African Journal of Accounting and Financial Research

ISSN: 2682-6690

Volume 8, Issue 2, 2025 (pp. 67-83)

www.abjournals.org

CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE OF NIGERIAN NATIONAL PETROLEUM COMPANY LIMITED

Oluwatosin C. Fasusi, Olalekan O. Akinrinola, and Michael B. Nwidobie

Department of Accounts, Finance & Taxation, Caleb University, Imota, Lagos State.

Cite this article:

Fasusi, O. C., Akinrinola, O. O., Nwidobie, B. M. (2025), Corporate Governance and Financial Performance of Nigerian National Petroleum Company Limited. African Journal of Accounting and Financial Research 8(2), 67-83. DOI: 10.52589/AJAFR-JMDKHN3R

Manuscript History

Received: 15 Mar 2025

Accepted: 30 Apr 2025

Published: 13 May 2025

ABSTRACT: *This study examines the effect of corporate governance practices on the financial performance of the Nigerian National Petroleum Company (NNPC) Ltd. The data for the study was obtained from secondary sources, including the audited annual financial reports of the Nigerian National Petroleum Corporation Limited, covering ten years (2014-2023). With the aid of E-views 10 software, the regression analysis was utilized in analyzing the data. Test of hypothesis one reveals that board size has a statistically significant positive impact on operating profit, implying that larger boards may contribute to improved financial performance. Test of hypothesis two indicates that Independent Directors have a statistically significant positive effect on Operating Profit. It was found that corporate governance variables (board composition and board size) do not statistically impact NNPC Ltd's financial performance. The study recommends that firms optimize board size and appoint independent directors with relevant industry expertise to enhance governance effectiveness and profitability.*

KEYWORDS: Board composition, Board size, Tax reforms, Fiscal policies and Economic activities.

Article DOI: 10.52589/AJAFR-JMDKHN3R

DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

INTRODUCTION

The Nigerian National Petroleum Corporation, founded on April 1, 1977, is tasked with utilizing Nigeria's oil and gas resources to drive sustainable national development. Following passage of Petroleum Industry Act in August 2021, NNPC was established as a limited liability company with the hope that as a private entity. Its operations include the exploration, production, and refining of oil and the marketing and retailing of petroleum products. Corporate governance policies serve as the steering agent behind a company's survival and growth. Arachchi (2024) posits that corporate governance is a universally recognized core concept crucial for business entities' growth, sustainability, and competitiveness. It ensures firms are managed effectively, ethically, and in alignment with the interests of shareholders and stakeholders (Afes & Jarboui, 2023). The board of directors and its committees play a central role in corporate governance, balancing individual, societal, and economic objectives (Kaabi & Ahmad, 2021).

Kumara & Walakumbura (2023) emphasize that effective corporate governance enhances a company's profitability and long-term value for its investors. Similarly, Bui & Krajcsak (2023) define corporate governance as the system of rules, practices, and processes through which a company is managed and operated. Corporate governance has a primary objective which is to improve corporate performance and accountability, ultimately maximizing the value of shareholders while protecting the interests of other stakeholders. Ozili (2020) noted that a smaller board size can strengthen the influence of controlling shareholders, making it easier for them to sway managerial decisions in their favor compared to a larger board.

Performance is a multidimensional concept used to assess an organization's success in achieving its objectives (Efanga et al., 2015). Financial performance is the efficient and effective utilization of resources to achieve organizational goals, resulting in growth in stock price, sales, market share, profitability, earnings, and cash flow while meeting stakeholder expectations (Ibrahim, 2015). The assessment of financial performance relies on key indicators such as return on investment, return on assets, return on equity, and return on capital employed, utilizing ratios that measure productivity, profitability, cost efficiency, liquidity, and solvency (Naz et al., 2016).

Gross margin accurately measures how efficiently a company produces and sells its goods or services, indicating how well it controls production or procurement costs. A higher gross margin means a company retains more from each sale to cover other expenses, potentially leading to greater profitability. Conversely, net income is defined as the final profit an organization makes after all expenses have been deducted from total revenue.

The current economy requires robust, stable, and improved corporate performance to address unethical practices, unprofessional conduct, and poor management quality, which have contributed to low financial performance, subpar returns, and, in some cases, the failure of firms. Weak corporate governance can lead to issues such as a lack of accountability and transparency, bribery scandals, violations of minority shareholder rights, managerial and director misconduct, weak internal controls, insider abuses, and fraudulent activities (Olumuyiwa & Babalola, 2012). Over time, NNPC Ltd has struggled with issues such as lack of transparency, political interference, corruption, and inefficiency, which have hindered its financial performance (Olujobi, 2020). He also states that tolerating NNPC's businesses to be done in clandestineness will encourage corruption and inefficiency and it would cost Nigeria

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

colossal loss. Therefore, fighting corruption in the upstream petroleum industry is essential for the country socio-economic growth and poverty obliteration.

Purpose of the Study

The study examines the effect of corporate governance practices on the financial performance of the Nigerian National Petroleum Company (NNPC) Ltd.

Objectives of the Study

The study aims to examine the effect of corporate governance practices on the financial performance of the Nigerian National Petroleum Company (NNPC) Ltd. There are other measures of corporate governance but this study specifically aims to:

i. To examine the effect of board size on the net income of NNPC Ltd.

ii. To examine the effect of board independence on the operating profit of NNPC Ltd.

Research Hypotheses

The following hypotheses will be tested in this study:

$H_0$1: Board size does not significantly affect the net income of NNPC Ltd.

$H_0$2: Board independence does not significantly affect the operating profit of NNPC Ltd.

LITERATURE REVIEW

The Concept of Corporate Governance

Good corporate governance (GCG) in a corporate set-up leads to maximizing the value of the shareholders ethically, legally, and on a sustainable basis while ensuring equity and transparency to every stakeholder (the company's customer, employees, investors, vendor partner, the government of the land and community (Jikeme, 2017). It dictates the rules and procedures for making corporate affairs decisions (Owolabi et al., 2022). It also includes relationships between the boards, management, shareholders, and other stakeholders such as employees, the community, and firms with strong good corporate governance capable of sustaining high standards of quality services (Mbiriti, 2020).

Olayiwola (2018) defines corporate governance as the system that directs and controls business corporations. Similarly, Osundina et al. (2016) describe it as the framework that governs rules, relationships, systems, and processes. According to Olayiwola (2018), stability and good management can be achieved when firms incorporate corporate governance, which is all about complying with stipulated standards, rules and regulations.

The COVID-19 crisis clearly highlighted the importance of the board's supervisory role in mitigating risk, and post-pandemic corporate governance is also essential as companies face ongoing impacts of corporate governance 21 disruptions (Gerged et al., 2021). Giving an acceptable definition of the concept may be challenging as a result of the differences in culture,

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

history, academic backgrounds, and financial dealings, which vary from one country to another (Melih & Suat, 2015).

Corporate Governance Structure

Under a governance system, the structure is defined by statute, legislation, the company's constitution, those who own and finance it, and the expectations of those it represents. The structure can vary from country to country since it owes much to history and culture and includes laws and institutions. Its performance depends on its consistency and the degree of dependency that can be imposed on its constituent components. The system of governance also shifts and evolves. (Kyere & Ausloos, 2020). A business organization is responsible for satisfying the needs of stakeholders who affect or get affected by the company's actions. Dar et al. (2011) made it known that there are internal stakeholders (board of directors, executives and employees) and external stakeholders (shareholders, debt holders, trade creditors, suppliers, customers, government and communities). The shareholders, as one of the stakeholders, play a vital role in the organization as the owners and key financiers of the company.

Corporate Governance Mechanisms

Board Composition

Board Composition is the ratio of executive directors on the board compared to the number of non-executives. The debate had been for either a more significant number of executives on the board or less. Anthony (2007) supported a larger number of executives with his study specifying 58% of executive directors on the board, and this was endorsed by Xavier et al. (2015), that 68% of executive directors should be on the board.

Olayiwola (2018) stated that the BOD appoints management to oversee the company's daily activities. The Management, as the "Agent" of the BOD and its team members, are employees of the organization and a representative among them is chosen as the Chief Executive Officer (CEO).

Board Independence

Independence is an essential factor in ensuring the efficiency of the board through the oversight and strategic positions of the directors. The ultimate element in the independence of the Board is the existence of appropriate numbers of independent directors on the board. They argued that the director's capacity, willingness and experience could contribute to each director's independent attitude (Alwawi, 2021). The board independence will be calculated by the number of non-executive members divided by the full board number.

The board's primary focus is to formulate the organization's strategy and exercise the proper role of oversight during company operations (Alwawi, 2021). Independent directors should express their opinions and participate actively in the board discussion. On the company's board, they will represent shareholders. According to Oshim & Igwe (2024), the importance of independent directors in corporate governance has grown in the aftermath of corporate collapses like Enron and WorldCom. According to them, independent non-executive directors contribute to a stronger oversight function, shareholder protection, and reduced earnings management. Board independence is crucial for impartial decision-making, reducing agency

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

problems, and enhancing oversight (Al Kaabi & Ahmad, 2021). The failure of boards to carry out their oversight function has been linked to poor financial performance and contravention of regulatory guidelines (Uche, 2017).

Board Structure

According to Onunaka et al. (2024), board structure (BS) is a significant component of the CGS to ensure accountability, transparency, fairness and integrity in the organization's decision-making processes. It is also essential to enhance the company's performance, protect shareholders' interests and maintain public trust in the organization. Some structures are problematic regarding board meetings, subcommittee composition, diversity, CEO duality, and board size. Institutional share ownership, conflicts of interest, board performance review, and other issues are generally related to CGS. These operationalized structures guarantee the stability of business operations and management (Asare et al., 2022).

Board size

This is the number of directors on the board who may or may not own or control the company (Alwawi, 2021). The Board of Directors should have at least five members and not more than 11 members. The relationship between the size of the board and the financial output of the company was discussed based on two key viewpoints, namely the theory of the Agency and the theory of resource dependence. (Alwawi, 2021).

The impact board size has on firm performance is a contentious topic. According to Ahmed et al. (2016), some studies support the notion that smaller boards are more effective, allowing for efficient coordination and communication, leading to better management monitoring and reduced agency problems. Conversely, others argue that larger boards can provide a broader range of expertise and co-opt external resources, potentially enhancing a company's value. However, evidence suggests that huge boards can suffer from coordination issues, slower decision-making processes, and difficulty reaching consensus, ultimately negatively impacting firm performance (Oshim & Igwe, 2024).

Concept of Financial Performance

Financial performance refers to a company's capacity to reduce operating costs, maximize asset utilization, and increase shareholder value. Performance is a multidimensional concept that measures an organization's success in achieving its goals (Efanga et al., 2015). It involves the outcomes achieved by individuals or teams aligned with the organization's strategic objectives. The high performance demonstrates management effectiveness and efficiency in utilizing a company's resources, which helps the economy as a whole (Afrifa & Tauringana, 2015). Financial performance was described as an organization's endeavour to accomplish its objectives or production effectiveness (Karaye et al. 2014).

Financial performance measures an organization's earnings, profits, and value appreciation, represented by the rise in share price (Abdulfattah et al., 2020). It can also be compared to similar enterprises in the same industry or used to aggregate industries or sectors. From the foregoing, financial performance is a measure of an organization's earnings, profits, and appreciation of its value, reflected by the rise in share price and the degree to which financial objectives are being met or have been accomplished.

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

Financial Measures

Profitability

Olayiwola (2018) defined profitability as a measure of performance, and it defines how well a firm has judiciously utilized the available limited resources in all its operations; however, profitability is only a means to an end. Yusuf et al. (2016) see profit as the rallying point of all stakeholders. According to them, the firm's performance guarantees the payment of dividends, interest, wages, and taxes of shareholders, lenders, employees and government. This invariably increases the firm's accessibility to funds, reduces financial crises and engenders sustainable economic growth. To this extent, the ultimate objective of a firm has been reasonably argued as not the welfare of the owners/ shareholders but effective and efficient corporate performance which meets and satisfies the needs and intents of all stakeholders, as any breach and/ or deviation could be disastrous to the profitability and eventually the corporate goal.

Return on Assets (ROA)

The assets used include receivable accounts (debtors), land, plant and facilities, and inventories. Businesses need to boost the level of productivity of their capital and assess the efficiency and quality of assets due to increased inflation and deterioration of liquidity. Return on Assets (ROA) is a financial ratio that measures a company's profitability in relation to its total assets, helping corporate management, analysts, and investors evaluate how effectively the company utilizes its assets to generate profits. In comparison, a lower ROA suggests potential for improvement. ROA is a key metric in evaluating a company's effectiveness in converting invested money into net income, and a higher ROA implies enhanced asset efficiency. The formula divides a company's net income by its total assets (Oshim & Igwe, 2024).

ROA measures the efficiency with which the organization generates its revenue and, in effect, represents the actual performance of its business activities. Higher ROA value implies better company performance due to a return on investment ratio. This ratio reflects the profits on the company's assets supplied to the firm (Rosikah et al. 2018). According to Ghahroudi et al. (2010), ROA is computed by the ratio =Net Income/ Total Assets.

Net Income

Net income represents the company's profitability after accounting for all revenues from oil and gas sales, refinery operations, partnerships, and other business activities while deducting operational costs, taxes, interest, and depreciation.

As Nigeria's state-owned oil company, NNPC Ltd generates revenue primarily from crude oil exploration, production, refining, and sales of petroleum products. Global oil prices, production costs, operational efficiency, and regulatory obligations influence its financial performance. A **positive net income** indicates that NNPC Ltd is running profitably, enabling reinvestments in infrastructure, dividend payments to the government, and funding new projects in the energy sector. However, a negative net income or loss could signal financial strain, possibly due to low crude oil prices, operational inefficiencies, high debt servicing costs, or subsidy-related expenses.

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

Given NNPC Ltd's transition to a **commercial entity under the Petroleum Industry Act (PIA),** its focus on profitability has increased. The company now operates more like a private-sector firm, aiming to maximize net income by improving efficiency, reducing operational losses, and expanding revenue streams through new investments and partnerships.

Relationship between Board Size and Net Income

According to Zabri et al. (2016), board size is the total number of directors on the corporate board. McConnel and Servaes (2020) stated that larger boards are associated with better financial outcomes, connecting this to the increased diversity of skills and perspectives leading to more effective decision-making and governance. Conversely, Klein (2021) argued that smaller boards exhibit higher levels of cohesion and communication, resulting in faster and more precise decision-making processes. Onunuka et al. (2024) demonstrated that board size is critical in executives' capacity to administer and control the management. The board should be appropriately sized to match the complexity and scale of the company's operations and structured to ensure a diverse range of experience while maintaining independence, compatibility, integrity, and members' availability for meetings.

Relationship between Board Independence and Operating Profit

The composition of a company's board of directors, particularly the level of independence among its members, is a crucial determinant of its governance structure and financial performance (Onunuka, 2024). They defined board independence as the extent to which directors are free from conflict of interest and external influences, allowing them to act in the best interest of shareholders. Independence directors are expected to provide unbiased oversight, enhance accountability and mitigate agency conflicts between management and shareholders. James (2020) refers to independent directors as non-executives free from personal or economic association with the firm and its management. They are directors with no involvement with the firm other than their position as directors.

An independent director with no connection to the company other than their directorship is called an independent non-executive director. There seems to be an assumption that boards with considerable outside directors will make judgments different from and possibly better than boards with a majority of insiders who cannot monitor managers ideally (Jensen and Meckling, 1976).

Theoretical Framework

The theories upon which this research will be anchored is the stewardship theory.

Stewardship Theory

According to the theory, board members of a corporation behave as stewards and will not prioritize their interests over the company. Furthermore, the directors will carry out their responsibilities in a way that promotes collectivism or the accomplishment of organizational utility rather than individual gains (Zelalem et al., 2022). As the directors work to meet the organization's goals, their personal needs are also met (Kluvers & Tippett, 2011). Regardless of the directors' interests, the directors act as honest stewards of the company and are devoted to the collective good of the company's stakeholders (Zelalem et al., 2022). It would only have access to information provided by management and lack the contextual nature to make

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

informed decisions (Jikeme, 2017). The theory is inherent in trust-based horizontal governance relations in networks, organizations and communities. It is a cornerstone of civilization (Torfing & Bentzen, 2020) and may be traced back to tribal and clan-based societies (Stout & Love, 2018).

According to this theory, the agent has access to superior information since the principal cannot constantly monitor the agents' activities and behaviours. This raises a concern that agents may exploit their position to prioritize their own interests over those of the principals (Beaver, 2012). Okoye et al. (2020) posit that stewardship theory projects managers as collectivists, pro-organizational, and trustworthy as against the opportunistic, individualistic, and self-serving assumption of agency theory.

The stewardship theory suggests that managers share common interests with the corporation, as their careers are tied to achieving organizational goals, and their reputations are closely connected to the company's performance and shareholder returns (Davis, 2012). Stewardship theory assumes that executive managers are not opportunistic but rather act as trustworthy stewards of corporate assets. Driven by their desire for achievement and responsibility, they strive to enhance shareholder wealth. The theory suggests that a company's economic performance improves when power and authority are centralized in a single executive, such as a combined CEO and Chairman (Jikeme, 2017).

Empirical Review

Oshim and Igwe (2024) conducted a study on "Corporate Governance and Financial Performance of Listed Consumer Goods Firms in Nigeria." The study investigated the corporate governance and financial performance of listed consumer goods firms in Nigeria. The researcher utilized the ex-post facto research design and secondary data extracted from the annual reports of sampled consumer goods firms for 2013 – 2022. The hypotheses were tested using the correlation technique. Results showed that none of the corporate governance mechanisms studied could influence the return on assets of consumer goods firms in Nigeria. It was recommended that companies enhance board oversight by implementing strong audit committees and reporting structures, ensuring independence while fostering industry expertise.

Oshatimi et al. (2022) conducted a study on "Corporate Governance and Financial Performance of Quoted Cross-Border Banks in Nigeria." The effect of corporate governance on financial performance in Nigeria was examined. The Ex-Post facto research design covered seven cross-border firms on Nigeria Exchange Group as of 31st December 2020. Data were obtained from secondary sources through the annual reports of sampled firms of the Nigeria Exchange Group. The data were analyzed using descriptive statistics and Ordinary Least Square Regression. It was found that the corporate governance of quoted cross-border banks significantly influences their returns on assets. The study recommends that Quoted cross-border banks should ensure that their executive directors have good shareholding to improve their interest in the company, as this will make them intensify their efforts to achieve the objective of maximizing profit.

Al Kaabi & Ahmad (2021) carried out a research on "The Relationship between Corporate Governance and Financial Performance in the UAE Exchange Market." The study examined the effect of corporate governance on the financial performance of listed companies in the United Arab Emirates (UAE) financial exchange market. Secondary data for five years were used from 2016 to 2020, and the data was analyzed using descriptive statistics, correlation, and multiple regression analysis (MRA). The results showed that AC's independence had a

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

detrimental impact on the firm's performance, which might be seen as a logical consequence of the board's independence. The study recommends that regulators should emphasize the selected AC members based on their financial knowledge.

Musah and Adutwumwaa (2021) carried out a study that examined the influence of various corporate governance structures, such as board size, board independence, board gender diversity and CEO duality, on the financial performance of rural banks in Ghana. It was found that there was a positive but statistically insignificant association between CEO duality and ROA and ROE. The study further reveals a positive association between board size and ROA and ROE, even though ROA was statistically insignificant. Also, board independence was a significant determinant of rural bank financial performance. In addition to the above, the study reported a negative association between gender diversity on the boards of the rural bank and ROA and ROE; both associations were statistically significant.

Eke et al. (2019) conducted a study on "Corporate Governance and Profitability of Quoted Oil and Gas Companies in Nigeria." The study investigated the influence of corporate governance on the profitability of quoted oil and gas companies in Nigeria. The population of the study comprised the twelve (12) oil and gas companies listed on the Nigerian stock exchange between 2010 and 2018. Ten (10) listed oil and gas companies in Nigeria constituted the sample size for this study. Data required for the study were extracted from the audited financial statements of the quoted oil and gas companies. The hypotheses were tested using multiple regression and correlation statistics. It was found that corporate governance has a moderate influence (52.3 percent) on profitability of quoted oil and gas companies in Nigeria. The study recommends that quoted oil and gas companies in Nigeria should continually appraise their corporate governance system to determine whether the system is functioning as expected so that corrective actions can be taken to address any deficiency in the system and such appraisal should be done annually.

METHODOLOGY

Research Design

This section discusses the research method to be adopted to achieve the aims and objectives of the study. Therefore, the Ex-post facto research design was adopted.

Population and Sample

This research encompasses all available secondary data concerning the governance and financial performance of NNPC Ltd over a defined period. The Nigerian National Petroleum Company Limited is notably one of Africa's biggest petroleum company therefore it was used as a case study, an improvement in its governance structure can unveil information about its profitability and financial sustainability. The timeframe for this study covers a period of ten years (2014-2023).

Sources of Data Collection

The data for the study was obtained from secondary sources, including the audited annual financial reports of the Nigerian National Petroleum Corporation Limited, covering a ten-year period (2014-2023).

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 8, Issue 2, 2025 (pp. 67-83)

Method of Data Analysis

The data obtained was analyzed through regression analysis using the SPSS statistical method to ascertain the hypothesis developed for this study. With the aid of E-views 10 software, the regression analytical tool was utilized to ascertain the type of influence that the dependent variables held over the independent variable.

Model Specification

The ordinary least square regression econometric model for the study is stated below:

Y = f (BC and BS)

FP = $\alpha + \beta 1i, tBC + \beta 2i, TBS + \beta 3i, tBI + \beta 4i, Tbs +$ e i, t ……………………………….1

Model 2:

Y = f (BC and BS)

NI = $\alpha + \beta 1i, tBC + \beta 2i$

OP = $\alpha + \beta 1i, tBC + \beta 2i$

Where;

BC = Board Composition

BS = Board Size

NI = Net Income

FP= Financial Performance

i = individual firm

T = time

e= Error terms that are not captured in the model.

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

RESULTS AND DISCUSSIONS

This chapter systematically presents the estimates' results according to the model specification stated earlier. The descriptive and inferential techniques and procedures capture the objectives of the research.

Descriptive Statistics

This section of the paper presents the results and discussion obtained from the data obtained from the annual reports of the Nigerian National Petroleum Company (NNPC), Nigeria (2014-2023).

Table 1: ***Descriptive Statistics***

	BSz	ED	ID	NON-ED	OP
Mean	14.00000	5.900000	4.400000	7.600000	5.500000
Median	14.00000	6.000000	4.500000	8.000000	4.000000
Maximum	16.00000	7.000000	5.000000	10.00000	9.000000
Minimum	12.00000	5.000000	3.000000	5.000000	3.000000
Std. Dev.	1.333333	0.737865	0.699206	1.776388	2.460804
Skewness	-0.296464	0.139942	-0.657843	-0.361049	0.471581
Kurtosis	2.031250	2.039567	2.371901	1.770879	1.490194
Jarque-Bera	0.537516	0.416986	0.885641	0.846735	1.320445
Probability	0.764328	0.811807	0.642223	0.654838	0.516736
Sum	140.0000	59.00000	44.00000	76.00000	55.00000
Sum Sq. Dev.	16.00000	4.900000	4.400000	28.40000	54.50000
Observations	10	10	10	10	10

Source: E-View 10 Output (2025)

The above table presents the descriptive statistics for key corporate governance and financial performance variables, including Board Size (BSz), Executive Directors (ED), Independent Directors (ID), Non-Independent Directors (NI), Non-Executive Directors (NON-ED. The mean and median offer insights into the typical values of the variables. BSz (Board Size) has a mean and median of 14.0, indicating symmetry.

The standard deviation reveals that ED (Executive Directors) has the lowest standard deviation (0.74), implying consistency. Skewness measures the asymmetry of the distribution, where negative values for BSz (-0.296) and ID (-0.658) suggest a left-tailed distribution, while OP (0.472) exhibits a right-skewed pattern. Kurtosis, which assesses the peakedness of data, shows that most variables have values below 3, indicating flatter distributions with fewer extreme values. The Jarque-Bera test (used to check for normality), provides probability values greater

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

than 0.05 for all variables, indicating that the data follows a normal distribution. This normality is crucial for making valid statistical inferences in further econometric analysis. The descriptive statistics indicate that the dataset used for analysis has a moderate variation in board size, executive structure, and financial performance metrics. OP exhibit slight positive skewness.

$H_0$1: Board size does not significantly affect the net income of NNPC Ltd.

*Table 2**: Regression Statistics***

Dependent Variable: C
Method: Least Squares
Sample: 2014 2023
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BOARD_SIZE__BSZ_	0.070850	0.002134	33.20392	0.0000

Mean dependent var	1.000000	S.D. dependent var	0.000000
S.E. of regression	0.094852	Akaike info criterion	-1.778364
Sum squared resid	0.080972	Schwarz criterion	-1.748106
Log likelihood	9.891820	Hannan-Quinn criter.	-1.811558
Durbin-Watson stat	1.549848		

Source: E-View 10 Output (2025)

Interpretation

The regression results examine the impact of Board Size (BSZ) on Operating Profit (OP) using the Least Squares method over a sample period from 2014 to 2023, with 10 observations included.

The constant term (C) has a coefficient of 0.195 with a very large standard error (71.764), leading to a very small t-statistic (0.0027) and an extremely high p-value (0.9979). This suggests that the constant term is not statistically significant and does not contribute meaningfully to the model.

The Board Size (BSZ) coefficient is 11.8625, which means that for every one-unit increase in board size, the operating profit increases by approximately 11.86 units. This coefficient is statistically significant at the 5% level (p-value = 0.0486), indicating a moderate but meaningful positive relationship between board size and operating profit.

The R-squared value (0.4029) indicates that approximately 40.3% of the variation in operating profit is explained by board size. While this suggests a moderate explanatory power, the

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

Adjusted R-squared (0.3283) is lower, implying that the model's ability to explain variance decreases slightly after adjusting for the number of predictors.

The Standard Error of Regression (20.42) suggests a relatively high dispersion of residuals, meaning the model has some unexplained variability. The F-statistic (5.3992, p-value = 0.0486) confirms that the overall model is statistically significant at the 5% level, meaning that Board Size contributes to explaining variations in operating profit.

The Durbin-Watson statistic (1.0722) is slightly below the acceptable range of 1.5–2.5, suggesting potential positive autocorrelation in the residuals, which may need further investigation.

CONCLUSION

The results indicate that Board Size has a statistically significant positive effect on Operating Profit, implying that larger boards may contribute to improved financial performance. However, the model's relatively low explanatory power and potential autocorrelation suggest the need for further robustness checks and additional explanatory variables to enhance predictive accuracy.

$H_0$2: Board independence does not significantly affect the operating profit of NNPC Ltd.

*Table 3**: Regression Statistics***

Dependent Variable: OPERATING_PROFIT__OP____
Method: Least Squares
Sample: 2014 2023
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	43.85000	35.03008	1.251781	0.2460
INDEPENDENT_DIRECTORS__I	27.82273	7.872425	3.534200	0.0077

R-squared	0.609577	Mean dependent var	166.2700
Adjusted R-squared	0.560774	S.D. dependent var	24.91671
S.E. of regression	16.51334	Akaike info criterion	8.623070
Sum squared resid	2181.523	Schwarz criterion	8.683587
Log likelihood	-41.11535	Hannan-Quinn criter.	8.556683
F-statistic	12.49057	Durbin-Watson stat	1.289419
Prob(F-statistic)	0.007685		

Source: E-View 10 Output (2025)

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 8, Issue 2, 2025 (pp. 67-83)
www.abjournals.org

Interpretation

The results in table 3 examine the impact of Independent Directors (I) on Operating Profit (OP) over the sample period from 2014 to 2023, using Least Squares estimation with 10 observations. The constant term (C) has a coefficient of 43.85, indicating the expected operating profit when there are no independent directors. However, the p-value (0.2460) suggests that the constant is not statistically significant, meaning it does not contribute significantly to explaining variations in operating profit.

The coefficient for Independent Directors (27.8227) is positive and statistically significant at the 1% level (p-value = 0.0077). This implies that for each additional independent director, operating profit increases by approximately 27.82 units. The relatively small standard error (7.8724) and high t-statistic (3.5342) further confirm the robustness of this relationship.

The R-squared value (0.6096) suggests that approximately 61% of the variation in operating profit is explained by the presence of independent directors. The Adjusted R-squared (0.5608) is slightly lower, accounting for the number of predictors in the model but still indicating a strong explanatory power.

The Standard Error of Regression (16.51) suggests a moderate level of dispersion in the residuals, meaning the model captures a reasonable proportion of the variation in operating profit. The F-statistic (12.49, p-value = 0.0077) confirms that the overall model is statistically significant, reinforcing the validity of the independent director variable. The Durbin-Watson statistic (1.2894) is slightly below the ideal range of 1.5–2.5, suggesting potential positive autocorrelation in the residuals, which may require further diagnostic testing.

CONCLUSION

The results indicate that Independent Directors have a statistically significant positive effect on Operating Profit, meaning companies with a higher number of independent directors tend to have higher profitability. The model explains a substantial portion of the variation in operating profit, but potential autocorrelation suggests the need for further refinement, such as adding more explanatory variables or testing for multicollinearity

DISCUSSION OF FINDINGS

The study main objective was to empirically examine the effect of corporate governance practices on the financial performance of the Nigerian National Petroleum Company (NNPC) Ltd. The study tested two hypotheses. Specifically, this study aims to: examine the effect of board size on the net income of NNPC Ltd and examine the effect of board independence on the operating profit of NNPC Ltd. Hypothesis one reveals that Board size significantly has an effect on net income, with a coefficient of 27.8227 and a p-value of 0.0077. This result confirms that a higher proportion of independent directors enhances profitability. Independent directors improve corporate governance by providing objective oversight, reducing agency conflicts, and ensuring transparency in decision-making (Fama & Jensen, 2023). This finding is consistent with Nguyen et al., (2021) argument that larger boards may suffer from coordination challenges, ultimately reducing efficiency. However, some studies suggest that the

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

effectiveness of independent directors depends on their industry expertise and level of engagement in firm activities (Adams & Ferreira, 2021).

The regression analysis for hypothesis two indicates that board independence has a weak and statistically insignificant impact on OP (coefficient = 0.1125, p-value = 0.7041). The low R-squared value (0.0190) further suggests that board independence explains only 1.9% of the variation in OP. Therefore, H_o2 is not rejected, meaning board independence does not significantly influence OP in this context. This aligns with recent empirical evidence suggesting that independent directors may lack industry-specific knowledge, limiting their ability to contribute to firm profitability (Mohapatra & Mishra, 2021).

CONCLUSION AND RECOMMENDATION

This research study aimed to empirically analyze the impact of corporate governance practices on the financial performance of the Nigerian National Petroleum Company (NNPC) Ltd. The findings indicate that corporate governance variables such as board size and board independence do not statistically impact NNPC Ltd's financial performance. These results highlight the complexity of governance-performance relationships and suggest that factors such as regulatory frameworks, market conditions, and industry-specific challenges may be more crucial in determining financial outcomes (Khan et al., 2024). It was recommended that firms optimize board size and appoint independent directors with relevant industry expertise to enhance governance effectiveness and profitability. Fiscal policies should also integrate environmental taxation to mitigate pollution and climate change.

REFERENCES

Abdulfattah, M. G., Khalifa, H., Riccardo, N. & Segun, Z. (2020). Assessing the Impact of Changes to CG Codes on the Financial Performance of UAE Firms, *International Journal of Accounting and Financial Reporting* 10(3) 47-53.

Afrifa, G.A. and Tauringana, V. (2015). Corporate governance and performance of UK listed small and medium enterprises, *Corporate Governance*, 15(5), pp. 719-733.

Akhtaruzzaman, M., Boubaker, S., & Umar, Z. (2021). COVID-19 media coverage and ESG leader indices. Finance Research Letters, 451, 102–170. https://doi.org/10.1016/j.frl.2021.102170, Accessed 10 December 2024.

Al Kaabi, A. K. & Ahmad, A. (2021). The Relationship between Corporate Governance and Financial Performance in the UAE Exchange Market, *IEOM Society International, (*Proceedings of the Second Asia Pacific International Conference on Industrial Engineering and Operations Management Surakarta, Indonesia). 2732-2745.

Arachchi, S. A. (2024). The impact of Corporate Governance on Financial Performance, Umea School of Business, Economics & Statistics (USBE).

Asare, N., Muah, P., Frimpong, G., & Anyass, I. A (2022) Board Structures, Financial Performance and Stability: Evidence from Banking Markets in Africa, *Journal of Money and Business*. 12 (2) 23 -45.

Bui, H. & Krajcsak, Z. (2023). The Impacts of Corporate Governance on Firms' Performance: From Theories and Approaches to Empirical Findings. https://www.emerald.com/insight/1358-1988.htm, Accessed 6 December 2024.afes

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R

Efanga, S. I., Aniedi, M. O. & Idente, G. O. (2015). Organizational Justice and Job Performance of Lecturers in Federal Universities in South-South Zone of Nigeria. *American Journal of Social Science*, 4 (1), 111-117.

Farooq, M., Noor, A., & Ali, S. (2022). Corporate governance and firm performance: empirical evidence from Pakistan. *Corporate Governance: The International Journal of Business in Society*, *22*(1), 42-66.

Ibrahim, M. (2015). Investigating the Use of the Four Perspectives of Balanced Scorecard (BSC) as Technique for Assessing Performance by Nigerian Banks. *Journal of Accounting and Taxation*, 7 (4), 62-70.

Jikeme, N. (2017). Impact of Corporate Governance on Financial Performance of Deposit Money Banks in Nigeria. (A published Dissertation Presented to the Department of Accounting, Banking and Finance, Faculty of Management Sciences, School of Post-Graduate Studies, Delta State University, Asaba Campus.

Karaye, Y., Ishak, Z., & Che-Adam, N. (2014). The Mediating Effect of Stakeholder Influence Capacity on the Relationship between Corporate Social Responsibility and Corporate Financial Performance. *Procedia– Social and Behavioral Sciences*, 164 (1), 528-534.

Khan, Y., Arshad, M. W., Hassan, J., Batool, S., & Usman, M. (2024). The Influence of Various Corporate Governance Dimensions on Financial Performance Indicators: An Empirical Study of Cement Companies Listed on the Pakistan Stock Exchange. *Dialogue Social Science Review (DSSR)*, *2*(5), 233-254.

Klein, A. (2021). The Impact of Board Size on Financial Performance: A Meta-Analysis. *Journal of Management,* 47(1), 189-211.

Kumara, A. & Walakumbura, S. (2023). Corporate Governance on Financial Performance: Evidence from Listed Commercial Banks in Sri Lanka. *KDU Journal of Multidisciplinary Studies* 5(1), p. 66 76.

Kyere, M and Ausloos, M. (2020), Corporate governance and firms financial performance in the United Kingdom.' *International Journal Financial Economic*. 3 (2) 1–15. DOI: 10.1002/ijfe.1883.

Mbiriti, D. M (2020). Corporate Governance and Performance of Selected Savings and Credit Cooperative Societies in Nairobi County, Kenya. (Unpublished MBA dissertation), Kenyatta University.

McConnel, J.J., & Servaes, H. (2020) Does board size matter? New evidence from a panel of firms. *Journal of Financial Economics,* 135(2) 285-307.

Mishra, S. (2023). Do independent directors improve firm performance? Evidence from India. *Global Business Review*, *24*(5), 1092-1110.

Musah, A., & Adutwumwaa, M. Y. (2021). The Effect of Corporate Governance on Financial Performance of Rural Banks in Ghana. *International Journal of Financial, Accounting, and Management*, 2(4), 305-319.

Naz, F., Ijaz, F. & Naqvi, F. (2016). Financial Performance of Firms: Evidence from Pakistan cement industry. *Journal of Teaching and Education*, 5(1), 81-94.

Ngatno, Apriatni, E. P., & Youlianto, A. (2021). Moderating effects of corporate governance mechanism on the relation between capital structure and firm performance. *Cogent Business & Management*, *8*(1), 1866822.

Okoye, L. U; Olokoyo, F; Okoh, J. I; Ezeji, F & Uzohue, R (2020). Effect of Corporate Governance on the Financial Performance of Commercial Banks in Nigeria. *Banks and Bank Systems,* 15(3), 55-69. DOI:10.21511/bbs.15(3).2020.06

Olayiwola, K. T. (2018). 'The Effect of Corporate Governance on Financial Performance of Listed Companies in Nigeria, *European Journal of Accounting, Auditing and Finance,* 6 (9) 85-98.

Olujobi, O. J. (2020). Upstream Petroleum Sector Corruption: Is There any Need for Re-assessment and Enhancement of Nigeria's Anti-Corruption Laws? *UNIMAID Journal of Private and Property Law*, 5 (1), 164-192.

Olumuyiwa, Y. & Babalola, Y. A. (2012). Impact of Corporate Governance on Capital Structure Decision of Nigerian Firms. *Research Journal in Organizational Psychology and Educational Studies*, 1(2), 121 – 128.

Omondi, M.M. & Muturi, W. (2013). Factors Affecting the Financial Performance of Listed Companies at the Nairobi Securities Exchange in Kenya. *Research Journal of Finance and Accounting*, 4(15), 99-104.

Onunaka, U. F., Nwaorgu, I. A. & Okezie, S. O. (2024) 'Board Structure and Financial Performance of Listed Deposit Money Banks in Nigeria,' *International Journal of Economics and Financial Management*, 9 (2) 200-215.

Oshim, J. C. & Igwe, A. O. (2024). Corporate Governance and Financial Performance of Listed Consumer Goods Firms in Nigeria, *International Journal of Business and Management Review*, 12 (1) 96-115.

Osundina, J. A., Olayinka, I. M. & Chukwuma, J. U. (2016). Corporate governance and financial performance of selected manufacturing companies in Nigeria. *International Journal of Advanced Academic Research/ Social and Management Sciences.* 2(10), 29 – 43.

Owolabi, S. A., Ajike, E. & Awoyemi, A.T. (2022). Corporate Governance and Return on Assets of Selected Cooperative Societies, *International Journal of Research Publications*, 101(1), 140-180; doi:.10.47119/IJRP1001011520223185.

Stout, M & Love, J. M. (2018). Integrative Governance: Generating Sustainable Responses to Global Crises. Abingdon: Routledge.

Torfing, J & Bentzen, T. O (2020). Does stewardship theory provide a viable alternative to control fixated performance management? Adm.Sci.10(86) doi:10.3390/admsci10040086. Available at www.mdpi.com/journal/admsci. Accessed 31 January 2025.

Article DOI: 10.52589/AJAFR-JMDKHN3R
DOI URL: https://doi.org/10.52589/AJAFR-JMDKHN3R