

POST COVID 19 PANDEMIC EFFECT ON MANUFACTURING FIRM FINANCIAL PERFORMANCE: THE NIGERIAN PERSPECTIVE

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Abstract

COVID pandemic, which diver stated the world economy was a thing of great concern to all business going concern. This paper is centered on Xraying the effect of COVID 19 Pandemic and the going concern of manufacturing firms on financial performance, the Nigeria perspective. The paper examined the various strategic approaches which firms have adopted to ensure efficient management of working capital, using a good inventory procurement technique that gives the firm the most economic advantage. The study adopted a theoretical approach the use of secondary data, literature empirical and theoretical reviews and studies done by other authors. The study found out that successful manufacturing firm employed an improved management technique coupled with a redefined credit policy to manage receivables and payables in order to improve their cash flow. The paper therefore, concluded that aggressive advertisement and competitive strategies with good customer relation towards were necessary towards ensuring an improved turnover. The study thus recommended that no new project should be undertaken, unless such project is designed for the improvement of the immediate business situation on hand. It went further to suggest that the firms should prioritize their spending both on capital expenditure and recurrent as to achieve effective cost management to ensure profitability.

Key Words: Covid 19 Pandemic, economy, financial performance and manufacturing firms.

Introduction

COVID 19 pandemic was a very devastating pandemic, the first of its kind in the record of all Global events. This virus has left the global commercial activities side lined with the fear of unknown for the nearest future. This worldwide breakdown of events from the developed economies to the non-developed ones has brought undue hardship of unimaginable magnitude to the world economy from the individual corporate and nations. This ugly and unprecedented situation has brought commercial and operational activities to a halt the period under review. Meanwhile, it is yet uncertain when the effect will disappear from the global economic scene in order to restore normalcy in

commercial and operational activities with respect to money supply for business operation.

With respect to money supply for business operation, the banks are seriously brought to focus under this dispensation. The African Financial sector has not been spared from the pandemic, which exposes Financial Institutions to extraordinary operational and financial challenges, (African Development Bank, 2021). Demircuc Kunt, Pedraza & Ruiz Ortega (2020) found out that crisis and the counter cyclical lending sole banks are expected to play put the banking system all over the global economy under much pressure and characteristics and pre-crises vulnerability through liquidity and fund management. The -role of Banks in the business world can not really be over emphasized as they provide and move funds around to improve liquidity situation towards economic activities as well as commerce (Berger, Molyneux & Wilson, 2020). Liang & Reichert (2020) mean while posited that the tendency for shortages of fund supply for businesses and individuals alike, will distort both economic and social prosperity.

Apart from loss of lives already experienced by most organizations, firms or nations across the global economy, the going concern of the manufacturing firms will come to focus. Therefore, looking at the sensitivity of their operations ranging from Financial, Production, Marketing, Distribution as well as Human resource management as there exist an operational chain from one activity to the next. The Nigeria perspective which her economy and operational environment seem to be distinct from the developed countries like the United Kingdom, United States of America ,Canada and other parts of Asia. These blue chip nations cost of Capital for business operations are relatively minimal and affordable. The government of these blue chip nations have in place various protective policies cushion.

The hash effects of this pandemic on their investments regarded as investment soft landing. Nigeria business environment is so porous and volatile, that it has no formidable polices on ground to protect its operating companies in case of situation as this. This brings the doubt, the ability of this companies to recoup the magnitude of various committed idle time cost, which could have been avoided, recouped, if they were in operation within the period of pandemic. Such cost includes human factor unproductive cost in such areas that requires physical presence, financial services cost. idle manufacturing equipment capital cost including wear and tear and other maintenance cost. It is a known fact that most manufacturing businesses are operating on various categories of debt capital ranging from Debenture to Bank term loan which the interest

rate to service such obligations are high, which manufacturing companies are bound to meet on due dates. Meanwhile, Corporate performance analysis of today is a subset of business analysis alongside business intelligence as (BA\BI) which is considered important to health of business, this is always measured in relation to financial performance (Meltzger, 2019).

Though it takes not less than 30 to 60 days for procurement order placed from UK countries to arrive Nigeria considering the distance and other logistics before these companies could recommence their operation therefore creating undue gap in cash flow management to manufacturing operations. The resetting up cost of recommencing operation such as plant and equipment servicing and measuring equipment balancing to mention a few, including cost of cleanup. The idle time payment to workers on wages and salaries for the entire period under review. There are also an unavoidable pressure on the marketing and distribution chain in order to meet their various operation targets. There is tendency of job loss as it will take longer time for manufacturing operations to stabilize to full operational expectation due to possible shortage of raw materials and order procurement inconveniences associated with manufacturing operation in Nigeria shortly after COVID 19 ERA. Meanwhile this study is to examine the possible ways to ensure continuity in business operations of manufacturing firms in Nigeria after COVID 19 PANDEMIC.

Literature Review

Conceptual Review

This devastating virus that caged the present day global activities at the Individual, Corporate and National levels came into noticing at the first quarter of 2020 with driven force that took every right thinking persons unaware, has made it very difficult for corporate businesses in manufacturing operations to manage, and it has instigated fears on the continuity of their operations after this COVID 19 is put to rest. There is every possibility that various manufacturing organizations may not have actualized strong income base to fund their operations in situation like this. The consequence could be critical (Ahmet, 2012). In this regard, the efficient management of accounts receivable and payables to achieve a sufficient level of cash inflow will be of great assistance to their working capital in order to sustain their operation at this difficult period, (Uchegara &Ogbonna, 2020).

A firm making profit under normal operation period may suddenly resort to losses or even go bankrupt, if the management of cash flow is poor. In a period of rapid change as this, how a firm plans to meet with its covenant obligation is germane and of paramount to its growth (Prere, 2010). Manufacturing firms in Nigeria after this devastated period of COVID 19 pandemic is expected to review its credit policies (Eliots 2009). This will include restructuring its mode of credit sales, debt collection strategies, customer relations practices as well as competitive synergies backed with aggressive advertisement campaign.

In a period of pandemic which is similar to recession, according to Pandey (2008), an improved average collection will facilitate payments by firms debtors which will in turn improve manufacturing firms liquidity positions to meet with its operational demands. In Owolabi (2013), an efficient and dedicated customer relations officer in firms, bridges the gap between customers and firms by ensuring a synergy in their various needs in the business relationship. Manufacturing firms in Nigeria that has been carrying out its operation systems before this pandemic should work out strategies to fine tune their operating funds using the process that should ensure the most judicious use of funds, which should avoid the existence of non performing tangible assets, monitors its cost behaviors in terms of service cost and targets its best replacement period for cost efficiency.

Meanwhile, Mavia(2014), states that when there is sufficient efforts devoted towards covenant obligation commitments towards building the human elements to manage efficiently functional assets, it usually produce appreciable result with respect productivity and profitability. Organizations operating in a devastated economy such as Nigeria within this COVID 19 must keep proper books of accounts (individual ledger) in order to account effectively and correctly , all receivable (incoming funds) payables that occurred with prevailing period to ensure accountability, transparency in fund management with adequate control measures.

These accounts must be well monitored with continuous financial analysis periodically, quarterly, half yearly in order to achieve cost efficiency arising from surplus or deficit reduction for meaning economic decisions, Uchehara (2017). In a similar Global crises period in Netherland, on public listed Companies, revealed that they were able to overcome the devastated operational period through the efficient management of their working capital, receivables and payables policy restructure. The effort put in place gave them a good operational strategy to perform better than the period before the natural crises period. Beveld (2012) supports this view, the researcher is of the

view that operation could be achieved through efficient budget monitoring and control mechanism as well as prioritization of funds.

Financial Disciplinary Measures and Sound Control Technique

So many strategic measures and steps have been employed to cushion the effect of the pandemic which really includes working from home, which could not really provide operational controls and performance monitoring and measurement required. Meanwhile, (WFH) has been put in place since 1973, known as telecommuting or teleworking (Lina & Nantapong, 2021) and could be referred to as remote work, flexible workplaces, especially at home or e-working. This process generated a lot of problems such as, employees layoff, social economic problems that influence employee well being as well as Organization survival (Yidona, Diwan & Hai Jang, 2021).

It is a believing fact that banks are always vulnerable in time of economic down turn such as COVID 19. The after effect of it is that banks due to nonperforming loans and overdraft funds held on trust, the possibility of not being able to meet with customers demand of funds loans and overdraft are almost certain (Goodell, 2020). According to PWC (2020b), the need to concentrate on business going concern by planning towards issues that could bring in survival, by adjusting branch working hours alongside staffing mix and time, switch in branch visits to appointment only, closing some branch operations . These changes in operational activities is likely to affect the future operational performance and continuity.

Following the high degree of business uncertainty and possibility of bankruptcy, the kind witnessed in Enron, Tyco, World com to mention a few, it was envisaged that there is tendency of stock diversity and price crash in the stock market in the nearest future date, Swaftoe, (2020) of which the same situation is likely to occur shortly after COVID 19 within the manufacturing firms in Nigeria.

Theoretical Review

This paper is reviewed based on two Theories

- (a) Contingency theory.
- (b) Risk Society theory.

(a) Contingency Theory

This is an Organizational Theory that believe in the assumption that there is no best way to organize a corporate or lead a firm or make decisions. It states that the most course of action is usually contingent. Means its dependent upon certain factors influenced by internal and external situations. This theory went further to state that management will look different based on situational variables such as, style of leadership, job design, participants on the decision making in an Organizational structure. These are said to be critical to understanding what leads to efficient managerial outcome on in business operations, (Shepard & Hongland 1978) . In this review, it is certain that there is no single way of leadership or managerial decision, the ability of a firm to distinguish its operational performance is dependent on the quality of managers and their perfected strategies towards their operational decisions. Meanwhile, for a firm to survive and stabilizes its operations and guarantee its going concern, depends on its operational efficiency in the areas of , cost management, marketing policies, cash flow management and aggressive advertisement backed with effective and functional internal control systems. This is to ensure efficient and less wasteful use of all resources both human, material and financial.

(b) Risk Society Theory.

This theory is mainly concerned with the future effect or impact of societal growth and development, and the risk associated with that growth. It also emphasis on the need for safety precautions to protect the society from serious negative impact brought by such growth as the society expands in Technology, Social and other Environmental factors. According to a British Sociologist Anthony Giddens, he stated that a risk society is a Society increasingly preoccupied with the future as well as safety, which generates the notion of risk. Meanwhile ,the Germany Sociologist Ulrich Beck defined it as a systematic way of dealing with hazard and insecurity induced by societal growth. Based on these , COVID 19 pandemic, which was a global disaster Paralyzed all commercial and operational activities as affected human lives. It should be born in mind that the pandemic did not only parallelized the environment alone, but also social fundamental Sociological values of liberty, equity ,justice, right and SOCIAL democracy..

The Going Concern of Businesses Operations

The going concern of businesses operations ranging from Manufacturing, Banking, Insurance and other service firms is expected to be of great concern, as the manufacturing firms cannot operate their businesses in isolation without partnering with these service providers. The banking sub sector is not left out of this great concern, as it is likely to face certain categories of impediment in the areas of liquidity as the economy totally knockdown for a long period of time, and there were no individual, corporate and institutional Investors deposits that creates sufficient fund for bank operational deposits.

The banks will also face with the problems of footing unproductive bills to maintaining sit at home personnel, who they cannot easily dispense with through wages and salaries, service nonproductive investments, which its obligations are compulsory in the likes of treasury bills, fix deposits, savings account deposits and other liquidity commitments. Under normal business condition, these investments would have been reinvested in various commercial investment strategies for returns to service covenant.

Obligation to the providers of funds. This could be seen as a worrisome issue if these banks could not break through as expected in their operational pay back commitments, positive returns to all interest stake holders and equity holders. In these circumstances, there could be tendencies of this liquidity affecting other commercial and business operations funding.

In these same reaction, the activities of Insurance firms may be negatively affected in no mean extent as the insured ability to make due their premium commitments would be a thing of doubts more over when there is a mass sack in all sectors of the economy, which requires insurance and other pension managers to indemnify their clients, and this will be difficult to be achieved during a period of illiquidity and nurse dived operations.

When looking at business stability and corporate health ,it is now considered to be of paramount important, in that is not only focusing on performance alone, but includes social responsibilities, business Reputation, innovation, employee morale and motivational factors and overall productivity of the firm. Meanwhile, operational performance is no longer based on the key performance indicators alone (KPI). In the areas of total Revenue, Return On Capital Investment (ROI), Overhead and other operation cost (Folan &Brown, 2020).

The Nigerian economic environment is likely to face high level unemployment, low productivity, inflationary gap as well as massive job loss. The recent mass sack in Access Bank Plc in the month of February 2020, of its 75% workforce published in all Mass Media is an insight of likely going concern and sustainability challenges in Nigeria.

Conclusion

COVID 19 Pandemic, which started in the earlier part of the year 2019, and occupied Commercial, Social and Operational activities world was seen to be very devastating. It took a drastic effect on the business resources of firms ranging from, Financial, Material, Human and Operational results mostly in the manufacturing firms. This effects, has questioned the going concern of their operations with respect to Cash Flow management, Raw Material procurement, and Competiveness among others. Meanwhile, the study revealed that successful manufacturing firms employed improved techniques coupled with redefined credit policies to managing receivables and payables, in order to achieve efficient cash flow management. The paper also stated that aggressive advertisement and competitive strategies along side good customer relations was necessary to ensure improved turn over, while assuring the going concern of the manufacturing firms in Nigeria after the COVID 19 Pandemic.

Recommendations

Meanwhile, for any of the Manufacturing Company to overcome the after COVID 19 era, and its effect on going concern, it should device strategies to include the following,

There should be efficient inventory plan put in place in order to ensure availability of essential raw materials for production by ensuring.

- (I) Ensure a good production process with efficient raw material handling to reduce wastage.
- (II) The Companies management should work out a good financial strategy that could ensure efficient cash flow management, to include;
- (III) There should be efficient management of payables and receivables in both timing and volume in order to improve liquidity level as desired.
- (IV) No new projects should be undertaking within this anxious period unless it is very germane to the business on hand

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