UNDERSTANDING AND MANAGING DEFENSIVE STRATEGIES: THE PANACEA TO SURVIVAL AND SUSTAINABILITY OF OIL AND GAS COMPANIES IN NIGERIA

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Abstract

This paper takes a random walk through the defensive strategies relevant literature by examining among other issues, the panacea to oil and gas companies survival and sustainability in Nigeria. Defensive strategies help much to fortify a company's competitive position, as well as protecting its important valuable resources capabilities from imitation, and sustain the competitive advantage it does have. The adoption of different types of retrenchment strategies as this paper explored, are attempts to strategically regain control of ailing oil and gas companies. Divestiture (divestment) strategies have also been observed to be part of defensive strategies often adopted in order to rid a weak organization of unprofitable ventures. Divestiture has become a popular defensive strategy that will guide oil and gas to focus attention on their core and profitable businesses. Other types of defensive strategies such as turnaround, liquidation, captive company and abandonment strategies which oil and gas companies can adopt for their survival and sustainability were also explored. The paper therefore, conclude and recommends amongst others that, oil and gas companies in Nigeria should pay specific attention to feasible defensive strategies, in order to ensure the survival and sustainability of organizational objectives and mission.
Key words: ***Defensive strategies; Oil and Gas Companies; Survival; Sustainability; Panacea; Divestment (Divestiture) Strategies; Competitive Advantage; Retrenchment Strategies.***

Introduction

Defensive strategies are business management tools that can be used by oil and gas companies to fend off attacks from potential competitors. The foremost purpose of defensive strategies is to protect competitive advantage and fortify the firm's competitive position. The defensive strategies help to lower the challenges or risk of being attacked, weaken the impact of any attack that occurs, as well as influence the challengers to aim their efforts at other rivals. The fact remains that, not all strategies have growth or expansion orientations. Sometimes however, the strategist may be forced to contract the firm's operations due to unforeseeable circumstances in business environment as observed in oil and gas companies in Niger Delta, Nigeria. As offensive strategies have positive valence, and are growth-directed, defensive strategies are implemented to produce restriction of operations. The development of strategies that use strengths to capitalize on opportunities could be regarded as an offensive, while strategies that are designed to improve upon organizational weaknesses, and at the same time,

avoiding threats could be regarded as defensive. A good offensive strategy with no considerably good defensive strategy, or the reverse, will definitely result or lead to defeat. Defensive strategies protect a business's strategic advantage. We are aware in this business world or global economy that competition is inevitable, and the threat of competitors is swooping in to steal our customers or our share of the market. Defensive strategies aim at holding onto what the manager or strategist has, as well as using the competitive advantage to keep competitors at bay. As such, defensive strategies are strategic directions designed to recoup strength or to correct a deficiency in the way the firm is operating. While defensive strategy as noted usually does not much enhance a firm's competitive advantage, it helps to fortify a firm's competitive position, protect its most valuable resources and capabilities from imitation, and sustain whatever competitive advantages it does have (Thompson and Strickland, 2001). Except for the rare attempt by firm's owners to simplify their lives by shrinking their business's size, contraction is usually a defensive response to adversity.

Theoretical Foundation and Review of Relevant Literature

Approaches to Defensive Strategies

Basically, there are two key approaches to defensive strategy as applicable to oil and gas companies and in strategic management architecture and these are:

- Blocking competitors who are aiming or attempting to compete or take over the business market share. To avoid this, the strategist is advised to reasonably cut the products price, adding incentives or discounts in order to encourage customers to buy, or increasing advertising and marketing campaigns.
- Adopting of a more passive approach such as announcing of new product innovations, planning of firm's expansion by opening of new chain or reconnecting with old customers and encouraging them to resume cordial business relationship as well minimization of conflicts proactively in the operating environment. This second approach is still a way to discourage competition, but it is less-aggressive, indirect and more relaxed as compared to the first approach herein that is active, direct and more aggressive.

Merits of Defensive Strategies:

Many perceived merits of defensive strategies abound and among which include

- To increase marketing and advertising which could be an effective way to recoup old and attract potential customers through the strategic door.
- Defensive strategies are less risk-laden than offensive strategies.
- Help to enhance the value of the products and services. This is so because when the benefits of products and service values are emphasized, in effect, the values of that of ones competitors will simultaneously be devalued. This third advantage could be an effective way or long-term strategy for securing a niche market for the products and services.
- Defensive strategies exhibit proactive functions which save the firm from collapsing and ultimate strategic demise.

Demerits of Defensive Strategies

- Inability of understanding target market: The strategist should aim at certain demographics when producing goods and services in order to avoid producing unwanted products and services.

- The manager or strategist may be tempted to rest on his or her laurels when it comes to products and services innovation and development.
- Defensive strategies in most cases do not aim at balancing with long-term strategy that may also help to grow the business. It is important for one to keep eyes open for opportunities that will ensure the engagement of new markets, selling of cutting-edge products, as well as reaching of new customers.

However, there are three basic types of defensive strategies: Retrenchment, Divestiture (Divestment) and liquidation.

Retrenchment Strategies

Retrenchment in an organization takes place when the organization is going through or goes through a period of forced decline by either shrinking current business units, as experienced by some oil and gas firms in the study area or selling off or liquidating entire businesses (Chikwe, 2016). A company may also pursue retrenchment strategies when it has a weak competitive position in some or all of its product lines resulting in poor performance. This implies that, sales are down and profits are becoming losses (Wheelen and Hunger, 2004). Relatedly, retrenchment strategies are attempts to regain control of a weakening business or prevent it from faltering (or loosing strength) in the first place by temporarily restraining or stopping (reining in) its operations. The implication is that the organization may have experienced a precipitous drop in demand for its products (e.g. petroleum) or services, prompting managers to order across-the-board cuts in personnel and expenditures as currently happening in oil and gas firms in Niger Delta, Nigeria. Retrenchment strategies are also grand strategies and can impose a great deal of pressure to improve performance. Retrenchment can also occur when an organization regroups through costs and assets reduction to reverse declining sales and profits. In an attempt to eliminate the weaknesses that are dragging the company down, management may follow one of several retrenchment strategies, ranging from turnaround or becoming a captive company to selling out, bankruptcy, or liquidation.

Retrenchment as also applicable to oil and gas firms in Nigeria may be done either internally or externally. Emphasis on the achievement of internal retrenchment is often laid on improving efficiency, and may take the form of an operating turnaround strategy. In contrast to this, a strategic turnaround is a more serious form of external retrenchment and this could lead to divestment or liquidation.

Retrenchment is sometimes called a turnaround or reorganization strategy, and it is designed to fortify an organizations basic distinctive competence. Managers often use a period of retrenchment to stabilize a company and attempt to restore profitability and competitiveness. During retrenchment, strategists work with limited resources and face pressure from shareholders, employees, other stakeholders such as host communities and the media. Retrenchment can entail selling of land and buildings to raise needed cash, pruning product lines, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees, and instituting expense control systems in order to avoid organizational demise. Retrenchment strategy in relation to liquidation strategy is the strategy of last resort.

Retrenchment can be applied at either the corporate or business level of a diversified firms, such as oil and gas companies but it more neatly applies to the later. This is so because operating inefficiencies of the type normally addressed by retrenchment tend to be business unit specific.

The five guidelines for when retrenchment may be an especially effective strategy to pursue according to David (2009) are as follows:

- When an organization has a clearly distinctive competence but has failed consistently to meet its objectives and goals over time.
- When an organization is one of the weaker competitors in a given industry i.e. if the firm sees itself as not doing well or doing poorly.
- When an organization is plagued by inefficiency, low profitability, poor employee morale, and pressure from stockholders to improve performance.
- When an organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths, and overcome internal weaknesses over time; that is, when the organization's strategic managers have failed (and possibly will be replaced by more competent individuals).
- When an organization has grown so large and so quickly that major internal reorganization is needed.

Retrenchment Substrategies

The four basic and related substrategies which can be adopted by oil and gas companies, and that can also be identified under retrenchment strategy are:

- Turnaround strategy
- Divestment (divestiture) strategy
- Liquidation strategy
- Captive company strategy

Retrenchment strategies which may as well be applicable in oil and gas companies can also take three other major forms namely:

- Shallow retrenchment or cutback
- Deep retrenchment
- Reorganization

The above mentioned forms of retrenchment as similarly argued by Weston and Brigham (1978) are briefly discussed below.

Shallow Retrenchment: This form of retrenchment is a response to adverse business conditions and is noted to be characterized by small but significant cutbacks in firm's expenditures; for instance, expense items, asset investment, or both. This form also may follow a decision to lighten emphasis on sales growth as it pertains to a certain time period. In the area of applicability, this form of strategy may be appropriate for a growing firm facing a cash flow shortage. Policies that may as usual accompany shallow retrenchment (cutback) in this perspective for the purposes of revamping the organization can include;

- Selling only to high-quality (fast paying) accounts
- Stretching payables
- Cutting costs to reduce cash requirements.

The need to keep on with shallow retrenchment (cutback) is advised to continue until a targeted level of net cash flow or some other goal or objective is met. In essence, shallow retrenchment could be regarded as an emphasis-switching exercise in order to build internal strength of the organization and sustainability.

However, the kinds of activities that would generally characterize shallow retrenchment (cutback) include:

(i) reducing hiring rates
(ii) laying workers off
(iii) delaying asset replacement
(iv) dropping narrow margin products or lines
(v) reducing inventory levels
(iv) stretching payables or other moves aimed at decreasing operating expenses
(vi) increasing net cash flows
(vii) reducing asset investment rates.

Deep Retrenchment: This relates to severe curtailing of operations as a defense mechanism or strategy against adverse major economic conditions, financial reverses, competitive disadvantage, or a severe threat to sales growth or profitability that cannot be met with an offensive move. For instance, unlike in shallow retrenchment, where management could temporarily be willing to de-emphasize growth in order to "trim down some fat" and there could usually be an implicit expectation to reinforce the former growth strategy reinstatement. However, in contrast, deep retrenchment may be characterized by the deliberate intention to change at least part of strategy, usually by surgery in the product, market, or business-definition areas. In this case, the firm may plan to exit from deep retrenchment as a different firm, having fewer or different products/lines, different (leaner) organization structure, fewer or different markets or segments, and so forth. In effect and clearly, the distinction between shallow and deep retrenchment is subjective and a matter of degree; the idea of intended change in strategy can provide a useful ground for their distinction.

Reorganization: When a financially troubled firm goes through reorganization, its assets are restated to reflect their current market value, and its financial structure is restated to reflect any changes on the asset side of the statement. Under reorganization, the firm continues in existence; this is contrasted to bankruptcy, where the firm is liquidated and ceases to exist (Weston and Brigham, 1978).

Reorganization was formerly called "arrangement". An arrangement constitutes a major change in a troubled firm's (or "debtor's") unsecured debt (usually trade credit), whereas a "reorganization" is a major restructuring of the debtor's debt/equity relationships. In reorganization as a form of retrenchment strategy, the firm attempts to persuade its creditors to temporarily freeze their claims while it undertakes to reorganize and rebuild the company's operations more profitably. The appeal of a reorganization retrenchment is based on the company's ability to convince creditors that it can succeed in the marketplace by implementing a new strategic plan and that when the plan produces profits, the firm will be able to fully design an alternative to forcing an immediate, but fractional repayment of its financial

obligations. The option of reorganization retrenchment offers maximum repayment of debt at some specific future time if a new strategic plan is successful (Pearce and Robinson, 2003).

Turnaround Strategies

Turnaround strategies are grand strategies needed when a business worth rescuing goes into crises, declining profits, faces economic recessions, production inefficacies and innovative breakthroughs by competitors. The strategic objective of turnaround strategy is to return an ailing or distressed or underperforming firm to normalcy in accordance with accepted profitability levels, liquidity, solvency, as well as cash flow indices. Relatedly, Fubara (2000) argued that turnaround strategy need is normally recognized when a company is passing through crises periods such as; sluggish sales, shrinking market share, falling profit/earnings ratios, products qualifying for divestment, inability to meet financial obligations (insolvent), debts becoming higher than assets, long outstanding debts, inability to buy raw materials, payment of wages and salaries, and so on. In addition, Argenti (1976) and Fubara, (2000), relatedly suggest that company failure that necessitates turnaround arise as a result of:

- One man's rule or Chief Executive Officer (CEO) rules alone
- Non-participating board or lack of management depth
- Weak finance function and inadequate financial control or poor financial policy
- Poor accounting information system and poor budgetary control
- Stale cash-flow forecast
- Marginal cost unknown / high cost structure
- Business hazards strike
- Over-trading occurs/inefficient marketing
- Poor sales and poor profit
- Lack of control / large size projects
- Bad management.
- Stiff competition relating to prices, products and failure to adopt relevant strategies.

In discussing about how failures arise, Argenti (1976) assert that problems of failure arise generally when the following suggested Ten Commandments of effective business are broken as hereunder expressed.

- Business strategy must be formalized and communicated
- There must be overall controls and cost controls
- Board (if any) must participate actively in decision making
- Avoid one-man's rule
- Provide management depth
- Keep informed and reach to change
- Accept the customer as the king
- Do not misuse calculations (no cosmetic accounting)
- Do not engage in accounting manipulations
- Provide an organizational structure that serves people needs.

Fubara (2000) has made it clear that failure arising from external factors is attributed to arise from the following:

- Money market conditions in the economy
- Investors expectations which could cause investment reduction
- Credit squeeze may squeeze working capital
- Political instability may arouse a "waite and see" attitude.

Times like these can induce economic downturn and investors can lose confidence and may not invest any more. In this circumstance also, prices may fall, credits may only be extended to big companies only (if at all), demands for goods will also fall, and as a result, many such companies will fail.

Under these strategic conditions in the firm, the strategic managers may have the belief that such organization can survive and eventually recover if and only if (iff) a concerted effort is made over a period of a few years to fortify its distinctive competences. Turnaround typically begins through one of two underlisted forms of retrenchment, employed single or in combination as opined by Pearce and Robinson (2003):

- **Cost reduction:** This includes decreasing the workforce through employee attrition, leasing or outsourcing rather than purchasing equipment, extending the life of machinery, eliminating elaborate promotional activities, laying off employees, dropping items from production line and discontinuing low-margin customers.
- **Drastic Asset reduction:** Which include the sale of land, buildings and equipment.

In order to formulate a suitable turnaround strategy, the firm's management's first task is to diagnose what lies at the root of the identified poor performance, as well as investigations related to the following questions relatedly advanced by Thompson Jr, Strickland III, and Gamble, (2007):

- Is it an unexpected downturn in sales brought on by a weak economy?
- Is it as a result of an ill-chosen competitive strategy?
- Is it as a result of poor execution of an otherwise viable strategy?
- Does it come from high operating costs?
- Is it from important resource deficiencies?
- Is it an overload of debt?

Having noted these and probably many other related areas, the next task to decide as they argued is to know whether the business can be saved or whether the situation is hopeless. However, the clear understanding of what is actually wrong with the business and how serious its strategic problems are is strategically essential because different diagnoses will lead to creating different turnaround strategies.

Elements of Turnaround Strategies

In some cases, there could be certain circumstances where the emphasis has to be on rapid reconstruction, in the absence of which a business could face closure, enter terminal decline or be taken over, and this necessitates turnaround, in order to reverse the negative trend and revamp the company. However, some of the elements of turnaround strategy that can revamp or cure the ailing organization, and ensure effectiveness as relatedly argued by Grinyer, Mayes,

and Mckiernan, (1990); Lovett and Slatter, (1999); Fubara, (2000); Pearce and Robinson, (2003) and Johnson, Scholes and Whittington, (2008), include:

- **Espirit de corps (team spirit):** Team spirit helps the employees know where they are going;
- **Crises stabilization and strategic repositioning:** The aim here as noted is to regain control over the deteriorating position. This also entails a short-term focus on cost reduction and/or revenue increase generation. The most successful turnaround strategies focus on reducing direct operational costs and productivity gains. In event, where the business decline is principally a result of changes in the external environment, it may be folly to expect that cost cutting alone can lead to renewed growth, and this will necessitate the employment of other related elements of turnaround strategies.
- **Selling off assets and divestment to raise cash to save the remaining part of the business**: The employment of asset-reduction strategies are very important in situation where cash flow is a critical consideration, and when the most practical ways to generate cash are:

- through sale of some firm's assets (e.g. plant and equipment, land, patents, inventories, or profitable subsidiaries).
- through retrenchment (e.g. pruning of marginal products from the product line, closing or selling older plants, reducing the workforce, withdrawing from outlying markets, cutting back customer services). It is also further to be noted that, sometimes crises-ridden companies could sell off assets not so much needed to unload losing operations, as to raise funds to save and strengthen the remaining business activities. In such cases however, the choice could usually be to dispose off non-core business assets to support strategy renewal in the firm's core business.

- **Gaining stockholder support:** In a turnaround situation, it is vital that key stakeholders, perhaps the bank or key stakeholder groups, and employees should be kept informed of the situation and improvements as they are being made (Pajunen, 2006). It is also likely that a clear assessment of the power and capability of different stakeholder groups in management of strategic change will be of vital importance in managing turnaround.
- **Launching efforts to enhance or boost revenues:** Revenue-increasing turnaround efforts are always aimed at generating increased sales volume. Accordingly, the chief revenue-building options could include:
    - price cuts
    - increased advertising
    - a bigger sales force
    - added customer services, and
    - quickly achieved product improvements.

  In addition, attempts to increase revenues and sales volumes are necessary when (i) there is little or no room in the operating budget to cut expenses and still break even, and (ii) when the key to restoring profitability is increased by use of existing capacity (Johnson, et al., 2008). However, if buyers are not especially price-sensitive (for instance, many could be strongly attached to various differentiating features in the company's product offering), the quickest way to boost short-term revenues may be to raise prices rather than opt for

volume-building price cuts. For example, a price increase for 2-4 percent range may well be feasible if the company's prices are already below those of key rivals.

- **Clarifying the target market(s):** In order to ensure turnaround success, there is every need to ensure clarity on the target market or market segments most likely to generate cash and grow profits. It is worthy to note that a successful turnaround strategy will entail relating to chosen customers and ensuring improvement on the flow of marketing information, especially to senior levels of management. This will in fact help them to focus revenue-generating activities on key market segments. In addition, the clarification of target market could also provide the opportunity to stop outsourcing products and services that are not targeted on those markets or those that are not yielding sufficient financial contributions or returns.
- **Adopting of cost reducing strategy**: The adoption of cost-reducing turnaround strategies may work best when an ailing company's value chain and cost structure are flexible enough to permit radical surgery. This may highly be applicable when:

- operating inefficiencies are identifiable and readily correctable;
- the firm's costs are obviously bloated, and
- the firm is relatively close to its break-even point.

In addition to the general, belt-tightening strategy can also be an increased emphasis on:

* pairing administrative overheads;
* elimination of nonessential and low-value added activities in the firm's value chain;
* modernization of existing plant and equipment to gain greater productivity;
* the delay of nonessential capital expenditures;
* debt restructuring to reduce interest costs as well as stretching out repayments.

- **Strategy revision and prioritization of critical improvement areas:** The prioritisation will require and depend on the ability of firm's management to give priority on those things that can give quick and significant improvements. Relating to strategy revision, Johnson, et al., (2008) suggested that when weak performance is caused by bad strategy, the task of strategy overhaul can proceed along any of the following several paths:

- shifting to a new competitive approach in order to rebuild the company's market position, as well as neutralizing external pressures.
- overhauling internal operations and functional-area strategies as to better support the same and existing overall business strategy;
- the merging with another firm in the related industry as well as crafting a new strategy keyed to the newly merged company's strengths;
- retrenching into a reduced core of products and customers closely matched to the company's strengths.
- changes in the top management and better internal coordination.

However, it is interesting to note that the most appealing path will depend on prevailing industry conditions and the severity of the crisis situation. For a prerequisite for action and to achieve a strategic fit, it is necessary to carry out a situation analysis of the industry, the analysis of the major competitors, and the company's own competitive position. As prelude to turnaround, it is customary to tie successful strategy revision to the ailing company's strengths

and near-term competitive capabilities and such should be directed at its best market opportunities.

Table 1: Turnaround: Revenue generation and cost reduction steps

Increasing revenue	Reducing costs
• Ensure marketing mix tailored to key market segment • Review pricing strategy to maximize revenue • Focus organizational activities on needs of target market sector customers • Exploit additional opportunities for revenue creation related to target market • Invest funds from reduction of costs in new growth areas.	• Reduce labour costs and costs of senior management • Focus on productivity • Reduce marketing costs not focused on target market • Tighten financial controls • Establish competitive bidding for suppliers; defer creditor payments; speed up debtor payments. • Reduce inventory • Eliminate non-profitable products/services

Source: Adapted from Johnson, G, Scholes, K; and Whittington, R. (2008). Exploring Corporate Strategy: Text and Cases. Edinburgh: Pearson Education Ltd.

Divestiture (Divestment) Strategies

Divestment or divestiture is at the other side of acquisition coin, and simply means a strategy of selling off a division or strategic business unit (SBU) or major part of an organization. This may happen in an organization when there is profitability shrinkages, sales declines, and other operational problems of a diversified firm. The firm may be curable by divestment when at the root of the problem, there is an ill-fitting subsidiary or business unit. In fact, divestment in a real sense, is partner to abandoning a misfit firm than it is a strategic orientation, except in situations where such is part of a strategy crafted to rehabilitate ailing acquisitions that may subsequently spin off. Divestment is in fact, a substitute for turnaround strategy. When retrenchment fails to accomplish the desired turnaround, or when a non-integrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm (Pearce and Robinson, 2003). In other perspectives, divestiture is often used to raise capital for further strategic acquisitions or investment. Divestiture has nowadays become a very popular strategy.

Divestiture can be part of an overall retrenchment strategy to rid an organization of businesses that are unprofitable that require too much capital, or that do not fit well with the firm's other activities (David, 2009). Divestiture has also become a popular defensive strategy for firms to focus on their core businesses and become less diversified. Although, diversified firms often have divestiture guidelines to handle the problem of separating ill-fitting businesses, divestiture can constitute a strategic posture for some firms. When divesting, it is important to identify the desired end state of the strategic capabilities involved. For instance, (1) those one will still need after deal execution; (2) those that one will not need, and (3) those both parties will need.

Types of Divestiture (Divestment)

The three fundamental types of divestiture are, sell-off, spin-off, and split off, and these are respectively discussed below.

Sell-Off: This relates to when a firm sells a business unit that it had originally intended to keep. In a sell-off, the parent firm should attempt to find a buyer who constitutes a strategic fit for the salable business. However, in most cases, the associated idea is to "unload a loser" rather than to match the business to the buyer.

Spin-Off: This occurs if the intention in acquiring or "nursing" the subsidiary had been subsequently to sell it. In addition to the parents conceived intention to sell the unit, a spin off divestiture is usually one in which the child or business unit can maintain its stand-alone position after being separated from the parent. A firm can desire to use spin-off divestiture as a revenue-producing strategy. For example, if four shareholders, each owing one-quarter of the parent, they will receive stock equal to one-quarter of the spin-off.

Split-Off: By way of contrast to spin-off and sell-off discussed above; a split-off is a divorce or irrevocable separation of two relatively equal-size business units. In this case however, if the stock ownership is redesigned, the two businesses will simply go their separate ways.

Guidelines and reasons for divestment

Glueck (1980) and David (2009) suggest some guidelines for when divestiture may be an especially effective strategy to pursue, as indicated below.

- If the SBU is viable, it can be spun off as independent firm. The parent may or may not continue on ownership interest
- If the SBU is viable, it can be sold to its employees.
- The SBU can be sold to an independent buyer who would find it useful
- The SBU can be liquidated and its assets sold.
- When an organization has pursued a retrenchment strategy and failed to accomplish needed improvement.
- When a division needs more resources to be competitive than the company can provide.
- When a division is responsible for an organization's overall poor performance.
- When a division is a strategic misfit with the rest of an organization, and this can result from radically different markets, customers, managers, employees, values, or needs. The need for divestment arises because of partial mismatches between the acquired firm and the parent corporation. Some of the mismatched parts cannot be integrated into the corporation's mainstream activities and thus, must be spun off.
- When a large amount of cash is needed quickly and cannot be obtained reasonably from other sources. This implies that it may be applicable if there is failure in corporate finance needs. Sometimes the cash flow or financial stability of the corporation as a whole can be greatly improved if businesses with high market value can be sacrificed. The result can be a balancing of equity with long-term risks or of long-term debt payments to optimize the cost of capital.
- When technological changes require the firm to invest more resources than it is willing or able to invest
- When there is an inadequate market share or sales growth.

- When government antitrust action threatens an organization. This action is taken when a firm is believed to monopolize or unfairly dominate a particular market. However, this is a less frequent reason for divestment.

Difficulties in divestment decision

Glueck (1980) has succinctly observed that decision of divestment is always a difficult task for management due to the following reasons:

- **Structural factor:** The more durable and specific assets are to a company, industry or a location, the more difficult the divestment.
- **Corporate strategy factor**: The more interrelated or complementary the strategic business units (SBUs) are with the corporation, the more difficult the divestment.
- **Managerial factors**: These include the following:
  - Inadequate information to realize that the SBU is not doing as well as it should be.
  - The divestment hurts the manager's pride, and is seen as failure.
  - The divestment severs identification with a business and hurts specialized careers.
  - The divestment conflicts with social responsibility objectives.
  - Incentive systems for managers reward large size

In fact, managers must make change in their incentives and information systems in order to remedy the managerial factors as partly explained above. In addition, care in entering businesses with high structural factors can avoid the first divestment problem.

Liquidation Strategy

If a company is sick and the organization chooses to focus attention or resources on ways and means of reversing the observed process of decline, the popular strategy to adopt is turnaround. If the declining situation cuts across some units or divisions, resulting to reduction of its product line and effective performance of some divisions, the strategy to adopt in order to improve the scenario should be divestment or divestiture. However, if none of the above actions works as expected, the need to abandon the activities totally will arise and abandonment strategy therefore becomes the option, resulting in a liquidation strategy. This implies that when a company or unit of a company is worth more death than alive, it can be abandoned and liquidated.

Liquidation is the termination of the company, and is a decision very difficult for management to make since it implies failure. Above all, the firm liquidates their jobs, their pride and reputation, along with the financial assets and all of their colleague's jobs. Liquidation could be said to be the strategy of last resort, because it is usually seen as the least attractive of the grand strategies. However, as a long-term strategy, liquidation minimizes the losses of all the company's stockholders.

Most managers will choose liquidation only if:

- the alternative is bankruptcy
- the stockholders would be better off with the liquidated results than keeping the firm going.

Liquidation in other words involves the selling of a company's assets, in parts, for their tangible worth; and such is recognition of defeat and consequently can be an emotionally

difficult strategy. In effect, it may be better for the firm to cease operating than to continue losing large sums of money. Closing down a crises-ridden business and liquidating its assets is sometimes the best and wisest strategic alternative. Many small businesses in Nigeria liquidate annually without ever making the news.

Three guidelines for when liquidation may be an especially effective strategy to pursue according to David, (2009), are:

- When an organization has pursued both a retrenchment strategy and divestiture strategy, and neither has been successful.
- When an organization's only alternative is bankruptcy. Liquidation represents an orderly and planned means of obtaining the greatest possible cash for an organization's assets. A company can legally declare bankruptcy first and then liquidate various divisions to raise needed capital.
- When the stockholders of a firm can minimize their losses by selling the organization's assets.

Ways to Accomplish Liquidation

Liquidation as opined by Weston and Brigham (1978) can be accomplished through any of the possible avenues (a) voluntary closure (b) assignment, and (c) bankruptcy.

- **Voluntary closure:** This form of liquidation is executed when a firm simply pays off its creditors, closes its doors, and quietly goes out of business. In essence, voluntary closure implies that the company or its owner has sufficient cash or liquid assets to pay off creditors. In specific, voluntary closure is more prevalent among small businesses than large ones.
- **Assignment:** This relates to the transfer of title assets to a third party. In this case then, the trustee or assignee will undertake in the selling and distribution of the proceeds among the creditors, and in relation to the magnitude of their claims. This process is actually a way of liquidating the debt of an insolvent company, while in a way preventing the mounting costs associated with formal bankruptcy proceedings. However, and technically, there are three types of assignments as argued by Weston and Brigham (1978):

- Common-law assignment: This is not carried out under the jurisdiction or auspices of a court of law. It is usually conducted through the adjustment bureau of a local credit managers' association. Under this arrangement, debtors are not discharged specifically by common-law assignment from claims that are not paid by assignment. In any case, discharge may be brought about by meeting certain legal requirements. The committee or trustee may be instructed to liquidate the assets in bulk sales through auctioneer and to distribute the process among the creditors on a pro rata basis.
- Statutory assignment: This is related or like the common-law, with exception that, it is conducted under the state assignment regulations and has a more formal procedure in execution. In this case, the court oversees the appointment of a trustee, sale of assets, and distribution of proceeds. However, it is worthy to note that discharge is not

automatic, and it can occur with inclusion of the appropriate statements on settlement checks.

- Assignment plus settlement**:** This refers to an assignment procedure undertaken in cooperation with a committee of the firm's creditors. This also involves the local credit managers' association's adjustment bureau working closely with the creditors' committee to obtain a release of the debtor from subsequent claims. In effect, after assignment procedures have run their course and proceed generated distributed among creditors, the creditors' committee may grant that the execution of the assignment is therefore in full settlement of the claims on the debtor.

- **Bankruptcy:** This is a legal procedure for formally liquidating a business, and it is carried out under the jurisdiction of courts of law. Bankruptcy procedures leave room for improvement, but the Federal Bankruptcy Acts themselves represent two main achievements (Weston and Brigham, 1978):
- they provide safeguards against fraud by the debtor during liquidation, and simultaneously, they as well provide for an equitable distribution of the debtors' assets among his creditors.
- the primary feature of liquidation under the Federal Bankruptcy Acts (as opposed to assignment) is that insolvent debtors may discharge all their obligations and start new businesses unhampered by a burden of prior debt.

There are two levels of insolvency:

- Technical insolvency, which applies when the firm has a positive net worth (i.e. its total assets exceed its total liabilities) but it cannot meet its current maturing obligations.
- Bankruptcy insolvency, which applies when the fair market value of total asset is exceeded by total liabilities (negative real net worth).

However, it is noted that bankruptcy assures equitable distribution to creditors and discharges the debtor from all obligations; the procedure is long and cumbersome, as Weston and Brigham (1978) relatedly explained below.

Acts of Bankruptcy

The six acts of bankruptcy as relatedly and briefly summarized by Weston and Brigham (1978) are:

(a) **Concealment or Fraudulent Conveyance:** Concealment as the term specifies, constitutes hiding of assets with intent to defraud creditors. Fraudulent conveyance is transfer of property to a third party without adequate consideration and with intent to defraud creditors.

(b) **Preferential transfer**: This constitutes the transfer of money or assets by insolvent debtors, giving the creditors a greater portion of his claim than other creditors would receive on liquidation.

(c) **Legal lien or Distraint:** A lien constitutes a lender's claim on assets that are pledged for a loan. Under the legal lien or distraint, if an insolvent debtor permits any creditors to obtain a lien on his property and fails to discharge the lien within 30 days, or if the debtor permits a landlord to distrain (i.e. seize property that has been pledged as security for a loan) for

nonpayment of rent, he has committed an act of bankruptcy. In this way creditors, by obtaining a lien, may force an insolvent but obdurate debtor into bankruptcy.

(d) **Assignment:** In this case, if a debtor makes a general assignment for the benefit of his creditors, an act of bankruptcy likewise exists. In addition, this enables creditors who have become distrustful of the debtor in the process of assignment to transfer the proceedings to a bankruptcy court. As a matter of practice, typically in common-law assignments, creditors will require that a debtor become effective if informal and voluntary settlement negotiations fail. If they do fail, the assignment becomes effective and the creditors have the right to throw the case into the bankruptcy court.

(e) **Appointment of Receiver or Trustee:** Under this perspective, if an insolvent debtor permits the appointment of a receiver or a trustee to take charge of his property, he has committed an act of bankruptcy. In this event, the creditors may remove a receivership or an adjustment proceeding to a bankruptcy court.

(f) **Admission in writing:** As specified, if the debtor admits in writing his inability to pay his debts and his willingness to be judged bankrupt, he has committed an act of bankruptcy.

It is interesting to note that, the reason for the above six act of bankruptcy is that debtors are often unwilling to engage in voluntary bankruptcy because it carries some stigma of avoidance of obligations. Sometimes, therefore, negotiations with a debtor may reach an impase. Infact, admission in writing is one of the methods of enforcing the debtor to commit an act of bankruptcy and of moving the proceedings into a bankruptcy court, where the debtor will no longer be able to reject all plans for settlement.

Captive Company Strategy

A captive company is another type of defensive strategy and strategic alternative and relates to the strategy of giving up of the company's independence in exchange for security. This strategy requires that a management should be able to develop good long-term relationships with its major customers. Wheelen and Hunger (2004) are of the opinion that, a company with a weak competitive position may not be able to engage in a full-blown turnaround strategy. Under such scenario, the industry may not have the sufficient attraction to justify such an effort from either the current management or from investors. Nevertheless, it is further argued that a company in such a situation may face poor sales and increasing losses unless it takes some action. Under this condition or situation, the firm's management may desperately search for an "angel" (private investors who source to finance start-up ventures for profit and other reasons) by offering to be a captive company to one of its larger customers in order to guarantee the company's continued existence with a long-term contract. If this decision is successful, the corporation may be able to ultimately reduce the scope of its functional activities, such as marketing, and in a way, reducing costs significantly. In effect therefore, the weaker company may gain certainty of sales and production in return for becoming heavily dependent on one firm for at least of its sales.

Captive company strategy is followed when:

- there is the reduction of major functional activities of the firm
- a firm sells more than 75 percent of its products/services to a single company or customer
- the customer performs many of the functions normally done by an independent firm

Reasons for the Choice of Captive Company Strategy

Glueck (1980) advanced some reasons for the necessity of captive company strategy, among which are:

- Inability or unwillingness of a company to strengthen the marketing or other functions.
- When there is the perception that this strategy is the best means that will ensure effective or achievement of financial strength. In view of that, it will be rationalized as a security strategy, but in fact may be risky and costly to prestige and independent needs of manager. Captive company strategy can be seen as a retrenchment strategy in that the firm may reduce the number of functions it performs in exchange for assured business.

In practice, the captive may make many decisions such as the product design, production control, and quality control for the captive firm (Glueck 1980). The captor also negotiates the price of the goods usually from a position of strength. In addition, the captive as noted negotiates the price with the captor, assuring itself of adequate return. The captive becomes closely tied to the results of its major purchaser, and this however can be risky. Captive company strategy can still be a way assuring adequate profitability, especially if the company competes with much bigger companies that can afford spending large amounts on advertisement and marketing

Abandonment Strategy

In some cases or situations, we may diversify into a new line of business with no good or adequate knowledge of business market environment feasibility. When this is the case and as a result of the business not functioning as envisaged, the strategist may be forced to pool out of the business for the avoidance of resources wastages. For instance, if there is not much products patronage and an envisaged increase in costs of marketing and decreasing profits, the need will therefore arise for systematic pooling out of the business, making use of systematic and "planned abandonment" strategy. In view of this, it is necessary for any diversified, even single concentrated firms to always plan for market feasibilities.

Concluding Remarks and Recommendations

Clearly, success in today's global business competitive environment as also applicable in oil and gas companies in Nigeria requires a continuous feasible business survival and sustainability. Feasible and sustained defensive strategies are strategic in the life of a corporate business organization. In view of this, a way forward is for the organizational management to implicitly and explicitly pay serious attention to the internal and external dynamics of the organization. The framework provided in this study may constitute a foundation of which defensive strategies can in specific assist oil and gas companies in ensuring firms' survival and sustainability.

Retrenchment strategies as one of the grand strategies can impose a great deal of pressure for the purpose of improving organizational performance. Declining sales and profits can also be reversed through feasible costs and assets reduction. The adoption of operation turnaround strategy and strategic turnaround can also improve organizational efficiency.

Focus on divestment (divestiture) strategy helps firms to pay specific attention to their core businesses, as well as becoming less diversified. The study therefore, recommends that managers should trade with care in the choice and implementation of defensive strategies, in addition to the adoption of feasible business environment and strategies.

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