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Growth Strategy and Performance of Oil and Gas Companies in Nigeria

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ABSTRACT

Nigerian oil and gas companies are major players in the transformation of the Nigerian economy as well as the growth of the global oil and gas products market, with the aim of promoting the rapid expansion of Nigerian oil and gas companies. The study examined the impact of growth strategy and performance of oil and gas companies in Nigeria (2006 – 2020). The specific objectives were to determine the impact of strategic expansion on market share and the impact of strategic investment on return on asset. The annual financial statements of companies operating at the upstream, downstream, and midstream listed on the Nigerian Stock Exchange were used for this study. The study adopted a panel research survey. Ordinary least squares regression analysis was used to test the effect of the independent variables on the dependent variables. The findings showed that strategic expansion has a positive effect on market share, while strategic investment has a positive impact on return on asset. Therefore, the study recommends that oil and gas companies' management should take advantage of strategic expansion and strategic investment to increase their market share and return on asset.

KEYWORDS: *Growth Strategy, Strategic Expansion, Strategic Investment, Performance, Market Share and Return on Asset*

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INTRODUCTION

The development of growth strategies started gaining applicability as more companies began to develop annual operating budgets in the late 1950s and early 1960s (Olusanya&Oluwasanya, 2014). Companies' budgets were extended from one year to two as well as five years into the future. In addition, the need for strategic alternatives was driven by the rapidly changing economic climate in the early 1960s during this decade the basis for planning was gradually expanded to include future strategic plans for ten years(Olusanya&Oluwasanya, 2014). Chandler (2010) recognized the importance of coordinating various management structures under a single integrated growth strategy.

The various growth strategies used by these oil and gas companies (Total Nigeria plc, 11 Oil Nigeria plc, and Conoil Nigeria plc) on the Nigeria Stock Exchange, ranging from ground strategies to generic strategy which have actually not sustained the growth of the oil and gas companies financial performance from 2006 to 2020.These oil and gas companies employed strategies such as acquisition, consolidation, expansion and capitalization, hiring qualified employees, although these strategies has not provided permanent solution to the fluctuating annual performance of various oil and gas companies. The main business of oil and gas companies at home and abroad is to invest strategically in diversified products from crude oil. Adeyemi and Salami (2010), and Alao (2010) attributed this gap in their study to a lack of practical and stable mode of operation, practical knowledge and a clear understanding of strategic approach to the Nigerian oil and gas industry. In addition, this problem has led to increased wastage in raw material, losses in sales, reduction in production, increase in cost of production and problem of poor quality which currently affect some product (diesel and kerosene) in the industry. The oil and gas sector has three major areas: upstream, midstream and downstream. These include exploration of underwater and underground for natural gas or crude oil fields and drilling exploration wells and drilling into established wells to recover oil and gas (Muspratt, 2019).

Statement of the Problem

The customers' base of Nigerian oil and gas companies patronizing their products (motor vehicle lubricants, gasoline, aviation lubricants, asphalt, heating oil, liquefied petroleum gas and services) is smaller than that of multinational companies. With the partial deregulation of oil and gas final products and relaxation of oil and gas import restrictions, oil and gas companies have been challenged with fierce competition from international brands. This is due to the low level patronage of domestic products due to government interference in the importation and refining of oil and gas products, which has affected the market share of indigenous oil and gas companies. The Nigerian government has developed a (petroleum industry bill) policy to promote competition between oil and gas companies' products and foreign investors' products. However, the bill has not yet been signed into law. Increasing competition has forced management from local oil and gas companies to devise strategies to expand their operations to maximize a larger share of the oil and gas industry market share.

Given the current state of the business environment, constraints on the strategic directions of investment activities in the oil and gas companies and, in particular, the development of investment strategy is very important in order to achieve high returns on asset turnover. The current global environment underscores the need for oil and gas companies to become more resilient and able to quickly adapt to changes in domestic and global markets, which will allow them to achieve higher returns on asset turnover. One of the key factors in achieving this goal is to increasing the potential of the oil and gas industry to attract strategic investment and the introducing better technologies to increase return on asset, but some management team of these oil and gas companies invest in new product lines and technologies, but the results often do not guarantee high returns on asset turnover. Management need to use the right strategy to do their job optimally. Overall, there have been difficulties translating growth strategy into tactical and operational level activities, this have resulted in an ineffectiveness of strategies that contribute to poor corporate return on assets.

It is based on the above assertions that the researcher decided to investigate the impact of growth strategy on performance of oil and gas companies in Nigeria.

Objectives of the Study

The main objective of this study was to examine the extent to which growth strategy affect performance of oil and gas companies in Nigeria. The precise objectives of the research are;

1. To examine the effect of strategic expansion on market share of oil and gas companies.
2. To establish the effect of strategic investment on return on asset of oil and gas companies.

Research Hypotheses

To achieve the above objectives and answers to the research questions of this study, the following hypotheses were formulated in the null form to guide the thought of this research.

1. H_o: There is no significant effect of strategic expansion on market share of oil and gas companies.
2. H_o: There is no significant effect of strategic investment on return on asset of oil and gas companies.

Review of Related Literature

Conceptual Framework

Strategy is a broad concept and for this reason, it is often used in variety of ways. Johnson, Scholes and Whittington (2010) described strategy as a timely guidance for business environment changes with its own resources and capacity development to achieve stakeholder expectations. Executive directors develop strategies used by management to grow the business and achieve the intended organizational performance (Omar, &Kilika, 2018). Kumar (2018) said that strategic planning is an overwhelming task, but the best place to start is by explaining what is strategic planning.

Growth Strategy

Growth strategy looks at ways to generate more revenues from the sale of goods or services. A growth strategy involves introducing new products or adding new features to existing products (Suttle 2018). In some cases, a company may be forced to change or upgrade its product line to compete with competitors. Alternatively, customers can start using the company's new technology. Marks (2007) argued that growth is a key goal for emerging companies and managers are expected to determine the best way to integrate their core competencies across their company's departments to help the company achieve competitive advantage in a selected area. The growth strategy is aimed at achieving a larger market share, even at the expense of short-term earnings. Industry leaders habitually talk about vertical and horizontal strategies when referring to growth strategies. The vertical strategy seeks to grow by adopting different components of the operating system. For example, an oil and gas company that decides to refine some of its products using a vertical growth strategy. By being part of the procurement process, the oil and gas company is better able to control the quality and supplies requirements. The horizontal growth strategy refers to a business that expands its access of existing products or services in new geographic areas or new target markets. Winston (2016) referred to horizontal strategy as a situation where one firm acquires similar firms in order to increase its market share and profits.

Strategic Expansion

Chandler (2013) described strategy as the setting of long-term goals and the allocation of resources to enable appropriate actions. Expansion strategies are the strategies used by an organization to achieve its long-term growth goals. Business strategy is primarily concerned with the actions necessary to create superior customer value in a firm's target markets with the ultimate goal of achieving superior performance (Slater, Antley, Davison, Swapp, Guger, &Barker, 2006). Westerlund and Leminen (2012) define company expansion strategy as the means by which an organization plans to achieve its objective to increasing in size, volume and turnover.

The terms growth and expansion are used interchangeably by many scholars to mean same thing (Kuuluvainen, 2011; Geroski, 2005). Aldrich and Auster (1979) argued that the size of a firm determines the level of attractiveness as larger firms are usually associated with economies of scale and scope, ease of access to credit financing, brand visibility and allegiance, essential resources to promote research and development, valuable patents right and competences among others. Based on the understanding that larger organizations have higher survival rates (Baum, 1996) and a company size that lead to economies of scale are related (Porter, 2008). Organizational growth is seen as a important indicator of firms' strengths and market potential. Some authors attribute firm expansion to several challenges and long-term problems that can reduce an organization's ability to generate profits. Expansion strategies include developing existing operations, restructuring, strategic alliances, franchising, mergers and acquisitions. Increased size is associated with prominence, prestige, and the ability to withstand environmental shocks.

Strategic Investment

Company executives are deeply concerned with three major types of policy decisions, namely investment decisions, financial decisions and dividend decisions. Among these, the investment decisions are the most challenging. Strategic investment from a large industrial player can represent strong support to startup an organization. The strategic venture team can access resources in their operational business units to help build and grow a business as quickly as possible (Houston, Johnson,& Smith, 2006). However, due to the strings attached, strategic investments can create a potential conflict between the strategic investor, business interests and potential financial investors. This can make it difficult for a business to attract other investors, commercialize a product or negotiate an acquisition with a third party.

Performance

The profitability motive can influence a company's strategic decision to increase its return through programmes that will reduce wastage of resources, recycling and reusing of its scares resources to achieve economic benefits, which is actually one of the environmental goals (Maletic, Maletic, Dahlgaard, Dahlgaard-Park, &Gomiscek, 2015). The performance and growth will enable the company to achieve long-term survival to create sustainable job opportunities. The company must also have to improve its human capital through retraining, retention and employee satisfaction. Richard, Devinney, Yip and Johnson (2009) argued that organizational performance includes these categories of performance outcomes which are the financial performance outcomes such as return on assets, profit, return on investment; product market performance such as sales, market share, and the shareholders return and economic value additions. Organizational performance has been operationalized through financial, non-financial indicators and therefore their data sources have been primary, secondary or both (Omar and Kilika, 2018).

Market Share

In recent years, a increasing number of business managers and theorists have recognized that one of the ways for a company to increase its return is to increase its market share, and studies seem to have corroborated this claim. But the researchers of this study refuse to accept the idea that "more" will always mean "better." A large market share can cause more problems as well as more profit for an organization; A given project that promises higher returns than others will inevitably involve a significant risks. Under this strategy the dominant organization in the industry have a tendency to use economies of scale to intimidate smaller firms and expand.

A company can establish itself as a market leader. The first way is to expand its total market. Develop by using strategies that increases the numbers of consumers using their product or services (Homburg, Sabine & Harley, 2009). To lead, a company must find new uses for existing products or targeting new markets. In identifying new markets, it may be necessary to refer consumers to markets where their product are new.

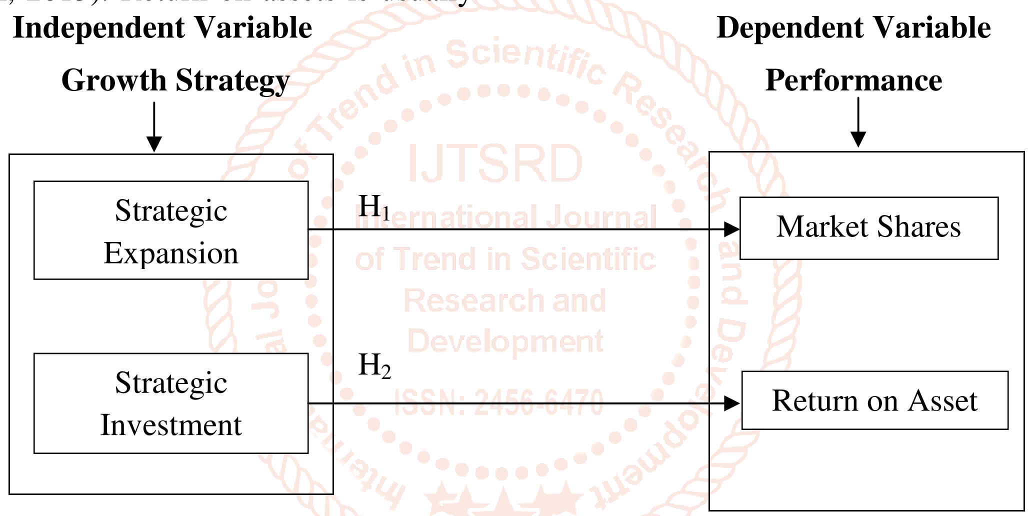
Return on Assets

Return on Asset (ROA) is a measure of the overall performance of managers in making a profit on available assets. Wilkinson (2013) noted that ROA shows how much a company has earned compared to its total assets. Hargrave (2019) viewed the ROA as an indicator of a company's success in managing a company's wealth (assets), so that by increasing the ROA ratio it reflects the company's performance in managing its total assets, so that profits or earnings can be generated. Total assets turnover is used to assess both business performance and financial position (Zhang, 2017). Furthermore, return on assets and net profit margin are always considered together, because net profit margin has a direct impact on the returns (Gibson, 2013). Return on assets is usually calculated by dividing the net profit by the average total assets.

$$\text{Return on Assets (ROA)} = \frac{\text{Annual Net Income}}{\text{Average Total Assets}}$$

Researcher's Conceptual Model

The conceptual framework refers to the researcher's pictorial representation of the association between the various variables. It reveals a sense of direction between dependent and independent variables, where the growth strategy variables (strategic expansion and strategic investment) represents the independent variables while performance variables (market share and return on asset) denote the dependent variable. Strategic expansion and market share arrow represent link between the two variables in hypothesis one. The arrow between strategic investment and return on asset variables shows the direction of hypothesis two.



Source: Researcher's Conceptual Model

Theoretical Framework

Survival Based Theory

Survival-based theory introduced in the field of economics was developed by Herbert Spencer, suggesting that organizations need to continually adapt to their competitive environment in order to survive (Abdullah, 2010). Researchers such as Schumpeter (1934), Alchian (1950), Harrod (1939) and Marshall (1949) were the first to incorporate the concept of evolution and natural selection into economic thinking. To survive, organizations must be able to adapt to changes. This can only be achieved through strategies that focus on efficiency that will enable swiftly response to changes in the competitive environment (Khairuddin, 2005). It is therefore not surprising to find the most common application of the survival base theory mindset found in management decision, which is used primarily to analyze how companies thrive in their industries, and to explain changes in growth strategy. The theory is also applicable to companies that seek to turn around period of inefficiency or poor performance (Abdullah, 2010). Such companies' may face numbers challenges that can result from financial difficulties, production line that fail or that loseses its important employees. Transforming such companies may involve retrenchment, strategic investment, strategic expansion, the sale of underperforming assets and the re-engineering of products. This will help to strengthen their position. It will also be important for an organization operating efficiency and adapt better to the business environment. This is hoped to increase organizational profits and reach their ultimate goal of survival.

Empirical Review

Abolarinwa, Asogwa, Ezenwakwelu, Court, Adedoyin and Eriksson (2020) examined the mediating role of global economic crises (GECs) impact of growth strategies on the performance of Nigerian manufacturing firms. The study used secondary data of 2000 to 2017. An expost facto research design was used to analysis of 120 companies listed on the Nigerian Stock Exchange. The regression analysis shows that there is positive and statistically effected of internal growth strategies on return on assets and return on equity (coefficient = 9.474 and 6.277; $P < 0.01$). However, the researchers found that external growth strategies were negatively and significantly affect the return on assets (coefficient = −6.005; p-value<0.01) while the effect is positively significant on market share. It found that GECs together with external growth strategies yield a positive and significant effect on return on assets, while their mediation with internal growth strategies had a negative and significant effect on return on assets and return on equity.

Luvusi and Muthoni (2019) investigated the influence of market penetration strategy on the performance of Telkom Kenya Limited in Nairobi City County. The study adopted a descriptive research design.Primary data was collected using questionnaires comprising of both structured and unstructured questions. Quantitative data were analyzed using descriptive statistics. Inferential statistics were analyzed using correlation analysis and multiple regression analysis. The result shows that market penetration strategy had a significant influence on the performance of Telkom Kenya Limited. The study concluded that Telkom Kenya takes advantage of low prices to increase product demand and increase market share through market penetration strategy.

Onyeaghala and Odiba (2018) examined whether a generic business strategy can serve as a driver for the organizational competitiveness and market share. The survey research design was employed. Questionnaire was used for data collection. Cost leadership, product differentiation and focus strategy were the measurement indicators. Hypotheses were tested using Pearson Moment Correlation techniques. Cost leadership and organizational competition were found to be positive related with organizational competitiveness and market share (0.718), the study found that product differentiation and organizational competitiveness and market share had a higher correlation relationship (0.922), and the researcher found that the relationship between focus strategy and organizational competitiveness and market share at 0.807 probability value.

Mehmood, Hunjra and Chani (2019) examined the impact of corporate diversification and financial structure on the financial performance of companies. The data was collected from 520 manufacturing companies from Pakistan, India, Sri Lanka, and Bangladesh. A 14 years Panel data from 2004–2017 were used to analyze the results. The study used a two-step dynamic panel approach to analyze the hypotheses. The finding was that product diversification investment and geographic diversification investment significantly affected the firms' return on asset. The study further found that dividend policy and capital structure had a significant impact on the firm's financial performance.

Mweresa and Muturi (2018) studied the effects of investment decisions on the performance of public sugar firms in western Kenya. The precise objectives were: to establish the effect of production investment decision, investment in financial assets and investment in the distribution chain decision on the financial performance of public Sugar companies in western Kenya. The study adopted a survey design. The study used both primary and secondary data. Data was analyzed using descriptive and inferential statistics. The study found that investment in production has a profound effect on the financial performance of sugar companies. Investment in distribution chain decision has a moderate effect on the financial performance of sugar companies while the investment also has a positive effect on return of asset in sugar companies.

Osoro,Nyang'au and Nyarige (2017) studied the impact of investment decisions techniques on financial performance of selected SMEs inKisii, Kenya. The study used the following specific objectives; to ascertain the effects of the application of internal rate of return, profitability index and investment on financial performance. The study used descriptive research design.Questionnaireswere used for data collection. Descriptive statistics was used to test.The multi regression model was used to show the relationship between the variables. The finding shows that there were significant correlations between strategic investment and return of asset.

Research Methodology

The purpose of this paperis to state the level of impactgrowth strategy has onperformance,evidence from listed oil and gas companies in Nigeria stock exchange. Growth Strategy (independent variable): Growth strategy of the oil and gas companies (Total Nigeria Plc, 11 Oil Nigeria Plc and Conoil Nigeria Plc) is measured in the table below;

Table 1: Variables Measurement and Definitions source

Variable	Proxies	Variables measurement and source
Strategic Alternatives	**Independent Variable**	
	Strategic Expansion (SE)	Total Sales Turnover – Luvusi and Muthoni (2019), Onyeaghala and Odiba (2018), Adio, Bananda and Eluva (2018), and Basuony, Elseidi and Mohammed (2014)
	Strategic investment (SI)	Total investment – Mehmood, Hunjra and Chani (2019), Mweresa and Muturi (2018), Osoro, Nyangau and Nyarige (2017), Kipkorir, Namiinda and Njeje (2016), and Rop, Yusufkibet and Bokongo (2016)
Performance	**Dependent Variables**	
	Market share (MS)	company's sales over the period divided the total sales of the industry over the same period multiple 100
	Return on Asset (ROA)	Net income divided by total asset over the same period

Sources: Researcher 2021

Data collection

Data for this study was collected from annual financial statements of the three listed oil and gas companies that are into downstream, upstream and midstream in the Nigerian capital market. Ratios of firms are calculated manually by the author for the period of 2006-2020 for the sample companies

Results and Discussions

Table 3: Descriptive Statistics table for the oil and gas companies in Nigeria(2006– 2020)

Date:08/28/21	Time: 05:34			
Sample:20062020				
	SE	**SI**	**MS**	**ROA**
Mean	6.666667	6.666667	6.666667	6.666000
Median	7.020000	6.200000	7.200000	6.490000
Maximum	9.750000	10.33000	7.360000	9.930000
Minimum	4.190000	2.970000	4.040000	3.190000
Std. Dev.	1.673003	1.601672	1.069697	1.959405
Skewness	0.264368	0.162734	0.576137	0.147653
Kurtosis	3.094940	2.998939	3.031723	2.967586
Jarque-Bera	0.579802	1.474447	6.642872	0.487574
Probability	0.748338	0.478441	0.036101	0.783654
Sum	100.0000	100.0000	100.0000	99.99000
Sum Sq. Dev.	39.18513	94.76173	16.01953	53.74976
Observations	15	15	15	15

Source: E views 12 output of the study

Table 3: presents the descriptive statistics of all the oil and gas companies for the dependent and explanatory variables. The mean value for SE (6.6667), SI (6.6667), MS (6.6667) and ROA (6.6660) which indicates the average values of all the data. The median values of SE (7.02), SI (6.20), MS (7.20) and ROA (6.49) represent the middle values of the different variables. The maximum and minimum values of SE (9.75 & 4.19), SI (10.33 & 2.97), MS (7.36 & 4.04) and ROA (9.93 & 3.19) show the level of spread between the highest and lowest data. The spread between the maximum and minimum values are suitable for the descriptive statistics.

The standard deviation values of SE (1.6730), SI (1.6017), MS (1.0697) and ROA (1.9594) reveals that they all have low level of variation from the various mean values. The skewness values of SE (0.2644), SI (0.1627), MS (0.5761) and ROA (0.1476) have a normal distribution with positive skewness tail values towards the right tail.

The kurtosis values of SE (3.0950), SI (2.9990), MS (3.0317) and ROA (2.9675) of the variables approximately tend towards 3, which means that the variables are normally distributed at 3.The Jarque-Bera values were all positive, while the values of the probability were below the significant value level of 0.05 percent. The alternate hypotheses were accepted.

Hypotheses Testing

Hypothesis one

Table 4: Ordinary least squares result of strategic expansion (SE) onmarket share (MS) of oil and gas companies in Nigeria

Dependent Variable: MS				
Method: Least Squares				
Date: 08/26/21 Time: 09:11				
Sample: 2006 2020				
Included observations: 15				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	6.500884	1.215556	5.348074	0.0001
SE	0.724867	0.177200	22.140335	0.0089
R-squared	0.391513	Mean dependent var		6.666667
Adjusted R-squared	0.375294	S.D. dependent var		1.069697
S.E. of regression	1.109237	Akaike info criterion		3.168789
Sum squared resid	15.99530	Schwarz criterion		3.263195
Log likelihood	-21.76591	Hannan-Quinn criter.		3.167783
F-statistic	0.019694	Durbin-Watson stat		0.879458
Prob(F-statistic)	0.008905			

Source: E views 12 output of the study

Table 4 above, indicates that the R-squared of 0.3915 suggests there is a weak positive relationship of strategic expansion on market share of oil and gas companies in Nigeria, the adjusted R-squared of 0.3753indicates that 37.53 percent of market share was explained by strategic expansion, while 62.47 percent can be explained by other variables not captured in this research. The Durbin-Watson statistics (0.8794) shows that there is a positive auto serial correlation between the variables. The P value = 0.0089 < (0.05) indicates that strategic expansion has a positive effect on market share of oil and gas companies in Nigeria. Therefore, the null hypothesis of no significant effect of strategic stability on market share of oil and gas companies in Nigeria was rejected, while the alternate hypothesis of there is a significant effect of strategic stability on market share of oil and gas companies Nigeria was accepted. The finding is in line with Adio, Bananda and Eluka (2018) and Onyeaghala and Odiba (2018) who all concluded that strategic expansion have a positive effect on market share of companies.

Hypothesis two

Table 5: Ordinary least squares result of strategic investment (SI) on return on asset (ROA) of oil and gas companies in Nigeria

Dependent Variable: ROA				
Method: Least Squares				
Date: 08/26/21 Time: 09:13				
Sample: 2006 2020				
Included observations: 15				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	8.285325	1.408701	5.881536	0.0001
SI	0.542899	0.197720	21.228500	0.0024
R-squared	0.564018	Mean dependent var		6.666000
Adjusted R-squared	0.535096	S.D. dependent var		1.959405
S.E. of regression	1.924715	Akaike info criterion		4.270998
Sum squared resid	48.15884	Schwarz criterion		4.365405
Log likelihood	-30.03249	Hannan-Quinn criter.		4.269993
F-statistic	1.509213	Durbin-Watson stat		1.006611
Prob(F-statistic)	0.002410			

Table 5 above, showed that P (0.0024) < 0.05, which predict who well the model significantly explain the variation in the dependent variable (return on asset). The R^2 of 0.5640 produced depicting a significant linear dependence of return on asset on strategic investment. The adjusted R-squared of 0.5351 further revealed that strategic investment moderately explain 53.51 percent of the variations in return on asset while 46.49 percent is explained by other factors not included in this research model. The Durbin-Watson stat of 1.0066 indicates a positive auto correlation, as it is approximately 1. Therefore, the researcher rejected the null hypothesis of no significant effect of strategic investment on return on asset of oil and gas companies in Nigeria, while the alternate hypothesis which states that there is a significant effect of strategic investment on return on asset of oil and gas companies in Nigeria was accepted. The study result are consistent with the finding of Mehmood, Hunjra and Chani(2019), Kipkorir, Namiinda and Njeje (2016), and Rop, Yusufkibet and Bokongo (2016) which states that strategic investment has a positive impact of return on asset.

Conclusion

The study evaluated the growth strategy and performance of oil and gas companies in Nigeria. The study showed that oil and gas companies operate in a turbulent and highly competitive environment, and it is their desire to operate successfully by creating and delivering superior value to their customers while also learning how to adapt to a continuous and dynamic business environment with the aid of growth strategy. Growth strategy is therefore said to be a sine qua non to performance of oil and gas companies in Nigeria, since it involves developing and formulating strategies to meet competition and ensure long term survival and superior performance. Holistically, the broad and specific objective reveals that there were positive association between strategic alternatives and performance oil and gas companies listed on the Nigerian Stock Exchange.

Recommendation

1. There is need for management of these oil and gas companies to strategically enhance their market share through expansion of their company's products to new territories and markets to gain larger market.
2. Management should prioritize strategic investment in human capital, asset acquisition and technology to improve the return on asset.

Contribution to Knowledge

1. This research study has contributed to the body of knowledge by solving the problem of growth strategy and performance of oil and gas companies in Nigeria.
2. The researcher developed a conceptual model that demonstrates the relationship between growth strategy and the performance of oil and gas companies for easy understanding.

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