Political Forces And Survival of The Oil Subsector in Nigeria [1990-2014]

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Abstract: This study is centered on political forces and survival of the oil subsector in Nigeria. The oil subsector in Nigeria are faced with challenges, some of which are associated with over regulation of business, terrorism, boko haram activities which threaten the oil subsector exceedingly, most of the laws regulating the oil subsector are at times controversial and less supportive to their operation, administrative control and legislative bottlenecks also impede on the performance of the oil subsector in Nigeria. The work specifically aims to determine the influence of legislation on the profitability of the oil subsector in Nigeria. The study adopts the Ordinary Least Square technique [OLS] method through the use of secondary data sourced from publications from the Central Bank of Nigeria, Statistical Bulletin, Annual Reports, Journals, Data from National Bureau of Statistics, Official publication of NNPC and Annual Reports of the oil companies in Nigeria. The findings showed that Legislation has a great influence on the profitability of the oil subsector in Nigeria. The study recommends that the government of the day should make the business organizations in the oil subsector to enjoy certain tax rebate as a result of prevailing economic condition under which they conduct their businesses to enhance their performance.

I. Introduction

Nigeria is the second largest economy in Africa [after South Africa] with a GDP on purchasing power parity of $418 billion and ranked 31st largest economy in the world [Madueke, 2013]. The commercial discovery of oil at Oloibiri in 1956 by Shell-BP effectively marked the beginning of petroleum operations in Nigeria (Ameh, 2006). Following shell’s success, by 1965, more International Oil Companies (IOCs) including Gulf oil, Texaco, Elf, Mobil and Agip were involved in petroleum exploration and production (E&P) operations in Nigeria. As such, the IOCs dominated the Nigerian oil industry for decades. The Nigerian economy has over time become largely dependent on petroleum. Petroleum accounts for about one-third of the country’s Gross Domestic Product (GDP); 76% of government revenue; and 95% of the foreign exchange earnings. Hence, the government has continued to exercise increasing control on the country’s petroleum operations with the latest being provided in the Petroleum Industry Bill (PIB). The PIB proposes a number of reforms in the petroleum industry. The current laws include the Petroleum Act of 1969; Petroleum Profit Tax Act of 1959; and Nigerian National Petroleum Corporation (NNPC) Act 1977 among other legislations (PIB, 2008).

Despite oil’s prominent role in national affairs, up to this time, the Nigerian federal government had only limited involvement in the oil industry. The companies were subsequently able to set their own price on the petroleum to such a point that laws governing the oil sector were having a negative effect on Nigerian interests, following the war with Biafra, the government felt it necessary to secure and gain more control over the oil industry with the creation of the NNOC which made government participation in the industry legally binding. Based on the foregoing, it is imperative to examine the general business environment with particular focus on the political environment as it relates to the survival strategies of the Nigerian Oil subsector which is the mainstay of the Nigerian economy. Business environment indeed, entail providing enabling conditions for effective, efficient and profitable enterprise development and it is the primary responsibility of government to provide this much needed environment. What constitute the macro-environment is the sum total of the regulatory, social-cultural, political, technological and economic environment within which business organization operates. Therefore, the oil sector which is the main driver of the Nigeria economy, contributing over 80 percent of federal government revenue and accounting for about 85 percent foreign exchange earnings [NNPC,2010] plays a vital role in the national development. The political environment consist of factors related to planning, promotion and regulation of economic activities by the government that have an impact on the business of organizations, which includes the constitutional framework, directive principles, division of legislative powers, policies relating to licensing, foreign investment, distribution and pricing and the oil subsector operates within this regulatory environment since government and politics are intertwined. Technically one cannot have one without the other because they complement each other. It is a known fact that government oversees the affairs of the people, including their business as long as the businesses are within its
domain or territory, political system of a society at every given time affects the structure of business operation in the society. The relationship between the oil industry and the political environment is such that the government lays down the policies, procedures and rules according to which the industry functions and the oil companies in turn adopts survival strategies in order to comply to the political environment and still break even. An in-depth analysis of the political environment reveals a plethora of regulatory policies which include but not restricted to: Hydrocarbon oil refineries ACT CAP H5 LFN 2004, Associated gas re-injection ACT CAP 20 LFN 2004, Oil pipeline ACT CAP 07 LFN 2004 and the Petroleum ACT, 2004 which remains the primary legislation on oil and gas activities in Nigeria. With these pieces of legislatures in place and the precarious state of the oil industry, some of the challenges becomes imperative. The Nigerian state is a victim of high level corruption, bad governance, political instability, cyclical legitimacy crisis, weak government commitment, harsh business policies which has left the challenge as a relative poverty. The multinational business managers in Nigeria operate in a dynamic political environment characterized by risks of multiple taxation, currency devaluation, inflation, repatriation, expropriation, confiscation, campaigns against foreign goods, mandatory labor benefit legislation, kidnapping, terrorism, and civil wars (Griffen, 2005). Actions taken by government such as regulatory, legal framework, and political changes may decrease business income and acts as barriers to foreign investment, Government interference has been identified as the most important reason for underperformance. Specifically SPDC of Nigeria, Chevron/Texaco Overseas Nig. Petroleum Company Unlimited, Total/Elf Petroleum Nigeria limited, Exxon Mobil Producing Nigeria Limited and Agip Energy &Natural Resources amongst others, are faced with challenges, some of which are associated with over regulation of business, terrorism, boko haram activities which threaten the oil subsector exceedingly. Most of the laws regulating the oil subsector are at times controversial and less supportive to their operation, Administrative control and legislative bottlenecks also impedes on the survival and performance of the oil subsector in Nigeria. A critical assessment of the fiscal policy reveals that both the Joint Venture agreements [JV] and the Production Sharing Contracts [PSCs] are subject to petroleum profit tax, this poses burden on the oil companies [Gboyega,2011]. Royalties are neither linked to the price of oil nor to the rates of return on profits, thereby energizing challenges to the survival of the Nigerian oil sector [Shukla,2011]. Furthermore, a careful review of the Environmental Impact Assessment ACT shows that the objective have not been achieved as attested to by Ako [2010] he opines that the objective of the Associated gas re-injection ACT is to deal with gas flaring activities of oil companies and with the deadline of gas flaring, it thereby increases the payment to the federal government with the host communities suffering from the hazards of gas flaring while the federal government profits from it. Based on the forgoing, it is obvious that these legislatures cannot cater for the requirement of a contemporary Nigerian oil and gas industry and while the existing tax laws suffers from several overlaps and some of the provisions have become inconsistent and lack the capacity required to create the requisite business competitive environment needed to stimulate and attract investment in the oil sector. Therefore, this study focuses on determining the influence of political forces on the survival of the oil sector in Nigeria. The broad objective of the study is to ascertain the influence of political forces on the survival of the oil subsector in Nigeria, while the specific objective is: To determine the influence of Legislation on the profitability of the oil subsector in Nigeria.

Research Question
How does Legislation influence the profitability of the oil subsector in Nigeria?

Hypothesis

$H_0$: Legislation has a positive significant influence on the profitability of the oil subsector in Nigeria.

II. Review Of Related Literature

Political Forces

The term Political Forces according to the Business Dictionary are made up of the political parties, personalities, legislations, pressure groups that strongly influence the economic and political stability of a country through their actions and pronouncement. Shawn Grimsey [2001] defined political forces as a type of external constraint acting upon a business which are related to actions of governments and political conditions in the location where the business conducts business or seeks to conduct business, which implies that the political forces that affect a business are often completely out of the company’s control which may be inform of war outbreak, legislation and regulations which can force businesses to act in a certain manner, like the federal minimum wage law and occupational health and safety laws, environmental laws and regulations that limit the amount of pollution a business can generate at its factories.

A number of expert opinion have been expressed with regards to the political environment of the oil and gas subsector. Etim, [2012] stated that the principal Nigerian Law is the Constitution, while the primary piece of Legislation regulating the exploration, production and distribution of petroleum and its derivative
products is the Petroleum Act. The Constitution and the Petroleum Act vest in the Federal government the entire ownership and control of petroleum resources in Nigeria. The right to the exploration and production of petroleum are granted by the Federal Government through the issuance of Oil Exploration Licenses {OELs}, Oil Prospecting Licenses {OPLs} AND Oil Mining Lease {OMLs}. It is relevant to stress that the National Oil Contingency Plan {NOCP} was designed to reduce the negative impact of oil spills in the country and a step to curtail and monitor any immediate clean-ups of affected environment by crude oil in Nigeria, particularly when it involves a third party or landowner. Similarly, the Oil Spills Contingency Plans {OSCP} mandated all oil companies in the Niger Delta to design, craft, implement and maintain adequate plans that would ensure minor and medium clean-ups of spills, while major oil spills should be promptly reported to the Federal Environmental Protection Agency {FEPA} or DPR, the DPR on its part has charged the operating companies in Nigeria to respond and commence spills clean up within 24 hours of the incident {DPR, 2002}

Ayodele [2012] stated that there are a number of laws, statutory instruments and policies that may also apply to companies that engage in oil and gas operation, these include: Companies and allied matters Act, Nigeria investment promotion commission Act, Pension reform Act, the Pre-shipment inspection of export Act, the Custom and exercise tariff Act, the Harmful waste Act and the Personal income tax Act. But a detailed examination of the various status and the framework for Environmental Impact Assessment {EIA} process in particular and the entire political and regulatory environment reveals that many of the status are very much at variance with the intentions as they affect the execution of functions, there is duplication of functions and overlapping responsibilities in the process and procedures guiding the execution of the various impact assessment tasks. It should also be noted that despite the existence of the various petroleum legislations in Nigeria since the 1990s, the crave of power and resource control at the central government level had to a large extent made the oil producing states to be held in ransom, {HRW,1999} because oil power lies within few hands. The result is a waste in resources financially and materially by International Oil Companies. {IOCs}.

Political Forces And Business Survival

There are many external environmental forces that affect global business survival in Nigeria, they are: Political, Economic, Social and Technological {PEST}. But the Political Forces are often given a lot of attention, because firms must follow the law and find out how upcoming Legislators can affect their activities, which may be inform of Bureaucracy, Trade control, Competition regulation, Tariffs, Health and safety laws, Environmental law, Government stability and related changes, Legislation which is the variable used in this study, is the law which has been enacted by the governing body which is used to regulate, to authorize, to sanction, to grant, to declare or to restrict. How political power is exercised determines whether government action threatens a firm's value. For example, a dramatic political event may pose little risk to a multinational enterprise, while subtle policy changes can greatly impact a firm's performance. Business Survival (BS) on the other hand is described as the operation of business on-going concern {Akindele 2012}, it has been a source of influence to the actions taking by firms and the degree to which a business realizes its goals as well as its stated objectives through the strategies and policies of the business {Folan & Browne, 2005}. It also encompasses a loosely defined set of planning, preparatory and related activities which are intended to ensure that an organization’s critical business functions will continue to operate despite serious political forces inform of Legislations that might otherwise have interrupted them without affecting their performance. Government could alter their rules and regulations which could in turn affect business survival, thus lack of political stability in a country affects business operations especially for companies which operate internationally like the Oil subsector, for instance, an aggressive takeover could overthrow a government and lead to riots, kidnappings, terrorists threats, looting, destruction of property, lower productivity, inflation, repatriation, expropriation, confiscation, currency devaluations, increased taxation and general disorder in the environment, which disrupts business operations and so International companies usually buys Political Risk Insurance to manage and mitigate their political risk exposure. Hence, Political Forces influences business performance by either adding a risk factor which will lead to a major loss or reduce the desirability of their investment by reducing its anticipated returns.

Legislations On The Oil Subsector In Nigeria

In the 1960’s government interest in the oil industry was limited to the collection of taxes, royalties and lease rentals. In 1962, the resolution on permanent sovereignty over natural resources was adopted by a majority of the General Assembly of the UN. In this spirit, in 1969, the Petroleum Act was enacted, which vested the entire ownership and control of all petroleum in, under or upon all land, to the Nigerian government. The Federal government participate in the oil industry through the NNPC which was formed in 1977, which inherited the commercial activities of the NNOC and the supervisory and regulatory role of the Federal Ministry of Petroleum resources.
Recently on the regulatory environment, there is no consensus among operators on the impact the draft Petroleum Industry Bill [PIB]- which proposes changes to the tax regime, royalty structure and onshore operations, will have on their business. While international oil companies with deep water assets are more concerned about the regulatory and fiscal provisions, others with more significant onshore believe the law will have adverse effect on current and future earnings as a result of reduced incentives, higher taxes and community development levies. There are some non-fiscal issues that have been identified by the operators that require more attention from the lawmakers to ensure the viability of the oil subsector, which includes the terms of the licenses and leases, provisions relating to the incorporated joint venture arrangements, discretionary powers of the minister of petroleum resources, dispute resolution framework, measurement point, domestic gas supply obligations and the roles of the National Oil Company. There is a call that the version eventually passed into law is balanced and fair to all stakeholders. It is not expected that the PIB will be passed into law before the expiration of the term of the current National Assembly in May 2015. The role of Legislation in inducing responsible attitudes and behavior in the oil subsector cannot be overlooked as it serves as an effective instrument for environmental protection, planning, pollution prevention and control. The following provides a summary of Nigerian Legislation on the oil subsector:

- Mineral Oil Act, 1914
- Petroleum Law 1955
- Oil Pipeline Act 1958
- Oil In Navigable Waters Decree 1968
- Oil In Navigable Waters Regulation 1968
- Petroleum Act 1969; Section 1
- Petroleum [Drilling And Production] Regulations 1973
- The Petroleum Act Regulations 1974
- The Association Gas Re-Injection Decree,1979
- The Federal Environmental Protection Agency Decree 1988 [Now Fepa Act, Cap 13 Lfn, 1990 As Amended]
- Oil In Navigable Water Act, Cap 337 Lfn, 1990
- Environmental Standards And Guidelines For The Petroleum Industry In Nigeria, 1991
- Petroleum [Amendment] Decree 1996
- Petroleum Act, Cap P10, Lfn 2004; Sections 9 {1} {B}, 17 {1} {B}, 23, 25, 27, 43 And 45.
- Hydrocarbon Oil Refineries Act, Cap H5, Lfn 2004; Sections 1 And 9
- Oil In Navigable Waters Act, Cap 06, Lfn 2004; Sections 1 {1}, 3, 6 And 7
- Associated Gas Re- Injection Act, Cap 20, Lfn 2004; Sections 3 {1}, And 4
- Oil Pipelines Act, Cap 07, Lfn 2004; Sections 11 {5} And 17{4}
- Oil Pipelines Regulations {Under Oil Pipelines Act}; Sections 9 {1} {B} And 26
- Petroleum Products And Distribution Act, Cap P12, Lfn 2004
- Environmental Impact Assessment[Eia] Act, Cap E12, Lfn 2004; Sections 2 {1}, 2 {4}, 13 And 60
- Harmful Waste [Special Criminal Provisions] Act Cap H1, Lfn 2004; Sections 6, 7 And 12
- National Environmental Standards And Regulationenforcement Agency [Nesrea] Act 2007; Sections 7, 8 {1} {K} And 27
- National Environment Protection Regulations 1991; Sections 1, 4 And 5
- Niger Delta Development Commission [Nddc] Act, Cap N68, Lfn 2004; Section 7 {1} {B}

Theoretical Framework

This study is anchored on Organizational Theory of Jeffery Pfeffer and Salancik (1978), which states that the organization’s environment can be defined as a set of external “events in the world which has an effect on the activities or outcomes of the organization”. As a contribution towards understanding the organization’s environment, Scott (1998) argued that the environment can be classified either by the levels at which it is composed or by the nature of the relationships linking the organization with its environment. In this process, organizations need to acquire and maintain resources in order to keep their operative process running (Oliver,1997). They also have to seek support and legitimacy for their activities and goals (Oliver, 1997; Pfeffer & Salancik, 1978). The whole process of gathering resources and achieving legitimacy happens because an organization does not exist in a vacuum (Child, 1976), nor is it able to survive by itself (Pfeffer, 1982). Organizations have to negotiate all the time with external agents for resources of all kind (Scott,1998). This
process leads organizations to seek links and relationships with the external environment in order to survive (Hannah & Freeman, 1978) Thus, Jeffery Péffer’s and Salacik Organizational theory {1978} provides an interdisciplinary focus on the effect of social organization on the behaviors and attitudes within them, the performance, success and survival of organizations, the mutual effects of the environment, including resource and task, political and cultural environments on organizations.

**Empirical Review**

Most literature tends to focus on studying the effects of political risk on FDI in developing and emerging markets. It is largely because first, industrialized countries are deemed to be politically stable and immune to radical political changes and violence, and, second, political risks should affect the investment decisions of MNCs more when they consider investing in developing nations with high political risk and low credibility (Janeba, 2002; Jensen, 2003b, 2008). FDI and Political Risk shows, there is a stronger relationship between political stability (i.e., low risk) and the amount of FDI flowing into emerging, developing nations. Baum et al. (2008) are of the view that the support of parliamentarians is extremely important for firms’ minimization of transaction costs associated with government bureaucracy in their study on politics and business expansion.

Ibidunni, O.S. & Ogundele, O.J.K. (2013) conducted a study on Survival Yardstick for Small and Medium Enterprises in Nigeria and it was discovered that many organization who are just emerging suffered a great deal as a result of political instability and power sharing problem.

Faccio et al. (2006) provide empirical evidence that politically-connected firms are more likely to be rescued from financial turmoil than their non-connected peers. Furthermore, connections to legislative power enhance firms’ probability of winning tenders for participation in privatization processes or for handling the transactions of state institutions. All these should play out to enhance the profitability of the politically affiliated firm. In a related work by Adeoye (2012), it was stated that in the manufacturing industry, environmental changes are continuously exerting new pressures on company performance and to respond to these changes, some companies within the apparel industry have formulated and implemented strategies to reorganize and reform the way products are manufactured and distributed to final consumers.

Levine and Renelt (1992) carried out a research on The Impact of politics in Business, they used a dynamic panel approach based on Blundell and Bond (1998) to assess the relationship between political instability, institutions, and economic growth, due to the limitations of cross country growth regressions, among a number of points made, find that among 24 countries that experienced a democratic transition, half found their average growth rate fell in the following ten years (and about a third experienced negative growth). The heterogeneity in countries’ growth experiences implies that something is missing from their analyses. The focus of most studies on formal political institutions ignores the full range of both formal and informal institutions that operate in most countries and their importance for determining whether political instability positively or negatively impacts growth. For both theoretical and empirical reasons their study has a Gap in knowledge.

In a study for the World Bank, Stone, Levy and Paredes (1992) tried to discover the main obstacles to private business development in Brazil and Chile. The research was based on interviews with forty-two clothing firms of different sizes in each country. The entrepreneurs were confronted with a list of twenty possible problems about doing business, and they were asked to assign the relative importance to each of these areas. The list included most major problems, ranging from inflation and high taxes to political uncertainty and lack of access to credit. As different as the results for the two countries were, there was one area of clear agreement: in both countries the entrepreneurs considered political and policy uncertainty a very serious problem for doing business. In Brazil, it was cited as the most important and in Chile as the second most important of the twenty obstacles to private-sector development.

Borner, Brunetti and Weder (1995) reported on a survey of private firms in Nicaragua that aimed at unearthing the reasons for this reluctance of multinational firms to invest. The result was clear. The main obstacle, in the eyes of the potential investor, was the fear of unpredictable changes in important aspects of the institutional framework. Of the fifty firms surveyed, 72 per cent reported that they lived in constant fear of unpredictable changes in important aspects of the institutional framework. All these should play out to enhance the profitability of the politically affiliated firm.

Ako, [2010] writing on the fundamental role that the Nigeria oil and gas industry’s regulatory framework plays in contributing to social injustice: The paper constructed a theoretical environmental injustice paradigm based essentially on Rawl’s conception of justice to examine specific legal provisions that regulates the allocation of oil revenues, landholding and environmental protection in Nigeria. The study submitted that the Federal government should redress the injustice that the regulatory framework perpetuates for a successful implementation of its amnesty program and that long term peace is dependent on the political environment.
Okoli, [2004] stated that the oil industry have created serious health and environmental problems for the country and the regulatory policy put in place to ameliorate this problems have not been efficiently implemented. Wumi, [2008] who’s study was on Oil industry institutional restructuring in Nigeria: emphasizes that petroleum revenue must be used to develop durable infrastructure and human capital that benefit and advance society for generation to come through an effective regulatory framework.

III. Research Methods

The diagnostic survey research design was adopted for the study. The study is focused on the political forces as it relates to the survival of the oil subsector with a particular reference on Legislation [Petroleum profit tax] and how it influences the performance of oil companies in Nigeria for the period of 25years {1990 -2014}. The data for this work were predominantly Secondary, publications from the Central Bank of Nigeria Statistical Bulletin and Annual Reports, Journals and data from National Bureau of Statistics, official publication of NNPC and Annual Reports of the oil companies in Nigeria.

IV. Data Analysis

The Ordinary Least Square [OLS] Regression Method was adopted in analyzing the statistical tool which seeks to establish the strength or degree of association between the dependent and independent variables.

4.2 Model Specification

Objective

To determine the influence of Legislation on the profitability of the oil subsector in Nigeria with particular reference to Petroleum Profit Tax

LEGs= [INDP, GDP, EXP, IMP, BOP, EXCH]…..et……………………………..i

The model is restated in econometric form as shown below

LEGs= ao+a1LINDP+a2LGDP+a3LEXP+a4LIMP+a5BOP+a6EXCH+et………..ii

Where:

LLEGs = log of Legislations
LINDP= log of Industrial Production
LGDP = log of Gross Domestic Product
LEXP = log of Export of Crude Oil
LIMP = log of Import of Petroleum Product
LBOP = log of Balance of Payment
LEXCH = log of Exchange rate
ao = Constant term
a1 = Coefficient intercept / parameter estimates
et = Error term

Method of Estimation = Ordinary Least Square
Dependent variable: LLEGs
Current sample: 1990-2014

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The regression equation shows that
\[
\text{LEGs} = 4.35E+09 - 361266281\text{INDP} + 213.5424\text{GDP} + 37.01455\text{EXP} + 40.79482\text{IMP} - 0.010652\text{BOP} + 18433383\text{EXCH}
\]
Legislation is regressed on Industrial Production, Gross Domestic Product, Export, Import, Balance of Payment and Exchange Rate.

Model is significant at 0.05 percent. The estimated coefficient of the constant term is 435E+09 and is statistically significant at 0.03 percent. The coefficient of industrial production carries a negative sign and is statistically not significant at 0.6 percent. This implies that LEGs has not affected the rate of industrial production in Nigeria.

The coefficient of GDP carries a positive sign and is statistically significant at 0.04 percent. This implies that LEGs contributed to the growth of GDP in Nigeria. The coefficient of export carries a positive sign and is statistically significant at 0.03 percent. This signifies that LEGs contributed to the rise in the export of petroleum product in Nigeria. The coefficient of import carries a positive sign and is statistically not significant at 0.08 percent. This implies that LEGs did not affect the rate of importation of petroleum product in the country. The coefficient of balance of payment carries a positive sign and is statistically not significant at 0.9 per cent. This implies that LEGs did not affect the rate of Balance of payment in Nigeria.

The coefficient of exchange rate carries a positive sign and is statistically not significant at 0.17 percent. This implies that LEGs did not affect the Rate of Exchange in Nigeria.

The coefficient R-Square\((R^2)\) is 73 percent indicating a high casual relationship between the dependent and independent variable. Adjusted R\(^2\) is 61 percent showing that all the variables are correlated.

The value of Durben –Watson statistics (1.237360) is greater than the R\(^2\) (0.734735). This means that there is no case for auto-correlation in the model and the result is respectable.

5.1 Summary Of Findings Conclusion And Recommendations

The main objective of this study is to ascertain the influence of political forces on the survival of the oil sub sector in Nigeria. Ordinary Least Square was adopted for the study. Among the findings, GDP, Export, Import and Exchange Rate were on the increases while Industrial Production and Balance of Payment were on the decrease. The result of our analysis shows that Legislation in reference to petroleum profit tax has a significant influence on business survival of oil companies in Nigeria. This implies that the political environment has a significant influence on business survival of the oil subsector in Nigeria, in line with the stand of Alexander (2000) in his work on business environmental factor, survival and performance. It is however crystal clear that all these factors identified were found to be challenges to the survival and growth of the oil subsector and where adequate attentions are not paid to these factors, it would definitely impede the survival of the business organizations thus making the growth impossible and where it is possible to be at snail pace.

VI. Conclusion

The above analysis of the influence of Legislation in reference to Petroleum profit tax is intended to review for oil and gas companies. Political forces is a broad concept that is intended to encompass the "non-commercial" landscape of international oil and gas ventures which encompasses unilateral imposition of new taxes and royalties, imposition of export controls or withdrawing licenses for export or import, exchange control restrictions and other factors that reduce or destroy the value of the international oil and gas venture. A comprehensive Legislation will compel the operators in the industry to make oil companies comply by adopting appropriate production method and invest appropriately towards the safety of the environment. The oil company itself must judge the influence of Legislation, determine the parameters for deciding on it, in the final analysis, it shows that Petroleum profit tax influences the performance of the oil subsector in Nigeria.

5.3 Recommendations

Based on the above, the study suggests that the:

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1. Nigerian government should avoid frequent changes in government policies and programs, and ensure stability of democratic institutions and political integration. These are necessary to make the political terrain stable and out of violence for business growth and development.

2. That the government of the day should endeavor to create an enabling environment that would be truly conducive for business organizations to thrive without engaging in any act of fraudulent practices and also compatible with the requirement of human and organizational survival.

3. That the government of the day should make the business organizations in the oil subsector sector to enjoy certain tax rebate as a result of prevailing economic condition under which they conduct their businesses.

4. In order to attract investment to the petroleum sector and enhance profitability, the laws, regulations and policy governing the industry should be clear, complete, transparent, accessible, flexible and practical.

5. To protect themselves from changes in international environment, firms should continually monitor the political situations in the countries in which they operate by consulting with local staff, embassy officials, and Legislations. The monitoring system should be built up on some political risks indicators and determinants.

6. A consultative process should be institutionalized to ensure periodic dialogue with operators to ensure that regulators are technically feasible and cost effective legal processes must be quick and remedies efficient and effective.

References


