

# Effect of Turnaround Strategies on Firm Performance in Nigerian Foods and Beverages Manufacturing Industry: A Study of BUA Foods Plc

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**Abstract:** Foods and Beverages manufacturing companies in Nigeria operate in a highly competitive environment hence; they require practicable strategies that will enhance long-term performance. This study investigates the effect of turnaround strategies on the performance of Foods and Beverages manufacturing companies in Nigeria with focus on BUA Foods Plc. The study specifically examines the effect of retrenchment strategy and diversification strategy on the performance of BUA Foods Plc. The study adopted a survey research design and primary data were collected using questionnaire. The target population of the study was 346 staff of BUA Foods Plc and a census sampling approach was used. Data collected from participants were analysed using mean, standard deviation, correlation and regression analyses with the aid of the Statistical Package for Social Sciences (SPSS version 23). The study found that retrenchment strategy has a positive and significant effect on the performance of BUA Foods Plc. The study also established a positive and significant effect of retrenchment strategy on the performance of BUA Foods Plc. The study concluded that turnaround strategies help to reduce costs associated with business operations and improve performance. It recommended amongst others that management of BUA Foods Plc should always launch new products or product lines into new markets to meet increasing customer demands and expectations so as to improve its performance.

**Keywords:** Turnaround Strategies, Retrenchment, Diversification, Market share and product quality

## **1. Introduction**

The increasing demand for product varieties by consumers and their continuous substitution has forced organizations to come up with strategies on how to improve performance. Irrespective of opportunities in the business environment, organizations face threats that distort their performance, hence increase the difficulty of survival. To survive and prosper in the competitive business environment, organizations need to build and sustain a workable strategy. Organizations have chosen from among several available strategic alternatives to make the best use of the available resources to reach predetermined goals thereby increasing performance (Oladimeji & Udosen, 2019).

Turnaround strategies have become catalysts for achieving competitive advantages and the creation of synergy in market operations (Wandera, Sakwa & Mugambi, 2017). A turnaround strategy is a set of consequential directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the survival of a firm (Wanyonyi & Nyakweba, 2016). Turnaround strategies help to enhance a firm's chances of liquidation and achieving sustainable growth. Turnaround strategies have gained increasing significance in recent years because of increasing business failures and economic recessions (Ghazzawi, 2018; Barker, Luger, Schmitt & Xin, 2022).

Several postulations have been advanced regarding turnaround strategies in both profit and non-profit organizations, and such strategies include retrenchment strategy, diversification strategy, divestment strategy and revenue generating strategy (Schweizer & Nienhaus, 2017; Nyagiloh & Kilika, 2020). Turnaround strategies adopted for this study include retrenchment strategy and diversification strategy. Retrenchment strategies are programmed aimed at reducing the company's overall cost, which the management needs to appropriately execute (Nyagiloh & Kilika, 2020). Diversification is a strategic option used by managers to improve performance their companies (Castaldi & Giarratana, 2018; Makau & Ambose, 2018). Diversification is undertaken when firms try to change their business designation through the development of new products or expansion into new market individually or jointly with other companies (Su & Tsang, 2015).

Turnaround strategies therefore enhance the recovery of distressed companies to solvency (Bibeault, 2017) and increased performance (Muzny & Simba, 2019). Organizational performance measures the extent to which firms effectively and efficiently utilizes their resources to achieve stated goals, which could be profit, growth, product quality or market share (Masinde, 2016). The resource-based view theory is used to explain the relationship between firm resources and performance in the context of recovery from distress. The resource-based perspective considers the possession and use of some specific resources, unique, scarce, and difficult to imitate, as the main source of competitive advantage (Al-Turki, Duffuaa & Bendaya, 2019). Many organizations today encounter organizational declines in their life cycles because of failure to adapt to competitive strategies.

BUA Foods Plc is a leading food and fast-moving consumer goods (FMCG) company that processes, manufactures, and distributes food produce as well as packaged food. BUA Foods has been growing earnings at an average annual rate of 39.3%, and it recorded strong performance with a Profit After Tax (PAT) growth of 77.1% to N40.5 Billion for the First Quarter 2023. There is little research effort made to study how turnaround strategies affect business performance, especially in the foods and beverages manufacturing companies where the failure rate has been high in Nigeria. The aim of this study is to investigate the extent to turnaround strategies affect the performance of foods and beverages manufacturing companies with reference to BUA Foods Plc.

### **Objectives of the Study**

The broad objective of the study is to examine the effect of turnaround strategies on the performance of BUA Foods Plc. The specific objectives of the study include:

- i. To determine the effect of retrenchment strategy on the performance of BUA Foods Plc
- ii. To ascertain the effect of diversification strategy on the performance of BUA Foods Plc

## **2. Literature Review and Hypotheses Development**

### **Turnaround Strategies**

Turnaround strategy is a corporate strategy designed to save a company which is suffering from loss or distress. A turnaround strategy is designed to reverse a negative trend and get the organization back on the track to profitability (Schweizer & Nienhaus, 2017). Turnaround strategies are effort made by firms to help improve their performance (Abebe & Tangpong, 2018). Turnaround strategies also entail the set of consequential, directive decisions and actions that help to reverse a declining business through asset reduction, cost reduction and revenue generation (Carter & Schwab, 2013). Ghazzawi (2018) stated that turnaround strategies provide top management with information on identifying causes of business decline and the necessary remedies. Turnaround strategies therefore play a critical role that ensures the survival of distressed firms and increased performance.

### **Organizational Performance**

Organizational performance refers to ability of business organizations to achieve stated goals such as profit, quality product, large market share, good financial results, and survival at predetermined time using relevant business strategy (Ghazzawi, 2018). Performance management involves the use of both quantitative and qualitative techniques (Wagura, 2017). Performance can be measured using objective or subjective self-reported measures. Nyagiloh and Kilika (2020) stated that the two significant measures of performance in organizations are non-financial and financial measures. Financial performance measures identify with the organization's general economic well-being over a predefined period. This performance measure incorporates use of ratios, business profitability and the overall balance sheet performance (Mwiti, 2018). The non-financial measures are the qualitative measures that incorporate client base and customer loyalty. These measures center on the long-term success and the qualitative aspects of the business (Wagura, 2017). Market share and product quality are used in this study as a measure of organizational performance.

Market share represents the percentage of an industry, or a market's total sales that is earned by a particular company over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period (Ghazzawi, 2018). It is the portion or percentage of a market earned by a company over a period (Oladimeji & Udosen, 2019). Product quality refers to how well a product satisfies customer needs, serves its purpose and meets industry standards (Bibeault, 2017). When evaluating product quality, businesses consider several key factors, including whether a product solves a problem, works efficiently or suits customers' purposes (Mokubung, 2014).

### **Retrenchment Strategy and Firm Performance**

Retrenchment is a corporate-level strategy that involves reducing the size, scope, or diversity of a company's operations. Retrenchment aims to improve the company's financial performance by cutting costs, streamlining operations, and focusing on core business activities (Wandera, 2018). Retrenchment strategies enable firms to cut down costs to become more competitive and increase long-term success (Mokubung, 2014). Retrenchment strategy helps to decrease the scale of operations of the company, and reduces the number of product lines or businesses from certain geographical markets so that the company becomes financially sustainable (Wagura,

2017). Retrenchment is thus an integral component of turnaround strategy, and plays a vital role to enhance firm performance. This study therefore hypothesized that:

H0<sub>1</sub>: Retrenchment strategy has no significant effect on the performance of BUA Foods Plc

### **Diversification Strategy and Firm Performance**

A diversification strategy is a method of expansion or growth followed by businesses. It involves launching a new product or product line, usually in a new market. Diversification strategy can be accomplished through external modes such as acquisitions and joint ventures (Abebe & Tangpong, 2018). It helps businesses to identify new opportunities, boost profits, increase sales revenue and expand market share (Wagura, 2017). Diversification strategy provides avenue for firms to outperform their competitors (Haug & Ultich, 2013), and improve performance (Castaldi & Giarratana, 2018; Makau & Ambose, 2018). It is used as a catalyst to increase business profitability, reduce the risk of bankruptcy, create synergy, enhance market operations and improve performance (Oladele, 2012). A diversification strategy helps in improving debt capacity, asset deployment and allows organizations to use available skills, expertise and competences to produce unique products (Ajayi & Madhumathi, 2012; Hasby, Buyung & Hasbudin, 2017). Based on the above literature, the study hypothesized that:

H0<sub>2</sub>: Diversification strategy has no significant effect on the performance of BUA Foods Plc

### **3. Methodology**

This study adopted a survey research design. The design is suitable for this study because it allows an in-depth study of the effect of turnaround strategies on firm performance. The population of the study consists of 346 staff of BUA Foods Plc in Nigeria. A census sampling approach was adopted for the study and the entire population was used. Primary data collected from respondents using self-administered questionnaire. A pilot test was conducted to test validity and reliability of the research instrument. Data analysis was done using descriptive statistics, correlation and regression analysis with the aid of the Statistical Package for Social Sciences (SPSS Version 23). This study applied a multiple regression model to establish how the predictor variables (retrenchment strategy and diversification strategy) affect the dependent variable (organizational performance). The model is presented thus:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where;

Y is organizational performance

a is regression intercept

$\beta_1 - \beta_2$  is regression coefficients

X<sub>1</sub> is retrenchment strategy

X<sub>2</sub> is diversification strategy

$\epsilon$  is the error term which is assumed to be normally distributed with mean zero and constant variance.

### **4. Results and Discussion**

Means and standard deviation were used to present respondents' agreement with the responses collected on research variables.

**Table 1: Descriptive Statistics**

<b>Variable</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Retrenchment Strategy	346	3.59	.605
Diversification Strategy	346	3.67	.583
Firm Performance	346	3.26	.762

**Source:** Computation from SPSS Output, 2023

The result in Table 1 shows responses collected from participants on the dependent variable (Firm Performance) and predictor variables; retrenchment strategy and diversification strategy. For firm performance the values (M=3.26; SD=0.762) implies that there is significant change in the performance of BUA Foods Plc. Retrenchment strategy has mean value of 3.59 (SD=0.605) which means that there is high agreement while diversification strategy has a mean value of 3.67(SD=0.583) which explains that diversification strategy significantly affects the performance of BUA Foods Plc.

**Table 2: Correlation Matrix**

Variable	Retrenchment Strategy	Diversification Strategy	Firm Performance
Retrenchment Strategy	1		
Diversification Strategy	.493**	1	
Firm Performance	.494**	.463**	1

\*\* Correlation is significant at the 0.01 level (2-tailed)

**Source:** Computation from SPSS Output, 2023.

Table 2 shows the correlation between turnaround strategies and firm performance. The result found a positive correlation between retrenchment strategy and firm performance ( $r=.494$ ;  $p<.01$ ) and a positive correlation between diversification strategy and firm performance ( $r=.463$ ;  $p<.01$ ). This result implies that there is no problem of multi-collinearity associated with the variables. Findings under this section present the results on the relationship test between the dependent and independent variables. Regression test was carried out to show the extent of turnaround strategies on organizational performance. Multiple regression analysis was carried out to test the research objectives with the model equation being  $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \epsilon$ .

**Table 3: Hypotheses Test Results**

Hypotheses	Variables	Path	Variables	Beta ( $\beta$ )	t-statistic	p-value	Result
H <sub>1</sub>	Firm performance	←	Retrenchment strategy	.272	3.728	.000	Supported
H <sub>2</sub>	Firm performance	←	Diversification strategy	.429	5.075	.000	Supported

**Source:** Computation from SPSS Output, 2023.

The result in Table 3 is used to test the regression coefficients between the turnaround strategies and firm performance. The result shows that all the independent variables have positive effect on firm performance. The above analysis was conducted at 5% significance level and probability values obtained were less than 0.05 hence the variables were considered significant. The first hypothesis stated that retrenchment strategy has no significant effect on the performance of BUA Foods Plc. According to the regression result, retrenchment strategy had a positive and significant relationship with firm performance ( $\beta=0.272$ ,  $t=3.728$ ,  $p\text{-value} = 0.000$ ). The null hypothesis was thus rejected and this implies that retrenchment strategy has a positive and significant effect on the performance of BUA Foods Plc.

Hypothesis two formulated that diversification strategy has no significant effect on the performance of BUA Foods Plc, and the result indicated a positive and significant effect of diversification strategy on firm performance ( $\beta = 0.429$ ,  $t= 5.075$ ,  $p\text{-value}=0.000$ ). Hypothesis testing conducted at 95% confidence level confirmed that there was a statistical significant effect of diversification strategy on the performance of BUA Foods Plc; hence the null hypothesis was rejected.

### **Discussion of Findings**

The test of hypothesis one indicated that there is a positive and significant effect of retrenchment strategy on the performance of BUA Foods Plc. In support of this result, Wandera (2018) reported that retrenchment strategy has a significant effect on firm performance. Retrenchment helps in cutting costs and streamlining business operations to focus on core business activities (Wandera, 2018). Previous studies by Mokubung (2014) and Wagura (2017) established a significant effect of retrenchment strategy on firm performance. The implication of the finding is that retrenchment strategy helps to reduce cost of business operations thereby increasing their performance in the long-term.

The test of hypothesis two found that there is a positive and significant effect of diversification strategy on the performance of BUA Foods Plc. In agreement with the finding, Makau and Ambrose (2018) in their study reported a significant effect of diversification on financial performance of investment organizations. Wandera, Sakwa and Mugambi (2017) also found a significant relationship between diversification strategy and performance of state owned Sugar Companies in Kenya. The result is supported by Wagura (2017) who averred that diversification strategy helps business organizations to identify new opportunities in the market and expand market share. Castaldi and Giarratana (2018) also affirmed that diversification strategy enables firms to outsmart their competitors thereby improving market performance. The implication of the finding is that diversification strategy assists firms in capturing large percentage market share by expanding into different market segments.

### **5. Conclusion and Recommendations**

This study explored examined the effect of turnaround strategies on the performance of BUA Foods Plc. Findings of the study found a significant relationship between turnaround strategies (retrenchment strategy and diversification strategy) and firm performance. The study concluded that retrenchment strategy enables the company to improve on its performance by cutting down costs and this helps to give it an edge over competitors. The study also concluded that diversification strategy significantly affects the performance of BUA Foods Plc. The strategy assists the company to produce different products to serve different market needs thereby improving its performance.

In line with findings of the study and conclusions drawn the following recommendations were made:

- i. Management of BUA Foods Plc should retrench non-core assets and staff so as to improve its performance. This will help to reduce cost and improve efficiency in the company.
- ii. Management of BUA Foods Plc should always launch new products or product lines into new markets where there is customer demand. This will help the company to identify new opportunities, increase sales revenue and expand its market share.

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