

Corporate Sustainable Growth in a Pandemic Period: The Role of Growth Opportunities

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Abstract: The outbreak and spread of the Corona virus disease 2019 (COVID-19) has brought with it uncertainty in business environment. The COVID-19 pandemic which has attracted considerable global attention has negatively affected business operations and national economies. To this end, this study examined the role of growth opportunities in mitigating the negative effect of COVID-19 pandemic on corporate sustainable growth. The study adopted an *ex post facto* research design and obtained data from financial statements of manufacturing companies for pre- and post-COVID-19 periods. The population of the study consists of all 76 manufacturing companies listed on the Nigeria Stock Exchange (NSE). The Hierarchical Linear Model (HLM) Regression was used as the method of data analysis. Findings of the study show that COVID-19 pandemic has had a significant negative effect on sustainable growth of listed manufacturing companies in Nigeria. The HLM analysis also indicated that higher growth opportunities mitigate the negative effects of COVID-19 on corporate sustainable growth. The finding further reveals that market intensity has a positive and significant effect on corporate sustainable growth. The study recommends that companies should exploit growth opportunities and increase marketing and sales promotions to survive in the post COVID-19 period.

Keywords: COVID-19, Corporate Sustainable Growth, Market Intensity, Growth Opportunities, Pandemic

1. Introduction

The outbreak and spread of the Corona virus disease 2019 (COVID-19) has brought with it uncertainty in business environment. The COVID-19 pandemic which has attracted considerable global attention has negatively affected business operations and national economies. In the wake of the pandemic, corporate organisations are facing numerous challenges ranging from a fall in consumer demand, to employees' safety hazards, supply chain deficiencies, restrictions and vulnerabilities, and changes in consumer tastes and preferences.

Studies have provided evidence that the pandemic has represented a bottleneck for firms' survival and continuity [16] consumer behaviour changes [30], operational failure and supply chain disruption [22], liquidity and profitability issues [2], economic growth and development [10]. Other studies have also researched on the effect of COVID-19 on sales and profitability [20], disruptions in corporate

interconnectedness [25] and fall in foreign direct investment [31].

However, there is lack of empirical clarity in the literature with regard to effect of COVID-19 on firms' sustainable growth and development. Corporate sustainable growth has been considered a critical factor in present business environment and a necessity during and post the COVID-19 unpredictable economic period. Inegbedion [10] and Goodell [9] argue that COVID-19 crisis is capable of having a long-term effect in financial markets and can have significant negative effect on going concern of businesses in Nigeria. As a result, companies are now prioritising issues such as market intensity, research and development initiatives, governance frameworks, strategic objectives, possibilities for developing more sustainable supply chains, and potentials for diversification. The COVID-19 pandemic has rejuvenated the debate surrounding business continuity and survival and has

been termed a new threat to the sustainable growth of businesses [16].

Companies are now forced to reconsider their growth opportunities as a result of the uncertainties in business environment due to the pandemic. Growth opportunities create avenues for business expansions by introducing new lines of business, increasing new segments, improvement in customer acquisition and retention, and innovation in production through modern technology.

This study adopts growth opportunities, which illustrates how a firm manages its opportunities for business expansion, as a variable that moderates the adverse effects of COVID-19 on corporate sustainable growth. The rationale for adopting this moderating variable is because several empirical studies that model company performance confirm the existence of potential interactions between corporate financial performance and growth opportunities. [2, 4, 18, 20].

Given the different level of impact of COVID-19 challenges on firms' performance, we expect the effectiveness of corporate sustainable growth to vary with growth opportunities. We therefore investigate the uniqueness of the sustainable growth challenges in the era of the pandemic, and introduce companies' growth opportunities as a way of mitigating the effect of COVID-19 on corporate sustainable growth.

This study contributes to the literature in three distinct ways. Firstly, it examines the business effect of COVID-19 pandemic at the micro level on companies' sustainable growth in the context of Nigeria as a developing economy. Secondly, the study provides insight into an area not hitherto covered by highlighting the role of growth opportunities. Third, this study is useful for both academia and for industry operational practices for companies in Nigeria.

The remaining parts of the paper are organized as follows: section two provides the review of related literature and hypothesis development. Section three gives details of the empirical method adopted for the study and includes the design and data, theoretical framework and model specification, and measurement of the variables. Section four presents the data analysis and discussion of findings while the last section concludes the study.

2. Literature Review and Hypotheses Development

2.1. COVID-19 Pandemic

The corona virus disease had appeared in different forms before the appearance of the 2019 variant named COVID-19. There was the occurrence of the Severe Acute Respiratory Syndrome (SARS-1) around 2002/2003 in China [32]. There was also the Middle East Respiratory Syndrome which infected people in some Middle East countries and some parts of Asia in 2012 [10]. A major difference between the COVID-19 and the others that preceded it is that the previous coronaviruses did not have devastating effect on both humans and economic activities.

Zhong et al. [32] explain that SARS-1 only triggered mild infections in immunocompromised persons and were not considered to be pathogenic in humans until they circulated in the Guangdong Province in Chania in 2002. The World Health Organization (WHO) [26] reported that the SARS-1 virus is estimated to have had a total of 8437 infections and 813 fatalities.

Also, WHO [26] reported that the Middle East Respiratory Syndrome (MERS) which occurred between 2012 and 2013 recorded a total of 55 cases with a death rate of about 60 percent. WHO also recorded that 40 of the MERS cases took place in Saudi Arabia with the remaining spread across other Middle East countries such as Qatar, Jordan, United Arab Emirate, Tunisia (Africa) and some other European countries [27].

The corona virus disease 2019 (COVID-19) named SARS-CoV-2 is said to have reported from Wuhan, China in 2019. This strain according to the WHO has not been previously identified with humans and has spread across over 155 countries, with 228.5 million confirmed cases and over 4.7 million deaths worldwide as at September 18, 2021 [28, 12]. The Nigeria Centre for Disease Control (NCDC) has also reported 201,296 confirmed cases and 2,649 deaths as a result of COVID-19 in Nigeria as at September 18, 2021 [14].

The severe morbidity, mortality and the consequent disruption to social, corporate (micro level) and economic activities (macro level) explain why the COVID-19 has attracted more national and global reactions compared to previous global epidemics.

2.2. Corporate Sustainable Growth

Corporate sustainable growth refers to the realistically achievable growth that a company could maintain without running into problems. According to Deloitte [8] sustainable growth rate is the maximum growth rate that a company can sustain without having to increase financial leverage. In view of the rapidly changing competitive business environment and consumer trends, creation of sustainable growth has become a concern of corporate business owners and managers alike.

In the wake of COVID-19, for example, customer expectations have changed considerably as consumers have less disposable wealth than pre-COVID-19 period, which makes them more discriminating buyers. This fact, coupled with cost reduction programmes and value re-engineering, means that companies are exerting extra efforts to attract customers by redefining value and keep those customers by beating their competitors in enhancing value. There is also an unprecedented rise among firms in most of the industries due to breakdown in trade barriers that separated them in the past [20, 25, 30].

Business concerns exploit consumer trends and prevailing economic conditions to achieve their sustainable growth. In a bid to improve market share and retain existing clients/customers, some firms innovate into new product development and achieve its sustainable growth. However,

the growth challenge is articulated differently by different companies and within different industries. For some, developing and launching new products and services to meet the evolving needs of their customers is the issue while capitalizing on global opportunities is key for others.

2.3. COVID-19 and Corporate Sustainable Growth

Spillovers from the COVID-19 pandemic has precipitated a decline in consumer demand as well as a significant constraint in economic activities due to enforcement of lockdown and social distancing policies [16, 19]. Findings of prior studies on COVID-19 have produced a nonconflicting result in terms of the negative effect of the pandemic on business and economic activities. For example, Amnim, Aipma and Obiora [2] show that the pandemic has had a significant negative effect on liquidity and profitability of firms in Nigeria. Adenomon, Maijamaa, and John [1] also provide empirical evidence that COVID-19 has had an adverse effect on Nigerian Stock Exchange performance using the GARCH models. Baret, Celner, O'Reilly and Shilling [5], Tesfaye, Habte and Minten [23], Amnim, Aipma and Obiora [2] and Inegbedion [10] all confirm that COVID-19 has had a significant negative impact on profitability and overall performance of firms at varying degrees.

A company's profitability is associated with sustainable growth. A company that does not make adequate profit will encounter going concern problems and fizzle out on the long run [17]. Profitable companies therefore have the resources and working capital needed to promote sustainable growth. Highlighting the relationship between profitability and sustainable growth, Mukherjee and Sen [13] find that liquidity, profitability, and leverage are positively associated with sustainable growth. Nor, Ramli, Marzuki, and Rahim [15] in a research further show proof that sustainable growth of a company is a function of profitability and corporate efficiency.

Following from the foregoing, we hypothesize in this study that COVID-19 will affect corporate sustainable growth through loss of consumer demands, dwindling sales and consequently reduced profitability.

Hypothesis 1: There has been a significant negative effect of COVID-19 on corporate sustainable growth.

2.4. COVID-19 Pandemic and Corporate Sustainable Growth: The Moderating Role of Growth Opportunities

Growth opportunity is viewed as an important factor that can mitigate the negative effect of COVID-19 on sustainable growth of a company. The ability of management to identify business potentials, exploit business and investment opportunities, and optimize the resources of the organization, has become important in a challenging business environment created by the COVID-19 pandemic. Growth opportunities create avenues for business expansions by introducing new lines of business, increasing branches or segments, improvement in new customer acquisition and old customer

retention and innovation in production through modern technology.

In this study, the association between COVID-19 and corporate sustainable growth is projected to be moderated by growth opportunities. Previous studies [21, 6] have shown that growth opportunity is a critical success factor for profitability and economic valued added of the firm. Andawasatya, Indrawati, and Aisjah [3] provide evidence that the improvement of opportunities for growth, profitability, and firm size significantly improve firm value. Chashmi and Fadaee [6] reported that companies with high growth opportunities are more likely to achieve success and stability in uncertain economic periods. Overall, we argue in this study that companies with high growth opportunities are in a better position of achieving profitability, and by extension have a sustainable benefit in response to COVID-19. In view of the foregoing, we frame our second hypotheses thus:

Hypothesis 2a: There is a significant positive effect of growth opportunities on corporate sustainable growth.

Hypothesis 2b: Higher growth opportunities reduces the negative effect of COVID-19 on corporate sustainable growth.

3. Methodology

3.1. Design and Data

The study adopts an *ex-post facto* research design as archive data were used. The population of the study comprises of all 76 manufacturing companies listed in the Nigeria Stock Exchange. The manufacturing sector is further classified into four subsectors namely: Basic materials [12]; Consumer goods [28], Health care [11]; Industrial goods [25]. The sample size for the study was determined using the Yemane (1967) formula. The statistical formula is stated:

$$n = \frac{N}{1 + Ne^2}$$

Where: n = sample size, N = Population size, e = Level of significance (0.05).

Given this population, a normal confidence level of 95% and error tolerance of 0.05 was used to arrive at the final sample size of 64 companies.

A stratified sampling method was further adopted so as to give a proper representation to each group in the ratio of (12:28:11:25) using proportionality formula.

Thus:

$$S = A/N(n).$$

Where S = No of Corporate Financial Statements used for each group, A = the population of each group, N = total population of all the manufacturing firms, n = estimated sample size used in the study.

Thus, the breakdown of the sample size is given in the table below:

Table 1. Break Down of Sample Size.

Sub Sector	Population	Sample Size
Basic Materials	12	10
Consumer Goods	28	24
Health Care	11	9
Industrial Goods	25	21
TOTAL	76	64

Source: Fieldwork, 2021.

Model Specification

The model expresses the effect of COVID-19 on Corporate Sustainable Growth as follows:

$$CSG_{it} = \beta_0 + \beta_1 COVID-19_{it} + \beta_2 GRW-OPT_{it} + \beta_3 COVID-19 \times GRW-OPT_{it} + \beta_4 MKT-INT_{it} + \varepsilon_{it}$$

Where, CSG: Corporate Sustainable Growth; COVID-19: COVID—19 pandemic period; GRW-OPT: Growth Opportunities; MKT-INT: Market Intensity; β_1 - β_4 are Regression Parameters and ε is error term; i represent sampled companies while t is the time dimension.

3.2. Measurement of Variables

3.2.1. Dependent Variable

The dependent variable for the study is corporate sustainable growth. Corporate sustainable growth rate is the maximum rate of growth that a company can sustain with no additional equity or debt financing. A common measure of sustainable growth rate of a company is ROE x (1- Dividend payout ratio). Where ROE is the ratio of net income to average shareholder equity and dividend payout ratio is derived as dividend per share scaled by earning per share.

3.2.2. Independent Variables

As the independent variable, COVID-19 is set as a dummy variable, with 0 denoting the pre-COVID-19 period of 2018/2019 and 1 denoting the COVID-19 period of 2020.

3.2.3. Moderating Variable

The moderating variable is growth opportunities denoted as GRW-OPT in the model. In line with prior studies, [3, 6], market to book value of the company is the proxy used to measure growth opportunities.

3.2.4. Control Variable

Market intensity (MKI-INT) is a control variable used to control for micro-level company effect and is measured as a ratio of selling, general and administrative (SG&A) expenses to total assets.

3.3. Data Analytical Method

The hierarchical linear modeling (HLM) is adopted in this study to examine the association between COVID-19, growth opportunities, and corporate sustainable growth. The HLM is a special kind of a regression analysis that makes it possible to add extra variables to a model in an attempt to ascertain if inclusion of additional variables significantly improves the ability of a model to predict the dependent variable as well as the moderating effect of the added variable [29]. This study uses a three level HLM to examine the hypotheses

postulated. In the first level, the association between COVID-19 and corporate sustainable growth is examined, while in the second level, the control variable (Market Intensity) is entered. The moderating role of growth opportunities is evaluated in the third level.

4. Data Analysis and Results

Table 2 shows results of the hierarchical linear models. Column [1] shows the relationship between the dependent variable CSG and independent/control variables. Column [2] shows the relationship between CSG and the moderating variable GRW-OPT and other control variables.

Table 2. Hierarchical Linear Model Results.

	(1) CSG	(2) CSG
COVID-19	-0.225 (0.011)	-0.188 (0.038)
GRW-OPT	0.042 (0.007)	0.112 (0.026)
GRW-OPT x COVID-19		0.482 (0.000)
MKT-INT	318 (0.000)	486 (0.000)
Constant	0.808 (0.000)	0.017 (0.000)
N	127	127
R2	0.441	0.427
f-Statistics	0.003	30.606

Firstly, the estimates show the coefficient of COVID-19 to be negative ($\beta_1 COVID-19_{it} = -0.225$; $p=0.011$) confirming our hypothesis 1 that there has been a significant negative effect of COVID-19 on corporate sustainable growth in Nigeria. The implication is that COVID-19 has affected business activities in terms of production, distribution, and consumption of goods and services as occasioned in lock down measures and restriction of movement during the pandemic. This finding conforms to Yue, Gizem, Korkmaz, and Zhou [30], Chen, Liu, Liu, and Fang [7], Amnim, Aipma, and Obiora [2] and Otuya [16].

The relationship between GRW-OPT and CSG is also seen to be positive and significant ($\beta_2 GROPT_{it} = 0.112$; $p=0.026$). Thus, our hypothesis 2a which states that there is a significant positive effect of growth opportunities on corporate sustainable growth is supported. This finding is also in conformity with prior studies such as Sanaullah, Sheraz, and Kashif, [21] and Chashmi and Fadaee [6].

The moderating effect of growth opportunities can be

observed in column [2]. The coefficient of the interaction term ($GWT-OPT \times COVID-19$) is positive and significant ($\beta_3 COVID-19 \times GRW-OPT_{it} = 0.482$; $p=0.000$), thus supporting hypothesis 2b that higher growth opportunities reduces the negative effect of COVID-19 on corporate sustainable growth. The finding supports the postulation that higher growth opportunities will enhance corporate sustainable growth thereby mitigating the negative effect of the pandemic. Iyke [11] and Mukherjee and Sen [13] agree with this finding.

Further, market intensity, MKT-INT is observed to have a significant effect on corporate sustainable growth CSG ($\beta_4 MKT-INT_{it} = 486$; $p=0.000$). The implication of this finding is that as companies increase expenditure on selling, distribution and administrative expenses there will be increase in turnover which will also improve growth. This result conforms to previous studies such as Chen, Liu, Liu, and Fang [7] and Verma and Gustafsson [24].

5. Conclusion and Recommendations

The study examined corporate sustainable growth in COVID-19 pandemic period. The study further investigated the moderating role of growth opportunities in mitigating the negative effect of COVID-19 pandemic on corporate sustainable growth. The study adopted an *ex post facto* research design and obtained data from financial statements of manufacturing companies for pre- and post-COVID-19 periods. Findings of the study show that COVID-19 pandemic has had a significant negative effect on corporate sustainable growth. The HLM analysis also indicated that higher growth opportunities mitigate the negative effects of COVID-19 on corporate sustainable growth. The finding further reveals that market intensity has a positive and significant effect on corporate sustainable growth. Findings of the study lend credence to the proposition that increasing the marketing activities may enhance sales and output thereby improving on corporate sustainable growth. Following from the findings, the study recommends that companies should exploit their growth opportunities and increase marketing and sales promotion to survive in the post COVID-19 period.

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