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Ownership Structure and the Performance of Oil and Gas Firms in Nigeria

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Abstract

This study was motivated by the fact that the oil and gas sector has continued to be a key driver of the Nigerian economy contributing about 90% of her foreign exchange earnings. Firms in this sector are observed to be very vulnerable to agency crisis as they have a large pool of free cash flows that could easily be misapplied to the exclusive benefits of managers. This research work therefore studied the effects of ownership structure on the performance of oil and gas firms in Nigeria from 2008 to 2020 using panel regression technique. The results of the panel regression revealed that ownership structure captured by managerial shareholding, ownership concentration and institutional ownership had a positive and significant relationship with firm performance. In view of the findings, the study recommended that concentrated shareholding, managerial ownership and institutional ownership should be encouraged for enhanced performance of listed oil and gas firms in Nigeria.

Key Words: Ownership Structure, Firm performance, Oil and Gas, Panel Model, Fixed Effect

JEL CODES: D22, C58, C87, C23

1 Introduction

With the separation between ownership and management becoming more evident in recent years, we are faced with the classic question proposed by Berle and Means (1932): how can we discipline company managers to maximize firm value? This remains an important issue for developed economies in Europe and the United States, where sophisticated ownership systems, advanced capital markets and fierce inter-firm competition work to enable effective managerial discipline. The question has even greater significance for emerging markets under development. The less the various institutions and market environments surrounding firms are

able to discipline corporate executives, the greater the need for company owners to assume a stronger disciplinary role in their firms. This is exactly the case in emerging markets. It is therefore only natural that many studies of emerging markets focus on the effect of ownership structure on firm performance, because their authors believe that, if company owners as principals are capable of properly guiding managers as agents to maximize firm value, these companies are expected to perform well (Shleifer and Vishny, 1986). If ownership structure is indeed closely associated with firm performance in this sense, it proves that company owners play an important role in compensating for the shortcomings of the legal and market systems in emerging markets. Considering this question is quite valuable.

Furthermore, in emerging markets, ownership structure is not something that arises spontaneously; rather, it is a product of political action. This is one of the main reasons why researchers of emerging markets pay close attention to the ownership structure of firms. In fact, company owners in Eastern Europe and Russia came into existence as a result of the nation-wide privatization of socialist enterprises (Iwasaki and Mizobata, 2018). In China, firm owners represent a new class created politically by the Communist Party of China (CPC) in pursuit of the so-called "socialist market economy" advocated by Deng Xiaoping (Goodman, 2008). Do these politically and exogenously generated company owners in former socialist states and China play a similar role to those created endogenously over long periods of time in advanced capitalist countries? The answer to this question can serve as an important barometer to assess the functionality and advancement of economic systems in emerging markets. The two questions above imply that the empirical verification of the effect of ownership structure on firm performance is as important to researchers of emerging markets as it is to those of developed economies. Hence, countless emerging market studies have addressed this topic. However, an overwhelming majority of these treat only the developed countries of the world and failing to provide a complete picture of the relationship between corporate ownership and performance in emerging markets. Actually, there are various restrictions in this research field, including data limitations, which are difficult to deal with in a standard empirical analysis. To overcome such difficulties, we approach this issue by conducting a study with a limited sample. More concretely, this paper attempts to provide a picture of the association between ownership and performance in Nigerian firms. Therefore, valuable insights are expected from the derivation of mutually contrasting hypotheses on the relationship between ownership structure and firm performance in Nigeria's listed oil companies. To this end, we have organized a panel analysis in this paper to examine whether a series of expectations derived from the standard agency theory that has been repeatedly validated in studies of developed economies would be supported by empirical results of Nigerian oil firms.

2.0 Review of Empirical Literature

There are several studies conducted on ownership structure and firm performance in developed economies like the United States, Taiwan, Russia, and France. Some of the studies are Harold and Belen (2001), Wang (2003), Pavel and Alexander (2001) and Eric (2011). Harold and Belen (2001) found no statistically significant relation between ownership structure and firm financial performance. Wang (2003) showed that managerial ownership had a negative relationship with financial performance of firms and a positive relationship exist between institutional ownership and financial performance of firms. Pavel and Alexander (2001) found out that the association between ownership by different groups of owners'

ownership concentration, state ownership and firm's financial performance was relatively weak. Eric (2011) found out that there was no significant difference between type of ownership and financial performance. The results in the above studies have shown mixed findings and these differences could be attributed to difference in economic structure of the countries studied as well as firms' characteristics. In addition, most of these foreign studies used different industries as their domain. For instance, Pavel and Alexander (2001) used blue chips firms as their domain and Eric (2011) used firms in the financial sector as their domain. This could influence the results and the conclusions arrived at because every industry in the economy has its own inherent attributes, which could have a significant impact on the results and conclusions. However, this study focuses on the oil sector specifically the quoted oil and gas firms in Nigeria to get a better picture of the relationship between dependent variable (Return on Equity) and independent variables (managerial ownership, institutional ownership and ownership concentration).

In Nigeria, a number of studies have been conducted on ownership structure and firm performance. These include studies of Samaila (2016), Abubakar (2015), Jinjiri (2011), Ogbulu and Francis (2007), Ioraver and Wilson (2011) and Uwalomwa and Olamide (2012). Ogbulu and Francis (2007) used all the firms quoted on the Nigerian Stock Exchange as the population. Purposive sampling technique was used to select the sample size using survey research design. Ioraver & Wilson (2011) on the other hand, used all listed financial firms as their population. Uwalomwa & Olamide (2012) used all firms in the financial sectors as their population. The two out of the three studies which are the studies of Ioraver and Wilson (2011) and Uwalomwa and Olamide (2012) used firms in service sector as their domain. Abubakar (2015) reveals that institutional ownership and managerial ownership showed a positive significant impact on the financial performance of quoted building materials firms in Nigeria, while ownership concentration showed no significant impact on the financial performance of quoted building material firms in Nigeria. Samaila (2016) and Jinjiri (2011) situated their study in the petroleum marketing companies in Nigeria. Samaila (2016) found that board independence, board size as well as managerial shareholding had a negative but significant relationship with firm value. In the case of board gender diversity, it was discovered that the inclusion of females on the board of petroleum firms in Nigeria had a positive and significant relationship with firm value, while ownership concentration has an insignificant relationship on firm value. Jinjiri (2011) examined the impact of corporate governance on firm performance in the Nigerian petroleum marketing industry. The study sampled four (4) companies out of the nine petroleum marketing companies that were listed on the Nigerian stock exchange as at 2011. The data generated for the study were analyzed using correlation coefficient and multiple regression analysis. The findings of this study show that corporate governance mechanism has no significant effect on financial performance. However, most of the studies as reviewed above were focused on the financial services sector, the findings of which studies cannot correctly approximate the character of firms in the manufacturing sector because of the nature of operation. The service firms are customer satisfaction oriented while the manufacturing firms are production oriented. Again, agency conflict has a high probability of occurring in the oil and gas sector with free cash flows. In this event, managers have the temptation of paying out hugely on Exploration and Development (E&D) activity instead of giving back excess resources to shareholders. This is the gap the study wants to fill. To this point, the study addressed the gap by looking at the mining sector specifically, the Oil and Gas firms to see if

its findings are different from the financial sector. Also, studies of Ogbulu & Francis (2007), Ioraver & Wilson (2011) and Uwalomwa & Olamide (2012) in Nigeria have not taken into consideration multicollinearity and fixed and random effect. However, this study employed analytical techniques that have been strengthened against multicollinearity, fixed and random effects. It will therefore not only bear scholarly significance but will offer clearer insights into ownership policy options for efficient corporate governance.

3.0 Materials and Methods

3.1 Sources of Data and Sampling

Data for this study were collated from secondary sources. Specifically, they were obtained from the audited annual publications of the selected oil and gas firms for various years. Such data were based on values as obtained from the publications as mentioned above. Where required, data were also obtained through online sources. The study is centered on the effect of ownership structure on the performance of oil and gas companies listed on the Nigeria stock exchange. Therefore, the study population is made up of all the oil and gas companies quoted on the floor of the Nigerian Stock Exchange as at 31st December, 2020. The study employed non-probability sampling technique to draw four oil and gas companies from the population. The choice of the selected companies was based on profitability – two top ranked and two least ranked companies were selected in an attempt to eliminate bias in the process.

3.2 Definition of Variables

For the purpose of this study, the following independent variables were used; managerial ownership, Institutional ownership and ownership concentration. The dependent variable is Return on Equity (ROE) and the control variable used for the study is firm size. Table 1 below shows how they were measured.

Table 1: Variable Definitions and Measurement

Variable	Specification	Measurement
Return on Equity	ROE (Dependent)	$\frac{Annual\ Net\ Income}{shareholders'\ Equity} \times 100$
Managerial Ownership	MANOWN (Independent)	$\frac{Number\ of\ shares\ held\ by\ directors}{Number\ of\ issued\ ordinary\ shares}$
Institutional Ownership	INSTOWN (Independent)	$\frac{Number\ of\ shares\ held\ by\ instutitional\ investors}{Number\ of\ issued\ ordinary\ shares}$
Ownership Concentration	OWNCON (Independent)	$\frac{Number\ of\ shares\ held\ by\ individual\ investors}{Number\ of\ issued\ ordinary\ shares}$
Firm Size	FSIZE (Control)	*Firm total assets*

3.3 Model Specification

We start by giving a general form of the fixed effects transformation for a simple equation, before we specify our own model. The following example is motivated by Wooldridge (2016) to describe the fixed-effects transformation:

The starting point is an equation with a single explanatory variable:
$y_{it} = \beta_1 x_{it} + a_i + u_{it}, t = 1, 2 \ldots T$

If we average this equation over time, we get:
$y_{i} = \beta_1 x_{i} + a_i + u_{i}$

Here $y_{it} = T-1\ y_{it}\ T_t$=1, and so on. Since a is constant over time (we assume), it appears in both equations. Hence, subtracting the last from the first equation, we end up with:

$y_{it} = \beta_1 x_{it} + u_{it}, t = 1, 2 \ldots T$

Here, $y_{it} = y_{it} - y_{i}$ is the time-demeaned data on y. The important thing about the last equation, is that the unobserved effect, a, has disappeared. If we believe that the unobserved effect is constant over time, this suggests that we should estimate this equation by a pooled OLS model based on the time-demeaning variables. This is called the fixed-effects estimator or the within transformation.

The model below will be used to test the null hypotheses formulated for the study. The null Hypotheses will be tested considering the results for the P-values at 1%, 5% and 10% level of significance. The first model is the functional model from which the second pooled Ordinary Least Square (OLS) was derived that is firm performance model.

$ROE = f(\beta 1 MANOWN + \beta 2 INSTOWN + \beta 3 OWNCON)$ ---------- *1*

The stochastic or explicit forms of models 1 and 2 is expressed as;

$ROE = \beta_0 + \beta_1 MANOWN + \beta_2 INSTOWN + \beta_3 OWNCON + \beta_4 FSIZE + \mathcal{E}_i$---------- *2*

The variables in the model are as defined above while α_0 *and* β_0 are the intercept terms for models 3 and 4 respectively, $\alpha_1 - \alpha_4$, $\beta_1 - \beta_4$ are the parameter estimates for the respective models and $\mathcal{E}_i$ is the error term.

3.4 Methods of Data Analysis

To achieve the research objectives, the study will employ econometrics technique of Panel Regression Analysis. The econometrics technique of balanced panel regression analysis will be conducted to estimate the parameters of the model so as to gauge the effect of the independent and control variables understudy on the dependent variable. The choice of the balanced panel regression is necessitated by the equal number of years to be used for all the variables and the panel (cross-sectional and time series) nature of the data set. The study will also employ panel data unit root technique to check the unit root properties of the series. In using the balanced panel regression, the study will estimate both fixed and random effects models and the Hausman test will be conducted to choose between fixed and random effects models.

4.0 Results and Discussions

This chapter is concerned with data presentation and analysis which begins with the unit root test, followed by the panel cointegration tests and then the panel regression tests.

4.1 Unit Root Test

Before the estimation of the model, all the variables of the study were subjected to panel unit root tests to determine the stationarity levels of the series. The unit roots tests of Levin, Lin and Chu (LLC), Im, Pesaran and Shin (IPS) and Fisher ADF (F-ADF) were conducted and presented in Table 2 below;

Table 2: Results of Balanced Panel Unit Root for Oil and Gas companies

Table 2: Results of Balanced Panel Unit Root for Oil and Gas companies

Variable	LLC		IPS		F-ADF	
	Level	1st Diff	Level	1st Diff	Level	1st Diff
ROE	-0.252(0.245)	-5.114(0.000)	0.045(0.401)	-5.125(0.000)	4.632(0.301)	47.251(0.000)
MANOWN	-0.412(0.325)	-5.325(0.000)	-1.258(0.152)	-4.852(0.001)	3.546(0.412)	52.924(0.000)
INSTOWN	-1.325(0.632)	-4.367(0.001)	0.341(0.247)	-5.669(0.000)	5.047(0.244)	36.320(0.000)
OWNCON	-0.788(0.225)	-5.201(0.000)	0.227(0.325)	-5.647(0.000)	4.980(0.298)	41.258(0.000)
FSIZE	-1.336(0.463)	-4.989(0.000)	0.867(0.145)	-5.701(0.000)	5.224(0.125)	47.364(0.000)

Note: Values in parenheses are probability values;
***Source:** Author's computations, using Eviews 10*

The results of the panel unit root test in Table 2 reveal that all the variables contain a unit root in their levels, but stationary in their first differences indicating that they are integrated of order one, i.e., I (1) given that the probability values of the test statistics were only significant (p-values < 0.05) at 5% level. This therefore provided the basis for the investigation of the long-run or cointegrating relationship.

4.2 Panel Cointegration Test

Having established that all the variables of the model are stationary at first difference I(1), the panel cointegration or long-run relationship between ROE and its determinants were checked using Pedroni and Fisher tests and the results presented in Table 3 below;

Table 3 Pedroni Cointegration Test

Pedroni Test

Test Statistics	Statistic	P-value
Panel v-stat. (weighted statistic)	2.2154	0.0378
Panel p-stat. (weighted statistic)	2.7734	0.0214
Panel PP-stat. (weighted statistic)	4.9502	0.0143
Panel ADF-stat. (weighted statistic)	5.7124	0.0000
Group P-stat.	3.7542	0.0015
Group PP-stat.	6.2545	0.0000
Group ADF-stat.	5.4712	0.0000

Source: *Author's computations, using Eviews 10*

The results of Pedroni panel cointegration test displayed in Table 3 showed that the probability value for all the test statistics are less than 0.05 level of significant which implies the existence of long run relationship of all the variables in the pooled regression equation.

To complement the Pedroni test of cointegration, the study also adopted Johansen's Fisher panel co-integration test which is a system-based co-integration test for a whole panel set, unlike Pedroni (1999) which is residuals taken from Engel Granger (1987) two step test. Fisher (1932) test is employed in this study as a robustness check for cointegration as the test accommodates as much heterogeneity as is possible. The results of the Johansen's Fisher panel co-integration tests displayed in Table 4 below;

Table 4: Johansen's Fisher Panel Cointegration Test

Unrestricted Cointegration Rank Test (Trace and Maximum Eigenvalue)

Hypothesized No. of CE(s)	Fisher Stat. (trace)	Prob.	Fisher Stat. (max-eigen)	Prob.
None*	62.87	0.0000	88.41	0.0000
At most 1*	37.49	0.0000	23.18	0.0214
At most2*	23.78	0.0012	15.22	0.0328
At most 3*	18.00	0.0203	18.28	0.0471
At most 4	9.090	0.3170	4.744	0.6633
At most 5	11.43	0.0524	10.46	0.0517

Source: *Author's computations, using Eviews 10*
*Note: * indicates cointegrating equation*

Given that the probability values of trace statistics and maximum eigenvalues of the Fisher's tests for None, Atmost 1, Atmost 2 and Atmost 3 are less than 0.05, the null hypotheses are rejected implying that there are four co-integrating equations in the system. It was, therefore, concluded from the results of the Johansen's Fisher panel co-integration test, that there is long run equilibrium relationship among the variables of the panel data set.

Having established the existence of long-run in the model, the study proceeded with the fixed effect model (FEM), random effect model (REM) and pooled ordinary least squares (OLS) estimation in the panel framework to facilitate in selection of a model that best explain the effect of ownership structure on firms' performance of listed oil and gas firms as shown in table 5.

Table 5: Effects of Ownership Structure on Firm's Performance

Variable	Pooled	**Fixed**	Random
MANOWN	0.5187(0.004)	**0.4573(0.002)**	0.05198(0.03)
INSTOWN	0.0343(0.653)	**0.3281(0.000)**	0.0342(0.652)
OWNCON	0.0094(0.000)	**0.0047(0.000)**	0.3445(0.2892)
FSIZE	0.0456(0.784)	**0.0462(0.000)**	-0.0094(0.000)
C	0.2009(0.000)	**0.2334(0.000)**	0.2009(0.000)
R-squared	0.8329	**0.9706**	0.8125
F (statistics (P-value)	21.89 (0.000)	**31.41 (0.000)**	84.56 (0.000)
hausman test		0.0000 (1.0000)	

Source: Author's computation using Eviews 10
Note: Values in parentheses are probability values

Table 5 shows regression estimates of Pooled, Fixed and Random effects presented in columns one, two and three respectively. The selection of the best model between fixed effect and random effect is based Hausman test results. The Hausman test statistic value of 0.0000 (1.0000), fails to accept the null hypothesis that ownership structure effects on performance of oil and gas firms are random, thus we accept the fixed effect estimate and conclude that bank specific effect is fixed. Hence, the fixed panel regression model is suitable for the study.

The results of the fixed model reveal that managerial ownership (MANOWN), board composition (INSTOWN), ownership concentration (OWNCON) and firm size (FSIZE) all have positive effect on the performance of oil and gas firms in Nigeria. A one percent increase in MANOWN leads to increase in firms' performance (return on equity) by 0.46%. Similarly, the results revealed that a percent increase in MANOWN, OWNCON and FSIZE leads to increase in firm's performance (return on equity by 0.33%, 0.0047% and 0.0462% respectively. This clearly shows that ownership structure has positive and statistically significant effect on the performance of listed oil and gas firms in Nigeria. The R square value of 0.9706 indicates that about 97% of return on equity is explained by the independent variables (MANOWN, INSTOWN, OWNCON and FSIZE). The F-statistic value is 31.41 with a probability value of 0.0000 indicates the overall significance of the model in explaining the relationship between ownership structure and performance of listed oil and gas firms in Nigeria.

In summary, this study found that managerial ownership as a measure of ownership structure has positive and statistically significant effect on the performance of listed or quoted oil and gas firms in Nigeria. This therefore implies an increase in the ratio of shares held by managers lead to increase in the performance of the firms. This finding is consistent with the findings of Mueller and Spitz (2006) who also found a positive relationship between managerial ownership and firm performance.

Results further reveal that institutional ownership has positive and significant effect on the performance of quoted oil and gas companies in Nigeria. Firms with high institutional ownership ratio are more likely to perform better. This finding agrees with the findings of Shleifer and Vishny (1997) who found that institutional ownership has greater power and

stronger incentive to enforce their interest and impress on managers to deliver value to shareholders.

On ownership concentration and the performance of quoted oil and gas firms in Nigeria, a positive and statistically significant effect was confirmed. Specifically, the study found that the higher the amount of stock owned by individual investors, the lower the performance of the firm. That is, if the ownership of the firm is distributed among individual investors, there are less chances of firms performing better than when they are concentrated in institutional and managerial levels. This is because when there is distributed ownership, the other shareholders cannot participate in the corporate policy. This weakness is related to corporate governance mechanism and can lead to reduction of optimal performance. This finding also agrees with the findings of Thomsen and Pederson (2000) who found that there is a significant positive relationship between concentrated ownership and firms' economic performance.

The central concern of firms is to guarantee the satisfaction of the needs of stakeholders whose main interest is that of maximizing the value of the resources they have invested in the firms. In achieving optimal firm value therefore, one dominant issue is the effectiveness of the firm corporate governance mechanisms to guarantee the satisfaction of the needs of shareholders and other stakeholders whose main interest is that of maximizing the firm value. Like in any other clime, it is observed that corporate governance has become an important policy concern in Nigeria, especially, given a number of events that have raised the profile of corporate governance reforms in the country. The concern is predicated upon the fact that the ROSC, 2011 had examined the set of rules and incentives by which management of firms listed on the NSE were directed and controlled, as well as the relationship among the board of directors, controlling shareholders, minority shareholders and other stakeholders with the aim of improving corporate governance practices. The ROSC, 2011 found a number of corporate governance problems that affect board performance, execution of certain shareholders' rights, the disclosure of ownership of listed firms on the NSE and problematic implementation of firm audit committee. This in addition to the reviewed SEC Code of Corporate Governance of 2008 for firms listed on the NSE which similarly identified weak corporate governance as a constraint to good corporate governance practices among firms.

The review of the extant literature indicated that previous studies were inconclusive on the nature and extent of relationship between corporate governance mechanisms of board characteristics and ownership structure components on one hand and firm performance on the other. It was observed that while there are many studies on the relationship between ownership structure and firm performance in Nigeria, the petroleum sector of the country has attracted little research attention despite its strategic placing in the country's economy. It was also observed that generally, ownership concentration and managerial ownership are key components in explaining firm value based on the empirical studies reviewed.

This study therefore examined the relationship between ownership structure components of ownership concentration and managerial shareholding and institutional ownership on firm performance of listed oil and gas firms in Nigeria. The population of the study consists of all the fifteen (15) petroleum firms listed on the Nigerian Stock Exchange (NSE) which were carrying on with operations in Nigeria during the period 1st January, 2008 to 31st December, 2015. As a result of employing certain filters, the number of firms that satisfied the criterion reduced to a total of six (4) firms, and these were used as the sample for analysis.

The study employed adopt Ex-Post Facto research design to examine the relationship between the explanatory variables on the dependent variable of the four listed petroleum firms that have consistently published their annual audited financial statements over the period of the study. It was found that ownership structure proxied by managerial ownership, institutional ownership and ownership concentration has positive and significant effects on firm performance proxied by return on equity.

5.0 Conclusion and Recommendation

The analysis carried out in this study clearly shows that overall; ownership structure variables have significant relationship with the performance of listed petroleum firms in Nigeria. As suggested by literature, a positive relationship between ownership concentration and firm performance was found. Same direction of relationship was observed between firm performance and the remaining ownership structure measures of managerial ownership and institutional ownership. Study therefore rejected the null hypothesis of no significant effect between ownership structure and firm performance.

In view of the foregoing, this study recommends as follows:

(i) Use of ownership concentration: The use of ownership structures such as concentrated ownership shows evidence of a positive and significant relationship with firm performance. This suggests that an increase in ownership concentration will lead to increase in firm performance. This positive association which is also significant suggests that firms with concentrated block shareholders may likely pursue activities that meet the interest of the shareholders, and this may affect firm value. As such the study recommends that concentrated shareholding should be encouraged.

(ii) Moderated managerial shareholding: The study finds that the relationship between managerial ownership and firm performance is positive and statistically significant. The positive relationship of managerial shareholding on firm performance provides some insights into how managers with controlling shares are likely to engage in activities that will promote shareholders' value in the because their shared personal interests. While this may not be true for other firms, it holds in our own sample. The study recommends that Nigerian listed petroleum firms with large managerial ownership structure should be maintained to sustain the shareholders' wealth maximization.

(iii) Increased activity of institutional owners: Institutional shareholders should increase their tempo of activities in policy decisions of the firms as our study has found that they have greater capacity and stronger incentive to move firms towards enhanced performance.

(iii) Since petroleum contributes to more than 90% of the countries revenue, the federal government through its appropriate agencies should as a matter of fact, draw up policies that will require petroleum companies' ownership structure policies to correlate perfectly with their financial performance so as to increase the companies' turnover and as well tax revenue of the government.

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