Based on COVID-19 the Financial Management Analysis

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Abstract. As the world faces an unanticipated event of the COVID-19 pandemic, life for many had been disrupted severely, affecting all economic agents within a national level. The focus of this essay is to explore the solutions that can be implemented by businesses when facing the COVID-19 pandemic, such as products and digital survival; the best allocated price; channels; the use of promotion in marketing and the recognition of data importance. There will be a discussion of the UK government's response towards the impact of COVID-19 and the variety of measures taken to neutralize the impact of this event. This will be followed by an analysis and explanation of the general study of a firm's internal financial management model.

Keywords: financial management; subsidiaries; parent company; financial response.

1. Introduction

Over the past few years, the concerns about inflation have reappeared. The global pandemic of covid-19, which was declared a global pandemic by the WHO on March 11, 2020, hit hard on UK's economy as consumer spending rates dropped along with business productivity. In fact, the UK entered recession in the year 2020 as GDP declined by 9.7%. The repeated series of quarantines and lockdowns took a huge toll on UK firms and households as firms had to shut down their factories or commercial stores while householders have restricted leisure and temporary postpones for the spending of goods and services [1].

Furthermore, job security became a serious problem following the first lockdown in March 2020 as COVID appeared in the UK; around 7.6 million jobs or, in other words, around 24 percent of the UK's workforce, had to face job insecurities as some firms did not have the revenue to finance the laborers. The British government seeks to save as many lives as possible, putting aside the risks towards the economy. It was assured that once the lockdown restrictions were lifted, economic activity would recover; however, this may vary by the type of industry (sector). The risks of job loss varied throughout the UK, for example, it was claimed that the 20 lowest income subregions, such as Blackpool, ranged from 23 to 29 percent of jobs at threat, whilst, in the 20 highest income regions, it was much lower – being only around 18 to 25 percent [2]. Income instability made householders become anxious with their spending which concluded in a fall in consumption for luxury and normal goods, therefore, many turned to inferior goods to save money while industries like the recreation sector would experience a fall in consumption and may not be able to keep up costs – creating high barriers to entry for luxury good suppliers. a total of 3.6 million people is vulnerable to job losses and are also in the lowest pay band, as a matter of fact, compared to the previous median wage of £13.30 per hour in 2019, it is then contrasted with a median hourly pay (or wage) of less than £10 [2]. This overall led to closer steps towards the national minimum wage being £8.72 in 2020, resulting in a general decrease in living standards in the UK.

As COVID continues to spread in the UK, the country suffered the highest death toll in Europe, but the presence of the vaccine allowed the government to withdraw many of the lockdown restrictions. It was then predicted that the GDP will grow around 2.5% during the July 2021 period and that the pace of growth was expected to slow down up till early 2022 [3].

Like many other countries, Britain faced steep inflationary pressures as supply chains were distorted by this pandemic and the rising demand resulted in price rises. Although Britain is slowly recovering, it was then hit by another unexpected event, the Ukraine-Russian war which ultimately led to the "cost of living crisis" in the UK, which caused a bigger effect on both consumers and producers, this is what led to the cost-of-living crisis.

During times of global economy recession and the rise in severeness of the pandemic itself, enterprises must change and improve its internal structures, especially its management of departments, to regain stable development and growth and further enhance its competitiveness between rival firms. The addition of facing the difficult macro environment builds on to the importance of business transformation as the survival of the business takes the place as the most important objective of both small and big firms. Concerning the general fall in consumption of goods and services, financial management must be altered to neutralize the effects of the pandemic.

2. Fincancial management model

Financial management is a business function in which it controls the planning, strategizing and the organizing of financial and monetary resources within an organization [4].

Financial management plays a vital role in a business's organization and structure, it consists of managing all the financial resources; maintaining the balance between profitability and risk; facilitates cost control and, in short terms, it includes the strategizing and controlling of financial resources [5].

It contains two major alternate constitutions: centralized and decentralized financial management, in which each carries unique functions that vary from one another.

The centralized financial management model indicates that the financial decision-making power of the enterprise group is concentrated and relied on the group company. The group company primarily controls, manages, and organizes both the operation and the finance inside the group. They make the ultimate decisions, and the member enterprise must strictly implement and follow the decision.

This model of financial management comes with both advantages and disadvantages that are affected by different factors. The following advantages are:

- It is one of the most convenient methods to direct and arrange unified financial decision making while it reduces administrative costs.
- It is conducive to the parent company to give full attention towards the financial regulation function, and it completes the group's unified financial objectives and aims.
- It is also conducive to give the full play to the role of financial expert of the company so that it reduces the organization's overall financial and operational risks.
- It is conducive to the unified transfer of group/ensure funds and reduces the cost of the total funds.

However, this comes along with potential disadvantages:

- The financial management authority is intensely concentrated in the parent company which could prevent the flexibility and the innovation of the subsidiaries as the lack of authority for this department can easily discourage the willingness of subsidiaries.
- Although a high degree of centralization may reduce or even avoid certain risks of subsidiaries, the decision-making pressure is intensive on the parent company and if the decision making is wrong, huge losses would be present within [6].

The decentralized financial management model refers to the proper division of financial control, management, and member enterprises according to the principle of materialism. The group company only focuses on directional and strategic problems.

Businesswise, subsidiaries have the full decision-making power in terms of capital integration, investment, utilization of its resources, revenue, expenditure expenses, and the laborer's benefits, bonuses, and wages etc. They decide financial decisions according to the market's environment and the internal company's conditions. In the matter of management, the parent company does not use mandatory planning to interfere the production process and the operation activities of subsidiaries but focuses on indirect management.

Subsidiaries are encouraged to regularly participate in competition and gain market share. In terms of interests, the parent company often recommend its interests in favor of subsidiaries to strengthen its power.

Like the centralized financial management model, this comes with both advantages and disadvantages. The following advantages of this model are:

- Subsidiaries have sufficient motivation, therefore, can make quick decisions and are easier to capture opportunities for increased profits.
- It reduces the parent company's decision-making pressure and the negative effects of direct intercession by the parent company will be diminished.

And the following disadvantages are:

- The complication of merging command and coordination. parent companies might ignore or even harm the interests of the subsidiaries as they are pursuing their own interests – reflecting selfishness.
- High risks and the probability of major problems may be faced, or even failed to be found out about it in time, due to the lack of financial regulation of the parent company.
- The difficulty to effectively restrain operators, can result in the problem of "internal controllers of subsidiaries", which can cause lack of motivation and enthusiasm of employees [6].

However, a firm may have the features of both the centralized and decentralized financial management model and include a mixed range of characteristics from each contrasting model depending on their preference. This, therefore, is a mixed financial control.

Mixed financial control consists of the combining of both centralization and decentralization. while emphasizing the importance of controlling the results, this model emphasizes the control of key financial points. This includes the borrowing limits, asset sales and major fund scheduling. Under this control model, subsidiaries will have decision making power and executive power on financial matters; the parent company will have different key points of financial control over subsidiaries in distinct locations, types, and positions [6].

3. Changes that took place under COVID-19

Under the new situation of COVID-19, a variety of conversions took place, many national responses transpire to stabilize its economy and to prevent the public from health risks of COVID-19. The UK government implemented numerous financial policies which draws the daily basis of householders from a social and conversational interaction to a more virtual and networked communication. Not only does it affect households, but as well as how transactions between consumers and producers become more transparent as the technologized industry takes its dominant position.

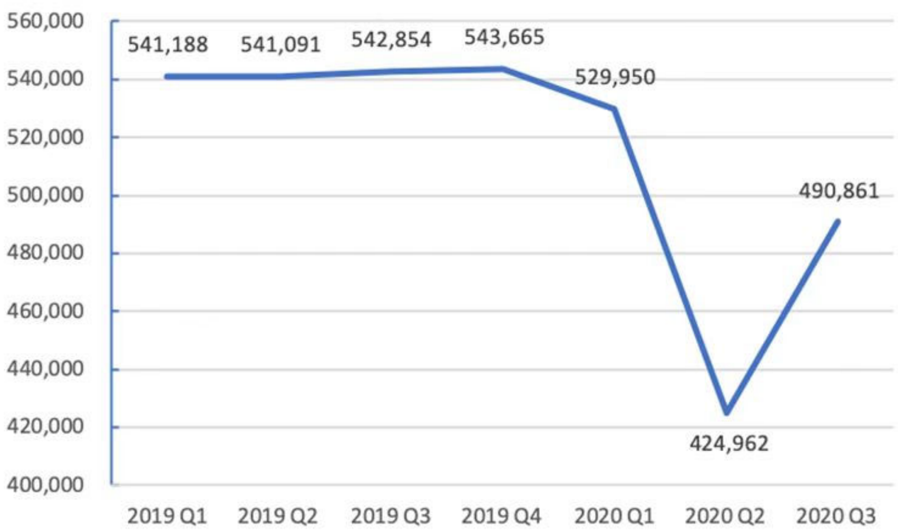

Figure 1. Overview of UK GDP from the first quarter of 2019 to the third quarter of 2020 (in millions of pounds). By Greenpeace [7].

During the period of this pandemic, the continuous impact of COVID led to a period of contraction, as shown in **figure 1**, where a fall of 2.5% occurred in the first quarter of recession followed by an intensified contraction in the second. This then decreased rapidly where GDP is down 19.8% from the first quarter and 21.5 month to month. However, it eventually improved in the third quarter where an economic growth of 15% took place. In response to the covid-19 pandemic, the British government has adopted a “three-stage” response and economic recovery plan [7].

Phase 1: regulation and protection

The British government took a series of measures aimed to limit the spread and protect citizens health and employment, including restricting travel, controlling social distancing and increased testing. In addition to this, the UK government, in order to ensure the safety of vulnerable children, invested around £7.6 million to establish the Vulnerable Children National Charities Strategic Relief Fund so that members of this charity were able to continue to provide services and protection for vulnerable children.

On June 19, 2020, the UK provided a total of 281.5 billion pounds in financial support to individuals, enterprises, and public services; including £158.7 billion in direct financial support and £122.8 billion in deferred tax and loan support. Among them, more than 11 million people have received employment support through the Job Retention Scheme and the Self-Employment Scheme. Supplementary procedures such as tax cuts, tax suspension, subsidies, and government-supported loans have helped more than one million enterprises to avoid layoffs. The public sector, which is closely concerned with people's livelihood, such as the health service system, schools, and public transportation, has also received 49 billion pounds to maintain its operation.

Phase 2: employment

According to the Labor Force Survey of the Office for National Statistics, the UK’s unemployment rate continues to rise since the outbreak. In the third quarter, about 1.62 million people were unemployed, it displays an increase of 24.3 percent over the previous quarter and an increase of 318,000 during the same period last year. On June 30, the “New Deal” was announced by the British Prime Minister, Boris Johnson, to stimulate the economy with the theme of "Build, Build, Build", with the vision of investing and accelerating infrastructure construction across the UK; promoting clean and green Recovery; Reform the urban planning system to remove barriers of the establishment of housing; Strengthening the connection and resilience of national and local governments. Furthermore, they announced a £5 billion infrastructure investment project aimed at supporting employment and economic recovery.

The focus of “employment” in the second phase of the British recovery was clearly proposed as an objective on July 8, when the British chancellor of the Exchequer, Rishi Sunak, announced a £30 billion Plan for Jobs [7].

Phase 3: regeneration of infrastructure

On November 25, the United Kingdom's 2020 expenditure review report was released and clarified three major priorities: protecting people's health, livelihoods and enterprises and overcoming the pandemic; strengthening public services; realizing unprecedented basic construction investment.

The British Ministry of Finance invested 100 billion pounds on infrastructure construction to stimulate the economy and promote employment. Moreover, considering the possibility of the aftermath of the pandemic in 2021 still exists, the report also added $55 billion pounds per fund for the next year's public service area budget. Among them, the government increased its capital for the "employment plan" by 1.4 billion pounds to increase the business’s capacity of the UK Employment Centre Plus. They also invested 2.9 billion pounds in the three-year "Restart Program", which is expected to receive more than 1 million unemployed people to provide intensive and customized employment support services [7].

4. Finance response and difficulties

To avoid greater long-term losses to the UK’s economy and mitigate the consequences of the pandemic, the British government has regularly taken policy measures to assist their healthcare system (the NHS), so that the economy and society will be able to overcome temporary shocks. These measures take a vital role of providing public services, the perseverance and stabilization of the economy, encouraging employment, and even safeguarding the demand and supply capacity. Although it carries out many benefits, the implementation of fiscal response has resulted in a significant deterioration in Britain's fiscal position and concluded in a sudden increase in fiscal pressures and challenges.

The main fiscal and financial measures that may create an impact on finance are:

Aiding employees: the statutory sick pay is one of the measures executed for laborer support– those who are entitled and are suitable to apply for the statutory sick pay can receive a benefit of £94.25 per week if the disease prevents them from carrying out tasks within the business. For a maximum of 28 weeks, the employee can continue to accept this payment if sick; this fee will be financed by the employer. Starting from 13th of march, people who are advised to quarantine at home because of COVID-19 or taking care of quarantined family members can also apply for statutory sick pay [8].

Another measure is unified benefits. People infected with COVID-19 and are self-quarantined need to be registered for unified benefits so that they can then receive advance payment without going to the job center.

Another measure includes Employment and assistance subsidies. For those eligible to this measure and are infected with COVID-19 or recommended for self-quarantine, can collect the subsidy on the first day of sickness or quarantine, in contrast with when it was previously stipulated on the 8th day.

Support for businesses: for example, statutory sick pay compensation. Both Small and medium-sized enterprises are permitted to apply for the statutory sick pay compensation. As of February 28th, enterprises with fewer than 250 employees are able to apply for this compensation.

Non-residential property tax concessions. Beginning with April 1st, 2020, some enterprises in England are suitable for a one-year commercial property tax exemption. Enterprises that currently enjoy discounts from the retail department of non-residential property tax can receive bills immediately for full tax deductions.

Coronavirus Enterprise Business Interruption Loan Program and Coronavirus Enterprise Operation Interruption Loan Plan. Which are government programs to issue loans to enterprises by lending institutions while being controlled and managed by the central government agency. Lending institutions can obtain a loan guarantee of up to 80% of the loan amount they pay to enterprises, and each lender can obtain a certain limit on the amount of government loan guarantees [8].

The provision of necessary services, for example, funding the vaccine research and development. At the beginning of the pandemic, Britain's first measure was to support the development of vaccines when it occurred. On February 3, 2020, the British government proposed 20 million pounds on the research and development of COVID-19 vaccines [7].

Supporting the World Health Organization's global joint action against the pandemic and assist developing countries.

COVID-19 Response Fund. The UK's 2020 budget proposes to set up a £5 billion COVID-19 response base to finance the National Health Service and other public services to deal with the outbreak [8].

Special funds and special financing for London Transportation which is simply a package of grants and loans provided by the central government to support public transportation within London.

Subsidies for train operators under the emergency measures agreement. This is implemented to ensure that railway services will continue to be provided to the public and will still be maintained in the event of the vast decline in the number of passengers.

5. Suggestions to overcome COVID-19 challenges for enterprises

After the advent of the pandemic, industries such as tourism, shopping malls, catering and cinemas cannot be carried out, but most of the fresh e-commerce and online education brands after digitization can be completed online, from commodities, channels to marketing, which can not only maintain the operation of business, but also experience the growth of users.

This type of incident can be considered as a black swan. Although difficult to predict this event, their growth can be said to be quite flexible and adaptable.

- Products and digital survival:

During the pandemic, the living space of the product or service can be exceedingly limited if it can only be distributed offline. However, if the product can be experienced online, which can be displayed, experienced, and promoted within the internet, then at least it has possible business opportunities available.

Therefore, the initial step in the marketing process is to turn products into data and numbers. Whether all goods can be turned into databases is the prerequisite for carrying out commercial activities under special circumstances such as the occurrence of this outbreak. This can be shown in the example of books; the digitalization of books created convenience for both producers and consumers, having faster sales where customers won’t have to leave their homes to consume a product [9].

- The best allocated price:

The pricing of products remains as the most influenced factor for both suppliers and consumers. Most of traditional marketing are completed by offline research. Today, this behavior can be done online, and this method can predict consumers' preferences more accurately and, of course, acknowledging the pricing itself.

Brands can adjust products according to feedback to increase advertising while obtaining better sales. This is beneficial as during the pandemic, this method will not delay your research and pricing basis at all [9].

- Channel – intelligent retails:

Since the outbreak of COVID-19, the use of online channels is vital in the survival of a business. Smart brands have long established online retail channels and realized online and offline integration. The era of dividends of public domain platforms has passed and traffic costs continue to rise.

If the channel is only an offline store, make good use of official accounts + applets + card vouchers which can be used to revitalize your users. This is an effective supplementary channel for offline retail business [9].

- The use of promotion in marketing:

Whilst the pandemic continues to add severity, many people found that performance advertising, where brands only pay marketing service providers after their business objectives have been met or when specific actions have been taken, is more popular than brand advertising for advertisers.

The traditional marketing process goes like this: see → interested → remember many times → buy a long time later. Whereas link marketing process goes by the following: seeing → interested → completing the purchase directly, and the whole purchase process is made.

The popularity of online takeaway, live sales, short video sales, cloud tourism and other methods reflects the characteristics of link-based marketing [9].

- Reorganizing data:

In the traditional offline business, consumers will no longer have contact with the brand after buying a certain product. However, In the era of mobile Internet, a user who has used a certain product for a long time contributes long-term, sustainable, and loyalty.

This is beneficial especially during the pandemic, if there are loyal users who operate for a long time, business activities are easier to maintain.

The pandemic is an accident that comprehensively tests the product/brand power, marketing ability and resilience of enterprises. The brands that are not seeing the pandemic as a threat but turning the crisis into an opportunity, are those brands that are usually ready for full digitalization. Digitization is the prerequisite for enterprises to respond flexibly and the driving force for resilient growth [9,10].

6. Conclusion

Overall, the main solution to overcome the problems of the outbreak =is, in short, digitalization. Since the development of the internet, digitalization became accessible throughout developed countries, although costs may be high, it will provide many long-term benefits, covering the costs. This is primarily due to the pandemic causing the daily basis of households to become more internet based and made them accustomed to it as it gradually becomes a habit. Combining decision making within the business with government-supported projects can further reduce financial pressure that may be present.

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