Government ownership and cost efficiency of upstream oil and gas companies in Nigeria

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Abstract

The Government of Nigeria holds 60% in upstream oil and gas JVCs which operate alongside non-JVCs. Using a multivariate regression analysis based on a monthly panel dataset (1999–2007), we examined cost efficiency of both JVCs and non-JVCs with the aim of determining whether or not Government ownership in the JVCs has any significant and systematic effect on their cost efficiency. Findings of the study indicate that non-JVCs spend twice as much as the JVCs to produce a barrel of oil. Findings are in line with the assumption that agent performs differently based on his ownership right on asset and the level of control of principal over him; as such right/control influences agent's actions ex-ante. Therefore, findings of the study indicate that Government ownership in the upstream oil and gas companies mitigates the potentials for adverse selection and moral hazard issues that characterized the upstream oil and gas sector. Overall, findings indicate that Government ownership has a significant impact on cost efficiency of the upstream oil and gas companies operating in Nigeria. Hence, continued Government participation in upstream operations in Nigeria is considered to be the most important policy implication of our findings.

Keywords: Government ownership; cost efficiency; upstream oil and gas companies