



AGENCY RESIDUAL LOSS AND FINANCIAL PERFORMANCE OF LISTED COMPANIES IN NIGERIA

Patrick Orbanga AWUHE^{1*}, Teryima Samuel ORSHI², Johnmark Mkav KORNA³ and
TSEKPEGHER Ter Abraham⁴

^{1*}Department of Accountancy, Fidei Polytechnic, Gboko, Benue State, Nigeria

²Department of Accounting, Federal University Dutsin-Ma, Katsina State, Nigeria

^{3&4}Department of Accounting, Joseph Sarwua Tarka University Makurdi, Benue State,
Nigeria

*Correspondence author: orbangap@gmail.com : +2348030822820

Abstract

This study investigated the effect of agency 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 157 companies listed on the NGX from 2011 to 2020 using the filtering and random methods. Data were sourced from annual reports of twenty (20) sampled companies. Panel regression estimate was used with the aid of multiple regression techniques for data analysis and findings show that agency residual loss exerts a significant positive effect on financial performance of listed financial companies in Nigeria. The study further established that a significant difference exists in the effect of agency residual loss 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 residual loss as it significantly influence financial performance.

Keywords: Residual Loss, Financial Performance, Financial Companies, Non-financial Companies

1.0 Introduction

After the start of the industrial revolution in the nineteenth century and the development of joint stock corporations, many investors had no direct role or involvement in the management of their organizations. Their involvement was primarily through the selection of the board of directors (BOD), which was responsible for oversight functions. The day-to-day management of joint stock companies was entrusted to a separate management team, giving rise 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. They asserted that if both parties are utility maximizers, there is reason to believe that the agent will not always act in the best interests of the principal. However, it is generally impossible for the principal or the agent to ensure at zero cost that the agent

will make optimal decisions from the principal's viewpoint.

Since the relationship between stockholders and managers of a corporation fits the definition of a pure agency relationship, the issues associated with the separation of ownership and control in modern diffuse ownership corporations are closely tied to the general problem of agency. In a nutshell, agency costs arise when principals seek to minimize the likelihood that agents will pursue their own interests rather than those of the principal (Chrisman *et al.* 2004). Extant literature provides evidence that agency costs can influence firm performance and, therefore, can be considered a determinant of financial performance beyond commonly analyzed firm-specific attributes. The divergence of interests between managers and shareholders, along with associated agency costs, is assumed to be detrimental to firms, leading to lower financial performance (Gürbüz, Aybar & Yeşilyurt, 2016).

The theoretical perspective also supports the 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, engage in shirking, and consume perks, leading to poor long-term financial performance (Ross, 1973; Jensen & Meckling, 1976). The expenses incurred by principals to align interests with agents also reduce the net income of the firm.

This study, therefore, sought to examine the effect of agency residual loss, on the financial performance of both financial and non-financial firms listed on the Nigerian Exchange Group. It is motivated by the lack of assessment and comparative studies on the effect of agency costs on financial performance in these sectors, as well as the paucity of studies focusing on residual loss as an agency cost measurement category, as posited by Jensen and Meckling (1976). Specific objectives of the study include to:

- i. Examine the effect of free cash flow on financial performance of listed financial companies in Nigeria.
- ii. Examine the effect of managerial ownership on financial performance of listed non-financial companies in Nigeria.
- iii. Ascertain whether significant effect exist of audit fee on financial performance of listed companies of the financial and

non-financial sectors of the Nigerian Exchange Group.

While many studies indicate a negative relationship between residual loss and financial performance, others suggest a positive or insignificant relationship. The discrepancies in findings may be attributed to differences in sample selection, market conditions, measurement approaches, and econometric techniques used in the analyses. Sequel to this review, the following hypotheses were developed for this study:

H₀₁: Free cash flow has no significant effect on financial performance of listed financial companies on the Nigerian Exchange Group.

H₀₂: Managerial ownership has no significant effect on financial performance of listed non-financial companies on the Nigerian Exchange Group.

H₀₃: There is no significant difference in the effect of audit fee on financial performance of listed financial and non-financial companies on the Nigerian Exchange Group.

2.0 Literature Review

2.1 Conceptual Clarification

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 *et al.* (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).

Agency Residual Loss

Jensen and Meckling (1976) defined agency costs as the sum of monitoring expenditures by the principal, bonding expenditures by the agent, and 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. As articulated by Abdulrahman (2014), residual loss as a category of agency costs represents the losses incurred by the organization even after incurring

measures to align the agent's interest with that of the principal. Costs such as an expanded workforce, a high debt ratio, wasteful expenses, higher interest expenses, and higher equity costs exemplify residual losses. The primary function of agency costs is to mitigate the impacts of agency problems.

2.2 Empirical Review The relationship between agency residual loss and financial performance has been extensively examined across different markets and sectors. Several studies have employed various methodologies and proxies for agency costs, predominantly using residual loss.

Nuhu et al. (2020) investigated the impact of agency costs on the financial performance of listed consumer goods companies in Nigeria, utilizing ex-post facto and descriptive research designs. Employing pairwise correlation and panel regression techniques over a ten-year period (2007–2016), the study found a significant negative effect of residual loss on financial performance.

Abughniem et al. (2020) analyzed listed firms on the Amman Stock Exchange (ASE) over a six-year period (2010–2015) using the pooled OLS technique, concluding that residual loss (free cash

flow) negatively affects financial performance.

Agbogun and Taiwo (2020) examined 20 Nigerian manufacturing firms over a 15-year span (2004–2018) using panel least squares multiple regression. Their findings indicated a positive but statistically insignificant relationship between residual loss and financial performance. Kithandi (2020), focusing on petroleum and energy sector firms in Kenya, employed multiple regression analysis and identified a negative relationship between residual loss and financial performance.

Kenn-Ndubuisi and Nweke (2019) analyzed 80 non-financial firms in Nigeria over a 16-year period (2000–2015), employing panel data techniques. Their results showed a significant negative relationship between earnings per share and residual loss, while return on equity exhibited an insignificant negative relationship.

Akani and Kenn-Ndubuisi (2017) found a significant negative relationship between residual loss and financial performance in Nigerian listed firms using pooled OLS and other econometric techniques.

Conversely, some studies reported a positive relationship. Herdinata (2019), analyzing 130 Indonesian firms over 16 years (2001–2016) using the Three-Stage

Least Squares technique, found that residual loss positively and significantly affects financial performance. Similarly, Akinleye and Dadebo (2019) examined 10 Nigerian manufacturing firms (2012–2016) using the random effect technique, concluding that residual loss has a positive and significant effect on financial performance. Ndeto (2019) also found a significant positive effect of residual loss on the financial performance of microfinance institutions in Kenya.

Other studies yielded mixed findings. Hoang *et al.* (2019) examined 736 Vietnamese listed companies over five years (2010–2015) using a fixed effect regression model and found that residual loss negatively but insignificantly impacts financial performance. John-Akamelu *et al.* (2017) analyzed Nigerian food production firms (2009–2014) using a paired sample t-test, concluding that residual loss significantly and positively influences financial performance.

Warrad and Omari (2015) examined the Jordanian services sector (2009–2012) using ANOVA and found a positive but insignificant impact of residual loss on financial performance. Similarly, Enekwe *et al.* (2014) studied Nigerian pharmaceutical firms (2001–2012) using Pearson correlation and multiple

regression, reporting an insignificant positive impact of residual loss on profitability. Raza (2013) analyzed 482 non-financial firms listed on the Karachi Stock Exchange (2004–2009) using the pooled OLS model and identified a negative relationship between residual loss and financial performance. Jabbary *et al.* (2013) examined Tehran Stock Exchange firms (2006–2010) using multiple regression techniques, finding a positive and significant relationship between residual loss and financial performance.

2.3 Theoretical Review

This study was anchored on agency theory. This was because of its direct relevance to the study under review.

2.3.1 Agency theory

Agency theory was advanced by Jensen and Meckling (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 when both the principal and the agent are utility maximizers, the agent may not always act in the best interests of the principal. If both parties had aligned interests, there would be no conflict of interest and no agency problem (Jensen & Meckling, 1976). Nur (2014) posited that

there is a high probability of conflict of interest between the principal and the agent because the agent may not always seek to maximize shareholder wealth due to the separation of ownership and control in modern corporations. Smith (1976) explained agency conflict as arising when professionals are employed to manage businesses owned by others but do not exert as much effort as the actual owners would. Instead, they may be negligent or pursue self-interest, leading to inefficiencies and reduced firm value. Jensen and Meckling (1976) highlighted that the divergence of interests between managers and shareholders results in residual loss, which refers to the reduction in firm value due to agency conflicts that persist despite governance mechanisms. This loss stems from suboptimal decision-making, managerial self-interest, and inefficiencies inherent in the principal-agent relationship.

2.3.2 Free cash flow theory

Jensen (1986) developed the free cash flow hypothesis, defining free cash flow as the cash flow in excess of the cash needed to invest in all positive NPV projects. The 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 asset dis-utilization and may lead to suboptimal 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 enhance firm performance/value, whereas ineffective asset utilization would reduce firm value. The free cash flow theory is relevant to this study as it considers free cash flow a category of agency costs (residual loss), which, if not properly managed, leads to asset dis-utilization and adversely affects 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 costs, 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 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 interests or venture into projects that may not necessarily result in improved financial performance of the organization. This

divergence between managerial actions and the principal's interests leads to residual loss, representing the cost of unaligned incentives within the firm.

3.0 Methodology

The research design adopted for this study was the ex post facto research design. The population of the study comprised 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 *et al.*(2015) as an ideal sample size used in the study.

Consequently, 10 companies were randomly selected from each sector of the financial and non-financial sectors. Data for the study were sourced from Machame ratios and annual report and accounts of the sampled companies

The dependent variable is financial performance which is proxied by earnings per share (EPS), while the independent variable is agency residual loss which is proxied by free cash flow (FCF). In addition, the study introduced audit fee (AUDF) and managerial ownership (MOWN) as control variables. Data analysis was carried out through panel regression technique and paired sample t-test. The panel regression model for the study is given below.

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

Where:

EPS = Earnings per share

FCF = Free Cash Flow

MANOWN = Managerial Ownership

AUDF = Audit Fee

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

$\bar{X}$ = 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

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

Variables	Mean	Minimum	Standard Deviation	Maximum	Observations
EPS	1.76	-7.43	3.48	22.83	200
FCF	23,554,857.94	646,000.00	92,320,518.44	1,062,313,891.00	200
AUDF	79,005.43	3,500.00	125,719.58	607,500.00	200
MOWN	15.20	0	21.65	85.29	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. 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. 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 ₦607,500,000.00 during the study period. Finally, 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.

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 heteroscedasticity 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

Variable	Obs	Skewness	Kurtosis
EPS	200	0.0000	0.0000
FCF	200	0.0000	0.0000
AUDF	200	0.0010	0.1425
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 *et al.* 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

	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
FCF	1.01	0.985702
MOWN	1.04	0.957532
Mean VIF	1.04	W

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 multicollinearity 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 multicollinearity among the variables of this study.

4.2.3 Heteroscedasticity Test

Table 5: Result for Heteroscedasticity Test

Variable	Chi-Sq. Value	Probability Value
Model	63.30	0.0000

Source: STATA (13.0) Output, 2022.

Note: H_0 (null): Homoscedastic

To test for heteroscedasticity in this study, the Breusch-Pagan test was performed which showed a P-value of 0.0000, implying that there is presence of heteroscedasticity. As a result, the robust regression test was further performed to correct the heteroscedasticity 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: H₀: 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: H₀: 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
FCF	.0501901	-4.48	0.010*
AUDF	1.857151	5.15	0.000*
MOWN	-.000816	-0.13	0.896
C	-7.644734	-4.48	0.000
R-squared	0.3554		
F-statistic	37.37		
Prob(F-statistic)	0.0000		

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 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. 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 result further showed 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.

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_0 : 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_0 : 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
-----	-------------	---	-------------

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

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. In addition, the regression results 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.

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.

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
Residual Loss	8,297,078.83	38,812,637.04	30,515,558.21	0.021*	78.6%

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 12 shows an agency 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.

4.5 Discussion of Findings

Objective 1: To examine the effect of agency 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 Dadebo (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 2: To examine the effect of agency 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 have 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 3: To ascertain whether significant difference exists in the effect of agency 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 agency residual loss is a significant driver of financial performance among listed financial companies in Nigeria, while it influences on the financial performance of listed non-financial companies in Nigeria is insignificant. Furthermore, a significant difference exists in the effect of agency residual loss on financial performance of listed financial and non-financial sectors of the Nigerian Exchange Group. The study therefore recommended that:

- i. Given the significant impact of agency residual loss on the financial performance of listed financial companies in Nigeria, corporate governance mechanisms should be strengthened within this sector to minimize agency costs and enhance overall efficiency. Regulatory bodies should enforce stricter compliance measures, including

improved transparency, enhanced disclosure requirements, and the adoption of robust internal control systems.

- ii. For non-financial companies, where the influence of agency residual loss on financial performance is insignificant, firms should focus on alternative performance-enhancing strategies such as operational efficiency, market expansion, and innovation-driven investments. Additionally, a sector-specific approach should be adopted to address disparities in agency cost effects, ensuring tailored corporate governance frameworks for both financial and non-financial firms within the Nigerian Exchange Group.

References

- Abdulrahman. (2014). The Relationship between Agency Costs and Financial Performance of Firms Listed on Nairobi Securities Exchange. *Journal of Finance*, 2(3): 4-20.
- Abughniem, M.S., Al Aishat, M.A.H. & Hamdan, A. (2020). Free Cash Flow and Firm Performance: Empirical evidence from the Amman Stock Exchange. *International Journal of*

- Innovation, Creativity and Change*, 10(12): 668-681
- Agbogun, S. A. & Taiwo, J. A. (2020). Asset Efficiency and Financial Performance of Manufacturing Firms Quoted on Nigerian Stock Exchange. *Caleb International Journal of Development Studies*, 3(1): 117-138
- Ahmed, A. D., Bahamman, S. M. & Abdulkarim, H. (2020). Directors' Remuneration and Financial Performance: Moderating Role of Board Attributes of Listed Insurance Companies in Nigeria. *Journal of Economics and Trade*, 5(2): 23-34
- Akani, H. & Kenn-Ndubuisi, J. (2017). Effects of Capital Structure and Board Structure on Corporate Performance of Selected Firms in Nigeria. *Indian Journal of Finance and Banking*, 1(2): 2574-6081
- Akinleye, G. T. & Dadebo, A. O. (2019). Assets Utilization and Performance of Manufacturing Firms in Nigeria. *International Journal of Business and Management*, 14(4): 107-115
- Alkurdi, A., Hamad, A., Tneibat, H. and Almarzouky, M. (2021). Ownership Structure's Effect on Financial performance: An Empirical Analysis of Jordanian listed Firms. *Cogent Business and Management*, 8(1): 1-21
- Bassey, B. E., & Tapang, A. T. (2012). Capitalized human resources cost and its influence on corporate productivity: A study of selected companies in Nigeria. *International Journal of Financial Research*, 3(2), 48.
- Bortych, A. (2017). Capital Structure Influence on Firm's Financial Performance: Differences in Public and Private Firms. *Journal of Finance and Accounting*, 3(3): 20-46.
- Chrisman, J. J., Chua, J. H., & Litz, R. A. (2004). Comparing the Agency Costs of Family and Non-Family Firms: Conceptual Issues and Exploratory Evidence. *Entrepreneurship Theory and Practice*, (28): 335-354.
- Eisenhardt, K.M. (1989). Agency theory: An Assessment and Review. *Academy of Management Review*, 57-74.
- Enekwe, C. Agu, C. & Eziedo, K. (2014). The Effect of Financial Leverage on Financial Performance: Evidence of Quoted Pharmaceutical Companies in Nigeria. *IOSR Journal of*

- Economics and Finance*, 5(3): 17-25
- Gürbüz, O.A., Aybar, A. & Yeşilyurt, S. (2016). The Role of Agency Costs in Explaining Financial Performance Differences: An Empirical Analysis of Selected Public Firms in BRIC Countries. Retrieved on 28th March, 2021 from <https://dergipark.org.tr/tr/download/article-file/165916>
- Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2017). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*. 2nd Ed. Thousand Oaks, CA: Sage. pp. 1-64
- Herdinata, C. (2019). Asset Utilization and Company Performance. *Business and Finance Journal*, 4(1): 15-24
- Hermuningsih, S., Kusuma, H., Fasa, M. I. & Panjaitan, R. (2020). Inside Ownership, Financial Performance and Firm Size as Moderating Variables. *Utopía y Praxis Latinoamericana*, 25(10): 220-229
- Hoang, L. D., Tuan, T. M., Nha, P.V.T., Long, T.P. and Phuong, T.T. (2019). Impact of Agency Costs on Firm Performance: Evidence from Vietnam. *Organizations and Markets in Emerging Economies*, 10, 2(20): 294–309
- Jabbary, H., Hajiha, Z. & Labeshka, R.H. (2013). Investigation of the Effect of Agency Costs on Firm Listed on Tehran Stock Exchange. *European Online Journal of National and Social Sciences*. 2(35):771-776
- Jensen, M. C. & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4): 305-360.
- Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, *The American Economic Review*, 76(2): 323-329.
- John-Akamelu, R., Iyidiobi, F. & Ezejiofor, A. (2017), Leverage and Financial Performance: Evidence from Nigerian Food Production Firms. *European Journal of Research and Reflection in Management Sciences*, 5(4): 2056-5992
- Kenn-Ndubisi, I. & Nweke, C. (2019). Financial Leverage and Firm Financial Performance in Nigeria: A Panel Data Analysis Approach. *Global Journal of Management and Business Research Corporate Finance*, 19(4): 14-22

- Khalid, S. & Rehman, M. U. (2014). Impact of Directors' Remuneration on Financial Performance of a Firm. *International Journal of Information, Business and Management*, 6(1): 180-196
- Kithandi, C. (2020). Financial Leverage and Financial Performance of the Energy and Petroleum Sector Companies Listed on the Nairobi Securities Exchange. *International Journal of Scientific and Research Publications*, 10(3): 599-607.
- Kyazze, L. M., Nsereko, I., & Nkote, I. (2020). Cooperative Practices and Non-Financial Performance of Savings and Credit Cooperative Societies. *International Journal of Ethics and Systems*. DOI 10.1108/IJOES-06-2020-0087.
- McCabe, G. M., & Yook, K. C. (1997). Free cash flow and the returns to bidders. *The Quarterly Review of Economics and Finance*, 37(3): 697–707.
- Ndeto, L. (2010). *Relationship between Agency Costs and Corporate Governance Mechanisms. Evidence from Listed Companies on the Nairobi Stock Exchange*. A Research Thesis presented at the University of Nairobi
- Nuhu, B. A., Dandago, K. I., Mohammad, L., Ado, A. B. & Abdulkarim, U. F. (2020). Impact of Agency Costs on Financial Performance of Listed Consumer Goods Companies in Nigeria. *Journal of Management Theory and Practice*, 1(3): 51-55
- Nur, S.W.O. (2014). *Agency Costs and Corporate Performance: Analysis of Public Listed Companies in Bursa Malaysia*. A Research Thesis presented at the University Utara Malaysia
- Okewale, J. A., Mustapha, O. A. & Aina, O. G. (2020). Ownership Structure and Financial Performance of quoted Food and Beverage Firms in Nigeria. *KIU Journal of Social Sciences*, 6(2): 263–273
- Rashidah, A. R. & Siti, M. Z. H. (2005). Is there a Relationship between Directors Remuneration and Firm Performance? *Corporate Board: role, duties & Composition*, 1(2): 39-48
- Raza, S. A., Shah, N. and Arif, I. (2019). Relationship between FDI and Economic Growth in the Presence of Good Governance System: Evidence from OECD Countries. Retrieved on January 4th 2020 from

<https://doi.org/10.1177/0972150919833484>

- Ross, S. A. (1973). The Economic Theory of Agency: The Principle's Problem, *American Economic Review*, 63(2): 134-139.
- Serem, D., Fwamba, R. & Alala, B. (2020). Audit Fees and Financial Performance of Deposit Taking Saccos in North RIFT, Kenya. *International Journal of Innovation and Economic Development*, 6(5): 15-27
- Sharma, P., Chrisman, J., Pablo, A. & Chua, J (2001). Determinants of Initial Satisfaction with the Succession Process in Family Firms: A Conceptual Model. Retrieved on 28th March, 2021 from: https://www.researchgate.net/publication/228605805_Determinants_of_Initial_Satisfaction_with_the_Succession_Process_in_Family_Firms_A_Conceptual_Model
- Singh, M., & Davidson III, W. N. (2003). Agency Costs, Ownership Structure and Corporate Governance Mechanisms. *Journal of Banking & Finance*, 27(5): 793-816.
- Smith, A. (1976). *An Inquiry into the Nature and Causes of the Wealth of Nations* (Vol. 10). London: Methuen & Company.
- Tapang, A. T., Bessong, P. K., & Ujah, P. I. (2015). Management influence and auditor's independence in Nigerian Banks. *International Journal of Economics, Commerce and Management*, 3(4), 1-26
- Wanyonyi, L.N. (2018). *The impact of Agency costs on Financial Performance of Commercial Banks in Kenya*. A Research Thesis Presented at University of Nairobi, Kenya.
- Warrad, L. & Omari, R. (2015). The Impact of Turnover Ratios on Jordanian Services Sectors' Performance. *Journal of Modern Accounting and Auditing*, 11(2): 77-85.
- Williamson, O. (1979). Transaction-Cost Economics: The Governance of Contractual Relations. *Journal of Law and Economics*, (22): 233–261.
- Yetty M. and Se, MM. AK. (2015). The effect of managerial ownership, institutional ownership and voluntary disclosure on financial performance and its Implication on corporate value. *International Journal of Business and Management invention*, 4(5): 52-64
- Engineering and Innovation Management*, 7(1), 30–38. <https://doi.org/10.23977/ieim.2024.070105>