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## **EFFECT OF AGENCY COSTS ON PERFORMANCE OF QUOTED CONSUMER GOODS FIRMS IN NIGERIA**

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### **Abstract**

*This study examined the effects of agency costs on the performance of quoted consumer goods firms. The study used ex-post facto research using descriptive and inferential statistics. The population of the study comprised of the 20 active quoted consumer goods firms and 15 firms were purposively selected. The sample period covered years 2012 to 2021 and data were sourced from the annual reports and accounts of the selected firms. Data collected were analysed using descriptive statistics and inferential statistics through panel multiple regression analysis. The study found a negative significant effect of agency costs on firm performance. The study also revealed that leverage had significant but negative effect on firm performance; firm size had positive insignificant effect on firm performance and sales growth had positive and significant effect on firm performance. The study equally found that audit firm size had negative and insignificant effect on firm performance. Increase in agency costs reduces the firm performance of consumer goods. This means that increasing the remuneration of directors lead to decrease in firm performance. It was concluded that significant investment on director's remuneration resulted in lower firm performance. It was recommended that director's remuneration should base on performance bonuses and share option for them to act in their*



*interest and those of shareholders. An increased remuneration and/or share bonus attached to firm performance will aid in reducing agency costs and subsequently improve firm performance as a steady remuneration structure may not reduce agency cost.*

*Keywords: Agency Costs, Firm Performance, Consumer Goods, Directors' Remuneration, Profitability, Nigeria*

## INTRODUCTION

Firm performance determines the ability to earn profit and measures shareholders' wealth. Firm performance can be measured using productivity, profitability, growth, employment generation or customers' satisfaction but this study focused on the profitability. The evaluation of the performance of firm and its efficiency are critical determinant of the effectiveness of the managers. Managers which are vested with daily running of the firm's activities sometimes show more concern on issues that are of benefit to them at the expense of the firm and investors. The self interest of the managers led to the agency cost being incurred by the firm.

Agency cost is the internal cost that firm incurred due to the conflict of interest the principal (shareholders) and the agent (management team). This implies that the shareholders pay agency costs to the managers for their managerial efficiency towards shareholders interest. Agency costs have attracted attention in finance and it is increasingly becoming more crucial in today's business due to the extending ownership separation and control responsibilities. The adverse implications of these actions are then felt in the form of the destruction of shareholder wealth and wider impacts on other corporate stakeholders, such as debt providers, employees and society in general.

Jensen and Meckling (1976) opined that agency costs arise from the conflicts between principal (shareholders) and agent (managers). The firm is made to commit the agency costs in order to ensure that managers take decision in the best interest of shareholders. An increase in agency costs would result in high operating costs leading to lower operating profit that would affect the performance of the firm. On the other end, increase in the agency costs implies that the managers are motivated enough to align their interest with the interest of the shareholders which would lead to increase in financial performance. In Nigeria, agency problem has become a big problem for most firms in the country resulting in the decline performance of firms especially in the consumer goods sector of the economy. Hence, studying factors that influence the firm performance is vital and beneficial in the perception of investors and shareholders. This study therefore examined the effect of agency costs on firm performance.

This study focused on consumer goods sector because it is an important sector that produces goods that are consumed on daily basis and essential for human survival. It is also a major contributor to the market capitalization of the stock exchange. The study focus on this sector due to high cost of production they face mainly due to scarcity of foreign exchange since critical inputs required for production are imported. As a result, the activities of the managers in this regards could affect performance. Following the introduction, the rest of the paper was divided into four sections. Section two showed the literature review; methodology was discussed in section three. Results and discussions were presented in section four while section five concluded the study.

## LITERATURE REVIEW

### Conceptual Review

Agency costs as the total of monitoring expenses by the principal, the bonding expenditures incurred by agent and the residual loss. Agency problem arises from managers' incentives to consume private benefits. Agency costs are first mentioned in Berle and Means (1932). They argue that when there is a separation between management and ownership in a company, the manager who acts as the agent of the company will have the motivation and opportunity to conduct activities that serve their own interest instead of maximizing the value of the owners' wealth.

Jensen and Meckling (1976) argue that the agency costs occur due to the incomplete contractual relationship between the shareholders (the principal) and the managers (the agent). They mention that the agency costs include three types of costs. The first cost is the expenses incurred by the owners to monitor the activities of the agents, including the expenses for examining, firing agents or binding compensation contract for them. The second cost is the bonding expenditure to create a mechanism to ensure that the owners will be compensated sufficiently when the agents conduct activities causing damages to their benefit. The final cost, which is named residual loss, is the relevant expenses incurred due to the conflict of interest between the principal and agents.

Given that it is difficult to measure agency costs, some studies attempt to propose several proxies for agency costs. Ang, Cole and Li (2000) measure the agency costs by the ratio of operating expenses to annual sales and by the ratio of annual sales to total assets. They argue that the first ratio indicates how effectively the company's manager controls operating expenses that include the agency costs. A high ratio of operating expenses over annual sales is associated with high agency costs. The second ratio, asset utilization ratio, measures how effectively the company's manager uses its assets. A higher ratio of asset utilization indicates

more efficient use of assets, and therefore this ratio is inversely related to the agency costs. Agency theory ideals propose that higher management pay and or linkage monetary or share bonus or option entitlements to specific firm performance targets should act as a positive incentive mechanism, help in minimizing agency costs and aid in improving firm performance (Wambua, 2013).

It was obvious that the agency problem caused by management would burden the stockholder's loss, yet it was not clear how the agency costs were defined as well as measured. In measuring agency costs, most studies concentrated on using many proxies to represent agency costs. For instance Wang (2010) used a total asset turn over, administrative expenses, advertisement, R & D, operating expenses, net income volatility and operating income volatility to measure agency costs. Khidmat and Rehman (2014) measured agency costs using operating income volatility, net income volatility, total assets turn over and operating income expenses. Also the studies of Ang, Cole and Li (2000); Bhutta and Ali-Shah (2015); Hoang, Tuan, Nha, Long and Phuong (2019); Houqe, Opare, Zahir-ul-Hassan and Ahmed (2022); Khan, Khidmat, Al Hares, Muhammad and Saleem (2020); Mutende (2018) and Maringa (2012) used used operating income expenses ratio and asset utilization ratio to measure agency costs;

Agency costs was also measured with executive remuneration, measured by the amount of remuneration to directors, (Wambua, 2013; Wanyonyi, 2018) while some studies (Anazonwu, Egbunike & Echekoba 2018; Kalash, 2019; Chinelo & Iyiegbuniwe, 2018) also used free cash flow which is measured as the ratio of the difference between cashflow from operating activities and capital expenditure to total sales.

## Theoretical Review

### ***Agency theory***

Agency theory developed by Jensen and Meckling (1976) suggest that an optimal capital mix exist and that an optimal debt level in capital structure can be achieved by minimizing agency costs arising from the divergent interest of managers in relation with shareholders and debt holders. This suggests negative or inverse relation of agency cost to debt equity ratio. It was further proposed by Jensen (1986) that free cash flow is an anomaly causing excesses of managers. These free cash flows can reduce, and managers' excesses curtailed through the increase of equity stake of managers in the firm to align with the interest of shareholders. Managers' interest or those of debt holders should be used as control mechanism to undermine managers' tendency for excessive consumption of perks.

## Empirical Review

Bhutta and Ali Shah (2015) examined the relationship of corporate entrepreneurship and agency cost to firm performance, in the presence of behavioral biases to address the behavioral finance approach and validate it in developed (USA) and developing (Pakistan) economies, in order to generalize the study. Behavioral biases might be different across economies, to measure the corporate entrepreneurship, behavioral biases and risk perception of USA and Pakistani non-financial sector companies listed on the New York Stock Exchange (NYSE) and the Karachi Stock Exchange (KSE), respectively between 2009 and 2011, validated construct was adopted. Data was extracted from 257 USA companies and 175 Pakistani Companies listed at NYSE and KSE respectively. It was found that behavioral biases don't impact the entrepreneurial orientation. The executives perform entrepreneurial activities differently, varies from individual to individual.

Gurbus, Aybars and Yesilyurt (2016) investigated the connection between agency cost and performance of 132 companies listed on the stock exchange of four countries namely Brazil, Russia, Indian and China between 2013 and 2014. They used three variables to measure agency cost these are ratio of free cash flow to total asset, asset turnover and operating expenses while the proxy of performance is ratio of EBITDA to total asset. They concluded that negative and substantial relationship exists between agency cost and performance

Hoang, Tuan, Nha, Long and Phuong (2019) examined the impact of agency costs on firm performance of Vietnamese listed companies from 2010 to 2015 and found that agency costs exert a negative impact on firm performance. The study also showed that a debt instrument can be a useful tool to reduce the negative impact of agency costs on firm performance.

Houqe, Opare, Zahir-ul-Hassan, and Ahmed (2022) explored the separate and combined effects of carbon emissions and agency costs on firms' financial performance using data from 2323 US firms that disclosed their environmental information from 2007 to 2016. The research indicated that firms with higher carbon emissions experience lower performance as the market reacts negatively, and firms with both higher carbon emissions and higher agency costs have lower performance. The study also investigated year-on-year change in firm performance and it was found that, keeping agency costs constant, a change in carbon emissions leads to lower performance. Overall, the findings suggest that when the market responds negatively to firms' environmental decisions, high agency costs exacerbate the adverse effect of high carbon emissions on firm performance.

Jabbary, Hajiha and Labeshka (2013) examined the impact of agency costs on firm performance of listed firms in Tehran Stock Exchange. 73 firms listed in Tehran Stock Exchange during the 5-years period, 2006 to 2010 was used for the analysis, operating expenses to sales ratio, asset turnover to sales ratio and Q-Tobin ratio was used to measure agency costs while return on assets and return on capital were implemented to measure firm performance. It was found that there is a significant relationship between agency costs and firm performance indicating that there are some evidences about verification agency theory in Tehran Stock Exchange.

Kalashi (2019) investigated and analyzed the impact of firm leverage on the performance of firms with high and low agency costs. Data of 52 firms whose stock certificates are processed in the service sector in Istanbul Stock Exchange covering the period of 2008-2017 were extracted for the analysis. It was discovered that leverage had a negative impact on firm profitability and that impact was higher for firms with higher agency costs (firms with higher growth opportunities and fewer tangible assets) and lower for firms with agency costs of free cash flows (firms with higher free cash flows).

Khan, Khidmat, Al Hares, Muhammad and Saleem (2020) examined the effect of corporate governance quality and ownership structure on the relationship between the agency cost and firm performance. Both the fixed-effects model and a more robust dynamic panel generalized method of moment estimation are applied to Chinese A-listed firms for the years 2008 to 2016. The study revealed that the moderation of the agency performance positive relationship can be by corporate governance quality, ownership concentration, and non-state ownership. State ownership has a negative effect on the agency–performance relationship. The study supports the literature that agency cost and firm performance are negatively related to the Chinese listed firms and it was recommended that the investors should keep in mind the proxies of agency cost while choosing a specific stock, and also the policymakers can make use of the study results to devise the investor protection rules so that managerial appropriation can be minimized.

Khidmat and Rehman (2014) investigated the impact of free cash flows and agency costs on firm performance in KSE listed companies of Pakistan. The analysis of a sample of 123 companies listed on KSE representing eight different sectors was used to realize the relationship between free cash flows, agency costs and firm performance. Data was extracted from balance sheet analysis of joint stock companies (BSA) issued by State Bank of Pakistan (SBP) covering the period of 2003–2009. It was found that there is a significantly positive relationship between free cash flows and agency cost, Free cash flows have significantly negative impacts on firm performance, and also revealed a significantly

negative impact of agency cost on firm performance with exception to total asset turnover (TATO) ratio which has a positive impact. Wang (2010) also investigated how free cash flow (FCF) is associated with agency costs (AC), and how FCF and AC influence firm performance, it analyzed the impact of FCF on AC, it re-examine the free cash flow hypothesis, and to test the agency theory based on the empirical data from Taiwan publicly-listed companies. It is found that FCF has a significant impact on AC with two contrary effects which the first one could be FCF could be due to perquisite consumption and shirking behavior and also the generation of FCF, resulting from internal operating efficiency which could lead to better firm performance.

Shah, Tang, Sarfraz and Fareed (2019) analyzed the effect of CEO succession via overall hierarchical jumps on Chinese firm performance and agency cost. The study revealed through panel regression analysis that the CEOs appointed via medium hierarchical jumps substantially enhance firm performance. Conversely, the successors appointed through low and high hierarchical jumps have relatively no effect on firm profitability and lastly, this research suggested that the aged CEOs should be preferred among the CEOs successors via high hierarchical jumps, which have mitigated the agency problem decisively.

Wambua (2013) analyzed the effects of agency costs on financial performance of companies listed at the Nairobi Securities exchange (NSE) using descriptive analysis. It was discovered that firm's chief executive duality, executive remuneration, board independence, board size and free cash flow are all significant at 95 percent confidence level, free cash flow is the most important in determining financial performance compared to other variables and that liquidity level of a firm is paramount in financial performance of any organization. The study suggested that organizations should form a lean but standard size board of director that would ensure efficiency in cash flow and also that the directors' compensations would translate to the amount of money flowing out in form of allowances and monthly compensations.

In Nigeria, Akinkoye, Akinadewo and Oladejo (2020) also employed the use of descriptive analysis to determine the extent of agency cost incurred by Nigerian manufacturing firms from 2010 to 2018. Agency cost, measured by operating expenses ratio across the sector were extracted from published financial statements of selected companies and publications of Nigerian Stock Exchange. It was found that agency cost varies across sector with Natural Resources, Conglomerates and Health spent 56%, 47.5% and 43.3% of their income on agency cost respectively which is far above industry average. The study opined that policies formulation



and adoption of strategies and procedures that can help in mitigating agency conflict and minimize cost.

Nuhu, Dandago, Mohammad, Ado and Abdulkarim (2020) examined impact of agency costs on financial performance of listed consumer goods companies in Nigeria for the period of 2007-2016 using panel data regression technique. Inverse relationship was found between agency costs and financial performance, indicating that agency costs will lead to a decline in financial performance, if not properly managed. The study recommended that managements of listed consumer goods companies in Nigeria should lay down effective rules and regulations that will ensure avoidance of keeping free cash flow at managers' discretion so that agency costs could be minimized and effectively managed. This could be achieved by complying with the suggestions by free cash flow hypothesis paying it out in the form of cash dividend or committing the firms in to more financial obligations which requires periodic interest payments. There should be critical reviewed before such action are taken by companies in consumer goods industries.

## METHODOLOGY

This study adopted ex-post facto research using descriptive and inferential statistics. The study focused on consumer goods firms that are quoted on the Nigerian Exchange Group which are twenty (20) in number as at 31 December, 2021. Fifteen firms were purposively selected. These are the firms that their data are easily accessible; listed before 2012; and delisted within the study period. The data for the study are secondary data sourced from the annual reports of the selected firms from 2012 to 2021.

The independent variable of the study is agency cost which is represented by director's remuneration while the dependent variable is firm performance proxied by returns on assets while the control variables are firm size, leverage, growth and audit firm size.

The model of the study is formulated as

$$ROA = f(LDIR, FSZ, GRW, LEV, BIG4)$$

The model is transformed into an econometric model as;

$$ROA = \beta_0 + \beta_1 LDIR + \beta_2 FSZ + \beta_3 GRW + \beta_4 LEV + \beta_5 BIG4 + \mu_t$$

Where

ROA denotes returns on assets. It demonstrates firm performance on total assets. It is expressed as the ratio of profit before tax to total assets. It is the dependent variable.

LDIR represents directors' remuneration. It is measured as the log of remuneration paid. It is the independent variable.

FSZ represents firm size which measured as the log of total assets. It is a control variable.



GRW denotes sales growth. It is measured as the ratio of the difference between sales of current year and sales of previous year to sales of previous year. It is also a control variable.

LEV denotes leverage. It is expressed as the ratio of total debts to total assets. It is equally a control variable.

BIG4 represents audit firm size. It is measured using dummy variable. Assign 1 where the firm used any of big 4 audit firms (i.e. PWC, KPMG, Ernst and Yong, and Deloitte). Assign 0 if otherwise

$\beta_0$  is the constant term.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ , are the parameters to be estimated.

$\mu$  is the stochastic variables that cater for variables not specified in the model.

*A priori* expectation explains the anticipated signs of the coefficients of independent variables in the specified model as explained in the theories. They are the outcome of the theories guiding the connections among the exogenous variables. The expected signs of the independent variables are shown as:

$\beta_1 < 0, \beta_2 > 0, \beta_3 > 0, \beta_4 < 0, \beta_5 < 0$

The objective of the study was achieved by carrying out descriptive analysis and inferential statistics. Descriptive statistics explains the essential features of data used in models. The study carried out a correlation analysis to detect the extent of association among the variables used. Correlation analysis helps in determining the positive and negative relationship and the extent of the relationship whether weak, moderate or strong. It is always the practice to develop correlation matrix before multiple regression analysis due to its assistance in developing a prediction multiple model and detecting the possibility of multi-collinearity among variables.

The study used panel multiple regressions for analysis. The panel data analysis involved pooled ordinary least square, fixed effect model and random effect model. Fixed and random effect regressions were included because the use of pooled regression can create heterogeneity problem because individual specific effects are not considered in the analysis. Firstly, the study carried out Breusch-Pagan language multiplier statistics to determine whether pooled ordinary least square will be appropriate. A *p*-value of less than 5 percent shows that POLS is inappropriate for the models specified. Then a further test for fixed effect model and random effect model was applied and this was followed by the Hausman specification test to determine whether fixed effect model or random effect model will be appropriate. A chi-square's probability of less than 5 percent means the fixed effects will be adopted otherwise the random effects.

## RESULTS

### Descriptive Statistics

This section presents the descriptive analysis of the indicators of agency costs and firm performance. The analysis covers the study period of 2012 to 2021.

Table 1 Descriptive Statistics

Variable	Mean	Maximum	Minimum	Std. Dev.
ROA	0.0780	0.3776	-0.2837	0.1096
LDIR	4.8881	6.2451	2.5855	0.7923
FSZ	7.5461	8.7362	5.4179	0.8117
GRW	0.0933	1.1508	-0.9070	0.2519
LEV	0.5847	1.5045	0.1936	0.1837
BIG4	0.8200	1.0000	0.0000	0.3855

Table 1 shows that ROA has a minimum ratio reported at -0.2837 and maximum of 0.3776 with an average value of 0.078 and standard deviation of 0.1096 which indicate a moderate level of dispersion. The independent variable data value of LDIR showed a minimum value of 2.5855 with maximum of 6.2451 and measures the variability of data with standard deviation of 0.7923 with the mean value of 4.8881. FSZ has a minimum value of 5.4179 and maximum of 8.7362 with an average value of 7.5461 and standard deviation of 0.8117 which indicate a considerable level of dispersion. GRW has a minimum ratio reported at -0.9070 and maximum of 1.1508 with a mean value of 0.0933 and standard deviation of 0.2519 which indicate a moderate level of dispersion. LEV showed a minimum value of 0.1936 with maximum of 1.5045 and measures the variability of data with standard deviation of 0.1837 with the mean value of 0.5847. BIG4 has a minimum value of 0 and maximum of 1 with an average value of 0.82 and standard deviation of 0.3855 which indicate a moderate level of dispersion.

### Correlation Analysis

Correlation was employed to confirm the degree of association among variables selected for this study. Correlation analysis assists in detecting the possibility of multicollinearity. Statistically, multicollinearity occurs as two or more independent variables are highly related with another which may display redundant information in the regression analysis.

Table 2 Correlation Matrix

	ROA	LDIR	FSZ	GRW	LEV	BIG4
ROA	1.0000					
LDIR	0.2847***	1.0000				
FSZ	0.2470***	0.7973***	1.0000			
GRW	0.2057**	0.0524	0.0777	1.0000		
LEV	-0.1655**	-0.0366	0.1563*	0.0981	1.0000	
BIG4	0.2235***	0.6354***	0.4586***	0.1230	0.0285	1.0000

Note: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

Table 2 presents the correlation among variables. ROA showed positive and significant association with LDIR ( $r = 0.2847$ ,  $p < 0.01$ ), FSZ ( $r = 0.247$ ,  $p < 0.01$ ), GRW ( $r = 0.2057$ ,  $p < 0.05$ ) and BIG4 ( $r = 0.2235$ ,  $p < 0.01$ ) while it was negative and significant relationship with LEV ( $r = -0.1655$ ,  $p < 0.05$ ). LDIR had positive and significant relationship with FSZ ( $r = 0.7973$ ,  $p < 0.01$ ) and BIG4 ( $r = 0.6354$ ,  $p < 0.01$ ) and had insignificant positive and weak relationship with GRW ( $r = 0.0524$ ,  $p > 0.05$ ) and insignificant negative and weak relationship with LEV ( $r = -0.0366$ ,  $p > 0.05$ ). FSZ had insignificant positive and weak relationship with GRW ( $r = 0.0777$ ,  $p > 0.5$ ) and LEV ( $r = 0.1563$ ,  $p > 0.05$ ) while it had a positive significant and moderate relationship with BIG4 ( $r = 0.4586$ ,  $p < 0.01$ ). GRW had insignificant positive and weak relationship with LEV ( $r = 0.0981$ ,  $p > 0.05$ ) and BIG4 ( $r = 0.123$ ,  $p > 0.05$ ). LEV had insignificant positive and weak relationship with BIG4 ( $r = 0.0285$ ,  $p > 0.5$ ).

The POLS was estimated with the assumption that the intercept was equal across firms and years. Breusch-Pagan Lagrange Multiplier (LM) test was then conducted to determine the appropriateness of the POLS. The null hypothesis ( $H_0$ ) of the Breusch-Pagan Lagrange Multiplier test is that "Panel Ordinary Least Square (POLS) is more appropriate than fixed effect model (FEM) and random effect model (REM)". It also implies that the variables cannot be pooled together, therefore rendering the pooled OLS inappropriate. The null hypothesis was accepted where the  $p > 0.1$  while it was rejected where  $p < 0.1$  leading to further examination of fixed and random effect models.

In order to determine which of REM and FEM is appropriate to use so as to have more consistent and efficient outcome, Hausman test was carried out. FEM presumes that the effect of independent variables on dependent variable is the same while REM presumes the presence of random relationship between endogenous variable and exogenous variables. Null hypothesis ( $H_0$ ) of Hausman test states that there is the presence of random effect. The  $H_0$  is rejected when chi-square value has a  $p < 0.05$  while the  $H_0$  is accepted when chi-square value has a  $p > 0.05$ .

Table 3 Regression result showing the effect of agency cost on firm performance

Dependent variable: ROA									
Variables	Pooled			Random Effects			Fixed Effects		
	Coeff.	t-stat	Prob	Coeff.	t-stat	Prob	Coeff.	t-stat	Prob
Constant	-0.096	-1.169	0.244	0.129	0.752	0.454	0.737	2.519	0.013
LDIR	0.014	0.664	0.508	-0.068	-2.755	0.007	-0.110	-3.786	0.000
FSZ	0.020	1.115	0.267	0.048	1.639	0.103	0.004	0.110	0.913
GRW	0.087	2.582	0.011	0.072	3.020	0.003	0.083	3.353	0.001
LEV	-0.123	-2.551	0.012	-0.219	-6.024	0.000	-0.251	-6.595	0.000
BIG4	0.020	0.708	0.480	0.051	1.339	0.183	-0.020	-0.398	0.691
R squared	0.157			0.248			0.676		
F – statistic	5.380			9.523			14.307		
(p-value)	(0.000)			(0.000)			(0.000)		
LM Statistic	159.301								
(p-value)	(0.000)								
Hausman	12544977								
Test	(0.000)								
(p-value)									

The regression result showed that pooled least square was not appropriate as shown by the LM statistics test value of 159.301 ( $p < 0.01$ ). Then the REM and FEM were carried out. The Hausman test value of 12544977 ( $p < 0.01$ ) suggested that the FEM should be the model to explain the effect of agency cost on firm performance.

The measurements of agency cost LDIR had negative significant effect on firm performance at 1 percent level ( $\beta = -0.11$ ,  $t = -3.786$ ,  $p < 0.1$ ). The results indicate that LEV also had significant but negative effect on firm performance ( $\beta = -0.251$ ,  $t = -6.595$ ,  $p < 0.01$ ). FSZ had positive insignificant effect on ROA ( $\beta = 0.004$ ,  $t = 0.11$ ,  $p > 0.1$ ). GRW had positive and significant effect on ROA ( $\beta = 0.083$ ,  $t = 3.353$ ,  $p < 0.01$ ). BIG4 had negative and insignificant effect on firm performance ( $\beta = -0.02$ ,  $t = -0.398$ ,  $p > 0.1$ )

The results of the fixed effects show that the  $F$ -statistic was 14.307 and significant,  $p < .01$ . This shows that the overall model is statistically significant.  $R^2$  value showed that the independent variables explained 68 percent of the variations in firm performance while other variables not specified in the model explained the remaining 32 percent. This reveals the goodness of fit of the model in explaining the relationship between agency costs and firm performance.

The significant effect of agency cost on firm performance is in line with the agency theory. This study supports the agency theory that agency costs lead to lower performance of a firm. The implication of findings is to reduce agency costs by encouraging managerial ownership in firms as this will make managers to align their interests with those of shareholders. It also provided support for the agency theory that agency costs lead to lower performance of an organization, as revealed by the model. The result supports the studies of Jabbary, Hajiha and Labeshka (2013), Khidmat and Rehman (2014) who found an inverse association between agency costs and financial performance but not congruent with the studies of Wambua (2013), and Wayonyi (2018) that found positive relationship between agency costs and performance.

## CONCLUSIONS

According to the findings, there is a significant negative effect of agency costs on firm performance. Increase in agency costs reduces the firm performance of consumer goods firms. This means that increasing the remuneration of directors leads to decrease in firm performance. It was concluded that consumer goods firms that make significant investment on directors remuneration resulted in lower firm performance as agents (managers) act more on their own interest at the expense of the goals of the principal (shareholders). The inverse relationship between agency costs and firm performance revealed by this study, in line with existing studies, proved that director's remunerations could serve as a good measure for agency costs. It was therefore recommended that director's remuneration should be based on performance bonuses and share option for them to act in their interest and those of shareholders. An increased remuneration and/or share bonus attached to firm performance will aid in reducing agency costs and subsequently improve firm performance as a steady remuneration structure may not reduce agency cost. This study contributed to the finance literature by examining the effect of agency costs on firm performance using director's remuneration as proxy for agency cost.

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