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Effect of Agency Costs on Financial Performance of Listed Companies in Nigeria

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ABSTRACT

This study investigated the effect of agency costs proxied by monitoring costs, bonding costs, and residual loss on financial performance as well as a comparative examination of listed financial and non-financial companies in Nigeria, using the ex-post facto research design. The study used a sample of 10 financial and 10 non-financial companies from a population of 157companies listed on the NGX from 2011 to 2020 using the filtering and random methods. Data were sourced from annual reports of the sampled companies and MachameRatios. Panel regression estimate was used for data analysis and findings show that monitoring costs and residual loss exert a significant positive effect, while bonding cost insignificantly and adversely affect the financial performance of listed financial companies, of listed financial companies in Nigeria. These results support the agency theory which calls for close monitoring of entrenched managers. The study further established that while significant differences exists in the effect of monitoring costs and residual loss on financial performance, a non-significant difference exist in the effect of bonding cost on financial performance of listed financial and non-financial companies in Nigeria. The study, therefore, recommended that companies in the financial sector should prioritize agency cost in the form of monitoring cost and residual loss as they exert significant effect on financial performance. The study also recommended that companies in the non-financial sector should prioritize agency cost in the form of bonding cost as it exerts significant influence on financial performance in the companies.

Keywords: Agency Costs, Monitoring Costs, Bonding Costs, Residual Loss, Financial Performance, Listed Companies, Nigeria

1.0 Introduction

After the start of the industrial revolution in the nineteenth century and the development of joint stock corporations, there were many investors that had no direct role or involvement in the management of their organizations. However, their only involvement was through the selection of the board of directors (BOD) that was saddled with an oversight function of the business units. The day-to-day management of the joint stock companies was

entrusted into the hands of the management team that was separated from the owners. This gave birth to the principal (owner)-agent (management) relationship.

Jensen and Meckling (1976) conjectured that the agency relationship is a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent. Jensen & Meckling, 1976), Asserted that if both parties to the relationship are utility maximizers, there is a good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent. In addition, it will pay the agent to expend resources (bonding costs) to guarantee that he will not take certain actions which would harm the principal or to ensure that the principal will be compensated if he does take such actions. However, it is generally impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint.

Since the relationship between the stockholders and managers of a corporation fit the definition of a pure agency relationship, it is obvious that the issues associated with the separation of ownership and control in the modern diffuse ownership corporation are intimately associated with the general problem of agency. In a nut shell, agency costs result when the principal uses a combination of incentives, punishment, bonding and managerial processes to monitor the actions of their agents; so as to minimize the chances that the agents will pursue their own interest rather than those of the principal (Chrisman, Chua & Litz, 2004).

Extant literature has provided evidence that agency costs have a potential to influence firm performance; thus, can be regarded to be a determinant of firms' financial performance other than the generally referred to firm-specific attributes in the literature. Therefore, the divergence of interests between managers and shareholders and associated agency costs are assumed to be detrimental to the firm leading to lower financial performance (Gürbüz, Aybar & Yeşilyurt, 2016).

The theoretical perspective has also supported that relationship between agency costs and financial performance. According to agency theory, without the incurrence of agency costs, agents who are not owners and, therefore, neither bear the full costs nor reap the full benefits of their actions would not act in the best interest of the principals. They would be less committed, repetitively shirk and engage in the consumption of perks (Ross, 1973; Jensen & Meckling, 1976). The resultant effect would be poor long term financial performance. Similarly, the processes, systems, structures and resources expended by the principals in order to monitor and align their interest with those of the agent result in expenses which lower the net income of the firm. The view of the agency theory is however, criticized by the stewardship theory by providing an argument that managers as agents are good stewards and will always act in the best interest of the organization even without been monitored. Therefore, monitoring costs are irrelevant and will only lower the financial performance of the organization. The transaction cost theory further, concords with the agency theory but from a different view where the theory postulates that managers, as agents, if not well supervised and monitored will pursue their individual interest which may be at the expense of the financial performance of the firm.

This study, therefore, seeks to examine the effect of agency costs on financial performance of both financial and non-financial firms listed on the Nigerian Exchange Group. This study is motivated by the dearth of assessment and comparative studies on the effect of agency costs on financial performance of listed firms in the financial and non-

financial sectors of the Nigerian Exchange Group. The study is also motivated by the paucity of studies on the choice of the three categories of agency costs measurement posited by Jensen and Meckling (1976) in the agency theory, namely, monitoring costs, bonding costs and residual loss.

The specific objectives of the study are categorized into three group. The first group (Objectives 1-3) seeks to examine the effect of monitoring cost, bonding, costs, and residual loss on the financial performance of listed financial companies in Nigeria. The second group (Objectives 4-6) seeks to ascertain the effect of monitoring cost, bonding, costs, and residual loss on the financial performance of listed non-financial companies in Nigeria. The third group (Objectives 7-9) seeks to find out whether significant differences exist on the effect of monitoring cost, bonding, costs, and residual loss on the financial performance of listed financial and non-financial companies in Nigeria. These objectives are presented below.

i. Examine the effect of monitoring costs on financial performance of listed financial companies in Nigeria.
ii. Examine the effect of bonding costs on financial performance of listed financial companies in Nigeria.
iii. Examine the effect of residual loss on financial performance of listed financial companies in Nigeria.
iv. Examine the effect of monitoring costs on financial performance of listed non-financial companies in Nigeria.
v. Examine the effect of bonding costs on financial performance of listed non-financial companies in Nigeria.
vi. Examine the effect of residual loss on financial performance of listed non-financial companies in Nigeria.
vii. To ascertain whether significant difference exists in the effect of monitoring costs on financial performance of listed companies on the financial and non-financial sectors of the Nigerian Exchange Group.
viii. To ascertain whether significant difference exists in the effect of bonding costs on financial performance of listed companies on the financial and non-financial sectors of the Nigerian Exchange Group.
ix. To ascertain whether significant difference exists in the effect of residual loss on financial performance of listed companies on the financial and non-financial sectors of the Nigerian Exchange Group.

The paper is organized into five sections including this introduction as section one. A review of the conceptual, theoretical and empirical literature is carried out in section two. The hypotheses tested in this study are also presented in this section. The methodology used in the paper is presented in section three, while section four presents the results and discussions. Section five concludes the paper with a summary, conclusions, and recommendations.

2.0 Literature Review

This section presents the relevant concepts to the phenomenon of interest in order to give an insight into the study. These concepts include; agency costs and financial performance. It also reviewed the relevant empirical studies as well as theoretical backing for the study.

2.1 Agency costs

Jensen and Meckling (1976) defined agency costs as the sum of: (i) the monitoring expenditures by the principal; (ii) the bonding expenditures by the agent; and (iii) the residual loss. Jensen and Meckling (1976) and Bortych (2017) argued that it is expected in the agency relationship that the agent will not always act in the best interest of the principal. In order to limit the agent's divergences from the principal's interest, the principal puts checks and balances which are referred to as monitoring costs (Bortych, 2017). Some of the monitoring costs include, staffing costs, budget control costs, auditing costs, compensation costs (cash & equity), additional layers of management costs, directorship costs, indenture costs and contract enforcement costs among others.

The bonding costs are costs incurred that are beyond the perking remuneration of the agents with the aim of discouraging the agents from acting in his own best interest rather than that of the principal or organization. Such costs include, advertising expenditures, license fees, asset utilization costs, managerial ownership, travel and vehicle expenses, maintenance and repair costs, attorney fees and legal fees, utilities, such as telephone.

As articulated by Abdulrahman (2014), residual loss as a category of agency costs are the losses incurred by the organization after incurring both monitoring and bonding costs to align the interest of the agent with that of the principal. Costs such as expanded workforce, high debt ratio, wasteful expenses, higher interest expense, higher equity costs, represent cases of residual costs. Agency costs' main function is the mitigation on the impacts of agency problems.

2.2 Financial performance

Financial performance is a subjective measure of how well an organization uses its assets from its primary mode of business to generate revenues. The term is also used as a general measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. Similarly, Kyazze, Nsereko and Nkote (2020) opined that financial performance is a practice of measuring effectiveness and efficiency of an action. The commonly used measures of financial performance in extant literature include, but not limited to, Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), Earnings before Interest and Taxes (EBIT), Return on Investment (ROI), and Return on Capital Employed (ROCE).

2.3 Theoretical Framework

This sub-section outlines the agency theory, free cash flow theory, and transaction costs theory.

2.3.1 Agency theory

Agency theory was advanced by Jensen and Mecklings (1976). The theory explains the contractual relationship between the principal and agent where the principal contracts the agent to act on his behalf (Eisenhardt, 1989). Jensen and Meckling (1976) asserted that where the principal and the agent are both utility maximizers, the most probable occurrence is that the agent will not always act in the best interests of the principal. If both parties had the same interests, there would be no conflict of interests and no agency problem (Jensen & Meckling, 1976).

Nur (2014) posited that there is a high probability of conflict of interest between the principal and agent because the agent may not always seek to maximize shareholders wealth because of separation of ownership and control in a modern corporation. Smith

(1976) explained the agency conflict as when professionals are employed to manage the businesses of other people and would not put as much effort in the management of such companies as the actual owners would; but would instead, be less keen, negligent and profuse.

Two broad ways in which agency conflicts can be mitigated have been identified in the literature. First, the principal monitoring agent's behaviour to ensure that the agent actually behaves as stipulated in the contract and comparing actual performance of the agent as measured by the outcome relative to expectations (metering). The principal cannot monitor the agent's behaviour or meter his performance without the incurrence of costs which gives rise to agency costs (Sharma et al, 2001). As articulated by Wanyonyi (2018), Khalid and Rehman (2014), posits that monitoring or metering the actions of agents include but not limited to the appointment of independent directors, engagement of auditors.

The second way is by allowing managers have a stake in the firm they manage. The agency theory argued that agency costs may be reduced if insiders (managers, directors, and other executive officers) increase their ownership in the firm, because this can help to align the interests of both managers and shareholders (Jensen & Meckling, 1976). According to the agency theory, managerial ownership is a bonding mechanism which aligns the interest of managers with those of the principal thereby, maximizing performance.

2.3.2 Free cash flow theory

Jensen (1986) developed the free cash flow hypothesis. Free cash flow is defined by Jensen (1986) as the cash flow in excess of the cash that is needed to invest in all positive NPV projects. The free cash flow hypothesis assumes that managers with access to free cash will invest it in negative NPV projects instead of paying it out to shareholders as dividends. The free cash flow theory posits that high free cash flow increases assets dis-utilization and may demonstrate below optimal level performance.

Free cash flow may result in an increase or a decrease in firm performance/value depending on its utilization (McCabe & Yook, 1997). Effective asset utilization would increase the firm performance/value, whereas ineffective assets utilization would decrease the firm value.

The free cash flow theory is related to this study in the sense that the theory regards the free cash flow as a category of agency costs (residual loss) which if not properly managed, will result to assets dis-utilization which will affect financial performance.

2.3.3 Transaction cost theory

The transaction cost concept was formally proposed by Ronald Coase in 1937 to explain the existence of firms. He theorized that transactions via market mechanisms incur cost, particularly the costs of searching for exchange partners and making and enforcing contracts. According to the theory, managers are seen as opportunists who arrange firms' transactions in their own interests (Williamson, 1979).

The theory suggests that each type of transaction produces coordination costs of monitoring, controlling, and managing transactions.

The implication of this theory is that if transactions of managers as agents are not supervised or monitored, the managers may prefer to pursue their own interest or venture into projects which may not necessarily result to improved financial performance of the organization. Thus, according to this theory, agency costs are necessary to align manager's

interests with that of the principal which is aimed at improving firm's financial performance.

2.4 Empirical Review

Alkurdi, Hamad, Tneibat and Almarzouky (2021) examined the impact of ownership structure and agency cost on firm performance in Jordan. The study population comprised of all 180 Jordanian companies and the study sample was 61 Jordanian first market firms listed on the Amman Stock Exchange for 7 years from 2012 to 2018. The study measured agency costs using bonding cost (managerial ownership). The study employed the fixed effect regression model for analysis. The result of the study found that bonding cost shave significant negative effect on financial Performance. Okewale et al. (2020) examined the relationship between agency cost and firm performance on 18 food and beverage quoted firms on the Nigerian Exchange Group for a period of 9 years (2010-2018). The study measured agency costs using bonding costs (managerial ownership). Data collected were analyzed using fixed effect regression model with the aid of STATA 10. The result of the study showed that bonding costs have insignificant positive effect on financial performance.

Hermuningsih, Kusuma, Fasa and Panjaitan (2020) examined the relationship between agency cost and performance of firms registered on the Indonesia Ordinary Interchange. The study sample comprised of 14 listed companies from the food and beverages buyer sub-sector for a period of 5 years from 2014-2018. The study measured agency costs using bonding cost (managerial ownership). The study employed the multiple linear regression and moderated regression analysis. The result of the study found that bonding costs have significant positive effect on financial Performance. Ahmed et al. (2020) examined the relationship between agency cost and firm performance. Data for the study were generated from annual reports and accounts of 19 insurance companies out of a population of 28 listed Insurance companies on the Nigerian Exchange Group from year 2012 to 2017. Data were analyzed using panel regression model. The results of the study showed that monitoring costs are positively and significantly related to financial performance.

Serem et al. (2020) conducted a study on the effect of agency costs on financial performance of Deposit Taking SACCOS in North RIFT, Kenya. The study measured agency costs using monitoring costs (audit fees). The study used primary data from a population of 266 staff of all the 16 registered Deposit-Taking SACCOs in North Rift Region, Kenya. The study sample was 48 respondents comprising of chief executive officers, finance officers and internal auditors of the Deposit-Taking SACCOs selected using purposive sampling method. The study employed the simple linear regression as analytical technique and the results revealed that monitoring costs (audit fees) have significant positive influence on financial performance of Deposit-Taking SACCOs in North Rift Region in Kenya. Nuhu et al. (2020) examined the impact of agency costs on financial performance of listed consumer goods companies in Nigeria. The study employed the ex-post facto and descriptive research design and the study period covered ten years from year 2007-2016. The study proxied agency costs using residual loss. The study employed the Pearwise correlation and Panel regression technique of data analysis. Findings of the study revealed that residual loss have significant negative effect on firm's financial performance.

Abughniem et al. (2020) conducted a study to examine the effect of agency costs on financial performance of listed firms on the Amman Stock Exchange (ASE). The sample of the study included 100 listed firms from all sectors in the Jordanian stock market over six (6) years period from 2010-2015. The study measured agency costs using residual loss (free cash flow). The study employed the pooled OLS technique for statistical analysis and the results indicated that residual loss (free cash flow) has significant negative effect on financial performance. Agbogun and Taiwo (2020) examined the relationship between agency cost and performance. The study population was 65 companies while the sample size comprised of 20 quoted companies from the manufacturing sector of the Nigerian Stock Exchange for a period of 15 years from 2004-2018. The study employed panel least square multiple regression for analysis. The study measured agency costs using residual loss, while performance was measured profitability. Findings of the study showed that residual have positive but statistically insignificant relationship with the financial performance of manufacturing firms in Nigeria.

Kithandi (2020) analyzed the effect of agency costs on financial performance of petroleum and energy sector firms listed on the Nairobi Stock Exchange. The study used data for five (5) petroleum and energy sector firms listed on the Nairobi Stock Exchange as at 2015. In order to draw conclusion, the study employed the multiple regression analysis and the findings indicated that there is a negative relationship between residual loss and financial performance of petroleum and energy sector firms listed in the Nairobi Stock Exchange. Kenn-Ndubuisi and Nweke (2019) examined the relationship between agency cost and firm financial performance in Nigeria using 80 non-financial firms quoted on the Nigerian Stock Exchange from 2000 to 2015. The study proxied agency costs using residual loss (financial leverage). Panel data technique in the form of the pooled regression model, fixed effect model, random effect model, and the marginal model were employed to test hypotheses. The result of the study revealed that financial performance (earnings per share) is significant and negatively related to residual loss while financial performance (return on equity) showed an insignificant negative relationship with the residual loss.

Herdinata (2019) examined the relationship between agency cost and performance. The study was conducted on a sample of 130 companies in Indonesia for a period of 16 years from year 2001 to 2016. Data for the study was sourced from Indonesian Capital Market Directory and Indonesian Securities Market Database. The study measured agency costs using residual loss. The study employed simultaneous equation model with Three-Stage Least Square technique. The results showed that residual loss have positive and significant effect on company financial performance. Akinleye and Dadepo (2019) examined the relationship between agency cost and performance. The study used secondary data where the data were collected from annual reports and accounts of 10 selected companies out of a population of 44 quoted companies from the manufacturing sector of the Nigerian Exchange Group for a period of five years spanning from 2012 to 2016. The study measured agency costs using residual loss. The random effect technique was adopted for the study. Findings of the study showed that residual loss have positive and significant effect on financial performance.

Ndeto (2019) investigated the effect of monitoring costs, bonding costs and residual loss on financial performance of microfinance institutions in Machakos County in, Kenya. The study employed the linear regression model for analysis and found a significant negative effect of monitoring costs on financial performance. Also established was that bonding costs have significant negative effect on financial performance. The study equally established a significant positive effect of residual loss on financial performance. Hoang,

Tuan, Nha, Long and Phuong (2019) conducted a study to examine the effect of agency costs on financial performance of Vietnamese listed companies. The study sample included 736 companies in Vietnam during the period of 5 years from 2010 to 2015. Agency costs was measured in the study using bonding costs and residual loss. The study employed the fixed effect regression model for statistical analysis and the result indicated that bonding costs and residual loss have negative and insignificant effect on financial performance.

Wanyonyi (2018) examined the impact of agency costs on financial performance of commercial banks in Kenya. An agency cost was measured with monitoring costs (directors remuneration and audit cost) while financial performance was measured with profitability. The study population was 42 licensed Deposit Money Banks (DMBs) as at 2017 operating in Kenya, while 26 DMBs constituted the sample size of the study. Data were sourced for 5 years between 2013 to 2017. The study adopted the exploratory research design and employed Durbin Watson test, multicollinearity test, and multiple regression technique as statistical tools. The study found that monitoring costs have significant positive effect on financial performance. The implication of this is that high agency cost leads to higher financial performance. John-Akamelu, Iyidiobi and Ezejiofor (2017) studied the effect of agency costs on the financial performance of food production firms in Nigeria for a period of 6 years from 2009 to 2014. Agency costs was measured using residual loss (financial leverage). The study adopted the ex post facto research design and used data for six (6) food manufacturing companies listed in Nigeria. The paired sample t-test analysis was employed as analytical technique and the results showed that residual loss have significant positive effect on the financial performance of food production firms in Nigeria.

Akani and Kenn-Ndubuisi (2017) examined the effect of agency costs and board structure on firm performance in Nigeria. The study employed secondary data from forty (40) listed companies on the Nigerian Stock Exchange (NSE) for a period of 9 years from 2008 to 2016. The study employed the pooled OLS, unit root test, granger causality, and cointegration test as analytical tools. The results of the study established that there exists a significant negative relationship between residual loss and financial performance. Warrad and Omari (2015) examined the impact of agency costs on Jordanian services sector's performance during the period from 2009 to 2012. The study measured agency costs using residual loss. Data for the study was sourced from the financial reports of eight Jordanian services companies listed on the ASE for the period of four years from year 2009 to 2012. The study employed the analysis of variance (ANOVA) for analysis and the result showed that there is a positive but insignificant impact of residual loss on the financial performance of Jordanian services companies.

Yetty and Se (2015) examined the relationship between agency cost and performance of manufacturing companies listed on the Indonesia Stock Exchange. The study sample comprised of 123 listed companies from three sub-sectors of manufacturing for a period of 4 years from 2010-2013. The study measured agency costs using bonding cost (managerial ownership). The study employed the statistical t-test, statistical f-test and path analysis. The result of the study found that bonding costs have significant positive effect on financial Performance. Enekwe, Agu and Eziedo (2014) explored the effect of agency costs on financial performance of Nigerian pharmaceutical companies. The study used secondary data for 11 years from 2001 to 2012 and a sample of three companies. The study employed Pearson correlation and multiple regression models to analyze the data collected. It was established that residual loss has insignificant positive impact on profitability of the pharmaceutical industry in Nigeria.

Raza (2013) examined the effect of agency costs on performance of firms listed on the non-financial sector of the Karachi Stock Exchange. The study period covered six years from year 2004 to 2009. The study population was 482 non-financial firms listed on KSE and the study sample comprised of all 482 firms. The study measured profitability using ROA and ROE while, agency cost was measured using residual loss. The study employed the pooled OLS model for analysis and findings of the study established a negative relationship between residual loss and financial performance. Jabbary, Hajiha and Labeshka (2013) examined the impact of agency costs on firm performance of listed firms on Tehran Stock Exchange. The study proxy agency costs residual loss, while, financial performance was proxy by return on asset and return on capital employed. Seventy-three (73) firms listed in Tehran Stock Exchange for a period of 5-years from 2006 to 2010 constituted the sample size using the systematic sampling method. The study employed the Pearson correlation analysis, multicollinearity test and multiple regression techniques for statistical analysis and the result showed that there is a positive and significant relationship between residual loss and financial performance. Rashidah and Siti (2005) examined the relationship between agency cost and firm performance. The study distributed questionnaires to 246 companies listed on the Main Board of the Kuala Lumpur Stock Exchange (currently known as 'Bursa Malaysia'). Additional data was sourced from the sampled companies' annual reports and accounts for seven years between 1996 and 2002. The study measured agency costs using monitoring cost (directors remuneration), while performance was measured using financial performance. The study employed the stepwise regression and multiple regression model for analysis and the result showed that monitoring cost have no significant association with financial performance.

2.5 Hypotheses Formulation

Nine hypotheses are tested, related to each of the nine objectives set out in section one of this study.

H_{o1} Monitoring costs have no significant effect on financial performance of listed financial companies on the Nigerian Exchange Group.

H_{o2} Bonding costs have no significant effect on financial performance of listed financial companies on the Nigerian Exchange Group.

H_{o3} Residual loss has no significant effect on financial performance of listed financial companies on the Nigerian Exchange Group.

H_{o4} Monitoring costs have no significant effect on financial performance of listed non-financial companies on the Nigerian Exchange Group.

H_{o5} Bonding costs have no significant effect on financial performance of listed non-financial companies on the Nigerian Exchange Group.

H_{o6} Residual loss has no significant effect on financial performance of listed non-financial companies on the Nigerian Exchange Group.

H_{o7} There is no significant difference in the effect of monitoring costs on financial performance of listed financial and non-financial companies the Nigerian Exchange Group.

H_{o8} There is no significant difference in the effect of bonding costs on financial performance of listed financial and non-financial companies on the Nigerian Exchange Group.

H_{o9} There is no significant difference in the effect of residual loss on financial performance of listed financial and non-financial companies on the Nigerian Exchange Group.

3.0 Methodology

The research design adopted for this study is the ex post facto research design. The population of the study comprises of 157 financial and non-financial companies that have been consistently listed on the floor of the Nigerian Exchange Group for ten years up to year 2021. The financial sector consists of 50 firms while the non-financial sector consists of 107 firms. The study adopted 10% minimum sample size as posited by Balsley and Clover (1988) quoted in Tapang, Bessong and Ujah (2015) and Bassey and Tapang (2012) as the ideal sample size in research. Consequently, 10 companies were randomly selected from each sector of the financial and non-financial sectors. Data for the study were sourced from Macham ratios and annual report and accounts of the sampled companies

The study consists of both dependent and independent variables. The dependent variable is financial performance which is proxied by earnings per share (EPS), while the independent variable is agency costs which are split into monitoring costs (audit fee), bonding costs (managerial ownership), and residual loss (free cash flow). Data are analysis is carried out through panel regression technique and paired sample t-test. The panel regression model for the study is given below.

$EPS_{it} = \beta_0 + \beta_1 AUDF_{it} + \beta_2 MOWN_{it} + \beta_3 FCF_{it} + e_{it.}$ ---------- (1)

Where:

EPS	=	Earnings per share
AUDF	=	Audit Fee
MANOWN	=	Managerial Ownership
FCF	=	Free Cash Flow

In addition, the paper adopted the T-test to compare the means of monitoring cost among non- financial and financial list companies on the Nigerian exchange group. The T-test model is expressed as follows:

$$t = \frac{\bar{x} - \mu}{s/\sqrt{n}}$$

Where t = the t Statistics
$\overline{X}$ = mean
μ = error term
S = Sample standard deviation
N = Sample size

The paper adopts correlation and multiple regression techniques for data analysis based on the *a priori* expectation that monitoring costs has a positive relationship with financial performance as expressed by EPS.

4.0 Results and Discussion

This section presents and discusses the results obtained from data analysis.

4.1 Descriptive statistics

Descriptive statistics in this study is made up of the mean, standard deviation, maximum, and minimum for both the dependent and the independent variables. The value shows the average value of the data set, the standard deviation shows the spread of the data, while the maximum and the minimum tells us the highest and lowest values in the data set respectively. The descriptive statistics of the study is presented in Table 1 below.

Table 1: Results of Descriptive Statistics (N=200)

Variables	Mean	Minimum	Standard Deviation	Maximum	Observations
EPS	1.76	-7.43	3.48	22.83	200
AUDF	79,005.43	3,500.00	125,719.58	607,500.00	200
MOWN	15.20	0	21.65	85.29	200
FCF	23,554,857.94	646,000.00	92,320,518.44	1,062,313,891.00	200

Source: STATA (13.0) Output, 2022.

Table 1 showed that EPS has a mean value of ₦1.76 indicating the average value of EPS of the sampled companies during the period of study. The minimum EPS value was -₦7.43. The standard deviation value of EPS was ₦3.48, Furthermore, the maximum EPS of the sampled companies was ₦22.83. AUDF has a mean value of ₦79,005,000.43, indicating the average value of audit fee paid by the sampled companies during the study period. AUDF also has a minimum value of ₦3,500,000.00, standard deviation value of ₦125,719,000.58, and maximum value of ₦607,500,000.00during the study period.

MOWN has a mean value of 15.20%, indicating the average percentage of managerial ownership possessed in the sampled companies during the study period. MOWN also has a minimum percent of 0%, standard deviation value of 21.65%, and maximum value of 85.29% during the study period. Finally, FCF has a mean value of ₦23,554,857,000.94, minimum value of ₦646,000.00, standard deviation value of ₦92,320,518,000.44, and maximum value of ₦1,062,313,891.00, during the study period.

4.2 Diagnostic Tests

Three tests are conducted in this study to ensure that data meet the requirements for analysis through the regression technique. They include data normality tests, multicollinearity and heteroskedasticity tests**.**

4.2.1 Normality test

Skewness and kurtosis was employed to test for data normality in this study as presented in Table 2. As can be observed from the result of Table 6, the skewness and kurtosis values of all the study variables are between -1 and +1, indicating that the study variables are normally distributed.

Table 2: Result of Skewness and Kurtosis for Normality Test

	Obs	Skewness	Kurtosis
EPS	200	0.0000	0.0000
AUDF	200	0.0010	0.1425
FCF	200	0.0000	0.0000
MOWN	200	0.0000	0.0000

Source: STATA (13.0) Output, 2022.

4.2.2 Multicollinearity Test

Multicollinearity arises where a single explanatory (independent) variable is highly correlated with a given set of other explanatory variables (Hair, Hult, Ringle, and Sarstedt, 2017). The most common ways of testing multicollinearity are correlation analysis and variance inflation factor/tolerance levels, which are presented in Tables 3 and 4.

Correlation Matrix

Table 3: ***Results of Pearson Correlation (N=200)***

	AUDF	MOWN	FCF
AUDF	1.0000		
MOWN	-0.1975	1.0000	
FCF	0.1036	0.0381	1.0000

Source: STATA (13.0) Output, 2022.

The result of the Pearson correlation analysis indicates that the highest correlation coefficient between the independent variables is -0.1975 for AUDF and MOWN. Judging from the result of the correlation matrix, there is no indication of multicollinearity between the independent variables of the study.

Variance Inflation Factor (VIF) and Tolerance level

Table 4: Result of Variance Inflation Factor and Tolerance

Variable	VIF	1/VIF
AUDF	1.05	0.948636
MOWN	1.04	0.957532
FCF	1.01	0.985702
Mean VIF	1.04	

Source: STATA (13.0) Output, 2022.

As can be observed from Table 4, the VIF ranges between values of 1.01 to 1.05 with a mean of 1.04 which is below the threshold of 10 indicating the absence of multicolinearity among the variables of the study. On the other hand, the tolerance level ranges from values of 0.948636 to 0.985702 which is above the threshold of 0.1 also indicating the absence of multicolinearity among the variables of this study.

4.2.3 Heteroskedasticity test

Table 5: Result for Heteroskedasticity Test

Variable	Chi-Sq. Value	Probability Value
Model	63.30	0.0000

Source: STATA (13.0) Output, 2022.
Note: H_o (null): Homoskedastic

To test for heteroskedasticity in this study, the Breusch-Pegan test was performed which showed a P-value of 0.0000, implying that there is presence of heteroskedasticity. As a result, the robust regression test was further performed to correct the heteroskedasticity presence.

4.3 Regression Results

4.3.1 Results for Financial Sector Results

The panel regression technique for the financial sector showed that the Hausman specification has a p-value of 0.8258 as presented in Table 6, implying that the random effect model is preferable to the fixed effect model. The choice of the random effect model by the Hausman specification test further necessitates the Breusch and Pagan Lagrangian multiplier test for random effects to be conducted in order to choose between the result of

the pooled OLS and the random effect model as presented in Table 7 Which showed an F-statistic p-values of 0.0000, implying that the random effect model is more preferable than the pooled OLS model in inferencing the study's result for the financial sector.

Table 6: Result of Hausman Specification Test for Financial Sector

Test Summary	Chi-Sq. Value	Probability Value
Cross-section random	0.90	0.8258

Source: STATA (13.0) Output, 2022.
Note: H_o: Random effect model is preferable to fixed effect model

Table 7: Result of Breusch and Pagan Lagrangian multiplier test for random effect Financial Sector

Test Statistic	F-statistic Value	Probability Value
LM test	186.43	0.0000

Source: STATA (13.0) Output, 2022.
Note: H_o: Pooled OLS regression model is more appropriate than random effect model

Table 8: Random Effect Regression Result for Financial Sector

EPS	Coefficient	Z statistics	Probability
AUDF	1.857151	5.15	0.000*
MOWN	-.000816	-0.13	0.896
FCF	.0501901	2.58	0.010*
C	-7.644734	-4.48	0.000
R-squared	0.3554		
F-statistic	37.37		
Prob(F-statistic)	0.0000		
Observations	100		

Source: STATA (13.0) Output, 2022.
Note: *= 1% level of significance

The regression result of Table 8 showed an R-square value of 0.3554, indicating that 36% of the changes in the dependent variable (EPS) of the sampled companies over the period of interest is explained by the independent variables. Table 8 also shows an F-statistic value of 37.37 with its associated P-value of 0.0000, indicating that the regression model is statistically significant at 5% level, this means that the specified regression model provides a better fit than the intercept only model and can be used for statistical inferencing.

Furthermore, Table 8 shows that AUDF has a coefficient of 1.857151 and associated P-value of 0.000, indicating that audit fee as a proxy of monitoring cost has a significant positive effect on financial performance proxied by EPS at 5% level of significance. MOWN also, has a coefficient of -.000816 and associated P-value of 0.896, indicating that managerial ownership as a proxy of bonding cost has an insignificant negative effect on financial performance proxied by EPS at 5% level of significance. The regression results further showed that FCF has a coefficient of .0501901 and associated P-value of 0.010,

indicating that free cash flow as a proxy of residual loss has a significant positive effect on financial performance proxied by EPS at 5% level of significance.

4.3.2 Results for Non-Financial Sector

The panel regression technique for the non-financial sector showed that the Hausman specification has a p-value of 0.0468 implying that the fixed effect model is preferable to the random effect model. The choice of the fixed effect model by the Hausman specification test further necessitates the Wald test to be conducted in order to choose between the result of the pooled OLS and the fixed effect model as presented in Table 10. Which has an F-statistic p-values of 0.0000, implying that fixed effect model is more preferable than the pooled OLS model in inferencing the study's result for the non-financial sector.

Table 9: Result of Hausman Specification Test for Non-Financial Sector

Test Summary	Chi-Sq. Value	Probability Value
Cross-section random	7.96	0.0468

Source: STATA (13.0) Output, 2022.**Note:** H_o: Random effect model is preferable to fixed effect model

Table 10: Result of Wald test for Non-Financial Sector

Test Statistic	F-statistic Value	Probability Value
Wald test	24.04	0.0000

Source: STATA (13.0) Output, 2022.**Note:** H_o: Pooled OLS regression model is more appropriate than fixed effect model

Table 11: Fixed Effect Regression Result for Non-Financial Sector

EPS	Coefficient	T	Probability
AUDF	.6757802	0.32	0.751
MOWN	.0557308	3.36	0.001*
FCF	.0001806	0.00	0.998
C	-1.593009	-0.17	0.864
R-squared	0.1231		
F-statistic	4.07		
Prob(F-statistic)	0.0093		
Observations	100		

Source: STATA (13.0) Output, 2022.

Note: *= 1% level of significance

The regression result of Table 11 showed an R-square value of 0.1231, indicating that 12% of the changes in the dependent variable (EPS) of the sampled companies over the period of interest is explained by the independent variables. Table 11 also shows an F-statistic value of 4.07 with its associated P-value of 0.0093, indicating that the regression model is statistically significant at 5% level, this means that the specified regression model provides a better fit than the intercept only model and can be used for statistical inferencing.

Furthermore, Table 11 shows that AUDF has a coefficient of .6757802 and associated P-value of 0.751, indicating that audit fee as a proxy of monitoring cost has an insignificant positive effect on financial performance proxied by EPS at 5% level of significance. MOWN also, has a coefficient of .0557308 and associated P-value of 0.001, indicating that managerial ownership as a proxy of bonding cost has a significant positive effect on financial performance proxied by EPS at 5% level of significance. The regression results further showed that FCF has a coefficient of .0001806 and associated P-value of 0.998, indicating that free cash flow as a proxy of residual loss has an insignificant positive effect on financial performance proxied by EPS at 5% level of significance.

4.4 Test for Equality of Means (T-Test)

The test for equality of means was adopted in testing hypotheses seven to nine of this study. The test for equality of means (t test) was used to compare the means of agency cost among non-financial and financial listed companies on the Nigerian Exchange Group and the result is presented in Table 12.

Table 12: T Test Result for Comparison of Differences in Agency Cost among Listed Financial and Non-Financial Companies in Nigeria

Variable	Non-Fin Companies Mean	Fin Companies Mean	Mean Difference	P value	% of Change	Ranking
Monitoring Cost	44,239.58	113,771.28	69,531.70	0.000*	61.1%	2
Bonding Cost	17.4	13.0	4.4	0.135	25.3%	3
Residual Loss	8,297,078.83	38,812,637.04	30,515,558.21	0.021*	78.6%	1

Source: STATA (13.0) Output, 2022.

Note: *=5% Significance level

Table 12 depicts the test for equality of means of agency cost among listed financial and non-financial companies in Nigeria. The means are presented for non- financial companies; financial companies; and the mean difference, which is the difference between the financial and non-financial companies. The mean difference is used as the basis of assessment of the difference in agency cost among the financial and non-financial companies in Nigeria. The test is performed based on the assumption of the general null hypothesis of t test that there is no difference between the means of agency cost in the financial and non-financial sectors in Nigeria. The result from Table 12shows a monitoring cost mean of ₦44,239.58 and ₦113,771.28 for the non-financial and financial sectors respectively, while the mean difference between the two sectors is ₦69,531.70 representing 61.1% increase in monitoring cost of the financial sector from the non-financial sector. Monitoring cost equally has a p-value of 0.000, indicating that the difference in monitoring cost among listed financial and non-financial companies in Nigeria is statistically significant at 5% level.

The result from Table 12 shows a bonding cost mean of 17.4% and 13% for the non-financial and financial sectors respectively, while the mean difference between the two sectors is 4.4% representing 25.3% increase in bonding cost of the non-financial sector from the financial sector. Bonding cost equally has a p-value of 0.135, indicating that the difference in bonding cost among listed financial and non-financial companies in Nigeria is not statistically significant at 5% level.

The result from Table 12 shows a residual loss mean of ₦8,297,078.83 and ₦38,812,637.04 for the non-financial and financial sectors respectively, while the mean difference between the two sectors is ₦30,515,558.21 representing 78.6% increase in residual loss of the financial sector from the non-financial sector. Residual loss equally has a p-value of 0.021, indicating that the difference in residual loss among listed financial and non-financial companies in Nigeria is statistically significant at 5% level.

As observed from Table 12, there is variation between the components of agency costs adopted by the financial and non-financial sectors in order to enhance performance. This is because, the financial sector which is the highly regulated and specialized sector incur more agency costs in the form of monitoring cost and residual loss than the non-financial sector, while the non-financial sector incure more bonding cost than the financial sector. This analysis explains why there is significant positive between the two sectors in monitoring and bonding cost.

4.5 Discussion of Findings

The findings of the study are discussed according to the study objectives as follows:

Objective 1: To examine the effect of monitoring costs on financial performance of listed financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis one revealed that monitoring cost has a significant positive effect on financial performance (EPS). This result tallies with the findings of Ahmed et al. (2020) and Wanyoyni (2018) which found that monitoring costs are positively and significantly related to financial performance. The result of hypothesis one of this study is consistent with that of Serem et al. (2020) which found that monitoring costs (audit fees) have significant positive influence on financial performance of Deposit-Taking SACCOs in North Rift Region in Kenya. The result of hypothesis one on this study is however, inconsistent with the findings of Ndeto (2019) which revealed that monitoring cost has a significant negative effect on financial performance.

This result support the agency theory which postulates that managers as agents, when supervised and monitored will venture into only profitable projects which will enhance the performance of the organization.

Objective 2: To examine the effect of bonding costs on financial performance of listed financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis two revealed that bonding cost has an insignificant negative effect on financial performance (EPS). The finding of this study also fails to support the result of Hoang et al. (2019) which found that bonding cost has an insignificant negative effect on financial performance (ROE).

The result is however inconsistent with the study of Alkurdiet al. (2021) and Ndeto (2019) which revealed that bonding cost has a significant negative effect on financial performance.

Objective 3: To examine the effect of residual loss on financial performance of listed financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis three revealed that residual loss has a significant positive effect on financial performance (EPS). This result tallies with the findings Herdinata (2019), Akinleye and Dadepo (2019), and Jabbary et al. (2013) which found that residual loss has a significant positive effect on financial performance. The result of this study further fails to support the findings of Abughniem et al. (2020) and Akani and Kenn-Ndubuisi (2017) which disclosed that residual loss (free cash flow) has significant

negative effect on financial performance. The result of this study also fails to support the findings of Raza (2013) which found that residual loss has a negative effect on financial performance.

The result of hypothesis three supports the free cash flow theory which posits that free cash flow as a category of agency costs (residual loss) if not properly managed, will result to assets dis-utilization which will affect financial performance.

Objective 4: To examine the effect of monitoring costs on financial performance of listed non-financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis four revealed that monitoring cost has an insignificant positive effect on financial performance (EPS). The result of hypothesis one of this study support the study of Rashidah and Siti (2005) which revealed that monitoring cost has a positive but insignificant effect on financial performance.

Objective 5: To examine the effect of bonding costs on financial performance of listed non-financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis five revealed that bonding cost has a significant positive effect on financial performance (EPS). This result tallies with the findings of Hermuningsih et al. (2020) which found that bonding cost has a significant positive effect on financial performance. The result of this study is also consistent with the study of Yetty and Se (2015) which disclosed that bonding cost has a significant positive effect on financial performance. The findings of this study also conform with the studies of Berķe-Berga et al. (2017) which found that bonding cost has a significant positive effect on financial performance. The result of this study also supports the study of Okewale et al. (2020) which disclosed that bonding cost has a positive effect on financial performance.

This result also supports the agency theory which postulates that the alignment of ownership and management (bonding) will minimize the agency costs in reaching, monitoring, and enforcing agreements. Therefore, increasing the managers' ownership of the firm will reduce managerial opportunism which will enhance financial performance.

Objective 6: To examine the effect of residual loss on financial performance of listed non-financial companies on the Nigerian Exchange Group.

The result of data analysis for hypothesis six revealed that residual loss has an insignificant positive effect on financial performance (EPS). This result tallies with the findings of Agbogun and Taiwo (2020) which found that residual loss has positive but statistically insignificant relationship with the financial performance of manufacturing firms in Nigeria. The result of hypothesis three of this study further confirms the findings of Warrad and Omari (2015) which disclosed that residual loss has positive but statistically insignificant effect on financial performance of Jordanian services companies. The result of this study also supports the findings of Enekwe et al. (2014) which found that residual loss has an insignificant positive effect on financial performance. This result is inconsistent with the study of John-Akamelu et al. (2017) which disclosed that residual loss has a significant positive effect on financial performance.

The result of hypothesis six of this study is inconsistent with the study of Kithandi (2020) which revealed that there is a negative relationship between residual loss and financial performance of petroleum and energy sector firms listed in the Nairobi Stock Exchange. The result is inconsistent with the result of Nuhu et al. (2020) and Kenn-Ndubuisi and Nweke (2019), which revealed that residual loss has a significant negative effect on financial performance.

Objective 7: To ascertain whether significant difference exists in the effect of monitoring costs on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group.

The result of data analysis for hypothesis seven revealed that there is significant difference in the effect of monitoring cost on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group. There is however, dearth of prior research studies to support this hypothesis. The paucity of supporting or contrarian studies to the result of objective seven of this study indicates the dearth of prior empirical studies on the level of difference of the effect of monitoring cost on financial performance of financial and non-financial sectors of Nigeria, hence, a contribution of this study to knowledge.

Objective 8: To ascertain whether significant difference exists in the effect of bonding costs on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group.

The result of data analysis for hypothesis eight revealed that there is no significant difference in the effect of bonding costs on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group.There is however, dearth of prior research studies to support this hypothesis. The paucity of supporting or contrarian studies to the result of objective eight of this study indicates the dearth of prior empirical studies on the level of difference of the effect of bonding cost on financial performance of financial and non-financial sectors of Nigeria, hence, a contribution of this study to knowledge.

Objective 9: To ascertain whether significant difference exists in the effect of residual loss on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group.

The result of data analysis for hypothesis nine revealed that there is significant difference in the effect of residual loss on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group. There is however, dearth of prior research studies to support this hypothesis. The paucity of supporting or contrarian studies to the result of objective nine of this study indicates the dearth of prior empirical studies on the level of difference of the effect of residual loss on financial performance of the financial and non-financial sectors of Nigeria, hence, a contribution of this study to knowledge.

5.0 Conclusion and Recommendations

Based on the findings of this study, the study concluded that; monitoring costs and residual loss positively and significantly affect financial performance (EPS) of listed financial companies on the Nigerian Exchange Group, while bonding cost negatively and insignificantly affect financial performance of listed financial companies on the Nigerian Exchange Group. The study equally concluded that monitoring costs and residual loss positively but insignificantly affect financial performance of listed non-financial companies on the Nigerian Exchange Group, while bonding costs positively and significantly affect financial performance of listed non-financial companies on the Nigerian Exchange Group. Furthermore, significant differences exists in the effect of monitoring cost and residual loss on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group, while insignificant differences exist in the effect of

bonding cost on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group.

The study therefore recommended that companies in the financial sector should prioritize agency cost in the form of monitoring cost and residual loss as there exert an influence on financial performance in the sector. Also, companies in the non-financial sector should prioritize agency cost in the form of bonding cost as it exert an influence on financial performance in the sector.

The study has contributed to knowledge by ascertaining that there is significant difference between the various components of agency costs on financial performance in the financial and non-financial sector. This study provided evidence that companies in the highly regulated financial sector incur higher agency costs in form of monitoring and bonding cost, while, companies in the non-financial sector incur higher agency costs in form of bonding cost. The implication of this result is that in midst of limited resources available to companies and the inability of companies to incur all three components of agency costs, this study's result will provide a hierarchy of the most relevant agency cost to incur based on the sector.

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