

Passing the coronavirus “stress test”

Whether for an individual, a company or a country, the outbreak of an epidemic can be like a stress test that exposes hidden problems and requires timely treatment. TheLINK gathered insights from eight CEIBS professors who shared their views on how companies and nations can ride out the crisis and turn it into opportunity.



The macroeconomy

01



Xu Bin

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How should we respond to the COVID-19 outbreak?

The COVID-19 epidemic has taken a heavy toll on the Chinese economy, and has exposed a number of deep-seated problems. This is a golden opportunity for us to gain a deeper understanding of these problems and work on long-term reforms. Hence, we should not only focus on short-term epidemic prevention and economic recovery, but also discuss and address these complicated problems in a timely manner, face the shortcomings of the current system directly, and showcase China's determination to deepen institutional reforms.

The Sino-US trade war and the epidemic also provide rare opportunities for China to transform its economy. While it is true that some of the negative shocks will accelerate the migration of the global manufacturing supply chain and hit Chinese companies very

hard, we also need to recognise that even without the trade war or the epidemic, China will lose its cost advantage in low- and middle-end manufacturing as its economy evolves. Like individuals, enterprises are frequently subject to inertia, and will resist carrying out reforms, giving up their old business models or opening up new frontiers unless they think it is absolutely necessary.

The extent to which long-term economic growth can be unleashed depends on the degree of incentives individuals and companies receive, just like how the Chinese people's entrepreneurship power has been unleashed since China started market reform in the 1980s. In China's current evolution from a middle-income economy to a high-income state, both the economic system and the governmental system need to be reformed deeply; this is the way to address the real problem.

02



Bala Ramasamy

Professor of Economics



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Unity only way to beat pandemic

“Globalisation is a natural phenomenon and like the virus that is impervious to borders, race, religion and wealth, so too should we overcome such barriers and realise the strength in interdependence. The future of the world depends on it.”

No one could have imagined that a tiny virus would wreck such devastation on the global economic environment. The world watched as China locked down its cities and ramped up its health systems as it reported an exponential growth in the number of COVID-19 cases and deaths. Little did the world realise that Act 2 of the same play would take place in their own countries barely two months later. Global production is grinding to a halt as lockdowns take effect across the globe.

A global recession is not only imminent, we may be already experiencing it. Perhaps it was a blessing to the world that China, the factory of the world, is now beginning to come back to life, and is the only economy that is capable of meeting the pent-up world demand for essential supplies of necessities, including personal protective equipment and ventilators. Nevertheless, the demand

from the rest of the world will be sluggish, particularly for non-essential products.

The solution to the current darkness faced by the world today is greater globalisation. Scientists around the world have to share their ideas and resources to find a vaccine and a remedy to defeat this invisible enemy. On the economic front, a coordinated and synchronised global fiscal stimulus package is being called for by the IMF.

Perhaps we should look at the world as one country and humankind its citizens. Globalisation is a natural phenomenon and like the virus that is impervious to borders, race, religion and wealth, so too should we overcome such barriers and realise the strength in interdependence. The future of the world depends on it.

Support for small businesses

03



Xu Xiaonian

Honorary Professor

The plight of SMEs should not be taken lightly

Given that tertiary industry's share of China's GDP has increased to some 54% in 2019, from about 40% in 2003, we should not underestimate the direct, short-term impact of the pandemic – which may actually exceed the impact inflicted by SARS in 2003.

The indirect impact of the pandemic on the economy is no less than the direct impact. Strict social distancing measures had to be implemented to prevent and control the spread of the virus. Although personnel and material flows have not been interrupted, they have slowed significantly, which may lead to decreased turnover for businesses, especially the financially distressed group of micro, small and medium-sized enterprises.

As a result, a large amount of micro, small and medium-sized enterprises, which provide 70% to 80% of urban employment, may go out of business. Their plight should not be taken lightly.

Despite the obvious risks, from the

medium and long-term perspective, the pandemic will not devastate the Chinese economy as some observers have forecast. Moreover, civil society and the government are working together to prevent and control the pandemic.

If we use SARS as an example, the COVID-19 epidemic will affect the Chinese economy for two or three quarters at most, rather than result in medium or long-term damage, since the long-term development of the economy is mainly determined by economic fundamentals.

In the short term, it is necessary for the government to introduce targeted measures to help alleviate the difficulties of private enterprises. In the long term, the fundamental problems to be solved are the protection of property rights and the promotion of fair competition. Additionally, the government could also relieve regulatory burdens and boost the upgrading of industry by encouraging entrepreneurship and innovation as soon as possible, so as to transform the national economic growth model.

04



Sheng Songcheng

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Four suggestions on policies to support small and medium enterprises

The recovery of China's economy following this pandemic may be more challenging than after SARS. In 2003, China's economy was boosted by increased trade after recently joining the WTO, a period that also saw investment-led development and a demographic dividend, with strong economic upward momentum.

China's economy is now in a weak but stable condition, and the internal and external environments are quite different from the past. The scope for macroeconomic policy intervention is relatively limited compared with past periods.

Guaranteeing people's health and safety is the priority, while economic and employment stability is also closely tied to people's standard of living.

To cope with the pandemic, close attention should be paid to the economy's weak links. We suggest the following responses:

1. Attach greater importance to the impact of the pandemic on the operations of enterprises and employment, especially small and medium-sized enterprises. This includes avoiding "one-size-fits-all" excessive intervention, which would increase the burden on some enterprises, and focusing on stabilising employment;
2. Increase the counter-cyclical adjustment of fiscal policy, increase the central budget deficit rate, and strengthen central-to-local transfer payments;
3. Use monetary policy to effectively relieve liquidity pressures on enterprises, and reduce the operating costs of businesses;
4. Do not use real estate as a means to stimulate the economy, but stabilise investment and real estate sales.

We expect these appropriate policies and measures, if well implemented, would effectively control and limit the economic impact of the pandemic.

05



Oliver Rui

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How to strengthen the capillaries of the Chinese economy

Small and micro enterprises account for more than 90% of China's market participants, and the vast majority of these are micro-firms, such as shops, service providers and wholesale and retail traders (mostly individual businesses or unregistered self-employed persons). Presently, China is home to more than 110 million small grocery stores, which form an important part of the national economy and are a main provider of steady employment. According to the National Bureau of Statistics, each self-employed person provides an average of 2.37 auxiliary jobs, with at least 300 million jobs to be found in 100 million stores, taking into account the presence of even larger micro-businesses.

Stores may be small, but the multiplier and spill-over effects they produce are huge. Like people's capillaries, only if each one is unblocked, can life persist.

Many stores, however, have weak a capability to fend off risks. Since the outbreak of the novel coronavirus epidemic, the "store economy" has encountered an existential crisis,

suffering from the impact on both the supply and demand side.

In response to the situation, the central government has taken a number of financial assistance measures. Provinces and cities have also issued a number of policies to support small and micro enterprises.

However, most shops, comprising mainly individual businesses, have no credit record in traditional financial services. On top of that, they also lack any collateral, making it hard for them to obtain loans from large banks. In this case, fintech may offer a solution.

Through the use of big data, fintech enterprises have cut spending on information, risk control and default penalty mechanisms, and reduced the cost of financing and allowed fresh "blood" to flow smoothly to each capillary in the financial sectors.

Corporate management

06



Su Xijia

Professor Emeritus

Two things businesses can do amidst the pandemic

For enterprises, suspended business activity can be compared to a stress test, and many problems that are usually hidden may come to light. Therefore, testing and improving risk management and internal controls should be conducted by enterprises.

When it comes to risk, many people may think of loss and harm. In fact, risk could lead to losses, but not necessarily. What we have to do is to manage risk instead of avoiding it.

Determining the probability of risk occurrence and possible losses is key to mitigating risks. We should reduce high probability risk that would result in small possible losses; avoid high probability risk that could result in potentially large losses; accept low probability risk that might result in small losses; and transfer low probability risk that might result in big losses.

Concerning risk management, we never pursue excessive or extreme risk prevention. For most enterprises, the greatest value of establishing a system of risk prevention and internal control lies in mitigation and deterrence, instead of disclosure or punishment afterwards.

Managing risk focuses more on compliance, from the perspective of enterprises, while more on anti-fraud from the perspective of individuals. Fraud is most likely to happen when employees lack confidence in their job stability, which should be prevented for the small and medium-sized enterprises during the pandemic.

I suggest two tasks that are valuable but often ignored. The first is to improve and perfect the internal control system. The second is to observe others from the perspective of risk control and internal control, and learn from them.

07



Katherine Xin

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Four ways to reshape the epidemic-hit service sector

The epidemic has dealt a heavy blow to the service industry, exposing and amplifying its weaknesses, which, I believe, will prompt the government to pay more attention to the sector and support its development. Meanwhile, service firms themselves should re-evaluate their operations, identify their weak links, and improve their internal resilience.

Boosting model innovation abilities and adaptability

One feature of the service industry is synchronicity, whereby service provision and consumption happen almost simultaneously. The challenge, therefore, is how service providers should respond when customer demand changes suddenly due to external factors. Companies should strengthen their internal capacity to gain more thorough insights into customers' needs and innovate their business model accordingly to be more risk resistant.

Specialisation and differentiation

Amidst the epidemic, service specialisation could comprehensively improve supply capacity and the

efficiency of the industrial chain, creating more value for enterprises and society as a whole. In addition, the heterogeneity of services also requires enterprises to pay close attention to their ability to differentiate their service offering. These measures would prompt consumers to return quickly once the crisis abates and consumption recovers.

Ability to strictly control costs

Affected by the epidemic, the catering, tourism, finance and other service sectors virtually stalled. In this type of situation, only comprehensive cost controls could help companies survive and thrive. Service firms need to carefully scrutinise and estimate the impact of the epidemic on their business, and formulate financial plans accordingly.

The human factor takes centre stage

Human resource factors include not just employees who provide services but also customers. Managers should gain timely and accurate insights into these "human" factors during special circumstances. Leading service providers see employees as their products as they provide all the high-quality and premium services.

08

**Han Jian**

Associate Professor of
Management

Seven ways to improve organisational immunity

Small and medium-sized enterprises are usually under great pressure from the rigours of daily business development, with weak risk-resistance capabilities. Facing the burden of both business losses and decreasing employee security, how can enterprises survive without adequate funding?

Enterprises facing financial distress have to focus on several key management points:

1. Control costs, streamline their organisation and optimise job matching;
2. Retain core talents;
3. Manage their organisational atmosphere under crisis;
4. Adjust their organisational system in light of crises, including work flow and performance management;
5. Adjust their remuneration system and welfare arrangements according to changing circumstances;
6. Make dynamic adjustments to policies and communicate these;
7. Make emergency plans for possible labour disputes.

There are various ways to control labour costs – the most common one is streamlining the organisation. The financial benefits of streamlining the organisation are visible in the short term, but can be rather costly over the longer term. It is recommended that enterprises make a comprehensive analysis of staffing costs and value before making decisions, so as to determine which departments and staff could better help organisations ride out the difficulties they face.

When businesses are in poor shape, they have to face decreasing cash flows, as well as declining employee commitment. Poor communication between management and staff is a key difficulty in daily management, and poses highly probable but neglected “grey rhino” risks.

Facing “black swan” and “grey rhino” events, an enterprise’s sense of purpose, engagement, transparency of information and altruistic organisational atmosphere form the core of its resilience as an organisation and the springboard for the enterprise to resume business.