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# THE IMPACT OF OIL PRODUCING COMPANIES' DIVESTITURES ON SMEs IN NIGER DELTA, NIGERIA

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## ABSTRACT

*This paper is a theoretical review of the impact of Oil Producing Companies' divestitures on Small and medium scale operations in Nigeria: using Delta state as a case study. A comparative method of analysis was adopted in examining the economic performance of Nigerian oil companies in Delta State and the under pinning premise that pivots the divestiture of some sectors of oil producing companies in the area. The hypotheses' reviews and comparative analysis projected that Delta state is an oil producing state but had much dependency on oil as the highest revenue generation source, which has impacted the growth of other economies in the state. The paper probes the position of Delta state's economy kinematic development of other revenues to tap into the international knowledge-based markets amidst its gross dependency on oil. Investigating other options of building its environment and empowering Small and Medium Enterprises with the potentials for economic growth and development through human capital improvement and diversified economy.*

**KEYWORDS:** *Divestiture, SMEs, Niger Delta, Delta State*

## INTRODUCTION

Divestitures is one of the business strategies corporate entities adopt in restructuring by removing floundering business units through assets and equity carve-outs. For the oil companies in Niger Delta, the divestitures of the businesses were imposed by the environmental dynamics, hostile communities, constant disrupt and theft of oil products. The divestiture of the apex oil companies (Shell, Mobil, Agip and Chevron) in the environment was accomplished with the aim of reducing business risks and improve financial performance with an abysmal impact on the state economy.

Highly diversified organizations are likely to divest some arms of the businesses when suffering from low operating efficiency, which explains that

only big organizations employ the divestiture strategy. The expectation of this strategy is to significantly stimulate small and medium scale enterprise (SME) productiveness and growth.

Most companies' businesses in the Niger Delta revolve around the oil producing companies. The effectiveness of this dependency has however been under immense scrutiny, against the backdrop of the low performance and output that shape SMEs mostly in measuring its impact on economic growth and development in the area.

The indigenization and other local incentives given by the federal government have contributed to the wild spread of small and medium scale enterprises in Nigeria. Onuoha (2010) identified some of the government activities includes environmental permits, protection of local and domestic interests, fixing and

distributing public and social burdens, assurance of conducive business environment.

Similarly, Tybout (2000) acknowledged that SMEs have played critical roles in the economic and industrial development of most developed and developing nations of the world. Accordingly, Olawale and David (2010) opined that small and medium scale enterprises (SMEs) are the driving forces of economic development in many countries especially in the aspects of creating employment, boosting creativity, income generation and poverty minimization.

Furthermore, Edet (2017) noted that the Federal government of Nigerian has made great efforts to ensure the success of SMEs by formulated policies and programmes to aid their functionalities. Most of these programmes embrace: Mandatory credit guidelines for SMEs (2010); small scale industries Guarantee Scheme (2009); Nigeria Agricultural and Co-operative Bank (2000) etc.

Hanson & Song (2003), Brauer (2006) and Decker & Mellewigt (2007) analyzed that firms' physiognomies such as financial standings and corporate stratagem are frequently motives for business divestiture. These issues are often interrelated with performance problems broadening into other sector of the business before opting for divestiture.

Similarly, Montgomery & Thomas (1988) indicated that studies have acknowledged environmental factors and underperformance at the firm level could be the most important motive to pursue divestiture or selling off business assets, unlike when they are experiencing average or higher performance in their primary businesses. Regardless of the critical role of divestiture of oil producing companies in Nigeria, many studies have not deemed it necessary to relate the concept with SMEs in Niger Delta.

Hence, there is need to provide more insights on the corporate strategy that could be adopted during business downturns in an environment. Consequently, the current paper seeks to review the concept of the oil sector divestiture and its effect on SMEs in Nigeria; taking Delta State as a case study.

## **RESEARCH PROBLEM**

The trajectory of SMEs in diversified economy in the oil producing areas of Nigeria is daunting, this is mostly attributable to restrictive environmental laws and hostile communities. Despite the strategies and frameworks employed by the federal government to improve SMEs growth, the outcome has fallen short of expectation especially in the Niger Delta Region of Nigeria.

Edet (2017) stated that Delta state being the core of the Niger Delta region has lots of business and investment potentials due to its abundance of natural resources. Observably, most firms are still struggling to

survive due to environmental factors and hostile communities, these downturns have really affected the level of performance. Does divestiture of these oil companies significantly relate or affect the operations of SMEs in Delta State? Providing scientific answers to the question informs the current study.

## **AIM OF THE STUDY**

The aim of this study is to theoretically examine the effects of divestiture on Small and medium scale operations in Niger Delta area of Nigeria: Taking Delta state as a case study.

## **THEORETICAL FOUNDATIONS**

### **Theory of Change Management**

Change management in every organization is not only about increasing the collective benefits for the people involved in the change process but to ensure overall organizational sustainability (Prosci, 2002). Organizational change management can be defined as a structured method of moving a particular organizational entity from its current state to a desired future state (Luoma, 2015). Change are like forces that act on peoples' feelings and behavioral tendencies whether in business organizational settings or non-business organizational settings. The most common reactions or outcomes of change occurrences are the workforces' fear, anxiety and uncertainty, further taking the form of strong resistance towards that alteration (Trader-Leigh, 2002). The theory of change management takes the aid of basic frameworks and mechanisms to manage any organizational change effort with the aims to maximize benefits and minimize the effects of change on the targeted employees and their behavior (Kotter, 2011).

Further, studies have observed that the models and change theories have its roots from on Lewin's (1947) 3-Step Model of Change according to Fernandez and Rainey (2006).The model of change by Lewin was initially proposed as a planned approach to social changes and is still used as a basis for contemporary theories of change management by Kotter (1995). Also the ADKAR model is part of the models used to manage change. Kazmi and Naarananoja (2014) explained that each alphabet refers to each stage of ADKAR and connotes Awareness, explained as making the employees aware of the need for change. Desire is building the yearning in the employees for the change, Knowledge is furnishing the employees with the required tools in terms of technology based. While Ability is capacity and capability enhancement of employees' skills and Reinforcement is conclusively incentivizing employees' performance for exhibiting the right attitude so as to ensure continuity.

The ADKAR model according to Prosci (2002) has strong capacity to quantify the level of "readiness" among the workers at each phase of the change process, likewise beneficial to aiding management's

comprehension of an apt action plan to enhance the inclination of employees.

## **REVIEW OF RELATED LITERATURE**

### **The Concept of Divestitures**

Duhaime and Grant (1984) explained divestiture as a corporate term employed in indicating a situation an organization or business venture disposes or contracts out a significant part of its assets, either in bit or whole business units or divisions. An apt illustration is when a business organization resolves to sell off its logistics department as a result of unsatisfactory performance, cost of maintenance of fleet or aged assets, and problems associated with managerial challenges (Steenhuis & Bruijn, 2009). Further, Chen & Guo, (2005) opined that underperformance of a firm is among the indicators of the necessity to change corporate strategy which could be in form of divestiture. Moreover, studies have noted that divestiture decisions are usually made by the top decision makers such as top manages in the headquarters and others (McDermott, 2010). Divestiture is usually prompted as a response to the risk of stranded assets or as a part of an investor's fiduciary duty due to climate policy chances. Others question the effectiveness of divestiture on these same grounds. In either case, divestiture is only one of the responses available to reduce stranding risks and enable firms to formulate climate change response strategies (Baron and Fischer, 2015).

The concept of divestiture has really attracted lots of researchers who also looked at it in a divergent perspective. On a financial perspective, Markides, (1995) studied the effects on share prices of divestiture decisions. Their study revealed that divestitures usually increase the market value of a company. Pennings and Sleuwaegen (2000) conducted a study based on a foreign divestitures perspective. Divestiture studies was looked at from the viewpoint of relocation of manufacturing capacity inter alia as a move to the increasing cost disadvantages of advanced economies. In same perspective, Mata and Portugal (2000) asserted that divestitures can be made through closure as well as through sell-offs. Further, a comparative study conducted by Hammes (2018) shows that divestitures are now taking as strategic imperatives for top executives in all business organization. Same study revealed that over 74% of executives agreed that technology changes have great impact on organizations divestiture plan. The study also revealed that over 87% of companies are planning to divest in the next two years; these make divestiture an imperative aspect of business strategy and organizational performance of which oil companies, especially in Niger Delta are not in exemption. In regard to the impact of divestiture activities on the operating performance, Haynes,

Thompson and Wright (2002) shows that divestiture significantly and positively enhance firm profitability. Hanson and Song (2003) also found that divestitures increase organizations' operating performance, apparently by removing negative synergies. Similarly, divestiture have been viewed and corroborated by scholars to support and improve operating performance (Hulburt, Miles & Woolridge, 2002). Dittmar and Shivdasani (2003) also asserted that there are upsurges in efficiency of segmented investment if divest is adopted as a strategy.

### **Delta State Economy as at 2012**

Nigeria is holistically fortified with an exceptional quantity of oil deposits. Studies have detailed Nigeria as the world's 13th largest oil producer, and the 6th largest in OPEC. Domestically, within the period 1970 to 1999, \$231 billion worth of oil was engendered which entailed an estimated 48% percent of GDP. Also, Nigeria has an assessed oil reserve of 32 billion barrels – sufficient for 37 years at the current rate of production (Heymans and Pycroft, 2003). A study conducted by United Nations Development Program (UNDP) noted that between 2000 and 2004, oil accounted for around 79.5% of total federal government's revenues and around 97% of foreign exchange revenues (UNDP, 2006). The Niger Delta region comprises of nine states such as Delta, Abia, Akwa Ibom, Bayelsa, Cross River, Abia, Imo, Edo, Rivers and Ondo) and 185 local governments. The region is estimated to have a population of over 30 million. The region has experienced a lots of oil extraction due to its huge natural deposits but have remained among the most marginalized from Nigeria's national development (UNDP, 2006).

Further, Niger Delta region of Nigeria as a case study, in which Delta state is a subset is richly endowed with natural resources with oil and gas accounts for over 85% of the Nation's gross domestic product (GDP); over 95% of the National budget; and over 80% of the national wealth (Dokubo, 2004). Furthermore, a critical look at Delta state as a point in case reveals that the region has suffered a reduction in the revenue accrued to the state due to the divestiture of some of the assets of the oil producing companies in the region. This also has significantly impacted its Internally Generated Revenue (IGR).

Evidently, an analysis of poverty and human development indicators shows an anomalous portrait of a dwindling poverty rate since 1980-2004. As recorded in National Bureau of Statistic (2005), Delta state had the highest increase in poverty rate in 1996 at the rate of 56.1%.

**Table 1.1 Incidence of Poverty in the Niger Delta: Delta state**

1980	1985	1992	1996	2004
19.8	52.4	33.9	56.1	45.6

Source: National Bureau of Statistics (2005)

**Table 1.2 Internal Generated Revenue at state level Q1-Q3 2017**

Half year 2017	Half Year 2016	NET
N25103484725.03	22446554864.37	
Total IGR	<b>NETFACC ALLOC</b>	<b>Total Revenue AVAIL</b>
25103384725.03	41657859407.54	

Source: National Bureau of Statistics, 2017

**Table 1.3 Delta State Selected Macroeconomic Indicators 2011-2015**

Indicators	2011	2012	2013	2014	2015
GDP Growth	5.31	4.32	5.49	5.94	3.37
GDP (bn Naira)	57,511,041.77	59,929,893.04	63,218,721.73	67,157,384.39	
Inflation (%)	10.83	12.22	9.9	7.98	9.3
Exchange (NGN: USD FX Rate)	151.39	155.12	155.00	188.45	198
Unemployment	21.1%	23.9%	23.9%	23.9%	24%
Balance of Payment (% of GDP)	0.13%	4.31%	4.4%	3.84%	Not Available

Source: Economic outlook: national Bureau of statistics (WEO IMF, CBN)

**Table 1.4 Internally Generated Revenue (IGR) Delta state**

Year	2013	2014	2015	2016	2017
<b>Naira M/(₦)</b>	<b>50,208.23</b>	<b>42,819.21</b>	<b>40,805.66</b>	<b>44,057.91</b>	<b>51,888.01</b>

Source: National Bureau of Statistics IGR at State level (2017)

Source: National Bureau of Statistics IGR at State level (2017). Dig 1.0

### Performance of the Delta State Economy

The performance of the state's economy in 2015 did not vary much from the performance of the national economy. This is in view of the fact, that the state's economy is oil and gas dependent. Oil and gas account for about 80 percent of the state's total revenue. At the time of preparing the DSMTDP (2016 – 2019), data on the state GDP growth performance was not yet available. However,

the projected growth rate is 3.38 percent, as against over 6 percent achieved in the preceding year. In 2013 most of the oil producing companies, like Chevron, Shell and Mobil had either sold off or leased out their oil blocks in Delta state. According to the Nigerian National Bureau office of Statistics, NBS (2017) data the internally generated revenue (IGR) of the state started declining thereafter. The Internally Generated Revenues (IGR) for Delta State in 2014

decreased approximately 15% from N50.21bn in 2013 to 42.82bn in 2014 due to reduction in taxes generated in the year subsequent the divestiture of oil companies' assets in the region. The IGR graph sloped again downward by 5% with a decrease of N2.0bn in 2015. By 2016 the Delta state government had an 8% upturn in its IGR from income and payments derived from rigorous taxation. By 2017 the IGR had an upward surge of 18%, a N7.83bn increase of the previous year, what this connotes according to Babalola (2009) is that the keenness of the state government to explore new sources of revenue after the divestiture of the oil companies has been innovative and aggressive. There are indications that the state government is formulating economy strategies to improve their revenue base. Though the major growth driver which hitherto has been oil and gas are expected to be overtaken by non-

oil sector, such as agriculture, tourism and entertainment during the plan period.

### **POVERTY INCIDENCE AND UNEMPLOYMENT**

Delta State's poverty profile indicates that average poverty rate based on head count is 56 percent. Also on the average, house-holds of 2-4 accounted for 52 percent, whilst 5-8 accounted for 48 percent of poverty levels in the state. Measured by a mean household of five, the per capita income was about N302 or equivalent of USD2.00 per day. Comparatively this is slightly less than the national poverty index of 62 percent implying that poverty in Delta State is lower than the national poverty rate. Similarly, the hunger index is 13 percent, which is half of the national hunger index (27 percent), indicating that food security level in Delta State is higher than the national food security level. The unemployment/underemployment rate stood at 27.2 percent in 2014, while income inequality in the South-South zone, measured by Gini coefficient, was put at 0.43. This was slightly lower than the national average of 0.45 (NBS). Overall performance in this regard remains unnecessary low.

### **REASONS OIL COMPANIES DIVEST**

There are lots of factors that lead firms and institutions to divest. Gore (2017) identified 3 which include:

- **Reputational and ethical concerns:** Organizations are concerned about their reputation. Hence, they ensure that they don't get trapped in the middle by making necessary divestiture plans.
- **Regulation forces:** Most companies that divest may not have done that out of will but by the forces that come via state and national policies.
- **Financial Risk Avoidance:** Lots of investor studies show that climate change has become a major risk for oil companies like fossil fuel companies to seek for divestiture. They opted in to avoid the risk of losing their capital in a business downtime.

### **EFFECTS/CONTRIBUTIONS OF SMES TO NIGER DELTA**

The contrition of SMEs to the development of nations and states are evidenced in studies of different authors who affirmed that SMEs has a positive correlation with national development and growth. Supportively, studies on SMEs and human capacity building in Nigeria by Ikupolati., Medubi., Obafunmi., Adeyeye., and Oni1 (2017) posited that majority of the respondents representing (91.9%) of the total responses agreed that SMEs are source of human capacity building in Nigeria. Same study noted that small and Medium Sized Enterprises (SMEs) have been proven to be indicators of economic development, underpin

growth through creating jobs and improving living standards.

### **SUMMARY AND CONCLUSION**

The paper adopted a comparative method of analysis to examine the economic performance of the Niger Delta region of Nigeria using Delta State as a case study. A theoretical review was made on the effects of divestiture of oil companies and small and medium scale enterprises (SMEs) in the Niger Delta. The theoretical reviews and comparative analysis projected that Delta state is an oil producing state but had much dependency on oil as the highest revenue generation source. To ensure a formidable growth of its small and medium scale enterprises markets, Delta State must adopt the following policies.

Delta state government should shape the region as a commercially accommodating environment, ensuring policies that promote entrepreneurial essence among the inhabitants. This will indirectly support entrepreneurship training and provide a fulcrum for aspiring start-ups.

The state needs to develop a strategy to access new markets internationally, this is to ensure that SMEs can count on the friendly environment and patronize the Ports Authority for business activities. Access to finance is the key issue for most start-ups, the state policies should work on improving the financing milieu for SMEs and provide information on project funding.

Delta state supporting and promoting a healthy competitiveness to drive innovation are mandatory aspects of developing small and medium enterprises' markets. This will provide entrepreneurs with knowledge-based interactive services that can grow their businesses internationally.

The state policies should also include providing SMEs with access to markets information of legal nature, insolvency law, taxation with the focus of installing a venture capital investment system. Though currently, the SMEs development is yet to substantially affect the internally generated revenue of the state.

The paper therefore concludes that Delta state has a potential feature for economic growth and development but economic downturns in regard to oil market pushes the economy down which causes increase in poverty and unemployment rate. Hence, Delta state should focus on human capital development, which is a must for any socio-economic development. Acquiring the appropriate knowledge and skills will aid the effective management of its oil resources and support diversified economy.

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