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Email: CTSMSR@babcock.edu.ng

RESEARCH ARTICLE

STRATEGIC FINANCIAL MANAGEMENT PRACTICES AND RETURN ON ASSET OF QUOTED OIL AND GAS FIRMS IN NIGERIA

Owolabi, Sunday Ajao
Owolabis@babcock.edu.ng
Professor of Accounting
Babcock University, Ilishan-Remo,
Nigeria
+234-803-409-7016

Fijabi, Lateef Kolawole (PhD)
kola.fijabi@gmail.com
Department of Accounting
Babcock University, Ilishan-Remo,
Nigeria
+234-802-396-6966

&

Ajibade, Ayodeji Temitope (PhD)
ajibadea@Babcock.edu.ng
Lecturer, Accounting Department
Babcock University, Ilishan-Remo,
Nigeria
+2348162052526

STRATEGIC FINANCIAL MANAGEMENT PRACTICES AND RETURN ON ASSET OF QUOTED OIL AND GAS FIRMS IN NIGERIA

Abstract

This paper evaluated the influence of strategic financial management practices (SFMP) on the return on assets (ROA) of quoted oil and gas firms in Nigeria. A simple random sampling was adopted for the sample with data generated from annual reports and accounts of sampled oil and gas firms in Nigeria for fifteen years (2006-2020) for the study. The findings showed that SFMP had significant influence on the ROA of quoted Oil and Gas firms in Nigeria (p-value =0.0003; <0.05). The result revealed that debt finance was negatively significant but investing activities was positively significant on ROA. Furthermore, dividend payout, working capital, and total asset turnover had positive insignificant effect on ROA of quoted Oil and Gas firms. The Adjusted R-Square of 0.56 showed that 44% outside SFMP caused changes in ROA. It was recommended that the management should pay attention to debt finance which negatively impacted ROA.

Keywords: Debt finance; Dividend payout; Performance; Return on asset; Working Capital

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Type of paper: Strategic Financial Management

JEL Classification Code: O16

1. Introduction

Performance measure is assumed to be an important criterion to know how well an organization is doing (Waweru, Munyoki, & Uliana, 2008). Performance measure is required in decision making of an organization. It dictates the resource utilization of a company and the results obtained from such utilization. Monetary trend is an indicator identified to assess the performance of various revenue generating units in accomplishing the stated objectives of the company (Katja, 2009; Imhanzenobe & Adeyemi, 2020). The operating, economic characteristics, and the productivity of revenue generating unit reveal the performance of the organization as obtained from the annual reports and accounts (Dick & Wang, 2010). Performance metrics can help to see the way direction of the company whether it is going up or down. Performance shows the sustainability of a business whether it will operate in the foreseeable future or not. A well-performing organization will be judged as a profitable company, showing a good return on assets.

Oil and gas (O & G) have made a substantial contribution to the Nigerian economy since 1958 when it was first discovered. This sector of Nigerian economy is highly characterized by huge capital outlay, great risk, higher returns, and a higher level of technological advancement (Akinwale, 2018). This sector accounted for more than 85% of Nigeria's revenue since late '60s and 9% of its gross domestic product (GDP). In 2019, O & G was responsible for 5.8 percent real gross domestic product and 95 percent of foreign exchange earnings, and 80 percent of budget revenues of Nigeria (NBS, 2021). Despite the contribution of 5.9% by the sector to the total real GDP in Q4 2020, it recorded a reduction of 3 points from the previous quarter. It recorded an improvement of 7.42 per cent in Q2 2021 to the GDP (NBS, 2021).

The review of GDP contribution data among the Organization of Petroleum Exporting Countries (OPEC), showed that oil sector in Nigeria contributed less than 10 per cent to its GDP which is the least among other OPEC members. The oil sector contribution of Angola (Africa's second-largest oil producer) showed about 50% of the country's GDP and about 89% of her exports. In Libya, about 60% of GDP were from oil and gas (O & G) sector and about 40% from its exports. For Saudi Arabia, 50% of its GDP and about 70% of her exports were obtained from oil and gas sector. The United Arab Emirates (UAE) had 30% of her GDP from oil and gas while Venezuela obtained about 25% of her GDP from oil and gas sector. No information was available from other OPEC countries such as Congo, Ecuador, Equatorial Guinea, Gabon, Iran, and Iraq (OPEC, 2021).

The world oil price had not been stable since 1973 when the Arab Israeli war started. This called for the establishment of Organization of Petroleum Exporting Countries (OPEC) among oil producing countries in the Middle East and Africa. There was a serious decline of oil prices from $145 per barrel in 2008 to $30 per barrel in 2016 due to global financial crisis. This impacted the performance of oil and gas industries in various countries (PWC, 2017). The huge cost of investment required in this industry has not attracted many investors. The result of the findings of Hasiholan and Daryanto (2018) showed that the oil and gas industry in Indonesia had a problem in asset utilization. Asaolu (2021) in his study revealed that debt structure improved firm performance in comparison between oil and gas and manufacturing sectors in United States of America. Manikom and Guillermet (2014) reviewed the financial performance and crude oil prices of International oil companies in the Eurozone from 2004 to 2913. The result showed that crude oil prices had a negative relationship with the financial ratios. The global financial crisis had an impact on the financial performance of the international oil companies. The debt level and the size of international oil companies had a strong relationship with financial performance

Petroleum Industry Act (PIA) 2021 was signed into law by President Mohammad Buhari in August 2021 to bring meaningful reform to the country's oil and gas sector after several attempts by previous administrations to achieve this. The aim of the new Act is to build an enabling and conducive environment for growth of the oil and gas sector and resolve genuine complaints of local groups that are affected by the activities of oil and gas companies. The reform has brought about domestic and global changes, an upward surge in indigenous O & G firms, and reduced militancy in oil-rich communities. The petroleum Industry Act (PIA) 2021, signifies an effort by Nigeria to respond to the changing environment.

The discipline of strategic financial management is a strategic aspect that cuts across the entire organization to achieve management efficiency and effectiveness. According to Saroja and Radhika (2015), the unpredictability of an enterprise's financial environment pervades its financial activities, making it easier to keep trail of changing trends and absorb valuable items while rejecting detrimental issues. Layr (2014) defines strategic finance as the combination of resources with the company's strategic plan and objectives. Strategic Financial Management practice provides necessary information that helps the manager in the effective allocation of resources across the company to achieve desired performance.

Oil and gas is a significant player in Nigerian economy. It contributes more than 80% of the country's revenue in meeting its budget requirements and contributed 7.42 percent of its GDP in Q4 2021 (NBS, 2021). Despite its contribution to the economy, the ROA of quoted O & G firms has not been impressive. If necessary actions are not taken in addressing this

performance, it may threaten its contribution to the economy, job creation, and hinder economic growth and development. The study's objective is to evaluate the impact of SFMP on ROA of quoted O & G firms in Nigeria. The study covered eight (8) O & G quoted firms in Nigeria for a period of fifteen years (2006-2020).

2.0 Literature Review

Conceptual review

Performance (ROA)

Performance is an important aspect of management since it allows one to see where the organization is going (Agbaje & Funson, 2018). Efficiency ratios, according to Brealey, Myers, and Allen (2016), are adopted to evaluate assets and liabilities of a firm to know whether it is doing well. This is accomplished by investigating the company's actions or activities. Performance measurement is described as the practice of defining the efficiency and effectiveness of a firm's action (Rashid, 2018). The Oxford English Dictionary (OED) defines performance as how well or poorly you do something or how well or poorly something operates in linguistic terms. Performance is described as the contribution of each individual within the organization or the overall contribution of the organization as fulfillment of its objectives (Taouab and Issor, 2019). It is seen as a comprehension of the obtained outcomes. Demeke and Tao (2020) opined that the term organizational performance has no official definition. Organizational performance is utilized as a dependent variable on numerous aspects, according to Demeke and Tao (2020). Scholars and authors take diverse approaches to it, and there are a variety of expressions.

The issue of defining, assessing, and interpreting the concept of organizational performance is a challenging, complicated, and time wasting process, both in theory (due to differing viewpoints in the scholarly literature and practice due to the specific, unique aspects of business organization, operation, and financing. According to the author, finding a common or unambiguous definition of performance is challenging since definitions are either too broad or too narrow. The level of objective attainment, or a firm's fulfillment of its objectives, is measured by organizational performance, which is defined as the result of actions or activities carried out by company members (Chung & Low, 2017).

ROA is the relation that compares profitability to overall assets. ROA is the ratio of profitability to total assets after interest and taxes (Sulistiyani & Noor, 2022; Alhassan & Anwaru Islam, 2021; Heikal, 2014) It tells an investor or analyst, and manager, the efficient utilization of a company's assets to make profits. It assesses a company's potential to generate revenue when its resources are put to good use, demonstrating that management is capable of doing so (Olaoye, Adekanbi, & Oluwadare, 2019).

ROA is shown as follows:

ROA = Profit after Tax / Total assets

Strategic financial management practices

Every investor's goal is to increase his or her fortune. Strategic financial management practices is described as techniques for capital acquisition and ensure better returns to meet the objectives of shareholders and other stakeholders into a foreseeable future (Liu (2010).

Investment activities, financing, dividend policy, liquidity, and profitability are principal areas of strategic financial management practices. Poor capital management, planning problems, poor strategy, and poor investment in fixed assets, all contributed to the company's bankruptcy (Karadag, 2015).

Debt financing

Debt financing is the process of obtaining borrowed funds from investors and corporate lenders through financial instrument such as bonds, loans or commercial papers to meet the funding requirements of the company (Olaoye et al. 2019; Kraemer-Eis & Lang, 2017). Firms look for external money to augment their fund shortfall to achieve their planned objectives. Internal or external fund is used to fund a project in an organization. Internal fund is that fund raised from the ordinary shareholders of the company. The external fund is that provided by the creditors. Debt financing demonstrates how the entire operations and possible expansion ambitions of a firm are funded (Ohaka, Edori, & Ekweozor, 2020). Ordinary share equity is issued if equity is used for working capital. Debt is incurred to help a firm out of financial difficulties with payment of interest on the principal amount (Abdioglu, 2019; Olaoye et al, 2019).

Investing activities

IAS 7.35 defines investing activities as the acquisition and disposal of a long-term asset (including business combinations) and non-cash investments. Cash flow generated from investing activities is essential, which makes available information on the kind of investment made by the organization on regular basis. The reason for investing is to earn a return from an activity. There are three areas covered in cash flow statement which include: cash flow from operating activities, investing activities, and financing activities (Ryu & Jang, 2004). Investing activities include procurement of operating assets, debt and equity, and financial investments making up the company’s start up operations.

Investing activities cash flows include: (i) Non-current assets and (ii) Current assets. Net cash outflow and noncash acquisition assume positive sign (investment acquisition) while net cash inflow and noncash disposals are taken as negative sign (investment disposal),

Financial distress or performance failure of a company could result from poor investment decision by a company’s management (Memba & Nyanumba, 2013). A good payment and collection plan is essential to support the company's treasury management, as well as an investment policy that converts other assets to cash easily and quickly to achieve high liquidity at a low transaction cost (Olaoye et al., 2019). Holding too much cash or cash equivalents can disrupt the normal flow of corporate operations. Cash holding must be balanced to ensure business continuity. Investing activities are critical to attaining corporate goals. Investing activities as a performance assessment has been studied by Setyawati (2018); Gathu (2018); Frank (2014); Radriguez, Muino, and Lamas (2012); Zeller and Figlewiczm (1990).

Dividend policy

The responsibility for deciding the number of dividends to pay out of earnings to shareholders and retained earnings in the company rests with its board. Certain factors such as investors’ expectations, fund availability, growth and investment opportunities, public perception about age, and firm size, including the ability to generate funds through other

sources without retained earnings, are considered. Dividend payment is an indicator of a good performing company that has good corporate governance; this is capable of attracting potential investors (Nwidobie, 2016).

Working capital management

Liquidity appears to be the lifeblood of all economic activities without which everything will come to a halt (Akintoye, 2010). This demonstrates that, to be profitable, every firm requires working capital in its operations. Working capital management is about management's ability to utilize its working capital judiciously to meet its business needs without fail. (Proctor, 2012). Gârleanu and Pedersen (2018) opined that management should device reduction in its time collection for debts and credits for operational effectiveness. Ayu, Zuraida, and Mulia (2018) reported a significant influence of liquidity on the profit management of Indonesian companies when they investigated the effect of liquidity, profitability, and leverage on profit management and its impact on business value of quoted manufacturing firms in Indonesia. Secondary data for the study was gathered from the websites of 150 publicly traded industrial companies as well as the Indonesian Stock Exchange's official website between 2011 and 2015.

Asset management

Asset management is used to measure the effective usage and management of a company's assets (Purba & Bimantara, 2019). Asset management responds to reasonableness and the level of the asset class provided in the financial statement as against the projections in the current sales level (Purba & Bimantara, 2019). Asset management is the process of developing, operating, maintaining, and cost-effectively selling assets (CFI, 2022). Profit level may be affected if a company is carrying too many assets which may require too much cost to maintain. Asset management ratios include inventory & fixed assets turnover, day sales outstanding, networking capital turnover, cash turnover ratio (Monea, 2019; Kovalchuk & Verhun, 2019). Total asset turnover (TAT) will be considered for this study as it provides a total and comprehensive result from the financial statement which includes other asset management ratios.

Theoretical review

This study is anchored on resource-based view theory considering the contribution of various assets to achieve the company's return on assets.

Resource-based View (RBV)

This theory as propounded by Wernerfelt's (1984) is commonly used in literature for strategic management. The RBV was a result of strategy work carried out by Birger, Wernerfelt, Prahalad and Hamel, Spender, and Grant in the '80s and '90s. Most academics, however, regard Jay Barney as founder of contemporary "Resource-Based View of the Firm (RBV)". Jay Barney ('91) proposed that firms can have heterogeneity, or distinctions at the firm level, that allow some to maintain a competitive advantage. According to RBV- the best assets for a company's sustainable development into foreseeable future are the most treasured, exceptional, non-transferrable, and irreplaceable (Barney, 1991; Peteraf. 1993). These critical assets lay the foundation for the progress of a company's skills and improved productivity over time.

The Pecking order theory

Donaldson (1961) proposed that a scale of preference is formed by a firm looking for funds to finance its activities from various sources. He mentioned that the first preference is the internal or retained earnings followed by debt. Because they have sufficient internal financing, the more profitable corporations borrow the least. If retained earnings are insufficient, the most preferred external source of finance is bank borrowings and corporate bonds (Ajibola, Wisdom, & Qudus 2018)). Myers (1984) provided a more refined explanation when he stated that the order of preference was caused by information asymmetry between companies and the market. This theory runs counter to the idea of seeking a capital combination that yields lowest capital cost with optimal returns. Internal funding is preferred to equity when it is available external financing is preferred to equity when debt is required (Basit & Irwan, 2017).

Dividend Irrelevance theory

The dividend irrelevance was proposed by Modgliani and Miller (1958). Dividend irrelevance indicates that stock value is not affected by dividend payment due to reduction it causes in the price of a stock at the point of announcement. He argued that each dividend payment causes a reduction in stock price equivalent to dividend amount. As a result, it is not profitable to hold stock for the reason of dividend payment due to stock price reduction when a dividend is declared. Reinvestment of dividends by some investors caused Modiglani and Miller to disagree with Gordon-Lintner's dividend relevance theory. Another criticism is the operating risk in the long run that may cause cash flow risk.

Bird-in-hand theory (relevant dividend theory)

Gordon (1959) and Lintner (1962) developed dividend relevance theory as an alternative to dividend irrelevance argument of MM, which states that investors are unconcerned about the source of their profits. In 1734, at dusk, they found themselves at an inn beside a Conestoga wagon stop, which gave rise to the theory's name. According to one surveyor, "a bird in the hand is worth two in the bush," so they agreed to spend the night there. The inn became known as "The Bird-in-Hand," and the community was given a name, thanks to a rudimentary wood cabin built by William McNabb. It means that it is desirable to hold what you have instead of ignoring it in the pursuit of expected gain that is not secured. According to the notion, dividends are more stable than capital gains.

Empirical review

The effect of capital structure on corporate performance was carried out by Foo, Jamal, Karim, and Ulum (2015). Secondary data form of research design was adopted. Twelve oil and gas companies in Malaysia were selected as sample. Data from the financial statement of various oil companies in Malaysia were processed through panel regression technique for eleven years (2003-2013). Capital structure is represented by short-term debt to total assets, long-term debt to total assets, and total debt to total assets while corporate performance is denoted by return on assets, return on equity, and gross margin. The study outcome disclosed that capital structure items have significant negative effect on ROE but they have no significant effect on ROA and gross margin.

Capital structure was investigated with return on assets of oil marketing companies in Ghana for a period of ten (10) years (2005-2014) with the adoption of secondary data research design. OLS regression was used to analyze the data. The results showed that capital structure had a significant negative effect on the return on assets (ROA). The study was carried out by Doku, Adjei, Adjimah, and Akuma (2016).

The relationship of working capital management with firm's profitability in Nigeria was reviewed by Babatunde and Akeju (2017). One hundred firms quoted on the Nigerian Exchange Group (NGX) were taken as samples for eleven years from 2005-2015. Secondary data from sampled companies were obtained for analysis. The results showed a significant positive relationship between working capital management and firm's profitability.

Financial leverage was examined with the financial performance of twenty-one (21) Pakistani quoted firms in textile, automobiles, sugar, petroleum and engineering sectors for the period of four years (2012-2015) by Nazir (2017). Secondary source form of research design was adopted to obtain data from the financial statement of sampled twenty-one Pakistani firms. Financial leverage is represented by debt-to-asset ratio while financial performance is represented by retur-on-assets. The results of OLS and Correlation techniques revealed that financial leverage was significantly negative on ROA.

Matar and Eneizan (2018) used secondary data from annual reports and accounts of sampled firms listed on the Amman stock exchange between 2005 and 2015 to investigate determinants of financial performance in industrial firms: evidence from Jordan. The findings revealed that liquidity, profitability, and revenue were all positively related to return on assets (ROA). On the other hand, leverage and firm size have a negative relationship. In addition, the regression results showed that all variables have a significant impact on financial performance.

The influence of asset management on return on assets carried out by Purba and Bimantara (2019), showed that fixed asset turnover had a significant positive effect on return-on-assets. Secondary data source of research design was adopted and data were obtained from six sampled companies for a five year period (5) year (2013-2017). The data obtained were analyzed through Panel data regression technique. The study concluded that there was an improvement in the profitability through asset management of companies.

The relationship between debt financing and firm performance of non-financial sector in Pakistan was carried out by Aziz and Abbas (2019). Data from the financial statements of 360 companies was obtained for a period of nine years (2006 - 2014). The findings showed a negative influence of short-term and long-term debt on corporate performance. Debt is perceived to be an expensive source of finance; increasing debt has been shown to reduce company performance. The result was in agreement with pecking order theory, which holds that organizations should first utilize internal fund before settling for external finance that could hurt their performance. Debt has hampered the companies' performance by increasing interest costs and decreasing income. Companies in Pakistan, according to the study, should use less debt and more internally generated funds because it is a more affordable and dependable capital structure component. Managers are encouraged to adopt an optimal capital structure to avoid insolvency.

Wijekoon and Senevirathna (2019) used data from Colombo- quoted companies to carry out the review of dividend policy on firm performance for a five year period (2013-2017). The availability of data influenced the selection of 30% of the quoted companies (82). ROA and ROE are performance indicators but dividend policy is denoted by dividend payout ratio and earnings per share. A panel data regression model was adopted due to cross-sectional and time series data. The findings showed that dividend payout and earnings per share had a significant positive effect on ROE. Dividend payout had a significant positive impact on ROA, but earning per share had a significant negative relationship with ROA. The fixed firm effect model showed that the dividend payout and earnings per share had a significant impact on ROA and ROE. The significant positive effect of earnings per share on firm performance

indicated that as the company's financial performance improved, earnings per share for shareholders would rise. This sends a clear message to prospective stock buyers that an increase in profit may result in a higher dividend payout.

The relationship between dividend payout and performance of O & G firms in Nigeria was reviewed by Adeiza, Sabo, and Abiola (2020). Secondary data from the sampled O & G firms (Total Plc and Mobil Plc) in Nigeria was used. Net profit margin, ROA, and ROE represent performance. Ratio analysis was adopted to analyze the data obtained from the sample (Total Plc and Mobil Plc). The study revealed that the dividend payout had an insignificant negative effect on firm performance of Mobil Plc and Total Plc in 2017 and 2018 respectively. There was a significant result for Total Plc in 2015 and 2016, but it revealed a significant impact on Mobil Plc in 2015 and an insignificant impact in 2016.

A review of asset management and firm performance was carried out by Osamor and Adebanjo (2020). The study was carried out with secondary data source taken from seven Nigerian quoted (7) O & G firms for twelve years (2007 – 2018). The results revealed that both financial stability and financial risk ratios had no impact on ROA. The management of oil and gas firms were advised to device viable standard to curtail debt application as a capital structure to finance projects that produce poor returns and cash flows.

The gap in literature revealed that not all the components of independent variables in this study were found tested as a whole against return on assets in previous studies. The finding results of Foo, Jamal, Karim, and Ulum (2015) from Random Effects Model capital structure items have no effect on return on asset of Malaysian firms which is not in agreement with the results of the findings of Doku, Adjei, Adjimah, and Akuma (2016); Nazir (2017); and Matar and Eneizan (2018) who reported a statistically negative effect of financial leverage on return on assets of quoted Pakistani firms. The result of the findings of Purba and Bimantara (2019) showed a significant effect of fixed asset turnover on return on asset while Osamor and Adebanjo (2020) showed that there was no impact of fixed asset ratio and proprietary ratio on ROA. Babatunde and Akeju (2017) revealed a positive significant relationship between working capital management and firm performance which is in tandem with the results of Matar and Eneizan (2018) that reported a positive relationship between liquidity, profitability, revenue and return on asset of oil and gas firms in Nigeria. The findings of Adeiza et al. (2020) showed an insignificant negative effect of dividend payout on firm performance of O & firms in Nigeria which is in contrast with the findings of Wijekoon and Senevirathna (2019) that reported a significant impact of dividend payout and earnings per share on ROA of Colombo quoted companies.

Various studies above used each of the independent variable against return on asset not as a combined component as expressed in this study, hence, showing the gap identified in the study. There are limited literatures on the topic, hence, this study will contribute to literature in this area.

3.0 Methodology

Research Design

The research design used for this study is secondary data source to achieve the objective of this study which involved the use and analysis of some data from the audited accounts of

some sampled O & G firms quoted on the Nigerian Stock Exchange (NSE) for a period of fifteen years (2006-2020). The process is adjudged appropriate because it represents proxies for SFMP and ROA of quoted Nigerian O & G firms. The design used regression analysis to exude the relationship between ROA and SFMP variables. The design was earlier adopted by Navarro-Garcia and Madrid-Guijarro (2016).

Population

Population for this study included all eleven oil and gas firms quoted on the Nigerian Exchange Group (NGX). The companies are: 11 Plc, Ardova Plc, Capital Oil Plc, Conoil Plc, Eternal oil Plc, Japaul Gold and Ventures Plc, MRS Oil Nigeria Plc, Oando Plc, Rak Unity Plc, Seplat Energy Plc, and Totalenergies Marketing Nigeria Plc.

Sample size and sampling technique

The sampling method used is simple random for this study which allowed for the inclusion of every member of oil and gas. The sample size is 10.71 (approximately 11), according to Yamane, 1967 formula. This accounted for the reason why all companies in the sector were considered for this study hence the population is the same as sample size. Only 8 firms were considered for the study due to non-availability and incorporation date of annual accounts from 2006-2020. The other three oil and gas firms that could not be included are Seplat Energy, Capital Oil, and Rak Unity Petroleum Company.

Method of Data Analysis

Adopting Random-Effect regression, inferential statistics was computed to determine and establish the relationship among all variables. As a metric of strategic financial management practices, the residuals were used to assess return on assets. To demonstrate the connection between the two types of data sets, dependent and independent variables, hypothesis testing was carried out by constructing null and alternate hypotheses. The null hypothesis (Ho) claims that SFMP factors do not affect the ROA, whereas alternate hypothesis claims that the independent variables do. A Stata program was used to analyze data from financial statements.

Model specification

The study assessed the effect of SFMP on ROA of quoted Nigerian oil and gas firms using Random Effects regression. Two variables were adopted i.e. ROA (dependent variables) and SFMP (independent variables). The dependent variable is return on asset while the independent variables are elements of SFMP.

$Y = \alpha + bx$

$ROA = f(DF, INVA, DIVPO, WCAP, TAT)$ ……(i)

$ROA_{it} = \alpha_0 + \beta_1 DF_{it} + \beta_2 INVA_{it} + \beta_3 DIVPO_{it} + \beta_4 WCAP_{it} + \beta_5 TAT_{it} + \varepsilon_{it}$ _____Model 1

ROA_{it} = Return on asset for firm I at time t (in years)
α_0 = Regression constant
$\beta_1 - \beta_5$ = Coefficients of independent variables
DF_{it} = Debt finance for firm I at time t (in years)

$INVA_{it}$ = Investing activities for form I at time t (in years)
$DIVPO_{it}$ = Dividend payout for firm I at time t (in years)
$WCAP_{it}$ = Working capital for firm I at time t (in years)
TAT_{it} = Total asset turnover for firm I at time t (in years)
ε = Stochastic or disturbance form
t = Time series

Table 3.1 Measurement of Variables

Variables	Abbreviation	Formula	Reference
Return on Asset	ROA	Net income /Total assets	Adeiza, Sabo, & Abiola (2020)
Debt financing	DF	Net debt activity ratio = net debt activity/total liabilities and equity	Olaoye et al. 2020
Investing activities	INVA	Net capital investment /Average total assets	Setyawati (2018)
Dividend payout	DIVPO	Dividend per share/earnings per share	Ogundajo, Enyi, Akintoye, and Dada (2019)
Working capital	WCAP	Current assets – Current liabilities	Babatubde and Akeju (2017)
Asset management – Total asset turnover	TAT	Net sales revenue /Average total assets	Purba Bimantara (2019)

4.0 Results of Data analysis and Discussion

4.1 Hypothesis Testing

Ho: Strategic financial management practices (SFMP) have no significant effect on return on assets (ROA) of quoted Nigerian oil and gas firms.

Table 4.1: Estimation Results for the Model

Sector	**Oil and Gas Sector**			
Estimation Techniques	**Random-effects Regression with Driscoll-Kraay Std Error**			
Dependent Variable: ROA	**Coeff.**	**Std. Err**	**T-Stat**	**Prob**
Constant	6.99	8.188	0.85	0.40
DF	-0.137	0.056	-2.44	0.02
INVA	56.46	15.49	3.65	0.00

DIVPO	0.004	0.003	1.38	0.18
WCAP	5.582	3.105	1.80	0.09
TAT	1.481	1.193	1.24	0.23
Adjusted R^2	0.56			
F-Stat/Wald Stat	$F_{(5)}$ = 23.35 (0.0003)			
Hausman Test	$Chi^2_{(5)}$ = 10.59 (0.060)			
Testparm/LM Test	$Chi^2_{(01)}$ = 3.53 (0.030)			
Heteroskedasticity Test	$Chi^2_{(1)}$ = 3.09 (0.078)			
Serial Correlation Test	$F_{(1, 70)}$ = 2.467 (0.160)			
Cross-Sect Dep. Test	2.294 (0.0218)			

Source: Researcher's output (2022)

Tests were carried out at 5% level of significance

Regression Equation Result

$ROA_{it} = \alpha_0 + \beta_1 DF_{it} + \beta_2 INVA_{it} + \beta_3 DIVPO_{it} + \beta_4 WCAP_{it} + \beta_5 TAT_{it} + \varepsilon_{it}$……**Model 1**

$ROA_{it} = 6.99 - 0.137DF_{it} + 56.46INVA_{it} + 0.004DIVPO_{it} + 5.582WCAP_{it} + 1.481TAT_{it} + \varepsilon_{it}$…..Model 1

Interpretation

The Model above assessed the effect of SFMP on return on asset of quoted Nigerian oil & gas firms in Nigeria. The outcomes are shown below:

DF (Debt financing) had a significant negative outcome on ROA (β = -0.130, *p = 0.020).* The negative figure of this factor inferred a unit change in DF would cause a 0.130 percentage decrease in Return on Asset.

Investing Activities (INVA) had significant positive influence on ROA (β = 56.46, *p = 0.000).* This revealed a unit change in INVA would cause a unit increase of 56.46 on ROA of O & G firms in Nigeria.

DIVPO (Dividend Payout) had insignificant positive effect on ROA (β = 0.004, *p = 0.18)* showing a unit change in DIVPO would cause 0.004 positive unit change in ROA.

Working Capital (WCAP) had an insignificantly positive impact on ROA (β = 5.58, *p = 0.09)* showing a unit change in WCAP would produce 5.58 positive unit change in ROA.

However, Total Asset Turnover (TAT) also had an insignificant positive influence on return on asset (β = 1.48, *p = 0.23)* showing a unit change in TAT would produce 1.48 positive unit change in ROA of Nigerian oil and gas firms.

Summarily, only Debt financing and investing activities significantly influenced ROA. However, debt financing had significant negative impact while investing activities had significantly positive effects on ROA of Nigerian oil and gas firms. DIVPO, WCAP, and TAT were insignificantly positive. The F-stat result of 0.000 revealed that SFMP variables jointly and significantly impacted ROA. The adjusted R^2 of 0.560 showed that all SFMP variables were jointly responsible for 56% fluctuations in ROA and the residual fluctuations (44%) in ROA were triggered by influences other than independent variables.

Decision

The study rejected the null hypothesis as a result of p-value being 0.00 which is less than 5% (0.05) level of significance hence SFMP had significant effect on ROA of quoted Nigerian O & G firms.

4.2 Discussion of Findings

The regression results on investigation of the relationship between SFMP and ROA of quoted Nigerian O & G firms showed that DF, INVA, DPO, WCAP, and TAT had significant positive effect on ROA of quoted Nigerian O & G firms. While the overall model is jointly significant, the individual results revealed that DIVPO, WCAP, and TAT showed an insignificant relationship with return on asset. DF showed significant negative effect on ROA but INVA showed significant positive influence on ROA. DIVPO, WCAP, and TAT revealed insignificant positive effects on Return on Asset.

The results of the findings of Ongosi and Otinga (2020) revealed that assets management, financial reporting, dividend payout, and working capital management had significant positive effect on the financial performance (ROA and ROE) which agreed with the results of this study. Afzal (2017) in his review study on strategic financial management and organizational performance, the focus was on major areas of strategic financial management such as dividend decisions, capital structure, and working capital. It was revealed that financial management practices had a significant impact on a firm's performance. This is further supported by Ali and Isak (2019); Selvanayaki, Sivakumar, Rohini, and Mani (2016); and Deresa (2016) who investigated similar studies.

The work of Matar and Eneizan (2018) on the relationship between liquidity, profitability, and revenue and ROA in Jordan industrial firms listed on Amman stock exchange is in agreement with this study. Their findings revealed that liquidity, profitability, and revenue had positive influence on return on assets. Adeiza et al. (2020) reported dividend payout having an insignificant negative impact on firm performance of Mobil and Total Plc against this study having a positive effect on return on asset. The report was also supported by Mordedzi (2016) who reported a negative effect of dividend distribution on ROA. This study was also supported by the same report in which dividends had insignificant effect on ROA for Mobil Plc in 2016. This study disagreed with the work of Ogundajo et al. (2019) in which lag dividends, sales growth, and leverage had significant positive impact on dividend payout. The study also disagreed with the reports of Wijekoon and Senevirathna (2019); Akinyomi (2014); and Murekefu and Ouma (2013) with insignificant positive impact of dividend payout on return on asset. The findings of Aziz and Abbas (2019) supported the negative influence of debt financing on ROA of oil and gas firms in this study. Debt financing had both negative and significant effects on ROA. The finding of Azziz and Abbas (2019) was in agreement with pecking order theory. Ali (2020) also reflected significant negative effect of operating leverage on ROA hence the study supported the pecking order theory of capital structure. Etim *et al.* (2020) and Osamor and Adebanjo (2020) also found capital structure significant on return on asset.

The results disagreed with the results of the studies of Ohaka *et al.* (2020); Muigai and Muriithi (2017); and Mubeen and Kalsoom (2014) who reported that firm's size, short term, and long term debts have a positive and significant effect on quoted firms' performance. This study is supported by Etale and Oweibi (2020) who reported a positive relationship between working capital and firm performance. Working capital in this study was both positive and insignificant but Olaoye, Akintola, Soetan, Olusola, (2020); Etale and Oweibi (2020); Hossain, Khan, and Khalid (2019); and Ayu et al. (2018) reported a significant impact of

working capital on firm performance. Babatunde and Akeju (2017) reported a significant positive relationship of working capital with gross operating profit as against the positive insignificant relationship with return on asset reported by this study. Purba and Bimantara (2019) did not support this study on total asset turnover as it showed a significant positive effect of fixed asset turnover on ROA but this study showed significant positive relationship of total asset turnover with ROA.

5.0 Conclusion

We conclude that:

i. Debt financing had significant negative influence on ROA of O & G firms in Nigeria. This showed that debt financing was not properly utilized in improving return on asset in this sector.
ii. Investing activities was significantly positive on ROA of O & G in Nigeria. This revealed that investing activities contributed well to ROA of O & G.
iii. Dividend payout was insignificantly positive on ROA of O & G firms in Nigeria. This showed that DIVPO had no serious impact on return on asset. This supports Modigliani theory of dividend irrelevance.
iv. Working capital was insignificantly positive on ROA of O & G firms in Nigeria.
v. The total asset turnover was insignificantly positive on ROA of O & G firms in Nigeria.
vi. All independent variables had joint and significant influence on ROA of O & G firms in Nigeria with F-Statistics of 0.00
vii. The adjusted R^2 of 0.56 revealed that 44% of variations that affected return on asset of oil and gas were outside the SFMP. Attention should be paid to those factors outside the SFMP.

5.1 Recommendation

The following recommendations are offered to improve contribution of SFMP on ROA:

i. O & G firms in Nigeria should address the issue of debt financing and its servicing to improve its return on asset to attract good investors to the company.
ii. The regression results showed significant negative outcome of debt financing on ROA, showing that every unit change in debt finance led to a certain percentage of unit drop in ROA of O & G sector. The ability to manage debt effectively will impact the cash flow of the company to meet its business needs.
iii. Any debt obtained for the company should be properly monitored to ensure that it is not diverted to other areas. The management should be monitored to ensure that short-term debt is not applied to a long-term project so that the company does not run out of the fund before the maturity of fund tenor.
iv. Debt is a necessity considering the fund requirements of companies in this sector, the interest on loan should be negotiated with the utmost interest of the company.
v. The management should review their investment capacity to ensure that funds generated or received for investment are properly channelled to attract good returns that will encourage potential investors (foreign and local) to invest in their business.

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