JOURNAL OF GLOBAL ACCOUNTING
9 (3) September, 2023.
ISSN: 1118 – 6828
https://journals.unizik.edu.ng/joga

CORPORATE DIVERSITY AND FINANCIAL PERFORMANCE OF QUOTED OIL AND GAS FIRMS IN NIGERIA

Paper Type: *Original Research Paper.*
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Key words: *Age Diversity, Ethnic Diversity, Market Value Added, National Diversity.*

CITATION: Okafor, E.C. & Okegbe, T.O. (2023). Corporate Diversity and Financial Performance of quoted Oil and Gas Firms in Nigeria, *Journal of Global Accounting*, 9(3), 28 - 42.

Available:https://journals.unizik.edu.ng/joga

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ABSTRACT:

This study examined the nexus between corporate diversity and financial performance of quoted oil and gas firms in Nigeria for a twelve (12) year period spanning from 2010-2021. The specific objectives of this study were to examine the relationship between national diversity, ethnic diversity, age diversity and market value added. Panel data were used in this study, which were obtained from the annual reports and accounts of the eleven (11) sampled listed oil and gas firms. Ex-Post Facto research design was employed. Descriptive statistics of the dataset from the sampled firms was employed to summarily describe the mean, standard deviation, minimum and maximum values of the data for the study variables. Inferential statistics using Pearson correlation coefficient and Panel least square regression analysis were employed to test the hypotheses of the study. The results reported that there is a significant and positive relationship between national diversity and market value added ($\beta1 = 1.849415$; p-value = 0.0000 < 0.05); a significant and positive relationship between ethnic diversity and market value added ($\beta2 = 2.004632$; p-value = 0.0000 < 0.05) and a significant and positive relationship between age diversity and market value added ($\beta3 = 5.226703$; p-value = 0.0000 < 0.05) of listed oil and gas firms in Nigeria at 5% level of significance. Conclusively, the study found a positive relationship between corporate diversity and financial performance of listed oil and gas firms in Nigeria at 5% level of significance. The study recommended inter alia that firms should imbibe the ideology of corporate diversity, which will help dispel negative stereotypes and personal biases about different groups, boost problem-solving capabilities, increase happiness and productivity.

1. INTRODUCTION

One of the vital issues for corporate boards of listed firms is its board composition. The corporate board is considered to be balanced if its board members come from various backgrounds, which allows it to perform more efficiently. Developing societal, political, and cultural views at top-level management is a part of demographic diversity. The global desire of firms is to have better corporate governance. In the past, the corporate world has faced a number of high-profile scandals like WorldCom, Enron, and Adelphia, which caused the firms involved heavy losses. After this, many major firms were shut down, and many policy makers started to investigate the issues of corporate governance. Diversity encompasses the qualities and characteristics that distinguish individuals from one another. Workplace diversity refers to the variety of differences between individuals in an organization. Diversity not only includes how individuals identify themselves but also how others perceive them. Diversity within a workplace encompasses race, gender, ethnic groups, age, religion, sexual orientation, citizenship status, military service and mental and physical conditions, as well as other distinct differences between people (Okegbe, Eneh & Amahalu, 2019).

In Nigeria, oil was reportedly first discovered in Bayelsa State, in the Niger Delta, in 1956. According to the Organization of the Petroleum Export Countries (OPEC), Nigeria currently has the world's tenth largest crude oil reserves and is the world's thirteenth-largest producer of crude oil. While oil exploration and production in the Niger Delta began in the late 1950s, operations were suspended in Ogoniland in the early 1990s due to disruptions from local public unrest. The oilfields and installations have since largely remained dormant. However, major oil pipelines still cross through Ogoniland and oil spills continue to affect the region, due to such factors as a lack of maintenance and vandalism to oil infrastructure and facilities. Environmental contamination in Ogoniland from oil spills remains untreated, or only partially remediated, today. Boards of directors (BODs) are leaders in the firms and responsible for making strategic decisions and setting strategic goals. A leading role in successful diversity management is played by managers who are expected to show maturity in managing the diversified workforce. Well-managed diverse workforce can give companies the competitiveness needed to successfully operate in the global business market (Amahalu, Okoye & Nnadi, 2023). Managing diversity at workplace by top echelon management is still a challenge; management tend to learn the managerial competences needed in a multicultural working space and prepares themselves to teach others within their organizations to value differences in cultures and treat all workers with respect and dignity in view of increasing the productivity and performance of the business.

Several extant literatures have been conducted on the relationship between corporate diversity and financial performance with different strands of literatures holding divergent views ranging from positive to negative and non-significant relationships. For instance, the first strand of literature; Amahalu and Okudo (2023); Felix and Idowu (2022) found a positive relationship between corporate diversity and financial performance. The second strand of literature documented a negative relationship between corporate diversity and financial performance (for example, Saleh (2022); Ejembi, Ijeoma, Amahalu and Obi, (2022). On the other hand, a non-significant relationship was reported between corporate diversity and financial performance (Omesi & Ordu, 2022; Eneh, Okegbe & Amahalu (2019). The mixed findings, inconclusive results and lack of consensus by the reviewed literatures gave rise to a gap in literature which this study tends to fill. It is against this backdrop, that this study tends to examine the relationship between corporate diversity and financial performance of quoted oil and gas firms in Nigeria.

1.1 Objectives of the Study

The main objective of this study is to ascertain the relationship between corporate diversity and financial performance of quoted oil and gas firms in Nigeria.

The specific objectives were to:

i. Evaluate the relationship between national diversity and market value added of quoted oil and gas firms in Nigeria.
ii. Determine the relationship between ethnic diversity and market value added of quoted oil and gas firms in Nigeria.
iii. Assess the relationship between age diversity and market value added of quoted oil and gas firms in Nigeria.

1.2 Hypotheses

The following null hypotheses guided the study:

H_{o1}: There is no significant relationship between national diversity and market value added of quoted oil and gas firms in Nigeria.

H_{o2}: There is no significant relationship between ethnic diversity and market value added of quoted oil and gas firms in Nigeria.

H_{o3}: There is no significant relationship between age diversity and market value added of quoted oil and gas firms in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Corporate Diversity

Corporate diversity is the term used for the workplace composed of employees with varying characteristics, such as different sex, gender, race, ethnicity, sexual orientation. Corporate diversity means the understanding and acceptance of the fact that people have individual characteristics, which make them unique from each other, particularly when comparing individuals in a group, these characteristics may include race, ethnicity, gender, religion, political ideologies, sexual orientation, age, physical abilities or socio-economic status, life experiences and cognitive approaches toward problem solving (Amahalu, Okoye, & Nnadi, 2023).Corporate diversity in the workplace refers to an organization that intentionally employs a workforce comprised of individuals with a range of characteristics, such as gender, religion, race, age, ethnicity, sexual orientation, education, and other attributes.

2.1.2 National Diversity

National diversity means the representation of workgroup members by the number and distribution of different national backgrounds, moreover, national diversity is likely to be a salient and influential form of diversity, particularly in modern workgroups, for several reasons. National diversity refers to the range of differences that describe the composition of a group of two or more people in a cross-cultural and multi-national context. Okudo, Amahalu Obi and Okafor (2022). believe that focusing on national diversity will allow the company to adopt more inclusive practices around the world.

2.1.3 Ethnicity Diversity

Ethnicity diversity refers to the presence of people from a variety of cultural and ethnic backgrounds or identities. In many countries, many people identify with more than one ethnic group, and they might experience ethnic diversity within their own families. t refers to cultural factors, including nationality, regional culture, ancestry, religion or language. Modozie and Amahalu (2022) posit that national diversity helps to recognize and respect ways of being that are not necessarily our own so that as we interact with others we can build bridges to trust, respect, and understanding across cultures. Ethnicity diversity means the marked differences between people of many ethnic groups, as well as slight variations in behavior of persons in the same ethnic group, that coexist within the greater culture (Sener & Karte, 2021).

2.1.4 Age Diversity

Age diversity is the acceptance of all age groups in the workforce. Age diversity is simply the acceptance of employees of different ages in the workplace. Age diversity is an acceptance of different ages in a professional environment. Furthermore, companies can take measures to adjust to an aging population and prevent ageism in the workplace. Age diversity means working with people of different ages and to coexist in the same workplace. An organization is said to have a healthy workforce only

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ISSN: 1118 – 6828
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if it has employees of various age categories. Each generation brings its own unique skill sets to the business. for example, while younger employees may have a tighter grasp on technology, older workers may have strong interpersonal skills, combining these talents in an age diverse workplace strengthens your company as a whole (Chukwuka, Okegbe, Amahalu & Obi, 2022)

2.1.5 Financial Performance

Financial performance is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability. It is measured through various business-related methods that allow users to calculate exact details regarding a company's potential effectiveness (Okudo, Ezechukwu & Amahalu, 2022). Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Garg, 2021). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Amahalu & Obi, 2020).

2.1.6 Market Value Added

Market value added is a representation of value created by the actions and investments of a company's management (Amahalu, Ezechukwu & Okudo, 2022). Market value added (MVA) is the amount of wealth that a company is able to create for its stakeholders. It is the difference between the current market value of the company's stock and the initial capital that was invested in the company by both bondholders and stockholders (Onyeka & Amahalu, 2022). Market value added is merely the difference between the current value of the company on the market and the initial contributions made by its investors. It is a metric used to measure wealth, essentially it is used to determine exactly how much value the firm has accumulated over time.

MVA = Market Value of Shares – Book Value of Shareholders' Equity

Where: Market value of shares = Shares Outstanding x Current Share Price

2.1.7 National Diversity and Financial Performance

National diversity enriches the daily social life in that it provides each local organisation with different and novel ideas, opinions and beliefs. Udo, Oraka and Amahalu (2022) claim that due to increased diversity, members of the host culture are more likely to hear and experience views that diverge from their own. At the same time, the presence of many different cultures may cause emotional conflicts between groups as the native group may feel their heritage culture threatened. As a consequence, one can infer that the integration of nationally diverse individuals into the host society contains many hurdles that have to be overcome in order to create a harmonious life between the foreign and the native group. Diversity of nationality of the management team members will increase the likelihood of cross-cultural communication problem and interpersonal conflicts (Ogbo & Enilolobo, 2021). On the other hand, the presence of foreign nationals on the team are expected to bring competitive advantages to the firm, namely international networks, commitment to shareholder rights, and managerial entrenchment avoidance (Okocha, Okoye. Amahalu & Obi, 2022).

2.1.8 Ethnicity Diversity and Financial Performance

The positive association between board ethnic diversity and performance could be because of the enhanced monitoring effectiveness of moderate ethnically diverse boards in which boards could benefit from the wide range of perspectives brought by the directors due to the different ethnic, language and cultural backgrounds of the directors. Nevertheless, extant literature has also acknowledged that diversity in a group could produce undesirable outcomes and lower firm performance (Amahalu & Okudo, 2023). Ethnic diversification creates the free-rider problem in the board as board members rely on other members to monitor management (Norshimah, Norhabibi, NorAmiera, Mohammad, Kamal & Inaliah, 2016). Onyeozili, Okoye, Amahalu, & Obi (2022) found no relationship between the ethnic diversity and firm performance. Adetula, Owolabi, Egbide and Adeyemo (2019) found a positive association ethnic diversity and firm performance.

2.1.9 Age Diversity and Financial Performance

The age diversification in the workforce can cause lower work performance due to employees' compatibility issues (Mbonu & Amahalu, 2021). Tom-West, Okoye and Amahalu (2021). suggest that youthful managers are more inclined to undertake risky strategies, and firms with young managers will experience higher growth than their counterparts with older managers. This can be understood since older managers tend to be more risk averse and may be at a point in their lives at which financial security and career security are important. On the other hand, Abdulsalam, Abdulrahaman, Garba, Mohammed and Abubakar, (2020) posit that younger managers tend to have higher ability to process new ideas, lower willingness to accept status quo, and less interest in career stability.

2.2 Theoretical Review

The term melting pot was coined in 1908 by Israel Zangwill. It was first used as a metaphor to describe the union of many nationalities, cultures, and ethnicities. The concept of melting pot was popularized in the 1940s by John Dewey. The melting pot theory holds that, like metals melted together at great heat, the melting together of several cultures will produce a new compound, one that has great strength and other combined advantages. The melting pot theory is the idea that different cultures and ideas will blend together and create one ultimate culture or idea.

2.3 Empirical Review

Amahalu, Okoye and Obi (2018) studied the effect of board diversity on financial performance of quoted natural resources firms in Nigeria from 2008-2017. Ex-post facto research design was used for this study. Secondary data were sourced from the publications of Nigeria Stock Exchange. Inferential statistics of the hypotheses were carried out with the aid of E-view 9.0 statistical software using co-efficient of correlation and multivariate panel least square regression analysis. Findings of this study showed board diversity has a significant positive effect on Return on Assets and Tobin's Q and a significant negative effect on Returns on Equity.

Abdulrahman and Ibrahim (2022) examined the effect of economic performance on diversification. The study sampled 14 consumer goods firms in Nigeria between 2001 and 2019. The feasible generalized least squares regression was employed. The study found a significant and positive effect of on economic performance on income diversification.

Muammer (2022) examined the effect of product diversity on financial performance of quoted commercial banks in Nigeria from 2002 to 2020. Analysis of variance (ANOVA) was adopted for the test of hypothesis. It was that product diversification has no significant effect on return on assets of commercial banks in Nigeria. showed that the adoption of IFRS prevents manipulation of earning and leads to high quality accounting information and transparency after using logistic regression on 16 firms for pre-adoption and post- adoption analysis.

Agénor, Gambacorta, Kharroubi and Silva (2018) determined the effect of prudential regulation, financial development and financial openness on economic growth of 64 advanced and developing economies. Data was collected from World Bank development indicators database for the period 1990-2014. Panel regression was used to analyse the data. The findings showed that prudential policies affect growth; financial openness reduces the effect of growth benefit of the policies.

Randriamiarana (2015) analysed the general context of IFRS adoption in West Africa and its contribution to countries' economic development. The study employed explorative and qualitative design. Sample included the francophone countries in West Africa. Two-stage survey was also used.

The study found that shifting from other regulatory systems to IFRS was difficult, training was needed for effective implementation and that IFRS will contribute to the development of African countries.

Zaidi and Huerta (2014) assessed the impact of IFRS adoption on the economic growth of adopting countries taking into consideration the level of enforcement. Three years average GDP of the selected countries was used in the study with a sample of 5 adopting countries and 5 non-adopting countries. OLS and two-stage least square regression were used for analysis. It was found that the interaction between IFRS and enforcement is positive and significant. The findings also suggested that the level of enforcement positively moderates the impact of IFRS adoption on the economic growth rate of the country.

Jalilian, Kirkpatrick and Parker (2006) explored the impact of state regulation on economic growth of developing countries using an econometric model. Secondary data was sourced from World Bank regulation indicators and World Bank Development Indicators. Cross-sectional analysis of information from World Bank Development Indicators for 1980 – 1999 and fixed effect technique to the panel data were used for analysis. The findings suggest a strong causal link between regulatory quality and economic performance and that good reputation is associated with higher economic growth in lower –income economies.

As can be seen from the works mentioned above the effect on IFRS on the economic growth of the 54 signatories to the AfCFTA have not been fully explored. This work contributed to existing knowledge by examining the effect of financial reporting regulation on the economic growth of the signatories to the African continental free trade area.

3. MATERIAL AND METHOD

The study adopted the *ex post facto* research design. The population of study included the 54 countries that are signatories to the AfCFTA. However, all the countries that make up the population were used in the study except Sahrawi Arab Democratic Republic; this is because no data was found for the country. Secondary data were collected from the database of IFRS foundation, International Monetary Fund and other official documents for the period 2012-2021. This period was chosen because 2012 was the year Nigeria, which is the base country of the researchers, adopted IFRS and also due to the availability of 2012-2021 data at the time of carrying out this research.

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ISSN: 1118 – 6828
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The independent variable is the extent of IFRS adoption as obtained from the IFRS Foundation database. The study adapted the coding system used in Roekhudin (2020) and assigned codes according to the level of adoption of IFRS by a The research design employed in this study is the *ex-post facto* research design. The population of the study consisted of all the twelve (12) oil and gas companies listed on the Nigerian Stock Exchange as at 31st December, 2021. They include: 11 Plc (formerly Mobil Oil Plc); Anino International Plc; Capital Oil Plc; Conoil Plc; Eterna Plc; Ardova Plc (formerly Forte Oil Plc); Japaul Oil & Maritime Services; MRS Oil Nigeria Plc; Oando Plc; Rak Unity Petroleum Company Plc; Seplat Petroleum Development Company Plc; Total Nigeria Plc. Eleven (11) quoted Oil and Gas firms represented the sample size for this study. Data were gathered from the published financial statements of the eleven (11) sampled firms for a twelve (12) year period spanning from 2010-2021, using purposive sampling method; on the basis that the sampled firms are still actively trading on the floor of the Nigerian Exchange (NGX) Group as at 31/12/2021; the sampled firms consistently file their financial statements with NGX; the sampled firms annual reports and accounts are available for the period of interest (2010-2021). The panel data sets utilized in this study were secondary data which were sourced from the annual reports and statements of account of the sampled quoted oil and gas firms from 2010-2021.

Table 1 Operationalisation of Variables

Variable Type	Indicators	Variable Symbols	Measurement Methods	Authors
Independent Variable (Corporate Diversity)				
	National Diversity	NADIV	$\frac{\text{Number of foreign members on the Board of Directors}}{\text{Total Number of Board Members}}$	Yang & Wong, (2020)
	Ethnic Diversity	ETDIV	$\frac{\text{(Igbo, Yoruba and Hausa) Directors}}{\text{Total Board of Directors}}$	Chuah & Hooy, (2018)
	Age Diversity	AGDIV	$\frac{\text{(Number of Directors} \leq 50 \text{ years + Number of Directors} > 70 \text{ years)}}{\text{Total Number of Board Members}}$	Dagsson, & Larsson (2019)
Dependent Variable (Financial Performance)				
	Market Value Added	MVA	Market Value of Shares – Book Value of Shareholders' Equity	Amahalu Abiahu, Obi, & Nweze (2018)

3.1 Model Specification

The model of this study was adapted from the work of Okocha, Okoye. Amahalu & Obi (2022);

$$CVA = \beta_0 + \beta_1 GDIV + \beta_2 ETDIV + \beta_3 BDCOMP + \mu$$

Where:

CVA = Cash Value Added

GDIV = Gender diversity

BDCOMP = Board composition

Following the model of Ahmadu (2017), the model below will be adapted:

$MVA = \beta_0 + \beta_1 NADIV + \mu$ - - - - Model 1

$MVA = \beta_0 + \beta_2 ETDIV + \mu$ - - - - Model 2

$MVA = \beta_0 + \beta_3 AGDIV + \mu$ - - - - Model 3

Consequent upon the adapted model, the following multiple regression model were formulated:

$MVA_{it} = \beta_0 + \beta_1 NADIV_{it} + \beta_2 ETDIV_{it} + \beta_3 AGDIV + \mu_{it}$

Where:

β_0 = Constant term (intercept)

β_1- β_3 = Coefficients of Corporate Diversity

μ_{it} = Error term (Stochastic Term) of firm í in period t

MVA_{it} = Market Value Added of firm í in period t

$NADIV_{it}$ = National Diversity of firm í in period t

$ETDIV_{it}$ = Ethnic Diversity of firm í in period t

$AGDIV_{it}$ = Age Diversity of firm í in period t

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

Table 2: Pearson Correlation Matrix

	MVA	NADIV	ETDIV	AGDIV
MVA	1.0000			
NADIV	0.3940	1.0000		
ETDIV	0.3188	-0.3606	1.0000	
AGDIV	0.5246	0.2053	-0.2970	1.0000

Source: E-Views 10 Correlation Output, 2023

The Pearson Correlation Matrix in table 2 shows the existence of a positive relationship between NADIV, ETDIV, AGDIV and MVA as evidenced by the correlation coefficient factors of 0.3940, 0.3188 and 0.5246.

4.2 Test of Hypotheses

Table 3: Panel Least Square Regression analysis: Relationship between Corporate Diversity and Financial Performance

Dependent Variable: MVA
Method: Panel Least Squares
Date: 01/25/23 Time: 13:50
Sample: 2010 2021
Periods included: 12
Cross-sections included: 11
Total panel (balanced) observations: 132

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.329296	0.032315	10.19019	0.0000
NADIV	1.849415	0.149859	12.34105	0.0000
ETDIV	2.004632	0.263014	7.621775	0.0000
AGDIV	5.226703	0.451761	11.56963	0.0000

R-squared	0.695092	Mean dependent var	0.296634
Adjusted R-squared	0.687945	S.D. dependent var	0.166253
S.E. of regression	0.092872	Akaike info criterion	-1.885351
Sum squared resid	1.104030	Schwarz criterion	-1.797994
Log likelihood	128.4332	Hannan-Quinn criter.	-1.849853
F-statistic	97.26608	Durbin-Watson stat	1.781508
Prob(F-statistic)	0.000000		

Source: E-Views 10 Regression Output, 2023

The output of the panel regression analysis between corporate diversity and financial performance is expressed in Table 3:

$$MVA = 0.329296 + 1.849415NADIV + 2.004632ETDIV + 5.226703AGDIV + \mu_{it}$$

The model infers that a unit increase in NADIV, ETDIV and AGDIV will cause a corresponding increase of 1.849415 units, 2.004632 units and 5.226703 units in MVA of sampled firms. The model also shows that NADIV (β_1=1.849415); ETDIV (β_2=2.004632) and AGDIV (β_3=5.226703) demonstrates the existence of a positive relationship with MVA. The slope coefficients reveal that; P(x_1= 0.0000 < 0.05; x_2=0.0000 < 0.05; x_3=0.0000 < 0.05). The model delineate that at 95% confidence level, there is a significant and positive relationship between NADIV, ETDIV, AGDIV and MVA. The Durbin-Watson Value of 1.781508 buttressed the fact that the model does not contain serial-correlation, thereby, making the regression fit for prediction purpose. The adjusted R-Squared of 0.687945 shows that 68.79% of the systematic variation in MVA could be explained by NADIV, ETDIV and AGDIV, while the remaining 31.21% is explained by the error term as part of the MVA which is not interpreted by the regression model.

Decision

Considering the F-statistics of 97.26608 with the probability value = 0.000000 which is less than 5%, shows that a significant relationship exists between corporate diversity measures and financial performance Therefore, hypothesis H_1 is accepted while Ho is rejected.

In consonance with the analysis of this study, the following findings were deduced:

1. There is a significant and positive relationship between national diversity and market value added of quoted oil and gas firms in Nigeria at 5% level of significance (β_1 = 1.849415; p-value = 0.0000 < 0.05).
2. There is a significant and positive relationship between ethnic diversity and market value added of quoted oil and gas firms in Nigeria at 5% level of significance (β_2 = 2.004632; p-value = 0.0000 < 0.05).
3. There is a significant and positive relationship between age diversity and market value added of quoted oil and gas firms in Nigeria at 5% level of significance (β_3 = 5.226703; p-value = 0.0000 < 0.05).

CONCLUSION AND RECOMMENDATIONS

This study sought to examine the nexus between corporate diversity and financial performance of quoted oil and gas firms in Nigeria for a twelve (12) year period spanning from 2010-2021. Financial performance which is the dependent variable was measured using market value added, while national diversity, ethnic diversity and age diversity were the proxies used to measure the independent variable; corporate diversity. Panel data were obtained from annual reports and accounts of the sampled firms for the study period, using eleven (11) listed oil and gas firms in Nigeria. Panel multiple Regression analysis was employed via E-Views 10. The results of the tested hypotheses revealed that there is a significant and positive relationship between national diversity and market value added (β_1 = 1.849415; p-value = 0.0000 < 0.05); a significant and positive relationship between ethnic diversity and market value added (β_2 = 2.004632; p-value = 0.0000 < 0.05) and a significant and positive relationship between age diversity and market value added (β_3 = 5.226703; p-value = 0.0000 < 0.05) of quoted oil and gas firms in Nigeria at 5% level of significance. Conclusively, the study found a positive relationship between corporate diversity and financial performance of quoted oil and gas firms in Nigeria at 5% level of significance.

Based on the findings of this study, the following recommendations were made:

i. Since the more an organization is open to perspectives from people of different backgrounds, the more creative and resilient it becomes and that national diversity not only improves performance but also creates positive friction that enhances deliberation and upends conformity, it is thus suggested that companies should continuously embrace national diversity.

ii. Considering the positive relationship between ethnic diversity and financial , companies should continuously imbibe the ideology of ethnicity diversity, which will help dispel negative stereotypes and personal biases about different groups, boost problem-solving capabilities, increase happiness and productivity.

iii. Companies should endeavour to lend itself to improving the age diversity climate which can give businesses the potential to lower employee turnover and improve company performance.

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