how they can conduct cross-border trade even during a pandemic.

For producers of raw materials that sell a large part or all of their production to a single buyer, the risk that their buyer's country, for sanitary or other reasons, may close the borders is perceived as a major threat. For landlocked countries with limited transport networks, the risk is particularly severe. Closed borders, be they international or provincial, also may limit circulation of the workforce. Companies complain about lack of access to skills from other countries as well as the disruption of supply chains. As noted by an Ecuadorian manufacturing company, Poligrup S.A., foreign trade is essential for its country.

► 5.7 Rising prices of inputs and inflation

Manufacturers and financial companies are concerned about the prices of input commodities, energy, freight and components. With the coming of the pandemic, first commodities and other components become more expensive in the wholesale market. Containers were much more expensive – doubled or

tripled in cost. The increase in the prices of commodities and components could be explained, at least in part, by the situation in the countries where they were produced or extracted. Other prices grew as well.

Some borders – theirs or their neighbours' – were closed, or very burdensome and time-consuming controls were in place. The cost of internal and international flights rose, and bringing in foreign technical experts became more and more difficult and expensive, if not impossible. Companies often had to keep foreign arrivals in isolation in hotels or other accommodations for several days. Also, personnel required extra compensation for the risk of contracting COVID at the workplace and for the long periods of isolation and loneliness required to limit the spread of the infection. Some employees contracted the disease at the workplace, and companies paid out only for their medical treatment but also paid them compensation for the damages. Returns on investment projects were delayed.

All this had effects on the price of commodities. Unexpected links surfaced. For example, problems in the cultivation of palm oil in Asia affected the prices of several vegetable oils in Europe. Initially, price increases affected consumers only marginally, partly because big retailers kept prices under control, but this left manufacturing firms bearing the burden of reduced margins. This could not go on for ever. European manufacturers could not continue to absorb increases in the prices of raw materials and components and began to pass them on to consumers more and more.

These price increases may have some unexpected domino effects. For example, the rise in the price of sea freight made some goods from the Far East more expensive and less competitive, increasing the competitiveness of certain competing European products. Other products, such as microchips, were simply unavailable.

Lack of suppliers, lack of transportation and distribution channels, lack of electricity, lack of human power in business – all these are potential risks but also opportunities. A lot depends on how they are managed.

Even if inflation were just five to eight per cent annually in advanced economies, initially it was not easy to pass through those costs. There is always a lag factor, even if you have pricing power. The best companies take three to six months to pass through cost increases, and they may find passing through all the increase difficult. For companies with low margins of 100 or 200 BPS,⁴ margin pressure is an issue. For example, IT services have a five to six per cent EBITDA (earnings before interest, taxes, depreciation and amortization) margin. Absorbing margin pressure of 100 or 200 BPS would amount to a loss of 20% or 40% of EBITDA. Some investors refrain from investing in this type of business, and the risks of the pandemic made investors even harder to find. Many companies were in this situation. Inflation in some less stable countries may become hyperinflation and bring chaos.

According to some companies, it could be that loose monetary policies have played a role in price increases. For EU manufacturers, especially at the beginning of the inflation understanding the precise reasons for increases in commodity prices was difficult; each one had its own story.

► 5.8 Scarce liquidity and the drop in demand

While in Europe some companies worried about the effects of too prolonged loose monetary policies of high-income countries, in developing countries, heavily affected by COVID and in some cases without the ability to print their own currency, the main problems for business derived from scarcity of liquidity. For them contacts with financial and multilateral organizations, such as the International Development Bank, the World Bank, and the Development Finance Corporation, were important in terms of funds both to governments and to the private sector. Funds are sometimes channelled through local banks, both public and private.

⁴ Basis points (BPS) refers to a common unit of measure for interest rates and other percentages in finance used to denote the percentage change in a financial instrument. One basis point is equal to 1/100th of 1 per cent, or 0.01 per cent, or 0.0001. The relationship between percentage changes and basis points can be summarized as follows: 1 per cent change = 100 basis points, and 0.01 per cent = 1 basis point. See, for example, <https://www.investopedia.com/terms/b/basispoint.asp>.

In Indonesia before the pandemic, the collateral asked for a bank loan was equivalent to 70 to 80 per cent of the loan amount. Then, in the pandemic banks asked more than 100% as collateral, even more than 120%; even the government bank for enterprises did this. Clearly, banks were scared. This created big problems for industry. For this reason, some companies worked hard to attract foreign investors from different financial markets.

In some developing countries heavily affected by COVID, a problem has been the drop in demand for products. Some local companies felt the need to undertake campaigns encouraging support for local producers. Such campaigns identify quality and highlight the good reputations of member brands so that consumers recognize and prefer them. This, in turn, promotes productive formal employment locally.

► 5.9 General or sectoral labour shortages

This could be another crisis to come, and in some countries, it is already a reality: a shortage of labour, particularly in sectors where specific skills are needed. This problem, while more evident in industrialized countries – for example, Germany – is also present in some form in developing countries such as Indonesia.

Many young Indonesians are more interested in developing markets using IT platforms on the internet or in creating start-ups than in working on the development of infrastructures or in farming and manufacturing. Their careers are going to be mainly in marketing; they deal with how to build a market and how to increase sales but not in making things, while the main need for Indonesia, according to Indonesian companies participating in the survey, is increasing the availability of goods. The food industry, farming, manufacturing and retail have strong demand, but, according to some Indonesian businessmen, relatively few young people want to work in those sectors. Farmers and construction workers, even if they risk their lives and their assets, earn less than those dealing with sales and marketing. This is also true for the automotive and the construction sectors. As result, meeting the growing demand for products becomes difficult. Business and trade unions must address this issue: “How can we keep business alive? How can we keep up sufficient production? How can companies make manufacturing and farming jobs attractive?”

Employees responded differently to the pandemic’s impact on their employers. In some cases, workers felt more tied to their companies. In other cases, employees convinced of the poor behaviour of their companies during the pandemic left quickly in search of other jobs. Telecom companies, on one hand, enjoy the fact that, with the pandemic, telecommunications gained an even more central role in the economy and in society, but on the other hand, they realize that the more telecommunications played a key role in every sector, the more telecom company employees were in demand and could take jobs in other sectors.

Catering services, shuttles and security services, among others, often had to stop working in the pandemic period. This led to financial problems and loss of staff. With recovery, hiring the same quantity of staff that they had before has proved difficult. Many who had lost jobs changed sectors and, when firms called them back, they were no longer available. And offering higher wages to attract workers can eventually contribute to inflation.

Even during the worst phases of the pandemic, the presence of certain workers on site was indispensable for certain companies in mining, manufacturing (for example, food) and services. In many cases companies faced the challenges properly (financially and non-financially), rewarding workers for their increased effort. Some surveys of workers revealed fatigue, and companies needed to act quickly on that, e.g. measuring the hours of on line connection, inviting workers to rest more, giving guidelines to managers to forbid on line meetings outside working hours and providing psychological assistance.

► 5.10 Lack of inclusion and the diminished role of women

Another major risk may concern inclusion; a division can be created between those who are vaccinated and those who are not. Business follows what government mandates, but discrimination against the unvaccinated could lead to a divide in society, with possible backlashes against business who are obliged to discriminate.

According to Ms Caterina Costa, Executive President of the Ecuadorian company Poligrup S.A. women have been affected personally and professionally by COVID. Quick action is needed to avoid major adverse impacts on women's roles in the development of any productive sector.

► 5.11 Talent mobility, culture and skills

Many professional services companies offer the opportunity to gain experience; they hire many recent college graduates each year, for positions in audit and tax work, for example. Therefore, substantial segments of the workforce in these firms joined the company during the COVID pandemic, when everybody was working remotely. Many of these new employees have never actually been in the office. They have never worked together in a room, in person, in a team environment.

It is difficult to absorb the corporate culture when one's primary form of connection is electronic rather than in-person. Building and sustaining the culture of a professional services firm, which is heavily people-focused, becomes challenging. People are the value of the organization, and so this challenge poses a significant risk. Something similar happened in firms that, before COVID, had already planned to change their orientation, reducing certain profiles and increasing others. In the midst of the pandemic, they had many new new employees, perhaps even half, but these newcomers had no experience in the corporate offices or with the corporate environment and culture.

An issue of skills is very clear to some banks. They perceive that the way of doing banking is changing fast, foremost of all through digitalization. The demand for digital experts is much greater than the supply. Some banks realize that retaining qualified staff for the long term may become more and more difficult. In this context they are developing knowledge management strategies designed to retain knowledge even when some staff leave the company. When someone leaves, the company should be able to rely on other employees with similar knowledge. In some cases, potential new hires are making requests that were uncommon in the past. They are asking for greater flexibility in choice of schedule and work location – for example, “I choose if and when I work in the office, at home or somewhere else, maybe abroad” in contract provisions – for example, “I do not want social protection because I do not trust the pension system. I want more money paid directly to me”; and in the form of payment – for example, “I may ask to be paid in cryptocurrency”. For organizations that believe in social protection and employment standards, attracting staff who make such requests is not simple.

“In telecommunication the workforce is mobile; if a company cannot motivate its know-how, its talent, workers can move elsewhere. Particularly in the pandemic, this is not only a matter of money; it is also a matter of providing for the well-being of employees.”

► 5.12 Changes in labour intermediation

The market for labour services and labour intermediation can change rapidly, and, with it, the entire labour market. What would happen if major search engines entered the world of employee intermediation?

There is some fear of this, but even if these big new players might be better at some things than established intermediaries are, the established firms are probably better in many areas because they have been in their field a long time. But some new players may not operate on a level playing field –for example, those offering platform work.⁵ Many of these platforms claim to be merely tech companies that intermediate self-employed people. In reality some may be offering the services that compete with those of standard employers and standard intermediaries, but they are not regulated in the same way.

Standard intermediaries face a tight and strict regulatory framework. Strict regulation may be justified, because it is the intermediation of the work of employees that is involved, and not any commodity, and workers must be treated fairly. But some intermediaries are not constrained by many of the existing regulations. They might not be breaking the law, but they are competing in a way that international intermediaries would not want to. This has sparked political debate. Traditional intermediaries that take their human rights policy seriously want to be able to compete on a level playing field.

According to Menno Bart, Senior Public Affairs Manager of the Adecco Group:

“The European labour markets are relatively more regulated than others in the rest of the world, where sometimes the challenges are slightly different. There might not necessarily be a lack of level playing field. In some countries intermediaries can do whatever they want, but then there may be a lack of respect for basic human values. So, some international intermediaries, maybe listed on the stock exchange, take their human rights policy seriously and observe much less scrupulous competitors behaving with fewer constraints. They are not even agencies. They might not be breaking the law, but they are still competing in a way that international intermediaries wouldn’t want to use. Also, for this reason some international intermediaries, at least in some cases, don’t expand into those countries, where regulation is too loose. The risk concerns the quality of employment per se. Even so this cannot be considered an absolute rule.

Some of the clients of international intermediaries are global clients who really expect them to be in as many markets as possible. So, if, for example, an intermediary has a global agreement with a global food producer, then obviously that food producer wants to rely on its global intermediary to also staff its production facilities in countries like those. Luckily some of these global companies, are becoming more aware of the need for compliance within their supply chain and not only on environmental details, but also very much on social aspects, i.e., how you treat your workers. So, in that sense, the focus on ESG is definitely not a risk for serious operators. It should be an opportunity to drive business in a sustainable way.”

► 5.13 Need for a new drug development model

A manager of a pharmaceutical company sees the rising cost of healthcare as a major risk. For him, COVID has sent a strong signal that the current model of drug development, which involves a very long development cycle and focuses on treatments, rather than prevention, may no longer work. This model is not sustainable in part because the density of world population and the extent of international travel makes pandemics more likely than a century ago. The testing of medicines may need to become faster and cheaper, but a balance will need to be found between, on one hand, being a bit more permissive and open to innovation in the interests of speed and, on the other, making sure that products are effective, do not cause harm, improve the situation of the patient and provide value to whomever is paying for them.

⁵ The ILO has described digital platform work as including “both web-based platforms, where work is outsourced through an open call to a geographically dispersed crowd (‘crowd work’) and location-based applications which allocate work to individuals in a specific geographical area”. See https://www.ilo.org/global/publications/books/WCMS_645337/lang-en/index.htm.

Chapter

▶ 6



6. How governments acted

▶ 6.1 The need of public intervention

Most of the people interviewed said that public authorities should play an important role in increasing the resilience of a country.

An HR manager of an international bank confirmed the importance of the role of government, which underpins what companies can do. The Vice-President for Human Resources of a Latin American bank agreed that, in situations of crisis, the public authorities play an essential role as points of reference and provider of science-based guidelines. Also, a mining company perceived its choices as heavily dependent on government decisions, while government, for its part, understood the strategic importance of the mine for the whole country.

A director of a multinational producing electronics pointed out that, when government acts to manage a crisis, effects on business are inevitable. In this regard, businesses' experience of the role of government was different in different countries. The emphasis in some countries was more on supporting business, while in other countries it was more on supporting employment or families. At least in some countries, the public authority behaved more flexibly than usual.

▶ 6.2 Satisfaction with public intervention

Some of the surveyed business leaders appreciated government support in their countries for employees whose work was curtailed by the pandemic. A German automation company appreciated what the German government did to support the economy during the pandemic, for example, guaranteeing most of the income of workers when they could not work due to the pandemic. Oxy Capital Italia, a private equity group, appreciated the main directions of the salary support policies in Italy and some other countries where it operates. Also, Adecco appreciated the schemes in many countries to support salaries during the crisis and the fact that governments also showed some flexibility, allowing certain activities that previously were more constrained by rules. The Metropolitan Chamber of Commerce and Industry, in Dhaka, Bangladesh, expressed a generally positive view of the actions of its government during the crisis.

▶▶ Some of the surveyed business leaders appreciated government support in their countries for employees whose work was curtailed by the pandemic.

The Government of Ecuador, according to the president of Poligrup S.A., avoided the worst outcomes by obtaining some support from international financial organizations. Also, cooperation between public authorities and private business helped to solve many essential problems.

► 6.3 Problems with public intervention and possible remedies

Companies in other countries had more problematic experiences. For example, Mr Mounir Bissat in Lebanon noted that authorizing one sector to work but blocking its suppliers makes little sense.

In another middle eastern country, the picture, according to our witness, looked rather bleak, with people going back to work in the midst of worsening living conditions. Also, an Indonesian company did not take a positive view of the public crisis management. Panic played too big role, and rules changing frequently. In Italy some of the subsidies intended to assist businesses harmed by COVID proved difficult to target precisely. As a result, some subsidies merely added to the profits of some companies that had suffered no serious harm. Other managers flagged the need to identify the right moment to stop subsidies to companies and families. Other business representatives called for evaluation of the effectiveness of support policies. In some cases, conflicts between different levels of government complicated the life of companies.

In France the HR manager of a diversified holding company mentioned the limits of public actions and difficulty finding needed information and guidance. The Deputy CEO of the same company contended that public authorities did a lot, but finding information was difficult, particularly for small businesses. Finding information about vaccinations was particularly difficult.

In some countries the main government support consisted in the extension of credits and guarantees to companies. This was usually helpful in the short term, but it also left companies more indebted, making banks the main beneficiaries of these companies' operations.

In some cases, the business community formulated some suggestions, but in Ecuador, for one, the authorities hardly considered them.

A manager of a pharmaceutical company reflected that the pandemic has shown some the potential benefits of a universal basic income in a pandemic situation.

► 6.4 Vaccination

Representatives of companies operating in developing countries remarked that their activities were often hampered by slow vaccination processes. Worse, there were countries where vaccinations were not available at all; people were suffering, and employers did not have the ability (logistical or financial) to procure vaccines.

In some cases multinational companies had the resources to bring the most effective drugs into a country, at least for their employees and their families, but any vaccine coming into a country is going to be tightly monitored by the government. Some countries had to use certain vaccines rather than others, because their customer country, that is, their export destination, insisted on this as a condition for allowing imports.

Some countries – in Europe, for example – had large vaccination programmes, but little information was provided to the public and to companies.

A Latin American bank argued that in some countries the approach to vaccinations should have been more decisive and less shy. In some companies' vaccination did not solve the problem because of the low effectiveness of the vaccination available to them. In any case vaccination programmes mitigated problems, but they did not solve them completely, and quarantine remained necessary at times. This was the observation of a mining company heavily dependent on foreign consultants.

In 2021 a goal of vaccinating nine million Ecuadorians in 90 days was achieved. It was proof that, when the public and private sectors work together, the impact can be more profound and more certain. In

Bangladesh, according to MCCI, the vaccination campaign has been part of a longer effort to strengthen healthcare provision.

► 6.5 Fiscal and monetary policies

According to Oxy Capital Italia, some subsidies may have been too generous.

According to MCCI the government of Bangladesh committed resources to foster the recovery post COVID.

According to an Indonesian SME more social dialogue could help to avoid panic regulation. The government support to workers could have been channelled through companies in this way helping both companies and workers.

“The support to workers could pass through companies and this would strengthen the relation between workers and companies, keeping companies working. We have to agree some common goals to produce certain products. We need social dialogue to save companies that now are at risk.

Initially government gave food to workers and then money to workers, but keeping companies out of the loop. Companies remain with the duty of paying taxes and social contributions, in a moment when this is hard for them.”

In Bangladesh monetary policy was one of the tools used to deal with the crisis. In contrast, Ecuador could not use the monetary tool because it does not have its own currency and instead operates under a regime of dollarization.

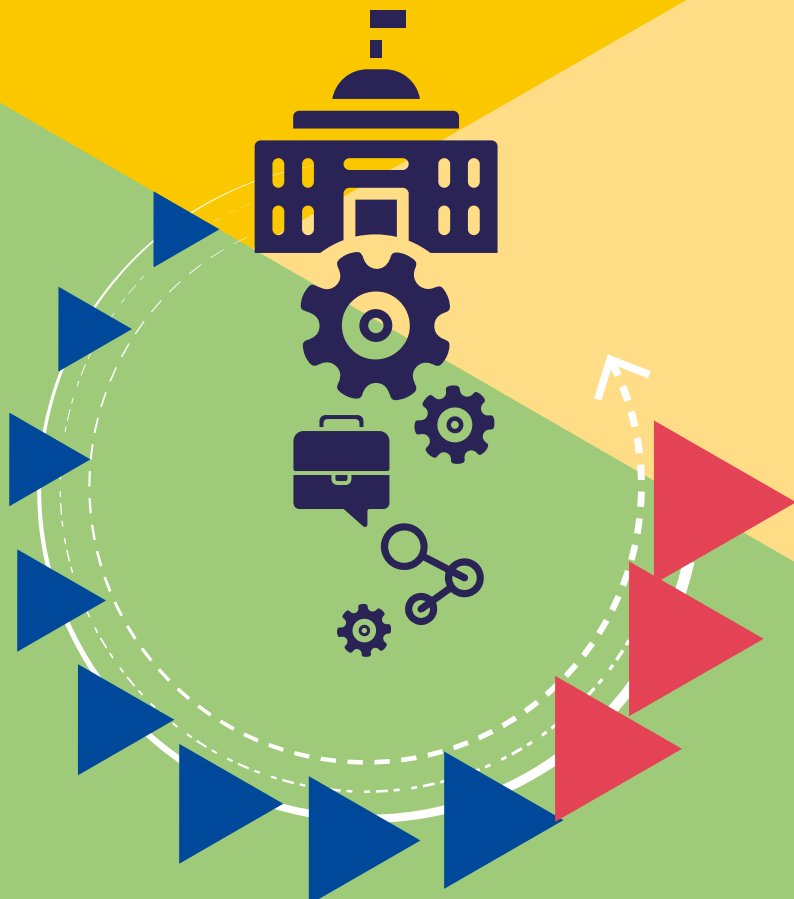
A Kyrgyz business association appreciates the actions of its central bank, which avoided excessive inflation.

In Europe two private equity groups expressed their concern that loose monetary policies could lead to inflation. A global professional services firm in the USA noted that increases in the quantity of money can be largely offset by reduction of the velocity of money.

Today, identifying whether a crisis originates on the supply side, or the demand side is essential in order to deal with it. If inflation is originated by excessive demand, restrictive monetary and fiscal policies, maybe needed. If inflation is caused by problems on the supply-side, supply-side policies are the true solution. If a pandemic is blocking the delivery of raw materials and components, the pandemic must be put under control and the delivery of inputs should start again.

In a case inflation originated on the supply side, monetary and fiscal policies induce stagnations and even recessions and higher unemployment. Inflation may eventually diminish as an effect of the following economic slow down.

►► Today, identifying whether a crisis originates on the supply side, or the demand side is essential in order to deal with it.



Chapter

▶ 7

7. What should governments do?

► 7.1 Be trustworthy.

Several participants emphasized that, first of all, governments must have credibility and communicate honestly, inspiring people's trust.

The approach of some business leaders towards public authorities is sometimes cautious, sometimes disillusioned. A government's logic may seem difficult to understand; it can sometimes seem intended more to maintain power than to solve problems.

A director of a multinational company with headquarters in Asia stressed the importance of public decision-makers consulting with companies and their associations, to listen to their concerns. In such a process, companies must give and take. This business leader also remarked that, in their interactions with government, companies must consider both profits and human rights, striking the right balance.

►► Several participants emphasized that, first of all, governments must have credibility and communicate honestly, inspiring people's trust.

► 7.2 Consider the long term.

Policy needs to be not only short-term, but also long-term and consistent with broader values. A German business leader contended that governments pay too much attention to short-term targets and miss the long view. Thinking only about the economy is not good for the economy; souls, too, are important to resilience. Similarly, a global professional services firm said that a key skill of a successful leader is taking the long view. A senior adviser to the RMG sector in Bangladesh raised questions about the medium and long-term prospects for her country and the need to diversify the economy.

► 7.3 De-risk the market.

A manager of a global professional services firm suggested that public authorities should play a major role in reducing the risks in the economy, mapping the supply chain, identifying where the systemic risk lies and figuring out how to cope with it. For example, in 2008–09 the problem was in the supply of financial capital, while in 2020–21 it was in the supply of raw materials and intermediate goods.

The same manager suggested that in emergencies governments can reduce the inherent inefficiencies of the system by helping to match demand and supply, because a crisis can make such matching difficult.

A multinational company dealing with labour intermediation sees itself as able to help in situations of crisis, providing agility in workforce management to companies and individuals looking for it and helping them move from one sector to another.

►► More than one participant said that, in an emergency situation, rules cannot remain the same as in ordinary situations; suspending certain regulations for a limited period is sometimes needed.

► 7.4 Update regulations to suit special situations.

More than one participant said that, in an emergency situation, rules cannot remain the same as in ordinary situations; suspending certain regulations for a limited period is sometimes needed.

“One matter is responsibility in a standard situation, in a situation when information is available and there is a certain ability to plan. And another matter is in an emergency situation where there is a need to solve problems urgently. Applying the same standard and the same rigor becomes really hard.”

A manager of an ICT multinational called particularly for an update of emergency laws, which sometimes do not take technological change into account: water and power supplies are considered essential, internet connections maybe not.

“The law that governed our state of emergency was dated 1948. We had to go back to the government and say, we need to rewrite that law and to include digital infrastructure and digital tools as part of essential services.”

Policies and regulations should be digital-native, fit for a digital world.

► 7.5 Keep borders open.

Several participants remarked that the resilience of the economic system depends on keeping borders open. The importance of open borders is very clear to Kyrgyz companies, for example. With closed borders, they remained short of supplies. This was also obvious to a mining company with its only customer outside national borders. The closed border for them was a crippling problem. Add to this that the regulations of the customer country kept changing. Furthermore, the mining company could not negotiate directly with the foreign authorities; the domestic authorities did that.

Another essential role that government should play is to manage friendly foreign relations. This facilitates business.

An ICT multinational argued that borders and the nationality of ships should not hinder submarine cable installations and repairs. As this multinational and the ICPC point out, undersea cables are vital infrastructures, essential for the working of the global economy.

► 7.6 Provide good education.

More than one company emphasized the vital role of education in fostering resilience. An Asian representative of a big ICT group said that companies must be allowed to attract competent people

from all over the world. Are education systems fit for this challenge? The VP for Human Resources of a Latin American bank sees a shortage of employees with technical skills and sees some new training organizations ready to train for current needs. A company supporting the international business of other companies has one of its offices in the USA and finds the educational system of that country quite problematic, for the low preparation of several school leavers and graduates. The co-owner of a German automation company emphasizes human values as the prerequisite to have good education and good employees. They should also permeate education contents.

► 7.7 Pay attention to the concerns of specific sectors.

Several sectors show specific concerns for the issues directly affecting them. For example, ICT companies see the importance of digital-native policies; ICT cannot come in companies as a patch but must be part of their fundamental project. In some ways, for them, the Cloud is a key infrastructure for the functioning of government. For the protection of data, governments should pay attention and adopt an approach like that used for the protection of other key infrastructure.

A major concern of the mining company existed before the pandemic. They hope for a clear investment agreement with the government of the country where the mine is located.

Also, in Kyrgyzstan the main concern of the executive director of a business association is the same as before the pandemic: the need for a more efficient market.

The owner of a company supporting the internationalization of other companies argued that the EU should be more active in supporting investment in the Mediterranean area, first of all North Africa, creating jobs there and building a productive base for trade and interchange with Europe. This would benefit both the EU and Africa and would help in regulating migration. He also thinks that the EU should give companies clearer guidance on the future of technologies. The most obvious case concerns the energy transition and the car industry. The absence of clear guidelines creates confusion and costs.

A director of a pharmaceutical company contends that governments must rethink current models of healthcare provision and pharma testing. He urges that governments consider whether in some cases drugs can be tested for shorter periods, with lower costs, to make them available sooner and probably for more patients.

A Lebanese food company contends that their industry would need financial incentives and tax exemptions. Moreover, according to them, social aids (income support) provided during the pandemic should have not been accounted for in the social security fund regulations.

► 7.8 Encourage beneficial immigration.

A company supporting the internationalization of other companies remarked that European governments should do a better job of managing immigration, facilitating the arrival of qualified workers and their integration into society. In the United Kingdom after Brexit and its limitations on immigration, and with the pandemic, hiring has become complicated for some companies there. This is not the case for a pharmaceutical company operating there, however; this firm always faces more or less the same difficulties in hiring certain profiles.

► 7.9 Take the informal sector into account.

The pandemic heavily affected the informal sector in many countries. The HR manager of an international bank noted that in many countries the informal sector represents a large share of the economy, and public policies cannot be drafted without taking this into account. On the same topic, the VP of Bancolombia for Human Resources said that, even while the crisis has sent many companies and many workers into informality, it has also been the occasion to put in place the preconditions to provide them with bank accounts and to facilitate the transition of firms from the informal sector to the formal sector, facilitating their future growth.

► 7.10 Preserve competition.

A representative of German mid-sized companies raised the issue of preserving competition and the need for a fair policy that respects mid-sized companies and gives them a voice.

Banks complained that they must compete with entities that are not subject to the same financial and employment rules. They argue that this is not a level playing field. Adecco has raised concerns for the labour intermediation, which platforms carry out without following the same rules that Adecco and its peers must follow.

► 7.11 Provide labour law fit for purpose.

7.11.1 Smart and remote work

The VP for Human Resources of a Latin American bank sees rapid change in the work environment, making it necessary to reconcile the flexibility of working conditions with social rights and social protection. In these conditions the intervention of government regulation and legislation could create problems if it does not consider the evolution of the situation. Policies about remote work should take into account that the situation is evolving quickly and it is not settled. New rules must be conceived with an eye to avoiding creation of unnecessary problems.

According to the owner of a company assisting the internationalization of other companies, smart work may complicate life for the lower-middle class in high income countries. These people will be competing for jobs directly with persons based in countries with much lower costs of living.

The personal point of view of the HR manager of a major international bank is that an international framework to regulate work from home is necessary. The executive director of a Kyrgyz business association also sees a need for regulation in this field.

7.11.2 The regulation of temporary work and agency work

Adecco, a multinational dealing with labour intermediation expressed concerns about the regulation of its industry. The pandemic in some cases created new spaces where they can operate. With the return to normalcy, governments could decide to eliminate such spaces.

Their other main concern is about the concept of diverse forms of work: In employment regulation should full-time, open-ended employment remains the default option? They do not think so.



7.11.3 Occupational safety and health as a key principle

According to the personal view of a director of a multinational company producing electronic goods, occupational health and safety must become a core principle for every business.

"I think this has become very relevant as a result of COVID-19. Health and safety is first and it should be a fundamental right. I think that's where I would say there is a need for more global guidance and more global policy. I would welcome that point. This is going to be one fundamental principle, because that's what we need as a company and I think it would help us drive progress."

7.11.4 Improving the clarity of labour law

In some countries labour law is not clear – for example, in the country where mining company operates.

"The labor law of this country was written back in 1999. It is not really suitable for the mining side. There's a lot of grey things in there. It's not crystal clear. It's not black or white. There's a lot of grey things that we can interpret either way. The new labor law has been changed, and it is about to be implemented in companies, but a lot of indefinite remains. Pretty much all the labor unions and many companies are working with the government saying, "You tried to improve the labor law, but it's not really looking like an improvement to us."



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