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Board Attributes and Financial Performance of Listed Oil and Gas Companies in Nigeria

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Abstract
Due to the possible impact on company operations and performance, corporate governance has been at the center of company and academic discussion. This paper looked at how board attributes affect the financial performance of companies within Nigerian oil and gas sector. The paper was anchored on Stakeholder's Theory of Edward Freeman. The paper adopted an expo-facto design as it is focused on a statistical relationship between variables without the manipulation of the independent variable. The paper employed Board Composition and Board Diversity as proxies for Board Attributes while Return on Assets represented the financial performance. However, this paper introduced Firm size as a Control or Moderating Variable to see changes in the performance of the Dependent and the Independent variables. The data from 2010 -2019 financial periods sourced from Machema Ratios were analyzed with the aid of EVIEWS 10.0 software and the findings show that, Board Composition does not affect the financial performance of oil and gas companies in Nigeria. Moreover, there was a significant relationship between Board Diversity and financial performance of Oil and Gas companies in Nigeria. The paper therefore, recommends that for financial performance of the oil and gas industry to increase, there is the need to allow the introduction of foreign directors as the more the proportions of foreign directors on board, the higher the financial performance of the sector.

Keywords: Board Attributes, Corporate Governance, Financial Performance
JEL Classification: G23, L95

1. Introduction

The financial performance of companies is, on one hand, a key instrument for funding the present economic activities which helps to keep the business going and also boost the business value and on the other hand, it contribute to the distribution of dividends, which, in turn, is a key measurement criterion for stakeholders, and for the shareholders in particular (and their funds).Thus, it is important for both practice and academia to identify and analyze those aspects that affect the financial performance of organizations. Although it is logical to assume that, the Board of Directors' managerial capabilities would have a substantial impact on the financial performance of the company. This explains how beneficial or important board attributes may have on the performance of companies. In order to receive investment capital, many firms around the world need expansion and growth. In this, investors usually ensure that the firm under consideration is financially sustainable, stable, and capable of handling the business and making long-term profit before they invest in a certain business (Mallin, 2007).Therefore, where the situation of the company is not all that promising, it will not be as attractive to possible investors. This explains that, the failure to acquire sufficient money by companies would have a negative impact on the busines and on the firm in general. Due to its potential impact on company activity and performance, corporate governance has been noted as a leader for corporate and university discussion. Good corporate governance is primarily focused on leadership capacity to influence firms or establishments in achieving their objectives and to contribute to the organization's efficiency and success. Aliani (2014) opine that, a leader's specific behavior distinguishes him or her from others and this has shown that an effective management is the consequence of an effective role conduct achieved by establishing trust and mutual respect and relations with the group. Recent researches suggest that Nigerian firms' financial performance has an impact on the board of directors (Bebi et al 2015) and that independent board of directors have a substantial positive relationship with market assessment in African companies (Ntim, 2013). Smaili and Sinclair-Desgagne (2014) noted that, the presence of independent financial specialists on the board also reduces the severity of the punishments imposed by financial authorities. Evidence from Chouaibi et al., (2010) and Aliani (2014) indicates that the CEO can influence the tax strategy and amount of innovation of a company. Akileng and Donnelly (2013) also reveal that abnormal accrual chances are perceived by the market to be minimized by good corporate management.

In every firm, the Board is the main component of Corporate Governance whose responsibilities include to design, supervise and implement policies in a manner consistent with the operational policy and guidelines of the organization.It is the Board's power to decide on behalf of the shareholders the operation, administration and strategy of the firm, since it represents its interests. Board composition as one of the corporate governance' mechanisms explained the need for the formation of the board with the aim of ensuring diversity of expertise without compromising the integrity, independence, compatibility and accessibility of members to meetings so as to ensure effective corporate financial performance. For a more effective and efficient composition of the board, Eisenhardt (1989) explained that, non-executive directors make up a larger proportion of effective boards as the support for higher percentage of non-executive directors on the board is founded on agency theory. Due to its independence from company management, the non-executive directors are supposed to offer the company higher performance benefits (Hasssan and Farouk, 2014).

The impact of board composition, board independence, board size, CEO duality on business performance has been investigated in recent studies. In Nigeria, studies such as Sanda, Mukailu and Garba (2005) examined the existing relationship between the two variables (that is, board composition and financial performance) and the study found board composition to have significant effect on company's financial performance. More so, Ehikioya (2009) noted a positive and significant relationship between the composition of boards, the Board size, CEO duality and performance of a firm. Ohiokho and Ohiokha (2011) had written a work on the impact of corporate governance and firm performance, but the study failed to take diversity and gender into account. This study attempts to analyze the impact of the Boards' composition, diversity of boards, foreign directors and educational backgrounds on the firm performance of oil and gas businesses in Nigeria. This is because, in order to manage the business activities for shareholders, it is an important instrument or process for monitoring, consulting and managing companies (Fama& Jensen, 1983). This study, therefore, aims to fill the gap that for corporate governance to effectively play a major role in firm financial performance, significant elements such foreign directors and directors' educational background, gender and diversity in board composition should have a prime position, and this is the focal point of the study.

It is anticipated that, this study will contribute to existing literature by providing empirical evidence on the relationship between board attributes and firm financial performance in Nigeria, with the oil and gas companies as the focal point. This study assesses the impact of board attributes on the financial performance of listed oil and gas marketing firms in Nigeria. The specified objectives are to examine the effect of board composition on the financial performance of oil and gas companies in Nigeria; to determine the extent to which board diversity influences the financial performance of oil and gas companies in Nigeria.

2. Literature Review

Concept of Board Attributes

The need for deeper separations between ownership and control is expanding in modern society due to the increasing size and complexity. In recent years, millions of investors, in particular in North America and Europe, have been affected by aberrant and illegal conduct of large corporations (Picard, 2005). Recently, due to company scandals and the wrongdoing of management, the subject of board attributes has become more significant. Fenwick, McCahery and Vermeulen (2019) noted that hidden debt, inflated earnings, insider trading, tax evasion, misuse of money, and violations of fiduciary obligations have all been the subject of criminal and civil lawsuits against companies, board members, and executives. Enron, WorldCom, and Tyco became well-known as a result of massive governance failures (Garg, 2007).Corporate scandals and financial crises involving multiple banks and others in Nigeria have sparked interest and research into the function of corporate governance in firms. The connection between the owner and the management, as well as the allocation of authority and responsibility in organizations, are all topics covered by corporate governance (Picard, 2005).The corporate governance study is comprehensive since a range of theoretical views have been taken to examine the structure, role and impact of boards and this lead to several competitive hypotheses regarding best corporate governance practices. Consequently, it is important for researchers to notify existing management practices (Kiel and Nicholson, 2003).Some ideas see corporate administration as a relationship between certain board and business success qualities. Corporate management relies, for example, on structures such as the ownership structure, the composition of boards, the Board size, debt and CEO duality (Ehikioya, 2009).Others place corporate governance as the total package that derives organizations to attain their objectives. Example; (Al-Azzam and Al-Qura'an, 2015) and (Fenwick, McCahery & Vermeulen, 2019)

Concept of Board Composition

The term board composition could be seen as the portion of executive, non-executive and independent directors (outside directors) when expressed as a proportion to the total board membership. Shah et al., (2011) explained dependent directors as executive directors while independent directors were seen as non-executive directors. The majority of the literature agrees that effective boards have a higher share of outside directors. Studies such as Jensen and Meckling (1976) and Eisenhardt (1989) explained that the agreement on a higher share of outside directors on the board is based on agency theory, which encourages ownership and control separation that could lead to self-interested conduct by responsible people. Outside directors, according to the agency theory, will make up effective boards. The Management Committee should be large enough and composed so that the diversity of expertise is guaranteed, so also, the independence, compatibility, integrity and availability of the members of the Board of Management are not affected by the meetings of Securities and Exchange Commission members under the Corporate Governance Code published in Nigeria. The board shall consist of a blend of managers and non-management directors, headed by the Chairman.

Board Composition and Financial Performance

Many corporate governance investors see corporate management as a means to extract value from underperforming, undervalued corporations for shareholders. Targeting organizations that perform and analyze business governance can lead to improvements that unleash the hidden worth of a company. Often, these reforms entail replacing badly functioning managers and ensuring that organizations follow some guided rules of practice for the organization to be considered best of practice in corporate management (Fosberg, 2004). In their analysis, MacAvoy and Millstein (2005) found that companies with active and independent members looked to do far better than those with passive, unrelated board members. Most investors prefer to pay a premium in order to invest in a well-managed company (MacAvoy and Millstein 2005). Often scheduled meetings generate the management time-consuming opportunity expenses and cash costs for board members in form of travel allowances and charges. However, genuine benefits might come through meetings such as conferences, strategies and management monitoring opportunities. For example, Vafeas (2004) discovered that, meeting frequently influences in a way that is compatible with agency theory in the improvement of operating performance.

Concept of Board Diversity

In recent years, studies of women on board have been brought to the attention of regulators in certain nations the studies recommended that, women be board member of public firms. Countries such as Norway and Sweden on the Board of

Directors of list corporations have mandated a gender quota (Rondoy, Oxelheim and Thomson, 2006).The problem of having more women on boards and in top executive positions has become a hot topic of discuss. In Norway, for example, governmental measures are restricting the proportion of women on board of directors. The results for Danish companies also suggested that wider gender differences in top management roles would boost financial performance to some level (Smith, Smith and Verner, 2006).Huse and Solb (2006) explained that women directors on corporate boards could make significant contributions that will create competitive advantage for firms. Burke (2003) noted that women on boards have an impact on a business's reputation, provide strategy for women's product/market issues, lead the company, improve board processes and discussions and contribute to the work of the companies. Companies that are customer-driven have more women managers that are recognized as employers of choice. With more women on board, the reputation of an organization can be enhanced, above all, as a symbol of good governance and a sign for excellent management (Vinnicombe, Singh, Burke, Bilimoria, and Huse, 2008).

Board Diversity and Financial Performance

The board is diversified by women in the board of directors. Joecks et al., (2012) reveals that women have a favorable impact on company success in German Boardrooms. A study by Mahadeo et al. (2012) in an emerging economy, found women in the board of directors to have a positive relationship with firm performance. Carter et al. (2003) and Erhardt et al. (2003) both discovered a significant relationship between the number of women on the board of directors and firm performance in U.S. firms. Other studies (Ahern & Dittmar, 2012; Bhern & Staubo, 2014) unveil that between women and company performance there is a negative relation. Both of these studies are based on Norwegian businesses. A study of US companies also indicates a detrimental connection (Adams & Ferreira, 2009). There are similar results in the research conducted by the US companies in Shrader et al. (1997).Carter et al. (2010) whose studies discover that, there is no connection between women on boards of directors and firm performance in recent study. This study is based on companies in the United States. This finding holds true for Miller & del Carmen Triana's (2009) research on US enterprises and Randöy et al (2006)'s research on Danish, Norwegian, and Swedish firms. The varied research findings indicate that the linkage that women on boards and business success have is yet to be known. Some studies show a beneficial link between women on boards of directors and company performance, while others show a negative link. A few research, on the other hand, found no link at all.

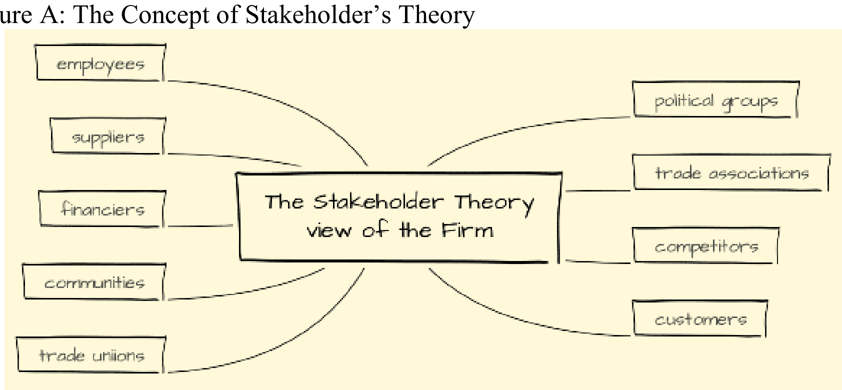
Concept of Financial Performance

Financial performance could be explained as a means by which interested parties view and assess how much a firm attains its objectives, vision, mission, policies and targets. Different studies such as Matolcsy & Wright (2011), Bhagat & Black (1999), Yasser et al., (2011) and Shah (2011) had measured firm performance using different measures such as return on assets, market performance, industry performance and so on. Matolcsy& Wright (2011) employed Return on Assets, Return on Equity, Change in market value of equity and Change in market value of equity, adjusted for dividends and risk as proxies for firm performance while Yasser et al. (2011) employed Profit Margin and Return On Equity as proxies for financial performance. This explains the various profitability ratios engaged by the scholars (Matolcsy & Wright (2011) and Yasser et al. (2011)) in determining the performance of a firm. In same way, Shah et al. (2011) made use of market-based measures of companies' performance such as Return on Equity, Return on Investment, Marris ratio which is calculated by dividing Market value of equity by book value of equity and Tobin's Q which is calculated as the sum of market value of equity and book value of debt/total of assets. This shows that Shah et al. (2011) looked at many profitability ratios for determining the performance of a firm. Bhagat& Black (1999) employed Return on Assets, Growth of Assets, Tobin's Q, Operating Income, Turnover Ratio, Operating Margin, Sales per Employee, Sales, Employees and Cash Flows as proxies for firm performance.

Theoretical Framework

Stakeholder Theory of Edward Freeman covers several sectors, including employees, vendors, local community, creditors and other organizations, and is a theory of organizational governance and business ethics. The theory addresses issues such as social responsibility in corporations, market economy, social contract theory, morality and management ideals (Mitchell, Agle and Wood, 1997).Philips (2003) noted that, the concept of managing or engaging stakeholders is widely accepted and utilized at tactical and strategic levels in today's enterprises. Stakeholders have become an important factor for project managers working on small tactical tasks and CEOs developing business strategies.

Figure A: The Concept of Stakeholder's Theory



Source: Philips (2003)

3. Methodology

The study adopted the expo-facto design as it is focused on a statistical relationship between variables without the manipulation of the independent variable.The population of this study comprises of all the twelve (12) oil and gas companies as listed on the floors of the Nigeria Stock Exchange (NSE) as at December 31, 2020. These companies include 11 Plc, Ardoya, Capital Oil, Caverton Offshore Support Group, Conoil, Eterna, Japaul Gold and Ventures, MRS Oil Nigeria, Oando, RAK

Unity Petroleum, Seplat Petroleum Development and Total Nigeria.This study will focus on the 5 oil and gas companies listed on the floor of the Nigerian Stock Excchage within the Period of 10years (that is 2010-2019). The Companies include Total Nigeria, Con Oil, Oando Plc, MRS Oil Nigeria and 11 Plc. The 5 Companies are being chosen because of their active shares and availability of Financial Statements.

This study used basically secondary data sourced from Machame Ratios and annual reports of the listed oil and gas companies. Other relevant data were sourced from Journals, Internet, Text books and previous research works. This study employs the Ordinary Least Square (OLS) method of Regression analysis and the Descriptive Statistics. The choice for the descriptive analysis is to explain the individual performance of the various variables employed in the study while the current relationship between the variables was estimated by means of a regression analysis. On the technique for data analysis, the defined statistical tests were employed using the EVIEWS 10.0 software.The OLS model for this study is specified thus:

Financial Performance = f (Board Attributes) ……………………………………..… 1

Linearly, this could be further specified as thus:

Financial Performance = ß0 + $ß_1$BoardComposition + $ß_2$BoardDiversity + $ß_3$ Firm Size+ ei …………………………………………………………………………… 2

Where Financial Performance is the dependent variable or proxy for Financial Performance of listed Oil and Gas Companies in Nigeria. On this, Return on Assets was chosen as the profitability ratio for financial performance. Board Composition and Board Diversity represent the Board Attributes Mechanism which serves as the independent variable or budget mechanisms. Firm Size serves as a Control or Moderating Variable. β_0, β_1, β_2 and$ß_3$ are the correlation coefficients; and the random variable is denoted by the letter e_i. This is the error term that represents the dependent variable variability that cannot be explained by the linear influence of a separate variable.

4. Result

This section presents and discusses the outcome of the descriptive and regression analyses gotten from the secondary data employed. More so, the hypotheses were also tested in this section.

Table 1: Descriptive Statistics

	ROA	Board Diversity	Board Composition	Firm Size
Mean	23.49775	0.148430	1.098030	1.35E+08
Std. Dev.	4.564051	0.177197	1.233297	1.03E+08
Jarque-Bera	1.686619	1.547036	3.729376	1.373901
Probability	0.430284	0.461387	0.154945	0.503108

Source: Authors Computation

The descriptive statistics of the variables used for this analysis as shown in Table 1 reveal that all of the variables are of a positive average and have a net difference during the time under consideration. The mean which explains the performance of the variables shows that Return on Assets had a better performance than other variables. This is proved by the high mean value of 23.49775. However, the study noted a lower performance of Board Diversity as the mean value of 0.148430 explains. On the consistency in performance, Table A above shows that, the analysis with Board Diversity is more consistent in performance than other variables. This is proved by the low Standard deviation value of 0.177197. Also, the skewness result shows that all variables were positively skewed. The skewness explains that, the shift or the movement on the right hand of the variables employed, are longer than the left side. Equally, the Jarque Bera analysis informs that the variables of this study were not normally distributed. This is proved by their corresponding Jarque $Bera_{probability}$ of 0.430284, 0.461387, 0.154945 and 0.503108 for Return on Assets, Board Diversity, Board Composition and Firm Size respectively which are greater than the 5% Level of Significance.

Table 2: Extracted Regression results

	R^2	F-Statistic	t-Statistic	Relationship with the DV
Without Control Variable	81%	14.45951 (0.003267)	Board Diversity: 4.982626 (0.0016) Board Composition:- 0.381026 (0.7145)	Board Diversity: 22.52002 Board Composition: - 0.247431
With Control Variable	91%	19.23907 (0.001761)	Board Diversity: 3.599993 (0.0114) Board Composition: 1.537327 (0.1751) Firm Size: - 2.533256 (0.0445)	Board Diversity: 73.57453 Board Composition:1.116790 FirmSize: -8.54E-08

Source: Authors Computation

The relationships between the dependent variable, the independent variables, and the control variable are explained in the table above. The result shows that the introduction of the control variable did not cause much change to the existing variables. Without the variable, there exists a strong model or analysis as reported by the R^2 value of 81% and the independent variables were significantly enough in explaining the performance of the dependent variable (with the probability of the F-statistic of 0.003267). More so, the relationship between Board Diversity and the Dependent Variable remained significant even with the introduction of a control variable. However, the relationship between Board Composition and the Dependent Variables remained insignificant in the two analyses. This shows that the introduction of Firm Size as the control variables did not contribute significant change in the model regressed.

A slight difference in the two models is at the nature of the relationships existing between Board Composition and the dependent variable. With the employment of a control variable, there was a positive relationship existing amongst them where as there exists a negative relationship before the introduction of a control variable. In this scenario, the control variable ‘firm size” was seen to cause a significant change. This explains that any unit change or variation in Return on Assets of the chosen oil and gas companies in Nigeria (that is, the analysis without the control variable), can cause an increase in Board Diversity by 22.52002 and a decrease in Board Composition by 0.247431. With the introduction of the control variable, the analysis explains that for every unit variation in Return on Assets of the selected companies, there would be an increase in both Board Diversity and Board Composition by 73.57453 and 1.116790 respectively.

From Table 2 above, it could be seen that, the existing relationship between Board Composition and the dependent variable has a t-vale of-0.381026 and a corresponding probability value of 0.7145. From the probability value, it is seen that it is greater than the 5% level of Significance, and as such, Board Composition did not significantly contribute to the performance of the Dependent Variable. With this, the null hypothesis was accepted and the study concludes that Board Composition does not affect the financial performance of oil and gas companies in Nigeria.

From Table 2 above, it could be observed that the existing connection that Board Diversity and the dependent variable have is t-vale of 4.982626 and a corresponding probability value of 0.0016. From the probability value, it is seen that it is less than the 5% Level of Significance, and as such, Board Diversity significantly contributes to the performance of the Dependent Variable. With this, the alternative hypothesis was accepted and the research settles that, Board Diversity has a significant influence on the financial performance of oil and gas companies in Nigeria.

5. Conclusions and Recommendations

This study was set to investigate the effect of board attributes on the financial performance of oil and gas companies in Nigeria. The independent variables; Board composition and Board diversity were used to represent board attributes in relation to firm performance. The literature reviewed showed that, arguments such asYasser et al (2011), Khan and Awan (2012) and Cramer (2010) states that board attributes impact financial performance positively while some literatures like Pathan, Haq and Gray (2011) and Uwuigbe and Fakile (2012) states the negative impact of board attributes on financial performance. However, the view of this paper, given the issues considered, prefer to consider board attributes comprising of board composition and diversity have various roles to play in the financial performance of the oil and gas sector of the Nigerian economy. The findings show that Board Diversity has a prominent role in determining the performance of a firm.

Assessing from the two points of view (board composition and board diversity) in predicting the financial performance of Oil and Gas companies in Nigeria, the conclusion is as follows; Board composition appears to have an insignificant impact on financial performance of firms in Nigeria; and there was a significant relationship between proportion of female directors as well as independent directors on board and financial performance of firms in Nigeria. As such, the number of female / independent directors influences the financial performance of the companies.

Having thoroughly appraised the effect of board attributes on the financial performance of listed Oil and Gas sectors in Nigeria, this study therefore, recommends that for financial performance of the oil and gas industry to increase, there is the need to allow the introduction of foreign directors. Thus, the more the proportions of foreign directors on board the higher the financial performance and vice-versa.

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