



**THE IMPACT OF CORONAVIRUS PANDEMIC ON FIRMS  
PERFORMANCE IN SOMALIA**



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## **ABSTRACT**

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The world experienced several pandemics from the late 20th century to the beginning of the 21st century due to infectious diseases such as Ebola, SARS, avian flu, swine flu, and MERS, but at the macro level, the COVID-19 outbreak caused the worst global recession since 1930, when the economy was barely affected. Since the epidemic of covid-19, a large number of studies from many fields and regions have been conducted. However, the majority of covid-19 studies were undertaken in the industrialized nations, whereas researches on covid-19's effects in Africa are far fewer than in other regions. In Somalia, very little research has been conducted on the influence of COVID-19 on firm performance. Therefore, the primary objective of this study is to investigate the impact of COVID-19 on firm performance in terms of financial and non-financial measures. The study collected data from 362 managers in 72 different firms in Hargeisa, Somalia, encompassing three sectors: logistics/transportation, travel/tourism, and hotels, using an internet platform.

Using SPSS 21 software, descriptive statistics were performed to analyze the demographic characteristics of the respondents. Subsequently, a principal component analysis was performed for factor reduction and dimensional groupings. Cronbach's alpha reliability analysis was then performed to test the validity and reliability of the scales employed in the study, then analysis of variance (One-Way ANOVA) was used to compare the differences between and within the groups. Finally, to examine

the correlation between variables and test the hypothesis, Pearson correlation and linear regressions were performed. The results of a one-way ANOVA show that there is no statistically significant difference between the group averages of the examined firms, indicating that the COVID-19 affects all industries in a similar manner. The empirical study result reveals that the COVID-19 pandemic has a negative effect on the overall performance of the examined firms; similarly, the sub-dimension of the dependent variable, financial performance, also shows a negative impact of the pandemic. Whereas, the study found that the Corona pandemic had no impact on the non-financial performance dimension. In conclusion, the current study suggests that businesses act responsibly, strictly follow international and local health and safety rules, and develop strategies to at least mitigate the impact of potential future pandemics.

**Keywords:** COVID-19, Coronavirus pandemic, firm performance, financial, non financial, Somali

## ÖZ

# KORONAVİRÜS PANDEMİSİNİN SOMALİ'DEKİ FİRMA PERFORMANSI ÜZERİNDEKİ ETKİSİ

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20. yüzyılın sonlarından 21. yüzyılın başlarına kadar Dünya Ebola, SARS, kuş gribi, domuz gribi ve MERS gibi bulaşıcı hastalıklar nedeniyle birçok pandemi görüp geçirmiştir, ancak makro düzeyde COVID-19 salgını ekonominin neredeyse hiç etkilenmediği 1930'dan beri en kötü küresel durgunluğa neden oldu. COVID-19 salgınından bu yana birçok alandan ve bölgeden çok sayıda çalışma yapılmıştır. Bununla birlikte, COVID-19 çalışmalarının çoğunluğu sanayileşmiş ülkelerde gerçekleştirilirken, covid-19'un Afrika'daki etkilerine ilişkin araştırmalar diğer bölgelere göre çok daha az sayıda kalmıştır. Somali'de covid-19'un firma performansı üzerindeki etkisi konusunda çok az araştırma yapılmıştır. Bu nedenle, bu çalışmanın birincil amacı, finansal ve finansal olmayan ölçütler açısından covid-19'un firma performansı üzerindeki etkisini araştırmaktır. Çalışma, bir internet platformu kullanarak Hargeisa, Somali'de lojistik/ulaşım, seyahat/turizm ve oteller olmak üzere üç sektörü kapsayan 72 farklı firmadaki 362 yöneticiden veri toplamıştır.

Katılımcıların demografik özelliklerini analiz etmek için SPSS 21 yazılımı kullanılarak tanımlayıcı istatistikler yapılmıştır. Daha sonra faktör indirgeme ve boyutsal gruplamalar için temel bileşenler analizi yapılmıştır. Daha sonra çalışmada kullanılan ölçeklerin geçerlik ve güvenilirliğini test etmek için Cronbach'salpha güvenilirlik analizi yapılmış, daha sonra gruplar arasındaki ve gruplar arasındaki

farklılıkları karşılaştırmak için varyans analizi (One-Way ANOVA) kullanılmıştır. Son olarak, deęişkenler arasındaki korelasyonu incelemek ve hipotezi test etmek için Pearson korelasyonu ve lineer regresyon yapılmıştır. One-Way ANOVA sonuçları, incelenen firmaların grup ortalamaları arasında istatistiksel olarak anlamlı bir fark olmadığını, COVID-19'un tüm sektörleri benzer şekilde etkilediğini göstermektedir. Ampirik çalışmanın sonucu, COVID-19 pandemisinin incelenen firmaların genel performansı üzerinde olumsuz bir etkisi olduğunu ortaya koymaktadır; benzer şekilde bağımlı deęişkenin alt boyutu olan finansal performans da pandeminin olumsuz etkisini göstermektedir. Öte yandan bu çalışma, Coronapandemisinin finansal olmayan performans boyutu üzerinde hiçbir etkisi olmadığını ortaya koymuştur. Sonuç olarak, bu çalışma, işletmelerin sorumlu davrandığını, uluslararası ve yerel sağlık ve güvenlik kurallarına sıkı bir şekilde uymasını ve en azından gelecekteki olası pandemilerin etkisini azaltmak için stratejiler geliştirmesini önermektedir.

**Anahtar Kelimeler:** Covid-19, Coronavirüs pandemisi, Firma performansı, Finansal, Finansal olmayan, Somali.

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## LIST OF SYMBOLS AND ABBREVIATIONS

### ABBREVIATIONS

<b>BIST</b>	:Borsa, Istanbul
<b>CRM</b>	:Customer Relationship Management
<b>EBIT</b>	:Earnings before Interest Tax
<b>EBITDA</b>	:Earnings before Interest, Tax, Depreciation, and Amortization
<b>EPS</b>	:Earnings per Share
<b>EVA</b>	: Economic Value Added
<b>EVD</b>	:Ebola virus disease
<b>IATA</b>	:International Air Transport Association
<b>ILO</b>	: International Labor Organization
<b>MERS</b>	:Middle East Respiratory Syndrome
<b>MVA</b>	:Market Value Added
<b>NPV</b>	: Net Present Value
<b>OECD</b>	: Organization for Economic Cooperation and Development
<b>ROA</b>	: Return on Assets
<b>ROE</b>	: Return on Equity
<b>ROIC</b>	: Return on Invested Capital
<b>SARS</b>	: Severe Acute Respiratory Syndrome
<b>UK</b>	: United Kingdom
<b>UNCTAD</b>	: United Nations Conference on Trade and Development
<b>US</b>	: United States
<b>WHO</b>	: World Health Organization
<b>WTO</b>	: World Trade Organization
<b>WTTC</b>	: World Tourism and Travel Council

## INTRODUCTION

Many epidemics have occurred throughout history and a lot of factors have contributed to the onset and spread of epidemics, including population increase, poor health conditions, and inadequate and bad diet. During the middle Ages, the black plague outbreak killed millions of individuals on the European continent. The Spanish flu, which killed millions of people during World War I, has recently resurfaced. Epidemics become increasingly common towards the start of the twenty-first century. SARS, avian flu, and swine flu have all afflicted people all around the world. The COVID-19 pandemic shows a seriously and immediately adaptive challenge for business. The world is currently grappling with the reality of the coronavirus pandemic (COVID-19) which has taken its toll on thousands of businesses around the world. These losses are rightly attributed to the government's decision to cease commercial activities (Tashanova, Şekerbay, Chen, Luo, Zhao and Zhang 2020). The world witnessed the same scenario with the closure of economic centers due to the escalation of the virus. This restriction restricts the movement of people and goods, significantly distorts the production and exports, and hampers the growth of private companies by reducing investments as investors lose confidence in the market. (Jung, Park, Hong and Hyun 2016: 1-15). In the context of government curfews and business disruption, the financial and non-financial performance of private companies suffered.

People's salaries plummeted during this era due to the epidemic's curfews, the fact that people didn't create demand for commodities other than food and cleaning supplies, and as a result, firms ceased or slowed down production. Due to the slowdown in production and consumption, the economies of the countries shrunk significantly. Many countries throughout the world have prepared specific economic packages to assist residents who have lost their jobs due to the virus. Public revenues declined while public expenditures grew as a result of job closures during the epidemic, a fall in output owing to company slowdowns, and a decrease in tax

collections, resulting in substantial budget deficits. A sharp drop in sales will subsequently lead to insufficient cash flow in the conduct of various operations, financing and investing activities. Inventory will become obsolete and result in loss of economic value. The financial result resulting from the decline in sales will ultimately lead to the consolidation and downsizing of private companies, leading to job losses (increased unemployment). Thus, the main purpose of this study is to determine the effect of Covid-19 pandemic on firm performance (financial and non-financial).

The first section of the research focuses on the historical evolution of epidemic illnesses that have happened in the past. It has been attempted to determine the extent to which these epidemics affect individuals and from what sources they develop, as well as when and where the coronavirus emerged, millions of people were infected and died, and how effective Somali enterprises were in dealing with the pandemic. In the Firm performance, both financial and non-financial, is highlighted in the second section. In the third part, the studies in the literature on coding the relationship between the variables are listed and classified. In the last two chapters, the methodology part, its analysis, and findings are highlighted. The study will be targeted Logistics and Transportation, Travel and Tourism Agency, and Hotel in Hargeisa-Somalia.



## CHAPTER I

### PANDEMIC CONCEPT

For many years, infectious diseases have posed a threat to all of humanity. Bacteria and viruses are transmitted from person to person through blood, water, and air, making them a societal rather than a personal concern. Viruses and bacteria are as freely available as humans in today's globalized environment. As a result, virus and bacteria spread at a faster and more deadly rate than before. (Temel 2012:195-231). Hunger, wars, and natural disasters resulting from famines have been the reasons why people and communities have been more afflicted by epidemic diseases throughout history. Pandemics frightened people, causing panic, people were forced to flee their homes as a result of the panic epidemics spread to new areas as a result of this movement. Pandemics and epidemics produced a drop in productivity, a shift in demographics, economic depressions, starvation, and the emergence of a negative cycle as a result. (Yıldız 2014:1-18).

The World Health Organization (WHO) has concluded that an epidemic can be classified as a pandemic if it lasts for three periods and includes six stages. The first period, known as the inter-pandemic era, encompasses the first two stages of the pandemic. At this point, no new virus has been discovered in humans. Subtypes of a virus that have been seen in people before and cause sickness in humans are likely to be seen in animals. Humans, on the other hand, are not at risk of infection. The second stage revealed that no new virus had been detected in humans, but a new subtype virus had been discovered in animals, with a high danger rate. The second period is known as the alarm period by the World Health Organization.

The third, fourth, and fifth stages are included in this time frame. A new virus has evolved in the third stage, and there is no human-to-human transmission. There is

human-to-human propagation in the fourth stage, but it is localized in tiny groups. The distribution is still local in the fifth stage, but it now emerges in bigger clusters rather than small ones. The third epoch is known as the epidemic epoch. The sixth stage, the pandemic stage, occurs during this time. The virus has infected the entire population and continues to spread. (World Health Organization 2005).

## **1.1 OUTBREAKS AND THEIR HISTORIES**

From past to present, human history has witnessed many epidemics and many deaths caused by these epidemics. Sudden deaths have had profound effects, such as the cessation of production activities, mostly the damage to the economies of the countries. Due to medical inadequacies, epidemics could not be overcome and many deaths and health problems occurred. Throughout history, the world has fought epidemics. Some of the epidemics in history that left great traces on humanity are given in Table one.

**Table 1: Epidemics Emerging from History to the Present**

TIME PERIOD	EPIDEMIC	ESTIMATED DEATH	TYPY & OUTPUT SOURCE
165-180	Antonine Outbreak	5 million	Smallpox or measles
541-542	Plague of Justinian	30-50 million	Yersinia Pestis
735-737	Japan Smallpox Outbreak	1 million	Variola Major Virus
1346-1352	Black Plague	200 million	Yersinia Pestis bacterium/mouse flea
after 1520-	New World Smallpox Epidemic	56 million	Variola Major Virus
1629-1631	Italian Plague	1 million	Yersinia Pestis Bacteria Mouse, Pir
1665	Plague of London	100 thousand	Yersinia pestis Bacteria
1885	Third Plague Outbreak	12 million	Yersinia Pestis Bacteria Mouse, Flea
1880	End of Yellow Fever	100-150 thousand	virus –mosquitoes
1889-1890	Russian Flu	1 million	H2N2 Viruses
1918-1919	Spanish Flu	40-50 million	H1N1 virus/pig
1957-1958	Asian Flu	1.1.Million	H2N2
1968-197	Hong Kong Flu	1 million	H3N2 Viruses
1981 – present	HIV – AIDS	25- 35 million	Virus Chimpanzee
2002-2003	SARS	770 thousand	Coronavirus Bat Wild Cat
2009-2010	in Swine Flu	200 thousand	H1N1 VirusPig
2014-2016	Ebola	11 thousand	Ebola Virus Wild Animals
2015-present	MERS	850 thousand	Coronavirus Bat Camel
2019-present	COVID-19	5,232,562	Coronavirus

**Source:** (Konuk ve Eyner, 2020:23-24). Total number of deaths reported as of December 3, 2021, according to World Health Organization Data, <http://COVID-19.who.int/>

## 1.2 SOME EPIDEMICS IN HISTORY AND THEIR EFFECTS ON ECONOMIES

Throughout history, there have been epidemics that are important and cause many deaths. As a health problem, epidemics have an impact on humanity as well as on national economies. It causes the basic economic indicators such as production to come to a standstill in the service, education and industry sectors, increase in

unemployment rates, deterioration of financial flow, decline in domestic and foreign trade, increase in government expenditures but decrease in budget revenues.

### **1.2.1 Antonine Outbreak (165-180)**

Antonine Plague it originated among Roman soldiers in Mesopotamia in 165 AD. Later, in 166, it spread among the Roman Empire and became a pandemic. There is no exact information about deaths during the plague, but it is estimated that about 10% of the population, or about 5 million in number, died in the Roman Empire. Although it was called the plague, the Roman physician of the period, Galen, was of the opinion that the disease was a kind of smallpox rather than bubonic plague as a result of the cases he examined (Hays 2005:17). This epidemic had a profound impact on the Roman Empire's political, economic, social, and spiritual life. Scarce tenants and scarce workers were created primarily due to the sharp decline of the population as a result of the high death rate. As a result, there has been a decrease in the rent levels demanded from the tenants and an increase in the wages given to the workers (Hays 2005:20). As a result of the decrease in the number of soldiers in the Roman army, the need for soldiers from barbarian tribes increased (Karakuş 2018:41). Although the Roman Empire was at the peak of its history at that time, barbarian invasions, economic troubles, political instability and famine along with this epidemic continued to plague the Roman Empire for a century. It was the beginning of its decline.

This period of prosperity and stability began to deteriorate with the Persian expedition that Rome launched into today's Iraq and Iran. The epidemic disease from this region affected corn grains, which was the food and economic source of the Roman Empire. The high rate of deaths has significantly reduced the number of farmers, the number of businessmen, and less production has been achieved. As a result of this, there was a great decrease in taxes, which is one of the income sources of the state. This situation led to large-scale price increases. As a result, the plague epidemic that erupted under Marcus Aurelius' reign around 166 became a virus that swept over the world. (Fears 2004: 66-67).

### **1.2.2 Black Plague (1346 – 1352)**

Plague, one of the biggest epidemics of medieval Europe, is a type of epidemic that emerged in the 6th century and is known as the "Justinian Plague". The second major plague is an epidemic that was seen in the 14th century and called the "Black Death (Der Schwarze Tod)" (Istek 2017:173-204). This disease, which is called the Great Plague Epidemic, Black Death or Black Plague, is thought to be caused by a bacterial species called "Yersinia pestis" (Lyons and Petrucelli 1978:50-55). It is thought that the plague, called the "Black Death", first appeared in Palestine 320 years before Jesus (Arda 1993:327-340).whereas it is reported that 200 million people perished as a result of the pandemic just in the 14th century, it is estimated that nearly one-third of the European population died as a result of the black plague outbreak(Aslan 2020:36-41).Although there is no definite information about how the plague epidemic spread to Europe, some sources state that the epidemic first appeared in Central Asia and then reached Italy by following the Anatolian route, while according to some sources, the Genoese from the Crimea came to Italy by sea as a result of reaching Europe in the form of spreading (Akyay 1974: 210).

However, the case may be, the epidemic has spread all over Europe both by land and sea. This epidemic, which emerged in 1347 and lasted for about 11 years, later re-emerged under the name of "child plague" and reached its peak in the first half of the 15th century (Istek 2017: 174-175). Due to the high death rates, a serious shortage of labor has emerged, the measures to be taken in the health sector have started to be delayed, many crops have deteriorated due to the failure to collect the products grown in the cultivation areas, and the epidemic, which continues to take lives without listening to the old-young, rich-poor, has affected all kinds of economic, social and cultural issues has led to negativities in the field (Istek 2017: 198).

Losses and migrations due to the epidemic prevented work and working life and the agriculture and livestock sector could not develop at the expected level. Due to the decrease in the number of the working class working in the field, the desire of this class, who wants to work, to change the working conditions in their favor, and their demand for high wages in exchange for less work, have begun to put employers and landowners in a difficult situation (Braid 2010: 1000-1038).On the other hand,

while there was a shortage of certain products and goods, basic foods, the increase in prices and the resulting high cost affected individuals, societies and, moreover, state economies. Therefore, the commercial life of the countries where the plague epidemic occurred or passed through was interrupted, and the economic life was adversely affected (Arik 1991: 32-33). International trade was also affected by the plague, land and sea trade was stopped, and ship voyages to and from abroad were closed to trade (Genç 2011: 13).

### **1.2.3 Yellow Fever (Late 1800)**

In the 1700s, the Yellow Fever epidemic first appeared in France, Spain, England and Italy. It is believed that 300,000 people died of Yellow Fever in Spain in the 19th century. During the Haitian Revolution in 1802, French soldiers were exposed to Yellow Fever, and half of the army lost their lives due to this epidemic. Understanding how Yellow Fever was transmitted to humans in the early 20th century led to thousands of deaths from diseases that emerged in other parts of the Western Hemisphere, until studies were conducted involving volunteers that led to the development of preventive measures (primarily from mosquitoes) and vaccines. (Öncel 2020).

Yellow Fever did not have much effect until the first quarter of the 1800s and was seen in the southern part of America. Located on the Gulf of Mexico, New Orleans is an important trading city, where the disease spread across the country in 1850, shortly after Yellow Fever was discovered there. The outbreak was seen in fishing towns and ports where trade was intense and was dispersed by the civil war and badly enforced quarantine conditions. Because of the foreigners who came to the country, especially the Irish who escaped from the great famine, Yellow Fever was often named as a foreign disease, and for this reason, its spread was shown according to the statistical information. Calculating the economic amount of the epidemic in America was not very simple, and besides spending 45 million dollars in New Orleans between 1846-1850. Many factors had decreased such as a decrease in trade, immigration, and loss of labor caused the region to be affected to a significant degree. The majority of the population was affected by the disease in Memphis, commercial loss was \$200 million in the Mississippi Valley, and the loss of

businesses was \$100 million. Although it is not possible to accurately measure the real costs of Yellow Fever, both economically and humanely, it is certain that it plays an active role in the delay of commercial and urban growth (AkBingül Türk 2020: 620).

#### **1.2.4 Cholera (1817-1923)**

Cholera first started in India and spread to the whole world through pilgrims coming to the Hejaz (Yıldız 2014). Cholera; it is an infectious disease that manifests as severe diarrhea without vomiting and abdominal pain in humans the symptoms of the disease cause severe water loss in the body in a short time, and if precautions are not taken, it can lead to death (Ayar 2005). Cholera outbreaks struck Japan during 1817, Moscow in 1826, Berlin, Paris, and London around 1831, and Hamburg and Canada in 1892, resulting in the deaths of tens of thousands of people. The biggest cholera epidemic in our country was seen during the 1970-2015 one of reasons why our country has affected the cholera epidemics so badly was the cross-border with Ethiopia, Kenya and most likely Yemen.

Moreover, it was stated that the second epidemic was first seen in India, then in Finland, Poland and Russia in 1830. The Irish immigrants fleeing poverty and potato famine caused this disease to spread from Europe to North America and then to Latin America in 1833. The third pandemic, which was generally accepted as the deadliest, reappeared in India and caused massive deaths in Asia, Europe, North America and Africa (Türk et al. 2020: 619).

In the nations of the area, a total of 118,349 cholera cases were reported, with 5,853 fatalities. The number of cholera cases recorded in the region climbed to 94.8 percent of the total number of cases reported worldwide by the end of 2005. The WHO (2006) put forward the expenses of cholera in the African Region in the face of these data, which demonstrate how grave the situation is. In addition to the expenditures incurred in the health sector, productivity losses occurred, and the African country's economy experienced significant losses. Both local and foreign demand for tourist sector services in cholera-stricken nations has been negatively affected. In this regard, there is proof that during cholera epidemics in African nations, residents from affluent countries, particularly from the United States, refrain

from going to these countries, reducing the number of tourists visiting the epidemic-affected countries. As a result, it is claimed that it produces financial losses for the tourist industry, job losses for those whose livelihoods are directly or indirectly dependent on tourism, and a reduction in government tax revenues.

In addition to all these developments, an international embargo has been placed on the export of products generally coming from countries experiencing cholera epidemics. This situation negatively affected the foreign exchange flow to the countries affected by the epidemic and caused many external costs (Kirigia et al. 2009: 4-13).

### **1.2.5 Spanish flu (1918-1919)**

Approximately 50 million people died as a result of the Spanish flu, which was caused by the H1N1 flu virus, which spread late in World War I. This amount was roughly treble the death toll in World War I, when the virus was discovered in military camps in early 1918 and infected a large number of soldiers. As troops came home after the end of World War I, the virus spread quickly. Due to censorship and propaganda throughout the war, there has been a major distortion of information regarding the disease, which has resulted in a rise in the number of patients. (AEGON 2020). At the same time as the countries censored the news about the disease due to the war, the flu cases in Spain were reported openly, and therefore the epidemic was later named Spanish flu. The epidemic spread in three waves. Each epidemic has had different economic and social effects on society. While epidemics usually affect the elderly, children and patients with weakened immune systems, Spanish flu is resistant and affected completely healthy young people. While the average life expectancy in the world was around 60 before the epidemic, this figure decreased to 50 after the epidemic (Roser2020:2).

In a study conducted in Sweden to determine the economic effects of the epidemic, it was calculated that capital incomes decreased by 5% to 6% and poverty increased by 11%, and there was no correlation between the epidemic and economic performance it has been revealed that there is a relationship (AEGON 2020). While the epidemic caused loss of income in America, agricultural production, which had an impact on



the agricultural economy in India decreased by 8% and 3.3%, respectively, during the epidemic period (Bell and Lewis 2005:16).

#### **1.2.6 Asian Flu (1957-1958)**

The second flu outbreak of the twentieth century was the Asian flu. Asian flu was caused by the H2N2 virus, which is a combination of Avian Flu viruses. It initially appeared in Singapore in February 1957, and it has since been observed in the US, China, and Hong Kong. The virus moved from Singapore to Hong Kong in April 1957, and by the summer of 1957, it had reached coastal towns in the US and the UK. While one million people died in China as a result of the pandemic, 116,000 people died in the United States and 70,000 in the UK.

The Asian flu lasted ten years. In 1968, it lost its effect (Tavukcu 2020: 30). It is believed that 1 million people perished worldwide as a result of Asian Flu. The distinguishing feature of Asian Flu is that the contagion effect is more common in the young population. The Asian Flu affected the workforce. The labor force growth rate has decreased worldwide, and there has been an increase in unemployment rates. The negative impact of the Asian Flu on the young workforce population was observed as the most important economic impact. A significant decrease was observed in the productivity of agricultural products when compared with the time before the epidemic. The reason for this is the fact that the production per workforce has not increased due to the decrease in the workforce (Gündeş 2021: 16).

#### **1.2.7 HIV –AIDS (1981- Present)**

It is an epidemic that emerged recently and still continues today. It is an infectious disease whose type and origin is the virus chimpanzee, which precipitates the immune system in humans and causes 25-35 million deaths. The HIV-AIDS epidemic has a heavy impact on the country's economies. . It has affected African countries the most economically. The disease has many macroeconomic effects. HIV/AIDS has a substantial influence on African economic growth because it diminishes the trained workforce in industries that are critical to the country's economy. Certain expenditures have increased as a result of the HIV-AIDS epidemic. The highest increase was experienced in health expenditures. Between

1990 and 2017, aid was given to develop the health sector due to the HIV/AIDS epidemic. Development aid increased by 394.7 percent in the 1990s and 37.4 billion dollars was paid in the same year. Between 2000 and 2015, 57.6% of total expenditures worldwide were financed for HIV/AIDS. In 2013, global expenditure on the HIV/AIDS epidemic reached 49.7 billion dollars, but fell to 48.9 billion dollars in 2015. (Dielman 2018:1799).

### **1.2.8 Bird Flu**

Bird flu, also known as chicken plague, is an epidemic disease caused by influenza a type virus when transmitted to humans, which shows symptoms in the digestive and respiratory systems of most wild and domestic poultry and mammals. This disease is transmitted by contact with sick animals and by contact with feed, water and clothing that carry this virus factor. In addition, it can be transmitted by contact and respiratory tract with the wastes of animals carrying dead and live disease agents. Although there is no direct human-to-human transmission of the disease, transmission has been observed in healthcare workers, especially in those who do poultry farming and those who come into contact with them. It has been observed that some influenza A types such as bird flu, H5N1, H7N7, H9N2 are transmitted from person to person in a limited manner. Factors such as international trade and the travel of migratory birds to different countries are effective in the spread of bird flu to different regions in the world (T.R. Ministry of Health HSGM 2021).

In 1878, bird flu, which caused high mortality in chickens, was observed for the first time in Italy, and it was called chicken plague. It was determined in 1955 as a result of studies that this disease was influenza a type virus called H5N1 virus, which causes bird flu, first appeared in February 2003 with the death of a person in Hong Kong, and then in December 2003, the first bird flu epidemic appeared in South Korea. After the avian flu epidemic in January 2004 was seen in China and Japan, it was also seen in Thailand and Vietnam. From March of the same year, it spread among bird groups in Asia and these groups moved towards western countries. In October 2005, bird flu cases were seen in Turkey and in Greece, Macedonia, Italy, Croatia, Romania, Germany, Russia and Sweden through migratory birds from Asia.

The first bird flu case in Somalia was detected in Muhammad Ibrahim Malimow, a local resident, although necessary precautions were taken, bird flu cases were observed in different regions in Somalia in 2005.

### **1.2.9 SARS (2002-2004)**

The virus first appeared in Guangdong province of China in mid-November 2002, and the spread of the virus until July 2003 resulted in 774 deaths and 8098 cases in 26 countries (WHO 2004). The case of SARS caused by the human corona disease was first reported in 2002 it was seen in the Far East Asian Region after the middle of the middle and was recorded as a type of influenza infection later, after the cases that resulted in death due to respiratory failure in patients with severe symptoms began to be seen, the name of the disease was “Acute Respiratory Syndrome”, which means severe acute respiratory syndrome (Madigan et al. 2016) it is known that in 2002, the year when the first case of the SARS virus was detected, the virus in question quickly spread to 29 countries, within 4 months, and was seen in 37 countries around the world (Hazmi 2016:507-511).

The SARS virus, which caused the most important global crisis in the 21st century and called the biological crisis, has expanded its field of activity rapidly with the continuation of international travels (Küçükaltan et al. 2006: 968). It has been observed that many countries around the world spend a lot of money to protect themselves from epidemics, and economic crises are experienced in countries where the epidemic first appeared or was seen later. As a matter of fact, it is known that even in the times when the SARS virus first appeared, it caused a 5% loss on the Gross National Product of the People's Republic of China, and problems were encountered especially in the economic field in the later stages of the epidemic (Alu 2018:1-9).

Hai et al. (2004:56-61) conducted a survey study to see the economic effects of the SARS virus on various service sectors in China. As a result of the findings, it was concluded that the SARS virus had quite negative effects on the Chinese economy. It has been revealed that the heaviest blow has been experienced especially in the tourism sector. China's tourism profits from international visitors fell by roughly 50-60% (about 10.8 billion US dollars) by the end of 2003, compared to 2002, while

domestic tourist income fell by about 10% (approximately 6 billion USD). As a result, towards the end of 2003, the entire loss to China's tourist sector in such a short amount of time was projected to be over US\$ 16.8 billion. It was also estimated that SARS' multiplier impact will cost the Chinese economy a total of \$25.3 billion USD.

#### **1.2.10 Swine Flu (2009-2010)**

H1N1-swine flu was another outbreak that occurred after 1980. The World Health Organization (WHO) proclaimed the swine flu outbreak to be officially ended on August 10, 2010. This does not mean that the flu is completely gone. The H1N1 virus that causes the pandemic is a type of flu that continues to circulate seasonally around the world. The expected economic effects of swine flu are similar to previous epidemics as seen in previous pandemics, in the economic activities the reason for the decrease was not seen as deaths or dismissals, but as the loss of confidence and the change in spending patterns caused by fear that disrupted the markets (McKibben 2009). Unlike other pandemics, the negative impact of swine flu on the economy was not due to deaths or layoffs, but the change in people's spending patterns due to trust problems and fears, negatively affecting the markets (McKibben 2009). Although swine flu has a bigger impact on public health and the economy in Southern Concave nations during the cold season, the economic damage caused by the pandemic is estimated to be 0% of the GDP of the countries impacted by the epidemic. It is reported that it ranges between 5% and 1.5 % (Türk et al. 2020: 624). As a result of the researches, it was determined that Mexico lost an estimated one million overseas visitors in the swine flu epidemic, and this loss caused approximately 2.8 billion USD in damage (Angelos and Scholz 2020).

#### **1.2.11 Ebola (2014-2016)**

Ebola virus disease (EVD), also known as Ebola hemorrhagic fever in humans and other primates, is a serious and frequently deadly disease that affects humans and other animals (WHO 2020). The virus's name comes from the Ebola River in the Democratic Republic of Congo (formerly Zaire), where the primary cases of hemorrhagic fever were seen in 1976 (Acar 2020:7-21). It is stated that 274 out of 300 people in a small village in Zaire died due to the Ebola epidemic. Although the

government of Zaire tried to contain this epidemic, it could not contain the spread of the epidemic due to poor health infrastructure and insufficient proactive measures (Adegun 2014:48-56). The disease is transferred to people from animals in the wild (such as fruit bats, hedgehogs, and nonhuman primates) and subsequently transmits to the general public by direct contact with infected persons' blood, secretions, organs, other body fluids, and surfaces. The average Ebola case fatality rate is around 50%, with rates ranging from 25% to 90% in previous epidemics (WHO, Ebola Virus Disease 2020).

In March 2014, the Ebola virus resurfaced throughout Guinea, and it has since spread to Liberia, Sierra Leone, Nigeria, and Senegal in West Africa (WHO 2020). It has been observed that household incomes decreased and poverty increased in the countries affected by the Ebola epidemic in 2014 (Türk et al. 2020: 624). It is stated that as a result of the Ebola virus causing a high level of death cases, especially the West African trade was adversely affected by this epidemic, and especially the agricultural and mining industries, where the West African population is predominantly employed, remained in a difficult situation due to the epidemic (Adegun 2014:48-56). With the trade and transportation restrictions to prevent the spread of the epidemic, 43% of the African population has lost income, and the suspension of touristic travels has also negatively affected the tourism revenues of the countries. Considering that before the epidemic, tourism income contributed 36 billion dollars (2.8% of national income) to the national income of Sub-Saharan African countries, it means that most of this income was lost. The Ebola epidemic has also slowed mining activity due to travel restrictions and worker losses, and gold and diamond mining has also declined due to movement restrictions in Liberia. It is stated that the prices of bauxite, iron ore and gold have decreased by 30-60% compared to previous years in African countries where the epidemic has started intensely. After the decrease in economic activities, it led to a decrease in the income from taxes and tariffs and it is stated that the economic and social costs of the epidemic are around 53 billion dollars (Türk et al. 2020: 625).

### **1.2.12 MERS (2015- Present)**

The type of MERS epidemic, which emerged in South Korea in 2015 and still continues today, is known as coronavirus and as the source of origin, camels and bats. The MERS epidemic affected the Middle East the most and an estimated 850 thousand people died in the world. The MERS epidemic affected South Korea the most economically. South Korea suffered a loss of 2.1 million foreign visitors, which corresponds to a tourism loss of 2.6 billion USD. Estimated losses in the housing (\$542 million), food service (\$359 million) and transportation (\$106 million) sectors were associated with the decline in international visitors (Joo et al. 2019:1). One of the sectors affected by epidemics is the logistics sector. It mostly affects air transport. The MERS epidemic was declared by the IATA to be the most serious epidemic to date. (Delivorias and Scholz 2020:4).

## **1.3 CORONAVIRUS PANDEMIC**

Coronaviruses are a broad group of viruses that may produce a range of clinical symptoms, from SARS-CoV to more serious diseases (Eryılmaz and Keşli 2020:1-9). Coronaviruses are enclosed RNA viruses with a single stranded positive template strand. Coronavirus is the name given to these viruses because they have rod-like extensions on their surface (crowned virus), starting from the Latin meaning of "corona". The coronavirus was first detected in chickens in the 1930s, which causes respiratory tract infections that can cause death in humans, is encountered in mammals and birds. The more lethal types are SARS, MERS and COVID-19 (Alpago and Alpago 2020:99-114). Coronaviruses are pathogens that can occur in cats, dogs, bats, pigs, poultry and rodents and can spread from animals to humans (Alp and Ünal 2020:1-10).

### **1.3.1 COVID-19 Epidemiology**

The number of pneumonia cases in the city of Wuhan, China, reached 44 in a relatively short period of time, and it was epidemiologically linked to the city's seafood market (Dikmen et al. 2020:29-36). Since the first case was recorded towards the end of 2019 in the city of Wuhan in China's Hubei Province, more than 80,000 instances of COVID-19 have been documented in China, primarily in Hubei

and nearby regions (İşsever et al., 2020:1-13). On January 7, 2020, a new corona virus (nCoV) was detected and tentatively named "2019-nCoV", later named "COVID-19 virus" (WHO 2020). Dr. Tedros Adhanom Ghebreyesus, Director-General of the World Health Organization, designated the new corona virus epidemic a public health emergency of international concern (PHEIC) on January 30, 2020, the WHO's highest alert level (WHO 2020). In the months following January, the COVID-19 virus spread to over 100 nations and affected over 300,000 individuals (Saydam 2020:1-7). The fast growth in the number of cases outside of China on March 11, 2020 prompted the WHO Director-General to proclaim the outbreak a pandemic. More than 118,000 cases have been documented in 114 countries to date, with 4291 fatalities (WHO 2020). Epidemics declared as pandemics cause the death of millions of people (Saydam 2020:1-7).

### **1.3.2 COVID-19**

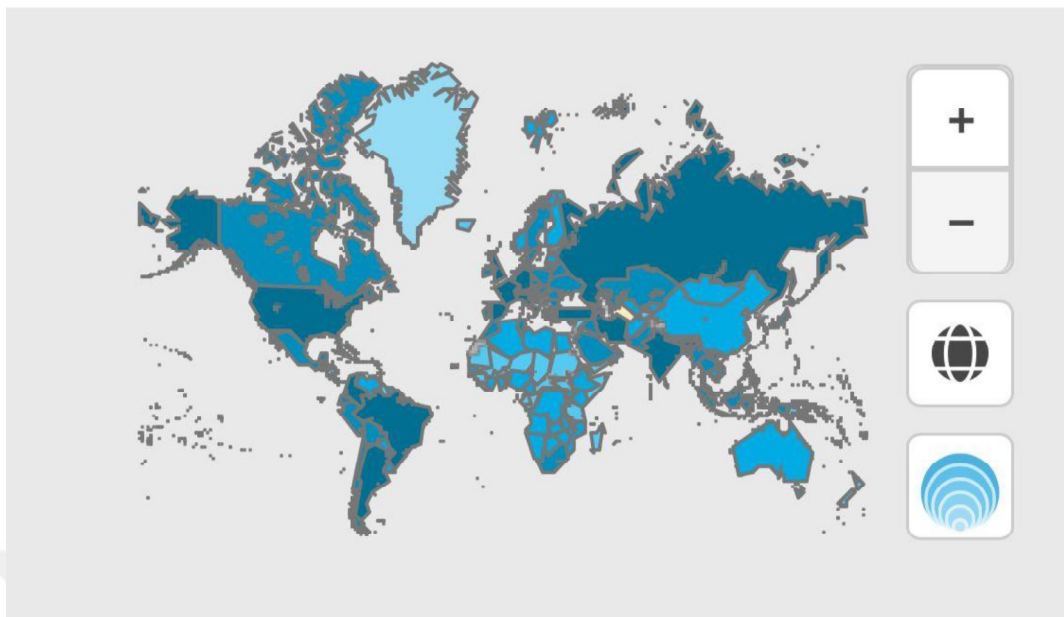
On January 13, 2019, a group of patients with respiratory problems (fever, cough, shortness of breath) in Wuhan, China were diagnosed with novel coronavirus illness (COVID-19), a kind of coronavirus family mentioned above. The outbreak began at a seafood and animal market in the Wuhan region of China, and expanded by human-to-human transmission to cities in Wuhan and Hubei Province, then to other provinces of the People's Republic of China, and finally to other countries across the world (Ministry of Health, T.R. 2020). New Corona Virus Disease COVID-19, Ministry of Health of the Republic of Turkey; Corona virus is a large family of viruses that cause a variety of diseases, ranging from the common cold to several serious illnesses such as Middle East Respiratory Syndrome (MERS-COV) and Severe Acute Respiratory Syndrome (SARS-COV). The World Health Organization published a document with the name 2019-nCoV on January 10, 2020 and announced that all countries should take precautions regarding this virus. Since the virus first appeared many new scientific research has been carried out on the structure of the virus, its areas of spread, and ways to protect against the virus (Acar 2020). COVID-19 is transferred by microscopic droplets that occur when a person with COVID-19 coughs, sneezes, or speaks, according to the World Health Organization. COVID-19 is tough to battle since it is a microbe that can only be seen

under a microscope and can replicate in seconds once it finds a location to reproduce (Alpago and Alpago 2020:99-114). Coughing droplets play a vital role in the rapid transmission of COVID-19. After contacting surfaces where the virus has attached, touching additional locations without completely cleansing the hands allows the virus to spread. Some studies are also looking into fecal-oral transmission in persons who have been infected with the virus through their feces (Miri 2020).

Since the virus spread so quickly and left its mark on the economy and politics of countries, conspiracy theories were heard saying that COVID-19 should not be seen as just a virus, but should be seen as a new type of biological weapon. Even though the fact that all countries in the world are on a single front in their fight against COVID-19 seems like an indication that an international war has begun, the absence of any hot or cold conflict in this struggle has prevented these discussions (Tansü 2020: 5). On March 16, 2020, the first positive case was reported in Somalia, and the pandemic began. Various efforts were attempted to counteract the outbreak. Individuals over 60 years of age, persons with chronic conditions (heart attacks, pressure, diabetes, respiratory illnesses, cancer), and health care professionals are the most vulnerable to infection with the corona virus, according to the Ministry of Health of the Republic of Somalia. The majorities of patients infected with the virus have a mild to severe respiratory infection and recover without medical intervention. Being completely informed of the spread of the disease is the greatest strategy to delay and decrease the spread of infection.



**Figure 1:** Worldwide Spread Map of Covid-19 Case Number.



Source: <https://covid19.who.int/>

**Table 2:** Worldwide COVID-19 Data

COVID-19 CASE AND DEATH		WORLD
Total Number of Confirmed Cases		263,563,622
Total Number of Deaths		5,232,562
Total Number of Vaccines Administered		7,864,123,038

Source: WHO (World Health Organization), 3 December 2021 data <https://covid19.who.int/>

Although it is a newly emerging epidemic, it has spread all over the world in a few months and countries are starting to take many different measures. Countries that did not take measures against the virus caused extraordinary increases in cases, putting both the lives of the people and the government in danger. The enormity of the total number of cases and total fatalities in Table 2 illustrates the virus's rapid spread and the magnitude of its impact.

### **1.3.3 FACTORS AFFECTED BY CORONAVIRUS**

Covid-19 has had an impact on various industries, including health, the economy, international trade, and industry, as detailed below.

#### **1.3.3.1 Impacts of COVID-19 on Health Sector**

Because of COVID-19, the entire world is going through a difficult time. Almost every developed and developing country in the globe is battling the virus by taking steps within their own resources. People are forced to adjust their plans and actions on a regular basis due to the virus's rapid spread. The health sector's and health workers' valiant efforts in the fight against this global disease are not overlooked. It's difficult to state that the task in health care is just to tackle the epidemic. Protecting the health and safety of healthcare professionals is, in fact, a separate priority.

Examining the virus exposure levels of health-care institutions under multiple distinct areas will allow us to look at the problem from several angles. One of the most critical challenges that health care organizations prioritize is preventing the transmission of disease. Another crucial challenge for health organizations is preventing the virus from infecting their personnel. One more challenge is preventing the spread of viruses to patients receiving therapy. In reality, the fact that patients or their relatives who come to obtain health care are infected with COVID-19 immediately jeopardizes the institution's goal and reputation.

When the virus initially appeared in our country, there were a variety of potential negative consequences in health care. The notion that fulfilling them would jeopardize the reliability of health care vanished quickly. Although it is thought that with an increase in the number of patients, hospitals will be insufficient, the demand for inpatient beds will not be met, health workers will be insufficient, and materials to be used in the provision of health services will be insufficient or difficult to supply, some of these negatives can be expressed as follows: In the short term, it is possible to say that the economics of institutions delivering health-care services are harmed. People's visits to the hospital for various health concerns will reduce as a result of the infection.

### **1.3.3.2 Economic Effects of the Covid-19 Pandemic**

The coronavirus pandemic has had a global impact in a variety of ways. It has pushed the capacity of countries' health systems to the limit, preventing them from serving a large number of patients. The virus, which has spread to practically every country on the planet, has killed thousands of people not just in terms of health, but the coronavirus pandemic has also put countries in a financial bind. Somalia and the rest of the world are dealing with an economic crisis that will have a detrimental impact on billions of people, leave alone a deadly epidemic. COVID-19 has had a direct impact on all economic decision-making units around the world, and it has been desired to use expansionary monetary and fiscal measures to combat the epidemic. (Soylu 2020:169-185).

As the economic effect of COVID-19, it is thought that the financial sector suffers due to the heavy strain of the health sector in countries where epidemics are intense, the increase in the number of unemployment and the slowdown in the circulation of money, especially as a result of damage to the supply chain (Eryüzlü, 2020). All countries of the world have applied similar methods of fighting against the coronavirus. The economies of the countries have almost come to a state of lockdown due to the coronavirus pandemic. The intensive testing, social distancing rules, quarantine, and other personal and health information methods that are being applied have forced countries to consume their resources. Since each of the countries is in different economic conditions, they have taken these measures according to their situation (Kumar 2020). The World Trade Organization (WTO) predicts a 9.2% decrease in world trade volume for 2020 for 2021; it predicts an increase of 7.2% these estimates may vary in direct proportion to the evolution of the pandemic and the response of states.

According to the World Trade Organization's prediction, GDP will decline by 4.8 percent in 2020 and increase by 4.9 percent in 2021, respectively, compared to the previous year. In Asia, exports are predicted to fall by 4.5 percent in 2020, while imports will fall by 4.4 percent. Throughout the global economic slump, both commerce in services and trade in products have started to drop, with a 9 percent decline during the pandemic process compared to the financial crisis. (World Trade

Organization 2020). The private sector and government in Somalia are both victims of the same misfortune.

According to the Somali Health Ministry, there are 23,074 confirmed cases and 1333 deaths as of December 15, 2021. The majority of cases have been confirmed in large cities like Mogadishu and Hargeisa (Ministry of health 2021). As a result, the federal government has taken drastic measures, such as issuing an executive order to shut down the country's primary economic hub in the event of a virus outbreak.

The repercussions of the outbreaks were not fairly dispersed throughout the Somali economy, but they were most severe in the tourism industry, particularly airlines, imports and exports, and education. The banking and telecom sectors, on the other hand, were more adaptable, and the impact of COVID-19 on imports and exports has exacerbated Somalia's foreign trade deficit, as well as a sharp drop in animal exports. The ban of travel to Gulf countries, particularly Saudi Arabia, has had a significant impact on exports. Inbound remittances fell by roughly 15% and outbound remittances fell by about 25% as a result of global quarantine limitations. The \$56 million transfer has been suspended. Layoffs and financial flow constraints caused by travel restrictions are major contributors to the dramatic drop in remittances. Inflationary pressures were generated by reduced economic activity and disrupted supply networks, with Somalia's overall inflation rate jumping from 3.1 percent in February 2020 to 5.2 percent in March. Food costs have risen sharply as a result of worldwide travel and transportation constraints, as well as panic among Somalis. Furthermore, food inflation climbed to 4.8 percent in Mogadishu from 2.6 percent, and from 0.5 percent to 2.0 percent in Hargeisa, indicating that food costs vary greatly across Somalia.

The measures and rules taken by the states in relation to Covid-19, the lack of mobility, the closure of the borders and the suspension of transportation, the restriction of production capacities, with the decrease in social consumption, it causes economic contractions by causing regressions in demand (Akca 2020). Manufacturing, financial services, education, oil-gas, construction-real estate, automotive, aviation, tourism, and transportation were all negatively impacted by Covid-19, which may also be referred to as a crisis. Market volatility is influenced by

the incidence of epidemic-induced uncertainty. Closing borders and suspending flight operations, for example, have a severe impact on a variety of industries, including aviation and tourism. People are holding the cash rather than investing due to societal concerns, resulting in a drop in demand in the automobile and real estate industries.

On the other hand, due to the most needed medical supplies during the epidemic, the pharmaceutical and medical industry, food processing and retailers, personal care and health products manufacturers, information and communication technology companies, e-commerce and agriculture sector are also among the sectors that faced an increase in demand as a result of Covid-19. In Maslow's Hierarchy of Needs, the most basic needs are physiological, shelter, and security-related needs that will provide vital continuity. In this context, human beings have to meet their needs for food, shelter and survival. For this reason, the agriculture sector and the food processing sector have difficulties in keeping up with the demand within the scope of Covid-19. The fact that people buy too much from the products they need or not, which is also called stocking, affects the prices and prepares the ground for the situations called black market. On the other hand, in this period when mobility in the continuity of daily life is limited, the tendency to e-commerce applications has also increased for this reason, unexpected increases occurred in cargo activities.

### **1.3.3.3 Impact of COVID-19 on International Trade**

During the COVID-19 pandemic, international trade has been severely affected both in Somalia and in the world. Due to the restrictive policies implemented by countries within the scope of COVID-19 measures, there has been a decrease in foreign trade volumes. Global trade in the world has decreased by about 9% in 2020. Trade in goods decreased by 6%, while trade in services decreased by 16.5%. The biggest shock of COVID-19 on worldwide trade in 2020 occurred in the first half of the year. As a matter of fact, trade decreased by 15% in the first half of 2020. The recovery of goods trade in the second half of the year prevented further losses (UNCTAD 2021:2). According to the report published by the World Trade Organization (WTO), although a recovery is expected in 2021, it is stated that this

recovery depends on the course of the epidemic and the effectiveness of the policies implemented regarding the epidemic.

#### **1.3.3.4 Impact of COVID-19 on Manufacturing Industry**

During the pandemic period that started at the end of 2019, almost every sector is relatively affected by COVID-19. In every country where the epidemic spreads, there is a demand shock in some important sectors, especially in transportation, trade, tourism and finance, and it is getting deeper. One of the industries most affected by the pandemic is the service industry. The reason for this is because with the contraction in demand owing to constraints, destinations' operations such as airplane transportation, hotels and restaurants, and entertainment venues are fully halted or restricted.

International travel plummeted by 70% in the first eight months of 2020 compared to the same period the previous year, according to a World Tourism Organization report on the COVID-19 pandemic outbreak. In July and August, the prime months of the summer season, the number of visitors in the northern hemisphere fell by 81 percent and 79 percent, respectively, as compared to the same month the previous year. In addition, this decrease rate between January and August 2020 coincided with a decrease in the number of tourists by 700 million on average. This amounted to approximately 730 billion USD in monetary terms. This figure shows that the economic damage in the 2008 financial crisis is about 8 times (UNWTO 2020). There is a strong link between the pandemic and transportation. Because, on the one hand, individuals provide quick and easy access to almost all parts of the world, triggering the spread of infectious disease and becoming a pandemic, on the other hand, as a result of the pandemic measures, disruptions occur in both passenger movement and the goods supply chain (Bakırcı 2020:47).

The consequences of the restrictions affecting the air transport industry were widely felt in April 2020. Air transport links between cities around the world have been disrupted. Service continued for a while in the domestic routes of China and the USA, which started to recover in March. However, the measures taken have stopped most of the planned intercontinental connections between cities. Cargo flights continued, but caused a major problem for the global supply chain as half of airline

cargo was carried in the luggage of passenger flights. The COVID-19 pandemic has given the airline industry the biggest negative impact since the Second World War, including the September 11 attack, the 2008 crisis. Global passenger traffic dropped by 66% in 2020(IATA 2020:11).



## CHAPTER II

### FIRM PERFORMANCE

#### 2.1 PERFORMANCE CONCEPT

In order to survive, companies have to create the economic value and benefit expected from them by using their assets. This necessity brings with it the need to measure and evaluate company activities. At this point, the idea of performance that we're dealing with may be simply stated as "the consequence of an enterprise's operations over a period of time." Unlike the preceding definition, the topic in issue has already been described and interpreted in the relevant literature in a variety of ways. The fundamental reason for this variation is that the issue has been investigated in several fields with distinct "active results" in mind. The following are some of these definitions. "Performance is a notion that quantitatively or qualitatively indicates what is achieved as a consequence of an intentional and planned activity," according to the most recognized definition in Turkish literature (Akal 1992:1). Furthermore, the achievement of the enterprises' objectives is only possible if all enterprises' actions are holistic and harmonious. The ever-increasing competitions, as well as the constantly changing environmental conditions, have a significant impact on the achievement of organizational goals and performance. Businesses, which are open systems, can only keep up with these changes that affect them, only with an effective analysis of their current situation and accurate performance measurement.

The concept of performance, which provides important key information for the development of effective strategies for the future by looking at the past and the present, is an important action that also contributes to the continuity of the enterprises (Üstün 2015).



When the concept is evaluated in terms of business administration, it can also be expressed as the whole of the efforts of businesses to achieve their goals and objectives (Akal 2000: 1). The concept of performance, which requires the evaluation of the result of an action or activity carried out by its nature, gives information about how much of the determined goals and objectives have been achieved. Performance as a word means the desire and power to achieve any event or situation (www.tdk.gov.tr). There are many definitions of what performance means for companies in the literature. Performance is a term of vital importance for companies that reveals the realization status of the activities of companies that are established or come together to achieve a specific purpose, numerically and based on quality (Yücel 2010:1).

Performance is an indicator of how effectively and efficiently the resources of the companies can be used (Tek and Gümüş 2006: 8). The aggregate of all efforts to meet firm goals is referred to as performance. Performance may be described as the assessment of the attainment of standardized objectives over time using various methodologies. The goals expressed in this regard should be real, success-oriented, measurable and time-bound for the employees. Considering the point at which the results obtained after the activities can reach the predetermined targets, it will be possible to obtain results such as reaching the determined target, not reaching the target yet or exceeding the target. These factors are also the performance of activities. As a result, performance is the expression of whether the predetermined goals can be achieved or not by quantitative or qualitative methods. Performance means making the success continuous. In terms of institutions, it means whether the previously determined strategic objectives have been achieved or not.

## **2.2 FIRM PERFORMANCE**

Firm performance is a concept that quantifies an organization's production over a period of time. Firm performance is described in the literature as the level of achievement of organizational goals in terms of sales and market share growth, as well as profitability growth, as well as assessing it in terms of core strategic indicators (Biçkes and Özdevecioğlu 2016:12). Firm performance, on the contrary, is described as qualitative and quantitative improvements in all areas that have a

positive financial impact on a firm's deliberate and planned organizational actions (Denison and Daniel1995:204). According to another definition, firm performance is the ability of firms to reach their target by using their existing resources in the most efficient way. In this direction, the results obtained by the companies as a result of a certain time period determine the performance of the company (Porter 1991:100). In this time period, every direct or indirect constraint that affects the firm financially constitutes the factors that determine the firm's performance.

In the literature, firm performance has been viewed as a structure that should be assessed in two fundamental aspects. Financial and non-financial successes, as well as operational performance are all factors to consider (Huang and Hsueh 2007:265). The general meaning of firm performance is the evaluation of outputs in comparison with inputs. In the evaluation of firm performance, both financial and non-financial outputs are considered. When measuring financial performance, monetary criteria such as revenue, cash flow, sales volume, profitability are looked at, but it is not possible to understand whether an organization is successful by only looking at financial criteria. For this reason, among many non-financial criteria, many perception types such as sales growth rate, stakeholder ratios, sales growth rate, customer satisfaction, brand value, customer loyalty, process outputs and outputs related to change management are taken into consideration in the studies. In today's research, financial and non-financial performance criteria are generally used together (Altuntaş and Dönmez2010:57).

### **2.2.1 Financial Performance**

Financial performance is how well a firm owns its assets. It is a specific measure of what they use and how they can generate their income. With another definition, it is a result-oriented financial parameter that shows the state of achieving the economic targets of the firm (Venkatraman and Ramanujam 1986:801-814). Processes are the driving forces of companies. Financial criteria used to measure firm performance are precise, objective and mostly monetary indicators, which have been used for a very long time, and which are mostly taken into consideration when evaluating the operating results of firms, usually calculated with data obtained from the financial statements of firms. There are many reasons other than laws to

encourage the use of these criteria, which are mostly obtained from the data obtained from the legally required financial reports and accounting records. The expectations of the interest groups with which the business is in contact and their demands from the business are at the forefront of these reasons.

In addition, financial performance indicators derived from the results of business activities constitute the main data source for business planning, budgeting and control activities. Financial and non-financial resources are needed in the realization of the processes and the creation of customer value in the processes. Therefore, the existence of the firm depends on the simultaneous availability of both resources (Kueng 2000:68-85). When measuring financial performance as a firm performance constraint, different measurement parameters are considered. In the measurement of financial performance, the elements of each sector are evaluated within themselves. These evaluations are sales volumes, market shares, profitability levels, income levels, profitability ratios of total assets, returns on investments are provided through constraints such as net working capital and net income. The values derived from these limitations provide crucial information about a company's success. This information assists an investor in making a choice about whether or not to invest in that area.

Financial performance is a subjective assessment of a company's ability to create resources via the effective and efficient use of its assets (Nnamani, Onyekwelu and Ugwu 2017:15). Return on assets (ROA), return on equity (ROE), return on invested capital (ROIC), economic value added (EVA), net income/revenue, and earnings before interest, tax, depreciation, and amortization margin (EBTIDA), market value performance earnings per share (EPS), change in stock price, dividend yield, stock price volatility, market value added (MVA), and Tobin Q, are all subsets of profitability performance (Santos and Brito 2012). I will explain these variables in the following sections.

#### **2.2.1.1 Profitability Rates**

Profitability is one of the most important criteria in measuring financial performance. Because shareholders, investors and other interest groups are most interested in the ability of companies to generate income, maintain and increase their

profitability. Profitability criteria, which are among the traditional criteria due to their long use, are generally accounting-based, simple to calculate or obtain, and generally consist of financial ratios obtained by dividing certain balance sheet or income statement items. Since it is meaningless and invalid to interpret profit on absolute value as a performance criterion, profit; Sales are measured by relating assets used economic conditions and investments. In the evaluation of these ratios in general, the profitability ratios of other enterprises operating in the sector, the general state of the economy and the effects of inflation are analyzed by taking into account the mentioned ratios. The most important issue to be considered in the calculation and interpretation of financial performance criteria related to profitability is which profit value will be used. As it is known, net profit is derived from net sales of all goods and/or services. It is a final value obtained as a result of deducting costs, period expenses, taxes and similar liabilities.

Since there are expenses that are not under the control of the business management, such as depreciation, tax and other legal liability payments, in the acquisition of Net Profit, the profitability rates to be calculated may vary from business to business and even for the same business from time to time. This may lead to incorrect inferences in comparisons between companies and in examining the performance of the company over periods. In addition, since these profit figures represent the remaining amounts after interest expenses are deducted, the return on assets can be calculated high or low according to the financing type of a firm. In companies that use foreign resources to a large extent and thus bear heavy interest burden, this rate will be calculated as lower than companies that finance their assets with their own funds (Akgüç 2002:65).

Although profitability ratios are widely used in determining the financial performance of companies, they are criticized from various perspectives and can be interpreted in different ways. These criteria, which have been criticized for reasons such as being open to manipulation due to being accounting-based, calculating using historical data, not taking into account risk and capital cost, are still the same despite all these criticisms. It emerges as the most used performance criteria due to the ease of accessing and calculating data. The following sections will focus on the most commonly used profitability criteria's in financial performance.

### 2.2.1.2 Return on Equity (ROE)

This ratio, which is also called financial profitability or equity earning power, basically answers the question about the rate of return provided by a company's equity of 1 \$ in the relevant period. In other words, the return on equity shows the profitability per unit of money left by the partners to the company as a resource (Ross, Westerfield and Jaffe 1990:44) and is calculated as follows;

$$\text{Return on Equity} = \text{Net profit for the period} / \text{Equity}$$

The important point to be considered while calculating the return on equity ratios is to determine whether the equity figures calculated as a result of a certain accounting discipline show the real equity of the enterprise. Equity figures obtained from the business balance sheet do not reflect the real capital of the business in some cases, and the equity values may be very low or even negative due to large losses in previous periods or high provisions for various reasons. In such cases, about the capitals of the companies in question, market values can be more illuminating. A firm's equity can also be found by calculating the difference between its total net assets and liabilities. Errors were made in the evaluation of assets or the net asset total was calculated incorrectly. Otherwise, it can be shown as too much or insufficient because it has equity capital of a business (Akguc 2002:63). Returns on alternative investment vehicles should be taken into consideration when analyzing the return on equity, which evaluates the return on the capital made available to the business by the partners. Although this ratio does not take into account some key performance metrics and risk when used alone, the return on equity ratios that we will calculate through Du Pont analysis help to eliminate some of these drawbacks. Du Pont Analysis or system is a financial analysis and planning model that enables the factors that make up the return on equity capital to be understood by establishing simple accounting relationships.

If the financial situation of the company is evaluated with this model, it will be possible to reach more reliable information about the company as a result of the analysis, since factors such as the risk and effectiveness of the company will also be taken into account. The aforementioned relations can be expressed as follows (Akgüç 2002:65).

$$\text{ROE} = \text{Net Profit/Total Equity}$$

$$\text{ROE} = (\text{NK/Sales}) * (\text{Sales/Total Assets}) * (\text{Total Assets/Total Equity})$$

As can be seen from this equation, return on equity consists of three main factors. These are respectively; it is the equity multiplier that shows net profit margin, asset turnover and risk. If return on equity is analyzed in this way, it provides much more information about the performance of firms, so the ratio becomes a much more important measure of financial performance.

### 2.2.1.3 Return on Assets – ROA

ROA is a ratio used to gauge the size of a company and the efficiency it provides (Saldanlı 2004:4). It is one of the most commonly used financial performance criterion. This ratio, which demonstrates how effectively all of the firms' tangible and intangible assets are employed to achieve their production, may be computed as follows:

$$\text{Return on assets (ROA)} = \frac{\text{Net profit}}{\text{Total assets}}$$

As mentioned earlier, EBIT numbers can also be used in place of net profit numbers in calculating said ratio. The rate calculated in this way is called “economic profitability” in the literature (Akgüç 2002:68). Through Du Pont's analysis, it is possible to see the interaction of various ratios in the calculation of return on assets, as well as in the calculation of equity.

$$\text{ROA} = (\text{Net Profit} / \text{Net Sales}) \times (\text{Net Sales} / \text{Total Assets})$$

As can be seen, the first part of the formula shows the net profit margin, that is, the success rate of sales or the profitability of the release, and the second part shows the turnover rate of the total assets, in other words, the efficiency of the firm. As a result, gross profit margin, or the profit rate from each sale, and successful company management, or the capacity to obtain the highest sales figures with the fewest assets, are important factors in determining the return on assets (Van Horne and Wachowicz 1995: 142). Return on assets is expected to be large as well as return on equity. The large ratio in question is extremely important for all stakeholders of the company. This is because a large ratio indicates that the firm creates high added value by managing its assets well. Another issue as important as the large ratio is that

the ratio should be above the cost of capital. Operating activities are typically funded from several sources, and cost of equity is the weighted average cost of these funds from numerous sources. The firm's return on assets is naturally designed to be higher than the average cost of capital.

#### **2.2.1.4 Net Profit Margin**

Net Profit Margin is one of the most basic ratios used to measure the profitability of sales. In practice, it is frequently used as an important performance indicator in measuring the success of activities, as it provides information on pricing, cost structure and production efficiency (Ross et al.1990: 43). The formula is as follows:

Net profit margin:  $\text{Net profit} / \text{net sales}$

Net profit margin, in its simplest form, shows how much of a business's sales of 1\$ equals the net profit after all expenses are deducted. This ratio gives important clues about the net efficiency of business activities and shows the results of various policies and decisions applied by the business, such as pricing or pricing. This ratio is expected to be large as in other profitability ratios. However, unlike other profitability ratios, the net profit margin can vary greatly from sector to sector, depending on the turnover rate of sales. For example, in the retail sector, this ratio is expected to be lower than in the energy or chemical industry. As it is known, the income statement of a business gives the results of operations and different profit items as amounts. It is also possible to calculate meaningful sales profitability ratios by using different profit figures such as Gross Sales Profit, Operating Profit, Ordinary Profit, which are presented in the income statement other than net profit.

#### **2.2.1.5 EPS**

The earnings per share ratio is a metric that measures how much money a company makes for its shareholders over a specific time period. It represents the profit per share for the period after the firm has run its course and all of its commitments have been met. The ratio is especially essential for individuals considering investing in the business since it evaluates whether the company's

operations generate enough money for the owners or partners. Net income is divided by the average number of outstanding shares to arrive at earnings per share.

$$\text{EPS} = \text{Net profit} / \text{number of stocks}$$

If the company has preferred stock, earnings per share is determined as net income after taxes less dividends given to preferred and founder shares, the board of directors, and staff, with the remaining profit equal to the entire number of ordinary shares. It's computed by dividing the number by the number of people in the room (Gökbulut 2009: 64).

$$\text{EPS} = (\text{Net Profit} - \text{Preferred Dividend Payments}) / \text{Number of Common Stocks}$$

Earnings per share ratio is so widely used that many investors consider Earnings per Share to be the key indicator of stock performance. The course of this ratio over the years is used as an evaluation criterion when investing in business shares. However, comparing Earnings per Share figures with those of other companies may lead to erroneous results in some cases, as companies do not take into account their capital structures (Gökbulut 2009: 65).

#### **2.2.1.6 ROIC**

Return on invested capital is a rate of return that shows the return on total capital used to make an investment. The said ratio can be calculated as follows (Damodaran, 2007: 7).

$$\text{ROIC} = \frac{\text{EBIT} * (1 - \text{tax rate})}{\text{Invested Capital}}$$

The ratio in issue comprises four components, as can be seen from the formula: operational income (EBIT), tax adjustment, book value of capital, and time difference. The following equation is used to calculate the market valuation of the capital invested in the formula.

$$\begin{aligned} \text{Invested Capital} &= \text{Fixed Assets} + \text{Current Assets} - \text{Current Liabilities} - \text{Cash} \\ &= \text{Fixed Assets} + \text{Non-Cash Net Working Capital} \end{aligned}$$

Because money contributed not only by partners but also by lenders are included in the assets, the return on invested capital must take into account the return on all capital invested in the firm. Therefore, while calculating the operational income of a business, the profit before interest and tax (EBIT) figures should be taken into



account and this figure should be corrected with the tax rate (Damodaran 2007: 8). The company's cost of capital is likely to be higher than this ratio.

### **2.2.1.7 Cash Flows**

As mentioned earlier, relying only on certain items from the balance sheet and income statement when measuring business performance can lead to mistaken results in some cases. Some features of these financial statements arising from accounting principles and the vulnerability of these statements to manipulation may prevent the performance criteria calculated using the relevant statements from answering some questions. For example, the balance sheet shows from which sources the business has received its funds and where it is using them at a given moment. This static table makes it impossible to have complete information about items that are constantly changing depending on the activity of the business. On the other hand, the income statement, which explains the changes in the financial situation and has a dynamic structure, explains only the activities related to the change in the financial situation, while the profit distribution table shows how much of the income obtained as a result of the activity is retained in the enterprise. However, not all tables can explain the effect of all financial transactions of the enterprise on the financial situation (Akdoğan and Tenker 2001: 217).

The fact that cash flows, which are beneficial to the business and therefore extremely important in performance valuation, do not consist only of profit, in other words, the importance of the distinction between cash and profit has drawn the relevant people to the financial statements to be prepared separately for this purpose, namely "fund flow statements". Cash flows obtained through funds flow statements provide information about the firm's liquidity ability as well as its growth and development opportunities. Cash flow also contains information about the profitability and success of the business. In this respect, Cash Flows have long been used by managers and investors as an important measure of financial performance. Elements of cash flow; use ordinary business activities, investment and financing. Cash flows can be used to fund operations, investments, and loans. The main activity and additional operations that create income other than the enterprise's investment and financing activities are included in cash flows from operational activities.

Investing operations include the acquisition and sale of financial, plant and equipment, tangible and intangible assets, special depletion and other non-current assets, as well as special depletion and other non-current assets. Financing operations generate cash flows, which include activities such as the production of equity and foreign resources, as well as changes in these resources (TÜRMOB, 1997: 41).

**Table 3:** Cash Flow Statement Format Required To Be Prepared By The CMB

<b>1. Cash Sources (Uses) of Operating Activities</b>
A. Cash from Ordinary Operations
B. Cash Outflows from Ordinary Operations
C. Net Cash from Extraordinary Income and Profits
D. Changes in Other Current Assets and Short-Term Liabilities Related to Operations
E. Payments for Period Profit and Other Legal Liabilities
= Net Cash Source (Use) from Operating Activities
<b>2. Cash Sources (Uses) Related to Investment Activities</b>
A. Cash from Investment Activities
B. Cash Outflows Related to Investment Activities
= Net Cash Source (Use) from Investment Activities
<b>3. Cash Source's (Uses) Related to Financing Activities</b>
A. Cash from Financing Activities
B. Cash Outflows Related to Financing Activities
= Net Cash Source for Financing Activities (Use)
<b>4. Cash Increase (Decrease) (=1+2+3)</b>
<b>5. Cash Available at the Beginning of the Period</b>
<b>6. Period-End Cash (=4+5)</b>

#### 2.2.1.8 EBITDA

Earnings before interest, taxes, depreciation, and amortization, or EBITDA, are a metric used to evaluate a company's operating performance. It may be viewed as a representation of the cash flow generated by the whole company's operations. The EBITDA metric is an operating income variance (EBITDA) that eliminates non-

operating expenditures and some non-cash items that aren't directly tied to core business activities. These deductions are intended to eliminate elements over which business owners have control, such as debt financing, capital structure, depreciation techniques, and (to some extent) taxation. It may be used to demonstrate a company's financial performance without accounting for its capital structure. (<https://corporatefinanceinstitute.com>) since EBITDA includes items like interest, tax, and depreciation, the comparison will be more objective. If this figure is positive, we know the company made a profit; if it is negative, we know the company lost money before taxes, depreciation, and interest.

The formula for calculating EBITDA is as follows:

$$\text{EBITDA} = \text{Net Income} + \text{Interest} + \text{Taxes} + \text{Depreciation} + \text{Amortization}$$

OR

$$\text{EBITDA} = \text{Operating Profit} + \text{Depreciation} + \text{Amortization}$$

#### **2.2.1.9 Value-Based Financial Performance Measures**

With globalization and increasing competition, companies' need for an effective performance measurement system that they can use in their decisions regarding their financial activities has increased. For this reason, companies have highlighted the purpose of creating value in the performance measurement methods they use in order to develop in a healthy way and increase the value of the company (Ercan, Öztürk and Demirgüneş 2003:69). Value-based performance measures generally focus on shareholder income. Among these methods, which will be explained in the next part of the thesis; Net Present Value, EVA and MVA performance criteria meet the performance evaluation and valuation demands of investors by converting the accounting data of the relevant period into economic aggregates (Gürbüz and Ergincan 2008:.8).

##### **2.2.1.9.1 Net Present Value (NPV)**

The total of the values produced by discounting the net cash inflows that a project will provide over the course of its economic life using a discount rate is known as Net Present Value (Van Horne and Wachowicz 1995:.338). To be judged acceptable under this technique, a project's net present value must be greater than or

equal to zero. The net present value of a project is calculated in three stages. The following are some of them (Ureten and Ercan 2000:85):

1. Calculate the present value of cash flows by determining the discount rate
2. Estimating future cash flows
3. Determining the discount rate.

Using the discount rate chosen, estimated cash flows are discounted to present value.

This is accomplished by applying the following formula:

$$NPV = \sum_{t=1}^n \frac{Rt}{(1-i)^t}$$

**Where:**

$Rt$ =Net cash inflow-outflows during a single period

$i$ =Discount rate or return that could be earned in alternative investments

$t$ =Number of timer periods

the accurate determination of the discount rate is the most crucial aspect of the method's implementation. The discount rate and the net present value to be determined have an inverse relationship. The calculated discount rate should not be less than the cost of capital. Furthermore, the investment risk, the current interest rate in the capital market, the enterprise's average profitability, the profitability rate in similar investment sectors, the opportunity cost of capital, and the marginal productivity of capital should all be taken into account (Ross et al. 1990:49). Because it is a metric that encompasses all information about a firm's performance, the net present value technique is one of the finest valuation methods. It is possible to get a long-term view on the firm using this strategy. The company value determined using the NPV approach and the market value of the firm have a very good association. (Ercan and Ureten 2000:11).

#### **2.2.1.9.2 Market value added (MVA)**

Using the EVA method described above, as a performance appraisal tool, business activities have begun to be classified in the literature and the business world as value-creating and non-value-creating activities. As a result, activities that do not create added value have been canceled and efforts have been made to use capital

more effectively to create this understanding. As a result, eyes were focused on the market values of companies and then the concept of market value added, which is a measure of market value, was introduced (Gürbüz and Ergincan 2008:254). The MVA criteria is based on the belief that company owners' wealth can only be maximized by increasing the gap between the entire value of the firm and its total capital (Gökbulut2009:125). In other words, MVA is the gap between the firm's total value and its total equity value, and it may be represented in the following way (Ünlü 2008:157)

$$\text{MVA} = \text{Total Value} - \text{Total Equity}$$

The market value of the firm's debt and equity is represented by the total value.

As previously stated, EVA assesses a company's capacity to raise equity over its expected cost of equity and debt capital. MVA is a metric that assesses a company's ability to enhance total shareholder value. As a result, MVA and EVA, which is the present value of future EVAs if EVAs are positive (Gürbüz and Ergincan 2004: 350), have a very high correlation and harmony. The following is how they describe the link between a company's MVA and its predicted future EVA (Bayraktaroğlu and Ünlü 2009: 300):

MVA = Present Value of future EVAs

$$\text{MVA} = \text{EVA} (1) / (\text{WACC}-g)$$

Here, EVA (1) represents the expected EVA of the firm next year, while "g" represents the expected rate of growth in the firm's long-run EVA.

### **2.2.1.9.3 EVA**

In the broadest sense, economic value added (EVA) is the difference between a company's operational profit and the cost of capital it utilizes to achieve that profit. As long as a company's profit margin exceeds its cost of capital, it is producing value. As a result, the business is not successful unless it produces a return on invested capital that is higher than the alternative cost of capital (Drucker 1995). If a firm is unable to generate a return on equity greater than the cost of capital, the firm's partners cease to hold the shares, thereby reducing the price of the shares to book value. However, if a firm earns more income than the cost of equity, the shares are sold with a premium to be added to the book value and it creates value for the

shareholders (Çelik 2002). Capital is also valued in the EVA approach for evaluating profit. In other words, the firm's capital is costed and accounted for as a cost in the profit calculation. As earnings exceed the cost of capital, the EVA depicts the real change in shareholder value. This is a measure of a company's ability to make profit. While it illustrates how much or how little profit a company makes in relation to the cost of total capital employed, it is essentially computed by subtracting the cost of capital invested in the company from the after-tax operating profit (O'Byrne 1996). In this sense, EVA is a financial performance measurement approach based on accounting. However, data that is not included in accounting reports, as well as accounting data, is used in EVA calculations. The approach in issue calculates financial performance by factoring in the cost of capital, net operational profit after taxes, and the cost of investing in the assets required to achieve this profit (Brewer et al. 1999).

#### **2.2.10 Market Based Performance Metrics**

Stock market-based performance metrics are another set of criteria used to assess a company's financial performance. These criteria or ratios are widely used to compare and evaluate similar companies in the same industry, as well as to determine their valuations (Van Horne and Wachowicz 1995: 68). Despite their flaws, these criteria, which can lead to erroneous outcomes when applied to inactive and volatile financial markets, remain popular. The next section of the research will go through three of these criteria (Market Value/Book Value, Price/Earnings Ratio, and Tobin Q Ratio), which are often employed in stock markets, as well as total shareholder return, which is considered crucial.

##### **2.2.10.1 Market Value/Book Value Ratio**

The Market Value/Book Value Ratio is one of the most basic ratios used to assess a company's market performance. It is computed by dividing the firm's market value, as defined by current stock prices, by the firm's book value, as established by the company's accounting records. Market value is the worth of a stock determined by supply and demand under market circumstances, as is well known. It is believed

that in fully efficient markets, the true value of a stock and its market value will be equal (Van Horne and Wachowicz 1995: 109).

Divide the difference between the company's assets and liabilities (i.e. the company's net value) by the number of outstanding shares to get the ratio. If the market value/book value ratio, which is calculated by dividing these two numbers by each other, is less than 1, the stock is considered inexpensive and may be purchased for a higher-than-average return. If the computed market value/book value ratio is more than 1, on the other hand, the stock is regarded costly and sales are encouraged (Şıklar 2004: 120). The formula for calculating this ratio is presented below.

$$\text{Book Value} = \text{assets} - \text{liabilities} / \text{number of stocks}$$

$$\text{M/B} = \text{Market Capitalization} / \text{Net Book Value}$$

This ratio, frequently used by investors, is to get an idea of whether a stock is overpriced or cheap by looking at how much the company's market value is above or below book value on the balance sheet. However, making a decision about the market performance of the firm by only looking at this ratio may lead to erroneous results. Because there can be many reasons why the rate is low or high. For example, due to various accounting methods used, the calculated book values may not reflect the truth. Similarly, the reality of prices in the capital markets, which do not have a healthy structure, is another matter of discussion. If the market has determined the value of the firm correctly, taking into account all the information about the firm, it can be said that high M/B ratio is an indication that the company is successful in the market, and that the low M/B ratio is an indication that the company is unsuccessful in the market.

#### **2.2.10.2 Price/Earnings Ratio**

This ratio, which essentially displays the link between the dividend per share and the stock market price, is commonly employed by both existing and future shareholders. This ratio is popular because, like the Market Value/Book Value ratio, it is simple to compute and provides insight into whether a company is pricey or inexpensive. The following formula is used to determine the specified ratio (Ross et al. 1990: 130):

$$\text{P/E} = \text{Market price} / \text{Earnings per share}$$

The ratio indicates how much investors are ready to pay for a \$1 per share profit. The price-earnings ratio rises when investors tolerate higher prices, particularly for firms with strong growth prospects and a promising future (Efecik 2006: 102). In other words, the firm's profits growth rate and risk are the major drivers of the price-earnings ratio. The ratio is inversely proportional to profit growth and directly proportional to the firm's risk. The risk of generating a profit for investors who buy the shares rises as the firm's stock prices grow, hence the bigger the risk, the higher the ratio. When the price goes down, the risk goes down, and the rate goes down (Saldanl 2006: 8).

This method is important as it provides a guide to investors about both the general course of the market and the performance of the relevant firm. However, as with the M/B ratio, using the P/E ratio alone may cause some inconveniences. It is assumed that the market price reflects the true value of the firm, the P/E ratio becomes meaningless if earnings are negative, and fluctuations in earnings and prices cause the P/E ratio to change from period to period can be counted among the drawbacks (Düzer 2008: 38). On the other hand, focusing only on profit and not considering cash flows can be seen as another shortcoming of the method. Because cash flows are more important than net profit in some industries, investors may prefer the Price/Cash Flows ratio (Brigham and Ehrhardt 2002: 82).

### **2.2.10.3 Tobin Q ratio**

Another measure for evaluating financial success is the Tobin Q ratio, which is determined by dividing the firm's market value by the replacement cost of its assets. James Tobin created this ratio in 1969, and it is used as a measure of a company's development prospects as well as its effective resource usage and managerial efficiency. Chung and Pruitt (1994) presented the estimated value of q in order to minimize the challenges in computing the Tobin Q ratio, which is determined by dividing the market value of all assets by the replacement value of all assets (Efecik 2006: 98).

The approximate value of Q given by Chung and Pruitt (1994) is determined as:

$$\text{Approximation of Tobin's Q} = \frac{\text{MVE} + \text{PS} + \text{DEBT}}{\text{TA}}$$



Here:

- MVE is the stock's market price multiplied by the number of issued shares.
- PS stands for the preferred stock price divided by the number of shares.
- DEBT is the difference between a company's short-term obligations and short-term assets, plus the company's long-term debts.
- The book value of the company's total assets is TA.

The fact that the Tobin Q ratio obtained in the previous figure is greater than one suggests that the assessed firm's assets are properly used. A high ratio, once again, provides investors a good indication of the company's growth prospects and competitiveness. If the Tobin Q ratio is less than one, it is feasible to claim that the marginal return on investment is less than the cost of capital, since if a firm's return on investment opportunities is equal to the cost of capital, the Tobin Q ratio should be one (Canbaş, Doğukan, Düzakın and İskenderoğlu 2005: 38). Since the Tobin Q ratio, which is frequently used to measure performance in studies in the field of finance, combines accounting and market data, it takes into account both the past and future performance of companies and thus gives useful clues to analysts (Canbaş et al. 2005: 38).

### **2.2.2 Non-Financial Performance**

As mentioned before, non-financial performance measures have been extensively studied for a long time, especially in the management science literature, on the grounds that financial measures do not reflect important resources and activities (Kaplan 1983:9). In the focus of these studies, there are criteria such as quality and efficiency (Kaplan 1983:9) and customer satisfaction (Ittner and Larcker 1998) that are not included in financial reports but have great importance on firm value. The reason for this increasing interest in non-financial criteria such as quality, efficiency and customer happiness stems from the developments in the US business world in the 1970s. According to many authors, the decline in the competitiveness of US companies, especially in the 1970s and 1980s, is due to the strategic decisions made by considering financial performance criteria. In the aforementioned period, myopia caused by excessive dependence on financial criteria adversely affected the long-term strategic positions of US companies, and the effects and consequences of

this nearsightedness became more important with the changes in technology and rapidly increasing international competition.

An example of this situation is that the US chip manufacturers reduced their R&D expenditures and capacity increase decisions in order to protect their financial assets during the 1974-1975 recessions. As a result of such a strategic decision based on financial criteria, these companies lost their production and technology leadership to their Japanese competitors, who focused on quality and long-term competitive strategies in the following years (Kaplan 1983:697). Similar developments in other sectors quickly attracted the attention of managers to non-financial performance measures (Eccles 1991:132). As a result, the sensitivity to Total Quality Management, which started in the 1980s, can be seen as one of the first steps towards non-financial criteria (Ittner and Larcker 1995).

Today, non-financial performance criteria, which are used extensively by businesses for very different purposes, do not only focus on quality, but also productivity, flexibility, innovation, quality of working conditions, customer satisfaction, etc. It takes into account many success criteria. Among the reasons why businesses use non-financial measures, these criteria provide a more balanced perspective than financial ones, increase the reliability of the performance evaluation process, enable investors and lenders to evaluate intangible assets that cannot be calculated with financial accounting methods, facilitate the transfer of business strategy to employees, It can be counted as encouraging success in relationship management and focusing on long-term activities in businesses (Said, HassabElnaby and Wier 2003:195). Several performance measurement systems have been created to measure and integrate these non-financial aspects due to the above-mentioned aims and the crucial impact of these non-financial indicators on corporate success. These measurement systems, which aim to provide information about all dimensions of the business with very wide sets of measures, also focus on non-financial information in order to provide balance. The systems in question were designed using criteria that take into account external success as well as internal success and provide information about future performance figures (Bourne et al. 2000: 754-755).

The Balanced Score Card (BSC) system designed by "Kaplan and Norton" is the most widely acknowledged of these performance evaluation methods, which

focus on non-financial as well as financial performance metrics (1992). Basically, the Balanced Scorecard method predicts that strategic management cannot be based only on financial indicators and includes the Customer dimension, Internal Efficiency dimension, and Learning and Development dimensions, which complement the financial perspective, into the performance measurement process. It is claimed in the relevant system that making decisions based on financial indicators based on past results ignores cause and effect relationships and prevents future prediction, and as a result, leading indicators that affect the future, such as customer satisfaction, employee abilities, and the ability to create, are also taken into account (Kaplan and Norton 1992:75).

Despite the many things they suggested, new performance measurement systems sought an answer to the question of what kind of criteria a business should use, but they did not provide a solution for the application of a generally accepted performance measurement system, and as a result, they could not go beyond being a model. These models suggested areas where business performance measurement could be useful, but failed to clarify how appropriate measures could be found, introduced, and ultimately applied (Neely, Richards, Mills, Platts and Bourne 1997: 1136). Other criticisms of non-financial criteria and systems can be listed as follows: as in financial criteria, comparisons between sectors or businesses cannot be made, managers are open to manipulation, measurement and evaluation processes are expensive, and due to the abstract nature of these factors, they cannot evaluate accurately, fully and objectively. methods cannot be developed, making performance results more complex, difficulty in determining the right performance target, reliability problem of performance information, economic benefits of which have not yet been fully proven despite their acceptance, etc. (Said et al. 2003: 218). On the other hand, the most common argument put forward in the criticism of financial measures by researchers defending non-financial performance measures is that financial measures show historical data of enterprises and do not give any idea about future performance figures. Therefore, it is emphasized that in the performance evaluation process of enterprises, not only the financial dimension, but also non-financial criteria such as guiding quality, customer satisfaction, employee satisfaction and innovation should be taken into account.

However, the accuracy of these claims is highly controversial. Because even when only accounting criteria are considered, it can be said that the resulting profit figures are the result of factors such as quality and customer satisfaction in the past, and naturally they can give clues about future profitability or growth figures. Again, considering the market or value-based financial performance criteria, it is possible to argue that most of the calculations are about the future due to the nature of finance science. In the next part of the study, the literature of business groups will be discussed, especially by looking at the business group performance relationship.

### **2.2.2.1 Performance with Consumers**

Customer satisfaction may be assessed by factors such as the quality of service offered to the customer, customer loyalty, the company's image, reputation in terms of consumers, and customer complaints (Eren 2007: 63). The concept of image, which includes elements such as the organization's mission, vision, social responsibility strategies and organizational culture, is the perception of corporate identity that emerges in the thoughts of corporate stakeholders and significantly affects customer satisfaction. In studies on corporate strategies, it is stated that corporate reputation is among the intangible assets of companies such as patents and agreements, and it is emphasized that it provides companies with a competitive advantage (Sabuncuoğlu 2010: 89-96). The existence of customer-oriented strategies of companies can be measured by the answers to the five statements. First, whether customer feedback and complaints are encouraged since they help the firm improve; second, whether after-sales service is an essential aspect of the business plan; and third, customer loyalty. fourth, whether new methods to add value to a product or service are always being investigated; Lastly, is client satisfaction monitored on a regular basis (Gray et al. 1998: 896).

As an institution, it first starts within its own institution. Employees should protect the corporate culture and values. It is necessary to support this reputation with research and development activities, qualification and quality of employees, financial transparency, and social responsibility activities. Considering the criteria used to measure this performance, customer orientation/satisfaction is evaluated under a separate heading (Kadıbeşegil 2012: 135-139). Each of the employees is a

representative of the company and reflects the image of the company towards customers. In this context, they are a factor that directly affects customer loyalty (Kalyon 2012:39).

#### **2.2.2.2 Service Quality**

The ability of a service to meet specified needs is defined as quality. It meets the expectations of customers for a good or service. Meeting the needs of services, reducing costs with an effective cost control, increasing operational efficiency is a strategic tool used in terms of tourism businesses (Tavmergen 2002: 30). Meeting the expectations of the customers and exceeding the expectations about the service provided is called service quality (Yılmaz 2007: 26). Achieving acceptable standards to the target audience is defined as service quality. It is how the service is perceived by the consumers and the production of policies suitable for this perception (Karakaya 2009: 41). In recent years, the notion of service quality has begun to be applied in the tourist industry. It is one of the most significant conditions for a company's success. In order to stay afloat, tourism enterprises must make optimal use of their resources. It should ensure the satisfaction of its customers by producing quality service. Otherwise, it would be difficult for them to survive (Aymankuv 2005: 78). Businesses should provide the service they offer with high quality and ensure continuity in this service. Thus, they will provide a competitive advantage in the globalizing world. Globalization and increasing competitive conditions make it difficult for businesses to compete. Considering this situation, businesses can choose to increase their competitive advantages. The enterprise's market position is enhanced by differentiated products, performance, and customer-focused tactics (Eleren and Kılıç 2007: 236). Accommodation businesses are also based on profitability as in every business area. Businesses often make concessions on the price of the service they offer and reflect this on their services. Even if this approach is beneficial for the short term, it both drags businesses into losses and causes complaints from customers coming to businesses. Businesses, the continuity they will provide in their services and the service price when they can adjust the balance correctly, they will be able to increase their profitability. Service quality realizes business performance with operational dimensions (Örs2007: 57).

### **2.2.2.3 Customer Loyalty**

Loyalty can be thought of in terms of purchase frequency or purchase volume. In short, a customer continues to buy the same product regularly (Gupta and Zeithaml 2006: 721). Financial indicators remained insufficient for businesses. It is now seen that non-financial performance indicators also measure the competitiveness of businesses. Businesses will keep their existing customers and turn these customers into loyal customers, which will ensure the continuity of the business in an intensified competitive environment (Baydaş 2004). Providing customers with low prices and high quality service by reducing costs will increase customer loyalty. Increasing the efficiency of the business in the market by controlling its costs is the most reliable way to compete in terms of price (Doğan et al. 2003: 114-138).

Advertising behavior that emerges as consumers inform and recommend their immediate environment and other consumers about the business is one of the leading factors affecting customer loyalty (Özer and Antepioğlu 2005: 203-224). Increasing the loyalty of existing customers, attracting potential customers to the business through word of mouth advertising is important for the business. As a result of the low price sensitivity of businesses, customer loyalty has an important role in increasing profitable sales (Doyle 2003: 162).

Profitability and client loyalty have a strong connection, as we can see. According to Reichheld and Sasser, a firm may raise its profitability from 25% to 125 percent by keeping 5% of its clients (Aksu 2004: 70-75). Bowen and Chen also support the relationship between customer loyalty and profitability. Continuous shopping with the business will prevent loyal customers from turning to competitors. Thus, customer loyalty will affect the profitability of the business (Bowen and Chen 2001: 213-217).

### **2.2.2.4 Customer Relationship Management**

The understanding that anticipates the needs of customers and works on this subject is called Customer Relationship Management. In addition to being a marketing tool applied by many businesses that manage relations with customers, develop strategic relations, ensure customer satisfaction and benefit from technology

in this regard, we can also express it as a management strategy (Bakırtaş 2013: 3). It is also defined as guest relations management in Accommodation Businesses. It gives information about how guests evaluate the services. Many definitions of Customer Relationship Management have been given in the literature. Customer Relationship Management is a relationship approach that anticipates the expectations of customers and takes these expectations into account (Çati and Koçoğlu 2010: 229). It is the self-direction of the business according to the customer (Güleş 2004: 233). The aim of Customer Relationship Management is to improve customer relations by developing services in line with customer expectations (Demirbağ 2004: 6). This method helps to create an efficient database. The use of customer relations as a strategic activity in order to address the demands of customers is a typical feature of definitions in the literature (Aksatan and Aktaş 2012: 234). It ensures that the transactions are carried out regularly and in a planned manner. It reduces costs while increasing the profitability of the business and it also provides an increase in the level of client faithfulness (Ünüşan and Sezgin 2004: 119).

The researches show that the customers who are not satisfied with the business leave the business without reporting their complaints (Burton and Burton 1997: 3). At the point of understanding the customer correctly and finding a solution to the problem, customer relations management sees customer satisfaction as the focal point. Prior research for customer satisfaction ensures customer satisfaction, be it hotel facilities or staff (Barsky and Labagh 1992: 32). The quality of service in accommodation establishments may vary from guest to guest. At this point, Customer Relationship Management gives importance to customer satisfaction, unlike other methods. As a result, it's crucial to have a management strategy that provides a sustainable competitive advantage in accommodating businesses in acquiring new customers and retaining existing customers (Güleş et al. 2005: 279). A new customer costs more than a loyal customer. Although it is more important to turn the current customer into a loyal customer, the goal of accommodation businesses is to gain new customers. Being customer-centered is the main reason for the existence of customer relationship management. It is seen as a part of customer satisfaction in order for the business to continue its existence and maintain its profitability. The use of technology in customer relations management, which has

gained repercussions in the business world in recent years, has increased service and quality in a way that will satisfy the customer (Taşkın 2012: 7). Today, the cost of maintaining customer loyalty for businesses is increasing. For this reason, businesses must implement customer relationship management in order to survive.

#### **2.2.2.5 Customer Satisfaction**

One of the main indicators used by the company to evaluate non-financial performance is customer satisfaction. Different studies are carried out for customer satisfaction in different countries. These studies provide light on the impact of consumer expectations and perceived value on satisfaction and loyalty (Demir 2012: 674-680). Client satisfaction is determined by staff attitudes toward consumers. The degree of customer satisfaction is determined by the services offered by workers who are content with their employment and workplaces. (Uluyol, Derin and Demirel 2011: 318). Today, customer-oriented structures are at the center of marketing understanding (Çati, Murat and Gelibolu 2010: 430). One of the key issues on the performance of a business is its ability to respond to customer needs (Jayachandran, Hewett and Kaufman 2004: 219). Positive relationships established with the customer will be directly reflected in customer satisfaction. Businesses whose focal point is the customer can respond to customer needs effectively and quickly in advance (Hughes, Morgan and Kouropalatis 2008: 1378). Two issues to be considered in order to ensure client happiness; It's about how quickly you reply to customers and how well you respond to them (Jayachandran, Hewett and Kaufman 2004: 220). Customers' return metrics are metrics that are directly related to business performance. Managers can use feedback information received from customers as performance indicators of the business. This information is obtained with measurement questionnaires (Morgan and Rego 2006: 426). The main reason for the increasing focus on customer satisfaction is that the satisfied customer will be willing to buy again.

In this way, it will be easier to serve the loyal customer while retaining the customer. As a result of this, low cost and high income expectations will also arise, as well as high profit expectations. In addition to having customers with a high level of satisfaction, the business will also attract the attention of potential customers. The



increase in customer satisfaction will increase the market share and contribute to the improvement of profitability. Customer satisfaction will turn into customer loyalty. This will positively affect the operating profit (Yeung and Ennew 2000: 313-314).

#### **2.2.2.6 Employee Feedback**

Feedback is an informative interview that allows employees to see their performance, informs the employee about the results of the valuation, and corrects the deficiencies (Esmer 2011). Feedback is the answers we get to the questions we ask when something doesn't go the way we want or the result is not what we expected. It is the reflection of the effect on us as a reaction. Thanks to this feedback, the evaluations will be healthier (Bentley 2003: 99). The most important factor in learning, growth, development and motivation is feedback. People cannot know how successful their work is without feedback. Feedback is important for the business in terms of correcting the mistakes made.

The person receiving the feedback tries to find a solution. Feedback has different meanings for career. It provides guidance for those at the beginning of the career, development for those in the middle, and efficiency for those at the end (Lloyd 2006: 149). Feedback, which is a natural need, allows employees to evaluate their performance in the training process and to improve themselves in the next performance period (London 1997: 11). In a study, one group of managers took into account the feedback of the employees a year ago, while the other group of managers did not take into account the employee feedback. As a result, the performance of the group that cares about the feedback has increased within a year (Walker and Smither 1999: 393). It aids the management and employee in achieving the company's long-term objectives. The manager must lead the employee's development in order for him to grow. Considering previous performance data, it helps the employee how he can improve his performance. It increases the motivation of the employee. (Cynthia and Lyle 1996: 576). An unbiased feedback on job performance will help the employee develop his or her talent. Investing in training for the employee, ensuring that he specializes in his field, and ensuring that his behavior is discussed in an impartial way ensures that the result to be obtained from the performance system is more efficient (Shaikh 1995: 13).

### **2.2.2.7 Employee Performance**

Employee Performance Dimension; The job satisfaction level of the personnel can be measured by variables such as the ability of the enterprise to attract qualified employees to the enterprise, the ability of the enterprise to keep qualified employees in the enterprise, the relations between management and employees, the productivity of employees, absenteeism, labor turnover rate and employees' commitment to the business (Eren 2007: 62-63). Job satisfaction; defined as the emotional orientation of the employee towards his/her job role or the emotional reaction of the employee towards his/her job. In the light of these definitions, job satisfaction emerges if the needs and values of the person are compatible with the job he/she does (Özcan 2011: 108). Efficiency means using more products or services from the same resources or using less resources to obtain the same product or service, and it refers to the efficient use of company resources. Firms increase their productivity they can have the opportunity to compete (Kayar 2012: 45). The main resource that will increase the efficiency of the organization is the employees. Managers' attitudes toward employees at all levels of the business are critical in guaranteeing efficiency. Maintaining good relations with the employees, giving them a voice in making the decisions they are concerned with, guiding them in solving their problems and benefiting from their innovative ideas are the indicators of the attitude towards the employees (Başaran 2004: 261).

Human Resources' acquisition of a strategic component has had a significant impact on employee motivation because the ability to inspire and retain competent, skilled, and innovative people who have absorbed the abstract/informal organizational culture and concrete/formal organizational vision is critical to the effective execution of organizational strategy (Öğüt et al. 2004: 288). Sickness, accident, leave, excuse etc. Frequent absenteeism of the employees affects the production and efficiency of the organization negatively, and the calculation of the absenteeism rate will provide great benefits to the organization. The workforce turnover ratio is needed to determine the need for additional human resources. Because of changes in the number of employees due to reasons such as new investment and growth, retirement, death, and work accidents in a given period, the

average number of staff is computed by dividing the total amount of the number of employees at the start of the period and the number of employees at the end of the period.

#### **2.2.2.8 Social performance**

Community Performance; environmental sensitivity of the enterprise, respect for customer rights, employment level created by the enterprise, and the variety of services offered and the addressed market can be measured by variables (Eren2007: 63). Due to the increasing number of problems such as the natural environment, environmental pollution, and depletion of natural resources, organizations have begun to be seen as one of the most important stakeholders that they feel responsible for. The role of companies in our age and responsibilities began to be expressed as not compromising the ability to think of future generations while fulfilling their production functions. For these reasons, companies should ensure that all wastes released to the environment (air, water, soil) are purified and that the product is designed and produced in a way that will generate the least amount of waste throughout its life, including not only production but also use (Kılıç Akıncı and Akıncı 2010: 195).

#### **2.2.2.9 Productivity**

Productivity is a current performance indicator for businesses to solve economic problems. Productivity, one of the most basic criteria of development, is the ratio of the results obtained by the enterprise to the resources it uses to realize these results. In short, it is the ratio of outputs to inputs. Its formula is as follows (Akdemir 2009: 129)

$$\text{Productivity} = \text{Output} / \text{Input}$$

While the products and services produced in a certain period are evaluated as output, the resources used to obtain this production are evaluated as inputs. Inputs and outputs can represent physical or monetary amounts.

#### **2.2.2.10 Labor Cost**

It has become necessary for the workers to eliminate the negativities of the industrialization process. As an employer, the business does not assume its responsibilities alone, but feels the need to use programs based on insurance or fund principles (Kapar 2005:81). It provides social assistance and economic security by preventing the occurrence of social risks such as labor costs on employers, illness, work accident, etc. (Guzel and Okur 2004: 4-5). Looking at the statistics, labor costs are seen as a labor cost for the employer rather than the earnings of the employees. It is wrong to limit labor costs to worker wages. Because labor cost includes all miscellaneous costs such as health, retirement and similar (Sunal 2012). Labor costs are at the beginning of the costs incurred by the enterprise. The concept of wage is different for employees and different for employers. This concept, which affects the lives of employees, is cost for employers. The incentive element that ensures the survival of the employees, the satisfaction of the employee and being qualified personnel is the wage (Sunal 2012).

#### **2.2.2.11 Personnel Incentive Measures**

The importance of human resources in the enterprise is determined by the investments made in the performance development of the employees and the awards that support their work. Although the employees have the self-sacrifice that will increase the success of the business, the employer should fulfill their responsibilities such as job security, working environment, wages, etc. The reward system should meet the needs of both the business and the employee. It is a system that answers the questions of both parties, such as what does the business want to reward, what is the need of the employee, by interviewing the wage experts (Akıncı 2001: 103). The business needs a reward system to realize its strategies. The reward system, which affects business performance, is an element of human resources management. This element should depend on the performance of the business, in line with its values, and should depend on the business objectives and management style. One of the issues that should be under the responsibility of business management rather than human resources is payment techniques. Wage, compensation, and reward systems are the responsibility of the business management to establish and execute (Molander

1994: 11). The high efficiency of the business from the employee is directly proportional to the value it gives to the employee. Issues such as how the employee will be paid for the labor he has given and what his wage will be are difficult issues for the business (Geylan 1999: 242). Therefore, strategic evaluation of reward and wage systems is now an inevitable necessity.

#### **2.2.2.12 Innovation and Learning**

In order to maintain their competitiveness, businesses must constantly innovate as a result of rapid change (Koçel 2005: 388-389). Businesses that do not innovate cannot continue their existence because they cannot adapt to change (Drucker 1998: 21). The implementation of a new idea in the business is expressed as innovation. Innovativeness is expressed as "transferring and applying a new idea to business activities" (Arslan 2001: 42). A new product, service, or market arises as a result of business innovation (Diedre, Joe and Sadri 1997: 45). The source of these innovation elements, which provide competitive advantage to businesses and distinguish them from other businesses, is the innovative perspective of the employees. One of the reasons that push the employees to be innovative is the effects of the innovations made in the business on the employees. For example, the first thing they will do in a business going downsizing will be to act innovatively, since they will experience fear of losing their job. In this way, they will not lose their jobs and maintain their positions in the enterprise (Geisler 1993: 58). The reward system implemented by the business and the independence of the employees are the factors that enable them to act innovatively. (Hisrich et al. 2005: 46). Pushing employees to act innovatively and solving problems is one of the chronic problems of businesses (Borins 2000: 502-506)

## CHAPTER III

### COVID-19 AND FIRM PERFORMANCE

#### 3.1 PREVIOUS STUDIES ON COVID-19 AND FIRM PERFORMANCE

The majority of empirical investigations revealed that the propagation of the COVID-19 pandemic had a detrimental impact on company performance. Kim, Kim, Lee, and Tang (2020) look on the financial impact of macroscopic and infectious disease outbreaks on the restaurant business. Nine instances linked to four pandemic outbreaks were analyzed between 2004 and 2016. The case learns technique and the Mann-Whitney U test were used as the research progressed. They confirmed the negative impact of outbreaks in the restaurant industry and observed that all three business features reduced risk.

According to Shen etc. (2020), the impacts of the CoVID-19 outbreak on the performance of organizations in various regions and sectors in China were investigated, with return on assets as the dependent variable and size, debt, growth rate, and cash flows as the independent factors. The findings reveal that the outbreak resulted in a decrease in income, which led to poor performance. Meanwhile, Aifuwa et al. (2020), who looked at the impact of CoVID-19 on the financial performance of private companies in Nigeria, discovered that the epidemic harmed financial performance when measured as a return on assets. They urged that the government include private businesses in its stimulus packages to help them stay afloat during this difficult time. Davy et al. (2020) made two findings from their research of the influence of the Covid-19 epidemic on the Indonesia Stock Exchange's financial performance. First, during the Covid-19 epidemic, there was a growth in leverage (debt to equity), but a reduction in liquidity (current ratio) and profitability (ROA).

Second, while liquidity and leverage did not vary much, there was a significant difference in profitability between before and after the outbreak.

The influence of a pandemic on consumer purchasing was investigated by Jung, Park, Hong, and Hyun (2016). The study's information came from the Consumer Banking and Credit Cards Navigation Panel. The regression study found that epidemics distorted overall consumer expenditure significantly, with considerable variation between categories. Customers should alter their behavior to limit the chance of infection, they advised. According to the DOR insight research, which investigates consumer behavior in the Covid-19 process, it is stated that consumers' purchasing priorities have changed, they are moving away from their purchasing behaviors that are considered as luxury, and the use of social media has increased (Media Market 2020). Moreover, In the Global Web Index research, it is stated that more than 95% of consumers spend more time on domestic media consumption activities, and nearly 60% follow the news more than before. According to REM People, another research company that achieved striking results in this process regarding the Z generation, the Z generation, who reached their needs immediately before the epidemic and consumed it at once, started to learn the concept of stocking, which they had never learned before (Habertürk 2020).

When compared to the Spanish flu pandemic of 1918–1920 and the influenza pandemics of 1957–1958 and 1968, Baker et al. (2020) conclude that stock market reactions to COVID-19 are extraordinary, both in absolute terms and in contrast to earlier pandemics. The most plausible causes for the dramatic stock market reactions to the COVID-19 pandemic, according to Baker et al. (2020), include obligatory company closures, stringent constraints on commercial activity, and voluntary or involuntary social distancing tactics, such as lockdowns and curfews. Based on the preceding, we believe that businesses in countries where COVID-19 infections are far more severe have witnessed a bigger reduction in firm value. Furthermore, this virus is highly infectious and has caused significantly more economic devastation than earlier pandemics.

According to Sadang (2020), due to a large decline in demand for products and services, real and projected revenues are anticipated to fall. With any 'quarantine periods' completed, businesses' debt and interest payments, as well as other fixed

costs, are unlikely to have come to a standstill. The majority of firms don't have much in the way of savings. Sales have dropped substantially. The Organization for Economic Cooperation and Development (OECD) (2020), and firms are having insurmountable financial difficulties paying vendors, workers, lenders, and investors, leading in liquidity challenges.

COVID-19's influence on exchange rate return and volatility forecasting was recently studied by Iyke (2020). The writer uses the overall number of infections per million persons to calculate the impact of COVID-19, revealing that it has more predictive potential than volatility. COVID-19's worldwide economic shutdown is creating havoc on financial markets, particularly equities markets. Dawson (2020) claims that COVID-19's deteriorating economic climate has had a substantial influence on global equities markets, with a precipitous drop significantly worse than during and after the 2008–2009 global financial crisis. The findings also suggested that as a result of the drop in stock values, business valuations have declined. Furthermore, the COVID-19 pandemic provides a fascinating situation in which an unexpected shock results in huge changes in business performance compared to management' predictions just a few months prior to the crisis (Larcker et al. 2020).

During the COVID-19 outbreak, worldwide business scholars began to look at the underlying factors that affect company operations and their early strategies for dealing with adversity (Obrenovic et al., 2020). Only a few academic researchers have looked at the impact of COVID-19 contagion on business performance. Suspension of operations, pauses in business operations, and firm closures have all been documented (Larcker et al. 2020), and a sustainable business strategy might be a survival model (Obrenovic et al. 2020).

Bartik et al. (2020) started their examination of COVID-19's influence on American firms by questioning owners if their company could currently conduct business. A total of 43% of firms were reported to have closed, with virtually all of the closures attributed to the COVID-19 outbreak, demonstrating the businesses' low survival. While many businesses have suffered as a result of the economic downturn, some have been able to continue functioning – and even profit – throughout the COVID-19 epidemic (Obrenovic et al. 2020). Early study has also shown that a company's sales performance is considerably harmed, raising questions about its



long-term survival (Kells, 2020; Larcker et al. 2020). Companies who remain flexible, adjusting and modifying production and sales on an as-needed basis, will undoubtedly have a competitive edge. The COVID-19 outbreak has had an influence on almost every firm on the planet in some ho (Kraus et al. 2020). Pandemics, on the contrary, may have a wide range of effects throughout the economic spectrum, with varying outcomes for various populations. Early study on the COVID-19 pandemic's influence on companies discovered that different firm-specific groups had varying impacts (Al-Awadhi et al., 2020; Shen and al., 2020; Xiong et al., 2020; Zaid et al. 2020).

According to a number of studies, the COVID-19 epidemic has a greater effect on some economic sectors than others (Bongini et al., 2019; Al-Awadhi et al., 2020; Shen et al., 2020; Hassan et al. 2020). According to Bartik et al., retail businesses are particularly vulnerable to coronavirus-related disruptions (2020). According to Baldwin and Weder di Mauro (2020), however, the manufacturing sector is expected to take significant hits as a result of COVID-19 infection. The pandemic's negative ramifications were particularly severe in China's tourist and catering industries, which served as the pandemic's economic "epicentre" (Shen et al. 2020). Several researchers have investigated if there is a positive relationship between size indicators and profitability of large enterprises in small businesses. Large businesses have a competitive edge over small businesses due to their larger market share, greater access to capital, experience, and operational efficiency (Ichev and Marinc 2018). Smaller firms may be the most affected by the COVID-19 pandemic, according to (Baldwin and Weder di Mauro2020). According to Levy (2020) regulations connected to the Coronavirus have increased profitability for large technical and pharmaceutical enterprises while harming or bankrupting many smaller businesses that are more reliant on the traditional economy.

Employees are highly concerned about recent changes in the work market as a result of the COVID-19 pandemic. During this period, the number of employees experiencing unemployment anxiety in America is approximately 22 million (Ting et al. 2020: 4). Madeleine Petzer explained in her study titled "Labor and Coronavirus" (Petzer 2020:6) that many businesses can lay off employees in order to reduce their costs during the epidemic process. He stated that the airline industry will be the first

to initiate this process, with 7500 employees. Another issue raised by the COVID-19 pandemic in the labor market is how and to what degree employees can feel secure in the face of the epidemic. Employees' inability to contact each other, not to communicate, not to feel safe about health and job security bring some concerns (Nastopoulous, 2020: 12-21). Employees were frightened of losing their jobs and their health during the outbreak, and this anxiety and worry may have harmed business performance and contributed to the transmission of the disease, particularly in locations where employee stress levels were high. However, as previously said, worry can grow into panic over time, resulting in demonization in the professional sphere (<https://www2.deloitte.com>).

According to a global survey conducted by the International Labor Organization on how the pandemic is influencing business working hours, active working hours would decrease by 10.7% globally between the fourth quarter of 2019 and the second quarter of 2020. 305 million full-time jobs have been lost as a result of this (ILO 2020). The ILO observer also indicates which industries are expected to be the most impacted in terms of reduced working hours and job losses. Retail, accommodation, food services, mining, real estate, and business services are among the primary industries that are projected to see significant output decreases and job displacement on a worldwide scale (Donthu and Gustafsson 2020). While the Covid-19 epidemic spread swiftly, it had a detrimental influence on the global financial markets. For example, the Covid-19 shock affected the world's largest stock markets in England, America, and Japan, causing major reductions in the indexes. The Dow Jones and the London stock market indices, for example, have both fallen to their lowest levels since 1987.

The BIST 100 index has lost nearly 25% of its value as of the 2019 closing date. According to a research done on Borsa Istanbul, the influence of Covid-19 on stock market trading volume is adverse and considerable in the near term (Contuk 2021). However, central banks around the world have lowered interest rates to prevent stock market losses, encourage spending, and stimulate economies, and several governments have attempted to mitigate the effects of the Covid-19 crisis on individuals and businesses through various economic aid programs, because the Chinese economy accounts for around 16 percent of the global economy, the Chinese

economy's downturn has put the entire world at risk of recession. Again, the closure has made it impossible to access the goods all over the globe in China, which has a big proportion of global product and raw material manufacturing. In the United States, 75% of businesses said their supply chains had been impacted all around the world, industrial production and fixed asset investment have plummeted (Cinel 2020).

Another reviewed study explores that worldwide commerce in products will decline by 9.2 percent. Trade in products, which fell 14.3 percent in a quarter for the first time in history, is likely to rise as a result of government policies. So, global GDP is predicted to fall by 4.8 percent. The Asian area, which accounts for a substantial amount of global output, has seen a 4.5 percent decline in exports and a 4.4 percent decrease in imports (<https://www.who.int/>). Furthermore, worldwide demand has been declining, and government regulations that have resulted in mandated output limitations have resulted in a severe drop in the amount of global commerce. The breakdown of the global value-added chain has resulted in a reduction in global trade. Due to the fast spread of the disease, heightened cautious choices, a decline in supply and demand, and instability in cash flows, businesses have postponed numerous physical investments. Investors have sought safe havens as a result of unpredictability in all investment sources.

Over and above that, Covid-19 exposed all industries' incapacity to respond quickly enough to large-scale changes. Resilience has gained relevance, and many industries are still working to improve their resilience to unforeseen crises like the ones they are currently facing. The capacity to withstand disturbances and regain performance is defined as resilience. A lack of resilience has impacted supply chain operations in the life sciences, health care, and food industries (Simchi-Levi and Simchi-Levi 2020). The majority of businesses had to implement new sustainability initiatives far faster than they had anticipated. There is a move to more sustainable supply chains, whether there is still uncertainty and worries. Purchasing locally and creating community trust are examples of sustainability measures that contribute to a company's supply chain resilience. It became critical to overcome the crisis and associated danger by focusing on long-term sustainability and becoming more robust. Companies' risk responses and crisis management approaches, in order to lower risks

and become more robust pushed them to change themselves by incorporating sustainability into their operations. (Sarkis 2021). During the crisis, supply networks were separated into two groups. Some were confronted with an extraordinary demand that they were unable to meet, while others were confronted with an extreme decline in both demand and supply, forcing them to cease operations. During this time, several businesses were in risk of going bankrupt and received little government assistance (Ivanov 2020). The food business is one of the areas that have been hit the hardest by this unexpected surge in demand. Most consumer products were not as freely accessible as previously during this crisis, and demand for food continues to rise even if people have enough supplies due to the terrible financial conditions. If supply systems become inefficient and continue to be disrupted, food shortages will be predicted. (Sarkis, Cohen, Dewick and Schröder 2020).

According to an evidence on the effects of the Covid-19 outbreak upon American businesses, the consequences differed greatly by industry, and these differences are projected to persist well beyond 2021. During the peak of the effect, more than a quarter of businesses reported losing more than 50% of their revenues, and more than a third reported losing more than half of their sales. The firms have little effect or positive effects. Companies who profited from the effect peak in 2021 are predicted to maintain almost all of their sales gains, while those that lost revenue are only expected to recover partially by the second quarter of 2021, a year after the top. The labor market's identical duality of stasis and rebound identified by Chetty et al. (2020) and Cajner et al. (2020) is mirrored in these two research (2020). Despite the fact that the online economy has largely dodged the brunt of the epidemic, some of the inequalities can be explained by the characteristics of the companies they observed that conventional enterprises have been hurt more than internet corporations. Similarly, large employers did significantly better than small firms and non-employers. Small offline businesses fare worse than their larger online counterparts: businesses without an employee and receiving below 50% of their revenue online have ended up losing more than 45 percent of their sales, whereas businesses with more than 20 employees have lost no less than 50% of their revenue on the Internet. This highlights the wide range of COVID-19's economic impact.

Depending on the effects of the pandemic, the logistics sector may change at different rates, resulting in economic losses. Despite the fact that the logistics sector is the topic of all imported or exported goods, it is an essential component of international trade. It is possible to say that logistics and import, export, and transportation are linked (Göze 2014). Because of the interdependence of countries today, this developing disease not only impacts one country, but also others. As a result, the transportation, tourism, and other sectors have been transformed, and the logistics industry has suffered significant damage as a result. Even though the epidemic's consequences on the logistics industry are complex, there have been issues, particularly in freight transportation and cargo services, as well as an inability to satisfy demand. In March 2020, the detrimental impact of the virus on trade in Turkey became increasingly apparent, as it had in all other nations across the world. Exports decreased significantly in March, according to figures from the Ministry of Commerce. The major reasons for this include quarantine measures enforced at Turkey's neighbors' border crossings (Iraq and Iran) and decreased demand in Europe, which was severely impacted by the outbreak. Exports grew at a negative rate throughout the 3-month period, but climbed by 4.1 percent in the first two months. Exports fell 17.8% in March compared to the same month last year, while imports rose 3.13 percent furthermore, compared to the previous year, international trade volume declined by 6.7 percent (Senir and Büyükkeklik 2020).

According to a study performed by the World Tourism and Travel Council (WTTC), the travel and tourism industry will lose about 4.5 trillion dollars in 2020, despite the fact that travel and tourism's contribution to global GDP was 10.4 percent in 2019. This figure was applied due to COVID-19 epidemic measures, which were realized as 5.5 percent in 2020 after the restrictions. While the number of persons working directly or indirectly in the tourism and travel sector globally was 334 million in 2019, it was reported that this figure will drop by 18.5 percent to 272 million in 2020, with 62 million people who've lost their jobs as a result of the pandemic's effects (WTTC 2020b). Following an unprecedented 73 percent drop in international tourism in 2020 due to the effect of the COVID-19 pandemic, international travel demand remained very weak at the start of 2021, falling 87 percent in January after international tourist arrivals (overnight visitors), new

outbreaks, and tighter travel restrictions, according to the World Tourism Barometer published by the World Tourism Organization (UNWTO). Due to the deterioration of the pandemic and the creation of novel varieties as a result of the rise in cases, several nations have implemented harsher travel restrictions, involving obligatory testing, inoculations, and, in extreme cases, entire border closures. Nevertheless, vaccination coverage is falling behind schedule and is extremely unequal across countries and regions, with Asia and the Pacific got the largest level of travel restrictions 96% in January 2021, followed by Europe and Africa 85% and Central International arrivals to the East 84% and the Americas 77% respectively (UNWTO 2021b).

The pandemic is a serious concern that will impede financial access by reversing the growing trend in remittance inflows. Because 80 percent of global remittances are likely to flow to low- and middle-income countries in 2019, a pandemic is forecast in 2019. This would reduce the amount of money that migrants from poor countries can send home (World Bank 2020b). Remittances to low- and middle-income countries are expected to decline 19.7% in 2020, according to the World Bank (with a 13 percent reduction in East Asia and the Pacific), the greatest drop in recent history. The flow of remittances sent by overseas Filipinos began to decline in March 2020, according to the Philippines central bank. As a result, the Philippine government began offering stranded abroad Filipino employees with monetary assistance of US\$200 (OFW). Significant economic downturns in destination countries as a consequence of quarantine or oil price decreases, for example, are limiting labor opportunities and lowering immigrants' earnings (IOM 2020). Even if immigrants continue to work in host countries, remittances to their home countries may be difficult to send due to tight movement restrictions and money transfer service rules (World Bank 2020a). Likewise, many immigrants who had planned to leave before the impending exodus were forced to stay in their home countries, causing some to change their plans and livelihoods. 2011 (Yang) The Philippines is a major supplier of migrants and one of the most remittance-dependent countries in the world. The number of Filipinos working abroad was estimated to be 2.2 million in 2016, with remittance inflows to the Philippines totaling 35,167 million US dollars in 2019, country ranks fourth in the world (World Bank 2020b).

Besides that, we know that many African countries and lower-middle-income countries rely on remittances sent by migrant workers and guests working in other countries, so a decrease in remittances will negatively impact their lives, consumption, and contribute significantly to the decline of their economies. According to the World Bank's Migration and Development Brief, as the COVID-19 virus and economic crisis grow, the quantity of money migrant workers send home is likely to decline 14 percent by 2021, compared to pre-COVID-19 levels in 2019. Remittance inflow to middle- and lower countries (LMICs) are predicted to fall by 7% in 2020, to \$508 billion, and then by 7.5 percent again in 2021, to \$470 billion. The primary reasons for the reduction in remittances include a lack of economic development and employment opportunities in migrant-hosting countries, low oil prices, and currency depreciation of remittance-source countries' currencies against the US dollar.

The epidemic in Somalia has compelled company executives and owners to move rapidly and make snap judgments. In the long term, a choice like decreasing output or even temporarily closing down the firm might have unforeseen implications. As a result of the President of the Federal Republic of Somalia's quarantine policy or order, governmental offices, such as schools and colleges, as well as private firms' financial performance, were severely harmed. The COVID-19 pandemic in Somalia has prompted many businesses and merchants to close, causing unplanned disruptions in a variety of industries. Health and safety, supply chain, workforce, cash flow, consumer demand, sales, and marketing were just a few of the issues that retailers and brands had to deal with (Donthu and Gustafsson 2020). Somalia's workforce has declined across all economic sectors as a result of social seclusion, self-isolation, and travel restrictions, resulting in the loss of countless jobs. Furthermore, universities have closed, and demand for manufactured items has decreased. There has also been a lot of demand for food, which has led some businesses to suffer and even collapse, while others have managed to stay afloat (Duale, 2020). Furthermore, because they rely on fuel imports from other nations, the electrical firms have changed; private power companies have raised the cost of their bills. As a result, pricing changes across the board have major ramifications for all Somali economic sectors. The global economy is anticipated to contract by 3% in

2020 as a result of the pandemic, worsening the situation from the 2008-09 financial crisis (Bank of Somalia 2020). As the destruction in Somalia has already shown, the Coronavirus has an influence not only on the national economy but also on the local economy. Daily wage earners have been particularly severely hit; many of them now lack the means of sustenance and are unable to feed their families. Hunger, starvation, and other crises that have long plagued Somalia are anticipated to grow as a result of the lockdown (Duale 2020). People, on the other hand, cannot exist without their work; as a result, they are more concerned about their jobs than the COVID-19 outbreak (Duale 2020). The authorities have urged individuals to keep their distance and to organize their own immunization campaigns to try block or slow the virus's spread.





## CHAPTER IV

### THE IMPACT OF CORONAVIRUS PANDEMIC ON FIRMS PERFORMANCE

#### 4.1 RESEARCH DESIGN AND PURPOSE

Throughout human history, pandemic illnesses have struck at various times. Millions of people have died as a result of epidemics, which are spread mostly through commerce; the coronavirus is one of pandemics that caused the worst global recession since 1930 and it has affected all areas of the global economy and society. Since the outbreak of COVID-19, there have been numerous studies in many fields and regions. However, most studies of COVID-19 have been conducted in industrialized countries, while research on the effects of COVID-19 in Africa is much less than in other regions. In Somalia, little research has been done on the effects of Covid-19 on firm performance. To understand the impact of the pandemic on firms in Somalia, this study chose to investigate firms located in Hargeisa, Somalia's second-largest city. According to this, the main purpose of this study is to examine the impact of Covid-19 on the firm performance in terms of financial and non-financial measures.

According to Wilson (2010: 13), the two main research methods/strategies are quantitative and qualitative. Denzin and Lincoln (2000: 8) refer to quantitative research methods as studies that emphasize the measurement and analysis of causal relationships between variables. This method primarily uses numerical and statistical techniques to validate such results Wilson (2010: 13).whereas, according to Van der Merwe ( Garbers 1996)qualitative research is a method of investigation that aims to generate theories and understanding. Qualitative research, according to Denzin and Lincoln (2005), is a situated activity in which the observer is positioned in the world. Qualitative researchers analyze phenomena in their natural environments, aiming to make sense of, or interpreting phenomena in terms of the meanings individuals

assign to them. Therefore, in this study, the quantitative method is employed to examine the relationship between covid-19 and firm performance and data was collected via a questionnaire.

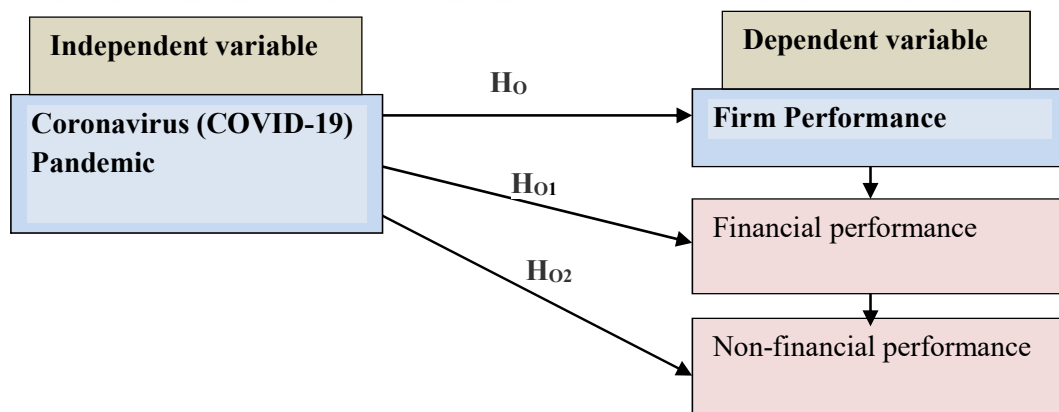
#### 4.2 RESEARCH QUESTIONS

1. How does Covid-19 affect Somali companies' performance?
2. What is the impact of COVID-19 pandemic on the financial performance of firms in Somalia?
3. What is the effect of COVID-19 pandemic on the non-financial performance of firms in Somalia?

#### 4.3 RESEARCH MODEL AND HYPOTHESES

For this study, Coronavirus (COVID-19) is chosen as an independent variable, and the dependent variables in the conceptual framework for the study are Firm Performance, such as financial performance and non-financial performance.

**Figure 2:** Research Model and Hypotheses



Hypothesis testing is one of the main methods used in inferential statistics. Wilson (2010: 237) hypothesis testing is a method of making a statement about some aspect of the population, then creating a sample to see if the hypothesis can be rejected. In this study, both to summarize and describe the participants and firm

profiles, as well as to test descriptive statistics and research hypotheses; inferential statistics were used. The hypotheses that will be tested in this study are:

**H<sub>0</sub>:** Coronavirus (COVID-19) Pandemic has a significant negative impact on firm performance.

**H<sub>01</sub>:** Coronavirus (COVID-19) Pandemic has a significant negative impact on financial performance

**H<sub>02</sub>:** Coronavirus (COVID-19) Pandemic has a significant negative impact on non-financial performance.

#### **4.4 DATA COLLECTION AND ANALYSIS**

The two forms of data that are often employed in research are primary and secondary data, therefore, in this research primary data used. Primary data is information gathered for the first time for a specific research project, usually in reaction to a unique event. The experiment is a popular method for acquiring primary data. Who participates in an experiment is completely within the authority of the researcher. The researcher manipulates one or more independent variables in accordance with a preset design and investigates the influence of the independent variables on the dependent variable, also known as the outcome variable (HOX and BOEIJIE 2005: 596).

The research adopts quantitative research design and used a questionnaire that consist of 25 questions alienated in three categories that was used in previous study conducted by Hope et al (2020) in their study "coronavirus pandemic outbreak and firms performance in Nigeria", and on previous studies carried out by United Nations Development Program (UNDP) in China. This study obtained primary data from various positions inside the company, including top management, finance, human resources, operations, and branch managers of the logistics and transportation, travel and tourism agency, and hotel firms in hargesia-somalia. 5-point Likert- scale is used in order to learn the participants' level of participation in each item in detail. The study was conducted from February 16 to March 31, 2022. Contacted firm managers via telephone or email and asked them to fill the survey using Google's document platform.

#### 4.5 RESEARCH POPULATION AND SAMPLE

The target population consists of 72 firms which categories into three firm sectors. Since it is impossible to determine the actual population in the study, three firm sectors that are believed to be most affected by the Coronavirus are randomly selected (logistics, transportation, travel and tourism agency, and hotel). The sample size is scientifically derived using Crochan's (1977) size formula for an infinite population, which yielded three hundred and eighty-four (384).

$$n = \frac{(1 - p)2}{e^2}$$

$n$  = sample size

$p$  = the population proportion

$e$  = acceptable sampling error.

#### 4.6 SCOPE AND LIMITATION

The scope of this case study includes logistics, travel agencies, and hotels in examining the influence of Covid-19 on firm performance in Somalia. This study employed questionnaires to obtain primary data from various positions inside the company, including top management, finance, human resources, operations, and branch managers.

#### 4.7 FACTOR ANALYSIS

Factor analysis is a statistical method use to describe the variability between observed, associated variables and potentially fewer so-called unobserved variables. There are two well-known ways of investigating the relevance of factor analysis, using the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test for this. The value of the KMO test varies between 0 and 1 and is explained as in Table 10 below (Albayrak 2006: 130).

**Table 4:** Criteria for the Kaiser-Meyer-Olkin (KMO) Compliance Test

KMO measure	Recommended Level
0.90	0.90 Exceptional
0.80+	Very good
0.70+	Good

0.60+	Medium
0.50+	Bad
0.50-	Unacceptable

Source: Albayrak, 2006: 130

In this study, KMO (Kaiser Meyer Olkin) Test and Barlett Test were conducted in order to reveal the adequacy, distribution level, and factorability of the data. These tests were also evaluated under factor analysis. In order for the data to be said to have a homogeneous distribution, the KMO sample fit value should be greater than 0.50. In order to claim that the correlations are significant, the significance level of Barlett's Test values should be less than 0.05.

**Table 5: KMO and Bartlett's Test**

Scale		KMO	Bartlett (sig)	Eigen value	% of Variance
Coronavirus pandemic		0.843	(p=.000<0.05)	2.937	41.958%
Firm Performance	Financial Performance	0.849	(p=.000<0.05)	3.629	51.836
	Non-financial Performance	0.897	(p=.000<0.05)	4.198	69.971

As shown in Table 11, the KMO analysis findings of the influence of Corona virus pandemic scale is (0.843), the financial performance scale is (0.849), and non-financial performance scale is (0.897), indicating that the data homogeneity was at a level adequate for factor analysis. Similarly, the level of correlation between factors according to the Bartlett test was at a suitable level for analysis ( $p < 0.05$ ). In addition to this, When all scales were examined, it was revealed that there was a clustering under one component factor with an eigenvalue for Coronavirus pandemic effect (2.937) with 41.958 %, while the eigenvalue for financial performance dimension (3.629) with 51.836 %, and non-financial performance (4.198) with 69.971 %. This means that all items are well grouped and have common mean.

**Table 6:** Correlation Matrix for the Dimensions

Component Matrix							
Coronavirus pandemic	Item 1	Item 2	Item 3	Item 4	Item 5	Item 6	Item 7
<i>Factor load</i>	.560	.580	.522	.714	.720	.645	.756
Financial performance	Item 8	Item 9	Item 10	Item 11	Item 12	Item 13	Item 14
<i>Factor load</i>	.674	.722	.767	.753	.718	.657	.743
Non-financial performance	Item 15	Item 16	Item 17	Item 18	Item 19	Item 20	
<i>Factor load</i>	.872	.895	.880	.906	.873	.529	
Extraction Method: Principal Component Analysis.							
a. 1 components extracted							

As indicated in Table 12, the Correlation Matrix (component matrix) given below, the factor loading values of all items are above 0.522. Since the whole items were loaded under the same factor for each dimension, the Post-Rotation Correlation Matrix (rotated component matrix) was not produced.

#### 4.8 FINDINGS OF THE RESEARCH

The analytical results of the quantitative data collected from 362 questionnaires are presented in this section, which examines the stated hypotheses of the study and confirms their validity for the purposes of this research. In light of this, various statistical analyses including descriptive and inferential statistics were conducted. To analyze the demographic characteristics of the respondents, descriptive statistics were performed. Subsequently, Cronbach's alpha reliability analysis was performed to test the validity and reliability of the scales employed in the study, then analysis of variance (One-Way ANOVA) was used to compare the differences between and within the groups. Finally, to examine the correlation between variables and test the hypothesis Pearson correlation and multiple regressions were performed.

##### 4.8.1 Demographic Profile of the Respondents

The tables below provide detailed information on the respondents' demographic characteristics, such as gender, age, and education level, work

experience at their present job, management responsibilities, and the firm sectors that participated in the study.

**Table 7:** Gender Characteristics of the Respondents

Gender - Frequency			
		Frequency	Percent
Valid	Male	303	83.7
	Female	59	16.3
	Total	362	100.0

As shown in Table 4, there are a total of 362 respondents participating in the study, including (303, 83.7%) male and (59, 16.3%) female. This shows that the gender distribution of the selected firm sectors is dominated by male personnel.

**Table 8:** Age Distribution of the Respondents

Age - Frequency			
		Frequency	Percent
Valid	20-30	173	47.8
	31-40	124	34.3
	41-50	51	14.1
	51 and Above	14	3.9
	Total	362	100.0

As shown in table 5 shows, the table majority of the respondents are between 20 and 30 years old. This majority constitutes 47, 8 % of the respondents. 34, 3 % of the respondents are aged 31-40, followed by respondents are aged between 41 and 50 which constitutes 14.1%, and 3.9% of the respondents are aged 51 and older.

**Table 9:** The Education Level Characteristics of the Respondents

The education level of the respondents			
		Frequency	Percent
Valid	Secondary	14	3.9
	Associate Degree	45	12.4
	Bachelor Degree	204	56.4
	Master's Degree	91	25.1
	PhD	8	2.2
	Total	362	100.0

As indicated in Table 6, the majority of respondents possess bachelor's degrees, which accounts for 204 (56.4%), followed by respondents who hold master's

degrees, which account for 91 (25.1%), and then participants who have associate degrees and secondary education, which account for 59 (16.3%). The minimum academic qualification is a doctoral degree with 8 participants (2%).

**Table 10:** Work Experience in the Participants' Current Position

The work experience of the respondents			
		Frequency	Percent
Valid	Less than 2 year	61	16.9
	3-5 years	159	43.9
	6-10 years	118	32.6
	11 or above	24	6.6
	Total	362	100.0

As shown in Table 7, the majority of respondents, 159 (43.9%), have worked in their present job for between three and five years, followed by 118 (32.6%) of the participants with six to ten years of experience in their current position. The group with the least job experience with less than two years of experience made up 61 (16.9%), while the most experienced respondents who have worked in their current role for more than 11 years constitute 24 (6.6%).

**Table 11:** The Business Sectors to Which the Respondents' Firms Belong

firm sectors			
		Frequency	Percent
Valid	Logistics and Transportation	132	36.5
	Travel and Tourism	37	10.2
	Hotel	193	53.3
	Total	362	100.0

As stated in Table 8, the emphasis of the study was on three business sectors deemed to have been the most affected by the Corona virus pandemic. Accordingly, the above table indicates the business sectors to which the respondents' firms belong. The hotel sector, which represents the majority of the businesses surveyed, accounts for 193 (53.3%), followed by the travel and tourism sector, which accounts for 37 (10.2%), and the logistics and transportation sector, which accounts for 132 (36.5%).



**Table 12:** Distribution of the Participants in terms of Position Characteristics

The managerial role of the respondent in the firm			
Position/Role Status		Frequency	Percent
Valid	Top Management	27	7.5
	Finance department	105	29.0
	HR Department	64	17.7
	Operations Department	96	26.5
	Branch Manager	70	19.3
	Total	362	100.0

As shown table 9, the majority of respondents were employed in the finance department (105, 29%), whereas the participants working in operations department constitutes (96, 26.5%). This was followed by branch manager (70, 19.3%), and subsequently the respondents working human resource department that constitutes (64, 17.7%), and finally, the fewest respondents (27,7.5 %) were having the highest managerial role of the firm.

#### **4.8.2 Validity & Reliability of the Measurement Scale**

The questionnaire used in the research was composed of scale expressions that were developed before and whose acceptability and reliability were tested. The Cronbach Alpha internal consistency coefficient was employed to test how well the statements in the scales were related to each other. This coefficient was calculated for each dimension of the scale. The Cronbach Alpha takes a value between 0 and 1 and is interpreted as follows :(Kalaycı, 2010: 405)

- ♦ If  $0.00 \leq \alpha < 0.40$ , the scale is not reliable,
- ♦ If  $0.40 \leq \alpha < 0.60$ , the reliability of the scale is low,
- ♦ If  $0.60 \leq \alpha < 0.80$ , the scale is quite reliable,
- ♦ If  $0.80 \leq \alpha < 1.00$ , the scale is highly reliable

**Table 13: Reliability Values of the Scales of the Variables**

Scale		No of questions	Cronbach alpha
Coronavirus Pandemic		7	0.767
Firm Performance	Financial	7	0.844
	Non-financial	6	0.913

As shown in Table 13, the Cronbach Alpha value for the seven components forming the financial performance dimension is highly reliable ( $=0.844$ ). Similarly, the non-financial performance dimension's consistency was very high ( $=0.913$ ). On the hand, the Cronbach Alpha score for the Coronavirus Pandemic dimension ( $=0.767$ ) is moderate. This means that the Cronbach's Alpha coefficient value is accepted and highly reliable.

### 4.8.3 Findings Related to Research Variables

Table 14: Descriptive Analysis of Corona Virus Pandemic Dimension

Descriptive Statistics						
Covid19 Pandemic scales	N	Minimum	Maximum	Mean	Std. Deviation	Total Average
Item1	362	1.00	5.00	4.7072	.63368	4.48
Item 2	362	1.00	5.00	4.5055	.69921	
Item 3	362	1.00	5.00	4.5000	.73023	
Item 4	362	1.00	5.00	4.3895	.77367	
Item 5	362	1.00	5.00	4.4420	.74670	
Item 6	362	1.00	5.00	4.4751	.73359	
Item 7	362	1.00	5.00	4.3923	.78824	
Valid N (listwise)	362					

As shown in table 14, the cumulative mean of the seven questions comprising the coronavirus pandemic dimension spans between 4.39 and 4.70, with a standard deviation of between 0.63 and 0.78. The aggregate average of coronavirus pandemic dimension items is 4.70, which indicates that the companies that were evaluated are being strongly impacted by the pandemic of coronaviruses.

**Table 15:** Descriptive Analysis of Financial Performance Dimension

Descriptive Statistics						
Financial Performance scales	N	Minimum	Maximum	Mean	Std. Deviation	Total average
Item 8	362	1.00	5.00	4.0635	.89866	3.89
Item 9	362	1.00	5.00	3.9558	.97232	
Item 10	362	1.00	5.00	3.9779	.94418	
Item 11	362	1.00	5.00	3.8646	1.03988	
Item 12	362	1.00	5.00	3.6713	1.13357	
Item 13	362	1.00	5.00	3.8923	1.00249	
Item 14	362	1.00	5.00	3.8066	1.03199	

As shown in Table 15, after factor analysis, the overall average of the 7 items of the financial performance dimension ranges between 3.67 and 4.06, with a standard deviation between 0.89 and 1.13. The aggregate average of the financial performance items is 3.89. This rating is close to 'agree' based on the responses. The results of the respondents show that the pandemic has had an impact on the financial performance of the firms included in the study.

**Table 16:** Descriptive Analysis of Non-financial Performance Dimension

Descriptive Statistics						
Non-financial Performance Scales	N	Minimum	Maximum	Mean	Std. Deviation	Total average
Item 15	362	1.00	5.00	3.6464	1.25296	3.76
Item 16	362	1.00	5.00	3.6713	1.20466	
Item 17	362	1.00	5.00	3.5939	1.17606	
Item 18	362	1.00	5.00	3.6326	1.17704	
Item 19	362	1.00	5.00	3.6740	1.14289	
Item 20	362	1.00	5.00	4.3923	.92712	
Valid N (listwise)	362					

As indicated in Table 16, the overall average of the six items comprising the non-financial performance dimension spans between 3.59 and 4.39, with a standard deviation between 0.92 and 1.28. The average rating for the non-financial performance measures is 3.76, which is close to 'agree' according to the respondents. According to the responses, the pandemic has had an influence on the non-financial performance of the enterprises included in the study.

#### 4.8.4 Findings of Variance Analysis (ANOVA)

One-way analysis of variance or ANOVA is a statistical technique that used to analyze the means of two or more independent groups (groups that are not related to one another) in order to determine whether or not there are any differences that are statistically significant (Özer 1996: 169). This study employs a one-way ANOVA to determine whether there are statistically significant differences across the three firm sectors in the study such as, logistics/transportation, travel/tourism, and hotel.

**Table 17:** Variance Analysis of the Firm Sector and the Research Variables

ANOVA					
COVID-19					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.082	2	.041	.184	.832
Within Groups	80.319	359	.224		
Total	80.401	361			
FIRMPERFORMANCE					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.780	2	.390	.782	.458
Within Groups	179.149	359	.499		
Total	179.929	361			

According to Table 17, the p-value for the dependent variable (covid-19) is 0.832, whereas the p-value for the independent variable (firm performance) is 0.458. Since this value is greater than 0.05 ( $p > 0.05$ ), there is no significant difference between the group averages. In other words, there are no statistically significant differences between the logistics/transportation, travel/tourism, and hotel sectors in terms of the effect of covid-19 on firm performance.

#### 4.8.5 Correlation and Regression Analysis

The correlation analysis was conducted to determine the relationship between the effect of the Covid-19 pandemic and a firm performance, which is the main purpose of the study. Pearson correlation coefficient is used to determine the level (degree-intensity-strength) and direction of the relationship between two variables (Kılıç and İbrahim 2006: 247). The table below indicates the correlation coefficient with the

letter 'R' and takes values between -1 and +1. Such an analysis shows the cause-effect relationship.

**Table 18:** Correlation and Regression Analysis Between the Variables

Independent variable		Dependent variable	
		Financial performance	Non-financial performance
Covid-19 Pandemic	R	0.369	0.053
	R <sup>2</sup>	0.136	0.003
	P-value	0,000	0,314
	N	362	362

Based on the results of the regression analysis, the results show that there is a statistically significant relationship between the Covid-19 pandemic and the firm's financial performance scale (sig = 0.000), and similarly the correlation table shows that there is a significant correlation (r = 0.369), while the determination coefficient shows (R<sup>2</sup> = 0.136), which means that 14% of the change that occurs in the dependent variable (firm's financial performance) explained by the independent variable (Covid-19 pandemic). As for the other dependent variable (the firm's non-financial performance), the results show that there is no statistically significant relationship between it and Covid-19 pandemic at a significant level (sig = 0.314).

#### 4.8.6 Hypothesis Testing

**Table 19:** Result of Regression Analysis Table for First Hypothesis (H<sub>0</sub>)

Independent Variable	Dependent variable	R	R Square	Std. Error	F	P
Covid-19	Firm Performance	0.237	0.056	0.346	21.345	0.000

As shown table 19, the H<sub>0</sub> which states that the coronavirus has a significant negative impact on firm performance has accepted.

**Table 20:** Result of Regression Analysis Table for Second Hypothesis (HO1)

Independent Variable	Dependent variable	R	R Square	Std. Error	F	P
Covid-19	Financial Performance	0.369	0.136	0.075	56.713	0.000

The second hypothesis has a significance level of (sig = 0.000), which is less than 0.05. Since this value is less than 0.05, it states that coronavirus has a significant negative impact on financial performance has accepted similarly.

**Table 21:** Result of Regression Analysis Table for First Hypothesis (HO2)

Independent Variable	Dependent variable	R	R Square	Std. Error	F	P
Covid-19	Non-financial Performance	0.053	0.003	0.107	1.018	0.314

As for the third hypothesis, the value of (sig = 0.314) was greater than 0.05, which indicates that  $H_0$  hypothesis was reject and that covid-19 has no negative impact on non-financial performance.

## DISCUSSION

Throughout human history, pandemic illnesses have struck at various times. These epidemics swiftly spread. Millions of people have died as a result of epidemics, which are spread mostly through commerce. The social, economic, political, financial, cultural, and other repercussions of epidemic illnesses have been seen in a variety of settings. People have adopted a variety of methods to combat the epidemic's terrible effects. The consequences of the epidemics were felt to varying degrees and the impact of epidemics has differed from society to society. However, covid-19 has had a detrimental impact on many communities when it comes to the impacts of covid-19 on firm performances, which have left deep imprints on businesses. The purpose of this study was to see how the COVID-19 epidemic affected Somalia's business performance. This goal was met by gathering data from private firm in the logistics/transportation, travel and tourism and hotel sectors as online survey. To evaluate the study's assumptions, researcher used Linear Regression. COVID-19 pandemic has a detrimental impact on Somalia corporate performance, according to the study the overall average of corona virus pandemic dimension items is 4.48 in table 14, implying that the pandemic is having a significant influence on the firms that were analyzed. The dependent variable of the study which is firm performance has two sub dimensions; financial and non-financial, which this studies discovered that covid-19 had a considerable impact on both sub dimensions. Moreover, the outbreak had a detrimental influence on the operation, and sales of pandemic-affected businesses such as logistics, travel agencies, and hotels resulting in a negative rate of return. The negative impact is more pronounced in financial performance areas in our study, for instance business operations became inadequate to maintain the cash flow, firm not achieve high level

of return on sales or return of investment and Covid-19 also affected the firm's inventory turnover rate. The influence of COVID-19 on company performance has been thoroughly examined in this study. According to the route evaluation results, emphasizes the significance of pandemic has been discovered on company performance, as evidenced by the data reported in the table 19. This also backed with the findings of most prior studies, which showed that covid-19 had a considerable influence on company performance. The influence of the COVID-19 epidemic on the performance of companies in various industries in Somalia was explored in our research. The previous research examining the significant impact of COVID-19 on firm performance, here are a few of the studies; According to Shane et al. (2020) looked at whether COVID-19 has any impact on strong performance in China, and found that the firm's performance has decreased as a result of the COVID-19 outbreak, using return on assets as the dependent variable and size, debt, growth rate, and cash flows as independent variables which the epidemic resulted in a drop in income, which resulted in poor performance for firms.

Meanwhile, Aifuwa et al. (2020), who assessed the effects of COVID-19 on private company financial performance in Nigeria, concluded that the epidemic damaged financial performance when assessed as a return on assets. They encouraged the government to include private enterprises in its stimulus packages in order to assist them in staying afloat during this tough period. Another study shows that Coronavirus has a detrimental impact on firm performance (Choi, 2020; Kapoor et al., 2021; Njindan Iyke 2020; Phan and Narayan, 2020). Many firms encountered a variety of challenges and losses, including supply interruptions, raw material shortages, transportation issues, and decreased demand, all of which can have a substantial impact on a firm's efficiency and profitability (Bartik et al., 2020; Hagerty and Williams 2020).

Most studies have examined the negative impact of covid-19 on company performance, but some studies claim that covid-19 has a positive and negative effect on company performance, possibly due to the company's size, location, and their market demand. According to (Retno, Ninik and M. Wimbo et al. 2022) covid-19 has a considerable positive influence on corporate performance. According to the statistics, sales growth has no major impact on firm performance, leverage has no



significant impact on company performance, and firm size has a big positive impact on company success. Similarly, (Dilek and Atakan2021) demonstrated their study that COVID has affected profitability measures in a different way. Net Profit Margin of manufacturing firms seems to be affected positively while non-manufacturing firms has negative effects as show in the result the Covid-19 variable has a negative influence on Return on EquityandReturn on Assetsin a sample of manufacturing enterprises, but an unexpected positive effect on Net Profit Margin, according to their result. Whereas the results of our research demonstrate that covid-19 has a detrimental impact on corporate performance, particularly in terms of financial performance.



## CONCLUSION

This paper comprehensively discussed the impact of the COVID-19 pandemic on firm performance and how it is being affected. The study has targeted three firms that belong to the following sectors (logistics, travel agencies, and hotels). The study was primary quantitative data that have been collected through a questionnaire. The study revealed the relationships between covid-19 and firm performance. In the study it used, six different statistical analyzes were carried out within the scope of the research These are mainly: descriptive analyses, factor analysis, reliability analysis of scales, descriptive analysis of the research scales, One-way ANOVA, correlation, and regression analysis. Based on the results of the study and the discussion presented in the previous pages, the impact of COVID-19 on the firm performance has been carefully investigated. Therefore, according to the results and evaluations, the negative significance of the epidemic on the performance of firm was found.

To assess the study's assumptions, the study employed correlation and regression analysis to test the hypotheses stated in the study. The empirical study results reveal that the global pandemic of COVID-19 has a considerable detrimental impact on Somalia's listed enterprises. In our study the impact of the Covid-19 pandemic on the performance of the firms in general, had a value of (sig = 0.000) that was less than 0.05 which mean the covid-19 has negative impact on firm performance. The firm performance is classified into two parts, financial performance and non-financial performance. The financial performance has a significance level (Sig = 0.000) which is less than 0.05, since this value is less than 0.05, which indicates that the Covid-19 epidemic has a negative impact on the financial performance of the firms surveyed. As for the non-financial performance, the value of (Sig = 0.314) was greater than 0.05, which indicates that the Corona pandemic had no effect on the non-financial performance of the investigated firms in this research.

Here few tips I would like to recommend to the firm managers; the company executives have to develop policies and procedures to mitigate the effects of COVID-19 by boosting staff productivity and increasing employee efficiency. It's also essential to focus on client satisfaction. Managers must keep an eye on the changing environment outside and change their business strategies in time to quickly able to recover the affect that covid-19 can cause. Moreover, it is vital to adjust production and operations to the "post-pandemic era's" consumer preference. Employees must also obey and listen to their managers, as well as be more health-conscious. In addition to control and prevent the spread of the pandemic, countries should progressively provide assist and support to industries that are likely to be seriously impacted by the pandemic, such as various subsidies and preferential policies for firms in the worst-affected areas, to help them weather the pandemic storm.

Furthermore, in this global health crisis, firms must act responsibly and carefully adhere to the health and safety guidelines issued by the Somali National Ministry of Health. The firm sector's success is critical to the country's long-term growth so firm's productivity and profitability can only be increased by maintaining a clean work environment and limiting human interaction, which will ultimately lessen the impact of the global COVID-19 epidemic. To cope with uncertain events, the country should adopt a crisis plan policy, and firms' HR and management should implement rules in all departments and levels to guarantee that risks are properly resisted. Companies should have procedures that evaluate variable and fixed expenditures, and different revenue schemes should be altered if the estimates are wrong.

Our research has limitations which provide opportunities for future researchers. First, our research focuses on the sub-dimensions of firm performance, which are financial and non-financial performance. Therefore, future researchers may take other dimensions of the firm's performance. Second, due to lack of data, the study was unable to obtain definitive data. Therefore, it is recommended that researchers provide results based on the latest data after 2021. Eventually, because of the availability of data, research is limited to firms related to logistics / transportation, travel and tourism, and hotel sectors. Thus, future research can

provide examples from other fields such as telecommunications, electronics and construction companies. Nevertheless, our findings have significant theoretical and practical implications for the negative effects of COVID-19 on performance in Somalia.



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