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Competitive Strategy and Performance of Oil and Gas Companies in Nigeria

OYAKHIRE Victor Alaba[1], Prof. Akpan Patrick L.[2]

[1]Department of Business Administration, Shaka Polytechnic, Benin City, Edo State, Nigeria.
Correspondence: 08039567228, v.oyakhire@gmail.com
[2]Department of Business Administration, Nnamdi Azikiwe University, Awaka, Anambra State, Nigeria.
Email: nsek3882@gmail.com

Abstract: *Oil and gas companies in Nigeria are faced with volatile business conditions, competitive market environments, COVID-19 crises, high inflation rates and rapid technological changes. Organizations focus no survival and also find ways to improve their performance. The main objective of this study was to examine the effects of competitive strategy on the performance of oil and gas companies quoted on the Nigerian Stock Exchange. It explored the impact of strategic competitiveness and strategic market diversification on the performance of oil and gas companies in Nigeria. The annual financial statements of Total Nigeria Plc, 11 Oil Nigeria Plc and Conoil Nigeria Plc companies listed in the Nigerian Stock Exchange were used for this study. The study used a panel research design. Descriptive statistics and regression technique were used for the analysis. The findings showed that strategic competitiveness has a positive effect on net profit, while strategic market diversification has a positive effect on turnover. Therefore, the study recommends that management of oil and gas companies should take advantage of strategic competitiveness and strategic market diversification to increase their net profit and turnover.*

Keywords: Strategic competitiveness, Market diversification, Net profit, Performance, competitors

Introduction

The development of strategic alternatives began to gain applicability as more companies began to develop annual operating budgets in the late 1950s and early 1960s immediately after the Second World War (Olusanya & Oluwasanya, 2014). Company budgets were extended from one year to two and also from five years into the future. In addition, the need for competitive strategy was driven by the rapidly changing economic climate in the early 1960s, the basis for planning was gradually expanded to include future strategic plans of ten years.

Oil and gas play an important role in the economic and social development of any country. As a result, the growth of the oil and gas sector has a direct impact on the economic performance of a country. Competitive strategies are work in progress and all marketing managers in the oil and gas companies are involved in developing these various competitive strategies to performance related issues. Competitive strategies are key component of strategic management (Robert & Peter 2012). For an oil and gas company to survive, it must be able to work effectively with unstable and uncontrolled environmental forces, which can have a great impact on the decision-making process. Organizations adapt to the environmental factors as they plan and execute their strategic activities. Adeleke, Ogundele and Oyenuga (2008) argue that it is through strategic planning that an organization anticipates change within the internal and external environment and acts proactively on it. In improving the competitive strategies processes, some organizations have improved their business outcomes and avoided taking unforeseen risks due to a lack of foresight.

Statement of the Problem

Competitive strategic have long been used as a tool to transforming and revitalizing companies, government agencies and non-profit organizations. Nigerian oil and gas companies operate in a complex environment of national and international competitive environment. Today's organizations have to contend with the changing landscape of competition, and competition is one of the environmental forces they must contend with. Competitions put pressure on firms that need to work and develop effective strategies that prepare them for higher profits. Strategic competitiveness is about being diversity and deliberately choosing a different set of tasks to provide a unique blend of value. In a competitive market environment, customers make decisions based on their perception of a combination of pricing and perceived product or service benefits and other value prepositions provided to the organization to improve profitability.

The management of some of these oil and gas companies are concerned that some organizations have been able to achieve a good competitive position while others have not. This has led to some oil and gas companies drop in their product turnover due to lack of managerial capacity to articulate an effective and efficient market segregation strategy to grow their product turnover so that they can be more competitive. The oil and gas companies under review show that their product turnovers were dwindling due to the challenges in diversifying the market and the lack of strategies to improve their product turnover. Numerous studies have examined the relationship between market diversification strategy and financial performance, and they have recorded mixed results from one industry to another or from one country to another.

Objectives of the Study

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

i. To examine the extent to which strategic competitiveness affect net profit of oil and gas companies.

ii. To ascertain the effect of strategic market diversification on turnover of oil and gas companies.

1.5 Research Hypotheses

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

i. H_o: There is no significant effect of strategic competitiveness on net profit of oil and gas companies.

ii. H_o: There is no significant effect of strategic market diversification on turnover of oil and gas companies.

Review of Related Literature

Concept of Competitive Strategy

Every organizational success is manifested in the attainment of a competitive position or sequences of competitive positions ensuring superior and sustainable financial performance. In order to achieve better performance, it is essential that organizations adopt strategic postures that aggressively provide them with a strong hold of their market. Competitive strategy represents that firm’s business strategy orientation toward external environmental conditions that include competitors and customers (Abdullah, Mohamed, & Othman. 2009; Dadzie, Winston & Dadzie, 2012; Hitt, Ireland & Hoskisson, 2015). Competitive strategy is important in explaining variations in organizational profitability and long-term performance (Beard & Dess, 1981; Teeratansirikool, Siengthai, Badir, & Charoenngam 2013; Kang, Wu, Hong, & Park, 2012). Porter (1980) generic strategies enable firms to compete competitively in any given industry. To be successful, a firm must decide how to position itself in a competitive market. The three generic strategies are determined by two factors, identified as competitive advantage and competitive scope. Porter (1980) developed a construct relating to the characteristics of strategic priorities so that firms can face the competition more effectively. He argued that there are two ways for a firm to maintain a competitive edge: to produce the lowest-cost products or offer the lowest-priced services (the low cost strategy) or tailor its products to meet the specific needs of its customers in terms of quality, characteristics, and the related product differentiation strategy.

Strategic Market Diversification

As businesses grow older, it becomes more difficult to increase market share or profits, especially if businesses are looking for exponential growth. Diversification into new business areas does not only gives a business an opportunity to significantly increase its profitability, but also protects the business in the core business experience a temporary or long-term drop in its activities. The strategic chices that are thought to contribute positively to economic performance in organizations are the degree of diversification (Constable & McCormick, 2009).

Dibb (2007) argued that organizations diversify by extending the scope of their operations into multiple markets. Diversification strategy is pursued according to Chandler (2010), in which firms have opportunities incorporate market and technological structures and the opportunities to grow in the company’s core business. The diversification strategy looks at the company's products and services, and then develops a successful marketing and sales strategy. Two major diversification strategies exist: a single business strategy and a dominant / superior business diversification strategy. A single business strategy limits the number of products or services to a few, if not one. An organization using this strategy strives to become leader in their niche market. An example of single business strategy is an oil and gas company that exclusively markets product sales, such as gas to vehicle owners. The single business strategy can surpass the dominant / core business diversification strategy by offering vehicle repair services.

Financial Performance

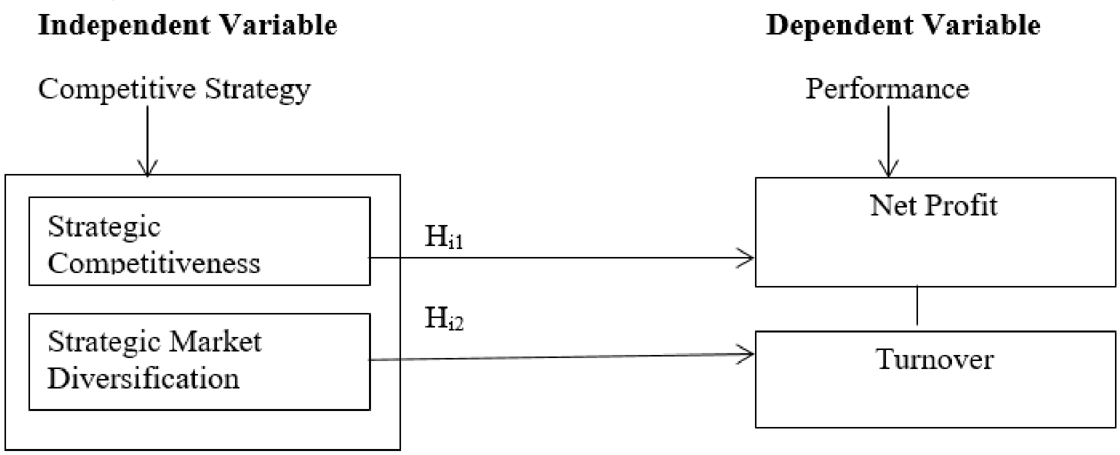
A financial report is basically the result of an accounting process that can be used as a communication tool between financial data or the activities of a company and the details of certain organizations of organization involved in the activity. The tasks of the financial statement analysis are to convert data from the report as the material becomes the most useful, in-depth, and sensitive information through certain techniques (Purnamasari, 2015).

Net Profit: Net profit is calculated by subtracting all of a company’s expenses from its total revenue. Net profit refers to the amount of money left over after subtracting various expenses from the total revenue. These expenses can include interest, operating expenses, taxes and more (Indeed, 2021). Net profit is also known as the net income, bottom line and net earnings and is expressed in naira. This is known as the bottom line because it can be found on the last line of a company's income statement. A negative net profit is a sign of various issues such as low sales, poor management of expenses, ineffective pricing, poor marketing, poor customer service experience from employees and more. A positive net profit can be attributed to several favourable variables as well.

Turnover: Sales turnover is the total amount of revenue generated by a business during a calculation period. The concept is useful for tracking sales levels on a trend line through multiple measurement periods in order to see meaningful changes in activity levels. The calculation period is usually one year. The revenue included in this calculation is from both cash sales and credit sales. Sales turnover is limited to revenue generated from operations. Thus, it does not include profits from financial or other activities, such as gains on the sale of fixed assets, interest income, or the receipt of payments related to insurance claims.

Researcher’s Conceptual Model

The conceptual model represents the researcher’s diagrammatic relationship of the variables of competitive strategy and performance of oil and gas companies. It reveals a sense of the relationship and direction between the dependent and independent variables; where competitive strategy and strategic market diversification represent independent variables, while net profit and turnover represent the performance of oil and gas companies as the dependent variable.



Survival-based theory introduced in the field of economics was developed by Herbert Spencer, suggesting that organizations need to continually adapt to their competitive environment in order to survive (Abdullah, 2010). Researchers such as Schumpeter (1934), Alchian (1950), Harrod (1939) and Marshall (1949) were among the first to incorporate the concept of evolution and natural selection into economic thinking. To survive, organizations must be able to adapt to changes. This will make organizations more competitive within the environment. The theory states that natural premise that only the best and most powerful in the business environment survives. Organizations that are able to adapt to their environment and function well and invest heavily in production and operation processes will survive.

This can only be achieved through strategies that focus on efficiency that will enable organizations respond quickly to changes in the competitive environment (Khairuddin, 2005). It is therefore not surprising to find the most common application of the survival base theory mindset in management decision, which is used primarily to analyze how companies thrive in their industries, and to explain the changes in competitive strategy. The theory is also applies to companies that seek to turn around the period of inefficiency or poor performance (Abdullah, 2010). Such companies’ may faces a number of challenges that may result from financial difficulties, production line that failures or loses their important employees.

Empirical Review

Imhanzenobe (2019) examined the impact of strategic planning on the financial sustainability of manufacturing companies in Nigeria. The efficiency decompose variables include; promotional strategy, advertising costs, inventory turnover, account receivables turnover and asset turnover on financial sustainability. Secondary panel data for sixteen listed construction companies from 2009 to 2016 was obtained from the Bloomberg website. The simple least square method was used to test the five formulated hypotheses. The findings showed that promotional strategy and advertising costs had positive relationship on financial sustainability. The inventory turnover had a negative relationship on financial sustainability. Account receivables turnover and asset turnover were found to be insignificant.

Agada and Olumuyiwa (2018) examined the effects of strategic planning on corporate performance, Lagos. The study examined various factors influencing the promotional strategy adopted by banks in Nigeria. Primary data was used for the study. The population size was 200 management employees in the Nigerian banking industry. Sample was selected using a multi-stage sampling process. The sample size of the study was 100 respondents. A structured questionnaire was used. Data were analyzed using descriptive and inferential statistics. Hypotheses are analyzed using correlation. The findings showed that promotional decision affect corporate performance positively.

Monye and Ibegbulem (2018) examined the impact of strategic planning on organizational performance and profitability. The purpose of this study was to evaluate focus and adverting effect on the performance of Zenith Bank plc, branches in Warri, Nigeria. The research design used field survey, 100 were administered but only 80 were duly filled and returned, which included senior and junior staff at various branches. Data collected was analyzed using a social science statistics (SPSS) package. T-test and Chi-square methods were used to test the hypotheses. The hypotheses were validated, for the goal of testing the reliability of the research instrument. The implication of the research states that focus strategy improves the organization's performance, while advert has no significant effect on profitability in the short run.

Potjanajaruwit (2018) examined competitive advantage effects on firm performance: A Case study of startups in Thailand. The primary objectives of study were to determine the technological capability and inter-organizational collaboration that affect startups competitive advantage. The research used both qualitative and quantitative tools through the use of in-depth interviews and questionnaires. A path analysis was used to analyze the data. The results showed that the causal factors of technological capability and inter-organizational collaboration had a direct positive effect on the competitive advantage of startups, and competitive advantage had a direct positive effect on the performance of startups in Thailand, all of the foregoing effects were statistically significant.

Isuisi and Udosen (2019) examined the effect of a diversification strategy on organization performance in the manufacturing sector. Quasi-experimental and ex-post facto research designs were used for the study. The population consists of 31 listed in Nigerian Stock Exchange (1997-2017), the sample size comprised of 6 organizations purposively selected based on their life-span and level of diversification. Three hypotheses were formulated and tested using ratio analysis, while performance was measured in terms of ROA, ROI and ROE; organization size, selling and distribution cost and growth; as well as leverage and liquidity. The study revealed that diversified organizations outperform undiversified ones in terms of ROA and ROI. While related diversified organizations were discovered to be positive in terms of ROA (26.8%), unrelated and hybrid diversified organizations were positive in ROE (81.7% and 20.5%). Distribution cost strategy leads to growth and profitability (20%) and a strong capital structure to cover liabilities (26%). The study concluded that diversification is a strategic tool for achieving strategic relevance and spontaneous performance.

Tyoapine (2019) investigated the impact of market segmentation practices on the performance of Small and Medium (SMEs) in Benue state. A cross-sectional survey design was adopted. The study used systematic and simple random sampling to collect the needed data for the study with a sample size of 401 SMEs. A combination of descriptive and inferential statistics was used to empirically and statistically analyze the data collected. Regression analysis was used to test the hypotheses. The findings revealed that market segmentation and distribution strategies had a positive impact on product turnover of SMEs in Makurdi metropolis of Benue state, Nigeria.

Nwakoby & Ihediwa (2018) studied the effect of firm diversification on financial performance of Nigerian firms. The study adopted Ex-Post Facto research design. A ten years annual reports from 2008 to 2017 was used. The data collected for the study were analyzed using financial ratios and the formulated hypotheses were tested with simple regression analysis with the aid of statistical package for social sciences. This study concluded that the financial performance of Nigerian firms was significantly affected by product turnover, hence there was a statistically significant correlation between financial performance and firm diversification.

Orhewere & Jelili (2018) examined if business strategies can serve as a driver of organizational competitiveness. Survey research design was adopted. Questionnaire was used as the primary source of data. Cost leadership, selling and distribution, and focus strategy were the indicators measured by this study. Data was analyzed using frequency tables and simple percentage method. Formulated hypotheses were tested using Pearson Moment Correlation techniques. Cost leadership and organizational competitiveness were found to be positively correlated at (0.718), the study discovered that selling and distribution, and organizational competitiveness has high positive relationship at (0.922), the researcher found out that the relationship between focus strategy and organizational competitiveness is at (0.807) probability value.

Adetowubo-King (2018) researched into the impact of strategic planning on organizational performance of selected manufacturing companies in Lagos state, Nigeria. A sample size of 171 respondents was used in the study, which was determined using the Yard formula. The objectives of the study were to examine how external orientation factor and internal orientation impact on turnover in an organization and to determining how the functional department coverage in planning, organizational resources affects the sales volume. Survey research design was used. Descriptive statistics, correlation and regression analysis were adopted for the study. The findings reveal that there was a positive relationship between the application of strategic planning and organizational performance in a modern corporate environment.

Data and Methodology

Data source and sample consist of Total Nigeria Plc, 11 Oil Nigeria Plc, and Total Nigeria Plc in Nigeria was used for this study. The data sources used for the study were financial statements of the aforementioned oil and gas companies which cover a 15 years period (2006-2020). The audited financial statements of the oil and gas companies were employed so as to expand the validity and reliability of the findings and conclusions.

Table 1: Variables Measurement and Definitions

Variable	Proxies	Variables measurement and source
Competitive Strategy	**Independent Variable**	
	Strategic Competitiveness (SC)	Advertising and promotion cost – Imhanzenobe (2019), Agada and Olumuyiwa (2018), Adefulu (2015)
	Strategic Market diversification (SMD)	Selling and administrative expenses – Isuisi and Udosen (2019), Tyoapine (2019), Aggarwal, Kyaw, and Zhao (2011), Jermias (2008), Afza and Ahmed (2017)
Performance	Net Profit (NP)	Annual net income
	Turnover (TOU)	Total annual sales

On the above strength, representing competitive strategy (SC) effect on net profit (NP) is stated as follows in explicit econometric model;

$$Y = \beta 0 + \beta 1SC + \mu \qquad 1$$

Where; Y = Net profit, β0 = intercept, β1 = coefficient to be estimated, SC = Strategic Competitiveness

$$Y = \beta 0 + \beta 1SMD + \mu \qquad 2$$

Where; Y = Net profit, β0 = intercept, β1 = coefficient to be estimated, SMD = Strategic Market diversification

Table 2: Descriptive Statistics table for the oil and gas companies in Nigeria (2006 – 2020)

Date: 08/28/21
Time: 05:34
Sample: 2006 2020

	SC	SMD	NP	TOU
Mean	6.666667	6.666667	6.668000	6.666667
Median	6.560000	6.960000	5.790000	7.020000
Maximum	8.830000	9.030000	14.21000	9.750000
Minimum	4.850000	4.550000	3.850000	4.190000
Std. Dev.	1.363314	1.451505	1.802051	1.673003
Skewness	0.264009	0.539707	0.471136	0.264368
Kurtosis	2.867170	2.801367	2.571316	2.894940
Jarque-Bera	0.976317	0.901892	6.953753	0.579802

Probability	0.613756	0.637025	0.030904	0.748338
Sum	100.0000	100.0000	100.0200	100.0000
Sum Sq. Dev.	26.02073	29.49613	109.9208	39.18513
Observations	15	15	15	15

Source: Eviews 12 output of the study

Table 2: shows the descriptive statistics of the oil and gas companies for the dependent and explanatory variables. The mean value for SC (6.6667), SMD (6.6667), NP (6.6680) and TOU (6.6667) indicates the average values of all the data. The median values of SC (6.56), SMD (6.96), NP (5.79) and TOU (7.02) represents the middle value of the various variables.

The maximum and minimum values of SC (8.83 & 4.85), SMD (9.03 & 4.55), NP (14.21 & 3.83) and TOU (9.75 & 4.19) indicate the level of spread between the highest and lowest data. The spread between the maximum and minimum values are good fit for the descriptive statistics. The standard deviation values of SC (1.3633), SMD (1.4515), NP (1.8021) and TOU (1.6730) indicate that they all have low level of variation from the various mean values.

The skewness values of SC (0.2640), SMD (0.5397), NP (0.4711) and TOU (0.2644) all have normal distribution with positive skewness tail values towards the right tail. The kurtosis values of SC (2.8672), SMD (2.8014), NP (2.5713) and TOU (2.8949) variables all tend towards 3, which mean all the variables are normally distributed at the 3.

The Jarque-Bera values are all positive, while the values of the probability are all less than the level significant value of 0.05 percent. The alternate hypotheses were accepted.

Hypothesis one testing

Table 3: Ordinary least squares result of strategic competitiveness (SC) on net profit (NP)

Dependent Variable: NP
Method: Least Squares
Date: 08/26/21 Time: 09:04
Sample: 2006 2020
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.227795	3.749669	0.860821	0.0049
SC	0.516031	0.551785	38.935203	0.0067

R-squared	0.363036	Mean dependent var	6.668000
Adjusted R-squared	0.329038	S.D. dependent var	2.802051
S.E. of regression	2.814685	Akaike info criterion	5.031143
Sum squared resid	102.9918	Schwarz criterion	5.125550
Log likelihood	-35.73357	Hannan-Quinn criter.	5.030138
F-statistic	0.874604	Durbin-Watson stat	0.757609
Prob(F-statistic)	0.006732		

Source: Eviews 12 output of the study

Table 3 above, states that P (0.0067) < 0.05, which imply that the model best describes the variation in the dependent variable. The R^2 of 0.3630 was produced showing a significant linear dependence of net profit on strategic competitiveness. The adjusted R-squared of 0.3290 further revealed that strategic competitiveness only explain 32.90 percent of the variations in net profit while 67.10 percent is explained by other variables not accounted for in this model. The Durbin-Watson statistics of 0.7576 indicates a positive auto correlation, since it is less than 1. The researcher however, rejected the null hypothesis which states there is no significant effect of the strategic competitiveness on net profit of oil and gas companies in Nigeria, while the alternative hypothesis was accepted, stating that there is a significant effect of strategic competitiveness on net profit of oil and gas companies in Nigeria. The result is in line with Adefulu (2015) Agada and Olumuyiwa (2018) Sar (2017) and Imhanzenobe (2019) which concluded that there is a positive impact of strategic competitiveness on net profit.

Hypothesis two testing

Table 4: Ordinary least squares result of strategic market diversification (SMD) on turnover (TOU)

Dependent Variable: TOU
Method: Least Squares
Date: 08/26/21 Time: 09:06
Sample: 2006 2020
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.385090	0.865077	0.445151	0.0035
SMD	1.057764	0.126983	88.329977	0.0000

R-squared	0.842211	Mean dependent var	6.666667
Adjusted R-squared	0.830073	S.D. dependent var	1.673003
S.E. of regression	0.689648	Akaike info criterion	2.218294
Sum squared resid	6.182983	Schwarz criterion	2.312701
Log likelihood	-14.63721	Hannan-Quinn criter.	2.217289
F-statistic	69.38851	Durbin-Watson stat	0.695271
Prob(F-statistic)	0.000001		

Source: Eviews 12 output of the study

Table 4 above, revealed that the R-squared of 0.8422, suggested there is a strong positive relationship of strategic market diversification and turnover of oil and gas companies in Nigeria. The adjusted R-squared of 0.8301 implies that 83.01 percent of turnover can be strongly explained by the effect of strategic market diversification, while remaining 16.99 percent is accounted by other variables not captured in this study. The Durbin-Watson statistics (0.6952) shows that there is a positive auto serial correlation between the variables. P (0.0000 < 0.01), indicating that strategic market diversification has a positive effect on turnover of oil and gas companies in Nigeria. Therefore, the null hypothesis that states there is a significant effect of strategic market diversification on the turnover of oil and gas companies in Nigeria null hypothesis was rejected, while the alternate hypothesis which states that there is a significant effect of strategic market diversification on turnover of oil and gas companies Nigeria was accepted. This result is in line with the findings of Tyoapine (2019), Nwakoby and Ihediwa (2018) and Orhewere and Jelili (2018) that strategic market diversification impact positively on turnover.

Conclusion

The study examined competitive strategy and financial performance of oil and gas companies in Nigeria. The study revealed that oil and gas companies operate in a turbulent and highly competitive environment, and it is the desire of these companies to continue to operate successfully by creating and delivering superior value to customers while learning how to adapt to a continuous and dynamic business environment with the aid of competitive strategies for improved performance. The broad and specific objective reveals that there were positive association between competitive strategy and financial performance of oil and gas companies listed on Nigeria Stock Exchange.

Recommendation

Having established the nature of relationship that exists between the various variables of this study, the researcher makes the following recommendations;

i. The management team of the oil and gas companies should strategically make adequate provision for advertising and promotion cost to improve net income, as it makes users aware of its products (motor vehicle lubricants, gasoline, aviation lubricants, asphalt, heating oil, liquefied petroleum gas and services).
ii. There is need for the oil and gas companies' management team to strategically diversify and finance the distribution of goods and services to their existing and prospective market in order to improve high volume of product turnover.

Contribution to Knowledge

The following are the contribution to knowledge;

i. This research study has contributed to the body of knowledge by resolving the problem of competitive strategy and performance of oil and gas companies in Nigeria. The results of this study would also be applicable to other similar industries.
ii. The researcher developed a conceptual model that demonstrates the relationship between competitive strategy and performance of oil and gas companies to guide easy understanding of researchers.
iii. Strategic planning has been researched into by relying on primary data. This study strictly replied on secondary data of the oil and gas companies to quantitatively measure the impact of each strategy adopted by the companies.

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