

Planning Flexibility, Environmental Uncertainty and Organizational Performance of Selected Oil and Gas Service Firms in Lagos and Rivers States, Nigeria

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ABSTRACT

The need for organizations to wade through environmental uncertainties have recommended to management of firms in the oil and gas service industry in Nigeria, the necessity of employing planning flexibility in running the affairs of their organizations. However, oil and gas service companies operating in Nigeria faced problems of inflexible planning practices and poor management of environmental uncertainty. These problems have negatively affected their performance. This study examined the effect of planning flexibility and environmental uncertainty on performance of selected oil and gas service firms in Lagos and Rivers States, Nigeria.

This study employed survey research design. The target population comprised 9,324 oil and gas service companies operating in Lagos and Rivers States. A multi-stage sampling technique was adopted to select the sample size of 733 using the Cochran (1997) formula. The Cronbach's alpha ranged between 0.784 and 0.884. The response rate to the 733 copies of the questionnaire administered was 93.7% and data was analyzed using inferential statistic.

Finding revealed that the combination of environmental uncertainty and planning flexibility significantly affected firm performance of the selected oil and gas service firms ($R^2 = .252$, $F(2/683) = 32.905$, $p < 0.05$). The study concluded that planning flexibility and environmental uncertainty enhances firm performance through improved profitability, sales growth and market share of oil and gas service firms operating in Lagos and Rivers States, Nigeria. It is recommended that oil and gas service firms in Lagos and Rivers States, should continually strive to inculcate planning flexibility behavior that will enhance firm performance.

Keywords: Firm performance, Planning flexibility, Environmental uncertainty, Oil and gas service firms

INTRODUCTION

Businesses around the world are going through a time of unprecedented changes in overall performance due to dynamic trend in the global business environment, which are happening at increasingly faster rates. Globally, most business organizations in oil and gas industry have recorded unstable performance resulting from new competitive landscape that encompasses increasing uncertainty and risk, decreased ability to forecast, increasing boundary lessness of firms and industry, new structural forms and innovative managerial mindset. The competitive landscape that has evolved in the 21st century presents firms in oil and gas industry with substantial change, inflexible planning towards unstable global oil and gas market trend,

significant complexity and uncertainty in the environment which deviate oil and gas service firms actual performance from their targeted performance (Arokodare, 2018).

In developed countries, Duhon (2015) claimed that depression in global oil price has caused a dramatic run down in the performance of oil and gas service firms. Similarly, Zafari (2017) ascribed that majority of oil and gas multinational firms in Europe and Middle East had experienced a decline in revenues due to inflexible planning related to depression in global oil price, unstable macroeconomic policies and oil prices volatility that characterized the industry. Majority of oil and gas service firms also experienced a decline in overall performance due to dynamic trend in oil

and gas business environment and poor planning of the business process and decision making.

In a highly competitive oil and gas industry environment in Nigeria, the need for organizations to create sustainable positions and competitive advantage in the market to enable growth and performance over time cannot be overemphasized. Oil and gas service firms need to employ planning flexibility and scanning of external environment, which play an important role in a highly turbulent environment, and integrate strategic functions with their entrepreneurial actions in order to achieve targeted organizational performance. The goal of planning flexibility is to continuously create competitive advantages and enhance organizational performance that lead to maximum wealth creation (Sumiati, Rofiq & Pramono, 2019). Arokadare (2018) asserted that poor environmental consideration in strategic planning process by stakeholders in the oil and gas industry caused illegal artisanal oil refineries in Nigeria. With the experience of the illegal artisanal oil refineries in Nigeria's Niger Delta region, stakeholders are unanimous in their view that if the right legal and economic frameworks are put in place, the illegal business of refining stolen crude oil could be rightly modeled to salvage the comatose oil industry in Nigeria (Ugor, 2013). The reality is that indigenous oil and gas organizations have an extremely high failure rate in Nigeria (Asawo, 2011). Hence, oil and gas entrepreneurship development in Nigeria still faces myriad of challenges in the country in spite of the various institutions and agencies established to design and develop new and innovative programmes that could help in building entrepreneurial capacity (World Bank, 2014).

Arising from this uncertain environment, oil and gas service firms cannot easily predict the future. They develop strategic and planning flexibility to have a range of strategic alternatives that can be implemented as needed. To do so, oil and gas service firms acquire resources and build the capabilities that allow them to take necessary actions to adapt to a dynamic environment or to protect their existence in that environment. Majority of studies such as (Abubakar, 2016; Adi, 2015; Eisenhardt, 2013; Gathenya, 2012; Hakala, 2011; Maragia, 2008; Nikolov & Urban, 2013; Olawoye, 2016; Patzelt & Shepherd, 2009; Rauch & Wiklund, 2009; Ribeiro-Soriano & Urbano, 2010; Sumiati, Rofiq & Pramono,

2019; Zhao, Song & Storm, 2013 among others) have examined the relationship between planning flexibility, environmental uncertainty and organizational performance in different sectors but most of these studies never investigated the link between planning flexibility, environmental uncertainty and organizational performance in the oil and gas industry especially in the service sector. Relatively, these past studies have not considered how planning flexibility and environmental uncertainty affected performance of oil and gas service firms in Nigeria. Furthermore, Sumiati, Rofiq and Pramono (2019) asserted that ineffective planning and implementation towards unstable business environment negatively affect performance of organizations. Based on this problem and the gap identified, this study examined the link between planning flexibility, environmental uncertainty and performance of oil and gas service firms in Lagos and Rivers States, Nigeria.

THEORETICAL FOUNDATIONS

The theories underpinning this study are the Resources-Based View (RBV) and the Entrepreneurship Innovation Theory (EIT).

Resources-Based View (RBV)

The Resource-based View (RBV), which was proposed by Penrose (1959), was one of the earlier theories that focused on and viewed resources as a major factor for firm survival and growth. The RBV maintains that it is firm resources that enhance firm competitive advantage and performance. The RBV states that the organizational resources and capabilities that are rare, valuable, non-substitutable, and imperfectly imitable form the basis for a firm's sustained competitive advantage and performance. According to Lee (2016), the RBV is perhaps the dominant theoretical perspective within strategic management and it is a major perspective in the entrepreneurship field as well. The RBV explains that the internal resources, assets, capabilities and knowledge of a firm are the key determinants of the competitive position of the firm (Barney, 1991). Where a firm's resources are rare and valuable, the firm is able to create a competitive advantage and earn above average returns. The competitive advantage will be sustainable where the firm's resources are also unimitable and non-transferable (Porter, 1990). Since resources constitute both tangible and intangible assets,

then both planning flexibility and firm profitability may also be considered valuable resources or capabilities (Bakar & Ahmad, 2010).

According to Barney (1991), the RBV rests on three assumptions: that firms seek to earn above average returns; that resources are asymmetrically distributed across competing firms; and that differences in resources lead to differences in product or service characteristics that result in variations in firms' performance. The RBV pays attention to the role of resources and skills of the firm in determining the boundaries of the firm's activities, and in forming the foundation of the firm's long-term strategy. It is also concerned with how these resources and skills constitute the primary source of profits and performance for the firm (Lee, 2016). However, the RBV has been practically criticized that operationally it is invalid in the sense that the RBV is only applicable in a static business environment which is not the case for real life situation and dynamic environment (Odhong, Were & Omolo, 2014).

Entrepreneurship Innovation Theory (EIT)

The Entrepreneurship Innovation Theory (EIT) was propounded by Joseph Schumpeter (1949). According to him, entrepreneurs plan in order to help the process of development in an economy; they are the people who are innovative, plan, creative, and with foresight in a given community. Schumpeter added that innovation plan occurs when the entrepreneur introduces a new product or a new production system, opens a new market, discovers a new source of raw materials or introduces a new organization into the industry.

According to Esbach (2009), different explanations of entrepreneurship have adopted sometimes radically different theoretical assumptions, most of these concern three central features of entrepreneurial phenomena: the nature of entrepreneurial opportunities, the nature of entrepreneurs as individuals and the nature of the decision-making context within which entrepreneurs operate. Schumpeter's theory has also been criticized for failing to account for entrepreneurial action on the micro level: the individual approach for its single-cause logic; insensitivity to temporal dynamics and failure to account for contextual factors; and the situational approach for its focus on adaptation and consequent failure to account for

human agency (Shaver & Scott, 1991; Thornton, 1999). Entrepreneurship Innovation Theory was employed based on entrepreneurship idea, planning, innovation and resources employment to achieve firm market performance. It states that entrepreneurship is about combining planned resources in a new way such as introducing new products, new method of production, identifying new source or source(s) of raw materials/inputs and setting a new standard, either in the market or in the industry that alters the equilibrium in the economic system. According to Sumiati, Rofiq and Pramono (2019), EIT explains that planned innovation occurs when the entrepreneur introduces a new product or a new production system, opens a new market, discovers a new source of raw materials or introduces a new organization into the industry and in the process, enhances firm superior performance. Both RBV and EIT capture the dynamics of the dependent and independent variables in this study. Therefore, both the dependent and independent variables of this study are adequately covered, and properly explained by these two theories.

Hypothesis Development

Planning Flexibility, Environmental Uncertainty and Organizational Performance

In establishing the exact link between planning flexibility, environmental uncertainty and organizational performance, many empirical studies were reviewed. Most empirical findings as regards the interaction between planning flexibility, environmental uncertainty and firm performance have been mixed. Some studies exert positive relationship while others exert negative relationship and this mixed result was due to the high level of competition and pattern of organizational structure of different organizations in different industries.

In all these empirical studies, the literature revealed that outside the Nigerian context, very few studies have examined the link between planning flexibility, environmental uncertainty and firm performance in the oil and gas service industry. Similarly, within the Nigeria context, no studies empirically investigated the link between planning flexibility, environmental uncertainty and firm performance in the oil and gas service industry. This serves as an empirical gap. Oladele and Olayiwola (2018) examined the relationship between planning flexibility and performance of selected Small and Medium Enterprises in Lagos, Nigeria. Survey research

design was adopted. Result shows a positive and significant relationship between planning flexibility and SMEs performance. This implies that the more flexibility the SMEs operators incorporate into their strategic planning processes and practices, the higher their level of financial and non-financial performance. Dibrel, Craig, and Neubaum (2014) examined the link between financial performance, formal strategic planning process, market share, planning flexibility and innovation. Their study employed survey research design and Pearson correlation method of analysis.

They found that firm's formal strategic planning processes and planning flexibility are positively associated; that each of the formal strategic planning process and planning flexibility is positively related to innovativeness; and that innovativeness fully mediates the relationships between firm performance, market share, formal strategic planning process and planning flexibility. Relatively, Sumiati, Rofiq and Pramono (2019) explore the link between financial performance and the formal strategic planning process, planning flexibility, and innovativeness of 448 firms in a multi-industry sample.

The results suggest that firms' formal strategic planning processes and planning flexibility are positively associated, and each is positively related to innovativeness.

In addition, innovative nessfully mediates the relationships between firm performance and the formal strategic planning process and planning flexibility. Mbengue and Ouakouak (2011) evaluated the effects of strategic planning flexibility on firm performance and examined the moderating role of environmental dynamism. Their study found that the flexibility of strategic planning process has a positive impact on firm performance independent of environmental dynamism, making it one of the most important factors for the firm in achieving strategic objectives and attaining competitive advantage. The study also indicates that the relationship between flexibility of strategic planning and firm performance is not moderated by environmental dynamism. In line with this finding, Boohene (2018) empirically supported the assertion that planning flexibility, efficient and proper management of external environment significantly influence firm performance, profitability and competitive advantage.

Furthermore, Arshad, Rasli, Arshad, and Zain (2014) investigating the impact of planning flexibility on business profitability and market share of the technology-based SMEs in Malaysia with a sample of 88 firms. The study employed survey research design and employed regression method of analysis. The study revealed that planning flexibility significantly affects business performance in terms of market share, sales turnover and profitability of these firms. Similarly, Gautam (2016) investigated the effect of planning flexibility of handicraft enterprises business performance. The study employed survey research design and employed regression method of analysis. In the study, business performance was measured through three dimensions of efficiency, market share and profit.

The study found that planning flexibility has positive effect on business performance. Musi, Mukulu and Oloko (2018) investigated the influence of strategic planning to firm performance in agricultural research based institutions Their findings revealed that financial resources strategic planning, human capital strategic planning, material resource strategic planning and information resource strategic planning influence firm's performance. David and Okeyo (2018) examined the effect of strategic planning on organizational performance. The regression results revealed that there was a positive and significant relationship between strategic planning and performance. Regression results further revealed that external environment has a positive and significant effect on performance. In addition, external environment moderates the relationship between strategic planning and performance of county government. On the other hand, Patil and Marathe (2016) findings suggested that market orientation and planning flexibility positively influence firm performance; planning flexibility exerts a negative pressure on performance in highly dynamic markets. Based on the empirical gap identified on the link between planning flexibility, environmental uncertainty and organizational performance of oil and gas service firms, this study therefore hypothesises that;

H₀: *Planning flexibility and environmental uncertainty do not significantly affect performance of oil and gas service firms in Lagos and Rivers States, Nigeria.*

METHODOLOGY

This study employed survey research design to examine the relationship and effects of strategic entrepreneurship and firm performance of selected oil and gas service firms in Lagos and Rivers States, Nigeria. The primary population of oil and gas service firms in Nigeria was 14,038 as at December, 2017 and both Lagos and Rivers States control 66.42% (9,324) of the primary population of oil and gas service firms in Nigeria, which was the major reason this study focused on both Lagos and Rivers States, Nigeria. The population for this study was 9,324 oil and gas service firms in both Lagos and Rivers States, Nigeria. The sample frame used in this study was the list of owner-managers and top managers like the heads of finance and planning functions of selected oil and gas service firms in Lagos and Rivers States. Hence, a multi-stage sampling method was adopted in selecting the sample from the working population of this study. The sample size for this study was determined by applying the Cochran (1997) formula. This is the standard method of randomization and it identifies the limits of errors considered as the most essential items in the survey. This helped the researcher to obtain the sample and use the results to make sampling decisions based on the data.

The formula is:

$$n = \frac{NZ^2pq}{d^2(N-1) + Z^2pq}$$

Where:

n = sample size

N = Total number of selected oil and gas service firms (N=9324)

$$Z = 95\% \text{ Confidence Interval } (Z = 1.96),$$

$$p = 0.5$$

$$q = 1 - p$$

$$d = \text{degree of accuracy or estimation } (d = 0.04)$$

Therefore:

$$n = \frac{9324 (1.96)^2 (0.5) (0.5)}{(0.04)^2 (9324 - 1) + (1.96)^2 (0.5) (0.5)} = 564$$

In order to compensate for non-response and for wrong filling of questionnaires, the sample of 564 was increased by 169, or 30% of the total sample which brought the adjusted sample total to 733. This is as recommended by Zikmund (2000). The questionnaire used was validated and the reliability of the study variables were established. Construct and content validity were ascertained through checks and corrections from senior academics in the field of entrepreneurship and strategic management. The reliability of the research instrument was ascertained based on the Cronbach Alpha measure of reliability which is greater than 0.7.

In this study, planning flexibility and environmental uncertainty served as the independent variables while organizational performance as the dependent variable. For dependent and independent variables, a six points modified Likert scale type was used to elicit responses from every question in the questionnaire and this covered; Very High (VH) – 6; High (H) – 5; Moderately High (MH) – 4; Moderately Low (ML) – 3; Low (L) – 2; Very Low (VL) – 1.

For the dependent variable: Decrease Greatly (DG) -6; Little Decrease (LD) -5; Almost the Same (AS) -4; The Same (TS) -3; Little Increase (LI) -2; and Increase Greatly (IG) -1.

The Validity and Reliability Result

Table 3.1. KMO, Bartlett’s Test of Sphericity and Reliability Result

Variables	Number of Questions	KMO	Bartlett test of Sphericity	Cronbach’s Alpha	Average Variance Explained
Firm Performance	15	0.873	0.000	0.881	0.783
Firm Profitability	5	0.832	0.001	0.872	0.721
Market Share	5	0.731	0.000	0.830	0.801
Sales Growth	5	0.734	0.002	0.784	0.793
Planning Flexibility	9	0.891	0.003	0.884	0.832
Environmental Uncertainty	12	0.891	0.000	0.872	0.793

Source: Researcher’s Field Survey (2018)

The result in Table 3.1 shows that the KMO is greater than 0.5. This means that the questions actually measure the variables in the study. The

result of the Bartlett test of Sphericity at 0.000 which is less than 5%, indicate that there is highly significant relationship among variables

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in measuring the variables under study. In this study, the KMO test is greater than 5% and Bartlett test of Sphericity result is less than 5% indicating that statements that comprised the research instruments of each variable actually measured what were intended. The result of the KMO and Bartlett test of Sphericity are shown in Table 3.1. The construct validity of the research instrument was further established through confirmatory factor analysis. Average Variance Extracted (AVE) greater than 0.5 was used as an additional evidence of construct validity of all variables in the research instrument. The result of the CronbachAlpha were greater than 0.70 for each of the variable which indicated that the items used to measure study variables were reliable. The multiple regression method of analysis was employed to examine the effect of planning flexibility and environmental uncertainty on firms' performance.

Model Specification

In this study, the dependent variable was firm performance measure by Profitability, Sales

Growth and Market Share while the independent variables are planning flexibility and environmental uncertainty. The model for the study was denoted as:

Y = Dependent Variable

X = Independent Variable

Y = Firm Performance (FP)

Where;

Y = Firm Performance (FP) = y_1, y_2 and y_3

y_1 = Profitability (P)

y_2 = Sales Growth (SG)

y_3 = Market Share (MS)

x_1 = Planning Flexibility (PF)

x_2 = Environmental Uncertainty (EU)

β_0 = the constant term

β_1 - β_2 = the regression coefficients

The model formulated for each of the hypothesis will be functionally written as:

$Y = f(PF, EU)$

$Y = \beta_0 + \beta_1PF + \beta_2EU + \varepsilon_i$ -----EQN 1

RESULT AND DISCUSSIONS

Table 4.1(a). Model Summary of the Effect of Combination of Environmental Uncertainty and Planning Flexibility on the Performance of Selected Oil and Gas Service Firms in Lagos and Rivers States

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.355 ^a	.261	.252	5.429
a. Predictors: (Constant), Environmental Uncertainty, Planning Flexibility				

Table 4.1(b). ANOVA of the Effect of Combination of Environmental Uncertainty and Planning Flexibility on the Performance of Selected Oil and Gas Service Firms in Lagos and Rivers States

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2909.736	2	969.912	32.905	.000 ^b
	Residual	20131.918	683	29.476		
	Total	23041.654	685			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Environmental Uncertainty, Planning Flexibility						

Source: Researcher's Results (2018)

Table 4.1(c). Regression Coefficients of the Effect of Combination of Environmental Uncertainty and Planning Flexibility on the Market Share of selected Oil and Gas Service Firms in Lagos and Rivers States

Coefficients								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	31.252	1.613		19.375	.000		
	Planning Flexibility	-.119	.048	-.116	-2.489	.013	.585	1.709
	Environmental Uncertainty	.115	.036	.148	3.174	.002	.591	1.691

a. Dependent Variable: Firm Performance

Source: Researcher's Result (2018)

Table 4.1a shows results of multiple regression analysis for combined effect of environmental uncertainty and planning flexibility on firm performance of selected oil and gas service firms in Lagos and Rivers States. The results in Table 4.1a indicated that the two independent variables when combined together to determine their effect on the firm performance of selected oil and gas service firms in Lagos and Rivers States, yielded a coefficient of multiple correlation (R) =.355 and a coefficient of determination (R^2) =.2, which is significant at 0.05 level. The coefficient of determination (R^2) of 0.252 means that the two independent variables that were combined together accounted for 25.2 percent of the variance in the firm performance of selected oil and gas service firms in Lagos and Rivers States. The remaining unexplained 74.80 percent could be due to other factors that were not considered in this study model. The analysis of variance (ANOVA) yielded F value of 32.905, which is significant at 0.05 level. This means that the combined effect of environmental uncertainty and planning flexibility was statistically significant in explaining changes in firm performance of selected oil and gas service firms in Lagos and Rivers States. The model depicts that 25.2% of the variance has been significantly explained by the independent variables. Therefore, the fitted model is summarized as follows:

$$FP = 31.252 - .119PF + .115EU \dots \dots \text{eq. (2)}$$

The regression model shows that when the value of the independent variables (planning flexibility, and environmental uncertainty) are constant at zero, firm performance takes value of 31.252 implying that without the independent variables, firm performance of selected oil and gas firms in Lagos and Rivers States was 31.252. The finding in Table 4.1a shows that the two independent variables significantly predict firm performance of selected oil and gas service firms in Lagos and Rivers States. These coefficients are planning flexibility ($B = -.119$, $t = -2.489$, $P < 0.05$), and environmental uncertainty ($B = .115$, $t = 3.174$, $P < 0.05$). Overall, the results showed that the independent variables are statistically significant in explaining the firm performance of selected oil and gas service firms in Lagos and Rivers States. In addition, the collinearity test as indicated by the collinearity tests shows that none of the predictor variables has a VIF above 10 and tolerance factor of less than 0.1; therefore it can be concluded that there is no

multi collinearity. Based on this finding therefore, the null hypothesis which states that the combination of environmental uncertainty and planning flexibility do not significantly affect firm performance of selected oil and gas service firms in Lagos and Rivers States is hereby rejected. This study result is consistent with Adeoye and Elegunde (2012), Obiwuru, Oluwalaiye and Okwu, (2011), Ghouri, Khan, Malik and Razzaq (2011), Kavale (2017), Njeru (2013), and Sumiati, Rofiq and Pramono (2019) that entrepreneurial orientation, business external environment and strategic planning flexibility directly influence firms' performance. On the other hand, Emami and Motavasseli (2012) revealed that environmental uncertainty factors do not significantly affect firm performance and that, there are other important factors that significantly determine firm performance.

CONCLUSION AND RECOMMENDATIONS

The aim of this study is to explore the effect of both environmental uncertainty and planning flexibility on firm performance of selected oil and gas service firms in Lagos and Rivers States, Nigeria. Based on the finding of this study, it is concluded that the combination of environmental uncertainty and planning flexibility significantly predict and affect firm performance of selected oil and gas service firms in Lagos and Rivers States, Nigeria. The study recommends that oil and gas service firms in Lagos and Rivers States should always make proper planning for all the activities of the business in order to achieve the desired performance. Planning is one of the functions of management team of an organization; it can also be achieved through regular meetings, training and development. Oil and gas service firms should utilize more of strategic planning than operational planning and manage their business environment in order to survive and achieve firm performance. Oil and gas service firms must be flexible in their strategic planning process, do proper scanning of the business environment and be able to rapidly respond to environmental opportunities and threats if it is to survive and thrive in today's dynamic and turbulent business environment.

Suggestions for Further Studies

Future research could explore single industries and/or small, medium, and large-scale businesses to determine outcome similarities or differences. Other areas for further research

include: exploring strategic orientation and performance of oil and gas service firms, strategic entrepreneurship and its impact on the management of oil and gas service firms in Nigeria; innovativeness, entrepreneurial mindset and performance of manufacturing firms; and strategic entrepreneurship in service firms, such as of oil and gas industry and so on. The study could also be carried out in the other sectors of oil and gas industry (upstream and downstream) and in different years to establish if the same results hold. Moreover, similar research can be carried out in more developed countries like South Africa in order to compare results.

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