Corporate Management and Financial Performance of Multinational Companies in Nigeria

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Abstract

The study investigated the effect of corporate management on the financial performance of multinational companies in Nigeria. Specifically, it looked at the effect of conversion circle, acid test ratio, and current ratio on profit after tax of multinational companies in Nigeria. The study used an ex post facto research design and Secondary data from the annual reports of eight selected sampled companies covering the period 2006-2020 were collected. Data collected was analysed using descriptive statistics like table and percentage, with inferential statistics such as regression analysis and correlation analysis. The study revealed that cash conversion cycle, acid test ratio and current ratio exerted a positive effect on profit after tax with coefficients of 0.01008 ($p = 0.384 > 0.05$), 0.0218 ($p = 0.0807 > 0.05$) and 0.1407 ($p = 0.069 > 0.05$) respectively. It was concluded that corporate management has a significant positive influence on the financial performance of multinational oil and gas companies in Nigeria. According to the above conclusion of the study, it is recommended that managers of oil and gas companies in Nigeria should maintain a high level of cash conversion circle acid test ratio and current ratio for the firm’s performance since it affects financial performance.

Keywords: Corporate Management, Financial Performance, Multinational Companies, Profitability

1. Introduction

The fast-paced nature of the modern corporate world necessitates swift responses from companies that want to maintain a competitive edge. Information technology is rapidly expanding into new fields, and with it, companies are increasingly turning to online and social media marketing to get the word out about their offerings. Boosting product quality and productivity while cutting costs, driving product and process innovations, minimizing product development times, and increasing customer satisfaction are all critical for a company's success. Companies need to make an effort to adjust to the ever-changing market if they want to survive in today's competitive, global economy (Muogbo, 2013). Management in business include the activities of top-level executives in making decisions, structuring and planning operations, and carrying out strategies in order to achieve the organization's goals. A choice must be implemented for it to have any impact. A company must take the necessary measures while putting its strategy into action. To guarantee the strategy's success, upper-level management must reallocate resources and restructure the organization (Dess et al., 2005). These choices have a significant impact on the company's future and its ability to function, thus they need input from the highest levels of management. Wheelen and Hunger are credited for recognizing one of the most valuable components of corporate management for conglomerates that operate in several industries (2002). Companies in today's more volatile market need substantial corporate management from its professional managers. Because of the higher potential for mistakes, wasteful actions, and potentially disastrous economic outcomes.

In the past two decades, corporate management has risen in prominence among academics and business professionals as a result of globalization. The capacity of corporate management to monitor global changes and place the company for sustainable growth is gaining in importance as more organizations go global. There is a large body of literature on the subject of business management, which has been considerably contributed to by both developed and developing nations. A significant shortcoming of the topic is the dearth of empirical studies examining the connection between corporate management and the performance of companies in Nigeria. Thus, we felt it necessary to conduct this inquiry. As an added downside, the researchers did not focus on a specific sector but instead collected data from all the firms listed on the Nigerian Exchange Group (NGX), making for too general and unreliable findings. Without further considering variances that reflect the performance characteristics of those multinational businesses and generalizable patterns seen in other disciplines, it would be foolish to underestimate the sector's contribution of 5.9% to Nigeria's real GDP in 2021. Although dividends distributed at the end of the fiscal year are often used as a proxy for a company's financial health, they fail to adequately capture the relationship between payouts and the performance of corporate management (Raed, 2020). This study fills in the blanks by investigating the link between multinational firms' management and their bottom lines. The primary purpose of this research is to analyze how corporate management impacts the bottom line of MNCs in Nigeria. In particular, the study evaluates the impact of the acid test and current ratios on the bottom lines of MNCs in Nigeria, as well as the impact that the conversion circle has on their profits after taxes.

2. Literature Review

2.1 Corporate Management Concept

Corporate management can be thought of as the method by which a company's upper-level executives formulate and put into action the company's overarching strategic goals and objectives (Wheelen and Hunger, 2007). Establishing long-term objectives, developing a strategy to achieve those objectives while considering relevant internal and external factors, and committing to implementing that strategy are all components of effective corporate management. Dess et al (2007) define corporate management as "the analysis, decisions, and actions that a firm takes to create and sustain competitive advantages". They credited two fundamentals of business administration for providing some of the impetus for the concept. Constant engagement in three processes—analysis, decision-making, and action—is necessary for effective management of an organization. Thus, corporate management places a premium on the management of both the internal and external environments of an organization, as well as the management of the organization's corporate goals (vision, mission). Leaders and managers must also make decisions and see them through to fruition. Second, understanding the factors that lead some businesses to success while others fail is essential for effective management. Managers are tasked with determining the company's competitive strategy in order to secure sustainable competitive advantages. If you want to make sure your strategy is still relevant in the face of changing conditions like new technologies, new competitors, or a different economic, social, financial, or political climate, you need to evaluate it frequently. At the corporate level, management is an ongoing process that keeps an eye on and regulates operations and clientele. The business also monitors the activities of its rivals (Muogbo, 2013). Corporate planning encompasses not only activities related to quality (or continuous improvement), but also budgeting, resource allocation, program evaluation, performance monitoring, reporting, and determining long-term sustainability.

2.3 Planning and Decision Making

Managers in the business world need to be able to coordinate their efforts in order to succeed because of the complexity of the environments in which they operate. The seeds of all future endeavors are sown in the planning stages (Mumford et al., 2002). On the other hand, the act of making a decision is viewed as a methodical and logical procedure whereby potential courses of action are considered, weighed, and ultimately one is chosen. So, it's clear that planning and making choices go hand in hand. Managers are responsible for making decisions and putting them into action. Strategic, well-considered, and ultimately beneficial decisions are the product of proactive thinking. Using data from (Zur Shapira, 2002)

2.4 Director Independence and Performance

A director's personality must always be unaffiliated with the production. Companies' own views on a matter should be evaluated using the same criteria as those of a neutral, third-party judge. Directors should not be afraid to speak their minds on issues related to employee performance and development. Higher efficiency is achieved because of the group's increased independence. The majority of a board's membership should consist of impartial observers. An independent director is a non-executive director who does not report directly to the company's management (ICAN, 2014)

2.5 Regular Compensation Review and Management

When executives' pay is structured similarly to that of shareholders, they are more likely to make decisions that benefit the company as a whole. CEOs and board members who have a lot riding on the company's success will always do the right thing. It's important to consider the repercussions of any changes to executive compensation. Therefore, it is essential to regularly review and meticulously manage executive compensation to guarantee that employees' actions further the company's goals (Brick *et al*.,2005). Because of this, board members will be able to better lead their organizations in the future. A company should conduct regular compensation reviews of its organizational structure and current pay scales to ensure that all employees are being compensated fairly and in accordance with the Equal Pay Act's guidelines. At the very least once every two years, an audit must be carried out as part of the review. Step two is to gather all current job postings and create a master list of their requirements and responsibilities. A total rewards statement is generated for each employee, which has been shown to increase employee loyalty and longevity because of its transparency.

2.6 Financial Performance

Profitability of multinational corporations is highly valued by business and strategic management specialists. Given the link between a company's financial health and its chances of survival, this is a topic of the utmost importance to business professionals across all industries. It is in the interest of all parties involved in a company for the stock price to rise, and this can only happen if the company is generating more revenue. Those in managerial positions are more likely to put in extra hours because they care about the company's future. The consistency with which a company has paid capital dividends is highly valued by both current and potential shareholders (Valentin, 2013). The degree to which a company accomplishes its primary goal, which is to engage in commercial activity, is a crucial factor in determining its financial performance and the amount of profit it creates (Banafa et al., 2015). When looking at a company's financial performance over a certain time period, those numbers can be used as a proxy for the company's financial health. When making comparisons, we can use the financial results of companies in the same industry as well as those in other industries. When a business's top priority is making money, its financial health must be protected at all costs (Yahaya & Lamidi, 2015).

2.8 Empirical Evidence

Using data from publicly traded Nigerian manufacturers, Dan (2020) examined AR's impact on profits and how companies handled it. We analyzed secondary data gathered from various sources. The return on assets was used as the performance metric, and accounts receivables were used as the explanatory variable to represent this. In this case, firm size and leverage played the role of controls. A regression model built on the ordinary least squares technique was used to analyze the data. The results indicated that for publicly traded Nigerian manufacturing companies, the account receivables term significantly increased return on assets. This study demonstrates the importance of effective accounts receivable management for publicly traded Nigerian manufacturing firms.

The effects of accounting receivables management on the profitability of manufacturing firms listed in Nairobi were analyzed by Muthoni et al. (2020). Data was collected from secondary resources. The management of accounts receivable was assessed in terms of return on asset, credit extension policy, financing receivables, and the length of time it took to collect on receivables. There were two types of analysis performed on the data: descriptive and inferential. The results show a close relationship between manufacturing firms' financial success and their credit policies on the Nairobi Stock Exchange. Despite this empirical evidence, there has been a dearth of studies examining the corporate management and financial performance of multinational corporations in Nigeria, especially those in the oil and gas industry. Our goal is to add to the growing body of empirical research that looks into the connection between corporate management and the financial performance of Nigeria's oil and gas firms. This study stands out from others in the field because it employs a unique methodology to evaluate corporate management by calculating the cash conversion cycle, acid test, and current ratios over a 15-year time span using panel data to assess financial performance (2006-2020).

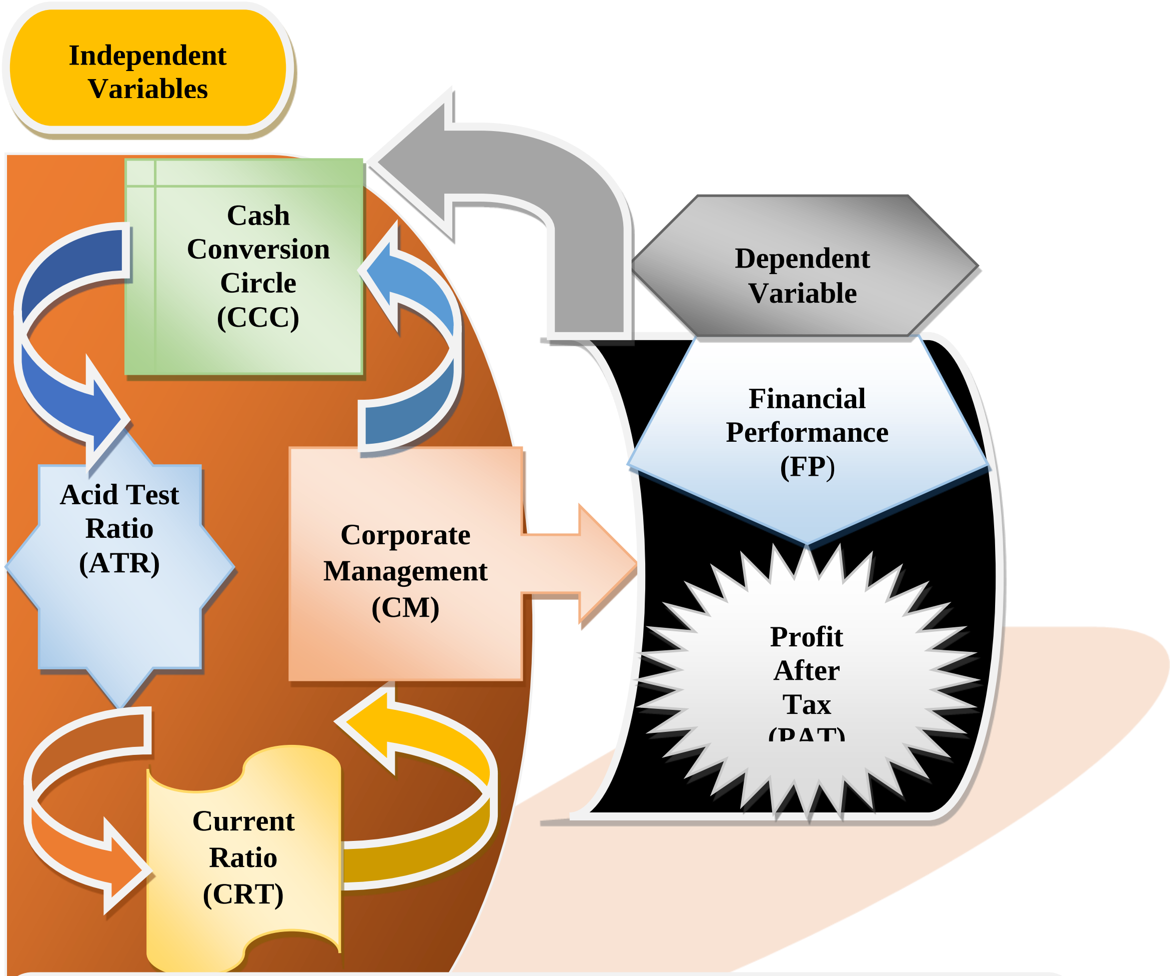
When it comes to Tanzanian businesses, Danga *et al*. (2019) looked into how AR management affects productivity. Quite a bit of the investigation's data came from secondary sources. In this investigation, the independent variables were average collection time, return on investment, and liquidity. The analysis made use of panel data and was conducted with both fixed and random effect estimators. This study uncovered a negative correlation between agricultural businesses' average collecting times and their bottom lines in Tanzania. Researchers also discovered a positive relationship between liquidity and the typical time spent collecting. The study concluded that financial managers should increase their spending on accounts receivables to improve liquidity and shorten the AR period to an acceptable level in order to maximize profits. Adenuga *et al*. (2019) investigated the impact of operational management on the performance of Nigerian food and beverage firms listed on Nigeria's stock exchange. All of the data in this investigation came from secondary sources. Cash conversion circle negatively correlates with business profitability in Nigeria. The results suggest a link between competent management and the financial well-being of

Nigerian businesses. The survey recommends that businesses adopt sensible credit extension policies in order to maximize profits.

Nwude and Agbo analyzed the impact of corporate management on the profitability of Nigeria's publicly traded insurance companies in 2018. Information was gathered from supplementary sources, performance was proxied with return on assets, and the timely payment of accounts receivable was calculated using a weighted average of the average collection period. Control variables included the current ratio, growth, company size, and the fixed-to-total-financial-assets ratio. Data was analyzed using descriptive and correlational methods in addition to cross-sectional regression analysis. According to the results, the impact of longer intervals between billings on a business's bottom line is small. Further findings showed that the term "accounts receivable" does not have a direct correlation to the profitability of Nigerian insurance companies that are publicly traded. Askarany and Yazdifar (2012) studied the impact of corporate management on the success of businesses in the manufacturing and service sectors in New Zealand. Using secondary data like the company's annual financial report, this research tracked the introduction of six different types of corporate management software over the course of two decades. The findings demonstrated a robust relationship between the implementation of these cutting-edge corporate management tools and the fulfillment of organizational aims.

The construct of this study is embedded on resource-based theory and contingencies theory. Resource-based theory were employ based on the fact that an organization's resources and capabilities are the primary pillars of competitive advantage and outperformance in a resource-based approach to corporate management. Adoption of contingent-based theory is based on assessment of how the value of resources shifts in response to how they are put to use and the connections that are made between their primary and secondary forms.

Figure1: Conceptual Framework on Corporate Management and Financial Performance of Multinational Companies in Nigeria



Source: Researchers' Conceptual Framework on Corporate Management and Financial Performance of Multinational Companies in Nigeria Model, (2022)

3. Methodology

The study employed ex post facto research design.. The study population comprises of all twelve (12) oil and gas companies operating in Nigeria as listed on the Nigeria Stock Exchange as at 31st December 2021. From a pool of 12, eight (8) listed oil and gas companies (Total Oil Plc, Forte Oil Plc, Oando Plc, Conoil Plc, Mobile Oil Plc, Shell Plc, Chevron Plc, and Energy Oil Plc) were selected at random to participate in this study because they have been active in the cross-boarding business over the past 15 years (from 2006 to 2020). Secondary data covering a period of 2006-2020 were collected from the annual report of the selected companies. Data collected were analysed using descriptive statistics like table and percentage with inferential statistics such as regression analysis and correlation analysis. Regression were used to examine the connection between the explanatory variable and the corporate management variables, while Pearson correlation measure the strength of the relationship between the study variables.

3.1 Model Specification

The study modified Oyejido's (2013) model to capture the important variables, and used this to draw conclusions from the data. This model helped verify or refute the study's hypotheses and bring about the desired results. This is how the model's functional specification reads:

PAT = f (CCC+ ATR+CRT)…………………………………….………………….3.1

The econometric specification is as follows:

$(PAT)it = b0 + b_1(CCC)\ it + b_2(ATR)\ it + b_4(CRT)\ it\ \varepsilon it$……………..…………….3.2

Where:

PAT =Profit after Tax (Proxy for Financial Performance): CCC=Cash Conversion Circle

ATR =Acid Test Ratio: CRT=Current Ratio

b_0 = Intercept for X variable of company: b_1– b_4 = Coefficient for the explanatory variable

e=Error term: I =cross sectional variable: t=time series variable

Table 1: Description and Measurement of Variables

S/N	VARIABLES	SYMBOL	MEASUREMENT	PREVIOUS STUDIES
	Dependent Variable			
1	Profit After Tax	PAT	Net Income/Net Sale	Muogbo, (2013), Oyedijo, (2013)
	Independent Variables			
2	Cash Conversion Circle	CCC	Average cost/cost of goods sold	Pearce, and Robinson, (2013).Bergen,(2003),Richard et al,(2008)
3	Acid Test Ratio	ATR	cash equivalent +Account receivable	.Stevenson,(2012)
4	Current Ratio	CRT	Current Asset/ Current Liabilities	Stevenson,(2012)

Source: Researchers, Compilation, (2022)

4.0 Results and Discussion

Descriptive Statistics of the Study Variables

The research included multinational oil and gas companies that were chosen based on the data that was available. The descriptive statistics for the variables utilized in this investigation are shown in Table 2. Listed oil and gas companies in Nigeria show a median profit after tax of 42.50 percent, a range of -202.00 percent to 202.00 percent, and a standard deviation of 0.46 percent. This means that the profit after tax of publicly traded oil and gas companies in Nigeria varies widely, on average, by 46.60 percent. The standard deviations for the cash conversion circle, acid test ratio, and current ratio are 0.1930, 0.5215, and 0.5331 percent points, respectively. The results show a great deal of disparity between the corporate management and financial performance metrics of various multinational oil and gas companies operating in Nigeria.

Table 2: Descriptive Statistics

Variables	Mean	Standard Deviation	Minimum	Maximum
Profit After Tax	0.4250	0.4660	0.0000	2.0200
Cash Conversion Circle	0.0355	0.1930	-0.7300	1,7300
Acid Test Ratio	7.7456	0.5215	6.0800	9.0800
Current Ratio	0.2138	0.5331	-0.6700	3.8100
Valid N (Listwise)				

Source: Researchers' Data Analysis, (2022)

Correlation Analysis

Analysis in table 3 displays the correlation matrix used to analyze the interrelationships between the financial performance and corporate management variables. Correlation coefficients between each pair of variables in the estimated model are displayed in Table 3. The analysis showed the strength and direction of the relationship between each set of study variables. After-tax profit was found to be positively correlated with the cash conversion cycle, acid test ratio, and current ratio (correlation coefficients of 0.0767, 0.0953, and 0.0188, respectively). The result of the analysis also demonstrates an inverse relationship between the cash conversion cycle and the acid test ratio. Also, as shown in Table 3, there was a positive correlation (0.0313) between the cash conversion cycle and the acid test ratio, and a negative correlation (-1.685) between the acid test ratio and the current ratio. Furthermore, there is a negative correlation between the acid test ratio and the cash conversion cycle (r=-0.0523).

Table 3: Correlation Matrix of all variables (2006 -2020)

	PAT	CCC	ATS	CTR
PAT	1.000			
CCC	0.0767	1.0000		
ATS	0.0953	-0.0523	1.0000	
CTR	0.0188	0.0313	-.1685	1.0000

Source: Researchers' Data Analysis, (2022)

Regression Analysis

The results of the pooled OLS estimation, fixed effect estimation, and random effect estimation, as well as the results of the restricted F-test and the Hausman test used to evaluate the consistency and efficiency of the estimators, are shown in Table 4. According to Table 4, the F-statistics do not back the hypothesis that the differential intercepts for each cross-sectional specific unit are all equal to zero. Since there appears to be a sizable cross-sectional heterogeneity effect among the sampled of understudied oil and gas companies, the limitation of pooled OLS estimation should be abandoned in favor of cross-sectional fixed effect estimation. Chi-square statistic was 23.95, and the probability value of the Hausman chi-square test was 0.0044. Null hypothesis confirmed by data showing no statistically significant dissimilarities between fixed effect estimation and random effect estimation coefficients. Because of this, the random effect estimation yields the most accurate and useful estimate.
When the heterogeneity effect across firms sampled in the study was incorporated into the model via the error term, the results of a random effects estimation are shown in Table 3. Cash conversion cycle, acid test ratio, and current ratio all positively affected profit after tax, with coefficients of 0.01008 (p=0.384> 0.05), 0.0218 (p=0.0807 > 0.05), and 0.1407 (p=0.069> 0.05) respectively.

Table 4: Effect of corporate management on financial performance of oil and gas companies in Nigeria

Variable	Pooled OLS	Fixed Effect Model	Random Effect Model
Constant	-0.2077 (0.754)	1.5886 (0.029)	**-0.2077 (0.753)**
CCC	0.1998 (0.386)	0.0381 (0.003)*	**0.1008 (0.384)**
ATS	0.0218 (0.808)	0.1171 (0.041)*	**0.0218 (0.807)**
CTR	0.1407 (0.072)	-0.0824** (0.237)	**0.1407 (0.069)**
F-Statistic	3.67 (0.0005)*	1.87 (0.0424)*	
R-Square		0.2451	
Wald X^2			33.02 (0.0001)*
Hausman Test		**23.95 (0.0044)***	

*denotes 5% level of significance.

Source: Researchers' Data Analysis, (2022)

Multicollinearity Test.

The assumption of non-perfect or near-perfect correlation between exogenous variables is implicit in the panel least square estimate method. Orthogonal refers to the lack of correlation between the explanatory variables. In Table 4, we see how closely the independent variables are related to one another by examining the variance inflation factor (VIF). Since all VIFs are less than 10, it is reasonable to assume that the variables are not multicollinear. A growing number of VIFs are under 10 seconds in length.

Table 4: Variance Inflation Factor

Variable	**VIF**	**1/VIF**
CCC	1.19	0.8410
ATS	1.46	0.6832
CTR	1.14	0.8799
Mean VIF	1.33	

Source: Researchers' Data Analysis, (2022)

Discussion of Findings

The study analyzed the management styles and financial performance of MNCs with a presence in Nigeria. We did this by analyzing the effects of the cash conversion cycle, acid test ratio, and current ration on the bottom lines of publicly traded Nigerian oil and gas companies. The study's financial outcomes were measured by after-tax profit (PAT). Annual reports from 8 Nigerian oil and gas companies were analyzed for data spanning 2005-2020. (a secondary data set was used for the study). The data was analyzed using a variety of methods, including descriptive statistics, correlation analysis, and panel regression. Pooled OLS, random effect estimation, fixed effect estimation, the Hausman test, and post-estimation testing were all a part of the panel regression analysis. The cash conversion cycle, the acid test, and the current ratio all have significant impacts on the model's predicted profit after tax for a company. Consistent with the findings of Askarany and Yazdifar, we find that post-tax profit is positively related to corporate management variables such as the cash conversion cycle (2012). Profit after tax increased significantly due to improvements in cash conversion, the acid test ratio, and the current ratio, by percentages of 0.010 percent, 0.021 percent, and 0.14%, respectively. According to the data, Nigerian oil and gas companies were able to significantly increase their profit after taxes as a result of enhancements to their cash conversion, acid test ratio, and current ratio.

5. Conclusion

This investigation into a Nigerian-based multinational oil and gas firm offered empirical proof of the effect corporate management has on financial results. The cash conversion circle, acid test ratio, and current ratio were used to assess the management, performance, and profit after tax of the investigated multinational corporations in Nigeria. Using the cash conversion circle, acid test ratio, and current ratio, multinational oil and gas firms in Nigeria positively impacted financial performance. It was found that the management of a company has a significant effect on the financial success of multinational oil and gas firms operating in Nigeria. Researchers concluded that managers of Nigeria's oil and gas industry should use the cash conversion circle acid test ratio and the current ratio to ensure their companies' liquidity, survival, solvency, and profitability.

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