



## **CAPITAL STRUCTURE, AGENCY COST AND FIRM VALUE AMONG NIGERIA NON FINANCIAL FIRMS**

**OMUEMU Stanley Osasere** 

Department of Finance, University of Lagos, Lagos Nigeria  
stanleyomuemu@yahoo.com

**OLOWE Rufus Ayo**

Department of Finance, University of Lagos, Lagos Nigeria  
raolowe@yahoo.co.uk

### **Abstract**

*This study was set out to investigate the nexus between capital structure, agency cost and firm value among non-financial sector in Nigeria. In order to achieve the objective of this study, data was collected from 65 non-financial firms over the period of 2008 to 2018. On this data, panel regression analysis was applied. From the Hausman test, it was revealed that the fixed effect was preferable over random effect. The analysis revealed that long term debt to assets and short term debt to assets being an indicator of capital structure has a positive and significant relationship with firm value. Also, the study found an inversely but insignificant relationship between debt to earnings before interest, taxes, depreciation, and amortization being a proxy of capital structure and the value of the firm. Furthermore, the result of the agency cost reveals that asset turnover ratio has a positive and significant relationship on firm value, while employee cost to sales ratio has a positive and insignificant relationship with firm's value. Finally, directors cost to sales ratio has a negative and insignificant relationship with firms' value. The result from the control variables indicates that sales growth results reveal a positive and insignificant relationship and also firm's size has a negative but significant relationship with the value of the firm. We therefore recommended that non-financial firms should make use of financial leverage in a manner that will not create agency problem to both shareholder and debt holders of the company.*

*Keywords: Capital Structure, leverage, Agency cost, firm size, sales growth, firm value*

## INTRODUCTION

The decision to select appropriate source of capital that will maximize the shareholders wealth is a major decision of a corporate finance executive. Importantly, firms can choose to finance internally using retained earnings or externally by issuing ordinary share or debenture so as to finance their operations. Thus the capital structure of the firm is determined by the result of these decisions, this in turn will affect the value of the firm (Gatti and Chiarella, 2014). According to Olowe (2018), the value of the firm is determined by the investment choice as well as the finance source utilized by the firm. To this end, management should take key interest in it.

The issue of capital structure is important in corporate finance since it is a critical finance decision made by corporate organization in maximizing the wealth of the shareholders. In today's business environment, corporate financial managers are progressively mindful and careful of the capital structure choices because of the expanding pressure on the present financial environment as well as the unstable policies of government in the country. To this end the managers are motivated to make use of a certain level of debt to equity proportion that will optimize the estimated value of the firm as well as minimize the costs which include eliminating the agency cost. Several research on this study has revealed that capital structure is an important decision for the long term growth of a firm, since it involve the decision about the optimal mixture of fund that will ensure the firm attain their objective. Importantly, in other for the firm to attain these objective different theories has provided direction to the debt proportion in the firm finance decision that results in the rise in the estimated firms value (Ongeri 2015). The level of capital structure has been a disputable issue in corporate fund since MM appeared in 1958 where it was stated that given frictionless markets, homogeneous desires; the choice of a firm structure of capital is unessential (Uremadu and Onyekachi, 2018).

It was asserted that there is a chance of reducing the associated risk faced by manager as a result of misuse of fund if the free cash flow is returned to shareholder as extra compensation for their investment. The examination in addition also states that in a situation where managers play out certain activities for his advantage and not for investors and this would in the end lead to conflict between the agent and the principal. In addition, corporate organization today compensates the manager in order to eliminate the agency cost, an encourage managers to borrow to finance their investment (Zakaria, Purhanudin, Chong, and William, 2016).

As indicated by Awan and Amin (2014), the distress of finance and agency cost hypotheses assumes that firm with a high debt obligations would result to insolvency. In this way, the organizations which contain high financial risk that is high debt obligation would reduce the amount of debt financing in capital structure in other not to put the shareholders in a

vulnerable position. As indicated by Abeywardhana, (2017), in the expressions of Jensen and Meckling which expresses that debt obligation can lessen the agency cost and contend that the higher the debt obligation the more noteworthy the pledge to pay out more cash. At the end of the day, ideal capital structure will improve the productivity of corporate governance; lighten conflict situation among proprietors and agents. It could likewise control moral danger of agents, decline organization cost and in the long run increment firm worth (Mengmeng, 2013).

There are debates in writing on this area of capital structure, agency cost and firm value because of the mix findings of the impact of capital structure decision on the value of firm. A few observational examinations on capital structure tests have concentrated on evolved markets where capital market anomalies may vary in the capital markets. A focal worry of researchers has been the assessment of how certain market anomalies, for example, transaction cost, taxation, information asymmetries, agency problem, liquidation costs, etc modify the fundamental expectations of Modigliani and Miller (1958). The presences of these anomalies in developing capital market give amazing evidence to capital structure tests that fuse the effect of market imperfection. This study seeks to empirical studies in African by examining the impact of capital structure on firms' value within the agency cost theoretical model and thus fill an important gap in the corporate finance literature.

## **LITERATURE REVIEW**

### **Theoretical underpinning**

#### ***Agency Theory***

Agency theory revolves around the issue of the agency problem and its solution (Jensen & Meckling, 1976). In the study of Brahmadev et. al. (2017), agency theory according to Jensen and Meckling (1976) is centered on the relationship that exists between the owners and agent to act on behalf on the issues relating to the day to day operations of the business. The agency theory brought forward the issue or problem of agency (Jensen & Meckling, 1976). The problem of agency is an micro cost associated with the agents as a result of the disagreement of interest between the principal and the. However, agency cost consist of the cost of assessing and getting agent the skill set require to achieve the goals of the business, cost of getting and gathering information to assess the performance and set standard for performance, also cost incurred in monitoring the action of the agent, cost of bonding and the consequences due to unprofessional decisions of the agents. This study adopts this theory so as to examine it effect on the value of the firm.

### ***Modigliani - Miller theory***

MM theory supports this examination is the Modigliani and Miller hypothesis of capital structure in 1958. The hypothesis tested the traditional view with regards to the impact of leverage on the cost of capital of firms. The theory support the net income approach that the capital structure decision of a firm is not irrelevant in the determination of the value of the firm as well as the cost of capital. Without taxes, the cost of capital and market estimation of the firm stay steady all through all degrees of influence (Modigliani and Miller, 1958). The Modigliani and Miller (MM) hypothesis demonstrates that under an extremely prohibitive arrangement of conditions, an organizations value is unaffected by its capital structure which suggests that the financing selection of firms is unimportant. Notwithstanding, this present investigation is planned for inspecting the level of the structure of the capital of the firm on the value of their shareholders in Nigeria.

### **Empirical Review**

In the study of Tifow and Savilir (2015) directed an examination on the level of the structure of capital on profitability of manufacturing firms in Turkey from year 2008 to year 2013. It was revealed that there is a inversely significant relationship between current liabilities being proxy of short term liabilities and firm profitability. Be that as it may, there is an inverse association between long term debt obligation proportion and equity ratio and a positive relationship on return on assets. It was also stated that utilizing debt obligation financing as opposed to equity financing may cause a lower firm performance. Also, it was stated that organizations ought to pick to utilize long debt obligation as opposed to current liability obligation to build the profitability of the business.

In the study of Mwangi, Makau, and Kosimbei (2014), on the effect of capital structure on firm profitability in the period from year 2006 to 2012 for the non-financial listed firms in Kenya. The finding from statistical test reveals that there is a huge positive connection between short term liabilities and firm profitability. Also, the findings of this study imply that firm profitability could be decreased by increasingly utilizing short term debt obligation.

Foyeke, Olusola, and Aderemi (2016) conducted a study on the relationship between structure of a firm long term fund and the profitability of quoted firms in Nigeria (manufacturing) for the period of 2008-2012. Twenty five(25) manufacturing companies listed on the floor of the Nigerian Stock Exchange was adopted and correlation as well as regression test were employed to determine the cause and effect relationship. The findings from the investigation reveal a direct significant relationship between equity finance and profitability of manufacturing companies in Nigeria.

Bassey, Arene and Okpukpara (2014) also carried out a study on the determinants of capital structure of agro-listed firms in Nigeria, over the period of 2005 to 2010 using data generated from the financial statements of twenty eight (28) agricultural firms on the Nigerian Stock exchange. The study adopted a regression analysis. The result reveals that large firms prefer long term debt due to the availability of collateral at their disposal. Also, firm age and growth was positively related to long term debt ratio. Thus, the results suggest the pecking order theory dominates the financial behavior of listed agricultural firms in Nigeria.

According to Oino and Ukaegbu (2015), in the investigation of the impacts of the structure of capital on performance of the firm with special reference to non-financial firms in Nigeria. The study adopted panel data of non-financial companies that are listed in the Nigerian Stock Exchange. It was found that profitability and capital structure are inversely related whereas relationship between size of the firm and no-debt tax finds positive.

## **METHODOLOGY**

### **Research Design and Data**

The research design that was adopted in this study is the ex-post-facto research design. This design aims at determining the regression relationship of the variable of interest. The study population consists of companies listed on the floor of the Nigerian Stock Exchange (NSE). However, the sample of this study is made up of all quoted firms in the non-financial sector that has published their report from 2008 up till 2018. Based on the above, sixty five (65) companies were selected as the sample of this study based on the availability of data from the published annual report.

### **Data Analysis Procedure**

The panel multiple regression model was adopted in this study as a tool for the analysis of data in a view to reveal the causal relationship between the dependent variable firm value and the independent variable (Capital structure and agency cost). Panel regression analysis is a special kind of regression that combines time series and cross sectional information. The panel regression considers the heterogeneity in the organizations henceforth will assist with lessening the issue of deficiency of information perception. Three special kinds of models are applied in panel regression these are, pooled OLS, fixed effect and random effect. The investigation made use of the fixed and random effect (FRE) technique for evaluating panel regression model while the Hausman test was utilized to choose between the two model. The Hausman test was utilized to make the decision between fixed effect (least square dummy variable) and random effect (generalized least square) regression estimate.

However, a number of analyses were also carried out based on the data available. Descriptive statistics which included the analysis of mean, standard deviation, minimum and maximum, together with some pre-test estimation like VIF test and the test heteroskedasticity. In conducting all our data analysis, we adopted both Microsoft Excel and STATA 13 software packages.

### Model Specification

The model of this study seeks to establish a nexus between capital structure, agency cost and firm value in the manufacturing firms in Nigerian. The general multi-factor models were developed to test the cause and effect of independent variables (Capital structure and agency cost) and the dependent variable (firm value). However, in other to examine the firm value, Tobin's Q was adopted:

#### *Model 1: Tobin's Q Model*

The model shows that the dependent variable Tobin's Q can be affected by the independent variables which are the capital structure and agency cost and other control variables such as firm size and sales growths. Similar, Siddik, Kabiraj and Joghee (2017).adopted a pooled ordinary least square analysis, the finding reveals that capital structure inversely affects bank financial performance (Tobin's Q). The method adopted in this study was consistent with (Siddik, Kabiraj and Joghee, 2017) in Bangladesh. The equation below shows the functional relationship of the first model of this study:

$$\text{Tobin's } Q_{it} = f(f(\text{LTDR}_{it}, \text{STDR}_{it}, \text{DR\_EBITDA}_{it}, \text{AU}_{it}, \text{EMSA}_{it}, \text{DRSA}_{it}, \text{SIZE}_{it}, \text{SG}_{it}) \dots (1)$$

Where,

DR\_EBITDA<sub>it</sub>= Total debt to earnings before interest, tax, depreciation and amortization of (firm i at time t)

LTDR<sub>it</sub> = Long term debt to assets ratio of (firm i at time t)

STDR<sub>it</sub>= short term debt to assets ratio of (firm i at time t)

AT<sub>it</sub> = Assets utilization ratio of (firm i at time t)

EMSA<sub>it</sub> = Employee cost to revenue (firm i at time t)

DRSA<sub>it</sub> = Directors cost to sale of (firm i at time t)

SIZE<sub>it</sub> = firm size of (firm i at time t)

SG<sub>it</sub> = Sales Growth of (firm i at time t)

Tobin's Q<sub>it</sub> = Firm value (firm i at time t)

Econometrics model for the study is as follows;

$$TobinsQ_{it} = \beta_0 + \beta_1 DR\_EBITDA_{it} + \beta_2 LTDR_{it} + \beta_3 STDR_{it} + \beta_4 AT_{it} + \beta_5 EMSA_{it} + \beta_6 DRSA_{it} + \beta_7 SIZE_{it} + \beta_8 SG_{it} + \epsilon_{it} \dots \dots \dots (2)$$

Where,

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8$  = Parameters estimated

$\epsilon_{it}$  = the error term firm i at time t

**Variable Description and Definition**

Type of Variable	Variable	Measure	Empirical Evidence
<b>CAPITAL STRUCTURE</b>	Total debt to EBITDA ratio	Total Debt/ EBITDA	
	Long term ratio	Non-Current Liabilities/ total Assets	HabibXiao, Salama and Dixon (2016)
	Short term ratio	Short term debt/ total assets	Shubita & Alsawalhah (2012)
<b>AGENCY COST</b>	Employee cost to Revenue	Percentage of total employee cost to revenue	Jensen and Meckling (1976)
	Assets utilization	Turnover/ total assets	Akinleye & Adesina (2019)
	Directors cost to revenue	Total Employee cost / revenue	Jensen and Meckling (1976)
<b>CONTROL VARIABLE</b>	Firm Size	Log(Total assets)	Tifow & Savilir, (2015)
	Sales Growth	Change in sales/past sales	Tifow & Savilir (2015); Shubita & Alsawalhah (2012)
<b>FIRMS' VALUE</b>	Tobins' Q	(norminal value of total assets – norminal value of equity + Market value of equity) / norminal of total assets.	Muhammad, Muddassar, Wang, and Madiha (2019)

**A priori Expectation**

The sign of  $\beta_1 < 0$ ,  $\beta_2$  and  $\beta_3$  are = 0 is equal to zero as literature suggests according to M&M (1958), leverage is not relevant in determination of firms' value. However, the coefficient of agency cost  $\beta_4, \beta_5$  and  $\beta_6, < 0$ , this implies that agency cost has a negative effect on firm value. Jensen and Meckling (1976), conflict of interest can increase the bankruptcy risk of the firm. Based on the control variable, size and sale growth with a parameter of  $\beta_7$  and  $\beta_8$  are  $> 0$  this implies a positive effect on the value of the firm.

**ANALYSIS**

The study used descriptive statistics, correlation coefficient matrix and OLS pooled regression estimation technique and panel data estimation technique. Tables below present the results of



the descriptive statistics analysis, correlation coefficient test, and OLS pooled regression techniques and panel data regression techniques.

### Descriptive Statistics

The table shown below describes the nature of the data collected from the annual report of the Nigeria stock exchange.

Table 1: Descriptive Statistics

	Mean	Med.	Maxi.	Min.	S.D	J-B	Prob	Obs
TQ	1.612453	1.13	11.3	0.12	1.373603	3711.834	0	689
STDA	43.22251	39.85	175.25	4.36	21.146	369.1838	0	689
LTDA	19.13602	13.64	192.28	-76.4	21.13477	10326.37	0	689
DRSA	0.980813	0.41	24.7	0	1.861937	144724.2	0	689
AT	1.004296	0.85	5.43	0	0.738607	1601.288	0	689
EMSA	12.56669	9.23	197.16	0	12.93622	135447.8	0	689
SG	12.12139	7.46	558.58	-90.7	40.93158	84656.25	0	689
FSIZE	7.05492	7	9.03	5.09	0.804646	13.72133	0.00104	689
D_EBITDA	3.30029	3.8	205.01	-504.49	32.27634	350437.9	0	689

The table above shows that for the eleven (11) years period, all the variables are symmetrically distributed since the probability of the Jarque-Bera test is significant even at 1% level of significance. We can therefore conclude that the variables are normally distributed. Over the 11 years period, Tobin's Q (Firm Value) has a minimum value of 0.12 and maximum of 11.3 with average (Mean) of 1.612453. This implies that due to the large difference between the maximum and minimum ratio as well as the value of the mean, the non-financial firms in Nigeria are not maximizing value. Also based on the mean (19.13602), maximum and minimum (192.28 and -76.4) of long term debt to total assets (LTDA), we can say that on the average most of the firms are not using excess long term debt in their capital structure. Again, the information from the short term debt to total assets confirm to the fact that most firms in the non-financial sector prefer short term debt to long term given the mean of (43.22251), maximum value of (175.25) and a minimum value of (4.36). Another indicator adopted by the researcher as a proxy to capital structure was total debt to earnings before interest, tax, depreciation and amortization reveals a mean of 3.30029 and a maximum and minimum value of 205.01 and -504.49 respectively. This implies that firms in the non-financial sector are lower debt level as against their revenue.

Also, the variable director's remuneration to total asset a proxy of agency cost indicates a mean value of 0.980813 and maximum as well as minimum value of 24.7 and 0 respectively,



implies that over the period the level of agency cost among non-financial firm is insignificant. This was also the outcome from the results of the employees remuneration to asset with a mean value of 12.56669 and a maximum and minimum value of 197.16 and 0. Thus there is a possibility of low agency cost in this sector. Also, the assets utilization ratio being a proxy of agency cost also reveals a mean of 1.004296, a maximum and minimum value of 5.43 and 0 respectively implies that most agents firms in the non-financial sectors are underutilizing there assets which might result in agency cost. This implication is as a result of the large difference between the maximum and minimum value of the assets utilization ratio.

Based on the control variable of sales growth rate, the mean value was 12.12139 while the minimum and maximum value was 558.58 and -90.7. This implies that firms in the non-financial sector in Nigeria have a slow growth rate. A look at bank size shows that there is a small difference between the maximum (9.03) and minimum (5.09) values of total asset (SIZE) this implies that the sampled firms are dominated by large firms. From the analysis above, on the average, the firm size was 7.05492.

### Tobin's Q Model

Table 2: Pooled Regression Tobin's Q Estimation Model

Variables	Apriori Expectations	OLS (Coefficients)	Robust (Coefficients)
C		.7307749 [0.154]	1.123267 [0.000]***
LTDA	+	.0064195 [0.015] ***	.0067959 [0.000] **
STDA	+	.0048307 [0.076]	.0020752 [0.041]***
D_EBITDA	+	-.0020078 [0.222]	-.0003791 [0.536]
AT	-	.4251695 [0.000] **	.1500362 [0.000] **
EMSA	-	-.0023685[0.620]	-.0008842 [0.620]***
DRSA	-	.0227346 [0.521]	-.0063202 [0.632]***
SG	+	.0007348[0.566]	.0005253 [0.271]
FSIZE	+	.0181754[0.789]	-.0486036 [0.055]
<i>R-Squared</i>		0.0681	-
<i>Adj R-Squared</i>		0.0571	-
<i>F-statistics</i>		6.21 (0.0000)	9.72(0.0000)
<i>VIF Test</i>		1.29	-
<i>Heteroskedasticity</i>		126.96 (0.00000)	-
<i>Observations</i>		689	689

Note: (1) bracket [ ] are p-value

(2) \*\*, \*\*\*, means statistical significant at 5% and 1% levels respectively.

The above table illustrates the result of pooled regression estimation model. The result shows an R-Squared adjusted of 0.057. This implies that 5.7% of the variations in the dependent

variable (TOBIN'S Q) can be explained by all the independent variables combined. While the remaining 94.3% is accounted for by other unspecified factors. The F-statistic value of 6.21 and its p-value of 0.000 shows an overall significance of the pool regression model at 1% and 5% level this means that the OLS pooled regression is valid and can be used to make statistical inference. Also, the above table shows VIF mean value to be 1.29 which is less than the threshold value of 10, which thus indicates the absence of multicollinearity. Similarly, from the results of the OLS pooled regression model above, the result from the test of heteroskedasticity shows 126.96(0.00000) and was statistically significant. This implies the presence of heteroskedasticity. However, this problem was corrected by running the robust regression.

Table 3: Panel Regression Tobin's Q Model Results

Variables	A priori Expectations	Fixed Effect	Random Effect
C		.6.653621 [0.000]	3.21891 [0.001]
LTDA	+	.0093956 [0.000] ***	.0096488 [0.000] **
STDA	+	.0082858 [0.000] ***	.0082597 [0.000] **
D_EBITDA	-	-.000222 [0.835]	-.0004591 [0.668]
AT	-	.460967 [0.000] **	.5292608 [0.000] **
EMSA	-	.0027123 [0.68]	.0025526 [0.514]
DRSA	-	-.0209598 [0.451]	-.0222248 [0.419]
SG	+	.0002293 [0.795]	.0001477 [0.867]
FSIZE	+	-.8586372 [0.000] **	-.383182 [0.003] **
R-Squared		0.0132	0.0421
F-statistics		13.45(0.000)	95.14(0.000)
Hausman test		15.95 (0.0432)	15.95 (0.0432)
Observations		689	689

(1) bracket [ ] are p-value

(2) \*\*, \*\*\*, means statistical significant at 5% and 1% levels respectively.

In testing for the nexus between the dependent and independent variables in Tobin's Q model, the two widely used panel data regression estimation techniques (fixed effect and random effect) were adopted in this study. The Table 3 presents the results of the two panel estimation models. The results show little differences in the magnitude of the coefficients, no difference in signs as well as the number of significant variables. The estimation of the fixed effect panel regression model was based on the assumption of no association between the error term and the independent variables, while random effect regression model is based on the assumption that there is correlation between the error term and the explanatory variables. In selecting the appropriate technique from the two effects, the test of Hausman with chi-square coefficient and

probability was conducted which was based on the null hypothesis that the random effect model is preferred to fixed effect model. From the Table 3, the value of the Hausman test was 15.95 (0.0432), implying that null hypothesis should be rejected and alternative hypothesis accepted. Thus, the result indicates that random effect should be rejected. This implies that the fixed effect will be adopted to test the hypothesis of the study.

## FINDINGS AND IMPLICATIONS

The result from the regression test of fixed effect of the table above reflect the fact that the long term debt to assets and short term debt to assets being and indicator of capital structure has a positive and significant relationship with firm value. Based on the slope coefficient .0093956 and .0082858 respectively and the probability value of 0.000, we can therefore conclude that there is a positive but significant relationship between capital structure variable and the value of the firm. Findings of this study was consistent with Banafa, Muturi and Ngugi (2015), they conducted on the effect of leverage, liquidity, and firm size on financial performance. The study made use of data from listed non- financial firms in Kenya. The study found that there is a positive association between debt structure on listed non- financial firms and performance in Kenya. Similarly, Fosu (2013) analyzes the effect of the structure of capital on firm performance among firms in the product market of South African. The findings reveal that debt combination has a positive and significant effect on firm performance. Again, from the result above findings of the company's debt to earnings before interest, taxes, depreciation, and amortization was also conducted so as to ascertain the level of debt obligation of the company. From the analysis, the coefficient of the debt to earnings before interest, taxes, depreciation, and amortization was -.000222 with a probability value of 0.835. We therefore conclude that there is an inversely but insignificant relationship between debt to earnings before interest, taxes, depreciation, and amortization being a proxy of capital structure and the value of the firm. The findings imply that that the firms in the non-financial sector of Nigeria have debt obligations that impact them negatively.

Also, the result of the agency cost reveals that asset turnover ratio has a positive and significant relationship on firm value. Based on the coefficient of .460967 and probability value of 0.00, we can therefore conclude that there is a positive and significant relationship between asset turnover ratio and firm value. Again a close look at the table above reveals that employee cost to sales ratio has a positive and insignificant relationship with firm's value. However, based on their coefficient of .0027123 and a probability value of 0.68 which is greater than 5%, we can therefor conclude that employee cost to sales affect Nigeria non-financial firm positively but insignificantly. The results of another agency cost variables shows that directors cost to sales

ratio has a negative and insignificant relationship with firms' value. Based on the coefficient and probability of  $-0.0209598$  and  $0.451$  respectively, we can then conclude that directors cost for non-financial sector firm has a negative relationship with the value of the firm. According to Zakaria, Purhanudin, Chong, and William (2016), asserts that during the cause of the business operations, manager would possibly perform some actions that is of benefits to him but not to the shareholders and this would eventually lead to a serious agency conflict which will affect the value of the firm.

The control variables indicate a mix result. For example the sale growth results reveal a positive and insignificant relationship based on the slope coefficient and the probability of  $0.002293$  and  $0.795$  respectively. This implies that non-financial firms in the Nigeria stock exchange experienced a positive effect of sales growth on their value. The findings from the above analysis also reveal that based on the coefficient of  $-0.8586372$  and the probability of  $0.000$ , firms size has a negative but significant relationship with the value of the firm. This implies that large firms in the non-financial sector are faced with a high risk of failure than the small firms. The above findings of the control variables were consistent with the findings of Onger (2015), in their study of the effect of the structure of capital and agency costs of the firms listed at the Nairobi Securities Exchange. They found a positive and insignificant relationship between the growth of sales and the value of the firm.

## CONCLUSION AND RECOMMENDATIONS

This study was set to examine the nexus of capital structure, agency cost and firm value in non-financial sector of Nigeria. Overall finding reveals that the capital structure key indicators have a positive and significant relationship with firm value. This findings support the net income approach of capital structure that debt financing in a firms' capital structure will increase the value of the firm as against the MM theory of 1958. Importantly, capital structure decision is vital for the success of a company since it allow companies to invest on project that will maximize shareholder wealth, minimize agency cost without making the debt holders worse-off, but on the other hand it also increases overall risk of the company if not optimally used.

Notwithstanding, findings from the empirical analysis also reveals a mix results based on agency cost effect on firms' value. The asset turnover ratio as well as employee cost to sales reveals a positive relationship with firm's value. However, the theory of agency support the fact that the level of capital structure will help firm to resolve the problem of agency cost since a higher financial leverage affects the agent and thus reduce the level of agency cost through the threat of bankruptcy, which can affect managers personally. Contrary to this finding, the empirical analysis reveals that directors cost for non-financial sector firm has a negative

relationship with the value of the firm. This implies the non-financial firms in Nigeria are currently faced with the conflict of interest between owners and directors remuneration.

Apart from the major finding of the study, the control variables also reveal that there is a negative and significant relationship between firms' size and firm's value. Also, it was revealed a positive relationship between sales growth and the value of the firm. Thus large firm are prone to risk of failure in an incidence of agency cost and high financial leverage that small firm. This problem is as a result of numerous investment alternatives with low return as well as interest to be satisfied in the business.

In line with the findings of this study, we therefore recommended that non-financial firms should make use of financial leverage in a manner that will not create agency problem to both shareholder and debt holders of the company. Also, according to Onger (2015), the separation of ownership and control in the firm may generate agency costs which in the statement of Jensen and Meckling can be eliminated if firm make use of an optimal capital structure. Thus, it was recommended that non-financial firms in the Nigeria stock market should ascertain the level of optimal capital structure in other to minimize agency cost. More importantly, shareholders should allocate certain fraction of the company to directors so as to minimize the conflict of interest and also motivate the directors to borrow from external source.

### SCOPE FOR FURTHER STUDIES

Many researchers investigated the impact of capital structure on firms' performance. However, several research though limited has also been carried out capital structure, agency cost and firm value. Thus, further studies should be conducted in this area using selected firms in West Africa countries and other countries in the world. This current study on focused on 65 non-financial firms in Nigeria which was made up of both FMCG and non FMCG firms. Further studies should regroup the sample into both FMCG and non FMCG and a test on the separate group should be conducted. Another area for further studies is the scope of the studies. Further studies should increase the scope from 2008 to 2019

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