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Business Recovery Strategies in the Economic Crisis of Recession in Nigeria

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Abstract

Job losses, unemployment, sharp drop in market capitalization and falling external reserves etc etc, etc are all integral element of recession which per se is a representation of distinct and objectively identifiable episodes in which the dynamic factors that drive economic growth the technological progress, population growth and capital accumulation - are replaced by distinctly different dynamic in which loss income in some sectors feedback into decline in output of others. This paper examines Nigeria's theoretical economic foundation, the consequence of recession generally and specifically on the Gross Domestic Product (GDP) growth rate (2008-2010) and on companies together with customers reaction. Business recovery strategies for an upturn over the economic crisis of recession in Nigeria are also advanced.

Introduction

Recession implies slump, depression, retrogression decline, slide, trough, collapse, crash failures (Chamber, 2004).

Recession is not a myth but a recurring reality. Examples abound like the great depression 1929 that lasted for 43 months, the Asian economic collapse of Thailand, Malaysia and Indonesia Spanning from 1997 to 1998; the Russian trade default that occurred in 1998 and the recent global economic meltdown since 2008.

Awuzie (2010) aptly capture the economic crisis situation in Nigeria as that of motion without progress.

A comparative analysis of Nigeria and a number of countries (Table 1 below) categorized according to **Human Development Index (HDI)** rank, education index, expenditure on health as a percentage of total budget as well as energy consumption clearly indicate that Nigeria is retrogressing.

Human development report

Countries such as Uganda (39) categorized as low income, spend on health twice as much as Nigeria which is categorized as low middle income. Similarly, less resource — endowed Lesotho, a low middle income country in the same category as Nigeria, spend nearly six times as much as Nigeria, spends on health (See table 1).

Awuzie (2010) using the **Human *Poverty* Index (HPI)** measured the proportion of people below certain thresholds in three categories of the **HPI** in Nigeria i.e. living a long and healthy life, having access to education and a decent standard of living in comparison with other countries.

The table 2 shows that Nigeria rank 114 on the HPI - ranking coming behind Bangladesh (112) and Madagaskar (.113). Ranked 148 on the probability of people not surviving age 40. It is behind Democratic Republic of Congo (114) and Guinea Bisau (145). At 111, it ranked behind Indonesia (109) and Central African Republic (110) on the percentage of children underweight for age. Nigeria ranked 112 is behind Tanzania 111 and Lao People's Democratic Republic (110) on adult illiteracy rates. These are critical indicators of serious fundamental crises that characterize the economy of a nation under recession.

Nigeria's theoretical economic foundation, policy models and structure

A review of the **theoretical economic foundation** on which economic policies are rooted in Nigeria may provide an insight into how the economy was organized and managed that led to the crisis of recession. The constitution (1999) section 16(d) states that the state should direct its policy towards ensuring that:

> the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of a few individual or a group

However, in spite of this constitutional provision, the Nigerian economy is dominated by a small group comprising mainly business men and women, largely agents of multinational companies, ex-presidents, Governors, and Ex-Governors and a few engaged in industrial production.

The central planning economic model

Green (2002) stated that the constitutional provision of section 16(d) provided the basis for the adoption of the central planning method for government owned project in most sector of the economy which were subject to corruption and inefficiency. The multi-billion dollar Ajaokuta iron and Steel complex and the petrochemical plants were incapable of starting production. The Steel rolling mills in Katsina, Oshogbo, Jos and Ovwian-Aladja as failed state investments collapsed and fell into disuse including Vehicle Assembly Plants and vast agricultural irrigation schemes. The central tendency of a centrally planned economic policy through state driven intervention aimed at providing jobs, health care and education for its citizen was a failure. Nigeria did not go anywhere with it.

The neo-liberal economic policy model

This model based upon the World Bank/International Monetary Fund prescription was introduced leading to the structural Adjustment programme culminating in the devaluation of the naira in 1986. Liberalization of Foreign Exchange and import license together with the abolition of agricultural marketing board took place. The neo-liberal economic policy emphasized the primacy of the private sector over the welfare of the people following the failures of state government projects. With this policy model, some successes emerged in the manufacturing sector but the depressed economy could not sustain the economic growth. The 1993 aborted election aggravated the economic crisis situation.

This neo-liberal economic policy model gave rise to the concentration of wealth and the means of production in the hands of few individual in Nigeria.

On the whole a general worsening in condition of living noticeably is clearly marked by the deepening poverty, social insecurity (communal conflict, political murder, kidnapping and robberies) and their apparent intractability (Niger Delta, Bauchi, Maiduguri, Jos and general insecurity) human right abuses, job losses / layoff, widespread feeling of planlessness at all levels, arbitrariness of power and the capture of power by cliques and cabals for personal financial aggrandizement.

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The economic structure

Green (2002) maintain that Nigerian economy since 1970 has been dependent entirely on crude oil deposits which account for 65°k of government revenue and 90% national exports and 40% of the Gross Domestic Production (GDP). Manufacturing sectors' contribution to GDP stands only at 5°k. Agricultural component to the GDP was 28%. The heavy financial influence of government discourages growth of private sector and undermined the efficiency and delivery of basic services. Government accumulated heavy Foreign and domestic debts in financing the aforementioned failed state projects. Succession of financial and political crises in the 1980 and 1990's undermined investors' confidence. The Nigerian National Petroleum Corporation (NNPC) and the National Electric Power Authority (Now Power Holding Corporation of Nigeria) owned by the Federal Government failed to perform. Economic growth averaged 27%; Gross National Product (GNP) capital was $300 and GDP growth of 28%. The depression continued with deficient infrastructure, poor capacity utilization, rising unemployment, inflation and sliding value of the naira.

In response to the recession, the Nigerian Economic Crisis Management Team was set-up in February, 2009. The 2006 Post consolidation code of Corporation Governance, the PENCON Code 2008 and the NAICON Code 2009 respectively are all government effort to promote transparency, probity and accountability. The Asset Management Corporation (AMCON) was signed into Law in 2010 to indemnify bank toxic assets and boost liquidity in the Financial Sector.

2008- 2010 National Business Statistics (NBS) Gross Domestic Product (GDP) Report and Analysis.

From fig. I, non-oil GDP growth rate fell from 10% in Q4 in 2008 to 8.18% in Q2 in 2009 and rose to 8.41% in 2010.

Non-Oil GDP suffered fluctuation between positive and negative growth rate in Q1, Q2, Q3 and Q4 of 2008 which stabilized with oil GDP growth rate from Q2 2009 to Q2, 2010 (See Figure 2)

Manufacturing GDP fell from 8.18% in Q2 2009 to 7.3 1% in Q2 *2010.* The statistical indices analyzed above are not unconnected with infrastructural enhancement and generally moderate economic trends. Inflation, interest rate, financial sector and capital market conditions seems to have improved. But Dada (2010) expressed caution with the National Business Statistics quarterly

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reports. He insists that the report excluded the informal sector because of the dearth of record. Any statistical analysis based on such incomplete report can be misleading and may not be an accurate representation of the real national economy gross domestic product growth rate.

Thompson (2010) cautioned that recovery from recession is likely to take years rather than months as indicates in the statistical figures above. Even the economic growth in the world largest economy (USA) is predicted to shrink by 28% because of the global economic meltdown. Employment numbers are falling in Nigeria. Over 2million job losses was recorded in the USA in 2008. Nigeria job losses statistics is incomplete and inaccurate because of dearth of record from the informal but largest sector of the economy.

The American National Association of Business Economics also predicted 3.2 million job losses in 2009.

Recession, companies and business opportunities

The consequence of recession on companies is the significant reduction in sales due to shrinking demand leading to profitability pressures.

Prevalent payment *I* delivery, default in dealing with third party is rampart. Difficulty in maintaining and managing cordial business relationship is *common* place knowledge in recession.

However, recession also comes with opportunity to companies. Dada (2010) emphasized that the lessons from past recession reveal that economic downturn provide a chance to companies to leapfrog their competition. Successful companies that took actions not taken by others wherein they maintained lower leverage on the balance sheet, controlled cost well, diversified their product offerings and business geographies and divested non-core business.

According to Cooper et al (2010) **goodtime mask the hard truth of companies' performance. Tough times reveal the strength and weaknesses.** The number of opportunities to make deals or take advantage of weak players increases during a downturn or recession. It is essential to understand current situation and what the key drivers of performance have been and will be across business portfolio.

Misrai (2010) maintain that recession provide the chance for companies to increase **share of voice opportunities.** Because competitors spend less, advertising budgeting crumbles and advertising rates softens. So maintaining advertising spend on its brand would mean increased advertising exposures. Television viewing habits also change during downturn. Consumers adopt a fortress mentality and tend to stay at home and watch TV. So with a good media plan, audience delivery is likely to be higher during crisis of recession.

Misrai (2010) stated further that recession is also a chance for companies to **brand building opportunity.** Citing the experience of S. Vaile tracking some 200 companies through recession of 1920s and Buchen advertising tracking four period of recession indicate that companies who reduced advertising during the recession experience a slump in sales and profit. More significantly, they continued to lag behind during recovery phases well.

Recession and customers reaction

Consumers do not stop buying brand during recession. Dada (2010) stated on the contrary that there is a. fight to quality. When there is uncertainty all around, consumers seek the sanity of reliable brands. They seek out brands that provide security-great opportunity for brands that promise to keep them healthy, protected and insured.

Advertising that build imagery will also implicitly provide reassurance. Since there is a shortage of cash lower unit prices can reduce switch to cheaper brand. It is worth launching smaller size packs (like Sachet) at affordable prices.

Given the pressure on income, some lower-end consumer would be forced to downgrade to cheaper alternatives. It is also, opportunity to launch a value brand. Companies who add cheaper value brand to their portfolio during recession managed to keep most of the down-trading consumers within their fold.

Business strategies for managing recession

Dada (2010) identified the critical variables and strategic decision plans for managing recession for an upturn to include the following, namely:

i) **Business Portfolio:** Downsizing unprofitable business and growing or acquiring new business portfolio. This is essentially focusing and sticking to what really matters in your business.

ii) **Markets:** Selective responses to customers or market by exiting unprofitable customers and invest to drive leadership position in select market.

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iii) **Product:** Discontinue and liquidate marginal product to stop bleeding firm. Companies are encouraged to focus on new product development after evaluating which product create or destroy value.

iv) **Price:** Offering discount to liquidate inventory and capture market share companies who add a cheaper value brand to their portfolio during recession managed to keep most of their down-trading consumers within their fold.

v) **Expenditure:** Scrutinize and cut expenditure focus on enhancing operational performance. Reduce unnecessary complexity. Go for targeted rather than across the board expenditure cut.

vi) **Labour:** Rightsize the work force and protect high performer. Human Capital resources with desired competence should be targeted and appropriate incentives developed for them. Retaining and motivating the best people is critical to the future of the business in recession.

vii) **Capital:** To maintain liquidity and optimize cost of capital requires capital restructuring during recession. This can only be realizable by rationalizing capacities and stalling new projects to maintain liquidity. It is important in crisis of recession to re-examine the company's treasury, financing, funding and pension exposure. Ensure that company's finance and working capital are in good order to protect firm liquidity. Adopt a hand on approach to cash management.

viii) **Partnership:** Renegotiate with partners and strengthen relationship. This is promoted by exploring new business partner

Conclusion and recommendation

Proverb chapter 14 verse 23 states "work and you will earn a living, if you sit around talking you will be Poor". Dada (2010) citing warren buffet, insists on the significance of business strategies, diligence and hard work in times of recession. It is only when the tide goes out that we see who's swimming with no trunk on. Hard work is the secret of success in times of recession like this. Gains made during recessions tend to endure.

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Table 1: Country Profiles, Patterns of Expenditure on Health, and HHPI, 2007

Country	Category	HDI Rank	Education Index	Exp. On Health (US$)	Exp on health as % of budget (US$)	HHPI
Malaysia	UMI	66	0.851	226	7	25
Brazil	UMI	75	0.891	367	7.2	43
Algeria	MNI	104	0.787	146	9.5	71
Equatorial Guinea	HI	118	0.787	219	7	98
Botswana	UMI	125	0.788	487	17.8	81
Angola	LMI	143	0.667	61	5	118
Tanzania	LI	151	0.673	27	13.3	93
Lesothe	LMI	156	0.753	88	7.8	106
Uganda	LI	157	0.698	39	10	91
Nigeria	LMI	158	0.657	15	3.5	114
Malawi	LI	160	0.685	51	18	90

Source: UNDP Human Development Report, 2008

Table 2: Selected Indicators of Human Poverty for Nigeria

Human Poverty Index	**Probability of non-surviving to age 40 (%)**	Adult illiteracy rate (% age 15 and above)	People not using improved water source (%)	Children underweight for age (0% aged under 5)
1. Czech Republic (L.S)	3. Honk Kong China (SAR) (1.4)	3. Georgia (8.0)	2. Barbados (0)	3. Croathia (3)
112. Bangladesh (36.1)	114. Congo (Democratic Republic of the) (32.3)	110. Lao People's . Democratic Republic (27.3)	140 Chad (52)	108. Indonesia (2.8)
113. Madagascar (36.1)	' 145. Guinea Bissau (37.4) •	111. Tanzania (United Republic of) (27.3)	141. Egypt (53)	110. Central African Republic (29)
114. Nigeria (36.2)	148. Nigeria (37.4)	112. Nigeria (28.0)	142. Nigeria (53)	111. Nigeria (29)
115. Mauritania (36.2)	147. Angola (38.5)	113. Malawi (28.2)	143. Madagascar (53)	112. Djibouti (29)
116. Burundi (36.4)	145. Central African Republic (39.6)	114. Madagascar (29.2)	144. Congo (Democratic Republic of the) (54)	113. Sr Lanka (29)
133. Afghanistan (59.8)	153. Lesotho (47.4)	151. Mali (23.8) .	150. Afghanistan (78)	138. Bangladesh (48)

Source: UNDP Human Development Report, 2008

Fig 1: Non-Oil GDP Growth Rate (Q1- - Q4, 2009 & Q1 - Q2, 2010)

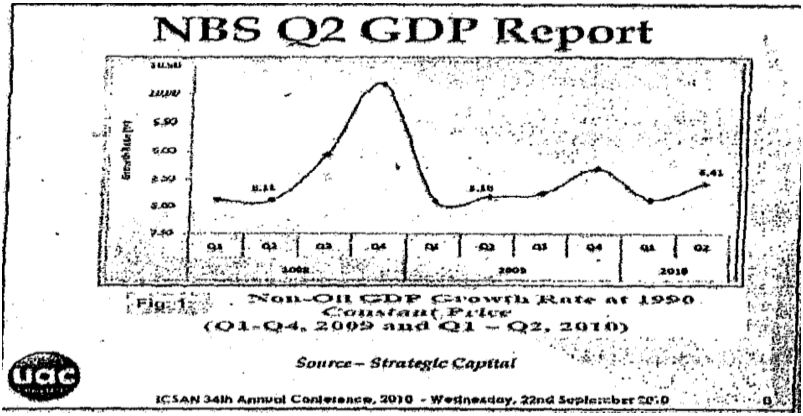

Fig 2: **OH and Non-Oil GNP Growth rate (Q1-Q4, 2008 & QiQ2, 2009 & Q1- Q2 2010).**

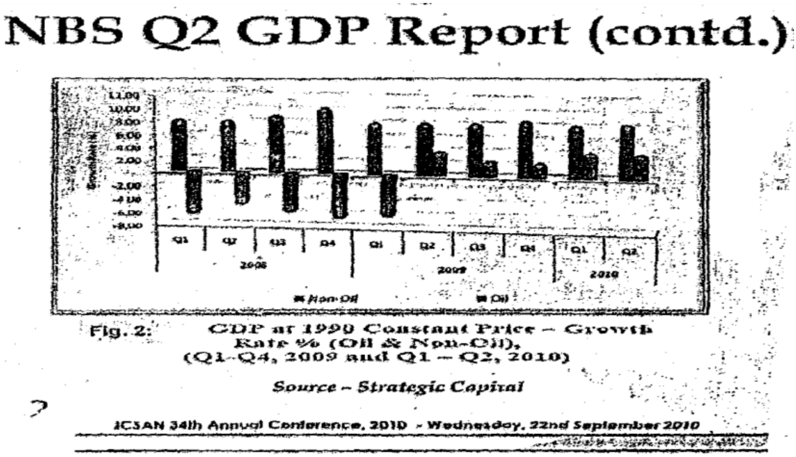

Fig 3: **Manufacturing GDP Growth Rate (Q1- Q4, 2009 and Q1-2010)**