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Sequence of Manuscript

I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
X. Appendices (if necessary)
XI. Author Biographies (optional)

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TABLE OF CONTENT

MODERATING EFFECT OF AGENCY COST ON RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND VALUE OF LISTED FIRMS IN NIGERIA

BUHARI ADEIZA YUSUF AND S.A.S ARUWA

ABSTRACT

The main objective of the study is to examine the Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firms in Nigeria. The study used an ex post facto design and analyzed data from 20 out of 38 Nigerian manufacturing firms from 2018 to 2023. It employed descriptive and inferential statistics with data sourced from financial statements and annual reports, analyzed using STATA 14. The study compared Pooled Ordinary Least Squares (POLS), Fixed Effects Model (FEM), and Random Effects Model (REM). While all models were significant, the Hausman test favored REM, but the Breusch and Pagan test ultimately suggested that the POLS model was more robust than REM. The regression analysis reveals long-term debt significantly increases firm's value, Short-term debt reduces firm value, and larger firms significantly have a higher value, higher audit fees with long-term debt significantly improves firm value, and Audit fees moderately mitigates the negative effects of short-term debt. Audit fees has a modest significant effect on firm value as firm size increases. The study recommended that Firms should optimize their long-term debt levels to enhance their value, while carefully managing associated risks, Firms should minimize the use of short-term debt to avoid financial risks that could negatively impact their value, Firms should aim for optimal growth that supports efficiency and risk management, avoiding the pitfalls of becoming too large, Firms should invest in higher-quality agency cost when leveraging long-term debt to enhance credibility and firm value, Firms should balance audit investments with debt management strategies to ensure sustained value and Large firms should continue to prioritize high-quality audits to safeguard their value.

Keywords. *Agency Cost on Capital Structure and Value of Listed Firm in Nigeria.*

1. Introduction

The relationship between capital structure and firm value has been extensively studied globally. The Modigliani-Miller theorem (1958) posited that in a perfect market, capital structure does not impact firm value. However, real-world factors such as taxes, bankruptcy costs, and agency costs challenge this theory. Agency costs, as outlined by Jensen and Meckling (1976), arise from conflicts between management and shareholders, impacting capital structure decisions and ultimately firm value.

Long-term debt can provide stability but also introduces financial risk. Globally, research indicates that excessive long-term debt can lead to increased financial distress costs (Myers, 2017). Conversely, it can enable firm growth and expansion if managed effectively (Frank & Goyal, 2019). Short-term debt often provides firms with flexibility but can lead to liquidity issues if not managed well. Globally, studies have shown that excessive reliance on short-term debt can impact firm value negatively (Graham & Harvey, 2021). Firm size affects capital structure and firm value due to economies of scale and better access to capital markets. Larger firms generally have more stable capital structures and lower agency costs (Titman & Wessels, 2018). Audit fees can reflect the quality of financial reporting and governance. Higher audit fees are often associated with better financial transparency and lower agency costs (Francis, 2014).

In Nigeria, capital structure decisions are significantly influenced by local economic conditions and regulatory environments. Research shows that Nigerian firms face unique challenges, such as high-interest rates and economic instability, which affect their capital structure decisions and firm value (Ofoegbu & Inyiama, 2020). Nigerian manufacturing firms often struggle with high-interest rates and economic volatility, which impacts the benefits and risks associated with long-term debt. Studies indicate that excessive long-term debt can lead to financial distress in Nigeria (Akinlo & Akinlo, 2021). Nigerian

firms frequently use short-term debt to manage working capital. However, this can lead to liquidity problems, as shown by research indicating that high short-term debt negatively impacts firm value. The impact of firm size on capital structure and firm value in Nigeria is influenced by market access and regulatory constraints. Larger firms often have better access to capital but also face more significant regulatory scrutiny (Olaleye & Fashina, 2021). In Nigeria, audit fees are linked to the quality of financial reporting. Higher audit fees generally reflect better governance and reduced agency costs, contributing to enhanced firm value (Adeniran & Akinyemi, 2022).

In the Nigerian context, agency costs can significantly affect capital structure decisions. Nigerian firms often experience high agency costs due to weak corporate governance and management-shareholder conflicts. This impacts how long-term and short-term debt is used and how firm size influences capital structure decisions (Ojo & Adeyemi, 2020). Agency costs moderate the relationship between capital structure components (long-term debt, short-term debt) and firm value by influencing management decisions and financial policies. For instance, high agency costs may lead managers to make suboptimal capital structure decisions that do not maximize firm value (Ezeani & Ogbulu, 2019). The role of audit fees as a measure of governance can also influence this relationship, with higher audit fees potentially mitigating agency costs and improving firm value (Nwankwo & Ajayi, 2022).

In summary, understanding the moderating effect of agency costs on the relationship between capital structure and firm value in Nigeria involves a comprehensive examination of long-term and short-term debt, firm size, and audit fees. The Nigerian context presents unique challenges that impact these relationships, and agency costs play a crucial role in moderating these effects.

Long-term debt can increase financial risk due to higher interest obligations and potential difficulty in meeting these obligations if the firm's cash flows are unstable. A study by Eniola and Oke (2014) highlighted that excessive long-term debt can lead to financial distress, affecting the overall value of firms in Nigeria's manufacturing sector. This risk is particularly pertinent in emerging markets where economic volatility is high (Oladipupo, 2020). On the positive side, long-term debt can be used for growth and expansion, which might enhance firm value if managed effectively. For instance, Adeyemi (2018) suggested that when used for strategic investments, long-term debt can support growth initiatives that contribute to higher firm value.

Short-term debt can create liquidity issues if the firm faces difficulty in rolling over or repaying the debt. According to Ojo (2019), manufacturing firms in Nigeria often struggle with liquidity constraints due to high short-term debt, which can negatively affect their value. However, short-term debt offers flexibility and may be less costly compared to long-term debt. This aspect is beneficial for managing working capital needs, as discussed by Onyekwelu and Akindele (2020). Effective use of short-term debt can enhance firm value by optimizing working capital management.

Larger firms typically benefit from economies of scale, which can lead to higher firm value. Ogunleye (2021) asserted that firm size positively correlates with firm value due to better access to resources and market opportunities. Larger firms generally have better access to capital markets, which can lead to more favorable financing conditions. This advantage allows them to manage debt more effectively, as noted by Nnadi and Mbah (2022). According to Jensen and Meckling (1976), agency costs arise from the conflict of interests between managers and shareholders. These costs can influence capital structure decisions and firm value. Long-term debt may exacerbate agency costs if management engages in riskier projects due to the lower monitoring intensity associated with long-term obligations. Agency costs can increase if management's interests diverge from those of shareholders, affecting firm value (Huang & Ritter, 2022).Short-term debt can lead to higher agency costs as management may face pressure to meet short-term obligations, potentially leading to suboptimal decision-making. This scenario can affect the firm's value, as shown by Iqbal and Hossain (2021).

Larger firms might have lower relative agency costs due to better governance structures and more effective monitoring mechanisms. The positive correlation between firm size and value can be moderated by agency costs, as large firms often have more sophisticated systems to align management's interests with those of shareholders (Baker et al., 2021). In summary, examining the effects of long-term and short-term debt, along with firm size, on the value of manufacturing firms in Nigeria requires understanding the moderating role of agency costs. Agency costs can impact how these variables influence firm value and must be considered in the analysis of capital structure decisions.

Agency Theory, as outlined by Jensen and Meckling (1976), views managers as self-interested agents who require monitoring to align with shareholders' goals. In contrast, Stewardship Theory, according to Davis et al. (1997), assumes managers act in the firm's best interests, reducing the need for strict oversight. The gap between these theories lies in determining when managers need control or empowerment, with research (e.g., Hernandez, 2012) suggesting hybrid models may apply. Resource Dependence Theory (Pfeffer & Salancik, 1978) highlights the role of

external networks and board diversity in resource acquisition, contrasting with Agency Theory's focus on managerial control. Scholars like Hillman et al. (2009) propose balancing these roles based on external factors. Freeman (1984) expands governance responsibilities to all stakeholders, while Agency Theory prioritizes shareholders. This conflict, as explored by Donaldson and Preston (1995), invites further inquiry into stakeholder vs. shareholder prioritization. These gaps offer opportunities for reconciling the corporate governance framework.

The main objective of this paper is to evaluate the moderating effect of agency cost on the capital structure and value of listed firms in Nigeria, while the specific objectives are to:

i. examine the effect of long-term debts on value of listed manufacturing firms in Nigeria,
ii. evaluate the effect of short-term debts on value of listed manufacturing firms in Nigeria
iii. moderating effect of audit fees on long-term debts and Value of listed manufacturing firms in Nigeria,
iv. moderating effect of audit fees on short-term debts and value of listed manufacturing firms in Nigeria and

Statement of Hypothesis

The following hypotheses were formulated in null form for testing

H_{01}: long-term debts has no significant effect on value of listed manufacturing firms in Nigeria,

H_{02}: short-term debts has no significant effect on value of listed manufacturing firms in Nigeria

H_{03}: audit fees moderated with long-term debts has no significant effect on Value of listed manufacturing firms in Nigeria

H_{04}: audit fees moderated with short-term debts has no significant effect on value of listed manufacturing firms in Nigeria and

2. Literature Review

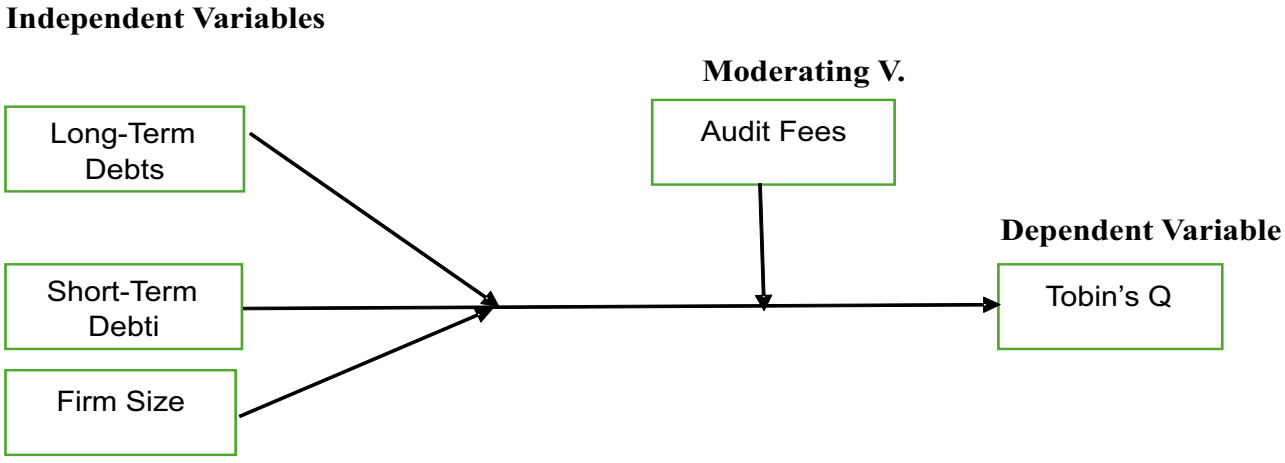
Conceptual Framework

Value of Firms

The value of a firm is crucial in finance, representing the market's view of its potential to generate future cash flows. It is measured through metrics like market capitalization, Tobin's Q, and enterprise value, which include both equity and debt. Damodaran (2021) notes that firm value is shaped by factors such as profitability, growth prospects, capital structure, and risk management.

An emerging issue in firm valuation is the growing importance of intangible assets, like intellectual property and brand reputation, which are increasingly significant in the digital economy (Brynjolfsson et al., 2020).

Additionally, environmental, social, and governance (ESG) factors are becoming critical, as firms with strong ESG performance tend to have higher valuations (Serafeim, 2014). The COVID-19 pandemic has added complexity to firm valuation, introducing uncertainties related to economic recovery, supply chain disruptions, and changing consumer behavior, making future cash flows harder to predict (Ramelli & Wagner, 2020). To maintain or increase their value, firms need to enhance resilience and agility in this unpredictable environment.



Source: Author Model (2024)

Concept of Capital Structure

Capital structure refers to the mix of debt and equity that a firm uses to finance its operations, and it plays a crucial role in determining a firm's financial stability, cost of capital, and overall value. The optimal capital structure balances the benefits and risks associated with debt and equity financing. According to Modigliani and Miller (1958), under certain conditions, capital structure is irrelevant to a firm's value; however, in practice, factors such as taxes, bankruptcy costs, and agency problems make capital structure decisions critical. Recent literature highlights the influence of firm-specific factors such as profitability, asset structure, and growth

opportunities on capital structure decisions (Frank & Goyal, 2019). In emerging markets like Nigeria, weak financial markets and less stringent regulatory frameworks further complicate these decisions (Shehu, 2021).

An emerging issue in capital structure is the increasing role of sustainability in financing decisions. Firms are increasingly integrating environmental, social, and governance (ESG) considerations into their capital structure choices. Studies indicate that firms with higher ESG ratings may access capital more easily and at lower costs, as investors and lenders prefer companies committed to sustainable practices (Giese et al., 2019). This shift towards sustainable financing reflects a broader trend where capital structure decisions are increasingly influenced by non-financial factors, underscoring the evolving nature of corporate finance in the modern economy.

Concept of Agency Cost

Agency cost arises from conflicts of interest between managers and shareholders, particularly when managers prioritize personal goals over shareholder wealth. This cost includes expenses related to monitoring managerial actions, bonding costs to align interests, and residual losses due to inefficiencies. Jensen and Meckling (1976) originally conceptualized agency costs, highlighting how these conflicts can lead to suboptimal decisions, such as excessive risk-taking or underinvestment. Recent literature emphasizes the significant impact of agency costs on corporate governance and firm performance. For instance, higher agency costs can result in inefficient capital allocation, reduced firm value, and lower investor confidence (Ang et al., 2020). This has led to an increased focus on mechanisms to mitigate agency costs, such as performance-based incentives, stronger corporate governance, and increased managerial ownership.

An emerging issue in the study of agency costs is the role of environmental, social, and governance (ESG) factors. Firms with strong ESG practices may experience lower agency costs because these practices often require greater transparency, accountability, and alignment of management with broader stakeholder interests (Gomez-Mejia et al., 2020). Additionally, the rise of remote work and digitalization has introduced new challenges in monitoring managerial performance, potentially increasing agency costs if not properly managed.

Relationship between Value of Firm, Capital Structure, and Agency Cost

The relationship between firm value, capital structure, and agency cost is complex and interlinked. Firm value, often measured by market capitalization or Tobin's Q, reflects the market's perception of a company's ability to generate future cash flows. Capital structure, the mix of debt and equity used to finance a firm, influences firm value by impacting risk and cost of capital.

Agency costs arise from conflicts between managers and shareholders, affecting capital structure decisions and firm value. Jensen and Meckling (1976) argue that high agency costs lead managers to make suboptimal capital structure choices, such as avoiding debt to maintain flexibility, which can dilute ownership and lower firm value.

Recent literature underscores that capital structure decisions can be influenced by agency costs. Firms with high agency costs may prefer equity over debt to avoid the constraints of debt repayment, which could reduce firm value due to missed tax benefits from debt (Alabi & Ayinde, 2020). Conversely, debt can act as a disciplinary mechanism, aligning managerial interests with those of shareholders and potentially enhancing firm value (Moses, 2022).

An emerging issue is the integration of environmental, social, and governance (ESG) factors into these dynamics. ESG practices can reduce agency costs by improving transparency and aligning managerial actions with broader stakeholder interests, which can positively impact firm value (Giese et al., 2019). However, the adoption of ESG practices can also influence capital structure choices, as firms may face trade-offs between ESG investments and traditional financing constraints (Serafeim, 2020).

Long-Term Debt

Long-term debt refers to borrowings or loans that are due to be repaid over a period longer than one year. This type of debt typically includes bonds, mortgages, and long-term bank loans. It provides firms with capital for long-term investments and growth but often entails higher interest rates and increased financial risk. Mary, (2017) defines long-term debt as debt with a maturity greater than one year, emphasizing its role in providing stable financing for firm investments. Myers discusses how long-term debt impacts a firm's financial risk and cost of capital.

Short-Term Debt

Short-term debt consists of borrowings or loans that are expected to be repaid within one year. Common examples include trade credit, short-term bank loans, and commercial paper. It provides firms with liquidity for day-to-day operations but can also lead to liquidity risk if not managed properly. Harvey, (2021) explores the use of short-term debt for managing working capital and its impact on liquidity and financial stability. They note that while short-term debt provides flexibility, excessive use can create liquidity problems

Firm Size

Firm size refers to the scale or magnitude of a company, often measured by metrics such as total

assets, revenue, or market capitalization. Larger firms generally have better access to capital markets, more resources, and economies of scale, which can influence their capital structure and financial stability. Karimu, (2018) investigated how firm size affects capital structure decisions, finding that larger firms tend to have more stable capital structures due to better access to finance and lower financial distress costs.

Audit Fees:
Audit fees are the amounts paid to external auditors for conducting an audit of a company's financial statements. These fees compensate auditors for their work in examining the accuracy and compliance of financial reports with accounting standards. (Simunic, 2020). Audit fees are payments made to auditors for their services in examining and verifying a company's financial statements. The fees reflect the complexity and risk associated with the audit process.

Theoretical Framework
To link the capital structure of Nigerian listed manufacturing companies and firm value, the Thrust of Agency Theory centers on the relationship between principals (shareholders) and agents (managers). It posits that managers, being self-interested, may not always act in shareholders' best interests, leading to agency costs. To mitigate this, mechanisms such as monitoring, incentives, and governance structures are employed to align managerial actions with shareholders' goals. Empirical studies like Eisenhardt (2019) and Shleifer and Vishny (2017) validate the theory by showing that effective corporate governance, such as CEO monitoring and board independence, reduces agency costs and improves firm performance. In today's corporate governance discussions, Agency Theory remains foundational, particularly in the context of executive compensation, managerial control, and shareholder value maximization.

Stewardship Theory (Davis, *et al* (1997)
Thrust of Stewardship Theory assumes that managers are not solely motivated by self-interest but are stewards of the organization, naturally inclined to work in the best interest of shareholders. This reduces the need for extensive governance and control mechanisms. Studies by Donaldson and Davis (1991) support the theory by showing that in firms where managers are trusted and empowered, performance improves, particularly in organizations with a participatory management style. Stewardship Theory is relevant for exploring contexts where trust and empowerment outweigh rigid control mechanisms, such as in family-owned businesses or mission-driven organizations.

Resource Dependence Theory Theorists: Pfeffer and Salancik (1978)
Thrust of This theory argues that organizations are dependent on external resources, and to manage this dependency, they must engage with external networks and diversify their boards. Board members are seen as key providers of access to resources and strategic partnerships. Collins (2019) demonstrates that board diversity and external linkages can enhance firm performance by improving access to essential resources and reducing environmental uncertainty. This theory is significant in corporate governance research, particularly in examining the role of board composition and diversity in enhancing organizational resilience and strategic positioning. In summary, while Agency Theory provides a robust framework for understanding principal-agent relationships and governance mechanisms, theories like Stewardship, Resource Dependence, Stakeholder, and Behavioral Theory offer alternative perspectives. These theories help explain organizational behavior in contexts where trust, external networks, stakeholder interests, or bounded rationality play significant roles. This theoretical review provides a holistic understanding of corporate governance.

Empirical Reviews
Musa's (2023) analysis of capital structure determinants in the Nigerian manufacturing industry for the period of 2012 - 2016. Data was collected from the Nigerian Stock Exchange (NSE, now Nigerian Exchange Group- NGX) fact book. The conditional probability model analyses are estimated using probit. Eight explanatory variables of capital structure to measure their effect on firm value (measured by Tobin's Q) were utilized. Seven of the variables were significantly related to firm value whereas the remaining one variable was not. The results show that profitability, size of the firm, liquidity, and leverage are negatively significantly related to firm value whereas growth potential, age of the firm, and tangibility are positively significantly related to the firm value. The results validated the prediction of the pecking order theory in the case of profitability and that of trade-off in the case of tangibility whereas earnings volatility fails to conform to the trade-off theory and firm value using Tobin's Q model concerning Nigerian data. Given the above findings and conclusions, it is therefore recommended that regulators, boards, and management of companies should always consider the above variables as bases for debt financing decisions to achieve optimum capital structure Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firm in Nigeria. Study provides valuable insights into the capital structure determinants in the Nigerian manufacturing industry, it does not consider the moderating effect of agency costs on the relationship between capital structure and firm value. Agency costs, which arise from conflicts between managers and shareholders, are crucial in influencing capital structure decisions

and, subsequently, firm value. By not incorporating agency costs into the analysis, the study potentially overlooks a significant factor that could alter the dynamics of capital structure determinants.

Karimu (2023) investigated the relationship between capital structure and financial performance. It also examines the moderating effect of agency theory on the proposed relationship. Panel secondary data is collected for 11 industry firms quoted on the Iraqi Stock Exchange during the period 2004-2020. Financial performance is measured using ROA and MBV. According to the data analysis, the study findings confirm that capital structure has a significant negative effect on ROA but positively affects MBV. Regarding the moderating effect of agency cost, there are strong interactions in the model, which indicate that AUR has a significant impact. Moreover, firm size as a control variable has a positive impact on firm performance. These results support the agency theory argument from an emerging country. The results provide significant insights for managers of the sector, particularly for the current rapid development of the sector and the Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firm in Nigeria. While Karimu (2023) effectively examined the moderating effect of agency costs on the relationship between capital structure and financial performance in the context of Iraqi firms, the study's focus on a different geographical and economic setting presents a gap when considering the Nigerian context. Specifically, the dynamics of capital structure and agency costs in Nigeria, a country with different regulatory, economic, and corporate governance environments compared to Iraq, may yield different insights.

Dorothy, (2023) examined the relationship between capital structure and firm performance in an emerging economy, Iraq. Moreover, it seeks to find an answer to the question "Does agency cost moderate the relationship between capital structure and financial performance?" in the case of a developing industrial sector. Data was collected from published financial statements from the Iraqi Stock Exchange. The study sample consists of several companies from the industrial sector listed on ISX over the period 2004–2020. Firm performance is measured using both accounting data and market indicators. Agency cost is measured through the operating expense ratio and asset utilization ratio. Testing for short-term and long-term parameters between groups, the pooled mean group estimation method is used for data analysis. The results manifest evidence to support agency theory in explaining the relationship between capital structure and financial performance. Moreover, strong interactions are found indicating that agency cost has a considerable impact on the capital structure and firm performance association, that is, agency cost moderates the relationship between capital structure and firm performance. These results are robust checking various methods and diagnostics checks. These results are key evidence from an emerging country Iraq to support the agency theory arguments. The results provide significant insights for managers of the sector particularly for the current rapid development in the sector and the Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firm in Nigeria. The measurement of agency cost through the operating expense ratio and asset utilization ratio, as well as the use of the pooled mean group estimation method, while suitable for the Iraqi context, may require adaptation when applied to Nigerian data. The economic conditions, market structure, and financial reporting standards in Nigeria could necessitate alternative methodologies or measures to accurately capture the moderating effects of agency costs in this different setting.

Wu (2019) used a sample of 217 Chinese multinational companies (CMNEs) from 2009 to 2016 to conduct a study on the effects of debt finance and ownership concentration on internationalization performance. To evaluate the hypotheses, the study used dynamic threshold analysis and fixed effect regression. In addition, ownership concentration among Chinese multinational enterprises (CMNEs) has an impact on risk preferences, which in turn has an impact on the performance of the firm, according to the study. Short-term debts and the performance of Chinese multinational enterprises (CMNEs) are positively and significantly correlated. According to the study's findings, debt financing and ownership concentration are appropriate and will help the company increase its value. This study provided evidence in a developed country like Chinese where the stock market exhibit some level efficiency and transparency unlike that of a developing economy like Nigeria. Thus, this current studies will provide evidence of the effect of capital structure and agency cost on value of firms in Nigeria where the market is less efficient and Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firm in Nigeria. Wu's (2019) research offered valuable insights into the relationship between debt financing, ownership concentration, and firm performance in the context of a developed economy like China. However, there are significant gaps when considering the applicability of these findings to Nigeria, particularly regarding the role of capital structure and agency costs in influencing firm value in a less efficient market.

Show the gap between Hoang, et al. (2019) investigated agency problem on the value of a firm in the Vietnamese market. From 2010 to 2015, a sample of 736 businesses from Vietnam was taken into account. The Generalized System Method of Moments (GMM) approach and the robustness test were both used to test the hypotheses. The outcome demonstrated that agency costs had a detrimental effect on business performance. Furthermore, the

study suggests that the use of debt instruments will assist businesses in minimizing any associated cost of an agency. This study focuses on agency cost without considering the effect of capital structure in minimizing the cost of agency faced by firms. This current study provides evidence on how capital structure assist in minimizing conflict among agents and owners of firms and the Moderating Effect of Agency Cost on Capital Structure and Value of Listed Firms in Nigeria. Hoang et al. (2019) primarily focus on the negative impact of agency costs on firm performance and suggest debt financing as a way to mitigate these costs. However, the study does not delve into the comprehensive role of capital structure in addressing agency problems. Capital structure decisions, which involve the mix of debt and equity financing, are crucial not just for minimizing agency costs but also for optimizing firm value by balancing risk, cost of capital, and ownership dilution. The omission of a detailed analysis of capital structure in the context of agency costs limits the study's ability to provide a holistic view of how firms can strategically manage their financial decisions to enhance performance.

3. Methodology

The study uses *ex post facto* research design. Descriptive statistics and inferential statistics were used for the study. Hausman specification test was conducted to determine the appropriate regression to analyze. The study population consists of the thirty-eight (38) listed manufacturing firms in Nigeria as of 31st December 2023 spanning five years (2018-2023), while the sample size is twenty (20). The study used censoring sampling techniques which are based on the availability of data. Diagnostics tests such as the heteroskedasticity test, multicollinearity test, and normality test were conducted to test the quality of the data. The data used were sourced from the annual reports and financial statements of the sample consumer goods companies listed on the Nigerian Exchange Group (NGX). STATA 14. Software Version was used in running the data. Pooled Ordinary Least Squares (POLS) together with Panel data estimators consisting of Fixed Effects Model (FEM) and Random Effects Model (REM) were used. The results of the 3 estimators were all significant as revealed by their respective F-statistics and probability; thereby calling for further tests of the best model amongst them. In this wise, the Hausman specification test was used to determine the best model between FEM and REM of which the Hausman test revealed insignificant probability which suggests REM should be analyzed. In addition, the study further used Breusch and Pagan Lagrangian Multiplier test to measure the best model between the REM and the POLS. The Breusch and Pagan Lagrangian Multiplier test revealed a significant probability which means that the robust POLS model is better than the REM model.

Regression model specification

The empirical model used in this study is specified as follows:

Where:

VF= The Chung and Pruitt's (1984) modified Tobin's Q, will be adopted. Tobin's Q = (MVS + D)/TA

Where:

VF = Market value of all outstanding shares, i.e. the firm's Stock Price * Outstanding Shares

TA= Firm's assets, i.e. cash, receivables, inventory, and plant book value

D = Debt defined as: D = (AVCL – AVCA) + AVLTD

$TQ_{it} = \beta_0 + \beta_1 LTD_{it} + \beta_2 STD_{it} + \beta_3 FS_{it} + \mu$……..……i

$TQ_{it} = \beta_0 + AF*\beta_1 LTD_{it} + AF*\beta_2 STD_{it} + \mu$ ……;;;;;;;;;;;;;;;;;;;;……ii

Where:

STDit = Short-Term debt i in year t (Short-term debt/Total assets)

LTDit = long Term Debt i in year t (Long-term debt/Total Assets)

AF= Auditors Annual = Fees paid to external Auditor for auditing Services

4. Results and Discussion

Table 1: **Descriptive Statistics**

Descriptive Statistics

Variables	Obs.	Mean	Std. Dev.	Minimum	Maximum	Skewness	Kurtosis
Tobin's Q	100	249.269	60.422	0.01	498.728	5.800	39.551
LTD	100	168.824	24.389	-0.39	338.038	13.746	189.987
STD	100	1.117	0.341	1.061	2.173	1.644	14.014
FS	100	169115	38.918	1.234	336.996	6.787	51.207
AF	100	208.53	28.693	1.243	207.287	5.394	32.096

Source: Authors' compilation from STATA 14. output (2024)

Table 1 shows that Tobin's Q. Mean of 249.27, is highly skewed and kurtotic, indicating significant variability in firm performance. Long-Term Debt (LTD). The mean of 168.82, is much skewed, with extreme values suggesting high variability in long-term debt ratios. Short-Term Debt (STD). A mean of

1.12, is positively skewed, most firms have lower ratios but some are higher. Firm Size (FS). The mean of 169,115, is highly skewed, showing a concentration of smaller firms with a few very large ones. Audit Fees (AF). The mean of 208.53, skewed with extreme values, reflects variability in audit fees across firms. The data reveals high variability and significant skewness in all variables, with notable extremes in long-term debt, short-term debt, firm size, and audit fees. These characteristics suggest that the sample includes a diverse range of firms, with some outliers impacting the distribution of the variables.

Table 2: Correlation Matrix

Correlation Matrix

Variables	Tobin's Q	LTD	STD	AF*LTD	AF*STD
Tobin's Q	1				
LTD	0.010	1			
STD	0.104	0.094	1		
AF*LTD	0.853	0.014	0.033	0.587	1
AF*STD	0.100	0.212	0.046	0.068	0.121

Source: STATA 14. Outputs (2024)

Table 2 shows that Tobin's Q.(0.923) and Audit Fees related to Long-Term Debt (AF*LTD) (0.853). Indicates firm value is closely linked to size and long-term debt audit fees. Long-Term Debt (LTD). Shows weak correlations with other variables, except for a moderate positive link with Audit Fees related to Long-Term Debt (AF*LTD) (0.587). Short-Term Debt (STD). Slight positive correlations with Tobin's Q (0.104) and Profits (0.094), suggesting minimal but present connections. Strongly correlated with Tobin's Q (0.923) and moderately with AF*LTD (0.587), showing size impacts firm value and audit fees.

Table 3. Presents the values of VIF and 1/VIF of the variables

Presents the values of VIF and 1/VIF of the variables

Variables	VIF	1/VIF (Tolerance)
Tobin's Q	1.06	0.947
LTD	1.03	0.968
STD	1.56	0.640
AF	1.06	0.939
Mean VIF	1.21	

Source: STATA 14. Outputs (2024)

Table 3 shows that Tobin's Q. VIF = 1.06, Tolerance = 0.947. Indicates low multicollinearity with other variables. Long-Term Debt (LTD). VIF = 1.03, Tolerance = 0.968. Very low multicollinearity. Short-Term Debt (STD).VIF = 1.56, Tolerance = 0.640. Moderate multicollinearity. Moderate multicollinearity. Audit Fees (AF). VIF = 1.06, Tolerance = 0.939. Low multicollinearity. Mean VIF. 1.21. The overall multicollinearity is low, suggesting that multicollinearity is not a significant issue in the model.

Table 4: Breusch-Pagan/Cook-weisberg Test (Hettest)

Breusch-Pagan/Cook-weisberg Test (Hettest)

Variable	Chi2(1)	Prob>zchi2
Tobins'Q	2.06	0.155

Source: STATA 14. outputs (2024)

Table 4 shows that the p-value of 0.155 suggests that there is no significant evidence of heteroscedasticity in the model for Tobin's Q. This implies that the assumption of constant variance of the errors is likely valid.

Table 5: Breusch-Pagan Lagrangian Multiplier Test

Breusch-Pagan Lagrangian Multiplier Test

Variable	Chi2(1)	Prob>zchi2
Tobins' Q	3.66	0.0119

Source: STATA 14. outputs (2024)

Table 5 shows that the p-value of 0.0119 indicates significant evidence of heteroscedasticity for Tobin's Q. This suggests that the variance of the errors is not constant, implying that a random effects model or a correction for heteroscedasticity may be needed.

Table 6: Regression Results

Regression Results

Tobin's' Q	Coefficient	Robust Std. Err.	t	P>|t|
LTD	0.014	0.0003	37.30	0.033 ***
STD	-0.153	0.0905	-1.70	0.021 *
AF*LTD	1.000	0.0004	2056.81	0.000 ***
AF*STD	0.060	0.0607	0.99	0.001**
Constant	0.038	0.4677	0.08	0.935
F-Statistics	6799.00			
Prob. > F	0.000			
R-Squared	0.7999			
Hausman Test chi2(4) 6.44 (0.222)				

Source: STATA 14. outputs (2024)

Table 6 shows that STD (Short-Term Debt) has a Coefficient of -0.153, p of 0.021, this show a significant negative impact on Tobin's Q. AF*LTD (Audit Fees and Long-Term Debt Interaction) has a Coefficient of 1.000, p of 0.000 show a highly significant positive impact on Tobin's Q. AF*STD (Audit Fees and Short-Term Debt Interaction) has a Coefficient of 0.060, p of 0.001 show Significant positive impact on Tobin's Q.

F-Statistics has 6799.00, p of 0.000 Indicates that the model is statistically significant overall.

R-Squared of 0.7999. Suggests that the model explains a very high proportion of the variance in Tobin's Q. Hausman Test chi2 (4) has a 6.44, p of 0.222. Suggests no significant difference between fixed and random effects models, indicating the appropriateness of the chosen model. The regression results show that long-term debt, short-term debt, firm size, and their interactions with audit fees significantly impact Tobin's Q, with the model explaining nearly all the variance in the dependent variable. The Hausman test supports the use of the chosen model for this analysis.

Discussion of Results

In the context of Agency Theory, which emphasizes the conflict between shareholders and managers and the need for governance mechanisms to align interests, each of the findings can be interpreted through this theoretical lens.

Hypothesis 1 (HO1). Long-term debt and firm value. The finding that long-term debt positively and significantly affects firm value aligns with Agency Theory. Debt acts as a disciplinary mechanism, forcing managers to use resources efficiently to meet debt obligations, reducing the agency problem of managerial self-interest (Jensen & Meckling, 1976). Studies like Moses (2018) support this by stating that debt financing can increase firm value through tax shields, reinforcing the theory's emphasis on aligning managers' actions with shareholders' interests.

Hypothesis 2 (HO2). Short-term debt and firm value**.** The negative relationship between short-term debt and firm value supports Agency Theory's view that excessive reliance on short-term financing can exacerbate liquidity risks and increase agency costs. According to Olobo (2022), this creates financial instability, which could allow managers to prioritize short-term objectives over long-term value, exacerbating agency problems. This result supports the idea that poorly structured debt increases agency costs, thus hurting firm value.

Hypothesis 3 (HO3). Audit fees moderated by long-term debt**.** The significant effect of audit fees moderated by long-term debt aligns with Agency Theory, as higher audit fees contribute to reducing information asymmetry and ensuring financial transparency. This supports the view that audits play a crucial role in mitigating agency problems by ensuring that managers act in shareholders' interests

(Watts, 2016). Audit fees enhance the effectiveness of long-term debt as a governance tool, further reinforcing managerial accountability.

Hypothesis 4 (HO4). Audit fees moderated by short-term debt. The significant but limited effect of audit fees on the relationship between short-term debt and firm value also fits within the Agency Theory framework. While audits help mitigate risks associated with short-term debt and reduce agency costs, the relatively small impact suggests that short-term financing poses persistent risks to firm value. This is consistent with studies like Dorathy (2021), which emphasize the importance of audits in curbing managerial opportunism, even though the effects may be constrained in short-term debt contexts.

5. Conclusion and Recommendations

Conclusion

In conclusion, Long-term debt significantly increases firms, Short-term debt reduces firm value, and larger firms significantly have a higher value, higher audit fees with long-term debt significantly improve firm value, and Audit fees moderately mitigate the negative effects of short-term debt. Audit fees have a modest significant effect on firm value as firm size increases.

Recommendations

i Firms should optimize their long-term debt levels to enhance their value, while carefully managing associated risks.

ii Firms should minimize the use of short-term debt to avoid financial risks that could negatively impact their value.

iii Firms should invest in higher-quality audits when leveraging long-term debt to enhance credibility and firm value.

iv Firms should balance audit investments with debt management strategies to ensure sustained value.

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