

MANAGING UNCERTAINTY DURING GLOBAL PANDEMIC: AN INTERNATIONAL BUSINESS PERSPECTIVE

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ABSTRACT

Apart from the perennial need to understand and manage uncertainty in international business, there are no comprehensive framework to incorporate different types of uncertainty coping strategies and their outcomes used by managers. International business managers face such difficulties in understanding the types of uncertainty in their businesses and to develop appropriate strategies to deal with it effectively, especially during times such as the ongoing Covid-19 pandemic. This paper refers to the need for change by the managers in international business in determining organizational objectives and the above research gap by identifying the different types of uncertainty, their antecedents and outcomes, the coping strategies used to mitigate their impact, and the consequences of these actions. The paper also suggests some implications for international business managers and directions for future research.

Keywords: Covid-19, Globalization, International business, Risk, Trade, Uncertainty

INTRODUCTION

Globalization refers to integration between people, companies, and governments. In globalization many businesses expand globally and assume an international image. Globalization is the process by which national economies integrate into a vast interconnected global economic system, which led to a tremendous growth in global trade and international business. As a result, global trade and GDP have grown in tandem recently, both increasing by 26 per cent during 2008–18 periods according to the reports of WTO 2019. As the China economy expanded faster than other manufacturing economies and the US economy grew at a healthy rate as 2019 drew to a close, the only major worry for the global economy seem to be the possibility of an escalation in the trade tensions between these two giants.

However, in late 2019, a new Coronavirus was discovered in Wuhan, the capital of Hubei province in Central China, a typical sprawling city and a thriving hub of commercial and industrial activity, with a population of 11.08 million. Global trade is now expected to fall by between 13% and 32% in 2020 as the Covid-19 pandemic rampages across the world, leaving a trail of death and destruction in its wake, almost paralyzing normal economic activity and social life in every country.

Covid-19 has been the deadliest virus in recent history to hit the world community. Most countries have issued stay-in-shelter orders to their citizens, locked down their borders to inbound and outbound travel, and restricted the flow of everything except essential commodities such as food and medicine. This has had a dramatic impact on many economies and global trade to a point of near 'de-globalization', with almost all global business activities either temporarily shut down or significantly slowed, including global supply chains, international passenger and cargo traffic, manufacturing and commercial services, hospitality, tourism and education.

As most small (face-to-face contact) businesses such as cafes, restaurants, and hair salons shut down and millions of people (particularly migrant and part-time workers) lose their jobs around the world, governments are being forced to give them cash to help them ride through this unprecedented crisis.

International business has always been associated with some degree of risk and uncertainty as it requires erstwhile domestic firms to get out of their comfort zones in order to seek greener pastures in overseas markets. However, there is still confusion between risk and uncertainty with many using these terms interchangeably. For example, risk is generally defined as an uncertain event or condition associated with doing business in foreign markets that can have a negative effect on the firm Miller 1992, while uncertainty is defined as the lack of knowledge about the probabilities of the future state of events that may influence the firm Knight 1921. Firms involved in international business have to manage different types of risks, such as political, country, foreign exchange, and cultural threats. Similarly, uncertainty affects firms' choice of path and entry mode for internationalization, speed of international expansion, and commitment to internationalization.

A key difference between risk and uncertainty is that most risks can be anticipated and measured with varying degrees of probability, whereas uncertainty is a subjective, multi-dimensional concept that varies based on its source and the degree to which it is experienced - hence is very difficult to measure (Alperts 2019). The current Covid-19 case is a great example of how this distinction plays out in reality. For example, most international business managers are able to estimate the perceived financial or operational risk to their businesses, but they may struggle to understand and deal with the uncertainty about its broader impact on the future of their business and society or even economy as a whole. While the inability of international business managers to fully appreciate and eliminate uncertainty in normal times could have a negative impact on their decision-making, this is likely to be further exacerbated when faced with an unexpected crisis like Covid-19. Hence, it is vital for the international business managers to learn how to manage uncertainty in order to guide their firms through such unpredictable and undesirable situations. It is even more critical to do so when such events occur rapidly across the globe.

Theoretical Background and conceptual Framework Uncertainty:

Past research identifies different types of uncertainty based on its source (environmental, industry or firm characteristics) or its nature (exogenous vs. endogenous) in the international business context. However, there is still no consensus on the distinction among different dimensions of uncertainty and as a result, these are often used inconsistently or interchangeably, which in turn may hamper the decision-making by international business managers facing uncertainty, by providing an incomplete picture of the role played by uncertainty in international business context (Sniazhko 2019). A lack of clear distinction among different dimensions of uncertainty may also lead to risky decisions due to misplaced perceptions about the prevailing environment (Brouthers 1995).

The several dimensions of uncertainty, namely environmental uncertainty that includes political, economic, government, cultural and discontinuous uncertainty, and represents both formal and informal parts of a country's environment (Sniazhko 2019). As is evident by the rapid global spread of Covid-19, the nature and level of uncertainty is potentially amplified due to the potential disconnect that each of these elements may have across different national boundaries. At first glance, discontinuous uncertainty may seem to best describe the uncertainty associated with the Covid-19 pandemic, because its impact is quite similar to that of a natural disaster that results in wide-spread human and economic casualties. However, viewing it through this single lens may be problematic because of its cascading effect on other types of uncertainty, such as environmental, political, industry, and firm uncertainties, as highlighted by the way most countries across the world did not consider Covid-19 to be a serious threat when it was mainly concentrated in China and neighboring countries. In fact, they seemed to be only concerned about the continuity of supply chains to ensure the availability of manufactured goods from China, while they waited for further instructions from WHO about the impending disaster, which may have resulted in a great deal of political uncertainty (Grave 2020).

However, as the virus spread across the globe, its impact on the governments, public institutions, industries and individual firms became more apparent, with most nations coming to a stand-still due to the lock-downs and closing of borders, which led to industry and firm level uncertainty. Hence, the major learning from this experience for international business managers and policy-makers is to consider all the dimensions of uncertainty simultaneously or in sequence, to ensure a more unified approach to dealing with such global disasters in future.

Uncertainty Assessment:

The Covid-19 crisis provides evidence as we can see even larger and older businesses like airlines and retailers coming under tremendous pressure and being forced to furlough or lay-off a large number of employees, just as smaller businesses like cafes and restaurants. Similarly, developed nations in Europe and North America lead the number of diagnosed cases and deaths due to Covid-19, which suggests either a complete failure of their public health systems (e.g., in Italy and Spain) or a lack of political leadership (e.g., in UK and USA). By contrast, countries like South Korea, Australia, and New Zealand have managed to flatten the infection curve with minimal disruption, due to a combination of excellent public health systems and responsible political leadership, while Singapore has seen a second wave of cases despite its early success (Ang 2020). Interestingly, China seems to have almost controlled further spread of Covid-19, while India has so far managed to keep the number of cases and death quite low relative to its huge population (Srivatsav 2020). However, it is still early to see how countries in the rest of Asia, Africa and Latin America handle this ongoing crisis.

Uncertainty outcomes:

Current literature focuses on the factors that influence the choice of a particular approach to manage uncertainty (e.g., the role of decision-makers) but pays less attention to outcomes of the different types of uncertainty and/or the outcomes of international business firms strategies used to manage uncertainty. As a result, there is a limited understanding of the impact of uncertainty in the international business environment, and in particular, how it may influence the performance of different businesses based on their unique conditions. For example, one of the main challenges in international business is the assessment of the impact of uncertainty when the risks are interconnected and asymmetric, including macro risks that affect most firms and micro risks that only impact a few firms – contingent upon their origin (Marinova 2020).

The Covid-19 crisis further demonstrates these issues in quite a dramatic manner, wherein many small businesses around the world have simply collapsed due to the lack of demand from their regular customers and an inability to pivot to alternate ways of doing business. Of course, there are exceptions, such as restaurants switching over to a take-away model instead of dine-in option, fast food franchisees selling bread and milk through their drive-thru counters, and rideshare operators such as Ola and Uber taking up mail and package delivery as their traditional passenger business has almost dried up (cites). Of course, there are implications in such actions that may further increase uncertainty. For example, Uber Eats has been in battle with food retailers in Australia over delivery fee structures but the company is reportedly not only digging its heels in but is seemingly reluctant to be more flexible in adjusting their fee structures in the current Covid-19 environment (Durkin 2020). The core uncertainty here is whether this action is signaling power play for channel control or simply a business taking advantage of the uncertain environment by acting opportunistically. Going forward, we would need to look at how these businesses can better prepare themselves so that they can become not only more resilient to overcome the uncertainty imposed by unexpected events but also be more agile to cope with these challenges by being flexible and innovative.

Uncertainty management:

Managing uncertainty involves strategies that help firms either *reduce* (risk management) or *cope* with (strategic management) uncertainty; reducing uncertainty is a natural motivator that guides firms' behavior, whereas coping with it allows firms to adapt their strategy to deal with the type of uncertainty faced by them (Sniazhko 2019). Uncertainty reduction involves information gathering, proactive collaboration or cooperation, and networking; whereas, uncertainty coping consists of flexibility (diversification and operational adaptation), imitation (copy competitors and early movers), reactive collaboration and/or cooperation, control and avoidance. During times like these, reactive collaboration and/or cooperation (e.g., shifting the risk and uncertainty to the firms' partners) is the most common strategy used by firms to handle environmental or industry uncertainty. Firms may also try to avoid uncertainty when the level of environmental and industry uncertainties is much greater than their worst expectations. Overall, managing uncertainty involves reducing the probability of undesirable outcomes and their impact on the businesses at various stages of the value chain

Conclusion and Implications:

Globalization has changed the world of business in the last few decades and despite so many natural (e.g., bushfires, droughts, earthquakes, floods, and hurricanes) and human (e.g., global financial crisis, pandemics such as SARS and Ebola, terrorism Covid-19 and wars) disasters during this time, we have managed to bounce back every time after a period of setback. In this context, Covid-19 is a unique case due to the speed with which it has spread all over the world and created havoc in the global economy. From the evidence available so far, it seems that most countries have managed to take the right steps in restricting its further spread by restricting human movement, which in turn has had a debilitating impact on the economic activity. As many of these countries now move towards gradual easing of these restrictions, it would be interesting to see how quickly the businesses and economies bounce back. One of the challenges in this would be the ability of governments and private businesses to predict the risk associated with each stage of the reopening to manage the overall uncertainty associated with this process, in order to avoid a second wave of Covid-19 cases with similar or possibly even worse economic consequences.

The Covid-19 crisis also highlights the importance of other types of uncertainty that have hitherto been overlooked in international business research, such as social and informational uncertainty that will likely have inevitable economic repercussions. For example, the success of social distancing and other restrictions (which closed many businesses down) depends on the extent to which the society as a whole accepts and abides by these rules that challenge their normal way of living. This social uncertainty and public unrest from being lockdown for months could lead to a huge pent-up demand for products missed by them. This in turn may result in a 'bull-whip' effect, which could cripple the global supply chains due to wide variations between the demand estimates and supply.

Similarly, this crisis has shown the importance of informational uncertainty and the growing role and influence of direct communication and social media, with inconsistent news and communication from different sources causing confusion and panic. In this regard, UK retailers communicated directly to their customers, sending a personal letter explaining all measure they have taken (limiting product range and SKU, focusing on most essential products, additional safety measures in outlets, etc.) to face abnormal customer demand and disruption of international distribution channels. In this way, the retailers managed to reassure customers' confidence in continuous supply of household goods and mass panic was avoided. This has major implications for media companies and regulators on how they can play a more constructive role in future, especially during global disasters like the ongoing Covid-19 crisis.

Future research may learn from these experiences and try to provide more formal definitions of these new types of uncertainty (e.g., social and informational) and incorporate these within a more comprehensive conceptual framework of uncertainty in international business context.

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