EFFECT OF AGENCY COSTS ON FIRM VALUE OF LISTED OIL AND GAS COMPANIES IN NIGERIA

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Abstract
The divestment of ownership of a firm from its management has resulted in conflict of interest and agency costs. This study examined effect of agency costs on firm value of listed oil and gas companies on the Nigeria NGX from 2013 to 2025, and the sample size of eight companies were selected out of ten listed companies through purposeful sampling technique. The study adopted longitudinal research design and under panel regression model, multiple regression analysis and descriptive statistics were employed as estimator tools with the aid of E-view. Monitoring agency cost (MAC) and Bonding agency cost (BAC-2) were found to have negative significant influence on firm value measure in Tobin-q while Board bonding agency cost (BAC-1) and Residual agency cost (RAC) had negative and positive insignificant effect on firm value respectively. The study found that generally agency costs reduce firm value as agency expenditures exceed its corresponding benefits to oil and gas companies in Nigeria. Directors' remuneration reduces firm value; indicating that they are overpaid compare to their services contribution to firm value/performance. Debt interest is major agency's cost factor enhancing alignment of interests but excessive debt reduces firm value. The study recommends that the FRCN and SEC should regulate increase of directors' welfare on 20% increase of previous year profit and capital structure of oil and gas companies should be financed with minimum of 30% and maximum of 50% of debts.

Keywords: Agency Cost, Agency Theory, Firm Value, Oil and Gas Companies.

1.0 Introduction

Globally, agency principle and costs provide corporate governance mechanisms to ensure that the contractual complex interests of primary stakeholders are aligned for the sustainability, growth and long-term performance of firms. The level of modern industrialization has brought to the fore the separation of firm's ownership from management of firms. Though, this is to employ agents with better set of skills by the principal to manage the firms but coincidentally resulting in a possible conflict of interest between the principal and agents, necessitating the explicit and implicit control costs by the principal to align the interest of the agentsto enhance firm value. Rohim et al., (2024) stated that this structural shift results in a separation between ownership and management (agents), as the owners become typically distinct from the

managers of public companies. This separation gives rise to the agency problem, where conflicting interests between principals and agents lead to the incurrence of agency costs (Jensen, 1986; Sapuan et al., 2021).

Thus, agency cost represents necessary corporate expenditures and governance mechanism to unify the interests of stakeholders to achieve wealth maximization through the overall objective of increase in firm value. Firm value is a measure of financial healthiness, efficiency and profitability of the firm. Jia & Li, (2020) posited that firm value remains a critical concern for stakeholders in the Nigerian business environment, particularly in the face of increasing economic uncertainty and competition. To remain competitive and attract investments, firms must consistently enhance their operational performance. Strong performance not only boosts firm value but also attracts investors by showcasing the company's potential for sustainable growth and profitability (Prasad et al., 2022; Hamdah, et. al. 2025).

A firm's market value serves as an indicator of managerial success concerning investment decisions made by investors. The decision to invest in a company often hinges on its perceived value. Importantly, an increase in firm value reflects management's performance over a measurable time frame and low level of divergence of interests among stakeholders (Soewarno & Ramadhan, 2020). Therefore, a well-placed increase in agency costs would reduce conflicts of interest and motivate managers to enhance their efficiency that would result more proportionate increase in profit and firm value than the agency cost itself. According to Chinelo and Iyiegbuniwe (2018), agency cost is important because it mitigates the effects of agency problems. This implies that agency cost is intended and it reduces wastages of firm resources and enhances conservativeness of firm goals. Agency costs are essential expenses incurred to ensure that corporate performance is not compromised by conflicts of interest (Nuhu et al., 2020; Bint Raza et al., 2024).

Although agency costs result in an absolute out flow of fund, the core purpose of agency costs is to reduce conflict of interest, asymmetry of information and adverse selection to ensure fair treatment of each stakeholder to promote going concern and increase firm's financial performance. This has not been the consensus notion of agency cost effect on performance among stakeholders, as the subject has attracted attention of scholars, industrialists, shareholders and managers as well. Oyinkansola, et. al. (2025) debated that agency theory suggests a negative relationship between agency costs and firm performance. Agency costs have a good or negative impact on a company's financial performance, according to Olagunju and Adenle (2022).

In this regard, the direction of effect of agency cost on performance, whether positive or negative is hinged on corporate governance, control system and management efficiency of the firm and the applicability of the agency costs. Furthermore, various agency costs are incurred to mitigate a particular agency problem and achieve particular objective as such types of agency cost could determine its effect on firm value. Jensen and Meckling (1976) and Jensen (1986) described three kinds of agency costs as monitoring costs, bonding costs and residual loss.

Agency costs would achieve its intended objective of improving performance if it is efficiently applied in effective corporate governance system. Effective monitoring ensures that assets are not misused or underutilized, leading to improved performance. Likewise, audit fees, paid for external verification of financial statements, are a practical embodiment of contracting costs as it audits provide independent assurance that financial records are accurate, reducing the potential for opportunistic behavior by managers (Oyinkansola 2025; Oyedoku, 2019). Interest expenses and debt contract constitute agency costs and control mechanism use by shareholders to control discretional and unnecessary spending of management to enhance performance. Nuhu, et. al. (2020) stated debt covenant gives a restriction or defines how the

management uses the assets and be financially discipline so that they cannot bring their opportunistic behavior but in the interest of the business because of the payment of interest, so that shareholders' money can be managed to meet debt obligation which failure to do that can make bond holders force liquidation. Interest can be tool of managing the conflict between shareholders and managers as interest paid on loan and loans are forms of monitoring mechanism that helps owners to checkmate managerial behavior of agency opportunism. (Hoang 2019; Enenche & Sunny, 2026).

Agency cost, is the internal expense experienced by the company as a result of a conflict of interest between the primary shareholders and the agent which significant come inform of management administrative expenses. Moreover, administrative costs have a propensity to impact business performance; according to Li et al. (2021), greater administrative costs might lower profitability and depress stockholder value. Accordingly, managers can make unnecessary expenses by acting in line with their personal interests and goals, instead of maximizing the value of the company, this causes agency problems between shareholders, creditors and company management. Olagunju et al. (2021) stated managers can readily control administrative costs to suit their own interests Management decision in attempt to maximize their personal could result loss of investment and extra expenditures to shareholders as agency implicit cost thereby impacting performance and firm value. Higher agency cost indicates poor management of operational cost, which leads to low operating income and is possibly due to fraudulent management of the operating costs as increase agency costs adversely affects the company's profitability (Rossi et al., 2019; Mazlan et al., 2019; Linh, 2024).

Agency problems may lead to agency costs such as welfare losses, monitoring and bonding costs, which reduce the value of the firm. Agency costs can emerge in various forms such as, managerial self-interest behaviors, perquisite consumptions, work shirking, non-optimal investment decisions, and corporate fraud (Baykara & Baykara, 2021). The oil and gas sector is the back bone and mainstay of Nigeria economy. It accounts for over 95% of her foreign exchange earnings, 40% of GDP of the federal government collectible revenue (World Bank, 2004; Uwakonye, Osho & Anucha, 2006; Agboola, 2024; CBN), . For the study period oil and gas had average highest contributions to national budget of 65% 2013 to 2015; 45% 2016 to 2020 and 58% 2023 to 2025 (NBS, 2016; NBS, 2025). Therefore, prioritizing alignment of stakeholders' interest would enhance economic growth.

Despite the relevant Laws on corporate agency governance such as Corporate governance Code 2018, Petroleum Industry Act, 2021 and the huge financial inflow from the oil and gas sector the number of listed Oil and gas companies still declined to ten due to firm value failure and the firm value indices of oil and gas companies trail other sectors in the capital market performance in the NGX as its ASI stood at 39.84% lower than agriculture and Health sectors with 126.5% and 71.6% in 2025 due fluctuation of firm value. This necessitated the study to examine the effect of agency corporate governance costs on the firm value of oil and gas companies in the period of IFRS implementation of 2013 to 2025, considering the high level of agency principles adhered to in the oil and gas sector in Nigeria.

The divestment of ownership of a firm from its management has resulted in a principal-agent relationship, with its consequence of conflict of interest and an agency cost. This noble principle enshrined to enhance firm performance through incentive and controlling monetary measures in form of costs has become a double-edged sword effect on firm going concern, arising from the complex network of interests in corporate organization.The overall financial performance of a corporate entity, has continually been affected by costs that is expended towards ensuring corporate interests alignment between the managers and owners of the firm as agency costs are associated with stakeholder conflicts of interest,if not

incurredthe agents may put their personal interests ahead of the shareholders' (Sadiq and Abdullah (2022; Abdulah & Tursoy, 2022; Bello-Olantuji, 2024)

Although there is growing empirical attention to the effect of agency costs on firm performance, as evidenced by previous studies such as Salami et al. (2023), Linh et al. (2024), and Bello-Olantuji et al. (2024), limited attention has been given to the Nigerian context, particularly the oil and gas sector, as well as the broader coverage and measurement of relevant variables. Overall, the empirical literature indicates considerable progress in understanding the relationship between agency costs and firm performance; however, substantial gaps remain, particularly in relation to national context, sectoral coverage, and variable measurement.

Thus, this study is different from previous studies as it examined separately the three operational dimensions and the three different grouping/dichotomies of agency costs; monitoring, bonding and residual costs, for specific finding and policy attention while previous studies lump up the agency costs. The study also measured bonding cost of board of director remuneration in per average of a director putting every company size and amount of directors' remuneration in the same company size level and same Naira amount unit of measurement, respectively. The study examined two major variables of monitoring costs of audit fee and interest cost to determine the most impacting factor. The study focused on the major economy sector of oil and gas in the post period implementation of IFRS, Nigeria Code of Corporate Governance and Petroleum Industrial Act. The study objective is examining three dimensions of agency costs effect on firm value of listed oil and gas companies in Nigeria.

2.0 Literature Review

Concept of Firm Value

The concept of firm value is a fundamental aspect of corporate finance and strategic management. Akhor and Oroboh (2023) defined firm value as the perception of a company by investors and it is usually associated with the prices in the market. Therefore, stakeholders and customers' attraction and patronage would drive up by the firm value or increase in its going concern on the principles of forces of demand and supplies. This definition is in line with definition of Motto and Sustrisno (2020) that says firm value is in eyes of customer valuation. It represents the market's perception of the firm's ability to generate future cash flows and the associated risks. The higher the firm value, the more valuable the company is perceived to be by investors and the market. Firm value is influenced by various factors, including the company's profitability, growth prospects, risk profile, and corporate governance practices (Handayani&Ibrani, 2023). Consequently, corporate governance mechanisms, including board agency principles, have been recognized as potential drivers of firm value (Pandey et al., 2023; Mbithi et al., 2023).

Chinyonga and Mwanga (2024) stated that firm value is the measurement of company's success and prosperity. Therefore, it is an investor's evaluation of a firm's ability to manage its resources successfully (Indriawati et al., 2021). The firm's value is crucial because the greater the firm's worth, the more prosperous the shareholder will be. It is an economic metric that reflects a company's market value. Investors' assessments of a firm's management's capacity to foresee and adapt to potential changes in the company's economic environment impact the firm's market value (Jindal & Slotegraaf, 2024). Tobin's Q is the measure of a firm's value that was employed in this research as the most objective measure of performance. Tobin's q measures investors' perspectives of a company's market value in relation to its book value. It is an excellent proxy for business value since it represents the market's expectation for future profits (Butt et al., 2023; Shaffer & Lee, 2022).

Firm value is a crucial metric that encapsulates the market's perception of a company's intrinsic worth.

It is determined by the present value of the firm's expected future cash flows, discounted at an appropriate rate that reflects the associated risks (Ayazli, 2023). The concept of firm value is rooted in the fundamental principle of corporate finance, which states that; "the primary objective of a firm is to maximize shareholder wealth" (Ferrarini, 2023). By focusing on increasing firm value, companies can ensure that they are making decisions that align with the interests of their shareholders and contribute to long-term value creation. Effective governance mechanisms, such as board independence, executive compensation structures, and shareholder rights, can help align the interests of managers with those of shareholders, thereby reducing agency loss and enhancing firm value (Di Vito & Trottier, 2022; Islam et al., 2022). Thus, firm value reflects the market's perception of a firm's ability to generate economic profits and create wealth for shareholders

Concept of Agency Cost

Jensen (1986) defined 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. Falipe, et. al. (2025) defined agency cost as internal cost that incurred due to the conflict of interest between the principal (shareholders) and the agent (management team). This definition indicates the direction of the cost as it is paid by management to management team in the order of shareholders. It implies that the shareholders pay agency costs to the managers for either their managerial efficiency or to promote their managerial efficiency towards the shareholders' interest.

Oyinkansola et. al. (2025) defined agency cost as essential expenses incurred to ensure that corporate performance is not compromised by conflict of interest. The central point of agency cost is minimization of conflict of interest of the company's players. This definition underscores the importance of such expenditures in sustaining the firm's operations and ensuring its continued existence as a going concern. Agency cost is a result of corporate governance; therefore, it is the mechanism to promote corporate oneness to achieve wealth maximization of the firms. Though agency cost connotes negative notion but it is exigent expense incurred to promote performance. Agency theory suggests a negative relationship between agency costs and firm performance (Olagunju et. al., 2021). In opposite opinion, Chinelo and Yiegbuniwe (2018) stated that agency cost is important because it mitigates the effect of agency problem.

Salami et al. (2023) stated that agency cost is the internal expense experienced by the company as a result of a conflict of interest between the owners (principals) and managers. Agency costs include monitoring expenditures' sum by stockholders, bonding expenditures by the managers and the residual costs resulting from inefficiency and wrong decisions of management teams (Nuhu, et. al. (2022). This definition indicated that there are various types of agency cost necessitated by the intention each cost incurred to satisfy. Therefore, agency costs manifest in various ways in which conflict of interest could occur, to narrow that gap of divergence of interests and to unify the interest of stakeholders (Sadiq& Abdullah, 2022). Conclusively, agency costs are conflict of interest induced monetary costs to shareholders. In other word, agency cost is a probability cost of saving future managerial costs. It is a probability in the sense that, agency costs do not actually prevent managerial agency loss to shareholders.

Review of Empirical Literatures

Monitoring Agency Costs and Firm Value

Oyinkansola, et al. (2025) examined the impact of agency cost on financial performance of companies listed in the Nigeria Stock Exchange as ten companies were selected from consumer goods sector and ten Companies from industrial sector out 171 Companies listed for the period of 2019 to 2023. Agency costs were proxied in three variables of asset utilization (monitoring cost), audit fee, contracting cost and operative expenses cost as bonding costs were analyzed through General moment of the method (GMM)

in panel regression model. The result revealed asset utilization, audit fee and operative expenses ratio had positive significant effect on return on equity and earnings per share except operative expenses in the second model. Though the finding is contrary to many previous findings but it is line with spirit and principle of agency professing the exigency to incur administrative costs to align interest of agents to that of principal to enhance company overall performance. This study improved on the above study by using Tobin-q, Market value measurement as proxy for dependent variable to place all independent variables same level of effect instead of absolute profit.

Enenche and Sunny (2026) explored moderating effect of agency costs on the relationship of capital structure and firm value using 140 listed manufacturing companies on the Nigerian Stock Exchange between study period of 2015 to 2025. The study adopted ex-post facto research design and fixed effect modeling for secondary data analysis. The result showed that agency cost has positive and significant influence on firm value. Beyond that it was found to have moderating effect between debt and leverage and firm value. This implies that a proper monitoring agency cost could influence debt and firm value relationship. This could also be inferred that debt also has element of controlling of agency cost, with further control of audit fees/ agency cost could enhance firm value. These differences in findings necessitated this study examining longer and economic important period using the grouping of agency costs into monitoring, bonding and residual costs.

In another clime, Hoang, et. al. (2019) did a study to test the common assumption that agency cost has negative influence on firm performance for period 2010 to 2015 using 736 companies listed in Vietnam, with alternative econometric techniques as general industry variable technique and a system generalized Method of moment model. The study employed two models equation of ROA and ROE as dependent variable, to the ratio of net sales to total assets and ratio of selling and distribution costs expenses to net sales as proxy for two agency costs independent variables. The results of the multiple regression models revealed that agency costs had a significant negative effect on ROA and ROE, while SG&A-to-sales ratio, representing residual agency costs, had a negative but insignificant effect on both measures of firm performance. This finding implies that agency costs adversely affect firms' financial performance by contributing to the inefficient utilization and wastage of corporate resources, thereby increasing the operational burden on the firm and reducing overall efficiency. The negative findings of agency cost on absolute performance profitability measures create a gap for this study more realistic measure of market performance of Tobin-q firm value.

Salama and Fershali (2025) investigated the impact of board governance and sustainability factors on firm value within the Egyptian context, moderated with board characteristics, using sample of 56 listed companies on the EGX 100 during the period from 2015 to 2022. The firms consist of 9 sectors of material, consumer, communication, services, energy and health care. The fixed effect model result showed that firms with ESG disclosures showed greater firm value; supporting the value creation Theory. This implies that agency features of board characteristics influence firm value. As board characteristics/ agency costs factor could influence the better management of resources and effective control to enhance firm value

Baykara and Baykara (2021) examined the relationship between agency costs and performance of the SME firms listed in Istanbul stock exchange between 2017 and 2020. 38 manufacturing firms were selected out of 42, and their data were extracted from the Bloomberg data Base, in BISTKOBI. The fixed effect model multiple repression in three models, found only agency cost proxies with operative expenses to be positive significant to small and medium size companies performance while variable of asset utilization and free cash flow were insignificant in influence performance of manufacturing SME listed in Turkey. The finding indicate that operative expenses is a significant measure of agency cost as it implies efficiency of agents

and its operation would reduce operative expenses to sales / operating income to enhance performance; vice-versa. This study improved on the above study by grouping of agency's cost into their fitted dichotomy/philosophy and measurement for statistical analysis.

Bin-Raza et al. (2024) analysed firms listed on the Pakistan Stock Exchange and found that certain corporate governance variables positively influence financial performance, while managerial ownership exhibited a negative impact. Asset utilization, reflecting monitoring costs, was found to significantly enhance performance. However, the use of multiple regression rather than panel regression might have limited the robustness of the findings. In a related study, Rohim, et. al. (2024), using Indonesian firms, found that agency costs particularly from monitoring expenses like administrative and sales costs negatively impact firm performance. This aligns with classical agency theory, asserting that excessive agency costs erode shareholder value. Supporting this, Ooko (2024) observed that free cash flow and dividend payouts significantly improve firm performance in Pakistani firms, while leverage (a proxy for debt-related agency costs) negatively affects performance.

Bonding Agency Cost and Firm Value

Salami, e.t al. (2023) examined the effect of agency costs on the performance of quoted consumer goods in Nigeria using a sample of 75 out 80 listed stock exchanges for the period of 2012 to 2021, through purposive sampling technique. Agency cost was proxied with director remuneration while performance was proxied with returns on assets. The study adopted ex post facto research design and the secondary data were analyzed through multiple panel regression model. The results revealed a negative significant effect of director remuneration (agency cost) and audit firm size on performance. This implies that increase in agency costs decrease firm performance. Although agency costs impose a direct financial burden on firms and may have the potential to reduce financial performance, their intended purpose of aligning the interests of agents with those of principals may outweigh the adverse effects of the associated expenditures. This study used average directors' remuneration costs among agency costs measurement and Tobin-Q formula to capture market performance to improve on the above study.

In Vietnam, Tuan et al. (2019) affirmed the role of debt (bonding cost) in curbing agency problems, showing that interest payments align managerial actions with shareholder interests thereby influence performance. This supports earlier claims that financial discipline via leverage can enhance firm value if not excessive. Chinelo and Iyiegbuniwe (2018) developed an agency cost index to evaluate the impact of governance structures on agency costs in Nigerian firms, finding significant correlations. However, this composite index may obscure the distinct influence of specific agency cost components such as residual and contracting costs

Furthermore, Nuhu, et. al. (2020) investigated the impact of agency costs on financial performance of listed consumer goods companies in Nigeria for the 2007 to 2017. Agency Costs was measured in amount of interest paid as a controlling cost against financial performance measured with return on asset. The ex-post facto research design and panel regression technique were used to analyze the data; the result of the study showed that agency cost was having negative significant relationship to performance. This result implies that agency cost lead to decrease in financial performance. Though agency costs mean physical out flows of firm resources but its intended objective and spirit is to reduce overall wastages of resources, enhance efficiency through effective governance and monitoring to increase performance of firm.

Bello-Olatunji, et. al. (2024) explored the relationship between agency cost and financial performance of 20 purposive selected manufacturing companies out of 21 listed for the period of 2015 and 2022 in Nigeria. The variable of independent were measured with Board compensation, asset utilization ratio or administrative expenses as proxy for agency cost against dependent variable of Return on assets as proxy

for financial performance. The panel OLS multiple regression result showed that board compensation and administrative expenses ratio had negative significant influence on financial performance whereas net asset utilization ratio was found to have positive significant effect on performance. This finding implies that agency cost has tendency to reduce firm performance. Though, this is not far from the fact agency expenses is mostly in form of absolute expenses that result in direct outflow or reduction of profit, but the exigency and spirit behind it is to improve overall performance, this necessitated this study to proxy performance with firm value.

Olagunju et al. (2021) study analyzing effect of agency costs on performance revealed that administrative expenses of agency cost negatively affect firm performance, while indicators like current ratio and bonding costs (interest expenses) can have a dual effects of either mitigating or escalating agency problems. However, these studies also suggest a need to incorporate more comprehensive measures of agency costs beyond singular financial ratios. The conflicting findings of bonding cost on performance by previous consecrated this to measure bonding in both directors remunerations and debt interest controlling to ascertain the cause of different in finding and establish more aligning, synthesizing and relevance findings.

Residual Agency Cost and Firm Value

Adebayo et al. (2021) investigated the effect of agency costs on the financial performance of listed consumer goods manufacturing companies in Nigeria. Using purposive sampling, the study selected ten companies from a population of 74 listed firms and examined data covering the period 2015–2019. The study measured financial performance using profit margin, return on assets (ROA), and current ratio, while agency costs were proxied by the current ratio and administrative expenses-to-sales ratio. The results showed that the administrative expenses-to-sales ratio had a significant negative effect on profit margin, indicating that higher administrative expenses may adversely affect firm profitability. In contrast, the current ratio exhibited a positive but insignificant effect on return on assets. The study concluded that agency cost has significant influence on performance. This finding indicates that influence of agency cost and direction may differ but significant relationship exists between agency cost and performance

Linh, et. al. (2024) analyzed the relationship between agency costs and corporate performance in Vietnam using exploratory design to determine effect of agency costs on firm performance. Among other findings, agency cost proxy with total sales to administrative expenses ratio has a negative impact on the operational performance. This is inferred from the fact that agency costs arise from conflicts of interest between managers and shareholders, often manifesting through inefficiency resource allocation and unnecessary expenses compare sales or total revenue. This is manifesting in residual agency costs, induced by personal interest of managers, increases expenses and influence decision that would lead to more loss or expenses that would consequently reduce the wealth or benefits of shareholders which are most designated in profit and share price. This different finding from the study may have not satisfied apriori therefore the measurement of this study is domesticated in Nigeria content with longer and current period by this study for relevance and synthesizing findings.

Similarly, Abdel-Aziz and Alrabba (2023) emphasized the role of corporate governance, agency costs and performance. The study revealed that asset turnover (monitoring efficiency) is positively associated with governance quality and performance, while sales and administrative expenses correlate positively with performance. Ahmed et al. (2023) analyzed how agency costs moderate the relationship between capital structure and firm performance. Their findings suggest that while asset utilization positively affects some performance metrics like ROA, it negatively influences others, indicating a nuanced interaction between agency cost and capital mix.

Garania and Kaikova's (2016) studied how agency expenses affect the financial performance of a few chosen Russian and Norwegian companies. Liquidity ratio (LUR) and asset utilization ratio (ATR) were used as proxies for agency expenses. Their study's findings showed that agency costs proxy with ATR and LUR increases board size and, as a result, may have an impact on the performance of the company. Agency fees were found to have a considerable negative influence in Norwegian enterprises, but no substantial impact in the Russian market. Thus, agency cost reduces firm performance due its level of cash outlay and its applicability. Due to conflicting findings from previous studies this study filled research methodological, population gap, geographical, temporal, knowledge and evidence gaps, by domesticating foreign practices, using more current periods and events with new measurements to synthesizing findings and enhance relevance of knowledge based findings.

Theoretical Review

Agency Theory

The building blocks of this research is agency theory, propounded byJensen and Meckling (1976) from earlier work of Berle and Means (1932) which explained that due to the divestment of firm's ownership from management team, managers would prioritize their personal goals over maximizing returns to shareholders. As necessity of industrialization demands for economic growth, large firm administration team are separated from shareholders making more information and powers of decision-making rest more on management team creating a room for conflict of interest, information asymmetry and adverse selection problem. 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 the principal (Adebayo, et al. 2024). Consequently, agency costs of monitoring costs of audit fee is incurred to reduce information asymmetry to align interest of agents to principal and checkmate the opportunistic tendency of agents as auditors are hired by principal to protect their interests. Thus, *H_1: agency monitoring cost of audit fee has nopositive significant effect on firm value of listed oil and gas companies.*

Furthermore, Oyinkansola, et al. (2025 posited agency theory assumed that since ownership is separated from control put the principal (shareholders) in a potential conflict with the agents (management) because 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 (Enenche and Sunny, 2026; Holtz et al. (2014). This divergence interest of agents and can be reduced by principal if agents/directors are well remunerated according to their services and status by the principal which can spur them to act for principal interests. Also, the principal should control their excessive estate building and discretional spending of the agents by debt/interest contract obligations to foreclose wasteful expenditures. Therefore, *H_2: directors' remunerations and debt interest agency costs have nopositive significant effect on firm value of listed oil and gas companies*

Agency theory presupposed conflict of interest which necessitated agency costs to reduce opportunistic tendency of the agents but Bello-Olantunji, et. al. (2024) questioned the innocency of the principals who exploit and deceive the agents and unwittingly dragged into working in hazardous environment and without any scope of infringement for the opportunistic tendency of the principals. Therefore, agency theory exists to unify parties' interest for firm performance. Nidumolu, (2018) stated that agency theory focuses on finding solutions to issues that develop when the principal and agent have competing interests. The main assumption of this theory states that; "agency theory improves financial performance" (Tarazi, 2019). Thus, agency theory is mainly connected and explained with this study, as the work seek to determine effect of agency costs on performance/firm value. The works that have used this theory to underpin their studies include Baykara and Baykara (2024); Nuhu, et. al. (2024); Oyinkansola, et. al.

(2025); Nuhu, et. al. (2024). The scenarios of agency theory are that both the agents and principal are opportunistic, the tendency that the principal would exploit the agents with low pay and hazardous working conditions could spur the agent to abuse discretional expenditures and elephant projects to enrich himself. As such, *H_3: residual agency cost has nopositive significant effect on market value of listed oil and gas companies in Nigeria.*

3.0 Methodology

The study employed longitudinal research design. This is for the fact that the research work is quantitative in nature with secondary data collected through secondary sources, as the data were extracted from the financial statements of the companies.The study population is the Ten (10) listed Oil and Gas companies on the Nigerian Exchange Group (NGX) as at 31st December, 2025 and Eight (Caverton, Conoil, Japaul Gold, MRS oil Nig, Oando, Eternal oil Seplat energy and total energy) were selected throughpurposive sampling technique, considering the companies with complete data for Thirteen years (2013 to 2025) of the study period. Aradel holding Plc was listed on the stock exchange 2024 and Capital oil Plc was delisted from the stock exchange 2023 for filing and insolvent problems. As a result, the two firms were omitted for lack of complete data for study period. The sample size covers 80% of the study population thereby meeting up with the Statistical law of Large Number therefore statistical relevance and reliability of the data/sample size would not be impeded ((Oaikhenam & Udegbunam, 2004). he independent variables of agency costs were grouped into their nature of occurrence of monitoring costs, bonding costs and residual costs and measured in same metric for statistical precision and finding.

Variables Measurement

This study used the approximation of Tobin-Q-Ratio as a proxy of market value. Thus, the study adapted the formula as used in the works of Oyinkansola et al. (2025):
MFV=Tobin's-Q=MVE+ Debts/Book Value of total Assets
Where:
MVE- number of listed shares multiplied market price at the end of the year
Debts- sum of long term and short-term liabilities in the financial statements
Total Assets-sum of noncurrent and current assets in the statement of financial position
Calculation used- the naira value of the market value plus liabilities divided by assets were used in the Tobin-q equation calculation and it produced numeric ratio (e.g 0.905102; 1.056695&1.17061).

Table 1:
Measurement

Variable Name	Proxy	Measurement	Sources
Market Value	FVQ	Tobins-Q formula of market value of shares plus total debts over total value of assets	Rohim, et. al. (2024)
Monitoring cost	MAC	Logarithms of auditors' Remuneration	Oyinkansola, et. al. (2025)
Bonding cost	BAC-1	Logarithmsof directors' remuneration divided by number of directors	Salami, et. al. (2023)
Bonding cost	BAC-2.	Logarithms of interest paid	Nuhu, Et. al. (2020)
Residual cost	RAC	Ratio of administrative costs to sales	Linh, et. al. (2024
Leverage	Lev	Logarithms number of total liabilities	Oko (2024)

Source: Authors Compilation, 2026.

Justification Board Remuneration Measurement: Measuring directors' remuneration in average number of directors is to put every firms and every firm's remuneration cost in same size so that firm with high cost of remuneration and higher numbers of directors would not be judged unfairly among firms and between yearly periods of the same firm. Measuring board remuneration in average of directors' number enhances reducing large number to a finer unit for more efficient statistical analysis and result (Trang, 2012).

Model Specification: In order to empirically examine the effect of agency costs on firm value of listed Nigerian oil and gas firms, the study adapted multiple linear regression models of Enenche and Sunny (2026) as they are formulated as follows:

$$FVQ_{it} = B_0 + B_1, MAC\text{-}1_{it} + B_2BAC\text{-}1_{it} + B_3BAC\text{-}2_{it} + B_4RAC_{it} + B_5LEV_{it} + E_{i:}$$

Where:

FVQ= Tobins-q modified market value of firm

$B_{0=}$ the constant or intercept;

$B_{1=}$ is the regression coefficient or slope of the independent variables;

$E_{it=}$ the error term.

The time series cross-sectional data were analysed using Ordinary Least Square (OLS) Multiple Regression in a Panel regression model with the aid of E-View. This for a fact that the variables of the study were many therefore it fits into this model or analytical tool with its BLUE character for efficient result. The study carried out pre and post diagnosis tests as explained herein.

Data Analysis and Results:

Based on the result of the Hausman test, this study accepts alternative hypotheses which states that Fixed Effect is more appropriate (see table 3 for the result of Hausman test). This showed that the firms' specific level effects is having more dominant factors of agency costs influencing firm value of listed oil and gas companies in Nigeria as measured in Tobin-Q formula of 1969.

Table 2:

Descriptive Statistics

	FVQ	MAC-1	BAC-1	BAC-2	RAC	LEV
Mean	1.014197	7.845374	7.273353	9.238886	0.153063	7.045265
Median	0.956439	7.562252	7.269014	9.350846	0.094531	7.035945
Maximum	2.958525	10.09871	8.952584	11.41934	1.735212	7.114627
Minimum	0.255636	6.778151	5.788370	0.000000	0.008871	7.005046
Std. Dev.	0.346959	0.782472	0.776114	1.629395	0.209295	0.026251
Skewness	2.007428	1.105935	0.065968	-3.599337	4.818447	0.876696
Kurtosis	11.45663	3.357470	1.924651	20.81162	33.78828	2.920018
Jarque-Bera.	379.7460	21.75401	5.086393	1599.324	4510.080	13.35004
Prob.	0.000000	0.000019	0.078615	0.000000	0.000000	0.001262
Sum	105.4765	815.9189	756.4287	960.8441	15.91855	732.7076
Sum Sq	12.39920	63.06297	62.04237	273.4574	4.511836	0.070981
Observation	104	104	104	104	104	104

Source: STATA OUT, 2026.

The table two above revealed mean value of 1.014197, 7.845374, 7.273353, 9.238886, 0.153063 and 7.045265 respectively for FVQ, MAC, BAC-1, BAC-2, RAC and LEV with their corresponding standard deviation value of 0.346959, 0.782472, 0.776114, 1.629395, 0.209295 and 0.026251 respectively. The

figures of mean are higher than the figures of standards deviations of each variable except RAC. In other words, the standard deviation figures are not widely dispersed from the position of the mean; showing that the data are normally distributed, also considering minimum and maximum values. The slight contrary position of RAC variable cannot negate average value and normality of the variables. Thus, these also reflect that the maximum and minimum values are normally distributed.

The probability value of Jarque-Bera test of firm value (FVQ), monitoring agency cost (MAC), debt bonding agency cost (BAC-2), residual agency cost (RAC) and leverage (Lev) are 0.0000; 0.000019,0.0000, 0.0000 and 0.001262 respectively, they are all less than 5%. It indicates that they are not normally distributed but Jarque-Bera test of bonding agency cost of directors' remuneration (BAC-) is normally distributed as the probability value of Jarque-Bera test of 0.078615 is more than 0.05. Also, the skewness value of all the variables is close to zero except RAC that is having skewness value of 4.818447 which is not far from zero, it means that the distribution of the variables is symmetric in nature. The Kurtosis values of the variables are all averagely close to 3, it indicates that the shape is fairly a normal distribution, except debt bonding agency cost (BAC-2) and residual agency cost (RAC) that are not close to 3. Though, the above events notwithstanding because the Guasian theorem (1929) and Shao (2003) position that normality of data actually do not in any way impede the inferential statistics estimate of the BLUE.

H_1: Fixed effect is more appropriate

Table 3:
Hausman Test: Correlation Random Effects- Hausman Test
Hausman (1978) Specification Test

	Coefficient
Chi-square test value	15.386558
P-value	0.0057

Source: STATA OUT, 2026.

The Hausman test table revealed P-vale coefficient of 0.0057, which is lower than 0.05 implying that Fixed effect is more appropriate.

Table 4:
Matrix Correlations

	FVQ	**MAC**	**BAC-1**	**BAC-2**	**RAC**	**LEV**
FVQ	1	-0.23563	-0.16	-0.24052	-0.02965	-0.08481
MAC	-0.23563	1	0.739814	0.547064	0.007879	0.877298
BAC-1	-0.16	0.739814	1	0.547049	0.18875	0.739452
BAC-2	-0.24052	0.547064	0.547049	1	0.052648	0.565896
RAC	-0.02965	0.007879	0.18875	0.052648	1	0.007036
LEV	-0.08481	0.877298	0.739452	0.565896	0.007036	1

Source: STATA OUT, 2026.

The table presents the correlations matrix of the independent variables. It could be observed that correlations among variables is between 0.877298 and 0.007036 which is not up to 1, that is no presence of correlation coefficient more than 0.877298 as a result there is no problem of multicollinearity. Though there is high matrix correlation of 0.877298 between monitoring cost and leverage, it reflects dual role of

leverage as bonding and controlling measures and its affinity as control variable. Thus, it would not impede the coefficient stability due to unbiased estimator character of the BLUE.

Table 5:
Variance Inflation Factor (VIF)

Variable	Cofficient Variance	Uncentered VIF	Centered VIF
	337.9846	329677.0	NA
MAC	0.008060	488.6817	4.767407
BAC-1	0.004660	243.1549	2.711432
BAC-2	0.000609	52.25404	1.561567
RAC	0.025692	1.674357	1.087221
LEV	0.729625	3.532582	4.857337
Mean			2.996

Source: STATA OUT, 2026.

The Variance Inflation Factor (VIF) of (MAC, BAC-1, BAC-2, RAC & LEV) variables; showed VIF values ranged from 1.087221 to 4.857337, with mean VIF of 2.996 which is less than 10 the general benchmark for mutlticollearity. This indicated that multicollinearity is absence or not significant in this model. Also, the 1/VIF which represents the tolerance level showed similar values pattern ranged from 0.000609 to 0.729625 which are far lesser than 1.This means, the variables are less correlated but higher than 0 meaning no severe multicollinearity among variables.

Table 6:
Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.347698	Prob. F(5,98)	0.8826
Obs*R-squared	1.812770	Prob. Chi-Square(5)	0.8744
Scaled explained SS	10.28906	Prob. Chi-Square(5)	0.0674

Source: STATA OUT, 2026.

The above table also shows Breush-Pagan-Godfrey test for Heteroskedasticity test performed on the residuals and the results showed prob. 0.0674 which are in excess of 5% or 0.05 which reject the presence of heteroskedasticity in the residual.It is noted in abovein terms of variance behavior, the Breusch-Pagan-Godfrey heteroskedasticity test of F-statistics, Obs*R-square and scaled SS yield p-values ranging from 0.8826, 0.8744 and 0.0674 respectively on its primary versions, with particular attention on Prob. Value of 0.0674; which are/is above the 5% threshold. Under conventional 5% inference, you do not reject homoskedasticity; under a more cautious 10% standard, you might only note weak evidence of heteroskedasticity.

Table 7:
Fixed Effect Regression Results E-view Ouput 2012

Variable	Coefficient	St. Err.	t-Statistics	Prob	Sig.
Constant	-47.45275	9.675156	-4.904598	0.0000	***
MAC	-0.190744	0.080323	-2.374696	0.0197	**
BAC-1	-0.055175	0.039629	-1.392292	0.1672	*
BAC-2	-0.045566	0.010043	-4.537216	0.0000	***
RAC	0.078325	0.074784	1.047355	0.2977	*
LEV	7.206782	1.415334	5.091929	0.0000	***

Source: STATA OUT, 2026.

Effects Specification

Weighted Statistics/ Cross-section Fixed Effect (dummy variables)

Root MSE	0.994339	R-squared	0.503603
Mean dependent var	2.859166	Adjusted R-squared	0.438144
S.D. dependent var	3.556107	S.E. of regression	1.062993
Sum squared resid	102.8259	F-statistic	7.693413
Durbin-Watson stat	1.871434	Prob(F-statistic)	0.000000

Source: STATA OUT, 2026.

Table 7: Effects Specification *** and ** significant at 5%.

Table above shows the results of Fixed Effects model. The result showed that the P-value of F- statistics is 0.0000 which is far less than 5%, this showed that the model is 100% fit and that the model is statistically significant. Thus, it implied that all the independent variables in combination fit the model specification and in overall the model is statistically significant. The R-square value of 0.50in the result indicates that, the independent variables contributed 50% to the outcome of the dependent variable. It also indicated that 50% of the variation in firm value of listed oil and gas companies measured in Tobin-Q formula (FV) was caused by the direct components effect of agency costs of monitoring cost (MAC), bonding cost one and two (BAC-1&BAC-2), residual agency cost (RAC) and control variables of leverage. The adjusted R square of 0.43 unit implied that any variations that could have occurred as a result of the introduction of additional independent variable would have been taken care of asit could only influence the R square to the down point of 43%.

$H_{1\&3}$: the alternative hypotheses are accepted that agency monitoring cost and agency debt bonding cost have significant effect on firm value of listed oil and gas companies.
$H_{2\ \&4}$: the null hypotheses are accepted that directors' welfare agency bonding cost and agency residual cost have no significant effect on market value of listed oil and gas companies in Nigeria.

Monitoring Agency Cost and Firm Value

The regression line that reads: FVQ=47.45275-0.19744MAC-0.055175BAC–1-0.045566BAC –2+0.078325RAC+7.206782LEV, wassignificant at zero% (0.0000) and it implies that agency costs have overall significant influence on firm value. It indicated that for every unit increase in agency monitoring cost, firm value (FVQ) decreases by 0.19 unit. The p - value of 0.0.0197 is lower than t - value of 0.05; that is, it is significant at 5% level to firm value. This simply means that alternative hypothesis is accepted that monitoring agency cost hassignificant influence on the firm value of Nigerian listed oil and gas companies.

Bonding Agency Cost-1 and Firm Value-(FVQ) = The regression line of FVQ=47.45275-0.19744MAC-0.055175BAC-1-0.045566BAC-2+0.078325RAC +7.206782LEV was overall significant to firm value but bonding agency cost measured in directors' remuneration was not significant.Furthermore, the result regression line revealed that for every increase in bonding agency cost (BAC-1), firm value of oil and gas decrease by 0.055 units. It also implies that the p-value of 0.1672 is higher than t-value of 0.05; that means that bonding agency cost has no significance effect on firm value at 5% t-value. Therefore, the null hypothesis is accepted that bonding agency cost has no significance influence on firm value of oil and gas firms in Nigeria.

Bonding Agency Cost-2 and Firm Value (FVQ) = The regression line of FVQ=47.45275-0.19744MAC-0.055175BAC-1-0.045566BAC-2+0.078325RAC +7.206782LEV was overall significant to firm value and bonding agency cost measured in amount debts interest paid was negatively significant to firm value. The result also portrayed that for every unit increase in bonding agency cost of interest, firm value (FVQ)

of listed oil and gas companies decreases by 0.045 units. The p - value of 0.000 is far lower than t-value of 0.05; that is, it is significant at 5%. This simply means that the alternative hypothesis is accepted that bonding agency cost of interest has significant negative influence on the firm value oil and gas companies in Nigeria.

Residual Agency Cost and Firm Value (FVQ) = the study result showed regression line of FVQ=47.45275-0.19744MAC-0.055175BAC-1-0.045566BAC-2+0.078325RAC +7.206782LEV; has shown residual agency cost was positively insignificant to firm value. The p-value of 0.2977 of residual agency cost as shown in the result is far higher than t-value of 0.05; that means that residual agency cost has no significance effect on firm value. The result means that for every unit increase in residual agency cost, firm value (FVQ) increase by 0.078 units of listed oil and gas companies. Furthermore, the regression result revealed positive significant effect of leverage as a control variable on firm value of listed oil and gas companies in Nigeria. The addition of control variable to model is to avoid omitting any other variable that could have mediating/supporting influence on the independent variables.

Discussion of Findings

Monitoring Agency Cost and Firm Value

Monitoring agency cost (MAC) had negative significant effect on firm value of listed oil and gas companies in Nigeria, therefore, the work aligned itself with the works of Enenche and Sunny (2026); Raza, et. al. (2024) but contrary to the findings in the work of Adebay, et. al, (2021).The findings imply that increase in spending of monitoring agency costs such as audit fee and other contracting agreements by shareholders would significantly reduce firm value of oil and gas companies. Though the intended purpose of expenditure is to check mate and put caution on the opportunistic tendency of the agents arising from agency problem intricacy to enhance overall firm performance. The opposite finding of this spending impact on firm value could be professed to inefficiency application of fund and misalignment of monitoring expenditures, excessive spending without measuring proportionate benefits of alignment of interest. Therefore, the study is explained by Agency theory that posits that due to separation of ownership of firm from management agency problem would occur that would result costs and decline of performance/firm value. Thus, agency costs generally influence firm value, moreover excessive monitoring cost which manifest in hiring of big audit firm without corresponding benefits of services such better due process and control system would reduce firm value.

Bonding Agency Cost-1 and Firm Value

Bonding agency (BAC-1) measured in directors' remuneration/welfare was found to have negative insignificant value on firm value of listed oil and gas companies; thus, the study is supported by the work of Baykara and Baykara (20019); Oyinkansola, et. al. (2025) but it has opposite findings with the works of Salami, et. al. (2023); Bello-Olatunji. (2024). The inference of this finding is that increase in directors' welfaredecrease firm value of oil and gas firm in Nigeria. In other words, management teams are overpaid compare to beneficial services input into firm operation and performance thereby reducing firm resources for investment; consequently, reducing performance. This is in line with agency theory which states that agents are mostly opportunistic to serve their personal interest, manifesting in form of moral hazard, time horizon and risk adverse.Thus, bonding cost of directors' welfare does not influence firm performance due to the probable problem of effort level and measurement of agents' performance problem, implicit in the agency problem.

Bonding Agency Cost-2 and Firm Value

Bonding agency cost (BAC-2) measured in interestpaid on contracting debts was found to have negative significant value on firm value of listed oil and gas companies; thus, the study is supported by the work of

Nuhu, et. al. (2020): Tuan, el. al. (2019) but it has opposite findings with the works of Garania and Kaikova (2016). This finding implies that increase in interest paid controlling measure significantly influence firm value of oil and gas firm in Nigeria but in a decreasing manner. This is inferred that contracting debts obligation is formidable to align interest of agents to shareholders with joint obligation to pay interest to avoid the consequences of contractual breach; spur agents to perform efficiently to increase performance so as to pay debts thereby influencing firm value.

The negative effect of bonding agency interest cost on firm value is probable to excessive interest and debt burden and inefficient investment of debts fund arising from agency problem of moral hazard, retention of earning preference and residual costs effect on firm value. This is explained by Optimum debt theory that explains that excessive debt level beyond the optimum debt level would reduce firm performance/firm value. The positive significant effect of the leverage control variable on firm value; affirmed the position of debt contract as a major factor of agency costs influencing firm value. Therefore, debt is a major agency costs alignment of stakeholders' interest to enhance firm value.

Residual Agency Cost and Firm Value

The study results revealed residual agency cost having positive insignificant effect on firm value of listed oil and gas companies in Nigeria therefore the study aligned its finding with the study of Oyinkansola, et al. (2025); Hoang, et. al. (2019) and against the study of Linh, et. al. (2024); Rohimi, et. al. (2024). The study shows that increase in residual cost though it is insignificant but it would increase firm value of oil and gas companies. This result can be professed that insignificant effect of residual agency costs is due to the implicit nature of the cost which is known to the opportunistic tendency mind of agent and its negative discretional spending mindset. Thus, they are hidden administrative costs and it difficult to measure as such they do not influence firm value. Therefore, residual costs are hidden agency costs that do not influence firm value.

5.0 Conclusion and Recommendation

Generally, agency costs reduce firm resources as such it reduces firm value. Monitoring agency costs reduces firm value due to low impact of their services on checkmating costs control, conflicting of interest costs and inefficiency to instill financial discipline and enhance firm value. Firm directors are overpaid compared to their services contribution to performance. The debt interest contract is the major agency cost control measure to align interest of stakeholders in enhancing firm value of oil and gas companies in Nigeria. Residual hidden costs are not ascertained to influence firm value.

Following the above conclusion shareholders should promote value for money in audit services engagement by prioritize engagement of specialized auditors, dual auditors' engagement and promote auditor independent to ensure audit quality that would enhance firm value. The Federal Government through the FRCN should regulate board of directors' welfare/remuneration increase on the 20% increase on the firm profitability/firm value of oil and gas companies in Nigeria. The SEC and shareholders should promote capital structure of minimum of 30% and maximum of 50% of debt and equity financing respectively; to enhance alignment of agents' interest and control. This is supported by the Tradionalists Leverage Theory that asserted that debt has optimum level in which cost of capital is lowest and firm value would be highest as such point where debt level is too high not too low.

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