# Effect of Corporate Governance on Financial Performance of Quoted Oil and Gas in Nigeria

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## Abstract

*This study examined the effect of corporate governance on financial performance of quoted oil and gas companies in Nigeria. The specific objectives of the study were to determine whether corporate governance mechanisms- board size, board diversity, board diligence, board political affiliation, and corporate governance disclosures have any effect on firm financial performance using profit after tax (PAT) to measure firm performance. The study used the published annual reports spanning the period 2008 to 2015. A sample of twelve (12) out of the fourteen (14) quoted companies in the oil and gas sector were used for this study. The Generalized Least Square (GLS) regression was employed to examine the relationship existing between the variables. The study found that Board size, board gender diversity and corporate governance practices have significant positive impact on financial performance. Board diligence and corporate governance reforms are positive but not significant while board political affiliation has significant negative relationship with financial performance of quoted oil and gas companies in Nigeria. In the light of the above findings, it is recommended that companies should ensure that boards are effective in discharging their roles in monitoring the activities of management and that attention should not be on frequency of board meetings because of its negative impact on financial performance. Also, companies should Endeavour to include in their boards, females with core competencies that can improve the collective board productivity and there should be a limit on the number of politically-affiliated individuals on the board.*

**Keywords:** *Corporate, Governance, Board Characteristics and financial performance*

### *1.1 Introduction*

Good corporate governance is widely believed to be an important factor in improving the value of a firm in every economy of the world, though the relationship between some corporate governance mechanisms and firm financial performance differs in emerging economies like Nigeria and other developed economies of the world.

Empirical studies have shown that corporate governance plays an important role in improving the financial performance of a firm and there is a direct relationship between the two (Klapper & Love, 2003; Gompers, Ishii & Metric, 2003; Fama & Jensen, 2012).Literatures on corporate governance suggest that the roles of regulatory authority, board, management, suppliers, customers and creditors are important in improving firm performance. Good corporate governance is primarily concerned about the protection of the rights of shareholders which plays an important role in the development of capital market all over the world by protecting their interests (Kahan & Rock, 2003). Firm financial performance is a concept that supports the effective and efficient use of financial resources to achieve overall corporate objectives which include both shareholders wealth maximization and profit maximization objectives. Firms with good track records in term of financial performance tend to attract more investors. Firm financial performance is one of the determinants used by investors to make investment decision.

Empirical research studies have shown that firms with stronger stockholder rights, that is, better governed firms are more valuable (Gompers, et al, 2003 and Bebchuck, Cohen & Ferrell, 2004). The findings and recommendations from this study will be useful to government, regulatory authorities, business, firms, the economy, other researchers, scholars and the public at large, especially in a developing country such as Nigeria.

**1.2 Statement of the Research Problem**

Studies have shown that good corporate governance reduces the likelihood of corporate failure resulting from poor financial performance. There is still considerable argument of late concerning the effect of corporate governance on the financial performance of corporate entities. This is because studies have provided evidence of mixed results between certain corporate governance mechanisms and expected outcomes. For instance, Adeusi (2013) found that increased board size is positively related with financial performance (ROA) of banks while Uwuigbe (2012) discovered that the size of the board and the financial performance of banks measured in terms of ROA were significant and negatively related. Ishaya (2013) found that board composition has a significant but positive affiliation with firms' financial performance and Olatunji and Ojeka (2011) evidenced a significant but negative relationship between board composition and financial performance. Consequently, the objective of the study is to examine the relationship between corporate governance and firm financial performance in Nigeria using oil and gas companies.

Also, the study examines effect of board political affiliation which has not received extensive attention in most studies conducted in Nigeria. There is increasing argument that firms business conditions improve with the support of politically connected high-ranking officials, by means of removing barricades (Baum, 2008). This variable has not received much research attention when compared to other corporate governance variables such as Board size and board diversity. There is need to examine the effect of this variable on the financial performance of firms in Nigeria using oil and gas sector.

Again, the corporate governance landscape in Nigeria has been very dynamic. In 2003, Securities and Exchange Commission (SEC) adopted a Code of Best Practices on corporate governance for publicly quoted companies in Nigeria. In September, 2011, the new SEC code of corporate governance for Public Companies was released in Nigeria to address the weaknesses of the previous code. In April 2015, Financial Reporting Council of Nigeria (FRCN) released its first draft of National Code of corporate governance which is applicable for all public companies. However, most studies on corporate governance have not made any attempt to reflect these dynamic periodic changes in their analysis. The implication is that these studies assumed erroneously that the governance codes have remained static all through the period and this shields the ability to investigate the effect of corporate governance code reforms on financial performance using Nigeria as case study. Consequently, this study will address this gap by disaggregating the study to incorporate periods of policy changes by introducing a corporate governance code reform dummy that can provide an estimate of the effect of corporate governance code reform.

In addition, the study investigates the level of corporate governance compliance of quoted companies and this generated a compliance score for each of the firms that were examined. What has appeared the orthodoxy is to simply select specific corporate governance variables and examine their implications on firm financial performance such as in prior studies (Adeyemi & Fagbemi, 2010; Adeyemi & Uadiale, 2010; Dabor & Adeyemi, 2009; McConomy & Bujaki, 2000). Again this approach appears limited (Uwuigbe, 2012; Humayun & Adelopo, 2012) as it under-covers certain corporate governance practices such as risk management objectives, system and activities, composition and function of governance committee structures, directors` remuneration, existence of procedure(s) for addressing conflicts of interest among board members and performance evaluation processes (Humayun & Adelopo 2012). Consequently aside from the conventional corporate governance variables, the study also examines corporate governance practices. In the light of the above stated research problems, the research questions are; what is the relationship between corporate governance mechanisms- board size, board diversity, board diligence, board political affiliation, corporate governance disclosures and firm financial performance using profit after tax (PAT) to measure firm performance.

## Review of Relevant Literature

### *2.0 Conceptual Framework*

#### 2.1 Corporate Governance

Researchers, authors and some scholars view corporate governance from different perspective. Some notable organizations also contributed to the development and definitions of corporate governance. Cadbury (1992) defined corporate governance as an instrument used to discipline organizations. OECD 2010, considers corporate governance as the system by which business corporations are directed and controlled. In another words, corporate governance has as its core in the decision-making process at the level of the board of directors and top management and the mechanisms. Internal or external, that guaranty that decision-process outcomes are according to the objectives of the firm and its shareholders (Mulbert, 2010). Strandberg (2001) views corporate governance as being determined by the equity allocation among inside and outside investors. Corporate governance is also seen to concern the relationship between the internal governance mechanism of corporations and society's conceptions of the scope of corporate accountability (Deakin& Hughes, 1997). Fama and Jensen (2012) argued that corporate governance is a framework that controls and safeguards the interest of all stakeholders of an entity. The stakeholders include mangers, employees, customers, shareholders, executive management, suppliers and the board of directors. To them, the essence of corporate governance is to protect and safeguard the investment of shareholders.

Gompers, et al (2003), corporate governance is the mechanism by which the board of directors improve the value of the shareholders by controlling the actions of managers who are charged with the day to day running of the corporation. From an agency/control perspective, corporate governance provides a necessary check on top management, providing oversight. There is the argument that the opportunistic tendency of managers to engage in unethical practice is reduced. They ensure corporate conformance with investors' and society's interests, the siphoning-off of assets, the moral hazard, and the wastage of corporate-controlled resources and several other variants of the agency problem.

This study aligns with corporate governance as arrangements and mechanisms put in place to ensure efficient and effective control of the affairs of an entity for optimal maximization of shareholders wealth as well as adequate compensation for other stakeholders. This study therefore conceptualized corporate governance as the activities of managers in corporate entities which ensure that companies are accountable to all their stakeholders and their environment in all areas of their business activity.

#### 2.2Firm Financial Performance

The performance or value of a firm can be seen as the amount of utility or benefits derived from shares of a firm by the shareholders. Firms with high value from the sales of their shares can be said to be performing well financially. Such high valued firms attract investors a lot thereby increasing the firm's prospect of further expansion. There are several measures to value a firm. Some widely used measures are discounted cash flow, present value, equity cash flow and weighted average cost of capital methods. For the purpose of this study, firm performance was measured using Profit After Tax (PAT). This ratio expresses the success of a firm in generating profits or returns from the resources owned. Profit is calculated after deducting all expenses and tax attributable to the returns. Drucker (1999) asserts that for a business enterprise to continue running, it must make profits.

#### 2.3 Board Characteristics and Firms Performance

Board characteristics refer to board size, board diversity, board diligence, and board political affiliation.

#### 2.3.1 Board Size and Firms Financial Performance

This refers to the total number of directors on the board of any corporate organization. The empirical results thus far reflect mixed outcomes in the sense that some scholars (Kashif, 2008; Zubaidah, Nurmala, & Kamaruzaman, 2009) concluded that board size have a positive impact on firm financial performance. Zahra and Pearce (2009) opine that there is high possibility that a larger board will make better and inform decisions. Ning, Davidson, and Wang, (2010); Connell and Cramer (2010), concluded that a negative relationship exists. Li and Niu, 2006; Frick and Andreas, (2010); results report a non-consistent relationship between board size and firm financial performance.

### 2.3.2 Board diversity and Firms Financial Performance

Board diversity is the variation of gender in a corporation's board. Coffey and Wang (1998) define board diversity as variation among its members. Joe and Lilian (2011) found a negative relationship between the percentage of women in the board and financial performance for South African companies.
Famoti and Adeyeye (2013) found a positive effect for this relationship for Nigerian firms. This was also in agreement with the result of (Carter, Simkins & Simpson 2003) who found a positive relationship for a sample of US firms.

### 2.3.3 Board diligence and Firms Financial Performance

According to SEC code of corporate governance (2011), it is mandatory for the board to meet at least once every quarter. This also aligned with National Code of corporate governance (FRCN, 2016) for private sector. Sonnenfeld (2002) suggested that regular meeting attendance is considered a hallmark of the conscientious director.
Further, frequent meetings intermingled with informal sideline interactions can create and strengthen cohesive bonds among directors (Lipton & Lorsch 1992), and thereby impact positively on firm financial performance. An opposing theoretical view is that board meetings are not necessarily beneficial to shareholders. Vefeas (1999) argued that normally the limited time directors spend together is not used for the meaningful exchange of ideas among themselves, instead routine tasks, such as presentation of management reports and various formalities absorb much of the meetings, and this reduces the amount of time that outside directors would have to effectively monitor management Consistent with Jensen's (1993) suggestions, Vafeas (1999) argues that companies that are efficient in setting the right frequency of board meetings, depending on its operating context, will enjoy economies of scale in agency costs, and thereby enhance financial performance.

### 2.3.4 Board political affiliation and Firm Financial Performance:

This is a situation where a member or members on the board of corporation serve or hold a political position either by election or appointment. Faccio (2006) found that stock prices rise upon the news of firms' top officers entering politics. Consistent with this conjecture, the literature showed that board political affiliation has effect on the performance of firms in Brazil (Claessens, Feijen & Leaven, 2008), China (Du, 2012), India (Cole, 2009), Pakistan (Khwaja & Mian, 2005) and United States (Houston, 2012).

Prior studies (Faccio, 2006, Charunulind, Kali &Wiwattanakantang, 2006)showed that board political affiliation has effect on firm financial performance due to greater access to funds from banks in the above mentioned developing and developed countries In Nigeria, for examples, most of the donations made for the presidential campaigns of the People Democratic Party (PDP) and that of the All Progressive Congress (APC) were made for a purpose best known to the companies. Many donors took cover under different trade associations.

### 2.3.5 Corporate governance disclosure and Firms Financial Performance

Salami (2013) examined relationship between corporate governance disclosures and firm financial performance. The study used secondary data from 100 selected companies in Uganda. An 'Index of corporate governance disclosure' consisting of 85 items was constructed. The OLS method and multiple regression analysis were used to estimate corporate governance disclosure. It was found that there is positive relationship between the two variables. Rouf (2012) examined the relationship between corporate governance disclosure (CGD) and profitability of listed Non-Financial firms in Bangladesh. The 2007 annual reports of the 94 listed firms selected for this study were used. The OLS method and multiple regression analysis were used to estimate corporate governance disclosure. Independent variables such as board audit committee, profitability, size of the firm and ownership structure were examined. CGD was positively related with profitability.

## 2.5 Theoretical Framework

A number of theories have been developed to explain the model of corporate governance and performance of firms during the last two decades. Well accepted, one of them is reviewed with the purpose of providing appropriate knowledge over those known theories.

### 2.5.1 Agency Theory

The principal –agent theory is generally considered the starting point for any argument on the issue of corporate governance. Berle and Means (1932) stated the fundamental agency problem of modern firm is primarily due to separation between and finance and management. Separation of ownership and control is seen as the main problem of modern firms, as these firms are therefore run by the professional managers who are the agents and cannot be held accountable by shareholders. The principals are faced with the problem of selecting the most capable managers, and also with the problem of giving the managers (agents) the right incentives to make decisions aligned with shareholders interest Jensen and Meckling (1976) argued that agency theory can be viewed as a nexus of contracts, implicit and explicit, among various stakeholders, such as shareholders, bondholders, employees, and the public which involves delegating some decision making authority to the agent. The agents here are the managers of corporations while the principal refers all the shareholders. A critique of the agency theory is the implicit presumption that, the conflicts are between strong, entrenched managers and weak, dispersed shareholders. It has led to an almost exclusive focus in both analytical work and reform efforts, of solving the monitoring and management entrenchment problems, which are the main governance problems in the principal-agent context with dispersed ownership. (Maher & Terry, 1999).
The analytical focus of the agency theory on how to solve the corporate governance problem is too narrow says another critique of this theory (Maher & Terry, 1999).

## *3.0 Methodology*

This study employed longitudinal research design. A longitudinal design involves repeated observations of the same variables over long periods of time unlike the cross-sectional design which examines variables at a point in time. The study used 12 out of the 14 companies listed in the oil and gas sector of the Nigeria Stock Exchange. The study aimed at using all the 14 listed companies but the occurrence of acquisition involving 2 of the companies reduced the sampled companies to 12. The study used secondary data retrieved from corporate annual reports of the sampled companies for 2008-2015 financial years. The study utilized the Generalized Least squares (GLS) regression estimation. The reason for the GLS regression is that GLS regression has the additional advantage that it corrects for the omitted variable bias and it allows for the examination for variations among cross-sectional units simultaneously with variations within individual units over time (Baum, 2008).

### 3.1. Model Specification

This study adopted the model of Uwuigbe (2012) which examined corporate governance and firm performance in Nigerian Banks. The model is specified thus:

$$ROA_{it} = \beta_o + \beta_1 BOS_t + \beta_2 BCOMP_t + \beta_3 DEI_t + \beta_4 CGDI_t + e_t \ldots\ldots\ldots\ldots\ldots (1)$$

This study modified Uwuigbe (2012) model by incorporating Board diversity, Board diligence and Board political affiliation. Importantly, also this study introduced a unique variable; Corporate Governance Reform dummy which is used to estimate the effect corporate governance reform on firm performance. Consequently, the model for this study is presented below:

$$FP_{jt} = \lambda_0 + \lambda_1 Bsize_{jt} + \mu_{it} \text{ ---------- (1)}$$
$$FP_{jt} = \lambda_0 + \lambda_2 Bdiv_{jt} + \mu_{it} \text{ ---------- (2)}$$
$$FP_{jt} = \lambda_0 + \lambda_3 Bdili_{it} + \mu_{it} \text{ ---------- (3)}$$
$$FP_{jt} = \lambda_0 + \lambda_4 Bpol_{jt} + \mu_{it} \text{ ---------- (4)}$$
$$FP_{jt} = \lambda_0 + \lambda_5 CG\text{-}Disc_{jt} + \mu_{it} \text{ ---------- (5)}$$
$$FP_{jt} = \lambda_0 + \lambda_6 CG\text{-}Ref_{jt} + \mu_{it} \text{ ---------- (6)}$$
$$FP_{jt} = \lambda_0 + \lambda_1 Bsize_{jt} + \lambda_2 Bdiv_{jt} + \lambda_3 Bdili_{it} + \lambda_4 Bpol_{jt} + \lambda_5 CG\text{-}Ref_{jt} + \lambda_6 CG\text{-}Disc_{jt+} \mu_{jt} \text{-(7)}$$

**Where:**

FP=Financial performance
BSIZE =Board size
BDIV = Board Diversity
BDILI= board diligence
BPOL= Board political affiliation
CG-REF= Corporate governance reform

CG-Disc= Corporate governance disclosure score
J =jth firm
t = time period

### 3.2 Measurement of Variables

The measurement of variables and apriori expectations are depicted in table 3.1 below.

**Table 3.1: Measurement of Variables and a priori Expectations**

| Variable | Description | Measurement (operational definition) | A priori sign | Sources |
|---|---|---|---|---|
| Dependent Variable | | | | |
| FP | Financial performance | Accounting measure: ( Profit After Tax) | | Drucker (1999) |
| Independent Variables | | | | |
| BSIZE | Board size | Number of individuals on the board | + | Kashif,(2008)<br>Zubaidah et al, (2009) |
| BDIV | Board Diversity | 1.Board gender diversity i.e Male and Female<br>2.Board composition i.e ratio of executive to non-executive directors<br>3.Ethnic diversity i.e Yoruba, Hausa, Igbo and other foreign nationals | + | (Carter,Simkins&Simpson,2003)<br>Famoti&Adeyeye, 2013 |
| BDILI | Board diligence | Number of times the board meets in a given year | + | Vefeas ,(1999),<br>Jensen (1993) |
| BPOL | Board political affiliation | Dummy variable measure of "1" if company board has members with political affiliation and "0" if not | _ | Faccio,(2006) |
| CG-REF | Corporate governance reform | Dummy variable measure of "0" for periods before 2011 SEC corporate governance code reform and "1" for periods after 2011. | + | Uwuigbe, (2012) |
| CG-Disc | Corporate governance disclosure score | Computed score from checklist of disclosure items. Compliance Disclosure Checklist was designed to the Code of Corporate Governance. The rate of compliance was ranked on a scale of 0 to 1 and the average total was collated and analysed and used to benchmark the level of compliance in the sampled companies. | + | Rouf, (2012)<br>Salami, (2013) |

**Source:** Researcher's compilation, (201

### 4.1. Data Presentation and Analysis of Result

**Table 4.1: Regression Result**

| **Variable** | **A priori sign** | *Fixed effects regression* | *Random effects regression* |
|---|---|---|---|
| C | | 9.9918<br>{0.9220}<br>(0.0000) | 9.5173<br>{1.613}<br>(0.000) |
| BSIZE | + | 2.3932<br>{0.0747}<br>(0.0022) | 0.0988<br>{0.0787}<br>(0.2139) |
| BDILI | + | 0.0304<br>{0.1330}<br>(0.8200) | 0.3464<br>{0.2017}<br>(0.0906) |
| BDIV | + | 2.7587<br>{0.5399}<br>(0.0000) | 0.6679<br>{1.6525}<br>(0.6873) |
| BPOL | + | -1.6414<br>{0.2826}<br>(0.0000) | -0.6181<br>{0.3964}<br>(0.1237) |
| CG-REFDUM | + | 0.2572<br>{0.1605}<br>(0.1145) | 0.3385<br>{0.4805}<br>(0.4836) |
| CG-DISC | + | 3.4271<br>{0.8174}<br>(0.000) | 3.4664<br>{2.0515}<br>(0.0957) |
| Model Parameters | | | |
| $R^2$ | | 0.685 | 0.1595 |
| Adjusted $R^2$ | | 0.596 | 0.0842 |
| D.W | | 1.9 | 1.25 |
| Mean of Dep.Var | | 21.876 | 13.2856 |
| S.E of Regression | | 1.376 | 1.688 |
| F-stat | | 7.739<br>(0.00) | 2.118<br>(0.062) |
| Model selection criteria | | | |
| Hausman test: | 0.032 | | |
| Model Diagnostics | | | |
| Breusch-Pagan-Godfrey | | | 0.7516 |
| Breusch-Godfrey LM Test: | | | 0.1214 |
| Ramsey model test | | | 0.115 |

***Source:*** *Researcher's Compilation (2017)* {} are standard errors, ( ) are p-values

Table 4.1 shows the regression result for the study. The regression is conducted using the White Heteroskedasticity-Consistent Standard Errors & Covariance to control for possible heteroscedasticity in the model. The fixed effects and random effects estimations were conducted and based on the Hausmantest, the preferred estimation (random effects (RE) estimation) was selected and used for the discussion of the results and hypotheses testing. The fixed effects (FE) estimation, showed a coefficient of determination ($R^2$) value of 0.685 which suggests that the model explains about 68.5% of the systematic variations in financial performance with an adjusted value of 0.596. The F-stat is 7.739(p-value = 0.00) is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significance of the model. The D. W statistics of 1.9 indicates the absence of stochastic dependence in the model.

Focusing on the performance of the coefficients, we observe that Board size is positive (2.3932) and also statistically significant at 5% level (p=0.002) and hence the size of the board has significant positive impact on financial performance and specifically, the higher the board size, the higher the level of financial performance. The result also shows that board diligence is positive (0.0304) and not statistically significant at 5% level (p=0.8200). The coefficient for board gender diversity is positive (2.7587) and statistically significant at 5% level (p=0.000). The result revealed that financial performance is a positive function of board gender diversity and thus a more diverse board will have a strong and positive influence on financial performance. The coefficient of Board political affiliation is negative (-1.6414) and statistically significant at 5% level (p=0.000). Though in contrast with a priori expectation, the result suggests that financial performance is a negative function of board political affiliation; thus a more politically affiliated board will have a negative influence on financial performance. The coefficient of corporate governance reform dummy is positive (0.2572) and not statistically significant at 5% level (p=0.1145) suggesting that though the a priori sign is as expected, the effect of corporate governance reforms appeared not statistically significant.

The coefficient of corporate governance practices disclosure is positive (3.4271) and statistically significant at 5% level (p=0.00) which implies that financial performance is a positive function of the extent of corporate practices suggesting that a stronger corporate governance compliance profile resulted in improved financial performance.

The random effects (RE) estimation, shows a coefficient of determination ($R^2$) value of 0.1595 which suggests that the model explains about 15.95% of the systematic variations in financial performance with an adjusted value of 0.084. The F-stat of 2.118 (p-value = 0.062) is significant at 10% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected with a D. W statistics of 1.25. Focusing on the performance of the coefficients, it was observed that the coefficient of Board size is positive (0.0988) but not statistically significant at 5% level (p=0.2139). The coefficient of board diligence is positive (0.3464) and though not statistically significant at 5% level (p=0.0906). The coefficient for board gender diversity is positive (0.6679) though not statistically significant at 5% level (p=0.6873). The coefficient of Board political affiliation is negative positive (-0.6181) and not statistically significant at 5% level (p=0.1237). The coefficient of corporate governance reform dummy is positive (0.3385) though not statistically significant at 5% level (p=0.4836). The coefficient of corporate governance practices disclosure is positive (3.4664) though not statistically significant at 5% level (p=0.0957)

### 4.2. Discussion of Findings and Test of Hypotheses

#### 4.2.1. Board Size and Firm Financial Performance

**$H_{01}$: Board Size has no significant relationship with financial performance of Oil and Gas Companies in Nigeria.**

Focusing on the performance of the coefficients, we observe that Board size is positive (2.3932) and also statistically significant at 5% level (p=0.002) and hence the hypothesis therefore that board size has no significant relationship with firm financial performance is rejected. It means that, the size of the board has significant positive impact on financial performance and specifically, the higher the board size, the higher the level of financial performance. Some scholars (Kashif, 2008; Zubaidah et al, 2009) concluded that board size has a positive impact on firm financial performance. In Japan, Suuli and Ki-park (2013) confirmed the results. On the contrary, Ning et al (2010); Connell and Cramer (2010), concluded that a negative relationship exists.

#### 4.2.2. Board Diligence and Firm Financial Performance

**$H_{02}$: Board Diversity has no significant relationship with financial performance of Oil and Gas Companies in Nigeria**.

The result also showed that board diligence is positive (0.0304) and not statistically significant at 5% level (p=0.8200) and hence the hypothesis therefore that board diligence has no significant relationship with firm financial performance is accepted.Scholars (Vafeas, 1999; Jensen, 2003) argued that board meetings are costly in the form of managerial time, travel expenses, refreshments and directors' meeting fees that can negatively influence firm financial performance. In contrast to our findings, Osoweto (2013) revealed a statistically significant and positive association between the frequency of corporate board meetings and firm financial performance.

### 4.2.3. Board Gender Diversity and Firm Financial Performance

**$H_{03}$: Board diligence has no significant association with financial performance of Oil and Gas Companies in Nigeria.**

The coefficient for board gender diversity is positive (2.7587) and statistically significant at 5% level (p=0.000). The result implies that financial performance is a positive function of board gender diversity and thus a more diverse board will have a strong and positive influence on financial performance. Consequently, the null hypothesis that gender diversity has no significant association with firm financial performance is rejected. The finding is in tandem with Oba and Fodio (2013) using a sample of thirty (30) quoted companies for the period 2005-2007 showed that female director presence have positive impacts on financial performance. This finding also agrees with that of Oyebode, (2009) who revealed that board gender diversity is positively associated with financial indicators of a firm's performance.

### 4.2.4. Board Political Affiliation and Firm Financial Performance

**$H_{04}$: Board Political affiliation has no significant relationship with financial performance of Oil and Gas Companies in Nigeria.**

The coefficient of Board political affiliation is negative (-1.6414) and statistically significant at 5% level (p=0.000), consequently, the null hypothesis that board political affiliation has no significant relationship with corporate financial performance is rejected. The empirical evidence for positive effects of political affiliations on financial performance is more often with regard to stock prices. For example, Faccio (2006) found that stock prices rise upon the news of firms' top officers entering politics. Some scholars also argued that board political affiliation may have no effect on firm financial performance. Fisman (2000) supported this view by providing evidence that firms with highly politically connected board members like the then vice president Cheney of U.S.A did not have any effect on their performance

### 4.2.5. Corporate Governance Reform and Firm Financial Performance

**$H_{05}$: Corporate governance code reforms have no significant relationship with financial performance of Oil and Gas Companies in Nigeria.**

The coefficient of CG reform dummy is positive (0.2572) but not statistically significant at 5% level (p=0.1145), hence, the null hypothesis that corporate governance reform has no significant relationship with firm financial performance is rejected; suggesting that though the apriori sign is as expected. The effect of corporate governance reforms appears not statistically significant. Though there are no studies yet in Nigeria that have investigated the effect of corporate governance reforms on firm financial performance, our findings suggest that the reforms have not had any significant impact on firm financial performance. Before, 2011, quoted companies in Nigeria used the 2003 corporate governance code

### 4.2.6. Corporate Governance Practices Disclosure and Firm Financial Performance

**$H_{06}$: Corporate governance practices disclosure index has no significant association with financial performance of Oil and Gas Companies in Nigeria**

The coefficient of corporate governance practices disclosure is positive (3.4271) and also statistically significant at 5% level (p=0.00), consequently, the null hypothesis that corporate governance disclosures have no significant

association with firm financial performance is rejected. This implies that financial performance is a positive function of the extent of corporate practices suggesting that a stronger corporate governance compliance profile results in improved financial performance. The result confirms that improved corporate governance practices improve firm financial performance and hence companies should improve their compliance with corporate governance regulations.

### *5.1Conclusion*

The debate on the central importance of corporate governance has increased in recent times because of the global financial crisis experienced in the financial system in the last two decades. Perhaps, the collapse of a number of corporate giants (Enron, WorldCom and Parmalat) has brought to the fore, the need for genuine transparency, accountability and effective corporate management. This study examined the effect of corporate governance on financial performance of quoted oil and gas companies in Nigeria. The specific objectives of the study were to determine whether corporate governance mechanisms- board size, board diversity, board diligence, board political affiliation, and corporate governance disclosures have any effect on firm financial performance using profit after tax (PAT) to measure firm performance. The study found that Board size, board gender diversity and corporate governance practices have significant positive relationship with financial performance while board diligence and corporate governance reforms are positive but not significant. Board political affiliation has significant negative relationship with financial performance of quoted oil and gas companies in Nigeria. From the foregoing analysis, it is evident that corporate governance has an influence on a firm's financial performance; therefore sound corporate governance is needed to ensure improved financial performance of quoted oil and gas companies in Nigeria.

### *5.2. Recommendations*

The study makes the following fundamental recommendations:

1. The determination of what an optimal board size should be is still without unanimity. Nevertheless, this study re-affirms that board size is a significant factor in the determination of financial performance. Hence, it is recommended that Securities and Exchange Commission should take into cognizance what an optimal board size should be in formulating code of corporate governance.
2. The result revealed that board diligence has a negative relationship with financial performance. Hence, the study recommends that companies may need to revisit the issue of frequency of board meetings. Attention should be focused and targeted at efficiency of board meetings rather than frequency.
3. Board gender diversity is positive and statistically significant, thus the study recommends that the female-male ratio be increased in corporate boards. However, we caution that the reason for this is not merely for the purpose of gender equity but for the purpose of maximizing the resource capacity of females on the board. Thus companies must select females with core competencies that can improve the collective board productivity.
4. Board political affiliation is negative. Hence, the study recommends that as part of corporate governance regulations, there should be a limit on the number of politically-affiliated individuals on the board.
5. In addition, the Corporate Governance Committee of companies should Endeavour to carry out a regular appraisal of their corporate governance compliance status as it affects financial performance. This is because the study was able to identify that corporate governance has an impact on firm performance

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**APPENDIX 1: Quoted Oil and Gas Companies in Nigeria**

| S/N | **COMPANY** | **TICKER** | |
|---|---|---|---|
| 1 | ANINO INTERNATIONAL PLC.[MRS] | ANINO | |
| 2 | BECO PETROLEUM PRODUCT PLC[MRS] | BECOPETRO | |
| 3 | CAPITAL OIL PLC[RST] | CAPOIL | |
| 4 | CONOIL PLC | CONOIL | |
| 5 | ETERNA PLC. | ETERNA | |
| 6 | FORTE OIL PLC. | FO | |
| 7 | JAPAUL OIL & MARITIME SERVICES PLC | JAPAULOIL | Excluded |
| 8 | MOBIL OIL NIG PLC. | MOBIL | |
| 9 | MRS OIL NIGERIA PLC. | MRS | |
| 10 | NAVITUS ENERGY PLC[DIP] | UNIONVENT | Excluded |
| 11 | OANDO PLC | OANDO | |
| 12 | RAK UNITY PET. COMP. PLC. | RAKUNITY | |
| 13 | SEPLAT PETROLEUM DEVELOPMENT COMPANY LTD | SEPLAT | |
| 14 | TOTAL NIGERIA PLC. | TOTAL | |