

DIVIDEND POLICY, AGENCY COST AND VALUE OF NIGERIAN MANUFACTURING FIRMS

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ABSTRACT

This paper provides empirical evidence on the combined impact of both Dividend Policy and Agency cost on the value of manufacturing companies in Nigeria from 2011 to 2020. Secondary data sourced from the published financial statements of the sampled firms and publications of the Nigerian Exchange Group were utilized for the study. The method of analysis employed was the panel data regression model. Results showed that the interaction between dividend policy and agency cost had a negative significant relationship with market value. The result is not in line with the argument of agency theory, that is, contrary to the theory, prompt dividend payment is not instrumental to alleviating agency costs to improve value. Other means of reducing agency costs are recommended.

Keywords: Agency cost, manufacturing firms, debt, Agency problem, Shareholders

INTRODUCTION

Agency conflicts arise due to the separation of ownership and control. The shareholders are the owners of the business but they lack the requisite knowledge and technical know-how required for managing the affairs of their company so they will appoint agents to run the business on their behalf. The agents are expected to manage the business in such a way that the wealth of the owners will be maximized. The parties to the contract are advantage takers in the sense that the shareholders are concerned about the maximization of their wealth while the focus of the managers is mainly on increasing the wealth and growth of the business in such a way that will give them the prospect to increase their own power and incentive. The divergent interests has an effect on the financing decisions, investment decisions and performance of an organization. The company's goals and objectives can only be achieved when the interests of the parties align (Jensen & Meckling, 1976; Ang, Cole & Lin, 2000).

As a result of the divergent interests of shareholders and managers, agency costs are incurred. Agency costs are evident in various forms ranging from wrong investment decisions by

managers, consumption of precious resources, lack of commitment to perform their best at work, falsification of figures/data, and cooking of accounting books (Oladejo et al, 2019). Information asymmetry, moral hazard, wrong investment decisions, and abuse of power by managers have led to the decline of the manufacturing sector's performance. Cadbury plc's financial scandal in Nigeria in 2006, Enron's scandal in California, USA, 2001, and Worldcom's scandal in UK in 2002 demonstrated the magnitude of the notorious agency tussle.

In the long run, agency costs can result in a decline in the profitability and value of an organization, because agency expenses cost opportunities for investing in activities that will produce returns for the business (Oladejo et al, 2019). The extent of agency costs incurred by a business may negatively affect the value of a firm. In order to mitigate agency costs, factors or mechanisms that can be employed in mitigating agency costs should be considered. The value of the manufacturing sector in Nigeria will improve when there is a solution to the agency problem

It has been argued by researchers in developed and developing countries (Easterbrook, 1984; Jensen, 1986) that dividend payout policy is an effective tool that can be employed in mitigating agency costs. It was pointed out that shareholders could minimize the amount of cash that management controls. They will be less likely to engage in unmonitored spending sprees or invest in projects with negative net present value, thereby improving performance. According to them, increasing payouts is an effective way to eliminate surplus cash. Dividend payments have been suggested as a useful tool to minimize divergent interest between managers and shareholders. Dividend payouts also contribute to or generate bonding and monitoring (Rozeff, 1982). Besides reducing the agency's cost of equity, dividend policies also reduce managers' opportunities to use firm cash flow for perks and to pursue new investment opportunities (Megginson, 1997).

In the light of previous researchers' salient points supporting the use of dividend payout to mitigate agency cost, this study seeks to provide empirical evidence of the interaction between dividend policy and agency cost. In addition, it provides evidence of their cumulative effects on the performance of Nigerian manufacturing firms.

The manufacturing sector plays a pivotal role in the economy, especially in generating employment opportunities, diversifying the economy, and boosting the Gross Domestic Product (GDP). This sector drives other sectors and is typically the yardstick to determine the economic growth of a nation. The performance of this sector in Nigeria is not improving as anticipated; for some time now, the GDP of this sector has been hovering around 9% below the double-digit threshold for achieving the status of developed industrialisation. Over the past few years, the sector's growth has been stifled. The GDP quota for manufacturing enterprises should increase, but, instead, it has been declining. It was 9.75% in 2014; 9.20% in 2018, 9.06% in 2019, 8.99% in 2020, 8.98% in 2021, and 8.92% in 2022, respectively (Adekoya, 2019; Index Mundi, 2017).

Performance is influenced by dividend policy in Nigeria, according to studies by Ehikioya (2015) and Obaid (2016). These studies focused only on the interaction between the dividend policy proxy and performance. Furthermore, previous studies used an indirect agency cost proxy to demonstrate the relationship between agency cost and performance (Salim, 2014; Emenyi, 2013; Gurbus, Aybars & Yesilyurt, 2016). This study is different because it looked at the joint effect of dividend payout policy and agency cost on performance proxied by firm value. It also incorporated both direct and indirect agency cost indexes to measure agency costs.

LITERATURE REVIEW

Manos (2002) offered empirical support for the agency theory's claim that dividend payout helps to lower agency costs in his study titled dividend policy and agency theory on Indian Firms. The elements that make up the variable for agency cost are growth, risk, and liquidity. Dividend payouts and transaction costs had a favorable relationship. By implication agency problem graduate to agency costs which are incurred to set up structure of control and measurement to align the interest of managers and the business owners. The findings of this study are consistent with the agency theory's claim that dividend policy plays a key role in reducing agency costs because internal parties of the corporation pay dividends to investors rather than for their own benefit. In his work, Mallin (2007) criticized agency theory for focusing only on two stakeholders that is the agents and the principals, but corporate analysts contend that it is unhealthy for an organization to place all of its attention on only two stakeholders while ignoring the other stakeholders who also play significant roles in the firm.. Despite these objections, the theory's predictions have been empirically demonstrated to be accurate, leading to its widespread use in the field of corporate governance. The purpose of this study's adoption of the theory was to give empirical support for the claim that the dividend payout ratio is a suitable method for minimizing agency costs experienced by businesses in order to increase value.

Using a modified version of Rozzef's cost minimization model (1982), Caelers (2010) evaluated the association between dividend policy and agency conflicts of 3168 publicly traded European corporations in 2006. The dependent variable was dividend payout, and the indices used to illustrate the scope of agency conflicts were foreign and insider ownership. Based on the index of agency charges, she created a range of results. According to hypothesis one, European-listed companies pay out more dividends when they encounter less agency issues, while hypothesis two contends that European-listed companies pay out less dividends when they encounter fewer agency issues.

In Malaysia, a study on the relationship between dividend policy and agency expenses was conducted by Khor et al. in 2013. From 2005 to 2010, they looked at 48 trading and service companies listed on the Bursa Stock Exchange. While agency cost was determined by asset utilization, the dividend payout ratio was used as a gauge of dividend policy. They discovered that there is no relationship between the selected firms' dividend policies and agency costs. This indicated that payment of dividend has no effect on agency cost.

For a period of 21 years, Osegbue et al. (2014) conducted an empirical analysis of the impact of dividend payouts on banks' performance in Nigeria (1990 to 2010). The research shows that the hypothesized independent factors, including debt, excess cash flows, current profitability, risk, and taxes, are unaffected by dividend payments. Overall, these findings suggest that Nigerian banks distribute dividends with the intention of reducing agency disputes and the company's reputation.

From 2010 to 2014, Olufawoye et al. (2017) conducted research on the impact of agency costs on the dividend policies of 66 non-financial enterprises in Nigeria. The indicator for dividend policy was dividend payout, whereas the indices for agency costs were executive compensation, insider ownership, and supervision of major shareholders. Their findings show a substantial connection between dividend policy and agency cost. Their views also concur with the agency theory's prediction that dividend payments are effective tools for reducing agency problems.

Anazonwu et al. (2018) studied the relationship between agency cost and dividend payout of companies in the consumer goods and conglomerate industries in Nigeria. Asset turnover,

leverage, free cash flow, and dividend distribution are components of agency costs. They also discovered a significant and favorable association between dividend policy and agency cost.

Okun and Ohioda (2018) looked into how agency expenses affected the Nigerian company dividend policies. Executive remuneration was used as agency cost index, while dividend to total assets was utilized as a stand-in for dividend policy. Leverage, growth, free cash flow, and profitability were examples of control variables that were added to the model. The results show that executive compensation had a big impact on dividend policy. By inference, agency cost and dividend policy have a favorable and significant relationship.

Bhomoyi (2019) studied the association between dividend policy and agency issues of financial services businesses listed on the Johannesburg Securities Exchange from 2005 to 2016. Results from the findings were inconsistent. The variables employed as substitutes for dividends and agency costs show that significant relationship exist between the variables of interest.

Lastly, Lalliyah and Abadi (2021) evaluated how Indonesian manufacturing firms' agency costs and dividend policies interacted between 2012 and 2019. Insider ownership, dispersion ownership, free cash flow, and collectable assets are the determinants of agency expenses, and dividend payout was adopted as a gauge of dividend policy. They discovered a positive and significant correlation between agency cost and dividend payout, arriving at the conclusion that dividend payment mechanisms can help to solve agency problems.

Theoretical Underpinning: Agency Theory

This study focused on agency theory, which postulates that managers are agents of shareholders employed for the purpose of managing their company so that their wealth can be maximized. Decisions about how the company will achieve its goals have been delegated to its agents. The manager's decisions should be aligned with the goals of the business rather than increasing personal wealth at the expense of the company. Berle and Means (1932) affirmed that separation of ownership and control is the major cause of divergence of interest between the parties involved. Agency costs arise as a result of the misalignment of objectives. Mechanisms can be put in place to minimize agency costs incurred in resolving the conflict. The theory opines that agency costs can be alleviated by prompt payment of dividends. This is because it will reduce the amount of cash flow available to managers. This will dissuade them from engaging in any activities that will not be beneficial to the organisation. The prompt payment of dividends is useful in solving the conflict of interest between the manager and the principal on the choice of investment and the degree of risk to undertake (Jensen & Meckling 1976). Though the amount of cash available to managers would decrease due to dividend payments, this will also drive managers to go to the capital market and raise money. This will give potential investors the chance to keep checks on the business's operations and management, which will lessen the agency issue. The manager lacks the capacity to invest the discretionary funds at his disposal for perquisite consumption, but his capacity to supervise the firm's development is in no way constrained. The Rozeff cost minimization approach, created in 1982, supports agency theory by lowering agency cost by increasing payout ratio while minimizing transaction costs associated with obtaining external financing. As a result of reducing agency costs to an absolute minimum, the performance of the organization can be enhanced and the interests of shareholders can be safeguarded.

According to the idea of agency, the mechanism for tying management behavior to business value is the dividend policy. Dividends will make it harder for management to control the company's cash flow. According to research by Pinkowitz et al. (2003), payouts are significantly more valuable in high-corruption nations than they are in low-corruption nations. In other words,

investors appreciate the cash dividends distributed by companies in nations with high levels of corruption. This is due to their legitimate expectations that any cash held within the company will be lost or stolen. According to La Porta et al. (2000), nations without investor protection experience agency issues and lower business value. Investors don't get their full investment return because of bad governance.

A firm's performance could be affected by its agency costs and its dividend policy, according to agency theory. Therefore, studying the interaction between dividend policy and agency cost variables will provide evidence of their effect on firm performance. In the regression model, dividend policy (dividend payout and dividend per share) and agency costs (operating expenses and board compensation) are combined to capture the effect of both on performance. In addition to providing empirical evidence of the interaction between the variables, this model will contribute to the achievement of the study's objectives.

METHODOLOGY

The study made use of panel data that was gathered from the websites of 35 sampled industrial companies and their audited annual reports between 2011 and 2020. A company that had complete financial information and whose shares were regularly traded on the trading floor of the Stock Exchange Group was taken into account. For the analysis, a panel research design that combines cross sectional and time series properties was used, as well as panel regression. Secondary information on significant elements such net income, total assets, dividends paid, operating costs, and board compensation was provided by the financial statements of the sampled companies.

Specification of Model

The general framework of panel regression model is:

$$y_{it} = \alpha_i + \beta_{ij}x_{it} + \varepsilon_{it} \dots \dots \dots (i)$$

Where:

Y_{it} = represents the vector of explained variables and these are: (*frv*)

X_{it} = stands for vector of the explanatory variables: (*OPE, BCOM, Div * OPE, Div * BCO*)

i = cross-sectional variable from 1, 2----- 35

j = time series variable 1, 2----- 10

t = 2011– 2020

ε = Stochastic error term

Explicitly,

$$FRV_{it} = f(Ope, Lbcom, Div * OPE, Div * BCO, Lage) \dots \dots \dots (ii)$$

$$Frv_{it} = \beta_0 - \beta_1 ope - \beta_2 lbcom_{it} + \beta_3 Div * OPE_{it} + \beta_4 Div * BCO_{it} + \beta_5 age_{it} + \varepsilon_{it} \dots \dots \dots (iii)$$

A priori Expectation: $\beta_1, \beta_2, < 0$; while β_3, β_4 and $\beta_5 > 0$

Measurement of Variables

Frv = Firm value (Market value of equity + long term debt /book value of total asset)

Ope = Operating expenses (Administrative expenses/ total sales)

Lbcom= Board Compensation (natural logarithm of board compensation)

Div*OPE = Dividend payout (total dividend / Net income) x operating expenses

Div*BCOs= Dividend per share (total dividend/ outstanding shares)x log of board compensation

Lage = Age (natural logarithm of year of existence)

Sources, Definition and Description of Variables

Firm Value: The primary reason shareholders invest their money is to maximize their wealth. The value of a firm is reflected in its share price. The value of a firm is the amount a prospective buyer will be willing to pay if the firm is sold. Maximization is only possible if the firm is managed efficiently and effectively to reap a higher rate of return than what the market demands. An agency cost reduction will definitely increase a firm's profitability as a result of the joint effect of dividend policy and agency costs.

Agency Cost: Agency is the sum spent on resolving disagreements between shareholders and their managers. Managers may have interests that are different from those of shareholders because they are always interested in unprofitable but highly rewarding activities than those that benefit investors. The agency cost manifests itself when agents invest in less profitable projects or when financing ventures beyond the capacity of the firm. An organization's performance is greatly influenced by monitoring costs, bonding costs, and residual losses. Owners suffer losses when they monitor the activities of their agents. Ratios of agency cost are asset utilization and board compensation. Inverse relationship is expected between agency cost and performance.

Dividend policy: Dividend payout and dividend per share are two metrics used as a stand-in for dividend policy. Dividend payments can lower agency costs because they limit managers' access to free cash flow. Given that past performance serves as a proxy for fund allocation efficiency, the comparatively subpar firm's performance has a greater impact on lowering agency costs after dividend initiations (Lipson et al., 1998). On the other hand, because they enhance the free cash flow available for managers' perquisites, dividend omissions can raise agency expenses. However, the extent to which agency expenses can increase may be constrained by the firm's financial standing at the time of a dividend omission. It is essential to carefully monitor the monies retained rather than being given as dividends because many companies only stop paying dividends after experiencing financial difficulties. The combined effect of dividend policy and agency expenses is anticipated to have a positive connection with performance since the payment of dividends will decrease agency costs, which in turn improve performance.

Size of Firm: The size of the firm plays a crucial role in the financial structure decision and this affects the performance of the firm in many ways. Larger firms are presumed to have easy access to debt markets from where they can advance substantial long-term funds at a lower price owing to their asset base compared to smaller firms. Therefore, the larger the firm, the better its performance, so a positive association is predicted between firm size and performance.

Age of firm: The age of the firm refers to the year that the firm has been in existence. This determines the goodwill the firm has gained in the course of its operation. As business continues in operation for years, it creates and builds for itself a favourable image and there is nothing threatening it as a going concern.

Estimation Technique

In order to achieve the objective of the study descriptive and inferential statistics were employed. The descriptive statistics are the mean, median, and standard deviation, as well as the minimum and maximum values of all variables of interest. The inferential statistics involved are correlation analysis, the Hausman test, Redundant Fixed effect and panel data regression.

DISCUSSION OF RESULTS

The examination of the combined effects of dividend policy and agency cost on the performance of the sampled manufacturing enterprises in Nigeria is presented in this section. The tables below display the results. The descriptive statistics for the variables are shown in Table 1. Table 2 shows the pairwise association. The Hausman test and the Breusch-Pagan test are presented in Table 3 and 4, respectively, and the results of the regression analysis of the independent factors on the dependent variables are shown in Table 5.

TABLE 1

Descriptive Statistics of relationship between Dividend Policy, Agency Cost and Value

	FRV	LBCOM	OPE	Div*OPE	Div*BCO	AGE
Mean	0.5973	11.486	0.2314	0.1460	0.2389	3.6132
Median	0.6009	11.654	0.2089	0.0500	1.6192	3.7612
Maximum	2.2775	13.790	2.8210	1.2877	3.5657	4.3303
Minimum	0.0342	8.5342	0.0093	0.4133	0.0445	1.9459
Std. Dev.	0.2169	1.2891	0.3559	0.2662	0.9908	0.5427
Skewness	2.8461	0.2564	6.7187	1.5840	7.3698	-1.2456
Kurtosis	25.007	2.6092	61.845	37.475	3.4755	3.0280
Jarque-Bera	338.75	7.6620	238.38	858.14	33.919	19.650
Probability	0.0000	0.21687	0.3928	0.0000	0.8645	0.5400
Sum	93.783	183.241	36.337	396.22	194.51	567.27
Sum Sq. Dev.	7.3912	259.22	11.029	908.89	153.15	45.957

Source: Researchers' computation, 2020

FRV : firm value; *OPE* : operating expenses; *LBCOM* : natural logarithm of board compensation, *Div*OPE* : the joint variable of dividend and operating expenses; *Div*BCO* : the joint variable of dividend and log of board compensation; *AGE* : natural logarithm of age.

With the exception of board compensation and company age, which are measured in natural logarithms, all of the variables utilized in this analysis are expressed as ratios. This section displays the variables' means, standard deviations, skewness, kurtosis, minimum and maximum values. The average value is 0.59, whereas the averages for board compensation, operating costs, dividend per share, dividend payment, and age are respectively 11.48, 0.23, 0.14, 0.23, and 3.61. Firm value as measured by Tobin's Q, a measure of market performance, stood at 59%. This was the result of an increase in the equity and share prices of the sampled companies without a corresponding increase in their activities.

The minimum and maximum levels of Frv, Lbcom, Ope, Div*Ope, Div*bco and Age are 0.0342, 2.2775; 8.5352, 13.790; 0.0093, 2.8210; 0.4133, 1.2877; 0.0445, 3.5657 and 1.9459, 4.3303 respectively. Board compensation is the most volatile (least stable) of the variables, with a standard deviation of 1.2891. The Jaque-Bera test shows that almost all of the independent variables have a normal distribution.

Correlation Analysis

The correlation test is employed in this study to assess the level of relationship between the variables. The test is also used to determine whether there is collinearity between the explanatory

and explained variables. This is due to the possibility that the presence of collinearity in this analysis will skew the true picture of the correlation between the explained and explanatory factors. This is necessary in order to provide a more comprehensive picture than when the independent variables are each separately regressed against performance.

The results show on Table 2 below the correlation coefficients between the variables. There is a weak and negative correlation between FRV and LBCOM, meaning that as board compensation increases, the value decreases. DPS has a negative correlation with FRV. This implies that agency costs result in a diminution in the performance of an organization. As more dividends are paid in order to reduce agency costs, the value is decreased as well. The relationship between OPE and FRV is positive, though weak, which means that if reasonable expenses are incurred as agency costs, a firm's value will increase.

The variables of the joint effect of dividend and agency cost on value proxy with Div*OPE and Div*BCO were inversely correlated with value. This infers that the association of the two variables will rather worsen value rather than improve it

TABLE 2 Correlation Analysis of the variables

Correlation	FRV	LBCOM	OPE	DPS	LDPO	LAGE
FRV	0.0471					
	1.0000					
LBCOM	-0.0016	0.0511				
	-0.0059	1.0000				
OPE	0.0324	0.0765	0.0703			
	0.5637	0.2247	1.0000			
Div*OPE	-0.3169	0.0535	-0.0056	0.0910		
	-0.1919	0.1895	-0.0028	1.0000		
Div*BCO	-0.0754	0.2895	0.0141	1.3470	0.9755	
	-0.3518	0.2280	0.0505	0.1794	1.0000	
LAGE	-0.0008	0.1516	0.0325	0.5876	0.0841	0.2927
	-0.0070	0.2181	0.2267	0.1427	0.1574	1.0000

Source: Researchers' Computation, (2020)

Breusch Pagan Test

This test was conducted to complement the Hausman test and to choose between pooled ordinary least squares and fixed effect as the best method. Fixed effect is a viable and appropriate method for determining the impact of the independent variables on return on asset, as evidenced by the statistics' probability of 0.000. Table 3 below presents the data.

TABLE 3 Breusch Pagan Test of Pooled and Fixed Effect Model

Equation: Untitled

Test-cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2,572,403	(24,127)	0.0004
Cross-section Chi-Square	62,198,847	24	0.0000

Source: Researchers' Computation, (2020)

Hausman Test

This experiment was done to determine the best static panel to use out of fixed effect and random effect. The Fixed effect may be trusted to accurately, suitably, and satisfactorily predict how independent factors would affect firm value based on the probability of 0.0527 (see Table 4 below).

TABLE 4 Hausman Test of Fixed Effect and Random Effect Model

Correlated random effects – Hausman Test
Equation: Untitled
Test period random effects

Test Summary	Chi-Square Statistics	Chi-Square d.f.	Prob
Period Random	10,935161	5	0.0527

Source: Researcher's Computation (2020)

Regression Analysis

Table 5 (see next page) demonstrates that dividend policy and agency costs have a considerable impact on the profitability of manufacturing firms. According to R^2 , the explanatory variable can account for 68% of the variation in the dependent variable. Non-model-related factors account for 32% of the variance. F-Statistics with a p-value of 0.1 indicates a strong fit, and Durbin Watson's of 1.5036 suggests that the model is devoid of autocorrelation. D*OPE which is the proxy of the joint effect of dividend policy and agency cost reduces the value by 24 per cent. The probability of < 0.05 reveals that the D*OPE relationship with value is significant but negative. The results also revealed that the combined impact of dividend policy and board compensation reduces the value of a firm by 4%. This result is contrary to the a priori expectation and argument of agency theory that prompt payment of dividends will lower agency costs and thereby enhance performance. The result is in contrast with the studies of Manos (2002), Caelers (2010) and Khor et al. (2013). The two indices of the combined impact of agency cost and board compensation had a significant but inverse relationship with value. The results show that age also has a negative relationship with value. In contrast to expectations, firms that have been in business for many years are expected to have gained people's confidence and carved a niche for themselves in the form of goodwill, as well as spread their tentacles to explore different business.

Table 5 displayed the regression result of effect of both dividend policy and agency cost on performance proxy by firm value. The outcome of redundant fixed effect and Hausman tests showed that fixed effect is the appropriate statistic method to be chosen. The t-statistics values are in italics. The level of significance * and ** reveals that variables are significant at 1% and 5% respectively

TABLE 5 Effects of Dividend Policy and Agency Cost on Firm Value

Variables	Pooled		Fixed Effect		Random Effect	
	Coeff.	T-Stat	Coeff.	T-Stat	Coeff.	T-Stat
C	0.6043	4.546014*	1.7048	3.3161*	0.5855	4.3437*
OPE	0.7210	12.45229*	0.6223	9.7398*	0.7106	12.079*
BCOM	-0.0030	-0.297428	0.0130	0.4185	-0.0031	-0.3024
D*OPE	-0.2976	-6.9490*	-0.2437	-4.4584*	-0.2758	-6.2289*
D*BCOM	-0.0003	-2.3619**	-0.0400	-1.9005**	-0.0003	-2.2267** _s
LAGE	-0.0111	-0.4635	-0.3638	-2.8287*	-0.007	-0.2894
R2	0.53		0.68		0.56	
Adjusted R2	0.51		0.61		0.52	
F-Statistic	33.487		9.345		12.955	
F-Stat. (Prob)	0.000		0.000		0.000	
Durbin-Watson stat	1.0321		1.5036		1.0183	
Breusch Pagan Test			62.1988	0.0000		
Hausman Test			10.9351	0.0527		

Source: Author's computation, 2020

CONCLUSION

This study investigated the combined impact of dividend policy and agency cost on the performance of 35 sampled manufacturing companies whose shares were actively traded on the Nigerian Exchange Group within the period of study. The results showed that the interaction of the independent variables had a significant negative impact on value. Dividends do not mitigate agency costs, thus improving performance, as is argued in agency theory. The joint effect of the independent variables shows that dividends are not the most effective mechanism to employ in mitigating agency costs because of their negative impact on performance. Results of the relationship between agency cost and performance show that a negative relationship exists. This simply means that agency cost is indeed a residual loss and causes a reduction in the value of a firm. Only when agency costs are reduced to their bare minimum can performance improve.

As part of its operations, the manufacturing sector should consider reducing agency costs in different ways. This is because it has been established that the payment of dividends is not in any way useful in alleviating agency problems. The company should consider other mechanisms such as setting up arbitration committees and employing corporate governance mechanism to combat the evil called agency issue which is the cause of agency cost.

This study only considered the manufacturing sector. As such, further research could consider all non-financial sectors. The number of years in the duration of the study could also be extended.

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