

## GLOBAL PANDEMICS AND THE BUSINESSES IN LITHUANIA

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### ABSTRACT

This publication analyzes the situation of businesses in the context of global pandemics. Business is an integral part of everyday life, facing risks and challenges daily, and in rare cases, such as pandemics and quarantine. Therefore, it is necessary for companies to have a contingency plan in place to deal with unexpected or expected challenges, i.e. what activities it would be possible to reorient to, how to perform activities by working remotely etc. Both the public sector and the private sector are closely interlinked. And every new environmental factor, be it state regulation, technological development, or the changing needs of humanity, and in this case, pandemic and quarantine, affects business in one way or another and leads to the success of some, the failure of others. At present, the coronavirus Covid-19, which is spreading all over the world, and the quarantine introduced in many countries are of great importance to business.

This paper also presents a small-scale qualitative research data showing the impact on different types of businesses in Lithuania. The main scope of this paper is measuring the level of impact of the pandemic COVID-19 for businesses in Lithuania. Methods were used as follows: i) analysis, comparison and interpretation of scientific literature and documents; ii) qualitative approach applying structured interview with selected leaders/managers of the companies in Lithuania.

**Keywords:** business; pandemic; quarantine; the lockdown; small and medium-sized businesses

### 1. INTRODUCTION

Every new environmental factor affects business in one way or another. State regulation, technological development, the changing needs of humanity and many other factors

contribute to this. The data show that business plays a particularly important role in the face of pandemics and it is only a matter of time before and what kind of virus can turn into a pandemic (Donthu & Gustafsson, 2020).

The current situation allows us to consider and learn how to manage and prepare for a pandemic. As Donthu and Gustafsson (2020) stress, the COVID-19 outbreak is a sharp reminder that pandemics, like other rarely occurring catastrophes, have happened in the past and will continue to happen in the future. Even if we cannot prevent dangerous viruses from emerging, we should prepare to dampen their effects on society. The current outbreak has had severe economic consequences across the globe, and it does not look like any country will be unaffected. This not only has consequences for the economy; all of society is affected, which has led to dramatic changes in how businesses act and consumers behave (Donthu & Gustafsson, 2020).

Also, it is possible to mention not only the pandemic and quarantine, but also the economic crisis, the manifestation of which today is influenced by the recent phenomena. And if the whole business environment is influenced by various external environmental factors, then internal factors also contribute to all this, i.e. the extent to which the business itself is flexible to change and able to adapt to a changing environment (Auzzir, Haigh & Amaratunga, 2018; Jandoc, Mendoza & Luz Quimboet, 2020).

Perhaps it is easier for businesses with more experience or experience in dealing with the effects of previous pandemics, economic crises, to overcome emerging challenges, to transform their business in a different direction than usual, and so on. For new businesses, small businesses with less experience, coming today with such threats can be quite a severe impact. However, there will certainly be those who will develop their business, undertake similar but new activities, possibly reshape departments, divisions, undertake additional activities, and so on (Auzzir, Haigh & Amaratunga, 2018; Gordon, 2020).

Thus, in order to find out how the business handles the pandemic and quarantine introduced this year, in order to understand the impact of the pandemic and quarantine on small and medium-sized businesses, it was decided to first analyze the scientific literature on this phenomenon, and conduct a small scale qualitative research while interviewing the representatives of different types of businesses in Lithuania.

The object of this paper is measuring the level of impact of the pandemic COVID-19 for businesses in Lithuania.

The aim – is to investigate the impact of pandemic and quarantine on small and medium-sized businesses.

Methods used:

- a) analysis, comparison and interpretation of scientific literature and documents;
- b) qualitative approach applying structured interview with selected leaders/managers of the companies in Lithuania.

## **2. LITERATURE REVIEW**

Pandemic and the quarantine are not identical concepts and may have different meanings for business. On the one hand, business can survive in the face of a pandemic, but with the introduction of quarantine to face difficulties (Auzzir, Haigh & Amaratunga, 2018; Gordon, 2020). Quarantine, on the other hand, is a consequence of a pandemic, and all this is the path to economic crisis. Also, we can each perceive our business differently and we can also see the significance of pandemic and quarantine for business differently. Therefore, this chapter will provide a broader overview of the concepts of pandemic and quarantine and their possible implications for the business sector.

According to Gordon, “quarantine does not have to be a terrible thing, it is an effective way to protect society” (2020, p. 38). In today’s context, quarantine is associated with Covid-19. Basically, quarantine protects people, so the government introduces quarantine to stop the spread of infectious diseases. Brooks et al. (2020) indicate that the quarantine term was first used in 1127 in Venice, when it was introduced for smallpox. The United Kingdom introduced quarantine during the plague. The last time quarantine was introduced was in 2020, i.e. this year, when the world was hit by the coronavirus pandemic Covid-19. Going back a bit, quarantine was introduced in more than one country in 2003 to combat the SARS outbreak, and in 2015. in many West African countries to combat the Ebola outbreak.

Further analyzing the pandemic situation and business, we may state that pandemic impacts both supply and demand (SWIFT, 2009 cited in: Turner & Akinremi, 2020). Lockdowns lead to lower retail sales and drastically reduced leisure activities (visits to sporting events, restaurants, theatres etc.). As statistics shows and research data reveals, firms

experiencing falling sales and production experience falling profits due to fixed short-term costs and falls in revenue (Turner & Akinremi, 2020).

Effects are sectorally specific: hospitality and personal services are most adversely affected, whereas the pharmaceutical and medical-equipment sectors are likely to benefit most (Gordon, 2020; Brooks, 2020; Turner & Akinremi, 2020; Jandoc, Mendoza & Luz Quimboet, 2020). Previous studies examining the business effects of previous pandemics, and in particular, the effect on SMEs, are extremely limited. Typically, economic analysis of pandemics focuses on macroeconomic indicators, for example GDP, rather than micro or firm-level effects (Turner & Akinremi, 2020; Jandoc, Mendoza & Luz Quimboet, 2020).

Predictions of the economic and social costs for a present-day pandemic are often based on the influenza pandemic of 1918 (termed ‘Spanish Flu’1) (Garrett, 2007, 2008, 2009 cited in: Turner & Akinremi, 2020). The 1918 pandemic killed 40 million people worldwide from the early spring 1918 through to late spring 1919. In 2005, the World Bank suggested that a similar (current) influenza pandemic could cost the world economy \$800 billion and kill tens-of-millions of people, with long-run costs being much greater.

Literature examining the economic effects of the 1918 pandemic is based on printed media due to the lack of available economic data. Newspapers reviewed in Garrett (2007, 2008, cited in: Turner & Akinremi, 2020) suggest that firms in one US state saw their businesses decline by some 40 to 70 per cent. Average business losses were more than \$100,000 per day (2006 prices).

Many businesses, especially those in the service and entertainment industries, suffered double-digit losses in revenue. Other businesses that specialised in healthcare products experienced an increase in revenues. Mortalities reduced the supply of labour, increasing the marginal product of labour and capital per worker, in turn increasing real wages (Brooks, 2020; Turner & Akinremi, 2020).

After the pandemic, the increase in capital per worker resulted in higher output per worker and higher incomes (Brainerd & Siegler, 2003, cited in: Turner & Akinremi, 2020). There were also implications for economic activity decades after the pandemic as pregnant women who were exposed to influenza in 1918 gave birth to children who had medical problems later in life, such as schizophrenia, diabetes and stroke (Almond, 2006), reducing the

future supply of labour and increasing future health-care costs (Turner & Akinremi, 2020; Jandoc, Mendoza & Luz Quimboet, 2020).

Besides not all scientific literature, exploring the 1918 pandemic, yields consistent results. Karlsson et al. (2014) examined the short-term and medium-term economic consequences in Sweden (see in: TURNER & AKINREMI, 2020). Econometric results suggest that the pandemic led to an immediate negative effect on earnings rather than the theoretically predicted increase as suggested in Garrett (2007, 2008) as well as a rapid decline in capital returns (GORDON, 2020; TURNER & AKINREMI, 2020; AUZZIR; HAIGH; AMARATUNGA, 2018).

### 2.1. The impact of pandemics for businesses

Current COVID-19 pandemic has led to severe global socioeconomic disruption, the postponement or cancellation of sporting, religious, political and cultural events, and widespread shortages of supplies exacerbated by panic buying (Turner & Akinremi, 2020). In China, a fall in consumption combined with interruptions to production has disrupted global supply chains affecting firms across the world (Fernandes, 2020, cited in: Turner & Akinremi, 2020; Bouey, 2020; Dai, Hu & Zhang, 2020).

Obviously, the spread of COVID-19 has seen economies struck by a simultaneous demand and supply shock, with there being no correlation between economic impact and mortality rates (Fernandes, 2020, cited in: Turner & Akinremi, 2020). The effects of COVID-19 will be felt disproportionately across an economy. Some sectors may benefit financially, while others will suffer huge losses. Those countries with more service-oriented economies will be more negatively affected and suffer larger negative employment effects.

The world stock market has also suffered since the outbreak of COVID-19. The oil gas and coal businesses have seen huge losses (50% below the start-of-year prices, on average), driven by a fall in the price of oil and a reduction in consumption (Fernandes, 2020, cited in: Turner & Akinremi, 2020; Bouey, 2020).

Gordon (2020) and Bouey (2020) argue that it is not only necessary but simply vital for a firm to be able to work successfully to monitor and adapt to a changing environment. Due to the inability to adapt to changes in the environment, crises have been experienced by such powerful corporations as IBM and General Motors. Both entrepreneurs and consumers are

constantly thinking about what the rapidly changing, evolving environment, consisting of demographic, political and cultural, technological and natural factors, will provide in the future.

These are certain macro-environmental forces that also have a direct impact on the micro-environment, which is made up of factors related to a company's ability to serve consumers (Gordon, 2020; Bouey, 2020). It is the company itself, suppliers, competitors, and consumers. The collapse of a company can be caused by a crisis related to various environments, notably natural and economic. The latter consists of purchasing power and cost structure. It is important to determine how changes in household income affect purchasing power and how this can become a threat. When there is a decline in purchasing power, say during an economic downturn or a total economic collapse, consumers are more cautious about spending their money while seeking good quality goods and services (Dai, Hu & Zhang, 2020; Jandoc, Mendoza & Luz Quimboet, 2020).

Thus, during the economic downturn, it is most difficult for companies serving low-income consumers, as it is noteworthy that consumers belonging to higher socio-economic groups retain similar purchasing power both during the crisis and during the boom. Their income and spending habits are less dependent on economic fluctuations compared to lower-income consumers (Gordon, 2020).

According to Gordon (2020), the success of any organization can be determined by strategic environmental analysis. It can stop a company from going towards failure, showing those problems for which, the company lacks time and resources. The main areas analyzed are customers, competitors and the company / organization itself. In analyzing these areas, wages in a country and in specific different industries are very important. State policy can contribute to threats to a company. These can be certain limits, orders or laws.

Agha et al. (2020) argue that the current situation of Covid-19 is comparable to the economic situation of World War II. This situation has affected both the healthcare system and all walks of life, affecting businesses and organizations around the world. This pandemic has sparked fears of an impending economic crisis. Affected the financial market and the global economy. Social and travel restrictions have forced a reduction in the workforce in all sectors of the economy.

Demand for most goods, excluding medical and food products, declined. There is a demand for food due to human panic that food may be lost, and stocks need to be built up. The

agricultural sector has proved sufficiently resilient to the effects of this pandemic, but still, agricultural commodity prices have fallen by 20%. due to global demand for hotels and restaurants. Russia's refusal to cut oil production has led to Saudi Arabia making extraordinary concessions, and therefore the threat of consuming more raw materials (Agha et al., 2020).

All of this predicts an oil price war over an outbreak of a virus that is dampening demand for oil, which will have serious consequences for the world economy. While cheap oil could be an advantage, the fuel cost savings are unlikely to be channeled into higher costs due to social exclusion. In the face of this pandemic, problems in business due to supply chain disruption (Agha et al., 2020; Gordon, 2020; Turner & Akinremi, 2020).

From a socio-economic point of view, the pandemic has had an impact on the education system, from several factors to school closures. Consequences include a lack of free meals for children from low-income families, as well as a lack of technology, computers that cannot ensure a smooth digital education, and a shortage of school leavers. This has affected not only students but also those pursuing undergraduate or postgraduate studies. Study institutions have been closed, various researches have been suspended or terminated, research laboratories have been closed, scientific conferences have been canceled or postponed.

As a direct consequence of Covid-19 and perhaps the most affected are the tourism industry, aviation, travel, hotels (Turner & Akinremi, 2020; Bouey, 2020). The World Travel and Tourism Council has announced that there are 50 million people at high risk. jobs in the global travel and tourism sector.

According to Chung (2015), pandemics have a very significant economic impact on airports. 2003 the airport business was directly affected by SARS. It was a devastating effect when flights were canceled, and passenger traffic fell. Although conventional economic data was not used to measure airport business performance, it was passenger traffic that was a good indicator as it is proportionate to the financial performance of airports.

The WHO indicated that air travel is the main reason why local outbreaks have escalated into pandemics. In 2003, the coronavirus SARS particularly affected airports and flights, in contrast to 2006 avian influenza or 2009 swine flu pandemic, as the WHO has not issued travel recommendations for these. During virus outbreaks, airports adopted some control measures after analyzing their effectiveness in controlling diseases, but at that time the economic impact on airports had not yet been quantified (Who, 2020; Shah & Shah, 2020).

Gossling, Hall & Scott (2020) agree with the authors that Covid-19 caused the greatest global economic disruption since WW the 2nd. These include global travel restrictions, international travel friendships that affect more than 90% of the world's population, and other factors. This crisis later took hold on an international scale, with the closure of national borders and the introduction of quarantine (Shah & Shah, 2020). This virus has disrupted the tourism chain around the world. There is already a false global belief that tourism will recover as it has in previous events affecting tourism, but there are several indications that the consequences of Covid-19 will be more severe and transformative (Bouey, 2020; Donthu & Gustafsson, 2020).

### **3. RESEARCH METHODOLOGY**

A qualitative study was used to conduct the study (Savin-Baden & Major, 2013). In order to reveal the impact of the pandemic Covid-19 and quarantine on small and medium-sized businesses in Lithuania, a written interview survey was conducted in 2020 through 7 to 21 of May. The founders and managers of business in Lithuania were chosen as participants of the empirical research. In order to diversify businesses, informants have been selected who carry out both individual activities and acting as a company (representing a wider range, see: Babbie, 2014).

In order to reveal the topic of this work, the widest possible range of business activities was chosen: beauty salons, private kindergartens and other educational centers, sound recording and music publishing services, electronics engineering and programming, e-marketing and social networks, communications, interior design services, the film and film industry.

In total 10 informants were interviewed. None of the informants interviewed declined to participate in the interview.

#### **3.1. The impact on the finances**

Most of the study participants have noticed that the impact of pandemics and quarantine on business in Lithuania has a more negative connotation. According to them, these phenomena have a particularly negative impact on those companies that are not flexible and unable to respond quickly to changes in the market. Pandemics and quarantine “destroy rigid companies that are unable to respond quickly” (Informant D1).

Also, companies that may be stuck or shut down due to a pandemic and quarantine may be adversely affected, e.g. supply of goods between countries, lack of workers in the



construction sector, if it employed workers who came to Lithuania to work from other countries. Pandemic and the lockdown can be a disaster for young companies that are not yet established and for those whose business is business, because “when one business stops, another business stops as well...” (Informant D3).

They cannot get the products they need to survive and for further development. Research participants argue that business and the consumer are closely related and directly influence each other. "People cannot or cannot buy goods and services, which means that businesses lose a lot of income, which leads to lower wages and redundancies" (Informant D8). One of the participants in the study (Informant D6) emphasized that "the situation caused by the Covid-19 pandemic directly and very strongly affected our business – we've lost the basic income".

One participant in the study also shared his negative experience that the company's sales had dropped as much as threefold. However, there are also observations that in some cases, more than a pandemic and quarantine, people are more frightened. They panic, stop buying, but when the first wave of panic subsides, everything usually goes back to the beginning and people start buying again.

### **3.2. Meaning of the financial crisis for personal business**

Most of the participants in the study lost their finances and faced the first manifestations of the crisis precisely this year when the world was hit by the coronavirus pandemic Covid-19. One of the businesses has experienced financial difficulties in the past, when the company bought new premises and had to make very strong savings, which affected the company's internal microclimate, i. e. had to give up company events as well as gifts to customers.

One of the participants in the study had a crisis in 2008-2009, when all his business activities stopped, and today, in the face of pandemics and quarantine, only those activities that cannot be carried out remotely have stopped, so everything else has moved to virtual space, so it's not so scary, as in previous years. This could mean that the further away, the more crises related to pandemics and quarantine could become weaker, as things are constantly moving forward, moving to the online space.

Many businesses can transform their physical activities into virtual ones. One of the financial crises that has moved to the online space in the future could be related to the online space, illegal intrusions into it. Also, companies can defer part of the company's revenue in

preparation for similar situations. Some businesspeople believe that they have not experienced financial difficulties or crises precisely because they take the view that part of a company's income needs to be set aside in preparation for a difficult time that may strike at any time.

Such businesses could be called far-sighted, able to look a little further into the future than the present, which can lead to a company's success or essential stability, protection from a financial crisis in the face of disasters such as pandemics and quarantine.

### 3.3. Measures taken to protect business during the pandemics

Not all business leaders have taken steps to protect their business during pandemics and quarantine. Some businesses continued to operate on an ongoing basis. However, it was thought that it was during this year's coronavirus pandemic Covid-19 and quarantine that additional business advertising opportunities began to be thought of as a protection and a decisive step in remaining competitive in this difficult time. At the same time, it could be one of the measures that could help protect businesses during other pandemics and quarantine. "So far, I have not taken any unusual actions to protect the business, because there are unfinished works, but after they are finished, all that remains is to wait for a difficult time or to advertise more" (Informant D2).

Looking to the future, without denying the possibility of finding other pandemics, as well as being constrained by quarantine, it is vital to look directly at the ever-evolving world of information technology and move forward with it. With the rapid transition of everything to the virtual environment, some informants shared their current experience of undertaking absolute innovation – working remotely, and at the same time with the same aspiration and even the need to improve in the rapidly evolving 21st century. "We apply cyberspace tools and improve our skills to use them" (Informant D1). "We offered our services to our customers remotely" (Informant D8).

Some businesses tried to transform the business in order to protect themselves, while not moving away from their core business. Beauty service providers have taken the opportunity to sell the beauty products they use to provide their services. "We carry out minimal online sales for beauty needs" (Informant D4). Some business owners have taken the opportunity to protect their businesses with government support. "The most important thing is to keep customers and employees with the support of the state. All agreements are made on a collaborative basis with both employees and customers" (Informant D6). Companies that are

unable to benefit from state support have opted for a reduction in employee compensation and a focus on online sales as a safeguard. “We used several opportunities to protect our business - a temporary reduction in salaries and a focus on our e-commerce” (Informant D7).

Summarizing research data, it can be stated that the impact of the Covid-19 pandemic and quarantine on small and medium-sized businesses in Lithuania is rather diverse: relatively new businesses were involved in the study, Covid-19 was the first case of pandemic and quarantine for them, but allowed for a broader look at the study, i.e. to see the potential impact of other pandemics and quarantine on business when assessing today’s experience. Pandemic and quarantine give a negative connotation to most businesses, but certainly not to everyone. If we talk about those businesses that are not or less affected by the pandemic and quarantine, it would be businesses that typically work remotely. Also, these would be those businesses that, in the face of success today, are thinking about the future.

The review of the experiences of the participants in this empirical study, in the face of Covid-19 and quarantine, shows that the most difficult for the beauty services sector, which has no opportunity to work – to provide services and the only possible way - is to reorient to beauty sales, which is not easy. It is difficult for the education sector, but it has also opened new perspectives: the possibility of completing education remotely, not only during the current pandemic and quarantine, but also in the future, possibly in a recurring situation. However, seeks the educational process remotely. It is noteworthy that it is easier for those businesses that can adapt quickly to a rapidly changing environment and more difficult for those that are unable to adapt at all.

#### **4. CONCLUSIONS**

Pandemics has a strong impact on business, disrupts different business chains, and Covid-19 is seen as an unprecedented event whose economic situation is comparable to that of the WW the 2nd. The biggest negative significance for Covid-19 and quarantine was in the tourism sector.

Pandemic has had little or no impact on businesses operating remotely. There is an increased demand for essential goods, the need to accumulate food, medicines and other stocks, therefore the flourishing of grocery stores, pharmacies and courier services is visible. The biggest negative impact was observed in the supermarkets, the beauty services sector, for which it is not possible to provide services remotely.

On the other hand, the lockdown has opened new opportunities for the education sector. The possibility of transferring education to a virtual space has been discovered, which saves not only during quarantine, but will also rescue the student in case of illness, when there is no need to interrupt education and it can be continued remotely.

Businesses, in order to protect themselves from current and future pandemics, should monitor events, plan and budget, have a plan of what activities they can reorient in individual cases, and improve the flexibility of their technological and teleworking.

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