

COVID-19 May Change Modern Companies Forever — A Brief

Out-look

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Abstract: The future is a big word. It can be composed of uncertainties that make us all fear for. However, it is also filled with opportunities that one can grasp vast amount of optimism. We, as the human species, have always been fascinated with our imagination about the future. In the past, we besought witches to tell us about our fortunes. Nowadays, we form risk management entities and consulting firms that help clients identify opportunities and dangers, while attempting to “shape” the future for each one’s favor if possible. If you ask any one at the New Year Eve party about their predictions of the year 2020 on December 31st, 2019, no one would have believed what was bound to take place—in the same fashion as one from 1700s would have never believed the establishment of European Union. While the virus halted our daily routines and is enforcing humans to change their social behaviors, the very reality of this current pandemic COVID-19 is indeed unprecedented. Humans cannot rewind the reality to the past—we should analyze the current situation and predict the future trends in the hope of a more adequate preparation. COVID-19 can be perceived as a catalyst that boosts the progress of various occurring long-term trends in business conducts. Hence, these key long-term trends can shape up companies’ future structures and behaviors forever.

Keywords: Risk management entities; Opportunities; Dangers

1. Periodical economic downturn

Throughout our history, we have witnessed numerous “defining moments” that perceivably altered the chronical course. On the one hand, we experienced conflicts of interests, consequential human behaviors and environmental disasters that made human shift their values and brought changes to the society. On the other hand, we developed plenty of technologies that unquestionably transformed our daily lives. Meanwhile, these two aspects are intertwined and mutually influential on each other. There is no doubt that the world economy is going into a chronical recession and the length of this time period can be more prolonged than the previous episodes. In that case, we do have many past financial downturns to learn from—the 1958 recession in the U.S. was in fact partially due to a flu pandemic. In terms of the overall timeline of pandemic’s effects on economy, a resourceful one is China’s periodical economic downturn when it was combating SARS in 2003. Within merely one quarter, the Chinese economy growth rate dropped by nine percentage points. Therefore, we have a rough pattern of battling through the unavoidable severity and then rebounding to solid growth respectively. However, COVID-19 can cause much more severe setbacks in a world that is more interconnected than ever. The enforced social distancing and worldwide stay-at-home order visually brought the world economy from sixth gear down to the first^[1]. Without workers being able to do their jobs and consumers are quarantined at home, the

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more service-driven economies lose consuming powers, while manufacturing-powered economies cut down its producing power by drastic amount. Thus, the unprecedented economic shock of COVID-19 will impose greater challenge upon companies and make them reevaluate their future strategies.

One can argue that the “quarantine state of mind” will drag out extensionally and cause working structural change within the company ultimately. The social-distancing and stay-at-home order have made close in-person interactions double-crossing already. Considering that the COVID-19 is transmitting through human interaction and gatherings, a face-to-face working environment may become outdated and discouraged by the society in the future. As people might become hesitant to reengage with the society, the psychological repercussions of COVID-19 may make companies to revalue its company structures by signing more employee with flexible contracts in order to attract talents. Individuals may find their working terms more malleable and one is no longer obligated to go to the same physical office. Modern technologies have allowed us to work from home, which is being tested and enhanced by the general population as we speak.

Hence, traditional limitations like geographic distance may no longer exist, which will allow a high-skill professional individual to plan their occupations with a more multi-discipline approach. For instance, if an American is good at finance, with a solid background in art dealing and Mandarin, he or she may choose to devote four hours to finance daily and the other four hours to help a Chinese client securing a piece of Jean-Michel Basquiat. Such scenario does take place nowadays when someone takes up multiple part-time jobs. Nevertheless, most of those situations are limited to lower paid jobs and ones that only require low skills. The suggested concept of working on several sectors is not a new one, rather the further exploration of an ideal that is forced into test during COVID-19 pandemic as a part of the trend’s “crystallization”. Specialization doesn’t necessarily require in-person interaction while providing industrial service may thrive in the new structure. Independent accountants, for example, don’t have to go to restaurant to do their tax anymore if same tasks can be accomplished remotely. Trust is also a center piece of long-distance specialization that builds people’s confidence in this structural change. More certificates, such as CFA and CPA will prevail as a standard for professionals to verify their specializations^[2]. Clients will be more confident in choosing someone with a well-recognized certificate to kick start a remote project with—in the same fashion as companies recruit more graduates from the Ivy League. Following this logic, brands will become more important than ever and their reputations will weigh much more comparably. A McKinsey consultant will be valued even more than one from a boutique consulting firm. From the standing point of companies, if they do consider adapting this trend, a more optimal distribution of skilled workers and resources can contribute to further business growth. As one is more passionate with their occupation and an occasional switch of scenery can boost their productivity, a “win-win” situation can be created in order to maximize welfares of both the employer and employee.

2. Technological

(1) This trend will be accelerated when companies proceed to invest more in their technological infrastructure in their response to COVID-19. The modern technologies have already provided answers to several industries amid this turmoil, including corporations, education industry, and restaurants. For corporations, work-from-home technologies allow companies to maintain their business; for higher education institutions, applications like zoom allow students to continue their academic pursuits; for restaurants, delivery and pick-up apps keep consumers in the loop. This is a powerful push to make corporations and entities to become more technology savvy and based. Technology companies leading in remote software are already witnessing a substantial growth in the usage of their products. The age of 5G and forthcoming revolution of networking connectivity may come faster than we expected. Considering that the internet of things is expected to double from 30 billion devices now to over 75 billion in coming years, this long-term trend will not slow down any time soon. Therefore, wise companies will invest more in work-from-home technology, while learning other tech companies’ success to hedge future risk.

(2) It is also essential to address the fast “infiltration” of artificial intelligence (AI) into our daily lives. Nowadays,

companies apply AI to bring up efficiency in warehouse and increase business volumes. On the other hand, as a major tool to fight against COVID-19, AI can make us prepare better than ever before. It is being applied to map out pandemic breakout patterns and figure out optimal solutions to the infection curve. Moreover, leading AI firms, such as DeepMind, are helping labs and drug companies to test out treatments by providing their supercomputing AI technologies. This will effectively shorten our waiting time for a vaccine. While this is uplifting, the situation's byproduct will be a series of real-scenario beta tests that further strengthen the AI technology itself. The implications of super computers' growing capabilities are two-folds: companies will have access to better AI technology that open up new business opportunities; security risks in virtual business will skyrocket when criminals realize there is more at stakes online. Arguably, either path will enhance the business sectors' understanding of AI and it will also become more technical and basic^[3].

(3) An interesting trend can also occur when small and medium enterprises take the hardest financial hit and big companies endure better and survive because of their stronger financial power. Business of any company will not be immune from this forced economic downturn. Nevertheless, bigger companies possess much more resources to bear the drop back of this pandemic. Following the resource deficit, bigger companies may be able to advance further with its expansion and gain more market share after the pandemic, which will drive out more small businesses. This exacerbating divergence between small and large companies can be reflected by the difference in their recent stock performances. Take the US market for instance—the Russell 2000, a benchmark for small companies, has been underperforming when compared to the S&P 500 index badly over the past two years. By April, the small stocks, with a median market valuation of about \$525 million, have already lost 23%, while the S&P only lost less than half of the decrease. In fact, the S&P 500's companies now make up a scary 82% of the entire U.S. stock market's value, a percentage share that has been steadily rising in the past two decades. This implies a harsh reality for small business—big companies are squeezing out their potential competitions with comparative advantages in resources, and eliminating small companies through measures like Merger & Acquisitions (M&A). Following the current trend, there can be a big reshuffle of existing companies in the long term, with an upwards bias in the company power ladder. Hence, in the future, big companies will become bigger and invincible, to the extent that small enterprises may never have resilient measures to encounter. The occurring shutdown of small businesses will discourage the emergence of future entrepreneurs and new business model, unless these businesses owners are willing to take the risk of being acquired or the government takes effective measures to block M&A.

3. “Megafirms”

Furthermore, we should expect the emergences of more “megafirms” as their resources grow, whose existences will dominate the stock markets and their businesses either dictate their own industry or infiltrate across various sectors. The business of “megafirms” will not be the periphery of certain products, rather being driven by a school of philosophy. By following their own school of philosophy, these big businesses will branch out and eradicate more competition across different sectors in the long term. For instance, Elon Musk's companies took over at least eight different sectors, while he tries to shape the future in all of these businesses. Space X targets sustainable space travel; Hyperloop aims to connect cities in a more efficient measures; Tesla pushes the society to a cleaner-powered future. Meanwhile, all of these companies are either leading in their own sector or trail blazing in a new frontier. Hence, big companies like Tesla will advance in market shares that failed small companies left with after COVID-19 gradually. In the long term, S&P 500 companies may dominate 90% of the stock market, while each of these companies' businesses extends into various sectors. Furthermore, their business will become too strong for any other up and coming ones to challenge. In some sense, the “megafirm” owns a selection of many SMEs with a mother company allocating talent and capital. This trend can already be found in many cases, where a mother company acquires subsidies to complete their school of philosophy. For example, Facebook started as a social network company and acquired WhatsApp and Instagram, which completed their pursuit of creating a network ecosystem. Uber started as a vehicle ride-sharing company then branch out to provide

Jump bikes and Bird scooters, emphasizing its role of being a transportation firm^[4].

A caveat needs to be placed here. Different country environment may lead to different domestic corporate structure. In nations with more “safety nets”, SMEs will be more prevalent because state will claim the responsibility in its effort to save these growing businesses, and even blockade bigger companies’ aggression in terms of M&A during the economic downturns. Thus, SMEs can keep their businesses despite being dragged into severe crises. Meanwhile, if the government takes the approach of “laissez-faire”, competitions will play out and more “megafirms” will surface as they drive out competition. Nevertheless, SMEs, whose strengths mainly rely on technology, may preserve in the latter environment. For instance, start-ups that combine human necessary need and the new generation of internet may still survive. This can be found in the example of Instacart in the US, a grocery delivery firm that thrives even more amid the COVID-19 turmoil.

Pivotal moments like COVID-19 will make companies to rethink about their business strategies. By adapting new measures, companies will have more cushions to prepare for the next breakout. For goods and services businesses, a switch from physical stores to a bigger emphasis on ecommerce may take place. It is hard to ignore the success of ecommerce for its performance in the past decade. Before the 2008 financial crisis, more shopping began to happen online with the growth of ecommerce. The success of Amazon is a solid presentation of this growing phenomenon, which drove out many traditional businesses as well. In the long term, more and more business may prefer ecommerce to physical stores. Many physical stores may even become a mere product presentation venue and a warehouse. Given the fact this shift makes financial sense by cutting down operational costs, it is highly likely that the change will take place sooner than expected. Another bold prediction can be one with the conventional energy sector. They experienced a historically huge price dip in mid-April 2020. At one point, oil commodity trading price even went down to negative index. This may force oil cartels to rethink about their future. Oil enterprises may take this chance to fulfil their environmental commitment and invest in more nonconventional energy into their portfolio. Should they secure green and renewable energy source as part of risk mitigation mechanism? If such pandemic takes place again, what will they do to ensure the same level of revenue or keep the loss at minimum? Public pressure can be indirectly heightened by this pandemic too. Many perceive COVID-19 as a “revenge” by the Mother Nature, out of human’s harms to the wildlife. More respect to eco-system will be stressed on. Therefore, sustainability will once again take over the stage as a driving force to achieve a “cleaner” future. One can even argue that they would redefine their brand by stressing on being an energy company itself rather than the oil and gas one. By including nonconventional energy into their portfolio, traditional oil and gas companies can hedge the risk better if there is another similar black swan events breakout, while preserving a relatively positive brand image.

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