COVID-19 and the Scope of the Firm

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‘What determines the scope of the firm?’ is one of the four most fundamental questions in strategic management (Peng et al., 2005; Peng and Su, 2014). As COVID-19 raises a series of new concerns about how firms strategically navigate the turbulent waters (Hitt et al., 2021), this article extends the fundamental question by asking: How does COVID-19 impact the scope of the firm? We argue that COVID-19 has expanded the scope of research on the scope of the firm (Peng et al., 2021). Since a majority of the firms in the world focus on a small number of related industries – known as industry-focused firms – research on the scope of the firm needs to embrace their challenges. Specifically, for industry-focused firms, COVID-19 has highlighted two basic dimensions that are rarely considered in previous research: supply and demand. In essence, some firms rely primarily on international suppliers, and some on domestic suppliers. At the same time, some firms rely primarily on international demand, and some on domestic demand. Given widespread economic lockdowns and border closures, how does the scope of industry-focused firms change and adapt? This is an interesting, important, yet, previously underexplored question, which we endeavour to address.

EXPANDING RESEARCH ON THE SCOPE OF THE FIRM BY GOING BACK TO BASICS

Traditionally, scope of the firm has been viewed through the lenses of product diversification and geographic diversification (Peng et al., 2005, 2021; Peng and Su, 2014). Known as conglomerates in developed economies and business groups in emerging economies, a small number of firms have extensive product diversification and wide-ranging
geographic scope (Peng et al., 2018; Verbeke and Yuan, 2021). They have attracted a lion’s share of research attention on the scope of the firm – typically in the domain of corporate strategy research. However, a majority of the firms in the world are non-diversified industry-focused firms, which are often investigated in business strategy research (but not in corporate strategy research). Integrating corporate and business strategy research, our article focuses on the scope of industry-focused firms, but not that of conglomerates and business groups.

COVID-19 has sensitized firms to pay attention to the twin basic dimensions: supply and demand. Border closures and supply chain disruptions have heightened concerns about the vulnerability of global supply chains (Gereffi, 2019; Kano and Oh, 2020). Economic lockdowns have depressed demand both at home and abroad. Focusing on surviving and coping with the unprecedented pandemic, managing the two basic dimensions – fixing the constraints of supply chains and ensuring the fulfilment of market demand – may become overarching aspirations. These actions have major implications for the scope of the firm, to which we turn next.

FOUR TYPES OF INDUSTRY-FOCUSED FIRMS

At a most basic level, industry-focused firms may source most of their supplies from home or abroad. At the same time, they may serve only one market (most likely their home country) or may serve product demand in multiple countries. Shown in Figure 1, such differences create a $2 \times 2$ typology that can classify industry-focused firms into four types based upon their various supply and demand locations.

Import Assemblers (Cell 1)

During COVID-19, closing of international borders led to stock-outs for firms in Cells 1 and 2 that relied heavily on international suppliers. As a result, firms in Cell 1, which we call ‘import assemblers’, could not sell their products even when the domestic economy started re-opening. Such firms risk their survival mainly because of (1) loss of revenues due to failure of inbound logistics from abroad, and (2) loss of market share at home.

![Figure 1. Supply and demand alternatives for industry-focused firms.](image-url)
to rivals that are able to continue to meet domestic demand. Therefore, it is likely that
import assemblers (Cell 1) will seek alternate suppliers in the domestic market to meet
domestic demand. There are two options that mitigate the current supply issues for these
firms: partnering with – including establishing alliances with and acquiring – firms in
Cell 3 or Cell 4. In short, import assemblers in Cell 1 may expand the geographic scope
of the sources of their supplies by tapping into domestic suppliers.

For import assemblers, both alternatives have their own merits and demerits. On the
one hand, firms in Cell 3 – ‘local producers’ with both supplies and demand primarily
at home – may view the pandemic as an opportunity to increase their own market share.
On the other hand, firms in Cell 3, if they partner with firms in Cell 1, have an opportu-
nity to gain access to international supplies and hence increase the scope of the products
that they offer. Inclusion in an already established international supply network may be
especially appealing to some firms in Cell 3 that aspire to hedge their bets by accessing
international suppliers should disruptions for domestic suppliers occur in the future.

The other option for import assemblers in Cell 1 is partnering with firms in Cell 4,
which are ‘indigenous exporters’ that primarily source domestically and meet demand
internationally. This option may be mutually interesting to both groups. This is because
while indigenous exporters in Cell 4 have access to domestic suppliers, they may lack
capabilities to sell their products in the domestic market, which can be shared by import
assemblers in Cell 1. Because of curtailed access to international markets and drastic
increase in costs of shipment to international locations, import assemblers in Cell 1 need
access to domestic suppliers, which indigenous exporters in Cell 4 can provide. Overall,
partnering between import assemblers in Cell 1 and indigenous exporters in Cell 4 can
help both groups to meet their aspirations of growing their scope – growing the supply
scope for firms in Cell 1, and growing the demand scope for firms in Cell 4. Although
such partnering opportunities exist during normal times, firms may pay particular atten-
tion to collaboration during tumultuous times such as COVID-19, therefore expanding
their scope.

Export Assemblers (Cell 2)

Both sourcing and meeting demand internationally, firms in Cell 2, which we label ‘ex-
port assemblers’, may be the ones that are hardest hit by the pandemic owing to their
business model of reliance upon international supplies and demand. Such assemblers
receive most raw inputs from overseas and sell most of their processed outputs back to
foreign countries. During COVID, export assemblers in Cell 2, in order to stay afloat,
may be interested in partnering with local producers in Cell 3, which have access to
domestic supplies and sell products in the domestic market. Again, this presents to local
producers in Cell 3 an opportunity to tap into international markets. Specifically, export
assemblers in Cell 2 may use their resources to form alliances with or acquire local pro-
ducers in Cell 3. In summary, COVID-19 (1) may motivate export assemblers in Cell 2
to expand their scope of their suppliers (by adding domestic suppliers to their sourcing
portfolio), and (2) may motivate local producers in Cell 3 to increase the scope of their
demand (by tapping into international markets to which export assemblers in Cell 2 have
been selling for a long time).
Local Producers (Cell 3)

Local producers in Cell 3 are the least affected by COVID-19 in terms of the impact on their supply and demand. During the post-COVID era, local producers may make financial comeback sooner than the other three types of firms due to proximity to suppliers and customers (Mahajan and Tomar, 2020). Our previous arguments indicate that local producers may be on the top list of other firms for alliances and acquisitions during COVID-19. Therefore, these primarily domestic firms – in terms of both supplies and demand – have an opportunity to internationalize and grow their own geographic scope.

Indigenous Exporters (Cell 4)

Cell 4 comprises of firms that have access to domestic suppliers and have buyers in international markets. We label such firms ‘indigenous exporters’. As discussed earlier, indigenous exporters in Cell 4 may find partnering with the firms in Cell 1 especially attractive as such partnering offers to the indigenous exporters (1) immediate (although partial) relief from supply chain disruptions due to COVID-19, thereby improving the revenue stream in the domestic market; and (2) an opportunity to diversify both supply and demand sides of trade and hence increasing product and geographic scope.

MANAGING SUPPLY AND DEMAND BY ADJUSTING THE SCOPE OF THE FIRM

While the scope of extensively diversified conglomerates and business groups certainly deserves continued research attention (Peng et al., 2005, 2018, 2021), we have argued that the devastation by COVID-19 has necessitated our attention on the scope of industry-focused firms, which would be labelled ‘non-diversified firms’ in traditional research. By focusing on how the four types of industry-focused firms manage their supply and demand – with a basic $2 \times 2$ typology – we have highlighted how the scope of the firm can be adjusted and adapted to meet the challenges during the pandemic and its aftermath.

This article contributes an alternate perspective to the prediction that COVID-19 will be followed by a wave of deglobalization – specifically, significant reduction of firms’ geographic scope. Instead, we propose that some firms may expand their geographic scope depending on their supply and demand locations. One insight is that instead of uniformly withdrawing from international supply and demand, essentially reducing geographic scope – advocated by some gurus of deglobalization – some firms, such as local producers in Cell 3, may take advantage of COVID-19 by expanding their geographic scope.

To the same extent that extensively relying on international supply and demand may cause severe performance downturns when border crossing becomes arduous and costly (as during COVID), extensively relying on domestic supply and demand runs the risk of ‘keeping all eggs in one basket’ (what if the domestic economy suffers a recession or unrest?). Part of the goals for any international business is to reduce such risk by going after ‘different baskets’ (Verbeke and Yuan, 2021). Therefore, searching for the ‘sweet spot’ in terms of the ideal scope of the firm where supply and demand can properly meet will remain one of the leading management challenges in the post-COVID era.
At least two directions await future research. First, the traditional distinction between corporate strategy research and business strategy research appears less meaningful. While COVID-19 has energized traditional business strategy research topics such as rapid prototyping and corporate resilience (Ahlstrom and Wang, 2021), it has made us aware that managing the scope of the firm is a strategic challenge not just for conglomerates and business groups that are typically studied in corporate strategy research (Peng et al., 2021). Managing scope is clearly relevant for industry-focused firms, which are typically investigated in business strategy research (but are outside the radar screen of corporate strategy research). Therefore, a deep dive into the scope of industry-focused firms can help integrate corporate strategy and business strategy research. Second, our 2 × 2 framework has used a coarse-grained notion of ‘international.’ International locations range from distant foreign countries to near abroad. Managing supply and demand involving distant countries requires a global strategy, and dealing with neighbouring countries necessitates a regional strategy (Kano and Oh, 2020). These strategies call for different capabilities that future research will need to identify (Verbeke and Yuan, 2021).

Overall, new strategic phenomena have always injected new insights into research (Hitt et al., 2021; Peng and Su, 2014). Likewise, COVID-19 has provoked new thinking about one of the four most fundamental questions in strategic management: ‘What determines the scope of the firm?’ In conclusion, the scope of research on the scope of the firm needs to be expanded to take into account the very basic but previously overlooked dimensions of supply and demand that industry-focused firms must confront during COVID-19 and beyond.

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