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INFLUENCE OF AGENCY COST ON FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS MANUFACTURING COMPANIES IN NIGERIA

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Abstract

The study examined the influence of agency costs on financial performance of listed consumer goods manufacturing companies in Nigeria. This study employed Ex-post facto research design. Ten (10) manufacturing companies were purposively selected based on convenience and availability of annual reports. The period of the study covered five (5) years between 2015 and 2019. Secondary data were used for the purpose of this study. Descriptive statistics such as mean, median, range and inferential statistics such as panel regression analysis (fixed effect) and correlation analysis were used to analyzed the data collected from the annual reports and accounts of the sampled listed manufacturing firms. The findings from this study revealed that there is a positive significant relationship between current ratio and return on asset supported by t-statistics = 5.0684, p-value (0.0268), p-value < 0.05%, it was further discovered that there *is a negative significant relationship between administrative expenses and profit after tax margin evidenced by t-statistic = -3.03321, p-value (0.0037), p-value < 0.05%. Therefore, this study concluded that there is a significant relationship between agency costs and financial performance of listed consumer goods manufacturing company in Nigeria. Based on this result the study recommends that managements of listed consumer goods companies in Nigeria should introduce control measures that will assist in reducing administrative expenses and also help to prevent frivolous and unnecessary spending's. Also, motivating managers will help to increase effort level and in turn brings about improvement in organization current and asset utilization ratio.*

Keywords: *administrative expenses, agency cost, agency theory, current ratio, asset utilization, financial performance*

JEL: M20, L21

1. INTRODUCTION

Agency costs have the potential to retard corporate performance and destroy shareholder's wealth in addition to its adverse effect on other corporate stakeholders. This study developed a unified model that attempt to describe how the financial performance of publicly traded consumer goods manufacturing companies might be influenced by internal expenses that arise as a result of agency problem. Jensen (1986) defines agency costs as the costs expended by a company's owners or management in order to structure and oversee management's performance in a way that fits their needs. Agency costs can occur between the external shareholders and internal managers or between debtholders and shareholders (Eboiyehi & Willi, 2018). The model in this research work considers quantifying the former which is the agency cost between the external shareholders and internal managers.

Managers in emerging economies tend to handle funds inefficiently, which has a direct impact on business performance. The size of agency cost in emerging economies such as China and other developed countries, is different from that in developing ones (Garania & Kaikova, 2016). Garania and Kaikova, (2016) in their study reveals that approximately sixty-four percent (64 percent) of significant enterprises in the world's out of the twenty-seven richest nations have controlling shareholders, besides control is normally concentrated within a family in the other countries. However, in a scenario where the managers of the company are the owners of the company, there will be less conflicts of interest between the goals of the organisation and the goals of the company's managers, since the company managers are also the owners of the company. Also, Ang, Cole and Lin (2000) in their study using small firms in America as a case study discovered that agency costs are greater when the organization has outsider directors, i.e. directors who are not the company's owners or in any way affiliated to the company. Agency cost increases inversely with director's ownership share.

Financial performance is the process of measuring how revenue is generated using available assets in the firm. It also refers to as a way of assessing overall financial health of an organization over a specified time period, which can be used to compare related organizations in the same industry. Kyazze, Nsereko and Nkote (2020) argued that financial performance is a practice of measuring the efficiency and effectiveness of an action.

According to Shleifer and Vishny (1997), agency problems occur when the principal of a company (the shareholder) employed a professional management (the manager) and thus removing the firm shareholders from the control of the company which might result in agency cost. Every nation's economic growth and development are heavily reliant on the operations of its industrial sector, such as consumer goods companies because of their enormous contribution to the country Gross Domestic Product (Rathnaweera, 2019). However, the consumer goods industry is not the largest sub-sector in Nigeria or even in African economies in terms of employment generation or product output, the development of this sector has long been considered as essential for economic development. The special interest in the consumer goods industry emerges from the belief that the sector is a creator of skilled jobs, a potential engine of modernization and an initiator of positive effects in the context of the application of modern technologically driven machines (Barasa, Vermeulen, Knoben, Kinyanjui, & Kimuyu, 2019). Studies in the African context reveals that consumer goods manufacturing companies' performance has been very poor. For instance, Nigeria has only 4% of its GDP in consumer goods manufacturing sector, this is considered low when compared to other African countries, especially comparing it to the 20% GDP levels of South Africa and Mauritius (Ibeh, & Chizema, 2012).

In Nigeria, private organisations incur lower agency costs compared with public organizations. Private firms, are expected to overcome their agency problem easily since the key shareholders of the private firms are those who frequently manage the firms and have direct access to internal company information (Chen, Hope, Li, & Wang, 2011). Agency problem according to Jensen and Meckling (1976) arise as a result of knowledge asymmetry between managers and outside investors.

However, numerous research studies on agency costs have been conducted, whereas, studies in Nigeria focused more on agency cost and corporate governance such as the study of Nguyen, Doan and Nguyen (2020) which examined the influence of agency cost on corporate governance. Eboiyehi and Willi (2018) also studied the influence of ownership structure and corporate governance on agency cost of listed industrialized companies in Nigeria while empirical works outside Nigeria established a significant correlation between free cash flows and agency costs on firm performance for example the study of Khadimat, Pakistan, and Rehman (2014) but very few has researched on the influence of agency cost on financial performance of listed consumer goods manufacturing companies. Also, several research work has been conducted using operating expenses, administrative expenses and asset utilization as proxies for agency cost for example Nuhu, Dandago, Muhammed, Ado and Abdul-kasim (2020) in their studies investigated the impact of agency cost on financial performance of listed manufacturing companies using operating expenses as proxy for agency cost and return on assets as proxy for financial performance but very few has used current ratio as proxy for agency cost. In the light of the above, this research study seeks to bridge the gaps by reviewing the influence of agency cost on financial performance of listed consumer goods manufacturing companies in Nigeria using current ratio and administrative expenses ratio which are indirect agency cost as proxies for agency cost while profit after tax margin and return on asset are used as proxies for financial performance. Also, debt ratio and firm size were used as control variables.

Statement of the problem

Agency problems usually arise when the action taken by one party namely manager influenced the welfare of another party namely principal (owner). Wang (2010) stated in his studies that agency problems are associated with the level of misalignment between stockholders and management cash flows. Armour, Hansmann, and Kraakman (2009) give emphasis to some of the basic agency problems which might arise in corporate organizations one of which is the conflict between the company's managers and company's shareholders. More so, the shareholders are the principals while the managers act as agents. Agency problems will occur when the directors are pursuing their own individual interest rather than being receptive to the interest of the shareholders.

According to Chinelo and Iyiegbuniwe (2018), the significance of agency cost is that it helps to lessen the effects of agency problem. There are two types of agency costs: indirect and direct agency cost. Direct costs are being incurred by the shareholders to reduce potential conflicts with managers such as (executive director's compensation, stock option plan, bonus, audit fees, infrastructure and managerial incentives) and also to control the activities of managers. Indirect agency costs are incurred as a result of director's failure to make cost-effective investment. In other to reduce agency costs, Armour, Hansmann, and Kraakman (2009) argued that the disclosure by agents should be enhanced by having rules and procedures or the principal should facilitate enforcement actions toward the dishonest or negligent agents. Lastly a good corporate governance system should be established to provide effective safeguard for creditors and shareholders. Hence, it should be able to provide assurance to the investors on getting their return on investment.

Objectives of the study

This study intends to examined the influence of agency cost on financial performance of listed consumer goods manufacturing firms in Nigeria.

The study specifically examines:

- the influence of current ratio on return on asset (ROA) of listed consumer goods manufacturing firmss in Nigeria.
- investigate the degree of relationship between administrative expenses ratio and profit after tax margin ratio (PATM) of listed consumer goods manufacturing firms in Nigeria.

Research Hypotheses

H_{01}: There is no significant connection between current ratio and return on asset (ROA) of listed manufacturing companies in Nigeria.

H_{o2}: There is no significant relationship between administrative expenses ratio and profit after tax margin ratio (PATM) of listed manufacturing companies in Nigeria.

Significance of the Study

The theoretical and practical contributions of this study could potentially benefit listed consumer goods manufacturing firms, internal users, investors, shareholders, future researchers, academicians, research students and government.

2. LITERATURE REVIEW

Conceptual review

Agency costs are internal expenses that originate from a misalignment of interests between the company's managers and the company's shareholders, resulting in clashes of interest between the owners (principals) and the managers (agents) in an organization. The expense of hiring appropriate agents, investigating, gathering information to define performance requirements, bonding payments, monitoring cost and residual losses are all part of agency expenditures (Chen, 2010).

Agency costs, according to Islam, Islam, Bhattacharjee, and Islam (2010), includes bonding charges, monitoring fees and residual losses. Monitoring costs are related with the issuance of financial statements, employee stock options, and the costs incurred on board of directors. Bonding costs are the expenses incurred by the agents to provide assurance to the principal that they are acting in the best interest of the principal. Residual claims usually occur whenever activities that would promote self-interest of the owner of a company is different from those that would promote the self-interest of the company's director (Nuhu et. al., 2020). For the purpose of this research, current ratio and administrative expenses ratio are used to measure the agency costs of the selected listed consumer goods manufacturing company.

An asset that can be easily converted into cash rapidly at a least cost is regarded as liquid asset (current ratio). This description relates to both financial assets and real assets. Recently there has been a secular growth in both asset liquidity and stock liquidity as measured by the amount of cash on a company's statement of financial position (Chordia, Roll & Subrahmanyam, 2007). Liquid asset ratio or current ratio is the ratio of those assets that can easily be converted to cash or it can be stated as the proportion of an organization liquid's assets to its short term liabilities, utilized as a measure of solvency. Current ratio is measured as the proportion of current asset to current liabilities. Several researchers have investigated the association between liquidity ratios and financial performance indicators or profitability ratios and liquidity ratios, one of which is the study conducted by Lartey, Antwi, and Boadi (2013) which examined the connection between profitability and liquidity of the financial institutions listed on the Ghana bursa for the duration of 2005-2010. More so, a higher current ratio brings about a better liquidity position where as a lower current ratio result in to a poor liquidity position. Various researchers have worked on the relationship between asset liquidity (current ratio) and financial performance but none or very few has used current ratio as proxy of agency cost on financial performance. Siddiqui, Rasaq, Malik, and Gul (2013) are among the few scholars who have used asset liquidity as proxy for agency cost. They examined several corporate governance methods that lower agency cost by using asset liquidity and asset utilization ratio as proxies for agency cost.

Administrative expenses ratio measured as the proportion of general expenses to sales and its value is directly related to agency costs. The measure has been used in previous studies by (Aras & Furtunad, 2015). Administrative expenses are expenses an organization incurs that are not unswervingly tied to a specific function such as production, manufacturing or sales. Administrative expenses includes; office maintenance cost, general repair and maintenance cost, costs linked with general services for example accounting and information technology. More so, managers can easily manipulate administrative expenses for their own personal benefits. They can inflate the amount of administrative expenses for their own personal gain. The lower the profit after tax margin, the higher the administrative expenses. Managers can resort to inflating of expenses values if the amount of bonding cost allocated to them is not sufficient enough or if they are not well motivated. Bonding cost are said to be cost incurred to provide incentives to managers in order to motivate them to behave in the best interests of the shareholders.

Furthermore**,** Mohammed and Malik (2012) defined Mohammed and Malik (2012) defined financial performance as an indication of an organization's assets, level of competitiveness in a similar sector, and a full understanding of the profit and cost center inside the enterprise. It is critical to the shareholder's and the wider economy's well-being. Firm performance is dynamically important for stakeholders, investors, and the economy as a whole. The return on investment is extremely significant to investors, and a well-performing business can result in substantial and long-term returns for their investors (Nuhu et.al., 2020). Agency costs have potential to destroy shareholder's wealth and retard corporate performance. In this study, financial performance is proxy by return on assets (ROA) and profit after tax margin (PATM) as the dependent variable. Return on Assets (ROA) measures a company's profitability in relation to its total assets. ROA indicates how effective management is utilizing its assets to generate returns. ROA is calculated as follows: Net Income (profit after tax) divided by Average Total Assets of the company as used by Pouraghajan, Tabari , Mansourinia, & Emamgholipour (2013); Jabbary, Hajiha and Labeshka (2013); Heydari, Mirzafifar and Javadhayedi (2014) and Khidimat Pakistan and Rehman (2014) to measure financial performance.

More so, the profit before tax (PBT) margin is express as profit before tax divided by total revenue. Bloomberg defines PBTM as an indicator of financial performance, which is net income less taxes, interest, depreciation, and amortization added back to it. Accordingly, profit after tax margin was utilized as proxy of financial performance in the previous studies of Gerpott and Jakopin (2005) and Oeyono, Samy and Bampton (2011).

In addition, the effects of firm size on corporate performance have gotten a lot of attention in firm research. According to popular belief, the size of a firm has a significant impact on firm performance for a variety of reasons. According to some studies, size can be used as a proxy for firm resource. According to Wang (2010), firm size is measured as the natural log of total assets as used by Wang (2010); Pouaghjan et. al. (2013), Khidimat Pakistan and Rehman (2014). More so, Gurbuz, Aybars and Kutlu (2010) discovered that company size has a significant impact on firm performance. Agency conflicts are more common in bigger firms with a larger figure of shareholders and managers. That is, the firm size is related to the agency cost in a positive way (Doukas, Kim & Pantzalis, 2001). Moreover, the use of debts can lessen the need for external funding through the issuance of shares, thereby assisting in the reduction of the manager-stockholder agency problem. Furthermore, the debt ratio assesses the degree of a company's leverage. It is calculated as the ratio of total debts to total assets. By committing the firm to fixed interest payments, debts can alleviate the agency problem of over-investment (Jensen & Meckling, 1976). Debt ratio has been used by several researchers as control variables for agency cost and performance some of which are the studies conducted by Nuhu et. al. (2020) and Osman (2014).

Theoretical review

Numerous theories have been utilized in investigating the connection between agency cost and financial performance in literature, these theories consist of the agency theory and stakeholder's theory. This study is anchored on agency theory.

Agency theory

Agency theory has point out that separation of ownership and control entails proficient managers (agents) managing a company on behalf of the company's owners (Kiel & Nicholson, 2003). The most prominent study on agency theory is attributed to Jensen and Meckling (1976) who initially modelled the theory within the framework of principal-agent relationship. Under the theory, it is assumed that ownership is separated from control which leaves the principal (shareholders) in a potential conflict with the agents (management) According to agency theory, a firm is an interconnected set of contracting relationships between individuals. The theory is predicated on the assumption that each party pursues selfish interests and uses information available to him to his advantage at the expense of the other party, resulting in an agency problem (Holtz, Sarlo & Neto, 2014). Agency problem and by extension, agency cost arises due to a number of factors among which is the issue of information asymmetry between the agent and principal. However, Perrow (1986) condemned positivist agency researchers for focusing solely on the agent (managers) side of the "principal and agent problem," claiming that the agency problem could also arise from the principal side. Perrow (1986) also pointed out that agency theory is unconcerned about the principals, who exploit and deceive the agents. Perrow, however, added that the managers are unwittingly dragged into working in hazardous environment and without any scope of infringement in a situation where the principals act as opportunistic.

Furthermore, agency theory is widely used. Yet it still has many limitations, as acknowledged by several authors, including Sheilfer and Vishny (1977). Agency theory assumed that contracting could eliminate agency problem in a situation where the future is uncertain, but in practice, agency theory is hampered by issues such as rationality, information asymmetry, fraud, and transaction cost.

Stakeholders theory

Dr. F. Edward Freeman proposed the stakeholder theory for the first time in 1984. The stakeholder theory is a structural business and management ethics theory that takes into account numerous areas impacted by business entities such as creditors, suppliers, employees, local communities and others (Lin and Tom, 2018). According to stakeholder theory, developing strategies that take into account a wider stakeholder network and interaction will yield a more effective results than focusing solely on direct profit maximization attempts (Jamali 2008). Furthermore, stakeholder theory extends beyond the relationship between shareholders and managers to include other types of stakeholders (Nwaobia & Jayeoba, 2016). The ability of a company to balance the diverse interests of its stakeholders is critical to its success. More so, Charles Blattberg a political philosopher has criticized stakeholder theory for assuming that the various stakeholders' interests can be, at best, compromised or well-adjusted against one another.

Nonetheless, despite the success of the stakeholder theory. This theory has two major limitations. The first is that, because stakeholder theory is derived from shareholder theory, it views society and its needs as something the firm can successfully address in economic terms (Crane, Palazzo, Laura, Spence, & Matten 2014). The second limitation is that it assumes firms act in compliance with the law (Crane et.al 2014).

Empirical review

Garania and Kaikova (2016) measured agency costs using asset liquidity ratio and asset utilization ratio. The results of their study shows that agency cost increases with board size. In addition, the results revealed a significant negative influence on agency costs in Norwegian companies while the study also found no significant impact in the Russian market.

Wang (2010) conducted research to examine the connection between agency costs and cash flow, as well as how such a connection might affect firm performance. Based on the findings, this study was conducted on Taiwan publicly-traded firms, concentrating on three key points: there is a significant influence between free cash flows and agency cost; the agency cost has a positive effect on company performance; however, there is no significant effect of agency cost on firm performance.

However, Zuriawati, Noorfaiz, Chong and William (2016) investigated the relationship between firm agency cost leverage in Malaysian listed construction firms from 2007 to 2012. The relationship between agency cost and leverage in 53 construction companies was investigated using panel data regression analysis (318 observations). It lay emphasis on large companies with more than RM300 million in assets. In this study, two types of leverage are used, namely, as a result, an increase in the firm's cost to monitor agency problems has a positive effect on the company's debt relative to equity. The results of their study also revealed that as the firm's profits rise, so does the cost of monitoring agency problems. Dividend, on the other hand, has an insignificant connection with agency cost of construction firms.

Eboiyehi and Willi (2018) investigated the role of corporate governance, ownership structure and Agency cost in a Nigerian manufacturing company. This study is centered on the argument that agency costs can be gotten through excessive production costs, inefficient asset utilization (due to poor investments), and insufficient management effort (resulting in lower earnings and revenues) as well as wasteful managerial behavior (which brings about higher expenses). The data in their study was analyzed using multivariate fixed effect regression.

3. METHODOLOGY

This study adopted expo-facto research design. This is because the data needed for the analysis is already in existence. As a result, the research design makes use of both cross-sectional and time series properties, resulting in a panel study. This study relied on secondary data. This study's population consisted of all manufacturing companies listed on the Nigerian Stock Exchange as of December 31st, 2019. This study utilized purposive sampling technique, which is a non-probability sample process. Ten (10) manufacturing firms were purposively chosen based on the ease and availability of annual reports from the Nigerian Stock Exchange (2019). There are seventy-four (74) listed manufacturing companies in Nigeria spanning across seven (7) sectors which include consumer goods, real estate, health care, construction, natural resources, industrial goods and oil and gas conglomerate sectors. Consumer goods manufacturing sector was employed because they are considered to have large scope of operation, large output and they also generate the greatest value compare with other sectors of the Nigeria manufacturing industry.

This study employed quantitative research method, the data used for the analysis of this study were extracted from the audited annual financial reports and financial statement of ten (10) randomly selected Consumer-Goods manufacturing companies in Nigeria. The sample size was determined using random sampling techniques. Due to the nature of the model to be used in this study, a filter will be used to eliminate some of the companies that do not have complete records of data required for the measurement of variables between 2015 and 2019. The choice of 2015 as base year is necessitated by the fact that it is three years after the IFRS adoption by all companies in preparation of the financial and to avoid mixing of pre and post IFRS adoption so as to have consistent findings.

This research work adopted both descriptive and inferential statistics to accomplish the stated objectives. The descriptive statistics utilized measures of central tendency such as mean, median, minimum, maximum and standard deviation. The inferential statistics adopted Panel regression (fixed effect) and Pearson Product Correlation Analysis using E-view 10 version so as to determine the relationship between dependent variable and independent variables.

Measurement of variables

Table 1: Variables and their descriptions

Variables	Description	Source	A priori Expectation
Dependent variable			
Return on asset (ROA)	*This* is a pointer of how profitable an organisation is relative to its total *assets*.	Nuhu, Dandago, Muhammed, Ado., and Abdulkasim. (2020)	
Profit after tax margin (PATM)	The profit before tax margin (PBT margin) is express as profit before tax divided by total revenue.	Oeyono, Samy, & Bampton (2011).	
Independent variables			
Current ratio (ALR)	Current ratio is measured as the ratio of current asset to current liabilities.	Siddiqui, Rasaq, Malik and Gul (2013)	+

Administrative expenses ratio (AER)	These are expenses incurred by an organisation which are not directly tied to a specific function such as production, manufacturing, or sales.	Aras & Furtuna, (2015)	-
Control variables			
Debt ratio	It is a ratio that measures the degree of a company's leverage. It is expressed as total debts to total assets.	Osman (2014)	+
Firm size	Firm size is measured as natural log of total assets.	Khadimat et. al (2014)	+

Source: Author's computation (2021).

Model specification

ROA Model 1

$ROA_{it} = \beta_o + \beta_1 LCR_{1it} + \beta_2 LFS_{2it} + \beta_3 LDR_{3it} + \mu i_t$ -------------------- *3.1*

PATM Model 2

$PATM_{it} = \beta_o + \beta_1 LAER_{1it} + \beta_2 LFS_{2it} + \beta_3 LDR_{3it} + \mu i_t$ -------------------- *3.2*

4. RESULTS AND DISCUSSION

Table 2: Descriptive Statistics c

	ROA	PATM	AER	CR	DR	FMSIZE
Mean	0.049043	0.064158	0.123704	1.052265	0.09025	10.47819
Median	0.037613	0.048422	0.068906	0.894633	0.000601	11.065
Maximum	0.264935	0.260409	0.887429	3.275757	0.915564	11.58969
Minimum	-0.040439	-0.153784	0.028815	0.401816	0.000191	7.439775
Std. Dev.	0.064379	0.067624	0.171754	0.637219	0.220645	1.230686
Observations	50	50	50	50	50	50

Source: Computed by the Researcher using E-VIEW (2021)

Based on the descriptive results from Table 2, the data ranges from 2015 to 2019. The total number of observations for each variable is 50. The mean value of ROA was found to be 0.049 percent and a standard deviation of 0.064 percent, minimum value of -0.04 percent and 0.264 percent as the maximum value. Also, the mean value for PATM was found to be 0.064 percent, and a standard deviation of 0.068 percent, minimum value of -0.154 percent and 0.264 percent as the maximum value. Similarly, the mean value for AER was found to be 0.124 percent, and a standard deviation of 0.172 percent, minimum value of 0.029 percent and 0.887 percent as the maximum value. In the same vein, the mean value for CR was found to be 1.052 percent, and a standard deviation of 0.637 percent, minimum value of 0.402 percent and 3.276 percent as the maximum value. The mean value for Debt Ratio (DR) was found to be 0.09025 percent, and a standard deviation of 0.220645 percent, minimum value of 0.000191 percent and 0.915564 percent as the maximum value. Finally, the mean value for firm size was found to be 10.47819, and a standard deviation of 1.230686, minimum value of 7.43977 5and 11.58969 percent as the maximum value.

Table 3: Correlation Matrix and Multi-collinearity Test

	ROA	**PATM**	**FS**	**DR**	**AER**	**CR**	**VIF**	**1/VIF**
ROA	1							
PATM	0.59	1						
FMSIZE	0.22	0.26	1					
DR	-0.11	-0.19	-0.80	1				
AER	-0.18	0.15	-0.12	-0.15	1		1.61	0.6205
CR	0.05	0.02	-0.15	0.09	0.10	1	1.21	0.8273

Source: Computed by the Researcher using E-VIEW (2021)

As per the indication in the table above, the study also examined multi-collinearity in the multiple linear regression where tolerance should be >0.1 or VIF variance inflation factor VIF <10. The results indicate that all the variables met this benchmark therefore multi-collinearity did not pose a problem in the study. The correlation coefficient of 0.05 for CR has a positive but very low relationship with return on assets. In addition, correlation between ROA and firm size is positive and very weak, also, and a weak negative relationship exists between ROA and debt ratio to the tune of -0.11. In similar vein, the correlation coefficient of 0.15 for AER has a positive but very low relationship with profit after tax margin. Also, correlation between PATM and firm size is positive and very weak, also, and a positive relationship exists between PATM and debt ratio to the tune of -0.80.

Hypothesis testing

Hypotheses testing provide relevant data for validating or rejecting the null hypothesis

H_{01}: There is no significant relationship between current ratio and return on asset (ROA) of listed manufacturing companies in Nigeria.

Method: Fixed Effects Panel regression

Table 4: Fixed Effects Panel regression

Dependent Variable: ROA

Method: Panel regression (Fixed Effects)

Sample: 2015 2019

Periods included: 5

Cross-sections included: 10

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.176018	0.137731	-1.277983	0.2077
CR	0.114972	0.022684	5.0684	0.0268
DR	0.054216	0.068547	0.790935	0.4330
FMSIZE	0.020071	0.012381	1.621172	0.1118

R-squared	0.490603	Mean dependent var	0.049043
Adjusted R-squared	0.381925	S.D. dependent var	0.064379
S.E. of regression	0.064091	Akaike info criterion	-2.580396
Sum squared resid	0.188954	Schwarz criterion	-2.427434
Log likelihood	68.50990	Hannan-Quinn criter.	-2.522147
F-statistic	26.14709	Durbin-Watson stat	1.621276
Prob(F-statistic)	0.000135		

Source: Computed by the Researcher using E-VIEW (2021)

The results in Table 4 indicates an R squared of 0.490. This implies that 49.0% of total variation in ROA of listed manufacturing firms in Nigeria is caused by CR, DR and FMSIZE while 51.0% is accounted for by other variables not in the model. The F-statistic value was 26.147 with a p-value of 0.0001 which is less than 0.05. This indicates that the model is fit. The CR **(**t-statistic = 5.0684, p-value (0.0268) as an independent variable to ROA of the listed manufacturing companies in Nigeria appears to have a positive significant influence at 5% level. The findings, therefore, indicate that a percent increase in current ratio would result to a significant 11.5% increase in the ROA of the listed manufacturing companies in Nigeria. This implies that we should reject the null hypothesis (Ho_1: There is no significant relationship between current ratio and return on asset (ROA) of listed manufacturing companies in Nigeria**)**. Gibson (2009); Bolek and Wilinski (2012); Priya and Nimalathasan (2013) and Khadimat, Pakistan and Rehman (2014) also attested to this in their studies which indicated that there is a significant relationship between asset liquidity (current ratio) and return on assets.

Table 5: Post-Estimation Test Results

Test	P-value	Remarks
F-test	0.0001	Panel regression is preferred to pooled OLS
Hausman test for systematic difference in coefficient	0.003	Fixed Effects is preferred
Durbin-Watson stat	1.621	There is absence of serial correlation
Breusch pagan heteroscedasticity test	0.5327	There is no heteroscedasticity

Source: Computed by the Researcher using E-VIEW (2021)

Hypothesis Two

H_{o2}: There is no significant relationship between administrative expenses ratio and profit after tax margin ratio of listed manufacturing companies in Nigeria.

Method: Fixed Effects Panel regression

Table 6: Fixed Effects Panel regression

Dependent Variable: PATM

Method: Panel regression (Fixed Effects)

Sample: 2015 2019

Periods included: 5

Cross-sections included: 10

Total panel (balanced) observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.214844	0.153415	-1.400413	0.1681
AER	-0.092404	0.030464	-3.03321	0.0037
DR	0.064233	0.077082	0.833313	0.4090
FMSIZE	0.024983	0.013754	1.816440	0.0758

R-squared	0.113519	Mean dependent var	0.064158
Adjusted R-squared	0.055705	S.D. dependent var	0.067624
S.E. of regression	0.065713	Akaike info criterion	-2.530415
Sum squared resid	0.198638	Schwarz criterion	-2.377453
Log likelihood	67.26038	Hannan-Quinn criter.	-2.472167
F-statistic	19.96352	Durbin-Watson stat	1.929946
Prob(F-statistic)	0.000698		

Source: Computed by the Researcher using E-VIEW (2021)

The results in Table 4 indicates an R squared of 0.113. This implies that 11.3% of total variation in PATM of listed manufacturing companies in Nigeria is caused by AER, DR and FMSIZE while 88.7% is accounted for by other variables not in the model. The F-statistic value was 19.9635 with a p-value of 0.0007 shows the fitness of the model. The AER **(**t-statistic =-3.0332, p-value (0.0037) as an independent variable to PATM of the listed manufacturing companies in Nigeria appears to have a negative and significant influence at 5% level. The findings, therefore, indicate that a percent increase in administrative expenses ratio would result to a significant 9.24% decrease in the PATM of the listed manufacturing companies in Nigeria. This implies that we should reject the null hypothesis that there is no significant relationship between administrative expenses ratio and profit after tax margin ratio of listed manufacturing companies in Nigeria. To buttressed this agency theory also agree to the result of this study by suggesting that there will be a negative connection between agency costs and firm performance (Ang, Cole, & Lin, 2000 and Davidson, Bouresli, & Singh (2006).

Table 7: Post-Estimation Test Results

Test	P-value	Remarks
F-test	0.0001	Panel regression is preferred to pooled OLS
Hausman test for systematic difference in coefficient	0.011	Fixed Effects is preferred
Durbin-Watson stat	1.732	There is absence of serial correlation
Breusch pagan heteroscedasticity test	0.468	There is no heteroscedasticity

Source: Computed by the Researcher using E-VIEW (2021)

Discussion of findings

Relationship between Asset Liquidity Ratio (ALR) and Return on Asset (ROA)

The test of hypothesis two reveals that there is a positive and significant relationship between asset liquidity ratio and return on asset (ROA) of listed manufacturing firms in Nigeria. The findings indicate that a percent increase in on current ratio would result to a significant 11.5% increase in the ROA of the listed manufacturing firms in Nigeria. This signifies that the higher the agency cost the lower the financial performance. The higher the current ratio the lower the agency cost, which brings about high performance while the lower the current ratio the higher the agency cost which result into a lower financial performance. Asset liquidity ratio has an inverse relationship with agency cost. This result attest to the objective one of this study which state that there is a significant relationship between asset liquidity ratio (ALR) and return on asset (ROA).

current ratio reveals an entity's ability to meet its short-term obligations, a decline in the value of these current ratios postulates that the organization may have difficulty in meeting its short-term financial liabilities (Amengor, 2010). A good current ratio is one that is greater than one. It indicates that the company's financial health is good and that it is less likely to face financial difficulties. The higher a company's current ratio, the better its financial health and ability to meet its financial commitments. A low current ratio may arise when the company's director decides on the optimal allocation of cash, in order to prevent higher risk, they will want to take loans that are short term in nature, in this situation the manager may focus on using more of current liabilities than using long term liabilities to finance the company. A low current ratio can arise due to the increase in short term debt, excessive short- term overhead expenses (rent, labour and marketing), the use of short-term liabilities to finance assets that are long-term in nature, and longer pay cycle for debtors (inability to collect debt from debtors as at when due). All this can occur as a result of low level effort of managers in the collection of debts as at when due, inability of the managers to make effective and efficient decisions on which form of loan is to be use in financing the company's asset, inability to cut down the cost of overhead expenses which will all result into agency problem.

Howbeit, to support the findings of this study, Bolek and Wilinski (2012) discovered a relationship between current ratio and return on assets. Similarly, the result of the findings of this study is also consistent with the findings of a study conducted by Priya and Nimalathasan (2013), who discovered that the current and cash ratios are significantly related to return on assets. while it differs from the findings of a study (Akter and Mahmud, 2014) that found no significant relationship between current ratio and return on assets. Our findings show a positive significant relationship, which is consistent with the findings of Khadimat, Pakistan, and Rehman (2014); Vayanos and Wang (2012); and Saleem and Rehman (2011), who also found a positive significant between current ratio and return on assets. While the result of this study differs from the result of Nobance, Ellili and Abraham (2017) and Haroon, Waqas, Osama, Naeem and Kashif (2020) who stated in their studies that there is a negative association between agency costs and financial performance. Several researchers have worked on the relationship between current ratio and return on asset but very few has used current ratio as a measure of agency cost on financial performance. One of the few researchers that has used asset liquidity as a proxy of agency cost are Siddiqui, Rasaq, Malik and Gul (2013) they analyzed various corporate governance policies that reduce agency cost using asset liquidity ratio (current ratio) and asset utilization as proxies for agency cost.

Relationship between Administrative Expenses Ratio (AER) and Profit after Tax Margin Ratio (PATM)

The test of hypothesis two reveals that there is a negative and significant relationship between administrative expenses ratio and profit after tax margin ratio of listed manufacturing companies in Nigeria. The findings indicate that a percent increase in expenditure on admin would result to a significant 29.2% decrease in the PATM of the listed manufacturing firms in Nigeria. This signifies that the higher the administrative expenses the lower the performance and vis a vis. The agency theory also attests to this by stating that the higher the agency cost the lower the firm's financial performance. This result attest to the objective three of this study which states that there is a significant relationship between administrative expenses (AER) and profit after tax-margin (PATM).

However, Administrative expenses are those incurred by a company that are not directly related to a specific function, such as sales, manufacturing, or production. Administrative expenses include; office maintenance cost, general repair and maintenance cost, expenditures associated with general services for instance accounting and information technology. Managers can easily manipulate administrative expenses for their own personal benefits. Managers can inflate the amount of administrative expenses for their own personal gain. The higher the administrative expenses the lower the profit after tax margin. Managers can resort to inflating expenses values if the amount of bonding cost allocated to them is not sufficient or if they are not well motivated. Bonding cost are said to be cost incurred to provide incentives to managers to encourage them to act in the best interest of the shareholders. In addition, managers may also incur a higher administrative expenses ratio because of lack of effort, if the managers are inefficient and they ended up incurring unnecessary expenses, also in ability to recover debts which in turn leads to bad debts, wastage of resources, mishandling of companies' assets which leads to regular repairs of those assets, unnecessary expenses and shrinking behavior of the managers' can lead to increase in agency costs to mention but few.

Furthermore, these findings are in accordance with the study of Gurbuz., Aybars and Yesilyurt (2016); wang (2010), Khidmat, Pakistan and Rehman (2014) and Osman (2014) in their studies revealed that expense ratio has a significant relationship with corporate performance. Also, Eboiyehi and Willi (2018) in their study revealed that operating expenses had a significant influence on agency cost. To buttressed the result of this study Jabbary, Hajiha and Labeshka (2013) and Jane (2017) also in their studies show a negative relationship between the administrative expenses and financial performance. On the contrary some scholars found positive connection between agency costs and financial performance like

Migunyi, Zanjirder and Gasemy (2013), Wambua (2013), Njuguna and Moronga (2013), Alfadhi and Alabdullah (2013) and Tobari and Ghanji (2016).

4. CONCLUSION AND RECOMMENDATIONS

This study examines the influence of agency costs on financial performance of selected listed consumer goods manufacturing companies in Nigeria. The explanatory variables investigated are agency cost and financial performance, while debt ratio and firm size were examined as control variables in the study. In order to achieve the study's goal, the data was analyzed using a panel regression analysis.

However, based on the findings of this study, it could be conclusively stated that agency cost has a significant relationship with the financial performance of listed consumer goods manufacturing companies in Nigeria. Hence, based on this result the study recommends that managements of listed consumer goods firms in Nigeria should lay down effective rules and regulations that will ensure avoidance of keeping free cash flow at managers' discretion, introducing effective internal control measures to control managers' spending so that agency costs could be minimized and effectively managed. More so, the companies' management should introduce control measures that will assist in reducing administrative expenses cost and also help to prevent frivolous and unnecessary spending's. Further, having a high proportion of debt capital in the company's capital structure will help to reduce agency problem.

Lastly, the management of listed consumer goods manufacturing companies should work towards motivating their managers, this will bring about increase in effort level of managers and also enables managers to improve the organization current ratio without having to manipulate the ratios.

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UTJECAJ AGENCIJSKIH TROŠKOVA NA FINANCIJSKE PERFORMANSE LISTANIH PODUZEĆA ZA PROIZVODNJU ROBA ŠIROKE POTROŠNJE U NIGERIJI

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Prethodno priopćenje

Sažetak

Studija je ispitala utjecaj agencijskih troškova na financijske performanse tvrtki za proizvodnju robe široke potrošnje u Nigeriji. Ova studija koristila je ex-post facto dizajn istraživanja. Namjerno je odabrano deset (10) proizvodnih tvrtki na temelju pogodnosti i dostupnosti godišnjih izvješća. Razdoblje istraživanja obuhvatilo je pet (5) godina između 2015. i 2019. Za potrebe ovog istraživanja korišteni su sekundarni podaci. Deskriptivne statistike kao što su srednja vrijednost, medijan, raspon i inferencijalne statistike kao što je panel regresijska analiza (fiksni učinak) i korelacijske analize korištene su za analizu podataka prikupljenih iz godišnjih izvješća i računa uzorkovanih proizvodnih tvrtki s popisa. Nalazi iz ove studije otkrili su da postoji pozitivan značajan odnos između omjera sadašnjeg stanja i povrata na imovinu podržan t-statistikom = 5,0684, p-vrijednost

(0,0268), p-vrijednost < 0,05%. Nadalje je otkriveno da postoji negativan značajan odnos između administrativnih troškova i dobiti nakon oporezivanja marže što dokazuje t-statistika = -3,03321, p-vrijednost (0,0037), p-vrijednost < 0,05%. Stoga je ova studija zaključila da postoji značajan odnos između agencijskih troškova i financijskog učinka tvrtke za proizvodnju robe široke potrošnje u Nigeriji. Na temelju ovih rezultata studija preporučuje upravama tvrtki koje se nalaze na popisu robe široke potrošnje u Nigeriji kako trebaju uvesti kontrolne mjere koje će pomoći u smanjenju administrativnih troškova i također pomoći u sprječavanju neozbiljne i nepotrebne potrošnje. Također, motiviranje menadžera pomoći će u povećanju razine truda i zauzvrat dovesti do poboljšanja trenutnog stanja organizacije i omjera iskorištenosti sredstava.

Ključne riječi: *administrativni troškovi, agencijski troškovi, koeficijent tekuće likvidnosti, koeficijent iskorištenosti aktive, financijske performanse*

JEL: M20, L21