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Evaluating the Effect of Remuneration and Oversight on Financial Performance of Firms in Nigeria

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Abstract

Research Objective: This study explored the impact of corporate governance, specifically oversight mechanisms and remuneration, on the financial performance of selected listed oil and gas firms in Nigeria's capital market.

Methodology: Quantitative research methods were used to collect and analyse data on corporate governance structures, financial performance metrics, and other relevant variables from a sample of publicly listed oil and gas firms.

Findings: The results revealed that oversight mechanisms have a positive but insignificant effect on return on assets, while remuneration exhibited a significant negative effect on return on assets.

Conclusion: The study provided valuable insights for policymakers, investors, and stakeholders on the relationship between corporate governance and financial performance, highlighting the need to refine remuneration practices to improve firm performance.

Recommendations: Firms should reevaluate their remuneration structures to ensure alignment with performance goals. Investors and policymakers should focus on strengthening corporate governance, particularly oversight mechanisms, to foster sustainable financial growth in the oil and gas sector.

***Key words**: Corporate Governance, Financial Performance, Oversight, Remuneration.*

1.0 Introduction

Corporate governance therefore can be defined as a set of processes, customs, policies, laws, and institutions affecting the way a corporation is directed, administered, or controlled. It is about building effective mechanisms and measures, either to satisfy current social expectations or to satisfy the narrower expectations of shareholders. Corporate governance also deals with how suppliers of finance to corporations assure themselves of getting a return on their investment. It

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can therefore be conveniently said that corporate governance is about oversight and effective control of power within the organisation. As opined by Hussin & Othman, (2012), it is all about establishing strategy and direction, improving transparency and reputation through checks and balances, shaping the association between the business owners and the managers, providing suitable oversight of senior management, and determining the rights and equitable treatment of stakeholders.

Corporate governance can also refer to the systems, principles, and processes by which companies are directed and controlled. In Nigeria, particularly within the oil and gas sector, corporate governance has gained significant attention due to the industry's critical role in the economy, its susceptibility to corruption, mismanagement, and environmental concerns. Effective corporate governance is vital for ensuring accountability, transparency, and ethical business practices.

Effective corporate governance significantly impacts both oversight mechanisms and remuneration structures within Nigeria's oil and gas sector. Strong oversight ensures compliance with regulations while fostering transparency, accountability, and stakeholder engagement. On the other hand, well-structured remuneration policies aligned with performance metrics promote responsible leadership while addressing public concerns regarding equity in resource distribution.

The oil and gas sector in Nigeria is a significant contributor to the country's economy, but it has also been plagued by issues of poor corporate governance. This is often attributed to a complex interplay of factors, including inadequate oversight mechanisms and inappropriate remuneration practices, such as weak regulatory and ineffective board oversight, excessive remuneration practices, conflict of interest, environmental degradation and disruptions, and human right abuses.

Addressing these problems requires a multi-pronged approach such as: strengthening regulatory oversight, improving board oversight, reforming remuneration practices, addressing conflict of interest, and promoting environmental and social responsibility. These in effect, can improve corporate governance in the oil and gas sector, leading to greater transparency, accountability and sustainability.

The objectives of this study are to:

1. Evaluate the influence of Remuneration on return on assets (ROA) of oil & gas firms in Nigeria.
2. Investigate the influence of oversight on return on assets (ROA) of oil & gas firms in Nigeria.

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

The following research questions will, therefore, guide the study.

1. To what extent does Remuneration influence the return on assets (ROA) of oil & gas firms in Nigeria?
2. To what extent does oversight influence the return on assets (ROA) of oil & gas firms in Nigeria?

Statement of Hypotheses:

H01. Remuneration does not have a positive and significant effect on the return on assets (ROA) of oil & gas firms in Nigeria.

Ho 2. Oversight does not have a positive and significant influence on return on assets (ROA) of oil & gas firms in Nigeria.

The study assessed the influence of corporate governance on firm financial performance of listed oil and gas firms on the Nigerian Stock Exchange for 11 years (2012-2022). The researchers' choice of 2012 as the base year arose as a result of Nigeria's adoption of "International Financial Reporting Standard (IFRS)," in that year. In line with the objectives set out in the study, the indices used are Remuneration and Oversight.

2.0 Review of Related Literature

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. "Corporate governance is the system by which companies are directed and controlled. "While the Board of Directors are responsible for the governance of their companies, the shareholder's role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place," (Sifuna, 2012).

Corporate Governance Financial Sustainability

Corporate governance is the central framework in which companies build trust with their stakeholders, the government, and the wider community (Liem, 2016). It is more than just the principles that safeguard a company's interest, but a way to create long term value.

Forward-looking organizations are able to focus on growth and value creation through the development of strong corporate governance practices.

According to Olumuyiwa & Babalola (2012), basic compliance principles are no longer enough to close the growing trust gap. Rebuilding this trust comes in a variety of ways. It begins by going beyond the balance sheet, reporting intangible value and investing in human capital (Ahmed & Hamdan 2015).

Businesses must tell the whole story, including financial and non-financial values, detailing the organization's plans, objectives and purposes behind them.

Companies need to create value in the key areas of interest for investors and other relevant stakeholders along the investment chain.

As opined by Ionescu & Vilag (2015), corporate governance remain one of the pivotal elements of sustainable business, enabling companies to build a foundation of trust with the management, the investment communities, the regulatory agencies, as well as the public, has a direct effect on economic performance and ultimately, impacts the global financial stability. The board in every jurisdiction has a duty to ensure the longevity and survival of the corporation. In the past, companies sought to do this by focusing solely on maximizing shareholder value, but the role of the board is changing (Ironkwe & Adee, 2014).

As noted by Paine (2014), the sole fiduciary duty of directors which is to place shareholders' interests above all others – is actually only an ideology and not, in fact, prescribed in law". From a legal perspective, the board of directors' primary duty is to the corporation itself, as a legal entity which implies that shareholders do not own the company. Instead, the corporation is an independent legal entity that owns itself.

The outcome of effective and responsible corporate governance should therefore be a means to promote business integrity and generate market confidence.

Even before the economic crisis of 2008, several trends signaled a need for a new form of governance. There seem to be two commonly held assumptions which permeate the discourse of corporate sustainability. The first is that "sustainability is synonymous with sustainable development." Secondly, "a sustainable company will exist merely by recognizing environmental and social issues and incorporating them into its strategic planning."

There is indeed, no "one-size-fits-all" approach to corporate governance. There are many factors such as corporate culture, national, and strategy that can affect a company's governance structure.

Remuneration

In the absence of well-defined metrics and targets tied to tangible plans, integration becomes vague and less likely to be achieved. One way in which a board can facilitate ESG integration is to establish executive remuneration incentives that take into account social and environmental factors (Mahoney & Thorn, 2006).

Linking firms' performance measures to remuneration metrics is an emerging trend and is still an anomaly in the market. In general, there is a positive link between incentive-based management compensation that includes non-financial and ESG measures with the environmental and social performance of a company (Deckop, Merriman & Gupta, 2006). High-level executives have

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stated that they believe sustainability targets in remuneration policies is one of the most effective methods to improve sustainable development, as they will help align executives' self-interests with sustainability efforts (Claasen & Ricci, 2015).

These incentives can be regarded as good corporate governance, as it makes directors explicitly accountable for the environmental behavior of a firm and pressures them to set measurable performance-based goals. However, executive remuneration linked to sustainability faces challenges on accurate measurements/metrics and effective time-horizons. For example, ESG measures are usually associated with a longer time frame and are not easily measured in the short-term. Studies have also found that long-term executive incentives are positively associated with corporate social responsibility and short-term bonuses are negatively related to corporate social responsibility as well (Velte, 2016).

Accurately measuring the targets and metrics for these incentives can also pose challenges, as they are not always easily quantifiable. Despite these minor hurdles, when implemented effectively, linking firms' performance to pay can help hold executives and management accountable for delivering sustainable business goals and targets (Ceres, 2018).

Oversight

In the context of board structuring, local jurisdictions are influencing and promoting the establishment of certain board committees such as audit, remuneration, and nomination (Jeffwitz, 2018). Most jurisdictions require companies to establish an audit committee through law. However, it is more common for jurisdictions to recommend establishing remuneration and nomination committees through codes or listing rules (UNEPFI, 2014).

The research revealed that the most commonly adopted board committee is an audit committee. Some basic responsibilities of an audit committee include:- exercising oversight over selecting auditors, demanding higher quality financial statements, implementing robust internal controls around accounting disclosures and policies (Kiron, Kruschwitz, Haanaes, Reeves, Fuisz-Kehrbach & Kell, 2015).

An effective audit committee is the cornerstone of a successful and credible financial reporting system. As sustainability reporting becomes more mainstream, audit committees need to play a pivotal role in the transition from "Siloed reporting to integrated ESG reporting" (Strandberg, 2018).

The audit committee is to ensure greater transparency, assurance, and compliance with new sustainability regulations, as well as identify appropriate long-term strategic financial benchmarks (Board Agenda, 2018). It is common for companies to delegate board responsibilities to specialized committees compensating executives and nominating directors.

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

While companies are adapting their board structure to government regulations that promote better oversight and delegation of responsibilities, it is still uncommon for them to set up a specific committee that oversees risk, corporate social responsibilities, or ethics.

While the landscape of legal frameworks and corporate governance legislation can be varied and complex, there are some key themes and practices that the board must implement to further ensure effective corporate governance that takes account of sustainability risks and opportunities (Accounting for Sustainability (A4S), 2018).

3.0 Methodology

The study employed the Ex-Post facto design. "The ex-post facto research design also known as causal-comparative research involves the ascertaining of past factor(s) on the present happening or event". The study was carried out on the quoted companies listed on Nigerian Stock Exchange. However, all the studied firms are domiciled and operate within the geographical boundaries of Nigeria. The study concentrated on the oil and gas sector of The Nigerian Stock Exchange. This sector includes all companies engaged in operating and/or developing oil and gas field properties, and companies primarily engaged in recovering and producing liquid hydrocarbons from oil and gas field gases.

Secondary data were utilized in this study for the analysis. The data for this research work were sourced from annual reports of the sampled companies. The data collated were analyzed using panel data analysis that provided the description analogies such as mean, median, standard deviation, etc. Data analysis was processed with the aid of E-views 10.0 statistical software. Presently, there are eleven (11) listed companies in the oil and gas sector of the Nigerian Stock Exchange thus:

1. 11 PLC (Mobil).
2. Ardova PLC
3. Capital Oil PLC
4. Conoil PLC
5. Eterna PLC
6. Japaul Gold & Ventures PLC
7. MRS Oil NigeriaPLC
8. Oando PLC
9. Rak Unity Pet. Co PLC
10. Seplant Pet. Dev. Co PLC

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

11. Total Nigeria PLC

The period of study covered is eight (11) years (2012 – 2022).

The sampling method used for this study is the purposive sampling method. This method is also known as judgmental, selective, or subjective sampling. The type of purposive sampling applied to this work is the total population sampling as it enables the researcher the choice to examine the entire population that has one or more shared characteristics and this is common to studies of particular groups within larger populations. The sample of this study is therefore drawn from the eleven (11) companies listed in the oil and gas sector of the Nigerian Stock Exchange. In the course of this study, a sectional sample of five (5) listed companies in the oil and gas sector was conducted. The decision to study five (5) out of the eleven (11) firms listed in the oil and gas sector of the Exchange was informed by the fact that some of the firms were on technical suspension and some moribund. Hence, six (6) firms were therefore dropped for the reason of inactivity in the capital market.

This selection of five (5) out of the eleven (11) listed companies was accomplished by picking the companies that were active in the capital market during the period of study.

The companies considered are listed below:

1. Conoil Plc
2. 11 Plc
3. MRS Nigeria Plc
4. Oando Plc
5. Total Nigeria Plc

Model Specification

In this research, corporate governance characteristics will serve as the independent variables while firms' financial performance represented by returns on assets (ROA) will serve as the dependent variable. The model is expressed in implicit and explicit forms below:

$P = \boxed{1}\ (CG) + \varepsilon$

Where:

P = Profitability

CG = Corporate Governance

ε = Error Term

Econometrically, the model used to estimate the relationship between corporate governance

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

(Measured as remuneration and oversight) and profitability (measured as return on assets (ROA)) is:

$ROAit = \beta 0 + \beta 1RMit + \beta 2OVit + \varepsilon\ it$

Where:

ROA = Return on Assets, which is an indicator of how profitable a company is relative to its total assets.

β0 = Intercept

β1, β2 = Regression coefficients of the independent and control variables.

RM = Remuneration, which represents executive remuneration incentives that take into account social and environmental factors.

OV = Oversight, which represents certain board committees such as audit, remuneration, and nomination.

ε = Error Term

i = Number of companies

t = Time period (in years).

4.0 Data Presentation and Analysis

Table 1: Panel Data for the Focal and Explanatory Variables of the Sampled Oil and Gas

OIL & GAS					
	YEAR	**REM**	**OV**	**ROA**	**FA**
		₦		**₦**	
CON OIL	2012	0.02	0.55	0.05	52
	2013	0.01	0.55	0.17	53
	2014	0.02	0.50	0.05	54
	2015	0.02	0.50	0.13	55
	2016	0.01	0.64	0.15	56
	2017	0.04	0.64	0.09	57
	2018	0.02	0.55	0.10	58

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

	2019	0.01	0.55	0.10	59
	2020	0.01	0.57	0.03	60
	2021	0.02	0.57	0.06	61
	2022	0.02	0.55	0.08	62
MRS NIG. PLC	2012	0.03	1	0.11	43
	2013	0.02	1	0.03	44
	2014	0.01	1	0.04	45
	2015	0.01	0.85	0.04	46
	2016	0.03	0.85	0.07	47
	2017	0.04	0.85	0.06	48
	2018	0.04	0.85	(0.06)	49
	2019	0.05	0.80	(0.09)	50
	2020	0.05	0.80	(0.13)	51
	2021	0.05	0.85	0.02	52
	2022	0.04	0.85	0.07	53
TOTAL NIG. PLC	2012	0.02	0.06	0.06	56
	2013	0.02	0.06	0.06	57
	2014	0.02	0.60	0.06	58
	2015	0.02	0.60	0.05	59
	2016	0.03	0.66	0.11	60
	2017	0.03	0.66	0.07	61
	2018	0.03	0.50	0.06	62
	2019	0.04	0.50	0.02	63
	2020	0.04	0.50	0.01	64

	2021	0.04	0.55	0.08	65
	2022	0.04	0.55	0.05	66
OANDO NIG PLC	2012	0.11	0.05	0.05	56
	2013	0.12	0.05	0.009	57
	2014	0.10	0.05	-3.34	58
	2015	0.14	0.05	-0.98	59
	2016	0.20	0.05	0.02	60
	2017	0.21	0.05	0.08	61
	2018	0.19	0.05	0.10	62
	2019	0.20	0.05	0.009	63
	2020	0.20	0.05	(2.08)	64
	2021	0.21	0.05	(0.25)	65
	2022	0.19	0.05	(0.41)	66
11 NIG. PLC.	2012	0.19	0.70	0.55	62
(MOBILE)	2013	0.22	0.66	0.50	63
	2014	0.20	0.71	0.46	64
	2015	0.21	0.71	0.27	65
	2016	0.20	0.75	0.41	66
	2017	0.17	0.75	0.27	67
	2018	0.14	1	0.28	68
	2019	0.15	1	0.23	69
	2020	0.17	1	0.15	70
	2021	0.20	1	0.02	71
	2022	0.18	1	0.03	72

Sources: Annual Report and Accounts of Sampled Oil and Gas Companies in Nigeria (2012-2022)

Where:

REM - Remuneration

OV - Oversight

ROA - Return on Assets

FA - Firm Age

The table above displays data gathered from annual reports and accounts of selected oil and gas companies in Nigeria. This information was sourced from the corporate websites of the respective firms, the Nigeria Stock Exchange Library, and online sources. The variables listed exhibit varying degrees of linearity, as indicated by subsequent analyses.

INDUSTRY PANEL DATA ANALYSIS

Table 2: Descriptive Statistic of the Industry Level Panel Data

	REM	OV	ROA	FA
Mean	0.087273	0.562545	-0.033127	58.80000
Median	0.040000	0.600000	0.060000	60.00000
Maximum	0.220000	1.000000	0.550000	72.00000
Minimum	0.010000	0.050000	-3.340000	43.00000
Std. Dev.	0.077971	0.325777	0.578622	7.090421
Skewness	0.598552	1.127684	1.817053	-0.399600
Kurtosis	1.667625	18.427684	27.62053	2.534997
Jarque-Bera	7.704099	4.050504	1113.877	1.959255
Probability	0.061236	0.401961	0.500000	0.375451
Sum	4.800000	30.94000	-1.822000	3234.000
Sum Sq. Dev.	0.328291	5.731044	18.07940	2714.800

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

Observations	55	55	55	55

Source: Computed by Researcher Using Eviews 10.0 Statistical Software

Table 2 above presents the variable descriptions derived from 55 observations of time series panel data concerning the sampled oil and gas companies in Nigeria. Within the table, the industry's minimum values are as follows: Remuneration 0.01, Oversight 0.05, Return on Assets -3.34, and firm age of 43. Conversely, the maximum values for the companies include Remuneration 0.22, Oversight 1.00, Return on Assets 0.55, and firm age of 72. Meanwhile, the industry means for the variables are as follows: Remuneration 0.0872, Oversight 0.562, Return on Assets -0.0331, and firm age at 58.

The normality of the data distribution is evident through the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. As per Table 2, the Jarque-Bera Statistics probabilities for all variables (both focal and explanatory) have insignificant p-values, specifically for Remuneration (0.06), Oversight (0.40), and Return on Assets (0.50). The insignificance of these p-values suggests a normal distribution for all studied variables. This observation is corroborated by the skewness coefficients, which indicate that outliers are not significantly distant from one for all variables: Board Independence (1.47), Board Diversity (0.55), Remuneration (0.598), Oversight (1.127), and Return on Assets (1.81). Additionally, the kurtosis coefficient provides further confirmation of normal distribution for all variables: Board Independence (3.61), Board Diversity (2.91), Remuneration (1.66), Oversight (18.04), and Return on Assets (27.62). These findings pertain to data extracted from annual reports and accounts of sampled oil and gas firms in Nigeria.

Table 3: Regression Analysis Result of the Industry Level Panel Data

Dependent Variable: ROA

Method: Panel Least Squares

Date: 05/16/24 Time: 14:17

Sample: 2012 2022

Periods included: 11

Cross-sections included: 5

Total panel (balanced) observations: 55

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RM	-0.14686	0.163575	-0.897840	0.03401
OV	0.031565	0.051225	0.616198	0.51409
C	4.996847	3.422343	1.460066	0.14601

R-squared	0.740828	Mean dependent var	10.66613
Adjusted R-squared	0.702797	S.D. dependent var	19.88069
S.E. of regression	10.14137	Akaike info criterion	7.344772
Sum squared resid	3572.596	Schwarz criterion	7.625548
Log likelihood	-140.245	Hannan-Quinn criter.	7.446292
F-statistic	18.50546	Durbin-Watson stat	1.497187
Prob(F-statistic)	0.000000		

Source: ***Computed by Researcher Using Eviews 11 Statistical Software***

Table 3 presents the impact of various independent variables on return on assets. Remuneration exerts a negative and significant impact on return on assets, evidenced by a p-value of 0.03401. Oversight, on the other hand, shows a positive effect on return on assets but lacks statistical significance, as indicated by a p-value of 0.51409. The adjusted R-squared (R2) value suggests that approximately 70% of the variations in return on assets are explained by the explanatory variables, namely, remuneration and oversight, The remaining 30% may be attributed to other factors influencing return on assets in the context of sampled oil and gas firms in Nigeria, as well as additional remote factors captured by the error term.

Moreover, the probability of the F-statistic is significant, indicating the statistical adequacy of the multiple regression model and its results. Additionally, there is an absence of serial autocorrelation in the panel data extracted from the annual reports and accounts of the sampled oil and gas firms.

Test of Hypothesis One

Restatement of the Hypothesis in Null and Alternate forms:

Null Hypothesis: Remuneration does not have a positive and significant effect on the return on assets (ROA) of oil & gas firms in Nigeria.

Alternative Hypothesis: Remuneration has a positive and significant effect on the return on assets (ROA) of oil & gas firms in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H0), if the p-value of the t-statistics is less than 0.05. Otherwise accept the null hypothesis and reject the alternative hypothesis.

Decision

In Table 3, the panel regression results indicate a significant but negative relationship between return on assets and remuneration. This suggests that an increase in remuneration will have an adverse effect on the return on assets of the sampled oil and gas firms in Nigeria. With a p-value of 0.03401 for remuneration, which is less than the significance level of 0.05, the null hypothesis is rejected, and the alternative hypothesis is accepted. Therefore, the study concludes that remuneration indeed has significant but negative effects on the return on assets of the sampled oil and gas firms in Nigeria.

Test of Hypothesis Two

Restatement of the Hypothesis in Null and Alternate forms:

Null Hypothesis: Oversight does not have positive and significant influence on return on assets (ROA) of oil & gas firms in Nigeria.

Alternative Hypothesis: Oversight does have positive and significant influence on return on assets (ROA) of oil & gas firms in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H0), if the p-value of the t-statistics is less than 0.05. Otherwise accept the null hypothesis and reject the alternative hypothesis.

Decision

In Table 3, the panel regression results indicate that oversight has an insignificant but positive relationship with return on assets. This suggests that an increase in oversight may have the potential to enhance return on assets for the sampled oil and gas firms in Nigeria, although this relationship is not statistically significant. With a p-value of 0.51409 for oversight, which is greater than the significance level of 0.05, the null hypothesis cannot be rejected, and the alternative hypothesis is not supported. Therefore, the study concludes that oversight does not have significant effects on the return on assets of the sampled oil and gas firms in Nigeria.

Summary of Findings

The following findings were observed:

i. Remuneration exhibits a negative and significant impact on ROA. The probability value of 0.03401 suggests that higher remuneration negatively affects the financial performance of these firms.

ii. Although oversight mechanisms positively influence ROA, the statistical significance is lacking, as indicated by a p-value of 0.51409. This suggests that while oversight contributes positively to financial performance, further investigation may be required to establish its significance rigorously.

In conclusion, the study reveals a negative relationship between remuneration and ROA. Higher levels of remuneration may indicate inefficiencies or misalignment of incentives, leading to diminished financial performance in oil and gas firms.

However, oversight mechanisms, while positively impacting ROA, lack statistical significance in this study. Further exploration is warranted to better understand the intricacies of oversight and its implications for financial performance in the Nigerian oil and gas industry.

5.0 Recommendations

Based on the aforementioned findings:

1. It is essential to optimize remuneration structures to align with ROA Goals. Review and adjust executive compensation packages to align with performance metrics directly tied to ROA. Implement transparent and accountable remuneration frameworks that incentivize executives to prioritize long-term value creation and sustainable financial performance.
2. Oil and gas firms should strengthen oversight mechanisms for improved ROA. They need to bolster internal control systems and oversight mechanisms to ensure effective risk management and compliance with corporate governance standards. Enhance transparency and accountability through regular audits and reporting practices to safeguard ROA within Nigerian oil and gas companies.

ISSN: 2811-1710 (Paper), ISSN: 2811-1729 (Online) Vol 5, No 1, Pgs 125 - 141: 2024

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