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# TURNAROUND STRATEGIES AND RECOVERY OF FINANCIALLY DISTRESSED QUOTED OIL AND GAS FIRMS IN NIGERIA

OMOLEKAN, Olushola Joshua (Ph.D.)<sup>\*</sup>

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## Abstract

*The colossal cost consequences of failed businesses are enormous with serious adverse effect on the expected growth and development of any country. Distressed signals are evidence years before the actual business collapse which give rooms for rejuvenation through application of turnaround strategies. Different turnaround strategies have proved effective and otherwise in different situations. Thus, this study evaluates the turnaround strategies used by financially distressed firms in quoted oil and gas firms in Nigeria. The study adopted a longitudinal design and focused on Nigeria oil and gas sector. Both primary and secondary data were elicited through structure questionnaire checklists and Nigeria Stock Exchange factbooks from year 2000 to 2018. The sampled firms comprise of those companies that had experienced distress at one time or the other and recovered within the sampled periods using multiple discriminant model. The turnaround strategies considered in the study include; employees' layoff, asset restructuring, management change, debt restructuring and dividend cut. The data was analysed using descriptive statistics, multiple discriminant analysis and Friedman test. The findings revealed that there are significant differences in the turnaround strategies as they improve performances throughout the sampled periods. The study concluded that the identified turnaround strategies were effective towards the rejuvenation of the distressed firms. It was recommended that strategic actions such as asset restructuring, dividend cut/omission among others should be used first in surviving the hard times depending on the causes of distress before resolving to employee's layoff.*

**Keywords:** Turnaround strategies, financial distress, oil and gas companies, strategic actions, business enterprise

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## Introduction

Business ventures are not immune to crisis but the ability to scale through different huddles creates a competitive advantage. Globally, business enterprises operate in a volatile environment and are open to many risks which militate against their continuity and survival. The rate at which business enterprises go into extinction in Nigeria in the last three decades is very alarming with colossal implication evidenced by decrease in overall standard of living, loss of jobs, decline in Gross Domestic Product (GDP), and general social disequilibrium in the macro economy. Financial distress is a state when a firm cannot meet or faced difficult in paying off its financial obligations to its stakeholders. The chances of corporate financial distress increase when a firm's fixed

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costs are high, assets are illiquid, or there is a fall in revenues. These situations led most companies to bankruptcy and eventual collapse (Bello, 2010).

The oil and gas sector of the Nigerian economy is estimated at \$32.6 billion USD as at 2018 (Market Analytics, 2020). This sector has really suffered great shocks and distress recently. Besides outright failure, few oil and gas firms utilized fifty percent of their installed capacity. The reason for this ugly development ranges from exchange rate problems, vandalisation of pipeline, inflation, unstable government policies and other disequilibria in macro economy. The oil and gas sectors' low effective utilization of capacity leads to unfavourable business times for most oil and gas firms.

The oil and gas sector distress scenario were observed from the loan payment default published by Nigeria daily newspaper (This day's Newspaper) on 10th of August 2015, which captured the list of defaulting customers in 16 Nigerian banks. The report shows a total amount of N238 billion as Non-Performing Loan (NPLs) in the Nigerian banking sector out of which N47.572 billion is accrued to oil and gas sector as bad loans (Obina, 2015). Nigerian economy still depends on oil production and prices for survival. Now, oil price is falling, which portends deep challenges for especially indigenous oil and gas firms in the country. Many organizations in this sector have experienced distress while consequently some have collapsed. Firms at the verge of collapsing can be rejuvenated to avoid the consequences attributed to failed ventures. This development necessarily called for an examination of revival efforts of these organisations through turnaround strategies.

There are divergence views on the appropriate turnaround strategies to adopt by financially distressed firms. Nyabwanga, Ojera, Lumumba, Odondo, and Simeyo (2012) opined that management change and debt restructuring are the most effective strategies in rejuvenating distressed firms while Mbogo and Waweru (2014) believes that asset restructuring and employees' layoff are the most effective and commonly used turnaround strategies in distress year. Different authors with different opinion based on the effectiveness of turnaround strategies that are capable of rejuvenating distressed firms. The need to harmonise these views in determining the most suitable strategy based on contingency or situational approach motivate this study. This study, therefore, evaluate the effectiveness of turnaround strategies in rejuvenating financially distressed firms.

## **Literature Review and Development of Hypothesis**

### **The Concept of Financial Distress**

Financial distress as a term is used in negative situations to describe the financial state a company faced with temporary liquidity deficiency and with complications that arise in the fulfillment of the financial obligations to stakeholders (Galloway & Jones, 2006). In a broad perspective, it is an occurrence that affects the relationship with non-financial stakeholders and debtors (Harris & Gibson, 2006). Consequently, the firm in this situation increases its weak access to fresh capital thereby bearing the increased costs of maintaining this disturbed relationship.

Bwisa (2010) argued that the advancement of financial distress is a process having specific dynamics. Financial distress as Ebiringa (2011) highlighted, is only one phase of the process, accompanied by failure then restructuring, and should also be defined in

relation to security valuation and financial structure. The corporation encounters this situation when its earning generating ability becomes weaker and the sum of debt is greater than the value of the company's total assets. Whitaker (2000) described financial distress as a vital occurrence that differentiates the time of a company's financial health from its financial illness thereby taking corrective measures to overcome the disturbing situation. Summarily, financial distress is a situation when a firm cannot meet up with its financial obligation to all stakeholders. It arises when a company lacks the ability to fulfill its liabilities to the third parties.

Increase in commercial banks non-performing loans in Nigeria and delisted of public companies is a distinctive phenomenon of corporate financial distress (Ayeni, 2012). Gestel, Baesens, Suykens and Willekens (2006) illustrate failure and financial distress as the outcome of chronic losses caused by a disproportionate increase in liabilities which is followed by reduction in the asset value.

Turetsky and MacEwen (2001) explain financial distress as a sequence of successive stages characterized by a distinct set of opposing financial events. Each stage having a distress point continue the next distress point is reached. Each stage of financial distress technically is an interval between two distress points. The beginning of financial distress starts with having a volatile decrease from a positive cash flow to negative cash flow. The reduction shows the change to the next phase of financial distress leading to default. Technical default on debt leads to troubled debt restructuring usually reducing the risk of probable bankruptcy. Thus, for the first time, researchers thrived at describing financial distress as an unceasing process with a clear structure and a classification of the distress events (Altman & Hotchkiss, 2006).

### **Concept of Financial Distress Management: Turnaround Strategies**

Whitaker (2000) categorise financial distress management into two; distress as a result of economic decline (common factors) and distress due to poor management (firm specific distress). There are various strategies for corporate financial distress turnaround. These include:

#### ***a. Managerial Restructuring***

One of the main conditions argued for changes in top management in firm's turnaround is that it gives signal to creditors that steps are being taken to rejuvenate distressed firm (Robbin & Pearce, 2005). The cause of financial distress may be due to incompetent managers through ineffective planning or inefficient decision making. This is defined as firm-specific distress. Managers need to be replaced with managerial teams who canvass the distress source accurately and implement necessary strategies for successful turnaround (Stead & Smallman, 2000). Perez (2006) also emphasizes the significance of management in turning distressed firms around. He argues that, managers that lack the necessary skills to respond efficiently and in a timely manner will result in continuous performance decline and then eventual failure of the firm.

Sudarsanam and Lai (2001) suggest that when creditors are reassured that management will be able to manage distress, they will surely give their financial support. In a study by Taliani (2010), he found that 36% of the sampled firms experience managerial turnover in top executives following decline in performance.

Managerial restructuring involves the replacement of senior management and/or the Chief Executive Officer (Rajasekar, Ashraf & Deo, 2014). Overall, managerial restructuring may be a crucial determinant in the turnaround process of a distressed firm.

#### *b. Operational Restructuring*

Operational restructuring is defined as the efficiency or operating turnaround strategy. The turnaround strategy aims at restoring profitability by controlling costs and overhead reduction through the sale of their unprofitable lines of business that are not essential to firm's operations (Agarwal & Taffler, 2008). In the study of Craciun, Ratiu, Bucerzan, and Manolescu (2013), he posits that poor performing firms will be inspired to divest lines of business that do not create competitive advantage. By minimizing input and maximizing output, firms can generate cash flow (at least in the short term) thereby increasing liquidity. When distress becomes obvious, usually, operational restructuring is the first strategy implemented. However, although important, operational restructuring is basically a short-term fix for generating quick cash flow. Sudarsanam and Lai (2001) argue that, operational restructuring when used as a stand-alone strategy, may not be enough to recover from distress. Past literature reveals that, operational restructuring in form of purchases is less likely than sales. Nevertheless, if productivity can be increased significantly, new plants, equipment or investments in more advanced technology may be built by distressed firms.

#### *c. Asset Restructuring*

Firms in distress may sell off surplus fixed resources such as equipment, offices and land. Such firm is said to be engaging in asset restructuring. The purpose of this form of restructuring is to adjust the effort of the firm by decreasing unrelated diversification and strategizing the business portfolio around core competencies (Adeyemi, 2011). Asset restructuring permits a firm to re-evaluate its operations and rearrange its business units into more efficient groups. This is necessary if agency cost is as a result of over diversification by the management.

Though, in distress, one of the leading forms of corporate asset restructuring has been found to be contraction policies (Engelman, Hayden & Tasche, 2003). It could also be referred to as actions increasing the firm size such as joint ventures, investments, licensing agreements and strategic alliances (Sudarsanam & Lai, 2001). For instance, through economies of scale, acquisition of similar businesses that fit core competencies could help to maximize the competitive advantage of distressed firms. As they involve capital expenditure from firms already facing low cash flows, these restructuring strategies becomes risky. Given that small firms will basically have lower cash reserves, this form of restructuring may not be appropriate or possible.

#### *d. Financial Restructuring*

Financial restructuring commonly refers to variations in the capital structure of the firms with reference to leverage. It seeks to decrease pressure of payment through debt-based and equity-based strategies. Debt-based strategies involve the adjustment of interest, maturity, or debt/equity ratio, while equity-based strategies involve dividend cuts or issuance of shares as a way to hold or generate funds. Dong and Su (2010) found that

large firms are expected to respond to distress with quick and aggressive dividend deductions. Retained funds are then able to be used to pay debt obligations.

### **Effectiveness of Turnaround Strategies**

There are divergent views on the efficacy of turnaround strategies in reviving distressed firms. Sipika and Smith (2002) are of the opinion that the size of a firm controls all other variables in predicting successful application of the reorganization process. Large firms with assets variability are more likely to restructure successfully as they are better able to have several businesses with enough assets that can be sold to provide cash to continue limited operations. Sudarsanam and Lai (2001) concluded that firms that recovered are more likely to be involved in acquisitions and investments in their restructuring decisions. This means that, distress recovered firms are more forward looking, expansionary, and have an external market perspective. Firms that failed to recover from distress are found to be more focused internally and get involved in short term fire-fighting techniques of financial and operational restructuring.

Smith and Graves (2005) also argued that fruitful turnaround is dependent on the ability of the firm to change its structure, strategy, and ideology instead of cost-cutting tactics or short-term efficiency restructuring basis. They found that effective restructuring is as a result of shifting the strategic change to suit the market demands and the competitive environment in which a firm operates. Layoffs and cost-cutting are found to be ineffectual strategies by Taliani (2010) who posits that operating performance improvements are mostly attributed to asset restructuring.

### **Bankruptcy Reorganization Theory**

Altman (2006) re-modified the bankruptcy reorganisation theory propounded by Thomas Jackson in 1982. This theory was anchored on the view that entrance and exit of business enterprises is normal in a natural component. The failure of corporate entities comes with cost either directly or indirectly on the society. This necessitates the provisions of laws and procedures to guide corporate collapse such as provision of law to protect contractual rights of stakeholders; provision of orderly liquidation of unproductive assets; and if necessary, provision of a moratorium on definite claims to give the debtors' time for rejuvenation to encourage firms' survival and continuity. There are always two options when faced with financial distress; the firm may seek reorganisation with the view to survive and continue in providing the needed service and obligations to the society or opt for liquidation. The option to follow depends on the economic or intrinsic value (asset) of the organisation. In a situation where the intrinsic value of the firm is greater than the firm's liquidation value, then, the public policy as well as the ownership entity point of view suggested that such firms should reorganise and continue their business operation. Thus, in a case where the firm's liquidation value is greater than the firm's intrinsic value then, liquidation will be preferable (Altman, 2006).

Bankruptcy reorganisation theory is justified on the ground of social and economic benefits. This is a process that enables the financially distress firms to continue operations while using all the available resources in its capacity to remedy the situation towards rebound rather than liquidating all its asset to repay creditors. This is important because it is assumed that firm's continuity has the probability of rejuvenation rather than

disposing of asset in the market place in favour of creditors. Though, there is need to put into consideration the time value of money possibly through the discounted cash flow since rehabilitation process takes time. However, the contribution of economically productive asset cannot be over emphasised as introduces the needed goods and services to the society, offer employment opportunities to the employees, payment of taxes to the government on the revenue generated and offers revenues opportunities to suppliers. All these benefits outweighed the bankruptcy cost to the society and even the firm.

### **Empirical Review on Financial Distress and Turnaround Strategies**

Sudi and Lai (2002) empirically analysed the influence of corporate financial distress on turnaround strategies in UK companies. Sample of 166 distressed firms were observed for 8 years from 1985 to 1993 and the turnaround strategies adopted in ameliorating distress towards recovery were critically analysed for 3 years after the distress year. The findings revealed that failed firms and rejuvenated firms adopted the same strategies in curbing distress. Though, it was observed that failed firm restructure intensively, lack adequate strategy implementation, while rejuvenated firms focused on external market and growth-oriented strategy in revival efforts. However, timing specific, effectiveness of strategies and challenges faced in turnaround strategies were not evaluated in the study.

Padilla and Raquejo (2000) developed a model to evaluate the implications of restructuring on operational attributes of post distress in the banking industry. The study captured the prediction of banks financial distress, the attempted restructuring and employees' layoff as the main concepts of the study. The findings revealed that employee's layoff as operational actions have a link to debt restructuring. Thus, the study only focused on businesses with capital structure that are simple as one bank can provide the external funds required by the firm.

Besides, Waweru, Mbogo and Shano (2013) in their study on turnaround of distressed firms in the public sector concluded that privatization of publicly owned enterprises revealed mixed results and reaction in returns after privatization.

### **Hypothesis development**

Bankruptcy reorganization theory advocated the need for financially distressed firms to continue operations while using all the available resources in its capacity to remedy the situation towards rebound rather than liquidating its entire asset to repay creditors. This is an application of turnaround strategies. Similarly, the submission of Padilla and Raquejo (2000) on the link between employees' layoff as an operational actions and debt restructuring as a means of rejuvenation for distressed firms established the fact that there are strategies to revive dying firms. Besides, Sudi and Lai (2002) questioned the effectiveness of the remediation strategies applied by distressed firms while Waweru, Mbogo and Shano (2013) findings shows mixed reactions and results in the applications of revival strategies. Thus, this study hypothesized:

$H_0$ : Turnaround strategies are not effective in rejuvenating financially distressed firms

### **Methodology**

This study adopts the longitudinal design which takes into consideration observation from the sampled firms from year 2000 to 2018. The population for this study focused on

oil and gas sector of Nigerian economy listed on Nigeria Stock Exchange (NSE), which covers the downstream, upstream and midstream companies in the sector. To achieve the research objectives, therefore, the study focuses on oil and gas companies quoted on the NSE. The sample periods span from 2000 to 2018. This period was considered long enough to provide sufficient data to assist in determining a trend in predicting corporate financial distress. Secondary sources of data collection were used to elicit the required information needed for this study. Besides, structured questionnaire checklist in the form of primary data was used to solicit relevant information on turnaround strategies effective for Nigerian oil and gas firms' rejuvenation. Most of the information needed for these variables cannot be adequately obtained through the analysis of secondary data. Hence, the need to collect primary data became essential through administration of check list questionnaire. Eight-item electronic questionnaire was sent to the executive officers in the sampled firms to prevent response ambiguity and to obtain reliable information. The sampled firms comprise of five (5) companies that had experienced distress at one time or the other and recovered within the sampled periods using Multiple discriminant model. The electronic 8-item question check list on turnaround strategies was sent to the affected companies after establishing a good relationship with the key contact person in each of the selected companies and follow-up telephone conversation was developed to facilitate quick response. The data collected were analyzed using descriptive statistics, multiple discriminant analysis and Friedman rank test.

## **Results and Discussions**

### **Corporate turnaround strategies for distressed firms in Nigerian oil and gas sector**

The corporate turnaround strategies available to corporate organisations as reviewed in this work are debt restructuring, sales of asset, employee layoff, asset acquisitions, top management change, equity issue and dividend cut or omissions. The total population of sampled firms were not considered here as only the organisations that have experienced distress at any point within the sampled period were considered based on the classification with Discriminant Z score analysis conducted as shown in the appendix I and only the firms that recovered from such situation were included in the sample – the number of recovered firms are five. Past researchers such as Mbogo and Waweru (2014); Saudi and Lai (2001) also evaluated the turnaround strategies from the Multiple Discriminant Z score classification of their chosen firms in their different studies. The list of the firms under this category were shown below;

**Table 1: Recovered distressed firms during the study period with Discriminant Z-score**

| S / N | COMPANY          | YEAR 1 Z-score | YEAR 2 Z-score | YEAR 3 Z-score | YEAR 4 Z-score | YEAR 5 Z-score | YEAR 6 Z-score | YEAR 7 Z-score | MEAN SCORE |
|-------|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------|
| 1     | JAUPAUL OIL      | 1.04876523     | 0.9424451      | -2.9998013     | -5.7526635     | -0.2927035     | -2.4454439     | -1.21756       | -10.717    |
| 2     | BECON PETROLEUM  | 1.44263141     | 1.0080982      | -3.33810588    | -4.9176288     | -4.0185265     | -8.3548339     | -1.6957429     | -19.874    |
| 3     | ETERNA PLC       | -2.809123      | 0.83757274     | 0.5512617      | -3.82932325    | -8.5412776     | -4.5512617     | -6.1955719     | -24.838    |
| 4     | FORTE OIL PLC    | -2.9812354     | 3.280990043    | 3.259966488    | -3.5699139     | -              | -              | -              | -0.0012    |
| 5     | AFRICAN PET. PLC | -6.5031873     | -6.3509305     | -5.02836711    | -3.2354611     | 1.000421       | 1.668025       | -3.7459036     | -22.795    |

Source: Extracted from the researcher's health status computation, 2020

The Z-score analysis revealed that five companies were found to have experienced distress at any point in time during the study period as shown in appendix I. The attention is on the companies that had recovered from distress while companies that had not experienced distress were not included. 80% response rate was obtained. The breakdown of the structured checklist and turnaround strategies based on the sampled responses are summarized in Table 2;

#### Turnaround checklist for financially distressed firms

The analysis from the Table 2 revealed 50% of the companies had been listed between 1 and 15 years and the remaining sampled distressed firms had been listed between 16 and 30 years. This finding revealed that age of the companies has nothing to do with the organizations being bankrupt; meaning that the length of organisational existence does not determine whether such firm can experience distress or not. Besides, 25% of the sampled companies are locally owned while 75% are jointly owned by local and foreign investors. This implies that, the ownership structure has no direct impact on the solvency status of any organization in relation to being financially distressed.

The responses on the method used in determining poor performance by the sampled responses shows that 100% of the sampled companies depend mostly on the ratio analysis for their financial statement analysis in measuring their performance. None of the companies sampled uses MDA Z-score. With this, despite the Altman's Z-score introduction since 1968, quoted Nigeria's oil and gas companies has not really maximize the use of this techniques in the analysis of their financial health status to predict financial distress. This study may be an eye opener as the accuracy prediction for the sector stands at 88.2%. The responses from the companies sampled revealed that 1 - 5% of their shares are held by management (75%) while 6 - 10% shares are held by 25% of the sampled companies.

**Table 2: Responses from Turnaround Checklist for financially distressed firms**

|                                                              | Responses       | F | No. of Companies | %   |
|--------------------------------------------------------------|-----------------|---|------------------|-----|
| For how long the company has been listed?                    | 1 – 15years     | 2 | 4                | 50  |
|                                                              | 16 – 30 years   | 2 | 4                | 50  |
|                                                              | 31years & above | - | -                | -   |
| Ownership structure of the organization                      | Foreign         | - | -                | -   |
|                                                              | Local           | 1 | 4                | 25  |
|                                                              | Foreign & Local | 3 | 4                | 75  |
| Method used to determine the organizational poor performance | Financial Ratio | 4 | 4                | 100 |
|                                                              | MDA             | - | -                | -   |
|                                                              | Others          | - | -                | -   |
| Management Ownership of firms                                | 0 - 5% share    | 3 | 4                | 75  |
|                                                              | 6 – 10%         | 1 | 4                | 25  |
|                                                              | 10% & above     | - | -                | -   |

Source: Researcher's fieldwork, 2020

### Turnaround strategies for financially distressed firms

#### a. Strategic actions by the financially distressed companies

The result in Table 3 revealed the responses on the issues related to turnaround strategies. The findings revealed that the most common actions taken in distress were; employee layoff (75%), asset restructuring (50%), Dividend cut or omissions (50%), equity issue (50%), debt restructuring (25%), asset acquisition (25%) and Management change (25%). All the sampled financially distressed firms understudied were able to recover from their distress state after taking one or more of these turnaround strategies. This implies that, employee's layoff is the most utilized turnaround strategies to reduce costs and improve efficiency. This is evidence by multiple staff layoff in a situation of distress or economy downturn. Even, outside the study area, employees' layoff is mostly adopted in an unpalatable situation in Nigeria and in most developing countries. Thus, the implication of this finding is that new investors will not be interested in the sector, this could affect the development of the sector and also earnings to investors and government, low employment, and affect their reputation. This is also in line with the study of Waweru, Mbogo and Shano (2013) whose study affirms that employee layoff sends wrong signal to local and foreign inventor.

Based on the findings, the second most used strategy in distress are; Sales of Asset, equity issue and dividend cut at 50% each. Sales of asset might be necessary to trade off unprofitable asset to reduce cash drain and at times, a profitable asset were disposed-off to raise cash in meeting immediate needs in distress. Dividend cut or omissions were adopted by 50% of the sampled firms. Two of the companies practice dividends omission for minimum of a year, one firm reduced dividends to survive hard time. Padilla and Raquejo (2000) in their study were of the opinion that a year loss is not a yardstick for cut or omission in dividends because this might affect the firms' long run share performance. Even in the distress year, 50% of the sampled firms issued new shares for the period observed. This is so possible because the distress syndrome in the oil and gas is not as pronounced like that of banking industry. The essence of this measures is to raised fund

in case where every other means of raising fund failed to meet the company's exigencies but this only feasible when such firms has gained or accumulate goodwill overtime. For any firms to do this, such firm must have been listed for more than 10 years to build investors' confidence.

The most rarely used turnaround around strategies is asset acquisition, management change and debt restructuring with 25% each. The idea behind asset acquisition is prompted mainly to improve productivity or acquiring of businesses that may improve firms earning capacity in the nearest future. Likewise, management change may be essential to allow for injection of new blood and new idea while debt restructuring is not popular because most times, creditors are not willing to negotiate on debt. This might have been responsible for having just only one firm that used this strategy. With this, it implies that the strategies are effective in terms of frequency of usage as all the firms use one or combinations of these strategies in their distressed period.

#### **b. Financial distress and timing restructuring specific strategies**

Responses on the timing specific restructuring strategies of financial distressed firms revealed that firm's turnaround requires rapid managerial attention to rejuvenate the financially distressed firm. The attitude and action of manager most times leads to the success or failure of business firms as turnaround strategies does not give perfect assurance of recovery. Thus, adopted turnaround strategies need to be competently and timely utilized for optimum results. The results show that most strategies applied started yielding positive results from the distress year to the second year.

The results in Table 3 revealed that, the most applied strategies in the distress year were; employee layoff, asset acquisitions, Sales of asset, and Dividend cut or omissions. These strategies were 100% carried out by the sampled firms. By first and second year of distress, 50% of the firms lay off employees while 50% embarked on asset restructuring rejuvenating strategy. Debt restructuring strategy was applied at the end of second year of distress. This may be as a result of the fact that negotiation with the key stakeholders (Creditors and the likes) usually take time before it materializes. Only 25% of the firms applied Top management change strategy and it was applied after the first year of distress. The reason for this may not be far fetch from the fact that, shareholders and creditors always agitate for experience and turnaround experts to ameliorate distress firms from collapsing. Thus, distress most time can be linked to incompetent management.

The findings from the result in the table 3 revealed that, most turnaround strategies were mostly applied in the distress year while the trend became less intensified as the year pass by. The application of turnaround strategies is more rampant and effective in the distress year and less intensive in application in subsequent years.

#### **c. Effect of turnaround strategies taken on performance**

A 3-point Likert scale (1- negative, 2- no effect, 3-positive) was developed to measure the effect of identified turnaround strategies on firms' financial performance. Findings from table 3 revealed that, rating the performance of the identified strategies, debt restructuring appeared to be the most enhanced performance friendly strategy as

supported by 75% of the sampled firms. This may be as a result of the fact that debt cancellation or restructuring ease the business tension and foster better application of long-term strategies while 50% of the sampled respondents were of the view that employees lay off also contribute to firm performance during distress. This may be due to the fact that, in the distress year the firms' ability to pay all its due is drastically reduced while paying staff salary become burdensome. Lay off may reduce the tension on the firm's short run but in the long run the effect may be devastating.

75% of the sampled firms were of the opinion that dividend omission or cut has no positive influence on the performance while 25% of the sampled firms submit that asset acquisition during distress year has a negative influence on the firms' performance. The effects of the turnaround strategies are positive on performance. With 75%, 50% and 25% respectively, this implies that there are effective turnaround strategies to improve performance and rejuvenate financially distressed companies in Nigeria's oil and gas sector.

#### d. Turnaround strategies implementation problems

In the structured check list, the sampled firms were to indicate the challenges and problems they faced in turnaround strategies implementation. The common problems as indicated by the respondents were insufficient resources to implement the strategies, less managerial support and interest as required, court injunction and fear of failure or being blamed on the part of implementing officers by the stakeholders.

**Table 3: Issues related to Turnaround strategies for financially distressed firms**

|                                                                            | Responses          | F    | %    | Rank | No. of Coy. |
|----------------------------------------------------------------------------|--------------------|------|------|------|-------------|
| Strategic Actions by the financially distressed companies.                 | Mgt. Change        | 2    | 25   | 6    | 4           |
|                                                                            | Employee layoff    | 3    | 75   | 1    | 4           |
|                                                                            | Debt restructuring | 1    | 25   | 6    | 4           |
|                                                                            | Equity Issue       | 2    | 50   | 3    | 4           |
|                                                                            | Sales of asset     | 2    | 50   | 3    | 4           |
|                                                                            | Dividends Cut      | 2    | 50   | 3    | 4           |
|                                                                            | Asset Acquisition  | 1    | 25   | 6    | 4           |
|                                                                            |                    | DY   | DY+1 | DY+2 | No. of Coy. |
| Timing specific restructuring strategies in response to financial distress | Mgt. Change        | -    | 100% | -    | 1           |
|                                                                            | Employee layoff    | 100% | 50%  | 50%  | 2           |
|                                                                            | Debt restructuring | -    | -    | 100% | 4           |
|                                                                            | Equity Issue       | -    | -    | -    | -           |
|                                                                            | Sales of asset     | 100% | 50%  | 50%  | 2           |
|                                                                            | Dividends Cut      | 100% | 75%  | 25%  | 4           |
|                                                                            | Asset Acquisition  | 100% | 50%  | 50%  | 4           |
|                                                                            |                    | 1    | 2    | 3    | Total       |
| Effect of turnaround strategies taken on performance                       | Mgt. Change        | 25%  | 50%  | 25%  | 4           |
|                                                                            | Employee layoff    | 25%  | 25%  | 50%  | 4           |
|                                                                            | Debt restructuring | 0%   | 25%  | 75%  | 4           |
|                                                                            | Equity Issue       | 25%  | 25%  | 50%  | 4           |
|                                                                            | Sales of asset     | 50%  | 25%  | 25%  | 4           |
|                                                                            | Dividends Cut      | 75%  | 25%  | 0%   | 4           |
|                                                                            | Asset Acquisition  | 25%  | 50%  | 25%  | 4           |
|                                                                            |                    |      |      |      |             |

Note: F – frequency; % – Percentage; DY – Distress year; DY+1 – A year after distress year; A 3-point Likert scale (1- negative, 2- no effect, 3-positive)

Source: Researcher's Computation, 2020

### Test of Hypothesis

The corresponding objective states that to evaluate the effectiveness of turnaround strategies in rejuvenating financially distressed firms. The evaluation of the turnaround strategies of the sampled financially distressed firms anchored on the frequency of strategic actions used, timing of response to distress and effect of strategic actions taken on performance. Since turnaround strategies were measured on the same scale to check if changes occur in performance from the distressed year to two years after, Friedman test was used. There is repeated measure of the strategic actions within the subjects to check or analysis the variance.

The results of the analysis revealed that, the means of the observations are all above average (that is, 3.5) which implies that all the turnaround strategies were all effective in improving the performance of the financially distressed companies as the performance tends to increase or decrease as the case may be based on the frequency of usage and the timing of application. Comparing the ranks for the strategic actions taken, it was revealed that there was a steady fluctuation in the performance of the turnaround strategies. The findings revealed that there are significant differences in the turnaround strategies in improving performances throughout the sampled periods as it was earlier revealed in the Table 4 above and appendix 1. This is indicated by a  $p\text{-value} < 0.05$ . With this, the frequency of usage, timing of usage and effect on performance of the turnaround strategies show that the seven strategic actions were all effective in rejuvenating financially distressed companies. This result is in line with the submission of Mbogo and Waweru (2014) whose research revealed that there is always a way out of financial distress by distressed companies if appropriate strategies were put in place. The result output is given as:

**Table 4: Friedman Test Rank and Test Statistics**

|                    | Mean Rank |
|--------------------|-----------|
| Management Change  | 4.17      |
| Employees' Layoff  | 4.67      |
| Debt Restructuring | 3.67      |
| Equity Issue       | 3.83      |
| Sales of asset     | 3.83      |
| Dividends Cut      | 3.67      |
| Asset Acquisition  | 4.17      |
| N                  | 3         |
| Chi-Square         | 16.613    |
| df                 | 6         |
| Asymp. Sig.        | 0.010     |

a. Friedman Test

Source: Researcher's Computation, 2020

### Conclusion and Recommendations

Turnaround strategic actions taken by distressed firms differ in an attempt to ameliorate the situation. The results obtained revealed that the identified turnaround strategies implemented were intensive in the distressed year while the intensity reduced as the

distress passed out. It was observed that, some sampled firms did increase dividends as against dividend omission/cut mostly rampant during distressed year. Timing of implementations of most of these strategies differs as asset restructuring, employee's layoff and dividends omission/cut take precedence in distress year while other strategies were employed after the distressed year. The reason(s) for this is due to the fact that other strategies involve several consultations before implementation. The study concluded that the identified turnaround strategies were effective towards the remediation and rejuvenation of the distressed firms.

In line with the findings and conclusion drawn above, the following recommendations were made to the policy makers and stakeholders: Employee's layoff is the most strategic action taken by financially distressed firms. The study recommend that this action should be taken with caution as the action send bad signal to foreign investors, negate the citizens empowerment program of the government and posed security risk to any nations. Therefore, it is recommended that, other strategic actions such as asset restructuring, dividend cut/omission among others should be used first in surviving the hard times depending on the causes of distress while considering employee's layoff as the last resort in distressed situation. Contingency approach (situation analysis) should be considered in adopting appropriate turnaround strategies for distressed firms.

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# Appendix

## Summary of Financial Status using discriminant function cut off scores model

| SN | COMPANY                   | YEAR 1<br>Zscore | YEAR 2<br>Zscore | YEAR 3<br>Zscore | YEAR 4<br>Zscore | YEAR 5<br>Zscore | YEAR 6<br>Zscore | YEAR 7<br>Zscore | MEAN<br>SCORE |
|----|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------|
| 1  | RAIPUL<br>OIL             | 1.04576523       | 0.9424451        | -2.9995013       | -5.7526633       | -0.2927033       | -2.4454439       | -1.21755         | -10.717       |
| 2  | QANDO<br>FLO              | -3.00433331      | -2.9321423       | -2.95190161      | -2.5519017       | -3.33707434      | -1.509433        | 3.990722<br>94   | -20.3336      |
| 3  | AFROIL<br>FLO             | -1.5761213       | 2.272931         | 0.73632172       | 0.06129416       | 0.43927004       | 0.21644737       | 1.997094<br>57   | 3.91773       |
| 4  | SECO<br>PETROLEU<br>M     | 1.44263141       | 1.0030932        | -3.33510553      | -4.91761375      | -4.01352651      | -3.35433392      | 1.591742<br>33   | -19.3741      |
| 5  | CONCIL<br>FLO             | -2.9903121       | -3.010312        | -5.17160723      | -5.9511333       | -0.2563176       | -4.17953729      | 3.546334<br>66   | -27.3372      |
| 6  | ETERNA<br>FLO             | -2.509123        | 0.53767274       | 0.5512637        | -3.32932325      | -3.5412776       | -4.5212637       | 5.195571<br>95   | -24.3377      |
| 7  | FORTE OIL<br>FLO          | -2.9313354       | 3.239990043      | 3.239996433      | -3.56991333      | -                | -                | -                | 0.00119       |
| 8  | MOEIL OIL<br>FLO          | -5.7321674       | -2.673193        | -2.57167345      | -5.91261429      | -3.53449522      | -4.31265273      | 5.441543<br>31   | -31.3333      |
| 9  | MRS OIL<br>NIG            | -                | -                | -5.44061545      | -5.2293965       | -3.20173933      | -20.923335       | 1.421795         | -42.222       |
| 10 | TOTAL NIG                 | -3.7546529       | -1.113321        | -3.33333341      | -3.33333351      | -11.33333319     | -3.763607        | 15.93571<br>99   | -42.3333      |
| 11 | AF FLO                    | -5.1031573       | -5.3509305       | -5.02336711      | -3.2354511       | 1.000421         | 1.065025         | 3.745903<br>33   | -22.7954      |
| 12 | AGIF                      | -5.132645        | -2.90114551      | -4.05149425      | -4.21733421      | -1.31355733      | -0.99930135      | 1.765007<br>3    | -21.3333      |
| 13 | NATIONAL<br>OIL           | -1.5095743       | -1.0342173       | 0.945141         | 1.0209093        | 0.53951349       | 0.51303335       | 1.434399<br>75   | 1.03950       |
| 14 | UNIPETRO<br>L             | -2.00145132      | -1.9910379       | 1.14426514       | 0.73136031       | 1.09120447       | 1.51177309       | 1.029302<br>03   | 1.53551       |
| 15 | TEXACO                    | -0.7967057       | -0.54907162      | -0.31973592      | 0.992391396      | 0.932001939      | -                | -                | 0.00933       |
| 16 | CHEVRON                   | -4.91432157      | -0.0173391       | -2.11912393      | -4.30104653      | -4.53024652      | -4.45502074      | 0.121135<br>39   | -20.3333      |
| 17 | UNION<br>VEN &<br>PET FLO | -2.1222435       | -1.7134315       | 0.9723579        | 0.55500359       | 1.13705333       | 0.65327933       | 1.525435<br>63   | 1.43252       |

\*Excess \*\*Gap  
Source: Researchers computation, 2020