



Managing the Impact of Economic Recession on Nigerian Economy: The Role of Management Accountants

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Authors' contributions

This work was carried out in collaboration between both authors. Author AAE designed the study, performed the statistical analysis, wrote the protocol, and wrote the first draft of the manuscript. Authors AAE and OGO managed the analyses of the study. Author AAE managed the literature searches. Both authors read and approved the final manuscript.

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ABSTRACT

The study examined the role of management accountants in managing the impact of economic recession on Nigerian economy. The survey method of research design was adopted for the study. The population of the study comprised forty eight (48) manufacturing firms listed on the Nigerian Stock Exchange. Data were collected from primary source through interview of the management accountants in each of the selected firms and analyzed using T-Test Statistics. Findings show that the key roles played by management accountants in managing the impact of economic recession on Nigerian economy include; engaging in bulk purchases of raw materials and competitive buying, sourcing alternative local raw materials, embarking on cost engineering, prompt analyses of segments/products contribution margin, and carrying out comprehensive investment appraisals of every project to know the viable ones. Some other key roles were the use of weighted average costing method for valuing materials and replacement value method for pricing the finished goods. Based on the findings, we recommend that the producers of local raw materials for the

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manufacturers should endeavour to improve on the qualities of their raw materials to come up to the standard quality desirable by manufacturers. Also, management accountants should perform their duties with meticulous professionalism by reacting promptly to the signs of an economy being in recession and report to the relevant authority.

Keywords: Economic recession; Nigerian economy; management accountants.

1. INTRODUCTION

The emergence of economic recession in Nigeria was triggered off by the global economic meltdown. The recession imposed severe pressure on the various sectors of the Nigerian economy. The manufacturing sector seems to be the hardest hit. The sector faced challenges which centered on massive decline in sales, patronage, profit margin, low production, retrenchment, difficulty in obtaining dollars, increased production costs, factory closure, low power supply, abrupt increase in tariff as well as losses on foreign exchange loans [1]. These challenges seem to confront the roles of management accountants working in the manufacturing sector, as management accountants are internal managers in the firms whose activities involve raw material acquisition, staffing and human resources management, customers maintenance/retention, fixing prices, and so on [2].

In 2016 and first half of 2017, it was discovered that firms could not have access to dollars for importation of raw materials due to scarcity of foreign exchange to the banking sector as the influx of dollars per month fell beneath \$1billion from \$3.2billion as a result of drop of petroleum prices. Nigeria contested with dearth of dollar in financing her import invoice which amounts to \$4billion monthly. Some firms that were fortunate to pay for the dollars receive them after 3 to 4 months. These made a few of the manufacturing firms' capability consumption to fall around 35% [1] & [3].

One of the effects of economic recession is high rate of unemployment which mounts pressure on the management accountants' role of staffing and effective management of human resources. [4] noted that the heaving result of the recession had grown to be unbearable for firms leading to huge loss of jobs. Noko [5] stated that over 20,000 employees working in manufacturing companies lost their jobs due to the recession. In 2016 and 2017 it was recorded that 196 manufacturing firms closed their factories due to unfavourable business environment for the

manufacturers created by the recession [6]. The pressure posed by the recession kept firms in continuous struggle to maintain and retain their customers. The inflation affected customers' purchasing power resulting in consistent drop in sales volume. Some customers seem to be quality conscious while some seem to be price conscious and in all, firms were in continuous struggle to maintain their customers. Firms fought to survive, they engaged in various strategies and lots of below the line marketing push to ensure that their competitors did not snatch their customers.

The challenges thrown in by the recession made management accountants to contend between equalizing the pressure on high cost of production and overcoming the pressure of rising inflation by increasing the prices of some goods in already compelled customers [7]. [8] & [9] showed that the rate of inflation grew to 18.44% in Nov. 2016 from 9.55% in Dec. 2015. It later rose to the highest rate of 18.72% in Jan 2017. Thus CBN constricted money supply and raised monetary policy rate to 12% in March and later in July to 14%.

Therefore, the aim of the study is to examine the role of management accountants in managing the impact of economic recession on Nigerian economy. Specifically, this study seeks to determine the roles played by the management accountants to ensure the availability and instant purchase of raw materials during the recession; to ascertain the roles management accountants played to ensure that their firms did not shut down operations during the recession.; to establish their roles towards retaining both their employees and customers during the recession; and to discover the other significant roles management accountants played in coping with rising inflation during the recession.

2. REVIEW OF RELATED LITERATURE

2.1 Economic Recession

Economic recession is a period of economic slowdown featuring low output, illiquidity and

unemployment. This period is characterized by its length, abnormal increases in unemployment, falls in the availability of credit, dwindling output and investment, several bankruptcies, reduced amounts of trade and commerce as well as highly volatile relative currency value fluctuations, mostly devaluations, financial crises and bank failures [10]. [11] defines economic recession as consecutive declines in quarterly real gross domestic product (inflation adjusted) and a decline in activities across the economy, lasting longer than three to four months. It is evident in industrial production, employment, real income and wholesale-retail trade. Similarly, [12] defines economic recession as a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. It begins when the economy reaches a peak of activity and ends when the economy reaches its trough [13]. Based on the definitions above, it is seen that economic recession is a period of downturn in the economic activities of a country. It takes time to determine whether an economy is in a recession or not. The signs include government not being able to meet its financial commitments, increase in the prices of goods and services, fluctuations in exchange rates and so on.

2.2 Management Accounting

Management accounting is defined as a process of generating relevant, sufficient and reliable information, both quantitative and qualitative to management for the purpose of effective decision making [2]. It is concerned with the application of accounting and statistical techniques to the specific purpose of providing and interpreting information designed to assist management in its function of promoting maximum efficiency [14] cited in [15]. [16] defines management accountants as "an integral part of management concerned with identifying, presenting and interpreting information used for: formulating strategy, planning and controlling activities, decision making, optimizing the use of resources, disclosure to shareholders and others external to the entity, disclosure to employees and safeguard of assets". According to [16] management accounting focuses primarily on data gathering (from internal and external sources) analyzing, processing, interpreting and communicating the resulting information for use within the organization so that management can effectively plan, make decisions and control operations. The management accounting

functions are carried out by management accountants.

The Presence of management accountants in any given economy/organization is critical to the sustainability of the economy/organization. They are one of the key role players and act like watch dogs as they look into the historical economic activities and performance of an organization/economy and generate relevant data for strategic decisions. They are not in the organization for their traditional role only but through better understanding of the organization and active involvement are able to meet up with the challenges that might face the organization in tough economic times such as during economic recession, analyze the challenges and make timely and meaningful communication to the top management/relevant authority.

2.3 Management Accountants' Roles in Organizations

The global economic crisis of 2008 has changed the conventional role of accounting of 'Bean-counting' to a sharp focus with rigorous changes and regulations to the professional standards [17]; with the change in the conventional role of accounting, globalization has been extra effective in the world businesses thereby affecting transformation in the practice of accounting as accounting becomes more useful in the management process [18]. Thus, [19] posits that "accounting has now entered a golden age, an age of the changing role of the accountant; an age of wide-ranging roles that include professional business advice, planning, reporting, identification of value drivers and risk mitigation. Furthermore, the accounting profession has cross-cutting socio-economic responsibility in a variety of ways including governance, business ethics, banking regulations and supervision, as well as financial stability". [20] opine that for management accountants to be competent and reliable, they should be proactively involved in strategic management, leadership, operational alignment and long-life learning and improvement. They should be able to create and add value to the organization through efficient and effective management of resources, activities and people within the organization for the success and survival of the organization. Management accountants participate actively in acquiring and providing valuable information for the organization in terms of improving their image and influence on corporate decision making during economic

recession. In providing this role, management accountants operating in a globalized economy provide accurate and valuable information to the teams of managers and decision makers on exterior parameters that affect and concern the business.

Fullam [21] provides these roles for accountants in the period of economic crisis; “the accountants working in the national treasuries should check that the books balances. Accountants in regulators’ office should read balance sheets and see if banks are over extended or identify over-concentration of risks and then do something about it. Accountants in the banks and brokerages should check the concentration of risk in particular sectors and the slackening of under-writing criteria and those who sit on asset and liability committees should identify funding weakness. Furthermore, in the case of economic activity, accountants should be actively influencing behaviours of businesses by having a view and expressing it. Accountants should have an insight into the financial state of their nation(s) and demand good government of their economy”. Consequently, it becomes necessary that management accountants in playing their role well in the period of economic recession should be made part and parcel of management hence. [2] provides the following as management accountant roles in the management process: Planning, organizing, staffing and human resources management, leading and interpersonal influence, and control.

In the area of planning, management accountants assist in generating adequate data on the past activities and performance of the organization for the purpose of short term and long-term planning process. In area of organizing, the structure of the organization which deals with authority, responsibility and specialization which ensures effective performance are clearly presented. Thus management accounting through what is known as responsibility accounting represents the design and accomplishment of accounting system which helps in consolidating and defining the relations. Management Accountants help in managing and motivating the human resources of the organization and also help to provide valuable assistant in identifying potential managerial problem areas and highlighting those items for detailed investigations. For groups and individuals in an organization to assist willingly and harmoniously in achieving the goals of the organization, communication must be effective.

Management accountants aid communication functions by installing and maintaining an effective communication and reporting systems. Another important function of the management accountant is ‘control’, he helps in carrying out control functions in an organization by producing a performance reporting which seek to compare the established targets with the actual outcome for each of the responsibility centers within the organization. Management accountants provide necessary information to managers and strategically collaborate for the good of the organization by assisting managers in their administrative tasks, [7].

3. THEORETICAL REVIEW

The contingency theory of management accounting provides a suitable theory for this study. The contingency theory of management accounting provides that “accounting systems are contingent upon the circumstances that prevail at any time; they must be capable of development in order to take into consideration such factors as changes in the environment, competition, organizational structures and technology” [22]. The theory holds that the successful implementation and use of management accounting techniques depend upon particular contingent factor, which include the environment, technology, size and structure of an organization, as well as its competitive strategy, strategic mission and national culture [23]. Generally, the main idea of contingency view is that there is no single best method to solve a problem or do a particular job; the best way depends on the circumstances [24]. According to the contingency theory of management accounting, the role of management accountants is dependent on the situation/circumstance (that is, economic recession). Thus management accountants in dealing with economic recession should be able to understand the situation and identify the appropriate management style that will help them in tackling the problems posed by economic recession

4. ECONOMIC RECESSION ON NIGERIAN ECONOMY

Economic recession does not just happen in any given economy; its occurrence is attributable to so many causes. [25] noted that “one of the factors which contributed to economic recession in Nigeria was the delay in forming the cabinet. The delay gave room for leakages in the

economy. There were no finance and coordinating minister of the economy to make concrete decisions and implement policy directions of government and this created vacuum in decision. He also points at the Treasury Single Account (TSA) as a contributory factor to recession in Nigeria; he stated that the TSA which was supposedly meant to block loopholes in the economy and minimize corruption mopped up liquidity in the circulation and shifted credit creation and economic activities in the country causing a grave effect on the economy. [5] highlighted the major causes of economic recession in any given economy as high inflation which is a general rise in prices of goods and services leading to low purchasing power, accumulation of debt servicing particularly external debt, mass unemployment, drop in total demands, wages and income, high interest rates which discourage investors and result to general loss of confidence on the government owing to economic indices.

Correspondingly, [26] posits that factors which are responsible for economic recession are “dollar collapse, rise in oil price, inflation, housing bubble, loss of consumer confidence, excess buying and global economy, low interest rates and increased global liquidity. [26] further stated that the subprime or near- subprime loans being initiated and sold to banks by the US real estate brokers as well as the hedge funds, the Structured Investment Vehicles (SIV) and financial instruments such as Collateralized Debt Obligations (CDO), Credit Default Swaps (CDS) and other derivatives were the bane of the crisis”. Likewise, it was believed according to [27] that “the inconsistent implementation and subsequent misapplication of the standards contributed in three ways to the global financial crisis. Two of which are; firstly, reporting of immediate gains on securitization facilitated and motivated more subprime lending. Lastly, the eventual recognition of losses and the ripple effects through the economy resulted in a large, rapid decreases in the amount of bank’s capital”. Furthermore, other causes of the crisis include “lax regulation over mortgage lending, a growing housing bubble, the rise of derivatives instruments such as collateralized debt obligations, and questionable banking practices, as well as certain management incentives and fair value accounting standards” [27]. Equally, [28] disclosed other factors responsible for economic recession as the underestimation of liquidity risk and use of temporary oriented inducement proposal.

Economic recession has grievous effect on Nigerian economy. According to [10], the global recession resulted in a crash of the stock market. The research carried out by [4] disclosed that immediately the global financial crisis was announced in America in July 2008, the activities of the Nigerian stock market began to slowdown, investors started withdrawing their capital and the stock price dropped. The study by [29] shows that all share index of the Nigerian stock exchange at a time dropped above 30percent. According to [30], “the consequences of the recession on growth and development in Nigeria are enormous and widespread. The first point of impact is through the drop in the price of oil. This is followed by the fall in the share price of the stock market. The combined effect of these two lead to the depreciation of the naira exchange rate. Further worsening the situation is the withdrawal of foreign portfolio investment (i.e. the hedge funds) from the Nigerian stock market which compounded the crisis of confidence and complicated the capital market recovery process”.

Osaze [31] stated that the recession resulted in market capitalization reducing from ₦10.18trillion to ₦5.2trillion and market index rose from 5799 points to 22000 point in Oct 2009 with foreign portfolio investment being scarce, shares and stock became non-collaterizable. [32] showed that in 2016 the stock market annual GDP growth was -1.5%, market capitalization declined 40% to \$29.792Billion. The market current ratio also declined 15% to 3.23. [7] observed that the recession impacted adversely on Nigeria’s oil revenue. Correspondingly, [10] stated that due to the recession, petroleum prices increased tremendously leaving several financial houses downturned at the danger of imminent crisis. The study by [33] disclosed that “the petroleum sector seems to be the hardest hit following the crash in the price of crude oil from \$145 per barrel in 2013 to an average of \$35 per barrel at the climax of the crisis” and \$49.93 as at 25th August 2017 according to [34]. The decline in petroleum prices led to decline in government revenue and foreign exchange earnings. The recession according to [33] also bites hard on the banking sector which was until recently regarded as one of Nigeria’s best performing sectors of the national economy. The shortage of foreign currency in 2016 resulted in businesses not able to source dollars for importing raw materials required for production this therefore lowered

revenue of banks from financing of import [3]. Statistics shows that the manufacturing sector has been greatly affected by the crisis with huge fall in facility consumption due to depreciation of naira and seaport overcrowding [10]. [35] noted that the productive sector of the economy is unable to gain access to FOREX thereby hampering business activities and leading to negativity in the productive sector. Between 2016 and 2017 about 196 manufacturing firms closed down their companies due to adverse business environment [6]. Moreso, Manufacturers Association of Nigeria (MAN) reported that in 2016 the restrictions on dollar and veto on importing a few raw material led to more than 45 companies closing down business, over 220 Small and Medium Enterprises (SMEs) shut down operations entirely, wiping out more than 2million employments thereby causing massive monetary losses of about ₦62.184billion. The problems which MAN attributed to economic recession had eaten deep on the SMEs wealth which contributes around 50percent of the nation's GDP. Several production firms encountered massive decline in sales, profit margin, customer support, low production, downsizing and shutting down of firms [36]. The economic recession has resulted in high rate of unemployment. [37] stated that retrenchment seems an easy option to organizations in dealing with economic recession. Likewise, [28] concluded that due to economic recession, unemployment increases at a frightening rate due to severe drop in sales revenue of businesses, failure of the banking system, rising prices of goods and firms offer willful retirement programmes to cut down their staff strength and reduce salaries. The banking sector analyst report disclosed that in 2016, economic recession took its effect on the banking sector resulting in the retrenchment of around 3000 bank employees [3]. Also, [33] stated that some state governments are unable to pay staff salaries as and when due and government investments are being drastically reduced along with budget cuts by the federal government and in some states. This was due to fall in petroleum prices which impacted negatively on government revenue. Huge losses have been incurred as a result of the economic recession. [38] stated that Nigeria recorded losses amounting to ₦9trillion which was incurred by investors in Nigerian stock market. In the first half of 2016 the banking sector and manufacturing sector suffered losses to the tune of ₦1.02trillion and ₦51.86billion respectively [39] & [1].

5. METHODOLOGY

The research design adopted for the study was the survey method. The population of the study comprises 48 management accountants working in 48 different manufacturing firms quoted on the Nigerian stock exchange. The population was selected judgmentally. Data were collected from primary source through interview. Collected data were analyzed using T- Test Statistics. The interviewees were the management accountants in each of the selected firms. The management accountants were chosen because they are internal managers working in the firms. Some of the challenges faced by the manufacturing firms centered on the roles they perform in the management process as they provide decision support for managers in the business function such as research and development of new products, product design, raw material acquisition, production of goods, product pricing as well as product diversification, marketing of goods to customers/prospective customers, product distribution, customer service and selection of competent and experienced employee.

6. FINDINGS

The responses from the management accountants interviewed revealed the key roles played by these accountants in managing the impact of economic recession. The roles include engaging in bulk purchase of raw materials by increasing the order size to minimize cost; sourcing for alternative local raw materials though the quality did not match foreign raw materials but was upgraded to ensure that output meet with quality. Majority of the firms were engaged in cost reduction/elimination of some controllable overhead costs and employee costs such as maintenance cost, staff productivity bonus, workers annual salary increment, employee phone bill, staff overtime and shift duty allowances.

The management accountants also embarked on cost engineering; competitive buying; analysis of each segments/products contribution margin to determine the ones that contributed to the overall recovery of fixed cost; detailed investment appraisal of every project to know the viable ones. As internal accountants, they provided management with information to encourage performance analysis, to induce reward system, to support strategic management decisions and also provided information on product

diversification. They also advised management on other areas to cut cost and minimize wastages of raw materials, finished goods and staff idleness.

Usually, the management accountants are involved in ensuring that their firms finished goods are of the best quality so as to retain customers; establishing customers' management strategy in which their sales associates attend to customers and treat them well; establishing policies in which the company's vehicles deliver goods to the customers that purchased in large quantity; and also involved in offering discounts on some selected items of high value. They are also involved in ensuring regular supply of goods to the customers; keeping records of the customers and recommending them for management reward when they perform well; and carrying the customers along in their business plan which was their success factor.

Majority of the management accountants' reported that they used Weighted Average Costing (WAC) method for valuing materials and also used replacement value for pricing. The WAC helped to dilute the high cost of materials. Finally they were involved in giving advice to management on areas to cut cost and minimized wastages.

7. CONCLUSION AND RECOMMENDATION

Management accountants played key roles in managing the impact of economic recession on their firms and Nigerian economy by engaging in bulk purchases of raw materials and competitive buying, sourcing alternative local raw materials, embarking on cost engineering, prompt analyses of segments/products contribution margin, and carrying out comprehensive investment appraisals of every project to know the viable ones. Some other key roles were the use of weighted average costing method for valuing materials and replacement value method for pricing the finished goods. Their involvement in giving advice to management on areas to cut costs, minimize wastages, and providing information on the general wellbeing of the firms show that they were highly committed to seeing their firms through the recession.

We recommend that the producers of local raw materials for the manufacturers should endeavour to improve on the qualities of their raw materials to come up to the quality of foreign

raw materials as this will put an end to sourcing such raw materials abroad thereby improving our economy.

Management accountants should perform their duties with meticulous professionalism by reacting promptly and certainly to the signs of an economy being in recession and report to the relevant authority. It is very important for management accountants to be providing accurate, relevant and reliable information at all times in both their reports/accounts and other supporting communications as such information will help management in making economic decisions that will be beneficial to their firms.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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APPENDIX 1: INTERVIEW SCHEDULE/QUESTIONS

- 1) Did your firm experience scarcity of foreign exchange for importation of raw materials during the recession?
- 2) If yes how did you manage to sort it out to buy raw materials
- 3) How did your company cope with rising inflation or which role(s) did you play as a management accountant during the period of the rising inflation?
- 4) During the period of the recession FG placed ban on some imported raw materials. Does this affect your firm?
- 5) If yes which role(s) did you play as a management accountant to sort it out?
- 6) Did your firm resort to downsizing or reduction of workers' salaries during the recession?
- 7) If your firm was involved in staff retrenchment what measures did you put in place to prevent it?
- 8) What role(s) did you play to ensure that your organization did not shut down operations during the recession?
- 9) What role(s) did you play to retain/maintain your customers during the period?
- 10) How did you keep up with competitors or which role(s) did you play in keeping up with competitors?
- 11) Did the recession increase the rent you paid in some of your rented factories/ warehouses/branches?
- 12) If yes, which role(s) did you play to tackle this problem?
- 13) Did your firm experience low patronage during the recession?
- 14) If yes, which role(s) did you play to sort it out?
- 15) What roles did you play to cope with low production?
- 16) How did your firm cope with foreign exchange losses on dollar loans?
- 17) Did your firm have the challenge of poor power supply during the recession?
- 18) If yes what role(s) did you play to sort it out?
- 19) How did you tackle the problem of high cost of production during the recession?
- 20) How did you cope with decrease in turnover?
- 21) What are other challenges your firm encountered during the recession?
- 22) What roles did you play to manage the challenges?

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