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### It won't be business as usual after Covid-19

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## **It won't be business as usual after Covid-19**

Arnoud De Meyer

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*As customer behaviours change, they will reshape business models in the post-coronavirus world*

All businesses have been affected tremendously by the coronavirus outbreak of Covid-19. The pandemic has become the biggest economic shock since World War II, as governments worldwide order social isolation measures, shutting down businesses and having people work from home to slow the spread of the virus.

Some businesses much needed in the so-called "isolation economy" that has resulted - such as food delivery services like Grab or Deliveroo, cloud computing like Amazon Web Services or videoconferencing companies like Zoom Video Communications - have benefited significantly, though their capacity to deliver may be stressed. Just try to find a slot for home delivery.

Hospitality, food and beverage, air travel and oil trading are under siege, and companies like airline Virgin Australia, or, closer to home, Hin Leong Trading, may go bankrupt or go into receivership. More will follow as there may be a domino effect on other companies.

Many companies have a crisis team in place to do all they can to keep their people safe, to keep operations running and to deal with the uncertainty in a world where the situation changes every day.

But that is not sufficient.

Companies - their board, management and employees and their shareholders and customers, indeed all of us - have to think about what needs to be done to prepare for when we gradually get out of this crisis.

Will the world of business go back to January 2020? I strongly doubt it.

The shock is not merely an economic one. If that were the case, we need only to discuss how fast the economic recovery will be and whether it will be V-shaped, U-shaped or L-shaped. I would trust macro-economists to handle that.

But what Covid-19 has unleashed is nothing less than an earthquake in customer behaviour and business models. What will commerce and business look like when we slowly emerge from the pandemic? And how do we prepare for it? Here, I will discuss five major changes.

### **POLITICS OVER ECONOMICS**

The first is the renewed primacy of politics over economics.

It was about 28 years ago that Mr Bill Clinton was elected to the American presidency on the slogan, "It's the economy, stupid". That was an indication that political decisions were, to a large extent, driven by economic principles and policies.

Today, it is the reverse: Politics takes priority over economics. In many countries, governments have taken containment measures without even asking questions about their economic impact.

Lives are just more important than short-term gross domestic product growth.

Health policies have overtaken any short-term economic analysis. In fact, this trend of politics trumping economics had already started before the current crisis.

Without it, the world would not have seen a United States-China trade dispute initiated by President Donald Trump that, according to some estimates, had cost the average middle-class family in the US an additional US\$1,000 (S\$1,425) per year. If politics did not override economics, there would not be a Brexit that will bring lower economic growth to the United Kingdom over the next decade; or anti-mainland election results in Taiwan and Hong Kong.

The primacy of policy decisions related to healthcare, physical or cyber security, improving wage security and income redistribution will be an enduring change.

Businesses will have to take this into account when charting new strategies.

## GLOBALISATION, REVIEWED

The second major change I expect will be in our perception of globalisation. The world is emerging from a long period where any globalisation is deemed good for all sectors of society.

There may have been some criticism that the spoils of globalisation were not equally distributed. But there was this idea that the rising tide would push up all boats, and everybody would benefit in some way.

Now that we realise how fragile global supply chains are and how easily they can be disrupted, criticism will become deafening.

Global trade will not disappear. People will still travel, be it for business or leisure. But companies will look very differently at how to organise their supply chains and their international activities.

Reshoring, or the return of production from low-cost countries to industrialised countries, may become popular.

Robustness of supply chains will take priority over their cost. And if businesses don't do it, I expect governments to impose such robustness.

International operations will be reorganised. This will have a major impact on Singapore. The country has benefited tremendously from the growth in global trade in the last 20 years. Its port, airport and many of the financial and professional services it is active in thrive on globalisation. If there is a flattening or a reduction in global activities, there will be a need to replace them with something else to preserve our lifestyle.

## TECHNOLOGY TO BECOME THE DRIVER

The third change is the transformation of the role of technology. In many businesses and institutions, technology played a supporting role.

Now, technology will become the driver of business models. It will not be limited to replacing business travel with videoconferencing or working from home. Reflect on how your life has changed with online shopping and home delivery, online education, webinars, Zoom meetings, parties with friends and family over videoconferencing, virtual visits to museums and exhibitions, online entertainment.

Will we go back to the former face-to-face activities? Yes, to some extent because we are social beings and want to interact with one another. But consumer behaviour will change, and convenient technology-driven business models spread quickly.

The innovation in business models which one might have expected to happen in five to 10 years based on sophisticated online communication, artificial intelligence, machine learning and pattern recognition may now well happen in the next 18 months.

For example, I am surprised at how quickly the debate in Europe about the intrusion of privacy with tracking apps has subsided. The debate now is not about intrusion of privacy, but about how to make them bug free. If your company does not jump onto this technology bandwagon, your business model may be outdated soon.

Productivity-enhancing technology will also change manufacturing and service operations. Industrialised countries in Europe, the US and East Asia may want to reduce their dependency on lower labour cost production in China or some emerging economies. Reshoring of manufacturing will thus be seriously evaluated, in particular for essential products or services.

In Singapore, meanwhile, hard questions will be asked about the role and number of foreign workers, following the mass outbreak of Covid-19 in dormitories that propelled Singapore into becoming the South-east Asian country with the highest number of infections. Does Singapore need so many foreign workers? Are there other ways to get the same result for the economy? Reducing such dependencies will mean more investment in automation and robotisation.

I bet that within a few years, operations in manufacturing, as well as services like call centres or back offices for financial institutions, will look very different from what they were in January 2020.

## SUSTAINABILITY WILL BE FOREFRONT

A fourth change is the changing view on sustainability. Some scientists have warned that pandemics may become more frequent because of the destruction of the natural environment. Citizens will demand more security, raising the level of attention and resources given to sustainability.

Of course, with a negative oil price as we saw this week in the US, no durable source of energy can possibly be priced lower. But go back to the primacy of politics over economics.

When we get out of the Covid-19 tunnel, taxpayers will question how the massive financial support doled out by states will be translated in these companies into decisions aligned with long-term sustainability goals.

Ecosperity, or twinning ecology with prosperity, will become a lot more important to wise governments. Already, some bailouts of airlines are linked to environmental and sustainability goals, as is the case for Austrian Airlines.

There is a growing view that high-quality air, clean water, natural resources are not just goods that one can buy at a price; they are goods that belong to the community, which entrusts them to companies to use them wisely and return them in good shape to the community.

Companies should start to think better about their stewardship role towards society. They cannot expect the government to do it for them.

#### CHANGING INDUSTRIAL LANDSCAPE

Fifth, when the Covid-19 pandemic gradually dwindles down, the industrial landscape will look very different.

Technology sectors, including fintech, health management and pharmaceuticals, may be winners. Transport, hospitality, incumbent banks and real estate may have more difficulty in recovering. Oil and gas might well be in trouble for quite some years.

But as usual, in times of disruption, there will be winners, even in the worst-hit sector. In the less performing sectors, you can expect a lot of restructuring and opportunities to build new groups through mergers and acquisitions.

What will it take for your organisation to have a chance to come out as a winner?

First, are you ready to take advantage of the opportunities that will arise after the pandemic? Do you have a recovery team next to your crisis team?

A team that is ready to provide important insights about what the future in your industry may look like, that can offer alternatives to the leadership team and prepare short and medium-term action plans.

It is a difficult exercise as this will have to happen in an extremely volatile environment and while top management's attention is focused on short-term crises.

You may think, well, my crisis team is there to do so. Personally, I am convinced that it requires a different team. Solving crises is an activity that is very different from preparing future plans to grab opportunities.

Second, when we get through this crisis, we will need to act fast. Vertically integrated companies are known to be efficient but not very fast. We need different organisational structures. The lessons we learnt from the fast growers in China or elsewhere in the world is that they often did so by creating flexible ecosystems of partners with whom they could innovate and learn together.

Third, we may have to add a new function to our management. Companies will need to understand how interdependent they are with other organisations and other geographies and how fragile these linkages can become.

Traditionally, company management assumed that executives would have done risk management and developed business recovery plans. But all too often, these had become box-checking exercises and rituals of completing case studies on well-known internal sources of risk.

But how many of these plans were ready to cope with a pandemic? A pandemic was hardly a "black swan" or an unpredictable event with large impact. Many virologists and academic observers, in fact, had pointed out the possibility of pandemics breaking out.

I suggest adding to our management control toolbox a "fragility reduction" test that would track an organisation's vulnerability of collapsing from stressors and increase its chance of a resilient, adaptive response. And maybe we should listen a bit more to scientific experts.

And fourth, we will need to innovate in our products, services and processes. Singapore has benefited tremendously from globalisation both as a port, an airport and in the professional services. Global trade will not disappear, but it will take on different forms.

To stay on top of the game, we will have to work more than ever on the transformation of Singapore into an innovation-based economy. Our future needs to be built on innovation, not just on facilitating trade.

*Arnoud De Meyer was president of the Singapore Management University, where he is now university professor. He also chairs Stewardship Asia Centre, a thought leadership centre promoting effective stewardship and governance in Asia.*