Coronavirus Disruptions: Some Thoughts on Dealing with Strategic Uncertainty in International Business

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Most multinational companies routinely undertake country risk analysis to understand the potential volatility in their overseas markets. This allows them to adopt measures to manage or mitigate the potential risks. In contrast, small and medium firms tend to be rather reactive. They do not have risk management strategies in place, mostly due to the unavailability of insider knowledge of risks specific to overseas markets and/or lack of time and resources.

The ongoing Covid-19 pandemic has brought many unpredicted and potentially destructive changes for businesses across the world irrespective of their size, market share and resource base. Therefore, a strategic approach to managing external risks and strategic uncertainty has become equally important for all companies operating in an international marketplace. Although there are no empirically tested response options available yet, below are some perspectives on risk management strategies that can be considered to deal with post Covid-19 crises faced by international businesses.

Dealing with foreign exchange volatility

In late March 2020, the Australian dollar hit an 18-year low against the USD. A grim global economic outlook has also contributed to a dramatic fall in the values of other major currencies including the Euro, Yen and Pound Sterling. Under normal economic conditions, the depreciation of Australian dollar is likely to improve the international competitiveness of Australian companies as this would make Australian goods comparatively cheaper in international markets. Nevertheless, the pandemic is unlikely to benefit any of the three major export sectors including mining (due to interrupted supply chains), international education and tourism (due to travel bans and health risks). The weaker Australian dollar may contribute to the rise in production cost and hence smaller margin or loss for businesses that use USD or any other stronger currencies to pay their suppliers for raw materials or finished products. To mitigate the risks related to foreign exchange volatility, individual businesses can undertake one or more of the following strategies:

- negotiating with foreign suppliers for lower prices (a careful use of buyer bargaining power);

- negotiating with foreign customers for higher prices (a careful use of supplier bargaining power);
- agreements with foreign suppliers to make payments using Australian dollars;
- setting up forward contracts/hedging arrangements (agreements that include obligations to buy or sell a good at a specific price on a future date); and
- switching to local suppliers.

Dealing with a global decline in demand for goods and services

International businesses in both primary, manufacturing and service sectors are likely to face challenges with loss of sales. Since January 2020 there has been a large decline in the demand for goods and services across countries. Most businesses have been affected by mandatory closures, lower productivity and supply chain disruptions. While prolonged lockdowns have helped the protection of public health, there has been sharp rise in unemployment in most economies. There is, however, a great deal of uncertainty at the moment with regard to when a full rebound in economic activities will take place. In some countries, governments' ad hoc support programs may improve the demand for essentials but a quick economic recovery and an overall increase in consumer purchasing power will not be achieved in the near future. Below are some strategies that Australian export-oriented firms may consider in dealing with the worldwide decline in consumer and business goods and services:

- short-term reduction in product price (to improve cost competitiveness);
- cutting output of consumer and luxury goods;
- downsizing (particularly in hospitality, tourism, aviation, infrastructure and entertainment sectors);
- adopting cost reduction strategies (e.g. changing manufacturing location, switching to new suppliers, vertical integration, switching to new distributors); and
- exploring new markets (especially in countries that are less affected by the pandemic; an over dependence on one or a few overseas markets such as China may increase the vulnerability of an international business).

Dealing with political risks

The corona crisis may give rise to multifaceted political risks globally. The ongoing trade dispute between a rising power (China) and an established power (USA) may escalate into further bitter disputes affecting the stability of the Asia Pacific region. While all economies are considerably susceptible to political risks, emerging economies are likely to face more political and social unrest than developed economies. Once lockdown is withdrawn, in many countries, government failures in terms of health protection, social support, support for business, job protection, etc. may spark violent protests. On the other hand, questions are being raised about whether the pandemic will thwart globalization, curtail the power of international organizations (e.g. WTO, WHO, IMF, etc.), erode trust between countries, reduce global interdependency, increase nationalism and protectionism, and create an incentive for nations to attain self-sufficiency.

Nationalist-populist governments may implement stringent rules and regulations for foreign companies that would limit their opportunities for export as well as foreign direct investment. Recently, India's amended FDI policy has caused frustration and resentment for Chinese businesses as well as the Chinese government. The new FDI policy is aimed to prevent hostile takeover of underperforming firms by businesses from neighbouring countries. Governments in other countries may also forgo the rules of free and fair trade and adopt discriminatory practices (e.g. increased tariff and non-tariff barriers) in an effort to protect local businesses from foreign competition. Further, enhanced government interventions may also limit independent decision-making power of foreign companies such as restrictions on workers' layoffs even if a firm faces persistent reduction in sales. Australian companies with global businesses may consider the following strategies in dealing with political risks in host countries:

- consider information and knowledge related to foreign markets' political risks as a strategic resource (the availability of reassuring information prevents panic, promotes employee confidence and cooperation, and mitigates the impact on business operations);
- re-evaluate expansion/investment decisions relating to emerging markets (based on the post-corona political, social and economic conditions in individual countries);
- take advantage of grants and other incentives offered by foreign governments (such as tax cuts, low interest loans, subsidies, guaranteed public procurement, etc.);
- enhance focus on networking and collaboration with policy makers, suppliers, buyers, financial institutions, trade organizations, and competitors in overseas markets; and
- prepare an achievable contingency plan (regarding the use of alternative suppliers, divestment, etc.).

Taken together, COVID-19 encourages us to change how we operate in the global market. The pandemic has forced managers to carefully assess multiple risks, and develop a well-informed response plan.

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