

Chapter 9

Organisational Resilience in a Retail Company in the Context of COVID-19

Danguolė Oželienė, danguole.ozeliene@vm.vu.lt,
Business School, Vilnius University, Lithuania

Introduction

Businesses around the world have recently faced challenges from the external environment. The continuous and especially unpredictable changes in the business environment forcing put pressure on enterprises to find effective measures for survival and development. Unforeseen events and crises will, however, become more frequent and less predictable in the future (World Uncertainty Index, 2021). For instance, climate change, geopolitical challenges and unstable supply chains will lead to shortages of raw materials and rising prices (Nauck et al., 2021). Crises and changes in organisations create risks to investors' capital, jobs and commitments to partners and other stakeholder (Conz, Magnani, 2020). In this context, enterprises must build resilience overcome unexpected outward and inward changes. The question is why do some companies manage to survive in the same situation while others do not?

The chapter thus focuses on the concept of organisational resilience, what factors determine organisational resilience and how Lithuanian retail company coped with the COVID-19 pandemic crisis.

The chapter is structured as follows: first, the theoretical aspect of organizational resilience is covered. Second, the case of retail company MAXIMA Group is presented. Third, questions and debate topics for discussion are presented. Fourth, a list of references for further reading are suggested.

Keywords: business resilience, changes in business environment, COVID-19 crisis, change management.

Theoretical aspects of organisational resilience and COVID-19 crisis

Resilience is generally understood as a simple return to the starting point after shocks (Conz, Magnani, 2020). The concept of resilience originated in ecology but is widely used in various scientific fields such as materials science and psychology. More recently, with the increasing emergence of crises, the concept of resilience has gained attention in organisational and management research.

Bucharest University of Economic Studies Publishing House
Published in *GOOD GOVERNANCE AND RESILIENCE. Sharing Best Practices
and Challenges in Times of Crisis across Europe* by Mina-Raiu, L., Johannsdottir, L.,
Načinović Braje, I. and Díaz-Tendero, A. (eds.). 2022. ISBN 978-606-34-0416-0.
https://doi.org/10.24818/978-606-34-0416-0_9

Hassan et al. (2020) describes organisational resilience as a response to an outbreak in order to mitigate the effects of crises. Organisational resilience is the ability of organisations to adapt to shocks or incremental changes in their environment (Neise et al., 2021). Enterprise resilience, defined as the ability of an enterprise to recover from shocks and adapt to disruptions (Xia, 2022). Organisational resilience can be defined as the ability of a company to maintain a certain degree of financial stability during a crisis (Huang et al. 2020; Ding, 2021; Xia, et al., 2022). Brand et al. (2022) states that the resilience of companies is their ability to maintain a certain level of expected financial performance, especially in the face of the negative effects of a crisis. For instance, smaller firms tend to have lower key performance indicators and are therefore more vulnerable to shocks (Ding et al., 2021).

According to Neise et al. (2021) organisational resilience consists of three key elements: absorption, coping and adaptation. Shock absorption refers to the ability of organisations to withstand stress without losing functionality. Coping refers to the ability to react quickly to shocks to avoid the worst, while adaptation is the ability to design and implement strategic long-term responses to shocks (Neise et al., 2021).

Shock absorption is linked to a company's ability to cope with stress. Thus, a key indicator of a company's absorption capacity is its performance before shocks. If company faces profitability problems such as high operating costs, excessive taxes, and/or bureaucracy even before a disturbing event, it is more likely that it will not be able to cope with the shock and must consequently close down operations (Neise et al., 2021). Conz and Magnani (2020) argue that to be resilient a company needs to hold some resources in reserve and have a range of assets and resources – material, social, financial, human, technological – to sustain the organisations' performance during a crisis. This means that the better company's economic and financial performance is before a crisis and the more tangible and intangible assets company has, the more resilient it is. Vice versa, a lack of resources hinders company from coping with disruptions and crises.

According to Duchek (2020), coping refer to an effective management of unexpected events to avoid destruction. The author argue that the ability to cope with the unexpected is closely related to crisis management and can be divided into two subcategories: the ability to accept the problem and the ability to develop and implement solutions. Acceptance of the problem is based on a quick understanding of the situation, a wise assessment of the organisation's potential and being prepared for possible failures. When a crisis occurs, decisions must be made promptly and creatively, thus the company needs formal structures and clear responsibilities to react immediately. On the other hand, company also needs openness and freedom to be flexible and creative. Conz and Magnani (2020) argue, that coping strategies are reactive and incremental actions aimed at reducing the negative impact of events. Company's coping strategies range from cost-cutting and marketing improvements to temporary closure. The use of government support and subsidies can also be a coping strategy (Conz, Magnani, 2020).

The final stage of organisational resilience is adaptation which includes reflection and learning, and organizational change capabilities (Duchek, 2020). The author advises that during the adaptation phase, company's managers and employees need to reflect on the crisis situation and make changes based on what they have learned.

To sum up, organisational resilience is the ability of an organisation to respond to the challenges associated with an event as it occurs. This capability is critical to the resilience of the company in time of crisis. Organisational resilience can be viewed in two ways: as the ability to cope and continue to operate through crises, and as the ability to adapt to change and emerge stronger from crisis.

The COVID-19 crisis is different from previous crises (Ng et al., 2022). The World Health Organisation (WHO) declared it a public health emergency of international concern on 30 January, named the disease COVID-19 on 11 February and classified it as a pandemic on 11 March (World Health Organisation, 2020). The total number of confirmed cases worldwide has been growing at a historically high rate, reaching more than 6.3 million at the end of November 2022 (World Health Organisation, 2022). The COVID-19 pandemic has caused a serious public health crisis. Moreover, the COVID-19 crisis has caused great uncertainty and disruption to the global economy worldwide. Due to travel restrictions and social exclusion requirements, the pandemic has led to a significant drop in consumer demand, disruptions in production and a deterioration in financial conditions. In this context, the survival of businesses is seriously threatened. However, according to Sheth (2020), the crisis also provides a valuable opportunity for companies to learn from the past and reflect on the value of relationships with employees, suppliers and communities.

After the first wave of the COVID-19 pandemic, an assessment of macroeconomic indicators shows that Lithuania's GDP declined the least (-0.1%) (Lithuanian Statistics Department (2022) of all EU countries, as Lithuania was the earliest of the Baltic and Northern European countries to take strict measures. This was done by declaring a state of emergency, banning foreign citizens from entering the country and Lithuanian citizens from leaving, introducing mandatory and recommended remote working, suspending the activities of educational institutions, culture, leisure, most shops and health centres (Bortkevičiūtė et al, 2021). Studies show that in Lithuania, the second wave did not prevent the country's economy from expanding, and in 2021, with the availability of the vaccine for COVID-19 and the start of universal vaccination of the population, Lithuanian businesses and the labour market recovered. The country's GDP grew by 4.9% in 2021 (Bank of Lithuania, 2021). The rapid economic recovery has been supported by government subsidies to businesses. The government provided subsidies to businesses affected by the pandemic and encouraged companies to maintain jobs and liquidity. According to the data of the Lithuanian Statistics Department (2022), in 2020 more than 50,000 companies received state support in Lithuania, with more than EUR 1 billion in grants.

Although the overall economic situation in Lithuania was satisfactory, due to the COVID-19 pandemic, after the introduction of the first lockdown in Lithuania (16 March 2020), many Lithuanian companies faced unprecedented challenges (Župerkienė et al. 2021). The Government of Lithuania proposed state interventions aimed at reducing the negative economic impact on national businesses but these measures were delayed due to bureaucratic barriers, and did not reach all the companies that needed the support.

The Case of Retail Company

MAXIMA Group, retail chain, is the largest Lithuanian capital company, one of the largest taxpayers and the largest employer in the country. The retail chain was established after the restoration of Lithuania's independence. The history of the company began in 1992, with the opening of the first stores in Vilnius. The company's legal status is private limited liability company, business activity is retail in food and consumables (Rekvizitai, 2022). The year 2022 will mark the 30th anniversary of the retail chain (Consolidated Annual Report, 2021). For three decades Maxima Group has grown from a single store in Vilnius into the largest Lithuania grocery retailer owning 1412 stores in the Baltic States, the STOKROTKA retail chain in Poland, the T-MARKET retail chain in Bulgaria, and e-grocer BARBORA which operates in the Baltic countries and in Poland and allows customers to order food and other products online. Stores across the countries are classified into formats based on each one's trade area and assortment (Consolidated Annual Report, 2021). The Group also includes FRANMAX, which provides information technology development and support services for the Group's companies, and MAXIMA International Sourcing, which provides the Group's retail companies with centralised procurement services and agency for food and consumables. The Group's bonds are traded at Euronext Dublin (Ireland) and Nasdaq Vilnius (Lithuania) stock exchanges (Maxima Group, 2022).

According to Consolidated Annual Report (2021) data, retail market in Lithuania grew by 8.4% in 2021, however the market share of MAXIMA Group in this particular year had dropped by 1.1%. The decrease in market share was caused by competitor expansion and COVID-19 restrictions that were applied onto large format stores until February 2022. Nevertheless, MAXIMA Group remained the country market leader in 2021 with market share of 31.1% and earned revenues of EUR 4484.8 million (Consolidated Annual Report, 2021).

MAXIMA Group was among the first in the Baltics to launch e-retail operations. MAXIMA Group's e-commerce brand BARBORA is the largest e.grocery store in the Baltic countries and continues to expand in Poland market. STOKROTKA and T-MARKET operators also offer the option of ordering online through a separate sales channel. E-commerce revenue in all MAXIMA Group's operators reached 155 million EUR in 2021 which was a 48.8% increase versus prior year. In the Baltics, BARBORA grew revenue by 37.9% primarily due to increased demand. E-commerce revenue made up to 4.5 % of total sales in the Baltics. Customer

demand for grocery shopping online has increased particularly during the pandemic and continues to be a general market trend. BARBORA has met this need successfully, fulfilling an average of 9.5 thousand orders per day (Consolidated Annual Report, 2021).

At the end of 2021, MAXIMA Group had 38.482 employees, which was a 5% reduction versus prior year (40.600) driven mainly by outsourcing and process optimization. MAXIMA is the largest job provider in Lithuania. The company employs 13.650 people (Maxima, 2021), 1.3 million customers are served daily. More than 550.000 customers visit the MAXIMA stores operating in Lithuania every day, where there are 252 stores located over the country (Corporate Social Responsibility Report, 2021).

Given that various customers have different needs, there are stores of different sizes operating in Lithuania from MAXIMA X to MAXIMA XXXX. These stores are easy to find because they operate in big cities, smaller towns and district centres. In the largest stores, part of the retail space is leased to specialized stores, so that the customers can find all the products and services they need in one place. Meanwhile, MAXIMA X is a community store that is located close to populated neighbourhood, to which people go every day to quickly buy the products they need (Maxima Group, 2022).

About 80 percent of the fresh food offered in MAXIMA stores is Lithuanian, while goods made in Lithuania make up more than half of all the products sold. The retail chain is committed to maintaining the quantity of the Lithuanian goods and to increasing the number of items from local producers in its product range (Maxima Group, 2022).

It should be noted that the big retail centers were never closed in Lithuania, as in many countries. Moreover, during COVID-19 pandemic, MAXIMA Group became the first choice for many customers in the Baltic countries where Maxima Group retail chain is the market leader (Maxima Group, 2022). However, the company's report states that results were affected by COVID-19 pandemic. The revenue growth was negatively impacted by the lockdown measures taken by the national governments in the second quarter of 2020. On the other hand, pandemic accelerated transition to e-commerce which increased company's revenue from online sales and compensated negative impact on revenue from lockdown measures (Consolidated Annual Report, 2021).

The company incurred additional costs related to protection of health of employees and customers and compensation to employees for the work in COVID-19 pandemic environment. Negative impacts of COVID-19 on the company's profit before tax is estimated to be in the range of EUR 5 to 10 million (Consolidated Annual Report, 2019). Although measures to prevent the spread of the SARS-CoV-2 virus were relaxed by many governments at the end of the second quarter of 2020 (Consolidated Annual Report, 2021), the company's management monitored the situation and took adaptive decisions to the changing environment. The company's priority was to

maintain a safe environment for its employees (Consolidated Annual Report, 2019). As a part of the strict prevention of COVID-19, targeted groups of MAXIMA Group employees were tested weekly with rapid COVID-19 antigen tests. All MAXIMA Group employees were covered by special insurance against COVID-19. This insurance provides additional benefits for each employee who suffers from COVID-19 infection. MAXIMA Group's employees were also covered by supplementary health insurance. During the quarantine period, free anonymous psychological counselling was provided to all employees and their family members experiencing stress, anxiety or fear (Maxima Group, 2022).

The COVID-19 pandemic continued to affect the MAXIMA Group's results were published in 2021. The MAXIMA Group's revenue growth in brick-and-mortar stores continued to be negatively impacted by the lockdown measures taken by the national governments in the countries where the MAXIMA Group operates. Instead, consumers shifted their purchasing to e-commerce resulted in the growth of the MAXIMA Group's online sales. However, accelerated online sales only partially compensated negative impact on revenue from lockdown measures. During 2021 year the MAXIMA Group continued to incur additional costs amounting to 6.5 million EUR, and 9 million EUR in 2020, relating to protection of health of the MAXIMA Group's employees and customers. MAXIMA Group received government grant in Poland amounting to EUR 1.814 thousand, while the amount was EUR 10.832 thousand in 2020. The purpose of the grant was to protect jobs otherwise threatened by the COVID-19 pandemic. The grant was received for co-financing of payroll costs of certain employees to certain extent. The grant was accounted for by reducing cost of sales (Consolidated Annual Report, 2021).

While COVID-19 continues to create significant uncertainty, the MAXIMA Group's management still monitor the situation and take adaptive measures to handle the effects of the pandemic. The risks of COVID-19 spread has been successfully managed in the Group by ensuring supply of goods, maintaining appropriate liquidity position, expanding e-commerce capacity, etc. The prompt implementation of COVID-19 prevention actions has made it possible to ensure safe shopping for customers and to maintain a safe working environment for employees, which still remains a priority (Consolidated Annual Report, 2021).

As Mantas Kuncaitis, CEO and Chairman of the Management board of MAXIMA Group, states *"It was a year of continuous fight against the pandemic. One of the main challenges was to continue maintaining day to day business while navigating through the constantly changing COVID-19 situation. Regulations imposed in countries by local governments affected everyday operations in our stores. Our priority was to adhere and comply with changing requirements to ensure we could support our customers, employees, and communities throughout this extremely demanding period"* (Consolidated Annual Report, 2021).

Questions/Tasks/Debate topics for classroom discussion

The following questions are presented for discussion on business resilience during the COVID-19 pandemic:

- Why is organisational resilience important for companies in the global market?
- What factors contribute to the resilience of companies in the event of external crises?
- What are the factors that prevent organisations from coping with crises and remaining resilient?
- How does the COVID-19 crisis differ from previous economic crises?
- What should be the role of governments when businesses face crises?
- How and if so, does a company's financial performance correlate with its resilience?
- What caused Lithuania's economy to shrink the least in the EU during the COVID-19 pandemic?

Further reading

- Haynes, G. W., Danes, S. M., Schrank, H.L. & Lee, Y. (2019). Survival and success of family-owned small businesses after hurricane Katrina: impact of disaster assistance and adaptive capacity. *Journal of Contingencies and Crisis Management*, 27 (2), 130-144. <https://doi.org/10.1111/1468-5973.12245>.
- Linkov, I., Trump, B.D. & Hynes, W. (2019). Resilience Strategies and Approaches to Contain Systemic Threats. *Resilience Activities at the OECD: Current Practice and Future*. Retrieved from <https://www.oecd.org/naec/projects/resilience/>.
- Petrylė V. (2022). COVID-19 Pandemic and Export: Evidence from Lithuania. *Organizations and Markets in Emerging Economies*, 13(1), 139-162, <https://doi.org/10.15388/omee.2022.13.74>.
- Richardson, J. & Ingoglia, C. (2020). Building Organizational Resilience in the Face of COVID-19. *The National Council*. https://www.thenationalcouncil.org/wp-content/uploads/2020/03/Building_Organizational_Resilience_in_the_Face_of_COVID-19.pdf?daf=375ateTbd56.
- OECD, 2020. Coronavirus: the World Economy at Risk. OECD. Retrieved from <https://www.oecd.org/berlin/publikationen/Interim-Economic-Assessment-2-March-2020.pdf>.

References

Bortkevičiūtė, R., Kalkytė, P., Kuokštis, V., Nakrošis, V., Patkauskaitė-Tiuchtienė, I. & Vilpišauskas, R.. (2020). *Nuo greitų pergalių prie skaudžių pralaimėjimų: Lietuvos viešosios politikos atsakas į COVID-19 pandemiją ir šios krizės valdymas*. Vilnius: Vilniaus universiteto leidykla. <https://www.tspmi.vu.lt/leidiniai/nuo-greitu-pergalium-prie-skaudziu->

pralaimejimu-lietuvos-viesosios-politikos-atsakas-covid-19-pandemija-ir-sios-krizes-valdymas-2020-m/.

Brand, F.S., Blaese, R., Weber, G., & Winistoerfer, H. (2022). Changes in Corporate Responsibility Management during COVID-19 Crisis and Their Effects on Business Resilience: An Empirical Study of Swiss and German Companies. *Sustainability*, *14*, 4144. <https://doi.org/10.3390/su14074144>.

Bank of Lithuania (2021). Retrieved from https://www.lb.lt/uploads/publications/docs/33261_e2128a8629762ca80cb83e97ab17af9b.pdf.

Conz, E. & Magnani, G. (2020). A dynamic perspective on the resilience of firms: a systematic literature review and a framework for future research. *European Management Journal*, *38* (3), 400-412. DOI:10.1016/j.emj.2019.12.004.

Consolidated annual report, Maxima Group. (2021). Retrieved from https://maximagrupe.eu/uploads/images/kasmesesame/MG%20CONS%20FULL%202021%20ENG%20_2022.04.04_signed.pdf.

Consolidated annual report, Maxima Group. (2019). Retrieved from <https://maximagrupe.eu/uploads/MAXMAX-2020-04-14-MAXIMA-GRUPE-metinis-pranesimas.pdf>.

Corporate Social Responsibility Report. Maxima Group. (2021). Retrieved from https://ungcproduction.s3.uswest2.amazonaws.com/attachments/cop_2022/514090/original/CSR%202021%20EN%20.pdf?1655879545.

Ding, W., Levine, R., Lin, Ch., & Xie, W. (2021). Corporate immunity to the COVID-19 pandemic. *Journal of Financial Economics*, *141*, 802-830. DOI: 10.1016/j.jfineco.2021.03.005.

Duchek, S. (2020). Organizational resilience: a capability-based conceptualization. *Business Research*, *13*(1), 215-246. DOI: 10.1007/s40685-019-0085-7.

Hassan, T. A., Hollander, S., van Lent, L. & Tahoun, A., (2020). Firm-level Exposure to Epidemic Diseases: COVID-19, SARS, and H1N1. *National Bureau of Economic Research*, w26971.

Huang, W., Chen, S., & Nguyen, L.T. (2020). Corporate Social Responsibility and Organizational Resilience to COVID-19 Crisis: An Empirical Study of Chinese Firms. *Sustainability*, *12*(21), 8970. <https://doi.org/10.3390/su12218970>.

Neise, T., Verfürth, Ph., & Franz, M. (2021). Rapid responding to the COVID-19 crisis: Assessing the resilience in the German restaurant and bar industry. *International Journal of Hospitality Management*, *96*(1), 102960. DOI:10.1016/j.ijhm.2021.102960.

Lithuanian Statistics Department (2022). Retrieved from <https://www.stat.gov.lt/en>.

- Lun Ng, D.W., Alonso, A.D., Bressan, A., Kim Vu, O.Th., Tran, Th. D. & Atay, E. (2022). Businesses and their community in times of COVID-19: a stakeholder theory approach, *European Business Review*, 34(6), 798-818. <https://doi.org/10.1108/EBR-03-2022-0060>.
- Maxima Group. (2022). Retrieved from https://maximagrupe.eu/uploads/images/kasmesame/MG%20FS_H1%202020_ENG.pdf.
- Sheth, J. (2020). Business of business is more than business: managing during the Covid crisis. *Industrial Marketing Management*, 88, 261-264. <https://doi.org/10.1016/j.indmarman.2020.05.028>.
- Rekvizitai.lt. (2022). Retrieved from https://rekvizitai.vz.lt/imone/maxima_lt_uab/
- Xia, Y., Qiao, Z. & Xie, G. (2022). Corporate resilience to the COVID-19 pandemic: The role of digital finance. *Pacific-Basin Finance Journal*, 74, 101791. doi:10.1016/j.pacfin.2022.101791.
- World Health Organisation (2020). Retrieved from <https://www.who.int/emergencies/diseases/novel-coronavirus-2020/situation-reports>.
- World Health Organisation (2022). WHO Health Emergency Dashboard. Retrieved from [https://covid19.who.int/World Uncertainty Index \(2021\). Retrieved from https://worlduncertaintyindex.com/](https://covid19.who.int/World Uncertainty Index (2021). Retrieved from https://worlduncertaintyindex.com/).
- World Uncertainty Index. (2021). Retrieved from <https://worlduncertaintyindex.com/>.
- Župerkienė, E., Šimanskienė, L., Labanauskaitė, D., Melnikova, J. & Davidavičienė, V. (2021). The COVID-19 Pandemic and Resilience of SME's in Lithuania. *Entrepreneurship and Sustainability Issues*, 8(3), 53- 65. doi: 10.9770/jesi.2021.8.3(4).