

# MANAGEMENT SERIES

WITH



## Riding the Recession

**T**he current economic recession is forcing Nigerians to think through potential solutions. For once, people are going beyond praying and wishing for better times, to actively seeking the way forward.

Many are convinced that the economy has spiralled out of the control of the Government and urgent intervention of some sort is urgently required. All categories of business are being impacted and companies have been forced to contract or re-align their strategy and operations to ride the tide. Despite the times, a few companies are experiencing growth evidenced by their financials, so we might ask how such organizations are able to thrive during these difficult times, in a bid for others to learn.

### Organizations feel the effect of the storm differently

Cadbury Nigeria PLC experienced cost increases of over 68% within the last nine months, and tried to offset these with three different increases in product prices. The increases resulted in a 12% addition to income, leaving the difference of 56% to be absorbed in its margin. It's recently released result was a record loss of N842.2m in Q3 2016. In the same quarter Q3 2016, PZ Cussons Nigeria PLC announced one of its worst interim results so far, with a loss of N2.4bn and Nestle recorded a 94% dip in profits after tax of N535.8m as against N8.9bn for the same period last year. Many banks on the other hand appear to be doing quite well. In Q3 2016, GTBank declared an extraordinary N119.9bn profit after tax which was a 28.5% increase from last year, Zenith Bank declared a whopping profit after tax of N100bn which was a 16.6% growth from the prior year, and Access bank declared N57.6bn profit after tax for the same period, an increase of 20% from last year. Small businesses are suffering and whilst it is more difficult to depict the extent of their suffering their tales of woe resound – expensive raw materials, low patronage and increasing bills and statutory payments.

There have been unprecedented job losses in most sectors of the economy. From the oil sector where companies have recorded an inability to service debts and have embarked on mass retrenchment to the manufacturing sector where companies have also embarked on job termination to reduce non-business critical costs, to banking where institutions have terminated the employment of over 5,000 workers this year alone, in a bid to optimize profits. The society has been feeling the effect of the government's economic plan (or lack thereof) in the forms of increases in costs of goods, an extensive fall in the naira's value, job losses and dwindling employment opportunities.

Organizations usually measure their performance in terms of financial results but I posit that social impact must be included in such measurement in order to provide a holistic picture for review. Oftentimes, money and social impact are viewed as mutually exclusive but many organizations are coming to the



**IRRESPECTIVE OF THE APPROACH THAT AN ORGANIZATION CHOOSES TO RIDE THE RECESSION, IT IS IMPORTANT FOR IT TO LEVERAGE EXPERTS IN ASSESSING AND DEVELOPING POTENTIAL SOLUTIONS. THE BENEFITS OF THIS ARE IMMENSE AND INCLUDE A DISPASSIONATE VIEW ON THE ORGANIZATION'S OPERATIONS, INSIGHT ON BEST PRACTICES THAT CAN BE ADOPTED, SPECIFIC EXPERTISE THAT CAN IMPROVE OUTPUTS, A HOLISTIC VIEW ON ANALYSING RESULTS AND PRAGMATIC APPROACHES TO ACHIEVING THE ORGANIZATION'S GOALS WITHOUT COMPROMISING ON THE BOTTOM LINE OR LONG-TERM SUSTAINABILITY OBJECTIVES AND SOCIAL IMPACT**

conclusion that both money and social impact are two-sides of the same coin and should be managed and/or pursued jointly in order to truly boast of success. Such social impact would be in terms of employment creation, corporate social responsibility, carbon footprint, tax payment and

more. With the foregoing, we can conclude that very few organizations in too few sectors of our economy are producing results worth speaking about, especially at this time of a recession. The situation leaves many companies as potential candidates for compulsory restructuring or open to the risk of eventual collapse.

### Thriving in a recession

One method used by some organizations is revising the selling prices of their goods and services, which passes on the burden of the recession to consumers – cost externalizing. Recently, Dangote Cement increased the factory price of cement by N600 to keep its margins healthy. Banks have increased corporate lending rates from 15% to 19% to make up for the squeeze in other areas of their operations. Airlines have increased the price of local flights and companies in many more industries leverage price increases to ride the recession.

A more sustainable method that organizations leverage is by reducing operating costs. Some find alternatives to hitherto imported raw materials in order to reduce their cost of production. For such companies, passing on the costs to consumers may not be feasible so creativity in lowering costs is necessitated. Others embark on massive retrenchments in order to streamline operations or increase efficiency in their efforts to also reduce operating costs. Companies operating in highly competitive industries are more likely to use a cost reduction approach to keep margins healthy.

Irrespective of the approach that an organization chooses to ride the recession, it is important for it to leverage experts in assessing and developing potential solutions. The benefits of this are immense and include a dispassionate view on the organization's operations, insight on best practices that can be adopted, specific expertise that can improve outputs, a holistic view on analysing results and pragmatic approaches to achieving the organization's goals without compromising on the bottom line or long-term sustainability objectives and social impact. Many banks get help in realigning strategy and business operations as well as in restructuring at difficult times and this may partly explain why they can whether the storm, deliver returns and make social impact.

Most organizations, in both the service and real sectors, can benefit from a team of good external experts at this time. Those which are growing must look to stay ahead and those which are declining must restructure to stay alive. Whilst the experts cannot independently change the external environment, they can work with companies to restructure internal operations and reposition. Restructuring must be done right otherwise its gains will be short-lived. Many organizations have retrenched staff without proper analysis and therefore may gain on reducing operating expenses but only in the short-term. Some have focused on 'money' rather than 'the social impact'. Too often, a hundred low-level employees are fired notwithstanding their potential and regardless that their costs all amount to those of one or two dead-weight bosses. Restructuring must

have long term views, be impartial and offer solutions far beyond frameworks or fads. Einstein is famously quoted to say that doing the same thing over and over again and expecting different results is insanity. I paraphrase that applying the same intellect to optimizing business will not produce enough of the tangible change that is required to sustainably soar above the current storm.

External experts do not always have to be trained 'consultants'. There are a multitude of academics, professionals and specialists, who can add a lot of value to organizations as required. The idea is to bring in different perspectives beyond what is readily available at organizations in order to proffer cutting-edge, timely and fresh solutions to internal challenges and to respond to external shocks. Hiring experts' costs money, but this pales in comparison to the long-term value that can be derived. However, it is important to ensure that internal teams work alongside experts to guarantee that solutions developed are implementable and to assure that knowledge is transferred to the internal teams in a bid to strengthen capacity and improve delivery.

### And for the Government

Many experts theorise that the current economic recession is a result of a dip in government revenues and the consequent drop in government spending. Others suggest that the current economic challenges are due to the Government's reliance on politicians rather than professional for advice. Increasing Government revenue and spending will be subject of a subsequent piece while we address the value of relying on professionals here. Government will benefit from experts at this time. Those who can add value to get the country unto better footing. We already have so many square pegs in round holes at the helm of Government affairs and since our leaders appear to have their reasons for keeping them in place, at least leverage experts to get some positive results quickly. Experts can simulate consequences so that the true effects of policies and programmes can be predicted before their proclamation or can be revised towards positive impact. Experts can provide insights on specific issues and from comparative assessments as well as quantitative analysis to enable the Government develop viable solutions. If engaged correctly, experts can identify pitfalls and propose solutions in a timely and non-bureaucratic manner, not caring whose ox is gored in the interest of the country. More importantly, the Government needs experts to 'work ahead' – perform useful research on pertinent issues, plan for the long-term and develop strategies that will be all-inclusive and truly transformational, in order to create an enabling environment for companies to thrive and positively impact the lives of millions of Nigerians, whom today are barely getting by. It is important that Government and the private sector work together to restore the Nigerian economy.

**By Angela Attah**

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