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A COMPARATIVE ANALYSIS OF POST RESTRUCTURING PERFORMANCE OF FIRMS IN FINANCIAL AND REAL SECTORS IN NIGERIA

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ABSTRACT

This study carries out a comparative analysis of post restructuring performance of firms in the financial sector proxy by banks and real sector proxy by the firms in the oil and gas industry and to see if corporate restructuring affects the performance of firms selected from the banking sector as well as oil and gas sector in Nigeria. It also tries to see if the post restructuring performance also varies in these sectors. A sample of Ten (10) banks were randomly chosen from the list of quoted banks after the restructuring exercise and four (4) firms that had restructured their operations were drawn from the Oil and Gas sector. Data were collected from the NSE Factbook and Annual Statement of Account and Reports of the Firms. The study covers 2000 – 2011. Financial ratios and'ť' test were calculated and compared for a period of 3 years before restructuring and 3 years after restructuring for firms in each sector. The study discovers that restructuring has significant effect on the profitability, liquidity and solvency of firms in real sectors and that restructuring does not have any significant effect on firms in the financial sector. It recommends that Management should instill discipline upon itself by ensuring good corporate governance, promote technological progress, and increase its paid up capital regardless of the statutory requirements so that the continued existence of the firm is not jeopardized.

Key Words: Restructuring, Firm Performance, Financial Sector, Real Sector, Merger and Acquisition, Banks, Oil and Gas, Financial Ratio Analysis, Paired 't' test

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INTRODUCTION

In today's globalised economy, competitiveness and competitive advantage have become the buzzwords for corporate around the world. Corporate worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and grow profitably (Mantravadi and Reddy, 2008). One of the most high profile features of the globalised business and investment world is corporate restructuring, it embraces many things in addition to mergers and acquisitions (M & A). It can be construed as almost any change in capital structure, operations, or ownership that is outside the ordinary course of business. Such things as leverage buyouts (LBOs) divestures, sell offs, spin offs are some examples. In merger and in other forms of restructuring the idea is to create value (Van-Horne and Wachowicz, 1993). The 'recombinant techniques' of corporate finance often have an impact on the financial markets far beyond the individual companies to shareholders. Virtually, without exception, stock prices of participating companies rise in response to announcement of corporate restructuring (Zhenhu et al. 2004).

All economies Nigeria inclusive always strive to ensure growth and improvement in both the financial sector and the real sector. The financial sector is seen as an engine room of an economy because they provide the required financial support to the real sector in terms of investment capital required to make the economy grow. Hence, financial sector can be called the auxiliary sector or catalyst. The real sector on the other hand is that sector that utilizes the funds that the financial intermediaries have been able to mobilize from the surplus unit of the economy at any point in time. This sector plays major role in a nation's economic development. They are usually responsible for production used to determine the Gross Domestic Product (GDP). However, the major objective of the two sectors is to enhance economic development and growth while satisfying their respective shareholders in term of good returns on their investment.

Whenever there is discussion on the issue of financial sector in any economy, what readily comes to mind is the banking sector because it is the most populous sector. The banking sector has become one of the most critical sectors and commanding heights of the economy with wide implications on the level and directions of economic growth and transformation and on such sensitive issues as the rate of unemployment and inflation, which directly affect the lives of people (Olisabu, 1991). This sector has been used in the literature to represents the financial sector andin the same vein, the banking sector is used to represent the financial sector in this study. This sector has gone through several eras in Nigeria. The eras include the free banking era, the regulated era, the guided deregulated era and the deregulated era. These eras have peculiar challenges. An attempt to ensure that banks perform it statutory role in Nigeria economy led to the discussion on the need to have adequate capital in accordance to the Basle accord. In pursuance of this accord and in line with his own philosophy, on assumption of office the then CBN governor Prof CharlesSoludo announced in January 2004 that all banks in the country should increase its capital base to 25 billion naira by 31st December 2005. This announcement made some of the banks to restructure in

an attempt to meet the required amount. Some of them issued new shares while others adopted merger and acquisition as a restructuring strategy to meet up the statutory required amount. At the end of the exercise, the then 84 commercial and merchant banks reduced to just 25 banks. The effects of this restructuring is what this research work intend to compare with other restructuring that also happened in Nigeria in the real sector around the same time.

Oil is a major source of energy in Nigeria and the world at large. Over the years, oil has become the mainstay in the Nigerian economy at the expense of agriculture even though Nigeria suffered ‘Dutch disease’ due to oil exploration (Sulaiman, 2012). The oil and gas industry began to play a prominent role in the nation at the end of the Nigerian civil war. The industry occupies a very strategic position in the Nigerian economy as the nation’s major provider of public revenue. Over 85 percent of Nigeria foreign reserve is earn from this industry. It consists of participants in the upstream and downstream sectors. These participants implement strategies to remain competitive and increase its profitability. A veritable strategy is corporate restructuring. Hence, this study is also adopting this industry to represent the real or production sector of Nigeria because of its importance as a revenue generator for the country.

LITERATURE AND EMPIRICAL STUDIES REVIEW

Corporate restructuring refers to the changes in ownership, business mix, assets mix and alliance with a view to maximize shareholders’ wealth and improve firm value. It may involve ownership, business and asset restructuring. Corporate restructuring is a crucial strategy implemented to remain relevant in the business world. Crum and Goldberg, (1998) defines restructuring of a company as a set of discrete decisive measures taken in order to increase the competitiveness of the enterprise and thereby to enhance its value or performance. Gibbs, (2007) defined restructuring as a change in the operational structure, investment structure, financing structure and governance structure of a company. Sterman, (2002) referred to restructuring as diverse activities such as divestiture of under-performing business, spin-offs, acquisitions, stock repurchases and debt swaps, which are all a one time transaction, but also structural changes introduced in day-to-day management of the business. It is perceived that restructuring is concerned with changing structures in pursuit of short and long term gains.Bowman and Singh, (1999) classified restructuring activities into three categories namely portfolio restructuring, financial restructuring and organizational restructuring.Kinshore, (2004) stated that for any restructuring to take place the underlying motives include: improved productivity and cost reduction; convertibility of domestic currency; changed fiscal and government policies; global market concepts and host of others.

The commonest form of restructuring is ownership restructuring basically effected through mergers and acquisitions. Pazarskis et al. (2006) stated that one of the main elements of contemporary corporate restructuring is the boom in mergers and acquisitions.Mergers and Acquisitions are used as a restructuring strategy for improving competitiveness of companies and gaining competitive

advantage over other firms through gaining greater market share, broadening the portfolio to reduce business risk, entering new markets and geographies, and capitalizing on economies of scale etc (Saboo and Gopi, 2009). Merger and Acquisition (M & A) agreement is taken not necessarily because of lack of corporate strength but an avenue to create synergy. Many corporations find that the best way to get ahead is to expand ownership boundaries through mergers and acquisitions (Ismail et al. 2011).

Several empirical studies on corporate restructuring focused on consequence of merger and acquisition on firm performance. This is as a result of the fact that M & A has been the commonest form of corporate restructuring in the developing countries.Jin et al. (2004) examined the impact restructuring had on the operational aspects of the publicly traded firms in China. They used changes in revenue, profit margin, return on assets and the total asset turnover ratio before and after the restructuring as proxies for firm performance and conducted tests to determine whether restructuring resulted in significant changes. Their study showed that there were significant improvements in total revenue, profit margin, and return on assets following restructurings but there was no evidence of any significant impact on asset turnover ratio. They also found evidence of significant market anticipation and over reaction to the restructuring announcements. Ismail et al. (2010) conducted a study to explore improvements in the corporate performance of firms involved in merger and acquisition. Using a sample of Egyptian companies in the period from 1996 to 2005 in the construction and technology sectors, their results show that merger and acquisition in the construction sector has contributed in improving the profitability of firms while in the technology sector, no improvements were discovered. For both sectors, M & A did not improve efficiency, liquidity, solvency and cash flow positions.

Selvam et al. (2009) conducted a study on the impact of mergers on the corporate performance of acquirer and target companies in India. A sample of companies which underwent merger in the same industry during the period of 2002-2005 listed on the Bombay Stock Exchange. The study focused on comparing the liquidity performance of the thirteen sample acquirer and target companies before and after the period of mergers by using ratio analysis and t-test. It was discovered that the shareholders of the acquirer companies increased their liquidity performance after the merger event. Yeh and Hoshino, (2002) evaluated the effects of mergers and acquisitions on firms' operating performance on the basis of its effect on efficiency, profitability, and growth. The study proxy total productivity as an indicator of the firm's efficiency, return on assets and return on equity as measures of profitability, and sales and growth in employment to index for firm's growth rate. Using a sample of 86 Japanese corporate mergers between 1970 and 1994, it was realized that there was insignificant negative change in productivity, significant decline in profitability, significant adverse effect on sales growth rate, and merger caused downsizing in the workforce.

Mantravadi and Reddy, (2008) evaluated the impact of mergers on the operating performance of acquiring corporate in different industries, by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003. The results suggest that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. Specifically, mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry; the pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance in terms of profitability and returns on investment. For the chemicals and Agric-products sectors, mergers had caused significant decline both in terms of profitability margin and returns on investment and assets.

Ullah et al. (2010) examined whether merger delivers value taking the case of Glaxo Smithkline Merger. They analyzed the pre and post merger performance of the firm by applying the net present value approach of valuation. The study found that mega pharmaceutical merger hasn't delivered value. The stock prices underperform both in absolute and relative terms against the index. However,themerger resulted into substantial reduction in research and development cost and downsizing instead of a potential employment haven. Mishra and Chandra, (2010) assessed the impact of merger and acquisition on the financial performance of Indian pharmaceutical companies over the period from 2000 – 01 to 2007 – 08. By applying panel data estimation techniques, they found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. Their empirical findings suggests that M & A does not have any significant impact on profitability of the firms in the long run possibly due to the resultant X-inefficiency and entry of new firms into the market.

METHODOLOGY

This paper aims to determine if corporate performance of firms in the financial and real Sectors have improved after restructuring in Nigeria. Specifically the banking and the Oil and Gas industries are chosen. A sample of tenbanks is drawn from the Nigerian financial sector and a sample of four oil and gas companies are randomly selected to make generalizations. The companies chosen have restructured their operations in the last decade. The estimation methods are financial ratio analysis and the paired 't' test to test for the significant differences that occurred in the post-restructuring period. The method employed in the analysis is in conformity with that of Saboo and Gopi, (2009) andSelvamet al. (2009). The financial ratios employed are consistent with Pazarskis et al. (2006) and are categorized into profitability, liquidity and solvency ratios. The ratios were arrived at using data sourced from the Nigerian Stock Exchange (NSE) Factbook and Annual Statement of Accounts and Reports of the respective companies.

Research Hypotheses

In order to determine improvements in the performance of firms after the restructuring exercise, the study formulated three null hypotheses stated thus:

1. Restructuring does not have significant effect on the profitability of firms in the financial and real sectors in Nigeria.
2. Restructuring does not have significant effect on the liquidity of firms in the financial and real sectors in Nigeria.
3. Restructuring does not have significant effect on the solvency of firms in the financial and real sectors in Nigeria

Description of Financial Ratios

Profitability Ratio: It shows the extent to which a company has being efficient in its operations or gauges a company's operating success over a given period of time. In this study, three measures of profitability are employed which include Return on Asset (ROA), Gross Profit Margin (GPM) and Earning before Tax (EBT) divided by Net worth.

- **Return on Assets:**It is a standard measure of profitability in numerous studies. It shows the efficiency of company's management in utilizing assets at its disposal to earn profit. It is calculated as:

$$\textbf{ROA} = \frac{\text{Net Income or Profit after Tax}}{\text{Total Assets}}$$

- **Gross Profit Margin:** This is a profitability ratio that provides clues to the company's pricing, cost structure and production efficiency. It shows the average gross profit on goods sold. The formula is given as;

$$\textbf{GPM} = \frac{\text{Gross Profit x 100}}{\text{Sales or Turnover}}$$

- **Earning before Taxes**: This is the money earned by a company after all expenses incurred except tax expenses have being deducted. Earning before tax is always related to the net worth of the company and it is calculated as;

$$\textbf{EBT} = \frac{\text{EBT}}{\text{Net worth}}$$

Liquidity Ratio: A firm is said to be liquid if it can meet its short-term obligations in due course. Liquidity ratio measures the ability of a company to pay its short-term debt and meet unexpected cash needs. Failure of a firm to meet its obligations as a result of lack of liquidity results into bad ratings and loss of creditors' confidence among others. The two ratios used in this study are Current ratio (CR) and Quick Ratio (QR).

- **Current Ratio:** This is one of the balance sheet financial performance measures of a company's liquidity i.e. the level of safety provided by the excess of current assets over current liabilities. The conventionally acceptable current ratio is 2:1. It is calculated by dividing the current assets by the current liabilities that is;

$$\mathbf{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

- **Quick Ratio:** This is a preferable and better method to test for liquidity because it excludes stocks from current assets. This is because stocks may suffer obsolescence, damage and pilferage. It shows the extent to which a firm is able to meet its short term obligations from its liquid assets. The recommended bench mark for quick ratio 1:1 and it is calculated as;

$$\mathbf{QR} = \frac{\text{Current Assets} - \text{Inventories or Stocks}}{\text{Current Liabilities}}$$

i. **Solvency Ratio:** It indicates a company's ability to meet long-term obligations when due and measures the long term financial strength of a firm. The solvency test for this study is conducted via Total Debt ratio (TDR) and Total Assets ratio (TAR).

- **Total Debt Ratio**: It is the ratio of the total liabilities of a firm including all short and long term debts to its net worth. It is mathematically expressed as;

$$\mathbf{TDR} = \frac{\text{Total Liabilities}}{\text{Net Worth}}$$

- **Total Asset Ratio**: This relates the net worth of a firm to its total assets. It is given as;

$$\mathbf{TAR} = \frac{\text{Net Worth}}{\text{Total Assets}}$$

The financial ratios are classified and assigned codes in the Table-1:

Table-1. Classification of Financial Ratios

Class	Code	Financial ratio
Profitability	P_1	Earning before tax/Net worth
	P_2	Return on Assets
	P_3	Gross Profit Margin
Liquidity	P_4	Quick ratio
	P_5	Current ratio
Solvency	P_6	Total Asset ratio
	P_7	Total Debt ratio

A Priori Expectation.

Post-restructuring P_1> Pre-restructuring P_1

Post-restructuring P_2> Pre-restructuring P_2

Post-restructuring P_3 > Pre-restructuring P_3

Post-restructuring P_4> Pre-restructuring P_4

Post-restructuring P_5> Pre-restructuring P_5

Post-restructuring P_6> Pre-restructuring P_6

Post-restructuring P_7< Pre-restructuring P_7

The stated *a priori* expectations shows that all the financial ratios are expected to improve after restructuring. P_1 – P_6 are expected to rise while P_7 is expected to decline.

Analysis and Discussion of Results

In order to arrive at a logical conclusion, financial ratios in the pre and post restructuring era are compared. The selected financial ratios for each company in the sample over a 3-years period before restructuring (year T – 3, T – 2, T – 1) and 3-years after restructuring (year T + 1, T + 2, T + 3), the restructuring exercise are summed up, and the mean for each financial ratio for year T – 3, T – 2, T – 1 and year T + 1, T + 2, T + 3 are calculated.The study excludes the year restructuring took place because it usually includes recognition of a number of a typical event which distorts comparison.

Table-2. Results of Mean Ratios and Hypotheses Testing

Financial ratio	Pre-Restructuring	Post-Restructuring	T-value
P_1	0.7662	-2.9567	1.628
P_2	0.2629	-0.0967	1.288
P_3	201.446	127.916	4.082*
P_4	9.2553	9.2733	-0.024
P_5	9.2553	9.2733	-0.024
P_6	2.4567	2.0867	0.764
P_7	26.4287	27.1567	-0.175

(*) denotes significance at 0.05 significance level

It could be deduced from the mean ratios in Table-2, that all the financial ratios do not confirm to the *a priori* expectationand they are all statistically insignificant in this sector of the economy.P_1 (EBT) declined drastically from 0.7662 in the pre-restructuring era to a negative value of 2.9567. Likewise,P_2 (ROA) also declined from 0.2629 to -0.0967 after restructuring.P_3(GPM) tremendously decreased in the post-restructuring period from 201.4467 to 127.9167 and the reduction is statistically significant at 5 per cent confidence level as shown by the t value of 4.082, hence, hypothesis 1 is accepted. The liquidity ratios$P_4$and P_5(QR and CR) slightly increased after restructuring but the rise are not significant statistically.Hypothesis 2 is accepted on the basis of this finding.WhileP_6(TAR) decreased from 2.4567 before restructuring to 2.0867 after restructuring,P_7(TDR) increased from 26.4287 to 27.1567, implying that more debt was utilized after restructuring.Hypothesis 3 is also accepted because there is clear evidence that restructuring does not have significant effect on the solvency of the firms.The findings from the banking sector indicate that corporate restructuring did not bring significant improvement in the performance of banks. It even worsened their performance.This result simply point to the fact that the restructuring in the banking sector is more of a forced one and have only been used to increase the banks' capital to the required level placed on them by the government.

Table-3. Results of Mean Ratios and Hypotheses Testing

Financial ratio	Pre-Restructuring	Post-Restructuring	T-value
P_1	2.7883	1.8933	2.930*
P_2	0.5912	2.1447	-4.642*
P_3	50.7433	35.7600	1.239
P_4	4.6542	8.0600	-7.813*
P_5	5.8233	14.1533	-3.292*
P_6	1.7250	2.1967	-4.311*
P_7	12.4643	5.3267	2.183*

(*) denotes significance at 0.05 significance level **Source:** Author's calculation.

The results from Table-3 on Oil and Gas sector show thatP_1(EBT) declined in post-restructuring period (2.7883 to 1.8933), and the decline was statistically significant. However,P_2 (ROA) increased from 0.25912 to 2.1447 following restructuring, andthe rise was statistically significant. Though, GPM is not statistically significant but there was a downward movement inP_3(GPM) (50.7433 to 35.7600) after restructuring.Overall, it can be said that restructuring has had a significant effect on the profitability of firms; hence, hypothesis 1 is rejected.It can also be observed that the liquidity position of companies in this sector improved after restructuring.P_4(QR) rose from 4.6542 to 8.0600 andP_5(CR) increase from 5.8233 to 14.1533. The t-values of 7.813 and 3.292 for QR and CR respectively show that both were statistically significant at 5% confidence level.Hypothesis 2 is rejected on the basis of this finding.

The solvency of the companies in this sector was also affected significantly by restructuring at 95% confidence level. TAR increased marginally from 1.7250 to 2.1967 which is line with our

theoretical expectation while TDR decreased from 12.4643 to 5.3267 after restructuring. This is also in line with our *a priori* expectation. The increment in TAR means that the net worth of the companies has increase compared to their assets. Similarly, the reduction in their TDR shows that more of equity finance is now being used in the post restructuring period and this can give better credibility to the firm and guarantee them more access to further funds from the financial market in the future.Hypothesis 3 is also rejected because there is clear evidence that restructuring had a significant effect on the solvency of the firms.

CONCLUSION AND RECOMMENDATIONS

Corporate restructuring is aimed at increasing efficiency, enhancing competitive advantage, achieving synergy and improving firm value. Restructuring pursues the profitability, liquidity and solvency objectives of an organization. The study was carried out to do a comparative analysis of post restructuring performance of firms in financial and real sectors of the Nigeria economy. These sectors were proxy by Banks and Oil and Gas firms. The analysis and result shows that firms in the real sector(Oil and Gas) performed better than firms in the financial sector (Banks) in the post-restructuring era compared to the pre-restructuring era.

Banking sector showed significant decline in profitability measured by earning before taxes/net worth and return on assets.Gross profit margin also declined and it was statistically significant. Restructuring in this sector has demonstrated negative influence on the operating performance of banking firms. The liquidity ratios is somehow static in the two periods, implying that firms involved in restructuring have not succeeded in improving their liquidity by this strategy. The solvency ratios showed insignificant reductions, implying that the ability of banking firms to meet its long term obligations may not ultimately improved by this strategy of restructuring.It was howeverdiscovered that restructuring played a significant role on the profitability, liquidity and solvency position of firms in the real sector of Nigerian economy as shown by the results of the analysis in the Oil and Gas firms, thereby suggesting that there has been increase in management efficiency, improved capital adequacy, strengthened operational capacity and assurance of the continued existence of these firms.

Based on the findings in this study, it is cognizant to give recommendations in order to reap more gains from restructuring. It is recommended that management restructuring their operations should do so not to keep their failing business alive but to increase their competitiveness and financial standing.Management should instill discipline upon itself by ensuring good corporate governance, promote technological progress, and increase its paid up capital regardless of the statutory requirements so that the continued existence of the firm is not jeopardized.Management should develop a sound approach towards asset and liability management so as to avert the problem of mismatching investments and also the quality of assets should be enhanced.Management should put into consideration the degree of transferability and marketability of assets invested in so that

these assets can provide liquidity to firm with ease.Further research in other sectors of the economy should be embarked upon so as to obtain further insights.

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