Assessing the Connectedness between Corporate Governance Mechanisms and Financial Performance of Listed Oil and Gas Companies in Nigeria

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\textbf{Jel Classification}
M10, M41, G34.

\textbf{Abstract}
This research examines the nature of relationships that exist between corporate governance mechanisms (board composition, audit committee, board size and corporate governance disclosure) and financial performance (return on equity, profit margin and return on asset) in the Nigerian oil and gas industry. Secondary data from the audited financial statements of the fifteen listed oil and gas companies in Nigeria were employed. The test of hypotheses and other analysis of data were done using Pearson Correlation and regression analysis generated from SPSS, version 17. Findings from the study revealed that insignificant but positive relationship does exist between board composition and the performance of oil and gas companies in Nigeria. Evidence also exist that corporate governance disclosure level has a positive and significant impact on the ROE. This study therefore suggests that board of directors and stakeholders of oil and gas companies in Nigeria should pay more attention towards enhancing the independence of their audit committees and the extent of their corporate governance disclosure in order to enhance their level of profitability.
1.0 Introduction

There has been an upsurge in quest for good corporate governance among companies in various nations for excess of a decade. Corporate governance has assumed a significant position in driving firm’s value creation and improving financial performance especially in the face of consistent corporate scandals that have continued to rock corporate entities globally (Korac-Kakabadse et al 2001, Shivdasani and Zenner, 2002, Rose, 2005 as cited by Lawal, 2012). Various theoretical and empirical studies have been occasioned by corporate governance failures both at local and international level yet daily occurrence of financial scandals are on the increase. According to Egwuonwa, (1997),

Corporate governance refers to the control of corporate policy through the power legally vested in a group or groups of people to chart a course of action to be followed by the organization in areas of fundamental importance to its survival, prosperity and proper functioning. It encompasses the mode of structure, the power that determines the rights and responsibilities of the various groups involved in running the organization, the legitimate expectation of the business, the method of operating and the overall accountability of management and of the directors.

No doubt the fall of Enron, WorldCom, Global Crossing and Rank Xerox in USA, Parmalat in Italy, the Maxwell saga in the UK, Daewoo in Korea, Leisurenet and Regal Bank in South Africa are all pointers to the enormous cost of corporate governance failure. It is worthy of note that Nigeria is not immune to this challenge of corporate governance failure as various cases of financial scandal governance are increasingly being recorded and published on daily basis. The cases of Cadbury Nigeria Plc, Oceanic bank Plc, Intercontinental bank Plc, Union bank of Nigeria, Afribank, just to mention a few are part of Nigeria’s share of corporate governance failures.

In response to these corporate scandals, countries and agencies around the world began to introduce a series of legislations and guidelines otherwise known as the codes of best practices. These guidelines are a set of norms that regulates the behavior and structure of the corporate board in exercising their monitoring and supervisory roles. Some of the existing codes across the globe include amongst others: UK Cadbury Code, (1992), South Africa King Report (1994), The Organization for Economic Co-operation and Development (OCED) Principles of Corporate Governance (2004), Russian CG Code,
In Nigeria, though several efforts have been directed at curbing the menace of corporate governance failure as shown above, they are however largely limited to listed financial institutions and other non-oil sector thereby excluding insights into the behavior of quoted oil and gas companies in Nigeria. This shortfall is what triggers this study.

A lot of work has been done to examine the relationship between corporate governance and firm performance across the globe but sadly, little has been done in Nigeria Oil and Gas industry despite the prevalent financial scandals which have their roots in corporate governance failures. Despite the fact that most of the world oil and gas are produced in the third-world countries, the industry is still far more exposed to the risk of corruption than other kinds of business. Nigeria which is Africa’s biggest oil producer and a host country for western oil majors such as Shell, Total, Mobil and ENI was ranked 144 out of 177 in corruption index (Transparency International corruption perception index, 2013). Complementarily, Chazan, (2012), noted that Oil and gas sector has the highest bribery rate in Nigeria. Thus, primary objective of this research is to explore the relationship between corporate governance and the financial performance of Nigerian oil and gas sector. The rest of this paper is divided into four sections. Section 2 highlights the review of related literature and hypotheses. Overview of the Nigerian Oil & Gas Industry is the concern of section 3. Section 4 is devoted to the research method and analytical procedures. Finally, section 5 focused on the research findings and conclusions

2.0 Literature Review

According to Cheffins (2011), the term of corporate governance first came to light in the 1970s in the United States. However, with the collapse of Enron and world.com, corporate governance has become increasingly important. International organizations such as Organization for Economic Cooperation and Development (OECD), International Monetary Fund (IMF), World Bank and The International Organization of Securities Commissions (IOSCO) have shown interests in the adoption of corporate governance principles as yardstick in countries’ assessment and standard settings.

Undoubtedly, the integrity of financial reporting will largely dependent on the conduct of the parties that make up the corporate governance structure. Dar, Naseem, Rehman and
Niazi (2011) listed the parties involved in corporate governance to include: board of directors, shareholders, audit committee, chief executive officer and management.

Azeem, Hassan and Kouser (2013) studied the impact of quality corporate governance on firm performance by using fixed effects estimation method of panel data of 50 largest (by market capitalization) companies listed at Karachi Stock Exchange (Pakistan) for a ten year perspective. The result showed that quality of corporate governance significantly determines firm performance. It is therefore believed that better corporate governance should lead to healthier corporate performance by ensuring better decision-making. In expectation of such an improvement, the firm’s value should respond simultaneously to information indicating better corporate governance. This is in conformity with the view by Obiyo (2011) and Adeusi et al. (2013).

Recent studies on these issues are Uwuigbe, (2013), Adeusi, et al. (2013), Duke and Kankpang (2011), Uadiale (2010), Babatunde and Olaniran (2009), Obiyo (2011), and Adegoke (2013). Even though some of these researchers picked one or two listed oil and gas companies in their samples, the results cannot be generalized to have empirically demonstrated how oil and gas companies in Nigeria will respond to the relationship between corporate governance and financial performance. Below are the tabular presentation of some studies that have been conducted to establish connectivity between corporate governance mechanisms and the performance of firms. As compiled by the researchers:

Table 1.0: Some previous studies of corporate governance and firm performance

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Industry</th>
<th>Performance Measurement variables</th>
<th>Corporate Governance Mechanisms</th>
<th>Methods of Analysis</th>
<th>Research Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ravivathani, T. (2013)</td>
<td>Financial institution</td>
<td>ROA and ROE</td>
<td>Board size, board composition and audit committee</td>
<td>Correlation and simple linear regression model</td>
<td>*Board size, board composition are not significantly correlated with ROE and ROA</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>*Audit committee and ROE are significantly related.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>* No significant relationship between audit committee and ROA</td>
</tr>
<tr>
<td>Dar, L.A., Naseem, M. A., Rehman, R.U., &amp; Niazi, G.S. (2001).</td>
<td>Oil and gas</td>
<td>ROE, PM</td>
<td>Board size, chief executive status, annual general meeting and audit committee</td>
<td>T-test and multiple regression analysis</td>
<td>*significant effect and positive relationship between ROE, board size and annual general meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>* ROE has significant negative relationship with audit committee and CEO status</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>* Positive insignificant relationship between PM, board size and annual</td>
</tr>
<tr>
<td>Author(s)</td>
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</tr>
<tr>
<td>Adeusi, S. O., Akeke, N. I., Aribaba, F.O., &amp; Adebisi, O.S. (2013)</td>
<td>Financial institution</td>
<td>ROA</td>
<td>Board size, board composition</td>
<td>Multiple regression</td>
<td>general meeting * CEO status and audit committee have a significant negative relationship with PM</td>
</tr>
<tr>
<td>Yasser, Q. R., Entebang, H, &amp; Mansor, S. A. (2011).</td>
<td>30 companies on Karachi Stock Exchange covering all sectors</td>
<td>ROA &amp; PM</td>
<td>Board size, board composition and audit committee, CEO/chairman duality</td>
<td>Multiple regression</td>
<td>A need for increase in board size and decrease in board composition in order to increase the bank performance</td>
</tr>
<tr>
<td>Younas, Z. I., Mahmood, H., &amp; Saeed, A. (2011).</td>
<td>50 companies on Karachi Stock Exchange covering all sectors</td>
<td>ROA, debt ratio</td>
<td>Board size, CEO–chairman combined structure and audit expenditure</td>
<td>Multivariate OLS regression models</td>
<td>Board size should be limited to a sizeable limit and board must be a right mixture of executive and non-executive directors</td>
</tr>
<tr>
<td>Yasser, Q. R., &amp; Al Mamun, A. (2012).</td>
<td>Five year data of listed companies in Pakistan</td>
<td>Market-based Tobin Q, accounting-based ROA and economic value added</td>
<td>Duality, board Size, supervisory directors, outside independent directors, inside directors</td>
<td>Regression model</td>
<td>The results indicated that independent variables have no effect on firm's performance in terms of Tobin Q, ROA and EVA. When using Tobin Q, ROA and EVA as outcome variables, the results indicated that duality has no influence on firm's performance; supervisory directors, outside independent directors and inside directors also have no significant effect on firm's performance; board size and financial leverage have positive effect on firm's performance</td>
</tr>
</tbody>
</table>

159
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Industry</th>
<th>Performance Measurement variables</th>
<th>Corporate Governance Mechanisms</th>
<th>Methods of Analysis</th>
<th>Research Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chaghadari, M. F. (2011).</td>
<td>selected sample of companies listed on Bursa Malaysia</td>
<td>Return on equity and return on asset</td>
<td>Board independency, CEO duality, ownership Structure and board size.</td>
<td>Linear multiple regression</td>
<td>There is no significant relationship between board independency, board size and ownership structure as independent variables and firm performance as dependent variable.</td>
</tr>
<tr>
<td>Moscu, R. (2013).</td>
<td>Companies quoted on Bucharest Stock Exchange</td>
<td>Debt to equity ratio</td>
<td>Board size and board composition</td>
<td>Linear multiple regression</td>
<td>i) Board size has a positive relationship with firm performance; ii) there is a negative association between non-executives directors and firm performance, iii) there is a positive and significant association between firm performance and dummy which take value 1 when the percentage executives on the board is more than non-executives percentage</td>
</tr>
<tr>
<td>Duke II, J., &amp; Kankpang, K. (2011)</td>
<td>40 companies on Nigerian Stock Exchange covering all sectors</td>
<td>ROA &amp; PM</td>
<td>Board Size, board chair/chief executive status, reliability of financial reporting, audit committee, code of corporate governance</td>
<td>Least squares regression</td>
<td>Strong relationships were found between a number of corporate Governance variables and firm performance measures. The study also found that there were no material differences between the reliability of financial reporting between quoted and unquoted firms.</td>
</tr>
<tr>
<td>Uwuigbe, O.R. (2013)</td>
<td>30 companies listed on the Nigerian Stock Exchange</td>
<td>Share prices over a three-year period</td>
<td>Ownership structure and the audit committee</td>
<td>Regression and correlation analysis</td>
<td>The empirical findings suggest that ownership structure have a negative association with share price, whereas the audit committee is positively related to share price</td>
</tr>
</tbody>
</table>

Source: Compiled by researcher

As evidenced from the above table, no study was exclusively focused on the oil and gas sector. This gap the researcher intends to fill by this study. To this end, the following hypotheses are considered relevant:

1. **H₀**: The relationship between board composition and financial performance of listed oil and gas companies in Nigeria is not statistically significant.

2. **H₀**: There is no relationship between corporate governance disclosure and financial performance of listed oil and gas companies in Nigeria.
3.0 Overview of the Nigerian Oil & Gas Industry

Nigeria is the largest oil producing country in Africa and holds the largest natural gas reserves in Africa. The Nigerian economy is highly dependent on the production and export of its oil and gas resources with Nigeria's oil sector accounting for 95% of its export earnings and about 75% of the Nigerian government's revenue. Presently, Nigerian oil reserves stand at about 37.1 billion barrels, the 9th largest oil reserves in the world while the country's gas reserves are estimated at about 182 Tcf. Overall, the oil sector contributed 14.4% to GDP for 2013, lower than the 15.9% recorded in 2012. These figures, together with associated figures relating to gas production, resulted in a decline in real terms in 2013 compared with 2012.

Oil was first discovered in Nigeria in 1956 at Oloibiri in the Niger Delta region by Shell-BP (the then sole concessionaire) following about 50 years of exploration. Production commenced in 1958 at about 5,000 bpd. The foremost offshore oil discovery was also made by SPDC in 1965 within the shallow waters, south east of Warri. Shortly after, other international oil companies such as Elf, Agip, Total, Mobil and Chevron commenced operations in Nigeria.

Nigeria became a member of the Organization for the Petroleum Exporting Countries (OPEC) in 1971, and established the Nigerian National Petroleum Company (NNPC) in 1977 by Decree 33. Being a member of OPEC, Nigeria is subject to the organization's production quota. Oil production grew to approximately 2MMbpd in the early 70s before declining in the early 80s to 1.24MMbpd. This was precipitated by the fall in global oil demand following the oil price increase in 1979 and the ensuing global economic recession. By the 90s, oil production had picked up and steadied at a range of 2MMbpd to 2.4MMbpd, at a time when oil prices were approximately US$20/bbl.

Civil unrest in the Niger Delta region, coupled with poor capital infrastructure investment in production facilities inhibited growth in oil production. In the recent past the industry has benefited immensely from the continued upsurge in world crude oil demand which has kept prices at high levels. The average daily production as at 31 December 2012 and December 31, 2013 were 2.21MMbpd and 2.23MMbpd respectively.

The majority of Nigeria's oil production comes from onshore fields. However, in recent times, there has been significant production coming from the shallow water and deep water areas from projects such as Total's 180Mbpdp Usan field, which was commissioned in February 2012. According to NNPC, joint venture arrangements accounted for 49.89%
of Nigeria’s total crude oil production in 2013. PSC and service contract arrangements (which are more common in Nigeria’s deep offshore acreage) accounted for 39.22% and 0.40% of the country’s 2013 crude oil production respectively, whilst independents/sole risk and marginal field operators (which include Nigerian companies) accounted for 10.49% of total production in 2013.

In 2011, the US was the largest importer of Nigerian crude oil accounting for 33.0% of Nigeria’s oil production. However, more recently, the US gradually imported less from Nigeria following its discovery of shale. In June 2014, the FG announced that the US has stopped the importation of Nigerian crude oil, and India had taken over as the major buyer of Nigerian crude oil. Other major buyers of Nigerian crude oil are Brazil (7.7%) and the Netherlands (7.1%). Nigeria’s export blends are light, sweet crude oils, with gravities ranging from API 29 - 47 and low sulphur contents of 0.05% - 0.3%. These characteristics allow Nigerian crude oil to trade at a premium to Brent, the North Sea benchmark for crude oil.

Figure 1: Overview of the Nigerian Oil & Gas Industry

Source: http://www.cliqenergy.com/faq_sheets.php

The Niger Delta region has had a history of civil unrest, caused by host community agitation in the face of perceived environmental degradation by the International Oil Companies (IOCs). This has led to severe interruptions of petroleum operations by local militants. Significant efforts have been made by the Government to tackle the problems
in the Niger Delta. For example, the Niger Delta Development Commission was established to, amongst other things:

1. Develop the infrastructural needs of the Niger Delta region
2. Manage the sums received from upstream oil companies and the allocation of the Federation Account for tackling ecological problems which arise from the exploration of oil minerals in the Niger Delta area and
3. Alleviate the plight of local inhabitants.

In addition, in 2009, the Government implemented an amnesty program, which has been highly successful in reducing militancy. As a result of this, the oil industry has gradually recovered from the disruptions. Most of the onshore fields in the country that were shut down due to a lack of security (including the Bonga and Escravos fields of Royal Dutch Shell and Chevron Texaco) have been reopened.

Despite this, the oil sector has suffered from significant disruptions in 2011/12 due to the leakages, which caused the temporary shutdown of facilities such as Bonga, a 200,000 barrel per day (bpd) facility, which supplies nearly 10 percent of Nigeria's total crude output. Leakages on the Trans Forcados Pipeline (which is a major supplier to various power stations across the Niger Delta region) also resulted in SPDC declaring a force majeure on its Forcados export program (which has a production capacity of 400,000 bpd) during the fourth quarter of 2011.

Africa’s proven oil reserves are currently in excess of 128 billion barrels, representing 8% of the world’s proven oil reserves. This is an increase from 123 billion barrels in 2009; a trend which we expect to continuously see in coming years. Despite Africa being home to 8% of the world’s proven oil reserves; the continent produces 12% of the world's supply.

*Figure 2: Proven Oil Reserves - Africa (2013),*

*Source: OPEC Annual Statistical Bulletin, 2014*
Various new opportunities still exist in Africa. This is evident from the licensing of only 45% of the 4,200 oil and gas blocks available and the emergence of East African countries such as Tanzania and Mozambique as new industry players. A classic example of the developments in Africa is the production of the Jubilee Field located in Ghana which took a remarkable 24 months from development to production. It is hailed as the fastest deepwater development ever, producing 95,000 bpd and demonstrating to the world the possibilities in Africa.

There are a number of challenges facing the Nigerian oil and gas industry which are constraining the industry's growth. Notable among the challenges faced are:

i. Poor infrastructure
ii. Corruption
iii. Uncertain legal and regulatory framework
iv. Set-up costs
v. Access to funding
vi. Political influences
vii. Uncertainty and delays in passing laws
viii. Security and host community management.

The petroleum industry in Nigeria is regulated by the following acts and agencies:

a) Ministry of Petroleum Resources
b) Nigeria National Petroleum Corporation (NNPC)
c) Department of Petroleum Resources (DPR)
d) National Petroleum Investment Management Services (NAPIMS)
e) Nigeria Content Development and Monitoring Board (NCMB)
f) Niger Delta Development Commission (NDDC)
g) Oil and Gas Policy Commission
h) The Petroleum Act 1969
i) The Petroleum Profit Tax 1958
j) The Deep Offshore and Inland Basin Production Sharing Contracts Act No. 9 of 1999 (as amended)
k) The Associated Gas Re-injection Act 1979
l) Public Procurement Act 2007
m) Central Bank of Nigeria Act 2007
4.0 Research Method and Analytical Procedures

This research (as earlier enunciated) investigates the relationship between corporate governance and financial performance of listed oil and gas companies on the Nigerian stock and Exchange. Studies that establish causal relationships between variables may be termed explanatory studies (Saunders et al.2007 as cited in Adeyemi, & Fagbemi, 2010).

Population, Sample and Sampling Technique

The research population to serve the purpose of this study is the fifteen listed oil and gas companies listed and active on the floor of the Nigerian Stock Exchange. The ultimate test of a sample design is how well it represents the characteristics of the entire population (Emory & Cooper, 2003 as cited in Adeyemi, & Fagbemi, 2010). In order to achieve this, the entire 15 listed oil and gas companies in Nigeria were considered. The period between 2011 and 2012 financial years for the fifteen companies were chosen as our sample and technique is purposive.

The model specification:

\[ Y = f (a + \beta_1 (BCOM) + \beta_2 (AUDCOM) + \beta_3 (BSIZE) + \beta_4 (CGDI) + \epsilon) \]  

Where: \( Y \) = firm performance (ROE, PM and ROA)

\( BCOM = \) Board Composition (proportion of representation of non-executive directors on board). \( AUDCOM = \) Audit Committee (proportion of audit committee outside to total audit committee) \( BSIZE = \) Board Size (total number of the directors on board).

\( CGDI = \) Corporate Governance Disclosure Index (total score per company/maximum score) x100.

From equation (i), three equations were derived emerged for this study:

\[ ROE = a + \beta_1 (BCOM) + \beta_2 (AUDCOM) + \beta_3 (BSIZE) + \beta_4 (CGDI) + \epsilon \]  

\[ PM = a + \beta_1 (BCOM) + \beta_2 (AUDCOM) + \beta_3 (BSIZE) + \beta_4 (CGDI) + \epsilon \]  

\[ ROA = a + \beta_1 (BCOM) + \beta_2 (AUDCOM) + \beta_3 (BSIZE) + \beta_4 (CGDI) + \epsilon \]

Where: \( ROE = \) Return on Equity (profit after tax/shareholders’ fund)

\( PM = \) Profit Margin (profit after tax/turnover)

\( ROA = \) Return on Assets (profit after tax/total assets)
Table 2: Level of Corporate Governance Disclosure

<table>
<thead>
<tr>
<th>S/N</th>
<th>CODE FOR LISTED OIL &amp; GAS COMPANIES IN NIGERIA</th>
<th>SECTOR</th>
<th>YEAR</th>
<th>YEAR</th>
<th>TOTAL</th>
<th>AVERAGE</th>
<th>CGDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OAO Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>25</td>
<td>21</td>
<td>46</td>
<td>23.000</td>
<td>1.533</td>
</tr>
<tr>
<td>2</td>
<td>CAO Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>14</td>
<td>14</td>
<td>28</td>
<td>14.000</td>
<td>0.467</td>
</tr>
<tr>
<td>3</td>
<td>CON Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>23</td>
<td>20</td>
<td>43</td>
<td>21.500</td>
<td>0.717</td>
</tr>
<tr>
<td>4</td>
<td>ETE Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>21</td>
<td>21</td>
<td>42</td>
<td>21.000</td>
<td>0.700</td>
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<tr>
<td>5</td>
<td>FOR Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>20</td>
<td>20</td>
<td>40</td>
<td>20.000</td>
<td>0.667</td>
</tr>
<tr>
<td>6</td>
<td>JOM Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>22</td>
<td>22</td>
<td>44</td>
<td>22.000</td>
<td>0.733</td>
</tr>
<tr>
<td>7</td>
<td>MON Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>29</td>
<td>29</td>
<td>58</td>
<td>29.000</td>
<td>0.967</td>
</tr>
<tr>
<td>8</td>
<td>MRS Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>20</td>
<td>20</td>
<td>40</td>
<td>20.000</td>
<td>0.667</td>
</tr>
<tr>
<td>9</td>
<td>SEP Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>21</td>
<td>21</td>
<td>42</td>
<td>21.000</td>
<td>0.700</td>
</tr>
<tr>
<td>10</td>
<td>TON Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>29</td>
<td>29</td>
<td>58</td>
<td>29.000</td>
<td>0.967</td>
</tr>
<tr>
<td>11</td>
<td>AFR Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>28</td>
<td>28</td>
<td>56</td>
<td>28.000</td>
<td>0.933</td>
</tr>
<tr>
<td>12</td>
<td>NAV Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>8</td>
<td>10</td>
<td>18</td>
<td>9.000</td>
<td>0.300</td>
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<tr>
<td>13</td>
<td>ANI Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>15</td>
<td>12</td>
<td>27</td>
<td>13.500</td>
<td>0.450</td>
</tr>
<tr>
<td>14</td>
<td>BEC Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>11</td>
<td>7</td>
<td>18</td>
<td>9.000</td>
<td>0.300</td>
</tr>
<tr>
<td>15</td>
<td>RUP Oil &amp; Gas</td>
<td>Oil &amp; Gas</td>
<td>14</td>
<td>10</td>
<td>24</td>
<td>12.000</td>
<td>0.400</td>
</tr>
</tbody>
</table>

Source: computed by researcher using data extracted from annual reports and websites of listed oil and gas companies in Nigeria (2014)

Table 2, revealed that all the observed oil and gas companies presented a statement of their corporate governance practice. However, the extensiveness of the disclosure varies between companies. Based on the 30 governance indices used for assessment, Mobil Oil Nigeria Plc, and Total Nigeria plc emerged with highest number of corporate governance disclosure with 29 disclosure items i.e. (97%). On the other hand, BECO Petroleum Product Plc and Navitus Energy Plc disclosed the least governance items with 30% level of disclosure.

5.0 Findings and Conclusions

From the above regression Table 3 below, the coefficient of determination $R^2$ revealed that the explanatory variables accounted for 43% of change in ROE, 39.9% of change in PM and just 6.1% of changes in ROA.

Table 3: Regression Coefficient for Model 1- 3

$ROE = a + \beta_1(BCOM) + \beta_2(AUDCOM) + \beta_3(BSIZE) + \beta_4(CGDI) + \epsilon$ ......... Model 1
### Model 1

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>95% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-49.995</td>
<td>25.770</td>
<td>-1.940</td>
<td>.064</td>
</tr>
<tr>
<td></td>
<td>BCOM</td>
<td>28.479</td>
<td>28.217</td>
<td>.168</td>
<td>1.009</td>
</tr>
<tr>
<td></td>
<td>AUDCOM</td>
<td>73.235</td>
<td>30.838</td>
<td>.367</td>
<td>2.375</td>
</tr>
<tr>
<td></td>
<td>BSIZE</td>
<td>-2.756</td>
<td>1.379</td>
<td>-.345</td>
<td>-1.998</td>
</tr>
<tr>
<td></td>
<td>CGDI</td>
<td>48.358</td>
<td>16.053</td>
<td>.554</td>
<td>3.012</td>
</tr>
</tbody>
</table>

R = 0.657  
R Square = 0.431  
Adjusted R Square = 0.340  
F-Statistics = 4.738  
0.006 sig

PM = a + \( \beta_1 \) (BCOM) + \( \beta_2 \) (AUDCOM) + \( \beta_3 \) (BSIZE) + \( \beta_4 \) (CGDI) + \( \epsilon \) .......... Model 2

### Model 2

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>95% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>(Constant)</td>
<td>-17.859</td>
<td>8.460</td>
<td>-2.111</td>
<td>.045</td>
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<tr>
<td></td>
<td>AUDCOM</td>
<td>39.113</td>
<td>10.124</td>
<td>.614</td>
<td>3.863</td>
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<tr>
<td></td>
<td>BSIZE</td>
<td>.068</td>
<td>4.53</td>
<td>.027</td>
<td>.150</td>
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<tr>
<td></td>
<td>CGDI</td>
<td>1.583</td>
<td>5.270</td>
<td>.057</td>
<td>.300</td>
</tr>
</tbody>
</table>

R = 0.632  
R Square = 0.399  
Adjusted R Square = 0.303  
F-Statistics = 4.151  
0.010 sig

ROA = a + \( \beta_1 \) (BCOM) + \( \beta_2 \) (AUDCOM) + \( \beta_3 \) (BSIZE) + \( \beta_4 \) (CGDI) + \( \epsilon \) .......... Model 3
<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>95% Confidence Interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>3</td>
<td>(Constant)</td>
<td>-5.363</td>
<td>18.383</td>
<td>-292</td>
<td>.773</td>
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<tr>
<td>BCOM</td>
<td>16.851</td>
<td>20.129</td>
<td>.179</td>
<td>.837</td>
<td>.410</td>
</tr>
<tr>
<td>AUDCOM</td>
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<td>21.999</td>
<td>.111</td>
<td>.556</td>
<td>.583</td>
</tr>
<tr>
<td>BSIZE</td>
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<td>.984</td>
<td>-0.62</td>
<td>-2.79</td>
<td>.783</td>
</tr>
<tr>
<td>CGDI</td>
<td>-4.233</td>
<td>11.451</td>
<td>-0.087</td>
<td>-3.70</td>
<td>.715</td>
</tr>
</tbody>
</table>

R = 0.247
R Square = 0.061
Adjusted R Square = -0.089
F-Statistics = 0.406 0.803 not sig

Source: computed by researcher using data extracted from annual reports of observed companies (2014)

Unlike other sectors like banking, the coefficient of determination $R^2$ is a clear indication that changes in the profitability level of the oil and gas companies is majorly a function of changes in other external factors, which may include: global price of crude oil, OPEC decisions, world trade flexibility, global insecurity, operational risks, government decisions, technical know-how, fund availability, problems from host communities, vandalism of assets, kidnapping, court litigations, penalties and political issues among others and not necessarily the composition of board of directors, board size, audit committee or level of corporate governance disclosure.

Conclusions

Based on the outcomes of our analysis from Model 1, Model 2, and Model 3 in Table 3 above, we concluded that board composition has a positive relationship with financial performance of listed oil and gas companies in Nigeria even though the relationship is not significant. Since the results support our hypothesis 1, we therefore accept the null hypothesis that board composition does not have a significant relationship with financial performance of listed oil and gas companies in Nigeria.


With regards to hypothesis 2, we conclude from table 3 above, that there exists at positive relationship between corporate governance disclosure and ROA. For PM, the effect of corporate governance is positive though not significant and a negative relationship with
ROA. It therefore means that ROE and PM are likely going to increase if companies disclose their corporate governance policies and principles.

Based on the foregoing outcomes, we reject the null hypothesis which states that there is no relationship between corporate governance disclosure and financial performance of listed oil and gas companies in Nigeria. The outcome is in line with the study of (Danoshana & Ravivathani, (2013), Gurbuz, et al. (2010)).

**Recommendations**

Stakeholders in the Nigerian oil and gas industry can leverage on corporate governance as a vital instrument for increasing profitability by taking the following recommendations into cognizance:

i) Efforts to ensure strong, effective and independent audit committee should be harnessed by the board of directors and shareholders to drive corporate governance policies and practice equivalent to global standard.

ii) Company’s objectives and the processes in place for achieving the objectives should have their roots in established corporate governance framework to drive compliance, penalties for non-compliance. An effective legal framework should be developed to specify the rights and obligations of company, the directors, shareholders, specific disclosure requirements and provisions for the enforcement of compliance with codes of corporate governance.

**References**


Uwuigbe, O.R. (2013). Corporate Governance and Share Price: Evidence from listed Firms in Nigeria. *An International Multidisciplinary Journal, Ethiopia, 7*(2), 129-143. DOI: [http://dx.doi.org/10.4314/afrrev.7i2.8](http://dx.doi.org/10.4314/afrrev.7i2.8)