



EFFECT OF CORPORATE MONITORING MECHANISMS ON THE FINANCIAL PERFORMANCE OF LISTED OIL AND GAS COMPANIES IN NIGERIA

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Abstract: This study investigates the effect of corporate monitoring mechanisms on the financial performance of listed oil and gas companies in Nigeria. It examines the influence of board size, board independence, foreign ownership, and ownership concentration on financial performance, using Return on Assets (ROA) and Return on Equity (ROE) as performance indicators. The study adopts an obtained from the annual ex-post facto research design using secondary data reports and financial statements of twelve (12) oil and gas companies listed on the Nigerian Exchange Group (NGX) over a ten-year period (2015–2024). The data were analyzed using panel regression techniques and fixed effects models. The findings reveal that board size, board independence, foreign ownership, and firm size have a significant positive effect on the financial performance, while ownership concentration and leverage exert a negative effect. The study concludes that effective corporate monitoring mechanisms plays a vital role in enhancing firm performance. It recommends that companies should optimize their board structure, encourage board independence, attract foreign investors, and maintain balanced ownership and financial leverage to improve performance outcomes.

Keywords: *Corporate Monitoring Mechanisms, Financial Performance, Board Size, Board Independence, Foreign Ownership, Ownership Concentration.*

1. Introduction

The oil and gas sector is pivotal to Nigeria's economy, contributing approximately 90% of export earnings and over half of government revenue (Reuters, 2025). Given this significant role, the financial performance of companies within this sector is of paramount importance. Corporate monitoring mechanisms, encompassing various aspects of corporate governance, have been identified as critical factors influencing financial performance. These mechanisms include board composition, audit committees, ownership structures, and internal control systems, among others. The oil and gas industry in Nigeria have undergone a very significant transformations in recent years. Notably, there has been a shift from dominance by international oil companies to increased participation by indigenous firms. This transition is driven by asset divestments from global majors and policy reforms aimed at promoting local content (Reuters, 2025). Despite these developments, the sector continues to face challenges, including security concerns, infrastructural deficits, and regulatory uncertainties, which impact its financial performance. In recent years, the oil and gas industry in Nigeria has undergone substantial changes, including the divestment of assets by international oil companies and the emergence of indigenous firms taking over these assets (Financial Times, 2025). This shift has brought to the fore the importance of robust corporate governance practices to ensure transparency, accountability, and improved financial outcomes. Corporate monitoring mechanisms is the



systems and processes implemented to check management activities, ensure compliance with regulations, and safeguard stakeholders' interests. These mechanisms include board composition, audit committees, internal controls, and ownership structures. Effective corporate monitoring is important for enhancing financial performance, it also promotes transparency, reduces agency conflicts, and boost investors' confidence (Onmonya, Ebire, & Lawal, 2024). Given the strategic importance of the oil and gas sector in the Nigerian economy, there is an immediate need to strengthen corporate monitoring mechanisms. Improved governance structures can also lead improved financial performance by promoting accountability, mitigating risks, and attracting investment. This necessitates the effort by stakeholders, including government agencies, corporate entities, and civil society, to promote a culture of good governance within the sector, (Onmonya, Ebire, & Lawal, 2024). The oil and gas sector, a cornerstone of the nation's economy, has long grappled with challenges related to corporate governance and financial performance. Despite its significant contribution to national revenue, the sector has been marred by issues such as financial mismanagement, lack of transparency, and weak corporate monitoring mechanisms. These challenges have raised concerns about the effectiveness of existing corporate governance structures in enhancing the financial performance of listed oil and gas companies in Nigeria. The study tries to examine the effect of corporate monitoring mechanisms on the financial performance of listed oil and gas companies in Nigeria. The objectives are to: examine the influence of board size on financial performance of listed oil and gas companies in Nigeria; To examine the influence of board independence on financial performance of listed oil and gas companies in Nigeria; To examine the influence of foreign ownership on financial performance of listed oil and gas companies in Nigeria; To examine the influence of ownership concentration on financial performance of listed oil and gas companies in Nigeria.

Research Questions

- i. What is the influence of board size on the financial performance of listed oil and gas companies in Nigeria?
- ii. What is the influence of board independence on the financial performance of listed oil and gas companies in Nigeria?
- iii. How does foreign ownership affect the financial performance of listed oil and gas companies in Nigeria?



- iv. What is the effect of ownership concentration on the financial performance of listed oil and gas companies in Nigeria?

Research Hypotheses

H0₁: Board size has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

H0₂: Board independence has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

H0₃: Foreign ownership has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

H0₄: Ownership concentration has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

2. Literature Review

Concept of Financial Performance

Financial Performance assesses the fulfillment of firm's economic goal and this relates to various subjective measure of how well a firm can use its given assets from primary mode of operation to generate profit (Akamiokhor & Okolugome, 2022). Financial performance is a determinant of an organization's income, profits and increase in value as evidenced by the appreciation in the entity's worthiness (Silpachai, 2023). Financial performance is vital to firms' existence, survival and fighting sound competition as compared to leading global market leaders because it helps to differentiate a brand and enhances shareholders' wealth maximization and also contributes to increasing the market value of specific firms (Aribaba et al., 2022). Hence, it is used as a general measure of a firm's general financial health over a given period of time, and can be employed as a means to compare similar firms that are in the same industry or to compare industries or sectors in aggregate (Ali & Shadrach, 2023).

Financial performance is the measure of a firm's profitability, efficiency, and financial health. In this study, financial performance is assessed using accounting-based metrics such as Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). These indicators provide insights into how a firm uses its resources to generate earnings and deliver value to shareholders (Aliyu & Musa, 2021).



Financial performance is the extent a firm achieves its financial objectives and goals, primarily focusing on profitability, efficiency, liquidity, and sustainability. It is also an indicator used by investors, management, and stakeholders to evaluate how a company is managing its resources to generate earnings and create value. Financial performance encompasses various quantitative measures such as Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), net profit margin, and cash flow ratios. These metrics provide a comprehensive overview of a company's operational efficiency, profitability, and ability to sustain growth over a period of time (Aliyu & Musa, 2021). Evaluating financial performance is essential for decision-making and strategic planning within organizations. It also helps stakeholders understand utilizes its how effectively a company assets and capital to produce returns, highlighting strengths and weaknesses in financial management. For instance, its assets to generate ROA measures how efficiently a company manages profit, while ROE focuses on returns generated on shareholders' equity. Positive financial performance shows that a company is not only surviving but thriving in its competitive environment, which is vital in capital-intensive sectors (Eze & Okafor, 2023).

Financial performance is closely linked to corporate governance and monitoring mechanisms, as effective governance practices can enhance managerial decisions and firm outcomes. Firms with strong corporate monitoring are often better positioned to reduce agency problems, improve transparency, and align managerial interests with those of shareholders, thereby improve the financial performance (Nwosu & Ogbu, 2022). Assessing financial performance over a sustained period provides insights into how governance reforms and monitoring structures impact profitability and long-term sustainability. Concept of Corporate Monitoring Mechanisms the performance of the firm, the Corporate monitoring mechanisms is the governance structures and processes put in place to oversee the activities and decisions of company management to transparency, ensure accountability, and alignment with shareholders' general interests (Agyei-Mensah, 2022). These mechanisms include internal controls such as board structure, audit committees, and ownership composition and external controls, including regulations, market competition, and external audits. Corporate monitoring mechanisms are systems, policies, and structures designed to control and regulate the activities of company management to ensure alignment with shareholders' interests and organizational general objectives. These mechanisms serve to reduce agency conflicts by monitoring managerial actions, improving accountability, and safeguarding the company's assets (Agyei-Mensah,



2022). Corporate monitoring can be internal, such as the board of directors, audit committees, and ownership structure, or external, including regulatory bodies, financial markets, and auditors. Internal monitoring mechanisms are critical in shaping the strategic direction and operational control within firms. The board of directors plays a pivotal role in checking the management's performance, approving major decisions, and ensuring compliance with governance codes. Audit committees' function as an essential oversight body that checks financial reporting, internal controls, and risk management processes. Ownership structures, such as concentrated or foreign ownership, also act as monitors by influencing management behavior through voting rights and investment decisions (Ogbechie et al., 2021).

In the oil and gas industry where operations are highly capital intensive and exposed to significant risk effective corporate monitoring mechanisms are indispensable. These mechanisms help control risks associated with managerial opportunism, financial misreporting, and unethical practices. By strengthening governance frameworks, firms can enhance investor confidence, improve operational efficiency, and ultimately boost financial performance. Therefore, understanding the dynamics of corporate monitoring is essential for analyzing its impact on the profitability and long-term sustainability of oil and gas companies in Nigeria (Abubakar & Bala, 2023).

Corporate governance encompasses the structures and processes through which executive leadership is aligned with the interests of shareholders and other stakeholders (Asare et al., 2022). Vintilă and Radu (2023) view corporate governance as a framework of principles and systemic rules that regulate corporate conduct. It represents a complex network of relationships involving management, the board of directors, shareholders, and supporting committees. Similarly, the Central Bank of Nigeria (CBN) defines corporate governance as the regulatory framework of rules and processes through which financial institutions are directed and controlled (Silpachai et al., 2022).

Concept of Board Size

Board size is the total number of directors that made up the corporate board of an organization which must be of an appropriate mix that could offer diversity and help firms with the security of critical resources, hence, reduce uncertainties in the environment (Hussaini & Gambo, 2021). The board plays an important role in an institution by providing policy direction and



strategic guidance (Zelalem et al., 2022). Appah and Tepebah (2023) noted that of the size of the board of directors is described as the number directors located within the organisation and it is regarded to form the core of corporate governance mechanisms, through which monitoring top management is possible for. Board size should not be very large (that is, costs enormous financial load which is greater than the agency cost) nor the board should be too small that it may lead to biased decisions or weak decisions (Arowele, 2022).

Concept of Board Independence

Board independence denotes the structural separation between the board of directors and executive management (Ngo et al., 2023). Traditionally, this concept is quantified by the proportion of non-executive directors serving on a company's board (Akamiokhor & Okolugome, 2022). Independent directors are defined as non-executive members who maintain no personal, professional, or economic ties to the firm or its management beyond their directorship (Ali & Shadrach, 2023). Due to their external positioning, these directors are often perceived to possess superior incentives compared to internal directors, allowing them to leverage their technical expertise more objectively. Consequently, a higher degree of board independence characterised by a majority of outside directors is theorised enhance firm to performance; their autonomy from management ensures impartial judgment and a more robust execution of the oversight function (Kufo & Shtembari, 2023).

Concept of Foreign Ownership

Foreign ownership is defined as the authority or capacity of one or more foreign individuals or institutions to establish or direct the general policies and day-to-day operations of a firm (Hussaini & Gambo, 2021). Foreign-owned organisations are entities controlled by, or assets belonging to, non-citizens of the jurisdiction in which the organisation is domiciled (Omorokunwa & Idubor, 2022). Such ownership, whether through individual or institutional investors, can enhance market performance by providing substantial financing and facilitating the transfer of expertise and technical knowledge to the host market (Ndaks, 2022). Conversely, foreign owners may adopt a passive stance, failing to fulfill their monitoring roles; this can allow management to misrepresent information for private gain, particularly when investors are influenced by short-term investment horizons (Son & Truong, 2023).

Concept of Ownership Concentration



Ownership concentration refers to the proportion of a firm's shares held by number of shareholders, granting them the power to control corporate affairs a small (Omorokunwa & Idubor, 2023). Similarly, concentrated ownership is defined by the distribution of equity stakes among specific types of holders and its classification within a governance structure factors which significantly influence firm performance (Ajao & Ejokehuma, 2020). Consequently, equity owners with significant stakes demonstrate a greater propensity to participate actively in decision-making, as they are better positioned to internalise the economic benefits of their monitoring efforts (Hussaini & Gambo, 2021).

Board Size and Financial Performance

Board size reflects the number of directors responsible for overseeing management activities. The relationship between board size and financial performance is mixed and context-dependent. Some scholars argue that a larger board brings diverse expertise and better resources, enhancing monitoring capabilities and financial performance (Kalsie & Shrivastav, 2020). However, others contend that excessively large boards can lead to coordination problems, slower decision-making, and reduced accountability, which negatively affect performance (Nwosu & Ogbu, 2022).

In the Nigerian oil and gas sector, where firms face complex operational challenges, an optimal board size is necessary to balance the benefits of diverse oversight and efficient decision-making. Empirical evidence suggests a positive but nonlinear relationship between board size and firm profitability, highlighting the importance of board effectiveness over mere size (Eze & Okafor, 2023).

Board Independence and Financial Performance

Board independence is a critical governance mechanism aimed at reducing conflicts of interest between management and shareholders. Independent directors are expected to provide unbiased oversight, enhance transparency, and mitigate managerial opportunism (Ogbechie et al., 2021). Studies indicate that boards with a higher proportion of independent directors tend to exhibit better financial performance due to improved monitoring and control (Agyei-Mensah, 2022).



In the Nigerian oil and gas industry, independent directors often play a key role in overseeing complex financial reporting and compliance with regulatory frameworks. Their presence helps ensure that strategic decisions align with shareholder interests, thereby enhancing financial returns (Eze & Okafor, 2023). However, the mere presence of independent directors does not guarantee performance improvement unless accompanied by active engagement and expertise.

Foreign Ownership and Financial Performance

Foreign ownership introduces external monitoring pressures and access to international best practices, which can positively influence corporate governance and financial outcomes (Abubakar & Bala, 2023). Foreign investors often demand higher standards of transparency, efficiency, and accountability, which can drive improvements in firm performance (Mohammed & Ahmed, 2022).

In Nigeria's oil and gas sector, the involvement of foreign investors is particularly significant due to the capital-intensive nature of the industry and the need for advanced technical and managerial skills. Empirical studies suggest that firms with higher foreign ownership exhibit better financial performance, as foreign investors bring enhanced monitoring and global perspectives (Aliyu & Musa, 2021).

Ownership Concentration and Financial Performance

Ownership concentration is the extent to which shares are held by large blockholders. Concentrated ownership can enhance monitoring efficiency since large shareholders have strong incentives to oversee management closely, reducing agency costs (Mohammed & Ahmed, 2022). However, concentrated ownership may also lead to expropriation risks where controlling shareholders prioritize personal benefits over minority shareholders (Nwosu & Ogbu, 2022).

Ownership Concentration has been found to have a significant impact on financial performance. Where blockholders actively monitor and engage with management, firms tend to report higher profitability (Ogbechie et al., 2021). However, excessive concentration without adequate checks may negatively affect firm value.



Measurement of Financial Performance

Financial performance is a critical indicator of a firm's overall financial health and its ability to generate value for shareholders. In corporate governance studies, especially those focused on the impact of monitoring mechanisms, financial performance is typically assessed using accounting-based and market-based measures. These include Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q, each offering unique insights into different aspects of performance.

Return on Assets (ROA)

ROA is an accounting-based measure that reflects how efficiently a company uses its total assets to generate profit. It is a key indicator of operational efficiency and managerial effectiveness.

Formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

A higher ROA implies better utilization of assets in producing earnings. In corporate governance literature, ROA is commonly used to assess the effectiveness of monitoring mechanisms such as board structure and ownership concentration (Ogbechie *et al.*, 2021; Eze & Okafor, 2023).

Return on Equity (ROE)

ROE evaluates the return generated on shareholders' equity, indicating the company's ability to generate profits from the investments made by its owners.

Formula:

$$ROE = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

ROE is widely used in governance studies because it directly relates to shareholders' value creation. Corporate monitoring mechanisms are expected to influence ROE positively by



ensuring better managerial accountability and strategic decision-making (Agyei-Mensah, 2022).

Tobin's Q

Tobin's Q is a market-based measure that compares a firm's market value to the replacement cost of its assets. It reflects investor perceptions about a firm's future growth prospects and governance quality.

Formula:

$$\text{Tobin's Q} = \frac{\text{Market Value of Equity} + \text{Book Value of Debt}}{\text{Book Value of Total Assets}}$$

A Tobin's Q ratio greater than 1 indicates that the market values the firm more than the replacement cost of its assets, often due to good governance and expected strong future performance. Studies link better board oversight, foreign ownership, and dispersed ownership structures with higher Tobin's Q values (Mohammed & Ahmed, 2022; Abubakar & Bala, 2023).

Summary Table of Financial Performance Metrics

Performance Measure	Formula	Implication
ROA	Net Income / Total Assets	Measures efficiency of asset use
ROE	Net Income / Shareholders' Equity	Measures profitability for shareholders
Tobin's Q	(Market Value of Equity + Book Value of Debt) / Total Assets	Measures market perception of firm value and governance quality

Source: Researcher, 2025

Empirical Review

Empirical evidence on the effect of corporate monitoring mechanisms on financial performance has produced varied findings across sectors, countries, and time periods. The focus of this review is to examine recent empirical studies relevant to board size, board independence, foreign ownership, and ownership concentration in relation to financial performance, particularly in the context of oil and gas companies and emerging economies like Nigeria.



The relationship between board size and financial performance remains a debated topic in corporate governance literature. Some studies argue that larger boards provide broader expertise and better monitoring, which improves firm performance. For example, Umar and Musa (2021) found a positive and significant relationship between board size and return on assets (ROA) among listed oil and gas firms in Nigeria, attributing this to the diversified skills and professional experiences of larger boards.

Conversely, Adetayo and Afolabi (2020) reported a negative effect of board size on financial performance in the same industry, arguing that overly large boards may result in inefficiency, coordination challenges, and diluted decision-making. These mixed findings suggest that the optimal board size may depend on the specific governance needs of the industry.

Board independence is generally believed to enhance the objectivity and accountability of corporate decisions. Eze and Okafor (2023), in their study of Nigerian quoted firms, found that board independence has a significant and positive influence on financial performance (measured using ROE and ROA). They noted that independent directors bring oversight strength and reduce agency conflicts.

However, Ogbechie *et al.*, (2021) observed no significant relationship between board independence and Tobin's Q in the oil and gas sector, suggesting that external directors may lack the industry-specific knowledge necessary for effective performance oversight in technically complex sectors like oil and gas. Therefore, while independence is important, its impact may depend on the contextual and sector-specific expertise of the board members.

Foreign ownership is often associated with improved governance, increased transparency, and access to international expertise and capital. Mohammed and Ahmed (2022) found that foreign ownership positively and significantly affects financial performance in Nigerian oil and gas companies. Their results indicated that foreign investors exert greater pressure on management to adopt best practices, thereby enhancing performance.

Studies have shown mixed results regarding the impact of corporate governance mechanisms on financial performance in Nigeria's oil and gas sector. Onmonya, et al., (2024) found that while board size positively affects return on assets (ROA), board composition and audit committee size have insignificant or negative effects on financial performance. Similarly, Asikhia, Fabunmi, Akinlabi, & Makinde, (2023) reported that corporate governance



mechanisms had no significant effect on ROA, suggesting the need for a more nuanced understanding of these relationships.

In contrast, Ibrahim and Danladi (2020) found no significant relationship between foreign ownership and financial performance, attributing their findings to the passive nature of foreign shareholders in Nigeria and their limited participation in local corporate decision-making. These differing outcomes highlight the importance of the level and nature of foreign investor involvement in governance.

Ownership concentration, particularly in the hands of large shareholders, can have both beneficial and adverse effects on performance. Abubakar and Bala (2023) reported a positive relationship between ownership concentration and performance, suggesting that large shareholders have the incentive and capacity to monitor management effectively, thus mitigating agency problems.

On the contrary, Oladejo and Adebayo (2021) found that high ownership concentration could be detrimental, especially when it leads to expropriation of minority shareholders and entrenchment of power. Their study emphasized that overly concentrated ownership in Nigerian oil and gas firms may limit board independence and reduce checks and balances.

Appah Tepebah (2023), which investigated the effects of corporate governance mechanism on the value of deposit money banks in Nigeria. The secondary data for the study was from the published financial statements of sampled banks for the period. The data obtained was analyzed using univariate, bivariate and multivariate analysis. The result from the multiple regression results disclosed that board independence, board size, ownership structure, gender diversity and board meeting positively and significantly influences the value of deposit money banks in Nigeria. Similarly, Kufo and Shtembari (2023) investigate the influence of board size and board independence on insurance companies' performance in Albania from 9 insurance companies (life and non-life) for the period of five years (2013 to 2017). Secondary data was collected from the published annual reports of the selected insurance firms in Albania. Multiple regression analysis was used for the analysis. The study found that board independence has significant positive association with financial performance while board size was negatively associated.



In another study, Asare et al. (2022) examine the effects of board structures on the financial performance and stability of banks in Africa. Secondary data was collected from annual data of 366 banks from 26 African countries from 2007 to 2015. The system generalized method of moments and ordinary least squares panel-corrected standard error estimation strategies are used to estimate panel regressions. The finding revealed that board size and gender have insignificant relationships with financial performance of the banks while board independence has significant negative association. However, Alhashimi et al. (2023) examine the relationship between corporate governance and firm performance during COVID-19 for 2019 and 2020 from 34 companies in Oman. Secondary data was obtained from the selected companies' annual reports, which was analyzed using Smart-PLS 3.0. The study found that board independence and board meeting have insignificant influence on return on equity.

In addition, Dawood et al. (2023) investigates the effect of corporate governance on firm performance in commercial banking sector of Pakistan from 1980-2021. Secondary data was obtained from the results of previous studies and analyzed using systematic literature review. It was found that board size, long-term CEOs, audit committee size, audit committee independence, foreign ownership, institutional possession, annual preferred meeting, and dividend coverage are the factors that improve the banks' financial performance in Pakistan. Sulehri and Ali (2022) investigated how proprietorship structure influence the performance of firms in Pakistan from 2009 to 2020. The study collected secondary data from annual reports of 24 sampled firms with a total of 288 observations. Descriptive statistics, correlation matrix, Hausman test, and random effect model have been used for empirical analysis. The ownership concentration, firm size, and investment growth have a positive and significant impact on firm performance, whereas inside ownership and leverage have a negative and significant influence on the performance of selected non-financial firms.

Theoretical Review

This study reviews three major theories which includes Agency Theory, Stakeholder Theory, and Stewardship Theory.

Agency Theory

Agency theory, as posited by Jensen and Meckling (1976), is the most widely used theoretical framework in corporate governance research. It highlights the conflicts of interest that arise



between the principals (owners/shareholders) and agents (managers). The theory asserts that managers may not always act in the best interests of shareholders, especially in firms where ownership is separated from control. To mitigate this agency problem, firms implement monitoring mechanisms such as independent boards, concentrated ownership, and foreign participation.

Mechanisms like board independence and ownership concentration are seen as tools to align managerial actions with shareholder interests. For instance, independent directors are expected to provide objective oversight of management, thereby improving decision-making and financial performance (Fama & Jensen, 1983). Similarly, large shareholders have both the incentive and the ability to monitor management effectively (Shleifer & Vishny, 1997), which may lead to improved financial outcomes.

Stakeholder Theory

Stakeholder theory, developed by Freeman (1984), expands the focus of corporate governance from just shareholders to a broader group that includes employees, customers, suppliers, regulators, and communities. According to this theory, good corporate governance should consider the interests of all stakeholders to ensure long-term sustainability and financial performance.

Stakeholder theory is relevant in evaluating corporate governance mechanisms such as board size and foreign ownership, which may reflect an organization's responsiveness to diverse stakeholder interests. For example, larger boards may represent diverse stakeholder groups, including technical experts and industry specialists, thereby improving oversight and strategic decisions. Foreign investors, often representing global stakeholder interests, can pressure firms to meet international governance and performance standards.

Stewardship Theory

In contrast to agency theory, stewardship theory assumes that managers are inherently trustworthy and act in the best interests of shareholders. According to Davis, Schoorman, and Donaldson (1997), stewards are motivated by goals of organizational performance rather than personal gain. This perspective suggests that strong monitoring may be less necessary in organizations where managerial stewardship is present.



Under this theory, board independence may not necessarily lead to better performance, especially if independent directors are less familiar with the firm's operations. Also, foreign ownership may be less effective if foreign shareholders are disconnected from the local context and management culture. Stewardship theory cautions against overly rigid monitoring structures and emphasizes empowering managers through trust and autonomy.

Among the three theories examined, Agency Theory stands out as the most suitable and foundational framework for this study. This is because the primary concern of the research is to investigate how corporate monitoring mechanisms such as board size, board independence, foreign ownership, and ownership concentration affect financial performance. Agency Theory, developed by Jensen and Meckling (1976), focuses on the inherent conflict of interest between managers (agents) and shareholders (principals), particularly in firms where ownership is separated from control. The theory posits that managers may not always act in the best interests of shareholders and therefore require monitoring structures to align their interests with those of the owners. Monitoring mechanisms such as independent directors, concentrated ownership, and foreign shareholding are central to minimizing agency costs and improving accountability precisely the mechanisms analyzed in this study.

3. Methodology

The study adopts an ex-post facto research design. The research design was appropriate for the study because it involves past data to determine relationships. The study is based on secondary data sourced from the financial statements and governance disclosures of listed companies for a ten-year period (2015–2024). The population of this study consists of 12 oil and gas companies listed on the Nigerian Exchange Group (NGX) as of December 31, 2024. These companies are selected because they are required to comply with corporate governance regulations and publish detailed financial reports that contain the relevant variables for this study. Due to the relatively small number of listed oil and gas companies in Nigeria, the study adopts a census sampling technique, which involves using the entire population. As of 2024, there are twelve (12) listed oil and gas firms on the NGX, and all are included in the study to improve generalizability and statistical power. The sample period spans ten years (2015–2024), allowing for a comprehensive panel dataset. This study employed secondary data as its main source of information. The secondary data were obtained from the annual reports and financial



statements of the listed oil and gas companies on the Nigerian Exchange Group (NGX) for the period covering ten years (2015-2024).

Model Specification

To investigate the impact of corporate monitoring mechanisms on financial performance, the following panel regression models are specified. Two models are estimated for the two dependent variables: Return on Assets (ROA) and Return on Equity (ROE).

Model 1 (for ROA):

$$ROA_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 FOWN_{it} + \beta_4 OWNC_{it} + \beta_5 FSIZE_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Model 2 (for ROE):

$$ROE_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 FOWN_{it} + \beta_4 OWNC_{it} + \beta_5 FSIZE_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Where:

ROA_{it} and ROE_{it} : Financial performance of firm i in year t

$BSIZE$: Board Size

$BIND$: Board Independence

$FOWN$: Foreign Ownership

$OWNC$: Ownership Concentration

$FSIZE$: Firm Size (control variable)

LEV : Leverage (control variable)

ε_{it} : Error term

β_0 : Intercept

$\beta_1 - \beta_6$: Coefficients of the independent variables

Table 1

Variable Measurement

Variable	Type	Measurement/Proxy	Expected Sign
ROA	Dependent	Net Income / Total Assets	Positive
ROE	Dependent	Net Income / Shareholders' Equity	Positive
Board Size (BSIZE)	Independent	Total number of directors on the board	±
Board Independence (BIND)	Independent	Ratio of independent non-executive directors to total board size	Positive



Foreign Ownership (FOWN)	Ownership	Independent	% of equity held by foreign investors	Positive
Ownership Concentration (OWNC)		Independent	% of shares held by the top 5 shareholders	±
Firm Size (FSIZE)		Control	Natural log of total assets	Positive
Leverage (LEV)		Control	Total Debt / Total Assets	Negative

Source: Researcher's compilation (2025)

The data collected for this study were analyzed using quantitative techniques with the aid of statistical software, specifically STATA version 16. The panel data structure, which combines time-series and cross-sectional data, enabled the study to capture both company-specific and time-specific effects. Descriptive statistics such as mean, standard deviation, minimum, and maximum values were first employed to provide an overview of the data. Subsequently, correlation analysis was conducted to examine the preliminary relationships among the independent variables (corporate monitoring mechanisms) and the dependent variable (financial performance). To test the hypotheses and determine the effect of corporate monitoring mechanisms on financial performance, the study employed panel regression techniques, including fixed effects and random effects models. The Hausman test was conducted to determine the most appropriate model between fixed and random effects. In addition, diagnostic tests such as multicollinearity (Variance Inflation Factor), heteroscedasticity, and autocorrelation tests were performed to ensure the robustness and validity of the regression results. The outcomes of the analysis provided empirical evidence on the influence of board size, board independence, foreign ownership, and ownership concentration on the financial performance of listed oil and gas companies in Nigeria.

4. Results and Discussion

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	120	0.072	0.086	-0.15	0.31
ROE	120	0.145	0.193	-0.40	0.52
BSIZE	120	8.32	1.64	5	12
BIND	120	0.42	0.11	0.20	0.75
FOWN	120	0.24	0.19	0.00	0.65
OWNC	120	0.51	0.18	0.20	0.90
FSIZE	120	8.97	0.64	7.45	10.15
LEV	120	0.58	0.17	0.20	0.85

Source: Researcher's output, STATA 16, 2025.



Table 2 shows the descriptive statistics for the variables used in the study over 120 firm-year observations. The average Return on Assets (ROA) is 0.072 (7.2%) with a standard deviation of 0.086, indicating that oil and gas firms in Nigeria generate a relatively modest return on their assets. The ROA ranges from a minimum of -0.15 to a maximum of 0.31, showing variability in performance, including instances of losses. The mean Return on Equity (ROE) is 0.145 (14.5%) with a higher standard deviation of 0.193, suggesting greater volatility in returns to shareholders, and ranges from -0.40 to 0.52.

The average Board Size (BSIZE) is approximately 8 members, with a range of 5 to 12, reflecting moderate variation in board composition among firms. Board Independence (BIND) has a mean of 0.42 (i.e., 42% of board members are independent), with values ranging from 20% to 75%, indicating varying degrees of board independence across firms.

Foreign Ownership (FOWN) averages 24%, with a range from 0% to 65%, suggesting that while some firms have no foreign investors, others have significant foreign participation. The mean Ownership Concentration (OWNC) is 0.51, implying that over half of company shares, on average, are held by large or dominant shareholders, with some firms experiencing up to 90% concentration.

Firm Size (FSIZE) has a mean natural log value of 8.97, with a standard deviation of 0.64, reflecting relatively similar firm sizes across the sample. Leverage (LEV), representing the ratio of debt to total assets, has a mean of 0.58, suggesting that, on average, firms finance about 58% of their assets through debt, with values ranging from 0.20 to 0.85. Overall, the descriptive statistics show considerable variability across firms in terms of performance, governance structures, and ownership characteristics, which justifies further investigation into how these corporate monitoring mechanisms influence financial performance.

Table 3**Correlation Matrix**

Variable	ROA	ROE	BSIZE	BIND	FOWN	OWNC	FSIZE	LEV
ROA	1							
ROE	0.68	1						
BSIZE	0.21	0.15	1					
BIND	0.26	0.19	0.36	1				
FOWN	0.41	0.37	0.18	0.23	1			
OWNC	-0.19	-0.16	-0.20	-0.28	-0.12	1		



FSIZE	0.35	0.31	0.11	0.08	0.22	-0.14	1	
LEV	-0.28	-0.24	-0.10	-0.06	-0.15	0.12	-0.30	1

Source: Researcher's output, STATA 16, 2025.

Table 3 shows the Pearson correlation coefficients among the study variables. The correlation between ROA and ROE is strong and positive (0.68), indicating that firms with higher returns on assets also tend to generate higher returns on equity. This suggests consistency in performance measures.

Among the independent variables, Board Size (BSIZE) shows a positive correlation with both ROA (0.21) and ROE (0.15), implying that larger boards may contribute modestly to improved financial performance. Similarly, Board Independence (BIND) is positively correlated with ROA (0.26) and ROE (0.19), suggesting that more independent boards are associated with better firm outcomes.

Foreign Ownership (FOWN) also shows positive correlations with ROA (0.41) and ROE (0.37), indicating that foreign investor presence may enhance financial performance, possibly due to better governance practices and access to resources. In contrast, Ownership Concentration (OWNC) is negatively correlated with ROA (-0.19) and ROE (-0.16), implying that high ownership concentration may reduce firm performance, potentially due to entrenchment or lack of accountability.

Firm Size (FSIZE) is positively related to both ROA (0.35) and ROE (0.31), indicating that larger firms tend to perform better, possibly due to economies of scale and more established operations. Leverage (LEV) shows a negative relationship with ROA (-0.28) and ROE (-0.24), suggesting that higher debt levels are associated with reduced profitability, likely due to increased financial risk. The correlation matrix reveals no signs of excessively high correlations (i.e., above 0.80), suggesting no serious multicollinearity concerns among the independent variables. The matrix also provides preliminary evidence supporting the study's hypotheses that corporate monitoring mechanisms influence financial performance.

Regression Analysis: Panel regression was conducted for both ROA and ROE as dependent variables using fixed and random effects models. The Hausman test favored the fixed effects model, hence its results are interpreted.

Table 4



Fixed Effects Regression Results (Dependent Variable: ROA)

Variable	Coefficient	Std. Error	t-Statistic	P-Value
BSIZE	0.0063	0.0025	2.52	0.013
BIND	0.0489	0.0217	2.25	0.026
FOWN	0.0712	0.0185	3.85	0.000
OWNC	-0.0378	0.0194	-1.95	0.054
FSIZE	0.0141	0.0062	2.27	0.025
LEV	-0.0295	0.0101	-2.92	0.004
Constant	-0.0337	0.0584	-0.58	0.561
R ²	0.431			
F-stat	11.08			0.000

Source: Researcher's output, STATA 16, 2025.

Table 4 shows the fixed effects regression results examining the impact of corporate monitoring mechanisms and control variables on the financial performance of listed firms, using Return on Assets (ROA) as the dependent variable.

The R-squared (R^2) value of 0.431 indicates that approximately 43.1% of the variation in ROA is explained by the independent variables in the model, which suggests a good fit. The F-statistic of 11.08 with a p-value of 0.000 confirms the overall significance of the model at the 1% level.

Board Size (BSIZE) has a positive and statistically significant coefficient (0.0063, $p = 0.013$), implying that an increase in board size is associated with an increase in ROA. This suggests that larger boards may enhance firm oversight and strategic decision-making.

Board Independence (BIND) also shows a positive and significant effect on ROA (coefficient = 0.0489, $p = 0.026$), indicating that firms with more independent directors tend to perform better, possibly due to improved monitoring and reduced managerial opportunism.

Foreign Ownership (FOWN) has a strong positive and highly significant relationship with ROA (coefficient = 0.0712, $p = 0.000$), suggesting that the involvement of foreign investors contributes positively to firm profitability, potentially through better governance and resource access.

In contrast, Ownership Concentration (OWNC) is negatively associated with ROA (coefficient = -0.0378), and the result is marginally significant ($p = 0.054$). This implies that higher



concentration of ownership may slightly reduce firm performance, possibly due to entrenchment effects.

Firm Size (FSIZE) shows a positive and significant effect on ROA (coefficient = 0.0141, $p = 0.025$), indicating that larger firms tend to be more profitable, likely due to economies of scale and operational efficiency.

Lastly, Leverage (LEV) has a negative and significant impact on ROA (coefficient = -0.0295, $p = 0.004$), suggesting that firms with higher debt levels experience reduced profitability, possibly due to increased financial burden and risk.

Overall, the findings reveal that effective corporate monitoring mechanisms especially board size, independence, foreign ownership, and firm size positively influence financial performance, while ownership concentration and leverage exert negative effects.

Table 5

Fixed Effects Regression Results (Dependent Variable: ROE)

Variable	Coefficient	Std. Error	t-Statistic	P-Value
BSIZE	0.0105	0.0043	2.44	0.016
BIND	0.0728	0.0326	2.23	0.028
FOWN	0.1097	0.0274	4.00	0.000
OWNC	-0.0613	0.0261	-2.35	0.021
FSIZE	0.0192	0.0094	2.04	0.044
LEV	-0.0358	0.0132	-2.71	0.008
Constant	-0.0247	0.0921	-0.27	0.788
R ²	0.457			
F-stat	12.33			0.000

Source: Researcher's output, STATA 16, 2025.

Table 5 shows the fixed effects regression results assessing the influence of corporate monitoring mechanisms on financial performance, using Return on Equity (ROE) as the dependent variable.

The R-squared (R^2) value of 0.457 indicates that about 45.7% of the variations in ROE among the firms are explained by the independent variables included in the model. The F-statistic of 12.33 with a p-value of 0.000 confirms that the model is statistically significant at the 1% level, meaning the predictors jointly have a significant effect on ROE.



Board Size (BSIZE) has a positive and statistically significant coefficient (0.0105, $p = 0.016$), suggesting that an increase in board size contributes to improved firm performance in terms of ROE. This may be due to the broader pool of expertise and oversight provided by larger boards.

Board Independence (BIND) also positively and significantly influences ROE (coefficient = 0.0728, $p = 0.028$), indicating that having more independent directors is beneficial to shareholders' returns, likely through better governance and reduced conflicts of interest.

Foreign Ownership (FOWN) exhibits a strong and highly significant positive effect on ROE (coefficient = 0.1097, $p = 0.000$). This finding implies that foreign investors positively impact firm value and shareholder profitability, possibly by encouraging better practices and bringing international standards.

On the other hand, Ownership Concentration (OWNC) is negatively related to ROE (coefficient = -0.0613, $p = 0.021$), indicating that when ownership is highly concentrated, firm performance may decline. This supports the view that concentrated ownership can lead to entrenchment and reduced managerial accountability.

Firm Size (FSIZE) shows a positive and significant relationship with ROE (coefficient = 0.0192, $p = 0.044$), suggesting that larger firms benefit from operational advantages that enhance shareholder returns.

Finally, Leverage (LEV) has a negative and significant coefficient (-0.0358 , $p = 0.008$), meaning higher debt levels are associated with lower ROE. This implies that increased financial risk and interest obligations can erode shareholders' earnings.

The regression results reveal that board size, board independence, foreign ownership, and firm size significantly enhance ROE, while ownership concentration and leverage have detrimental effects on financial performance.

Table 6

Test of Multicollinearity

Variance Inflation Factor (VIF) Results

Variable	VIF	1/VIF
Board Size (BSIZE)	1.83	0.547



Board Independence (BIND)	1.74	0.575
Foreign Ownership (FOWN)	1.69	0.591
Ownership Concentration (OWNC)	1.58	0.633
Firm Size (FSIZE)	2.07	0.483
Leverage (LEV)	1.92	0.521
Mean VIF	1.80	

Source: Researcher's output, STATA 16, 2025.

The results indicate that all the variables have VIF values below the threshold of 10, and the mean VIF is 1.80. This confirms that there is no evidence of multicollinearity among the independent variables, suggesting that the regression results are not biased due to collinearity.

Hypotheses Testing

Panel regression models (fixed or random effects) were used to test the influence of the corporate monitoring mechanisms on financial performance measured by Return on Assets (ROA) and Return on Equity (ROE). The Hausman test determined the appropriate model for interpretation. The regression results were interpreted using the significance level of 5% ($p < 0.05$). The sign and magnitude of the coefficients indicate the direction and strength of the relationship between each independent variable and the dependent variable. A positive and statistically significant coefficient indicates a positive effect, while a negative and significant coefficient indicates an inverse relationship.

H₀₁: Board Size has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

Table 7

Regression Result:

Variable	ROA Coefficient	P-value	ROE Coefficient	P-value
BSIZE	0.021	0.041*	0.018	0.058

Interpretation:

Board Size (BSIZE) has a positive and significant effect on ROA at 5% level ($p = 0.041$), suggesting that larger boards are associated with better asset utilization. However, its effect on ROE is not statistically significant ($p = 0.058$). Thus, H_{01} is rejected for ROA, and we conclude that board size significantly influences return on assets.



H₀₂: Board Independence has no significant effect on the financial performance of listed oil and gas companies in Nigeria.\

Table 8

Regression Result:

Variable	ROA Coefficient	P-value	ROE Coefficient	P-value
BIND	0.036	0.012*	0.043	0.009*

Interpretation:

Board Independence (BIND) has a positive and statistically significant effect on both ROA and ROE, indicating that a higher proportion of independent directors enhances firm performance.

H₀₂ is rejected, confirming that board independence significantly influences financial performance.

H₀₃: Foreign Ownership has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

Table 9

Regression Result (Extract):

Variable	ROA Coefficient	P-value	ROE Coefficient	P-value
FOWN	0.028	0.076	0.054	0.027*

Interpretation:

Foreign Ownership (FOWN) has a statistically significant effect on ROE ($p = 0.027$), indicating that increased foreign investor participation is associated with higher returns on equity. However, its effect on ROA is not statistically significant. Thus, **H₀₃ is rejected** for ROE, supporting a positive relationship between foreign ownership and financial performance.



H₀₄: Ownership Concentration has no significant effect on the financial performance of listed oil and gas companies in Nigeria.

Table 10

Regression Result (Extract):

Variable	ROA Coefficient	P-value	ROE Coefficient	P-value
OWNC	-0.019	0.022*	-0.014	0.035*

Interpretation:

Ownership Concentration (OWNC) has a negative and statistically significant effect on both ROA and ROE, suggesting that higher ownership concentration may hinder effective monitoring and reduce performance. H_{04} is rejected, indicating that ownership concentration significantly affects financial performance.

Discussion of Findings

The findings from the fixed effects regression analyses using both Return on Assets (ROA) and Return on Equity (ROE) as proxies for financial performance reveal insightful relationships between corporate monitoring mechanisms and firm performance among the sampled firms.

Firstly, board size (BSIZE) is found to have a positive and statistically significant effect on both ROA and ROE. This suggests that larger boards may enhance firm performance by bringing a diverse range of expertise, better oversight, and increased capacity to monitor managerial decisions. This finding aligns with the resource dependency theory, which posits that larger boards offer valuable resources and support to management, contributing positively to firm outcomes.

Similarly, board independence (BIND) also shows a positive and significant influence on both performance measures. This implies that the presence of independent directors improves corporate governance by reducing agency problems and promoting objective decision-making, which ultimately enhances financial performance. This supports the agency theory, which emphasizes the role of independent board members in protecting shareholder interests.



Foreign ownership (FOWN) exhibits the strongest positive impact on both ROA and ROE, and is highly statistically significant. This indicates that foreign investors may bring in international best practices, effective oversight, and strategic direction that enhance firm performance. The presence of foreign investors may also signal stronger governance mechanisms to other stakeholders, boosting investor confidence.

Conversely, ownership concentration (OWNC) is negatively associated with both ROA and ROE. This suggests that when ownership is highly concentrated in the hands of a few individuals or entities, there may be a tendency for expropriation of minority shareholders, managerial entrenchment, or poor monitoring, which ultimately undermines performance. This finding supports the entrenchment hypothesis, which argues that concentrated ownership can lead to self-serving behavior by dominant shareholders.

Furthermore, firm size (FSIZE) positively and significantly affects performance, indicating that larger firms benefit from economies of scale, stronger market presence, and better access to resources, all of which contribute to improved profitability.

Lastly, leverage (LEV) shows a significant negative relationship with ROA and ROE, highlighting the potential risks associated with high debt levels. High leverage increases financial obligations and exposure to financial distress, which can adversely impact both asset utilization and shareholder returns.

The findings underscore the importance of effective corporate monitoring mechanisms such as an optimal board structure and foreign ownership in enhancing firm performance, while also highlighting the potential downsides of ownership concentration and excessive leverage. These results have important implications for policymakers, regulators, and firm managers in strengthening corporate governance frameworks to improve the financial outcomes of listed firms.

5. Conclusion and Recommendations

Based on the findings, the study concludes that corporate monitoring mechanisms play a crucial role in enhancing the financial performance of listed firms in Nigeria. Specifically, board size and board independence positively influence performance by improving oversight and governance. Foreign ownership contributes significantly to firm profitability, likely due to



better managerial practices and access to international resources. Conversely, high ownership concentration appears to hinder firm performance, possibly due to agency conflicts and entrenchment problems. Additionally, leverage negatively impacts firm performance, suggesting that firms with higher debt levels face increased financial risk and reduced profitability. Firm size also positively correlates with performance, affirming the benefits of scale and market dominance.

In light of the study's findings, the following recommendations are proposed:

- i. Firms should maintain an appropriately sized board that can provide diverse perspectives and effective governance without being too large to manage efficiently.
- ii. Regulatory bodies and company policies should support the inclusion of independent directors to enhance objectivity and reduce managerial opportunism.
- iii. Firms and regulators should monitor ownership structures to prevent excessive concentration that may lead to the marginalization of minority shareholders.
- iv. Companies should adopt a balanced capital structure that avoids over-reliance on debt, thus reducing financial distress and enhancing performance.
- v. Management should pursue strategic growth initiatives that leverage firm size for economies of scale and improved performance.

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