SOURCES OF FINANCE AND ORGANIZATIONAL PERFORMANCE IN THE DOWNSTREAM PETROLEUM INDUSTRY IN NIGERIA.

Rasheed Olatunji ANIMASAUN

ADP12/13/H/2351

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M. Sc.) IN ACCOUNTING TO THE DEPARTMENT OF MANAGEMENT AND ACCOUNTING, FACULTY OF ADMINISTRATION, OBAFEMI AWOLOWO UNIVERSITY, ILE-IFE, NIGERIA.

2016.

AUTHORIZATION TO COPY

OBAFEMI AWOLOWO UNIVERSITY, ILE-IFE

HEZEKIAH OLUWASANMI LIBRARY

POSTGRADUATE THESIS

Author: Rasheed Olatunji ANIMASAUN

Title: Sources of Finance and Organizational Performance in the Downstream Petroleum Industry in Nigeria.

Degree: M. Sc. Accounting

Year: 2016

I, ANIMASAUN Rasheed Olatunji hereby authorize the management of Hezekiah Oluwasanmi Library to copy my thesis in whole or in part, in response to request from individual researcher and organizations for the purpose of private study or research.

Signature………………………………… **Date……………………..**

Certification

This to certify that this thesis work was carried out under my supervision by ANIMASAUN Rasheed Olatunji of registration number ADP12/13/H/2351, and approved as fulfilling part of the requirements for the award of Master of Science (M. Sc.) Accounting in the Department of Management and Accounting, Faculty of Administration, Obafemi Awolowo University, Ile-Ife, Osun State.

....

Professor D. O. Elumilade Date

Supervisor.

Dedication

This thesis work is humbly dedicated to Almighty Allah for His goodness, kindness, favour, mercy and safety upon me.

Acknowledgements

There is saying of Allah that “if you give thanks, I will give you more (of my blessings), but if you are ungrateful, verily my punishment is indeed severe.” Hence, verily all praises, thanks, and adoration are due to Allah, the Lord of the universe. I praise Him, seek His help and forgiveness.

Afterwards, my unalloyed love and appreciation go to my parents late Mr. and Mrs. Animasaun for their parental care and training. “My Lord! Bestow upon them your mercy and forgiveness as they did bring me up when I was young.” Similarly, I am grateful to my humble and studious supervisor, Prof. D. O. Elumilade, who took time to read and ensure that this thesis is error free. Sir, you are indeed a father and a gift to the entire students of the Department of Management and Accounting. God bless you and your families abundantly in an immeasurable fold.

Also, I acknowledge with the sense of privilege and honour the unrelenting and second to none efforts, help, encouragement and support of Prof. T. O. Asaolu, Dean Faculty of Administration. May God bless you and your families.

The annals of my gratitude will be incomplete if the apple of my eyes, Mrs. Basirat Animasaun, is not appreciated for her support, patience and tolerance. Indeed, I appreciate her and pray Almighty Allah bless her as well my children.

However, special thanks go to all lecturers and non-teaching staff in the Department of Management and Accounting for their guide and support from the commencement of the programme till today. Besides, I recognize the support, influence, contributions and advice of my course mates in their entirety. May Allah continue to unite us on the truth.

Also, I am indebted to my colleagues at work for their word of encouragement and contributions. They include; Dr. R. O. Kareem, Mr. A. A. Alao, Mr. Jolaosho, Mr. Raheem, Mr. Ologunla, Mr. Onifade, Mr. A. R. Afolabi, and Mr. G. Babayanju.

Finally, my prayer for the aforementioned is that the mercy of Allah will never depart from your lives and in due time Allah will water every department of your lives. The prophet of Allah (SAW) says, "Whoever is not grateful to man shall not be grateful to his Lord"

Table of Contents

List of Figures and Tables

Abstract

This study examined the various sources of finance employed by the downstream petroleum firms in Nigeria. It also determined the effect of long-term finance on profitability. Furthermore, it ascertained the impact of short-term finance on profitability and found out the relationship between the medium-term finance and profitability in view of providing information of the significant effect of long-term and short-term finance on organizational performance.

The study employed secondary source of data. The technique of analysis was fixed-effect model through the panel data collected. The research design is quantitative. The targeted population consisted of 25 downstream petroleum firms in Nigeria from which a sample of 20 was selected using a purposive sampling technique. Data were sourced on variables such as profit after tax; long-term source of finance, short-term source of finance and medium-term source of finance from the audited financial statements of downstream petroleum firms. The data collected from the audited financial statements of the 20 firms covered 5 years between the periods of 2010-2014.

The results of the study revealed that sources of finance as a whole significantly affected organizational performance in the downstream petroleum industry in Nigeria as F-statistic = 249.1042 with Prob. value = 0.0000. Also, it was found that the results of the study were in consonance with the theoretical apriori expectations. Moreso, the study revealed that long-term finance significantly affected profitability as the t-value of long-term finance was -5.644289 with its attendant Prob. value = 0.0000. Furthermore, it was found that short-term finance significantly impacted on profitability as the t-value of short-term finance was 9.881206 with its attendant Prob. value = 0.0000. Moreover, the study showed that there was direct relationship between the medium-term finance and profitability as the slope of coefficient was 0.178386.

This indicated that 1% increase in medium-term finance would make the profitability to increase by 17.8%.

The study concluded that in as much as sources of finance affected performance in the downstream petroleum industry, the management and board of directors should pay attention to the utilization of these sources particularly short-term finance so as to avoid mismatch.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Finance is the elixir that assists in the formation of new businesses, and allows businesses to take advantage of opportunities to grow, employ local workers and in turn support other businesses as well as all levels of government through the remittance of income taxes. The strategic use of financial instruments, such as loans and stocks, is the key to the success of every business (Carpenter and Petersen, 2011). Finance is the process of creating, moving and using money as it facilitates global money flow (Daniel and Reitsperger, 2009). When some elements of finance process break down, companies go out of business and the economy moves into recession. All facets of the global economy depend upon an orderly process of the finance. Oil is a major source of energy in Nigeria and the world in general. Oil being the mainstay of the Nigerian economy plays a vital role in shaping the economic and political destiny of the country. Although, Nigeria's oil industry was discovered at the beginning of the century, it was not until the end of the Nigeria civil war (1967 - 1970) that the oil industry began to play a prominent role in the economic life of the country (Odularu, 2008). The growth of petroleum industry in Nigeria appears to have brought dramatic changes in the structure of the economy since 1970. In less than a decade, agriculture's share of gross domestic product (GDP) declined from roughly one-half to less than 30% and its erstwhile pre-eminence as generator of state revenue and foreign exchange all but vanished (Aigbedion and Iyayi, 2007).

Empirical evidence from the developed and few emerging economies have shown that the petroleum industries particularly downstream sector tend to influence the entire economy of the nation, but without adequate finance for these industries the operation, business friendly environment, effective management, and growth-oriented government policies will not thrive as expected (Amir and Lev, 2010). However, source of finance is a major problem for most downstream petroleum industries as it often constitutes a limiting factor in the scheme of things. Avolio, (2012) opined that the continued existence of any downstream petroleum industry does not only predicate on its ability to source for fund but rather on its strategies to make better application so as to avoid mismatching. Also, Banker, Potter and Schroeder, (2011) argued that the downstream petroleum industry needs to finance short-term project with short-term finance and long-term investment with long-term finance which is the pre-requisite to the concept of 'going concern' basis and better organizational performance.

No one can start a business or run a business without adequate funds. The amount of capital required depends upon the nature and size of business. Finance required for downstream petroleum industries may consist of owners' contribution and borrowings from different sources (Ouchi, 1979). The importance of finance arises basically due to the time lag between revenue generated through sales and the initial expenditure. Availability of finance is therefore, considered essential for day-to-day activities as well as for investment in durable (fixed) assets. The importance of finance has increased and will continue to increase with the growth of business and industry. This is because large scale production and distribution require considerably large amount to be invested in downstream petroleum business. Even then, the necessity of finance does not come to an end with the commencement of business (Simons, 1990). Additional funds are needed from time to time for expansion. Furthermore, changing environment of business and increasing competition may require new methods of production or distribution to be adopted, or plant and machinery to be modernised, or new products to be introduced in the market. In the absence of additional investment for such purposes it may be impossible for the business to survive. Finance plays such a vital role in modern enterprise that it is often said to be the lifeblood of business. Finance is needed at every stage in the life of a business. It must be available at the proper time. It must also be adequate for the purpose for which it is needed. Insufficient funds may affect the growth of the firm adversely. All economic activities in the modern world centre round the use of finance. The term finance "means money or funds". Financing means making money available when it is needed. Business finance refers to money required for business purposes. Sources of finance remain a controversial issue in finance literature because of its dynamic nature of corporate financing mix, which takes the stage of many events in firms' activities (Anthony, 2012).

Corporate sources of finance are generated either internally or externally. The importance of sources of finance lies in its pivotal role in satisfying long-term physical investment needs across all sectors of the economy and specifically they are key drivers of growth, competitiveness and procurement of assets such as the infrastructure, real estate, research & development and new ventures. The financial sector plays an essential role in providing and channelling financing for investment. The recent financial performance, the current financial position and the expected future financial performance of the downstream petroleum industries needs to be taken into account, when considering the source of finance to be used by the industries. When evaluating recent or forecast organisation performance, key areas to consider include the growth in turnover, the growth in operating profit, the growth in profit after tax and the movement in profit margins. Return on capital employed and return on equity could be calculated. A fundamental part of reigniting growth is ensuring the availability of sufficient resources to meet long-term investment needs. The relationship between the sources of finance of a company and company's performance has been a matter of debate for a very long time. Papers have been written and erudite scholars have also made series of research on sources of finance and the value they added to the organisation.

Organizational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and