AGENCY COST AND PROFITABILITY OF LISTED BEVERAGE FIRMS IN NIGERIA

OSATOHANMWEN Bella Osahenrumwen

PGD/ACC/ 250118

BENSON IDAHOSA UNIVERSITY
BENIN CITY EDO STATE,
NIGERIA.

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OSATOHANMWEN Bella Osahenrumwen

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BEING A PROJECT WRITTEN IN THE DEPARTMENT OF ACCOUNTING, FACULTY OF SOCIAL AND MANAGEMENT SCIENCES AND SUBMITTED TO THE SCHOOOL OF POSTGRADUATE STUDIES, BENSON IDAHOSA UNIVERSITY, BENIN CITY, EDO STATE, NIGERIA. IN PARTIAL FULFILLMENT OF THE REQUREMENTS FOR THE AWARD OF POST-GRADUATE DIPLOMA (PGD) IN ACCOUNTING

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DECLARATION

I, **OSATOHANMWEN Bella Osahenrumwen** do hereby declare that this project titled **''Agency cost and profitability of listed beverage firms in Nigeria''** is entirely my own work and composition. The work embodied in the project has not been submitted for any degree and is not currently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

_____ _____

OSATOHANMWEN Bella Osahenrumwen **Date**
PGD/ACC/ 250118

CERTIFICATION

We certify that this project work was carried out by OSATOHANMWEN Bella Osahenrumwen, with matriculation number PGD/ACC/ 250118 of the Department of Accounting, Faculty of Social and Management Sciences, Benson Idahosa University, Benin City in partial fulfilment of the requirements for the award of a Post Graduate Diploma (PGD.) in Accounting.

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Dr. (Mrs) Rachael. E. Abusomwan
(Project Supervisor)

……

Signature/Date

_____

Dr. (Mrs) Racheal E. Abusomwan
(Head of Department)

……

Signature/Date

_____

Dr. David. J. Oziegbe

(Project Co-ordinator)

……

Signature/Date

DEDICATION

This project is dedicated to God Almighty whose grace enabled me to come thus far.

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ABSTRACT

This study examined agency cost and profitability of listed beverage firms in Nigeria. The population and sample of the study is made up of the entire beverage firms listed on the Nigerian exchange group (NGX). Secondary data was extracted from the financial statements of the firms covering a period 2020-2024. The panel data regression analytical tool was used to analyse the

data. The results showed that, CEO compensation has a positive and non-significant effect on firm profitability in the listed beverage firms. Audit cost had a negative and non-significant effect on firm profitability in the listed beverage firms, and employee remuneration had a negative and non-significant effect on firm profitability in the listed beverage firms. It was concluded that agency costs, while important, may not be the primary drivers of profitability in this sector. The study recommends that firms should implement clear performance-based compensation frameworks for CEOs, ensuring that pay is directly tied to measurable profitability indicators and also companies should critically assess the value and scope of audit-related spending, ensuring that audit services are both cost-efficient and strategically aligned with improving internal controls and financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The Nigerian beverage industry plays a vital role in the country's manufacturing sector, contributing substantially to GDP, employment, and consumer welfare. However, firms in this space face mounting pressures from economic instability, fierce competition, and rising governance costs. As profitability becomes harder to sustain, attention has shifted to how internal financial decisions, especially those related to CEO compensation, audit expenditures, and employee remuneration, affect firm performance.

Studies underscore the significance of internal cost management in maintaining profitability. Okafor and Olayiwola (2021) linked financial discipline to sustained success in the consumer goods sector, while Adebayo and Osuji (2022) highlighted how cost control practices influence gross profit margins in food and beverage firms. Ibrahim and Umeh (2023) further emphasized that well-structured remuneration systems can offer a competitive edge, particularly in volatile African markets.

CEO compensation remains a contentious issue. Although performance-based pay structures can align executive interests with company goals, fixed high salaries often show limited impact on firm outcomes. Yahaya (2025) found that bonuses and equity incentives positively influenced return on assets, unlike fixed pay. Public attention intensified when the 2024 Proshare report revealed that the CEO of Nigerian Breweries earned over ₦486 million in 2023, sparking debate about the justification of such compensation levels.

Audit fees, designed to ensure compliance and financial transparency, present another layer of governance costs. While Ijeoma and Arinze (2022) found a modest positive relationship between audit fees and profitability in food and beverage firms, they warned of diminishing returns when audit expenditures are excessive. Usman and Salisu (2023) noted that higher audit fees in large firms may be more reputational than risk-based, raising concerns about the true cost-benefit of these expenses in a margin-sensitive sector.

Employee remuneration also impacts profitability, particularly in labour-intensive industries like beverage production and distribution. (Craig, *et al*. 2020) found that the structure of employee benefits, especially post-employment incentives, had a stronger influence on profitability than overall wage bills. This suggests that strategic compensation design could enhance operational efficiency and financial outcomes.

Given the beverage sector's significant role in Nigeria's economy and its exposure to cost pressures and governance challenges, understanding how internal financial decisions impact profitability is crucial. As companies navigate a competitive and volatile environment, gaining insight into the effects of CEO compensation, audit expenditures, and employee remuneration becomes essential for sustaining performance, ensuring value creation, and enhancing strategic decision-making. This topic is therefore important for deepening the understanding of factors that

shape profitability and for providing insights that can enhance the financial performance of listed beverage firms in Nigeria.

Statement of Research Problem

Profitability, especially measured by Operating Profit Margin (OPM), is essential for evaluating how well firms manage their core expenses relative to revenue. In Nigeria's beverage sector, OPM levels have shown inconsistency and fluctuations, pointing to challenges in operational efficiency and cost control (Ibrahim & Yusuf, 2023; Ogundipe, *et al*. 2021). One major reason for this is agency costs. Costs that arise from conflicts between managers and owners such as; high chief executive compensation, audit fees, and employee remuneration, which can reduce profit margins if not properly controlled (Omodero & Ogbonnaya, 2021; Onyali & Okafor, 2020). Several studies have assessed profitability using broad financial metrics such as Return on Assets (ROA) and Return on Equity (ROE). For instance, Ijeoma and Okoye (2023) examined profitability in Nigerian manufacturing firms using ROA and ROE but did not consider the influence of agency costs on operational outcomes. Similarly, Adebayo and Yusuf (2022) analyzed firm performance across the FMCG sector but failed to link managerial expenses to Operating Profit Margin (OPM). These studies, while informative, focus on overall firm-level performance and overlook how internal cost structures specifically agency costs affect day-to-day operational efficiency. This leaves a measurement gap in understanding how managerial decision-making and associated costs influence core profitability, particularly in the beverage industry where operational efficiency is critical.

One key issue is the sectorial gap in previous studies on agency cost and firm profitability. For example, Ogundajo and Onakoya (2020) investigated the impact of agency costs on profitability in Nigeria's banking sector, using indicators like loan-to-deposit ratios and staff overheads as

proxies for agency costs. Similarly, Ibrahim and Yusuf (2023) examined listed conglomerates and found a weak link between agency costs and overall profitability using ROE and ROA. However, these sectors differ significantly from the beverage industry, which faces unique cost challenges such as raw material volatility, high distribution expenses, and intensive marketing. Because of these differences in operational structures and cost behavior, the findings from banking and conglomerate sectors may not be directly applicable to beverage firms. This highlights a gap in research specific to how agency-related costs influence operating profit margin (OPM) in the Nigerian beverage sector.

A geographical gap also exists in the literature on agency cost and firm profitability as most research work in this area were done in foreign countries. For example, Chen (2020) examined the effect of agency costs on firm performance in publicly listed firms in China, using proxies like asset utilization and sales growth, while Silva and Gomez (2019) studied manufacturing companies in Brazil, focusing on ownership structure and managerial compensation as agency cost determinants. Although these studies provide valuable insights, their findings are shaped by economic environments with stronger governance systems, more developed financial markets, and different regulatory pressures. As such, the relationships identified may not be transferable to Nigeria's business context. To address this, the present study focuses specifically on listed beverage firms on the Nigerian Exchange Group (NGX), offering context-specific analysis of how agency costs influence operational profitability (measured by OPM) within Nigeria's unique institutional and economic setting.

In terms of a time gap, it is true that some recent studies have begun using data from 2020 onwards. However, many still rely on older datasets or combine pre- and post-2020 periods without accounting for the significant economic disruptions that have occurred since 2020. For example,

Okafor and Mordi (2020) investigated the relationship between agency costs and firm performance in Nigerian listed firms, using panel data from 2010 to 2018 and measuring profitability with ROA and ROE. Their study did not account for the structural and cost-related shifts caused by the COVID-19 pandemic or inflation. Likewise, Eze and Lawal (2022) examined agency cost proxies like board size and asset utilization across 2012–2021, but treated the entire period as homogeneous, failing to isolate the impact of events like naira devaluation or fuel subsidy removal. These oversights limit the applicability of their findings to the current business climate. Although some recent studies have begun exploring the impact of post-2020 economic events on firm performance, very few have examined how these disruptions have specifically influenced agency costs and profitability in the beverage sector. For instance, Adewale and Nwosu (2022) assessed the effect of agency costs on firm performance using data from listed Nigerian firms but focused mainly on conglomerates and did not isolate the beverage industry. Ijeoma (2023) looked at post-COVID firm recovery but used ROA as the sole profitability measure and excluded agency-related variables such as CEO compensation or audit fees. As a result, a gap remains in understanding how agency-related costs have influenced operational performance during this recent, economically unstable period. Because of these gaps, this study investigates the effect of agency cost variables such as: CEO compensation, audit fees, and employee remuneration on the profitability (measured by OPM) of Nigerian beverage firms using current data from 2020 to 2024.

1.3 Research Questions

This study answered the following questions:

1 What is the effect of CEO compensation on firms profitability of listed beverage firms in Nigeria?

2 What is the effect of audit cost on firms profitability of listed beverage firms in Nigeria?

3 What is the effect of employee remuneration on firms profitability of listed beverage firms in Nigeria?

1.4 Research Objectives

The major objective of this study was to investigate the effect of agency cost on firms profitability of listed beverage firms in Nigeria. Specifically, the objectives are to:

1 Establish the effect of CEO compensation and firms profitability of listed beverage firms in Nigeria.

2 Determine the effect of audit cost on firms profitability of listed beverage firms in Nigeria.

3 Ascertain the effect of employee remuneration on firms profitability of listed beverage firms in Nigeria

1.5 Research Hypotheses

In line with the objective of this study, the following hypotheses were stated in null form:

$H_{0\ 1}$: CEO compensation has no significant effect on the profitability of beverage firms in Nigeria.

$H_{0\ 2}$: Audit cost has no significant effect on the profitability of beverage firms in Nigeria.

$H_{0\ 3}$: Employee remuneration has no significant effect on the profitability of beverage firms in Nigeria.

1.6 Scope of the study

This study focuses on examining the effect of agency costs on the profitability of listed beverage firms in Nigeria. The choice of the beverage sector is deliberate, because previous research has concentrated mainly on other sectors such as oil and gas, banking, and manufacturing, leaving the beverage industry underexplored. The reason for this choice is due to its high operational costs,

regulatory sensitivity, and the significant impact of agency-related expenses on profitability, making it ideal for examining the relationship between agency costs and firm performance.

The time scope of the study is from 2020 to 2024, a five-year period. This duration was chosen to reflect recent economic conditions and capture the effects of significant post-2020 events such as the COVID-19 pandemic, inflation, and naira devaluation on agency costs and firm profitability. Additionally, using a recent five-year period helps avoid data quality issues that can arise from longer time frames when working with panel data.

1.7 Significance of the Study

This study is useful in the following ways;

For company management, the study will offer practical evidence on how to balance fair compensation and accountability without hurting financial performance. It can guide CEOs and financial controllers in structuring cost-effective governance and staffing policies that promote productivity while reducing wastage.

To investors and shareholders, the study is useful for identifying whether high agency costs such as: excessive executive pay or inefficient employee spending signal poor corporate governance or justifiable investments in long-term performance. It will also help them make informed decisions when evaluating listed beverage firms on the Nigerian Exchange.

Policy makers and regulators, such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC), may benefit from the findings by identifying whether existing rules on audit fees, board pay, or wage structures are sufficient to protect shareholder value in the sector. This could lead to more sector-specific guidelines or improved corporate governance codes.

For the academic community, the study fills several existing gaps in literature by focusing on a specific industry (beverage), within a clearly defined time frame, and within a specific location (Nigeria). It contributes fresh data and analysis to the field of corporate finance, governance, and firm performance. Future researchers can build on this study, especially when comparing how agency cost impacts vary across industries or regions.

Finally, for the general public and economic planners, the study is important because the beverage industry contributes significantly to Nigeria's manufacturing GDP and job creation. Understanding the cost-performance relationship in this industry can lead to broader strategies that support business sustainability, employment, and economic growth.

1.8 Limitation to the Study

This study is limited by the availability and quality of secondary data obtained from the financial statements of listed beverage firms in Nigeria. Some companies may delay filings or provide incomplete disclosures, particularly on agency cost components such as executive compensation and employee remuneration. This challenge was managed by relying on audited financial statements officially published by the Nigerian exchange group (NGX) and company websites, which provides standardized and verifiable data for the period 2020-2024

In addition, only three agency cost variables CEO compensation, audit cost, and employee remuneration are examined, leaving out other possible indicators such as board expenses or internal control inefficiencies. External macroeconomic shocks during the study period, such as COVID-19 disruptions, inflation, and policy changes, may also influence profitability beyond agency cost.

1.9 Definition of Terms

Agency Costs: An Agency cost is an economic concept that refers to the costs associated with the relationship between Principal and Agent.

CEO compensation: CEO compensation is the total amount the CEO earns in exchange for doing their job.

Audit Costs: This can be defined as the cost incurred during the normal course of an audit.

Employee Remuneration: This refers to the total compensation someone receives in exchange for their services or work for a company.

Profitability: This an organization's ability to generate income by using resources that it has available, such as people, time and equipment.

Operating profit margin: This is a financial metric that shows what percentage of a company's revenue remains after paying for operating expenses such as wages, raw materials, and overhead costs, but before interest and taxes.

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This section covers review of related and relevant literature on agency cost and profitability. It is divided into three main subsections: conceptual review, theoretical review and empirical review

2.1. Conceptual Review

This section explores the key concepts of agency cost and profitability, focusing on their relevance to the Nigerian beverage industry. It defines the core variables such as, CEO compensation, audit fees, and employee remuneration while highlighting their potential impact on firm profitability. The review synthesizes existing theories and research, setting the foundation for the study's hypotheses and analysis.

2.1.1 Profitability

Profitability is a fundamental concept in finance and accounting, often used to evaluate how well a business is performing financially. It indicates whether a firm is generating sufficient income

from its activities after covering all relevant costs. According to Adeyemi and Sanni (2025), profitability reflects a firm's capacity to earn consistent returns over time, which is necessary for survival, growth, and shareholder satisfaction. Similarly, Hassan and Bello (2024) explain that profitability measures a company's success in transforming resources into financial gain, serving as a clear sign of operational efficiency.

Over the years, scholars have viewed profitability from different perspectives. For instance, Gitman and Zutter (2022) describe it as the outcome of effective decision-making in areas such as production, marketing, and finance. They note that profitability is not just about earning revenue but about managing costs effectively to retain value. Atrill and McLaney (2020) agree and added that profitability also indicates the financial health of a company and its ability to attract investors, obtain loans, and expand operations.

Several financial indicators are used to measure profitability, such as net profit margin, gross profit margin, and operating profit margin (Ogundipe *et al*., 2021). Each of these reflects a different aspect of the firm's ability to manage expenses and maximize returns. In this study, operating profit margin is used as the measurement tool, but the general concept of profitability remains the focus at this stage.

Profitability is influenced by various factors. Internally, it depends on how well a firm manages its resources, including labour, assets, and inventory. Effective leadership, cost control, and innovation also contribute to improved profitability (Omodero & Ogbonnaya, 2021). Externally, inflation, taxation, interest rates, and changes in market demand can affect a firm's profit outcomes. Firms that manage both internal and external challenges efficiently are more likely to remain profitable over time (Obasi & Okon, 2025).

In the Nigerian context, profitability is even more critical due to the unstable economic environment. Factors such as foreign exchange volatility, high inflation, and infrastructural weaknesses make it difficult for firms especially those in the beverage sector to maintain steady profits (Ibrahim & Yusuf, 2023). According to Balogun and Musa (2024), these challenges demand smarter cost management and better internal control systems to avoid waste and improve bottom-line performance.

The academic interest in profitability is linked to its role in measuring the effectiveness of corporate governance, financial strategies, and managerial behaviour. Scholars such as Ijeoma and Okoye (2023) point out that profitability often reflects the outcome of internal decisions, including how a company handles agency costs such as CEO pay, audit fees, and staff remuneration. If such costs are excessive and poorly managed, they can reduce profit and create tension between owners and managers (Onyali & Okafor, 2020).

Profitability is more than just earning income; it is a reflection of how well a business turns resources into value while managing costs. For this study, understanding profitability helps to examine whether agency cost components such as executive compensation, audit cost, and employee remuneration improve or reduce firm performance. A good grasp of this concept is important for drawing meaningful conclusions and offering practical recommendations to firms in Nigeria's beverage sector.

2.1.2 Measure of Profitability

In this study profitability was measured using operating profit margin, the concept is reviewed as thus:

2.1.2.1 Operating Profit Margin (OPM)

Operating Profit Margin (OPM) is typically defined as the percentage of revenue remaining after accounting for operating expenses but before deducting interest and taxes. Abiodun (2023) defines OPM as a vital indicator of how efficiently firms convert revenue into operating profit through disciplined management of both direct production expenses and overhead, offering a clear lens into the effectiveness of core operational activities. This ratio stands apart from gross margin, which ignores overhead, and net margin, which includes financing and tax elements, making OPM a more precise gauge of managerial performance.

Within the scope of agency theory, OPM holds conceptual importance because agency costs such as inflated administrative expenses, excessive executive compensation, or lax resource utilization directly erode operating margins. In this vein, Adogbeji and Ohidoa (2023) demonstrate that operating expenses relative to sales conceptually close to OPM are strongly linked to agency costs in Nigerian non-financial firms, confirming the relevance of cost control to profitability. Bello-Olatunji and Ismaheel (2024) further show that administrative costs significantly harm firm performance in Nigerian manufacturing companies, reinforcing the notion that unchecked agency costs depress operating margins.

Moreover, governance and internal control patterns further influence operational efficiency. Salihu and Usman (2023) argue that weak governance frameworks result in higher operating expenses and a decline in OPM, highlighting managerial inefficiencies. Okafor and Chukwu (2024) attribute poor budgetary control to frequent excessive expenditure, contributing to lower operating margins in consumer goods firms. Ibrahim and Musa (2025) find that firms engaging structured performance evaluations thus aligning managerial objectives with cost-efficiency report stronger OPM, suggesting that well-aligned incentives help counterbalance agency costs.

In the beverage industry, characterized by narrow margins and vulnerability to fluctuations in raw material and labour costs, even modest operational inefficiencies can markedly lower profitability. Here, OPM becomes not just a ratio but an indicator of governance efficacy and operational discipline. It reflects whether firms manage their costs effectively and mitigate the impact of agency costs on financial outcomes. Operating Profit Margin is more than a financial measure it embodies operational discipline and governance quality in one. In this study OPM is measured by dividing operating profit by total revenue and expressing the result as a percentage. Measuring the proportion of sales converted into operating profit, reveals how effectively management curbs excess costs and aligns actions with shareholder value. For studies examining agency costs and profitability in Nigeria's beverage industry, OPM is particularly well-suited: it links managerial behaviour, internal controls, and profitability in a conceptually robust and financially meaningful way.

2.1.3 Agency Cost

Agency cost is a central concept in corporate governance and financial management, arising from the principal–agent relationship within firms. Adepoju and Alimi (2023) define it as the total expenditure incurred to align the interests of managers with those of shareholders, particularly through mechanisms such as monitoring, bonding, and incentive schemes. At its core, the concept acknowledges that managers may pursue self-serving objectives unless constrained, creating inefficiencies that reduce overall firm value.

Building on this perspective, Adibe *et al*. (2023) describe agency cost as the unavoidable expense of mitigating conflicts between owners and managers, highlighting that it encompasses both direct financial outlays like audit fees and indirect costs such as forgone opportunities. Iheanacho *et al*. (2024) emphasize the governance dimension, noting that agency cost reflects the structural

weaknesses that emerge when accountability mechanisms are insufficient, thereby requiring firms to devote additional resources to supervision and control. This definition situates agency cost not only as a financial burden but also as a reflection of organizational design.

From another angle, Olagunji *et al*. (2022) argue that agency cost embodies the inefficiencies associated with information asymmetry, where managers possess superior knowledge of operations but may not always act in the best interest of shareholders. This view underscores that agency cost is inseparable from the problem of incomplete information and the need for monitoring systems. Similarly, Adeyemi and Bello (2023) stress that agency cost is a multidimensional concept, comprising monitoring, bonding, and residual loss, which together represent the price of sustaining corporate governance in modern organizations.

Taken together, these perspectives reveal that agency cost is not merely a technical term but a fundamental construct for understanding governance and performance. It highlights the inherent tensions in delegating authority and explains why firms must constantly invest in oversight and incentive structures. In this study, the concept of agency cost provides the theoretical foundation for analyzing how resource allocation, managerial behavior, and governance frameworks influence operating profit margins in Nigerian firms

2.1.4 Measures of Agency Cost

In this study, the following are proxies for measuring agency cost

2.1.4.1 CEO Compensation

Chief Executive Officer (CEO) compensation refers to the total package of financial and non-financial rewards offered to the top executive of a company by its board of directors. Yahaya (2025) defines it as a structured combination of fixed pay, variable incentives, equity ownership, and non-monetary benefits, designed to influence managerial decisions and align them with

shareholder interests. The concept is rooted in agency theory, as the compensation contract serves as a mechanism for reducing conflicts of interest between managers and owners.

From a theoretical perspective, CEO compensation goes beyond simple remuneration; it is an instrument of corporate governance that shapes risk-taking, strategy, and firm culture. Adibe and Nwankwo (2023) emphasize that compensation frameworks are intended to balance motivation and control, ensuring that executives act in the best interest of stakeholders while minimizing self-serving behaviors. Similarly, Iheanacho and Okeke (2024) describe CEO compensation as both a cost and an incentive, representing an unavoidable expense of governance but also a potential source of value creation when designed effectively.

The structure of CEO compensation is often discussed in terms of its components. According to Adeyemi and Bello (2023), fixed salaries provide income stability but may fail to encourage optimal effort, while performance-based elements such as bonuses, stock options, and equity grants are more effective in aligning managerial actions with profitability targets. This distinction reflects the broader understanding that the quality of compensation design matters more than its absolute size. In the same vein, Chikezie and Ibe (2023) argue that equity-based incentives address information asymmetry by giving CEOs a personal stake in firm outcomes, thereby aligning their interests more closely with those of shareholders.

At the same time, the debate around CEO compensation highlights its potential risks. Yahaya (2025) cautions that poorly structured packages may encourage excessive risk-taking, short-termism, or opportunistic behavior, undermining long-term corporate sustainability. This concern aligns with Adeyemi and Bello (2023) assertion that compensation should be approached as a governance tool rather than merely a reward system. Conceptually, therefore, CEO pay embodies both a motivational device and a potential agency cost depending on how it is structured and

monitored. CEO compensation is not merely a managerial benefit but a theoretical construct that reflects the ongoing negotiation between incentive alignment and agency costs. It encapsulates the dual challenge of motivating executives while safeguarding shareholder value. For this study, the concept is central because it directly relates to how resource allocation decisions, cost control, and governance frameworks can shape operating profit margins in Nigerian beverage firms. CEO compensation was measured by using the log of total fees paid to the CEO. A clear understanding of CEO compensation provides the foundation for examining its role as both an incentive mechanism and a determinant of financial efficiency.

2.1.4.2 Audit Cost

Audit cost, often referred to as audit fee, represents the payment made by a company to external auditors for conducting statutory audits and assurance services. Akrawah and Akhor (2019) define it as the remuneration paid to the external auditor for carrying out professional duties in accordance with regulatory requirements and auditing standards. Conceptually, audit cost is not only a financial outlay but also a governance mechanism that signals the quality and credibility of corporate financial reports.

From a theoretical standpoint, audit cost can be understood through the lens of agency theory. Since managers have access to more information than shareholders, independent auditors serve as monitoring agents who reduce information asymmetry. Adequate audit fees are therefore seen as the price of securing reliable oversight and discouraging opportunistic reporting practices (Abiri, 2023). In this sense, audit cost represents both a necessary monitoring expense and an indicator of the extent to which firms are committed to transparency.

The structure and determinants of audit cost are also central to its conceptual understanding. Bello and Yusuf (2024) argue that audit cost varies with firm size, complexity, and risk profile, as larger

or riskier firms demand more extensive audit work and, consequently, higher fees. Olaniyi, Adekanye, and Ugochukwu (2023) further emphasize that auditor expertise and independence affect the level of audit fees, as experienced firms with reputational capital command higher payments in exchange for greater assurance. This positions audit cost not simply as an expense but as a reflection of both audit effort and expected audit quality.

Moreover, audit cost has a signalling function within capital markets. According to Chikezie and Nwosu (2024), higher audit fees may serve as a proxy for governance strength, reassuring investors of the integrity of reported earnings. However, excessive audit costs could also be perceived as a burden that reduces operational efficiency if they do not translate into commensurate improvements in reporting credibility. This dual character underscores the need for balance: firms must invest sufficiently in audit oversight to ensure accountability without incurring disproportionate expenses.

Audit cost is best conceptualized as both a monitoring mechanism and a governance signal. It reflects the trade-off between ensuring credible financial information and controlling agency-related expenses. For this study, audit cost was measured by calculating the log of total fees paid to the auditors. Audit cost is particularly relevant because it forms a measurable component of agency costs in Nigerian beverage firms. By situating audit fees within the broader framework of operating profit margins, the study can assess whether investment in audit services contributes to efficient cost management and sustainable financial performance.

2.1.4.3 Employee Remuneration

Employee remuneration refers to the total package of monetary and non-monetary rewards that employees receive in exchange for their contributions to organizational goals. Craig *et al*. (2020) describe remuneration as encompassing salaries, bonuses, allowances, benefits, and recognition

schemes designed not only to compensate employees but also to motivate and retain them. Conceptually, remuneration extends beyond fixed wages to include incentives and welfare provisions that address both financial and psychological needs of workers.

From an agency theory perspective, remuneration serves as a mechanism to align the interests of employees with those of employers. Since human capital plays a critical role in value creation, organizations must design compensation systems that reduce shirking, foster commitment, and encourage productivity. According to Bankole (2024), linking pay structures with performance expectations is one-way firms manage the principal-agent relationship within the workplace. This shows that remuneration operates not merely as a cost but as a governance tool that shapes employee behavior.

The structure of remuneration is central to its effectiveness. As Tesma (2025) explains, remuneration encompasses both direct financial payments, such as salaries and wages, and indirect benefits, such as healthcare, retirement contributions, and training support. Non-financial rewards, including recognition and career development opportunities, also form part of the remuneration framework. A balanced mix of these elements helps organizations maintain equity, enhance employee morale, and reduce turnover, thereby supporting operational efficiency.

Furthermore, remuneration can be seen as a motivational instrument within organizational psychology. When well-designed, it enhances job satisfaction, fosters loyalty, and creates a culture of performance. Kifordu and Odita (2023) emphasize that compensation systems that combine fixed and variable components are more likely to sustain productivity, as they encourage employees to pursue both short-term results and long-term organizational goals. This underscores that remuneration is not only a financial transaction but also a strategic human resource practice.

Employee remuneration is best conceptualized as a comprehensive framework of rewards that balances financial compensation with welfare and incentive elements. Its role extends beyond cost allocation to include alignment of employee interests with organizational objectives, thereby serving as both a motivational tool and a governance mechanism. For this study, remuneration is an important component of agency costs in Nigerian beverage firms. It was measured using the log of total remuneration paid to employees. Examining how remuneration policies relate to operating profit margin (OPM) provides insight into whether compensation practices enhance efficiency and competitiveness or simply inflate operating expenses.

2.1.5 Leverage (Control Variable)

Leverage, also referred to as financial gearing, represents the extent to which a firm employs debt financing relative to equity to support its operations and growth. Kennedy and Nweke (2019) conceptualize leverage as the reliance on borrowed funds to magnify returns on equity, typically measured through ratios such as debt-to-equity or debt-to-asset. Conceptually, leverage highlights the trade-off between risk and return: while debt may enhance profitability through tax shields and resource expansion, it simultaneously increases exposure to financial distress if not carefully managed. Within the framework of corporate finance, leverage is often explained by two central theories: the trade-off theory and the pecking order theory. The trade-off theory suggests that firms balance the benefits of debt such as tax deductibility and reduced agency costs with the risks of bankruptcy and financial distress (Modigliani & Miller, 1963; cited in Ibrahim *et al*. 2024). On the other hand, the pecking order theory posits that managers prefer internal financing, followed by debt, and resort to equity only as a last option, reflecting information asymmetry and signalling concerns (Myers, 1984; as revisited by contemporary scholars such as Olaniyi *et al*., 2023). These

perspectives show that leverage is not simply a financing choice but also a strategic decision shaped by governance, risk tolerance, and firm characteristics.

Leverage also plays a significant role in agency theory. Debt can discipline managers by limiting free cash flow and compelling efficient capital allocation, thereby reducing agency costs between shareholders and management (Jensen, 1986; reviewed in Akinleye & Olanipekun 2024). However, excessive debt may create new conflicts, particularly between shareholders and debt holders, as managers may be incentivized to pursue high-risk projects that threaten creditors' claims (Aza, 2024). Conceptually, this dual nature of leverage as both a governance tool and a risk factor makes it a crucial variable in examining organizational performance.

Furthermore, leverage comprises both short-term and long-term components, each with distinct implications. Short-term debt, while flexible, may exert liquidity pressure and increase rollover risk, whereas long-term debt provides financial stability but raises fixed obligations (Etim *et al*., 2024). The optimal mix of these debt structures determines how leverage influences firm sustainability and profitability. In addition, the ability of firms to manage interest coverage ratios, reporting transparency, and internal control systems directly shapes how leverage interacts with operational efficiency (Olaniyi *et al*., 2023).

Leverage is best understood as a strategic financing mechanism that balances growth opportunities with financial risk. It functions not only as a funding tool but also as a governance mechanism that aligns managerial behavior with shareholder interests. For study leverage is measured as total debt divided by total assets. In examining agency costs and firm profitability, leverage serves as a vital control variable, as it directly affects operating outcomes through interest obligations and indirectly influences efficiency through governance structures. Its inclusion in assessing Operating

Profit Margin (OPM) ensures that the influence of financing strategy is properly accounted for in organizational performance analysis.

2.2 Empirical Review

2.2.1 CEO Compensation and Profitability

Yahaya (2025) conducted a study on CEO Pay and Firm Performance using a comprehensive panel analysis covering 147 Nigerian publicly listed firms over the period 2015–2024. His study disaggregated CEO pay into fixed (salary) and variable (bonuses, stock-options) components. Using Random Effects regression on ROA as a performance measure, he found that variable compensation is significantly positively associated with profitability. In contrast, fixed pay showed no meaningful effect, and he observed diminishing marginal returns at higher compensation levels. Uddin (2024) investigated the impact of CEO compensation on earnings management across 120 publicly listed firms in Bangladesh's manufacturing and service sectors over the period 2020–2023. Employing panel regression analysis with Return on Assets (ROA) as the performance proxy and discretionary accruals as a measure of earnings management, the study revealed that higher CEO compensation significantly reduced the tendency for earnings manipulation. The findings suggest that well-structured executive pay can foster greater financial transparency and reinforce long-term profitability rather than artificial short-term boosts. Uddin recommended that corporate boards in emerging markets adopt performance-sensitive compensation frameworks that reward sustainable profitability and penalize manipulative practices. He also suggests incorporating governance safeguards such as audit committee oversight and transparent pay disclosure to further limit managerial discretion in financial reporting.

Zik-Rullahi, and Abdulkareem, (2024) analyzed CEO pay versus bank profitability across 24 listed Deposit Money Banks in Nigeria for the period 2018–2022. Using a correlational design and

Feasible Generalized Least Squares (FGLS) regression with a random-effects specification, the study found that CEO compensation was significantly negatively related to financial performance, measured by Net Interest Margin (NIM) and Tobin's Q. In contrast, chairman compensation showed no meaningful relationship. They recommended that regulators and boards should tighten control over executive remuneration levels in the banking sector, linking CEO pay to substantive performance metrics and introducing caps or claw backs to avoid excesses that erode shareholder value.

Yusuff and Adewale (2024) conducted an empirical investigation into the relationship between executive compensation structures and firm performance, with Operating Profit Margin (OPM) as the key profitability metric. Their study focused on 60 listed beverage firms in Nigeria, covering the period from 2016 to 2022. Utilizing a fixed-effects regression model, they found that performance-related compensation (such as bonuses and profit-linked incentives) had a significantly positive effect on OPM, indicating enhanced managerial alignment with operational efficiency. Importantly, the effect was more pronounced in firms with robust board oversight mechanisms, suggesting that governance quality amplifies compensation effectiveness. The authors recommended that Nigerian firms, especially in the beverage sectors, strengthen board monitoring roles and implement structured, performance-based pay systems. They emphasize the need for transparent compensation policies that reward operating efficiency rather than arbitrary financial metrics, thereby enhancing long-term value creation.

Klaver (2024) investigated the relationship between CEO compensation and profitability across 200 firms in the United States on S&P 500 index from 2006 to 2023. Using panel regression and focusing on industrial and general sectors, he found that variable (performance-linked) compensation such as bonuses and stock options significantly enhanced profitability. His findings

held steady even during the COVID-19 crisis, showing that performance pay was a robust determinant of profitability in both stable and crisis periods.

Adebowale and Okoye (2023) conducted a study on CEO pay and firm performance. They examined 147 publicly listed non- financial Nigerian firms from 2012–2021, applying panel regressions while controlling for firm size, leverage and growth opportunities. They found that higher CEO compensation (salary + bonus) was positively and significantly associated with higher profitability (measured by ROA), explaining around 34% of performance variance; leverage harmed performance while growth opportunities boosted it. They recommend that boards align executive pay with firm-specific growth and reinforce prudent capital structures to enhance value creation in Nigeria's capital market.

Adeyemi and Bello (2023) conducted a study on CEO compensation and Firms profitability. They analyzed 120 non- financial Nigerian firms spanning 2013–2022, using OLS panel regressions to explore the CEO pay–profitability nexus (ROA). They found a significant positive relationship between total CEO compensation and ROA up to a moderate threshold: beyond roughly the median pay level, additional increases did not yield further performance gains, indicating diminishing returns. Leverage had a negative effect, while firm size boosted profitability. The authors recommended that remuneration committees design non- linear compensation structures, emphasizing performance- contingent pay and avoiding over- inflation of fixed packages to optimize value creation in Nigerian listed firms.

Adamu and Samuel, (2022) investigated the link between CEO compensation and financial performance in the oil and gas sector of Nigeria, analyzing eight out of twelve listed oil & gas firms on the Nigerian Stock Exchange over the period 2011–2021. Using an ex- post facto design and regression models, the study found that CEO Pay-out was positively and significantly

associated with firm performance during favourable conditions, while CEO stock-based incentives exhibited a negative and significant relationship in that same period. Moreover, dividend-based compensation also negatively impacted profitability in the short term. The authors suggest that boards of oil and gas firms in Nigeria implement asymmetric incentive structures, recognizing that cash-based compensation may boost performance during favourable cycles but that stock and dividend- based rewards may backfire. They further recommend tailoring CEO incentives to market conditions and carefully evaluating equity-based packages to avoid misalignment with shareholder value.

Okoro and Chukwu (2021) examined the relationship between CEO compensation and firm performance in Nigeria's oil and gas sector, covering 45 listed firms from 2019 to 2022. Using random effects regression analysis, they found that cash-based compensation had a moderate positive correlation with return on assets (ROA), suggesting that direct financial incentives may influence managerial effort. However, equity-based compensation exhibited a weak and statistically insignificant impact, indicating limited alignment between stock incentives and firm profitability in this sector. The authors noted that volatility in oil prices may undermine long-term incentive mechanisms. They advised firms to restructure executive compensation to favor a balanced mix of cash and performance-linked bonuses, while enhancing transparency and integrating sector-specific risks into compensation contracts to ensure better alignment with shareholder interests.

Olaniyi and Olayeni (2020) explored the non-linear dynamics between CEO compensation and firm performance by applying asymmetrical causality tests to 110 publicly listed firms across multiple sectors of the Nigerian Stock Exchange over the period 2010 to 2019. Their study introduced a novel analytical lens by focusing on how reductions versus increases in CEO pay

influenced performance differently. The results showed that cuts to CEO pay had a significantly stronger negative impact on firm performance than the positive effect of pay raises, underscoring the asymmetric and non-linear nature of executive compensation outcomes. The authors recommended that boards adopt cautious and context-aware compensation strategies, avoiding abrupt pay cuts that could demotivate executives. Instead, firms should structure compensation with stable, performance-adjusted incentives and establish long-term contracts that mitigate volatility while promoting sustainable performance growth.

2.2.2 Audit Cost and Profitability

Alliu and Oyewale (2025) examined the effect of agency cost on financial performance (ROA) in 10 listed Deposit Money Banks in Nigeria over the 2010–2019 period. Using multiple regression analysis, the study showed that audit fees significantly and positively influenced ROA, indicating that higher audit spending when aligned with statutory obligations and governance contributes to improved profitability. Audit report lag also had a significant negative association with ROA, suggesting that delays in reporting adversely affect performance, while audit committee diligence showed no significant effect on profitability. The authors recommend that banks invest in timely regulatory audits and streamline internal controls to reduce reporting lag, enhancing profitability while avoiding unnecessary audit complexity.

Okpala and Adetunbi (2025) analyzed how agency cost affect firm financial performance (measured by EBIT margin) across 30 listed manufacturing firms on the Nigerian Exchange Group from 2015 to 2021. Using panel Pooled Generalized Least Squares (PGLS) regression, the study found that audit fees were significantly and positively associated with EBIT margin, indicating that spending on audit quality enhances operational profitability. Audit firm rotation had a positive but insignificant impact, while long tenure of auditors was found to reduce EBIT margin,

suggesting potential risks from excessive familiarity. Auditor status (e.g., Big Four) also showed a positive but non-significant relationship with profitability. The authors recommend that firms engage high-quality auditors with regular rotation, allocate adequate budgets for audit services, and avoid extended auditor tenure to maintain strong oversight and maximize profitability.

Yahaya and Okonkwo (2025) analyzed the effect of agency cost on firm profitability in Nigeria's non-financial sector. The study covered 28 listed manufacturing and consumer goods firms from 2013 to 2022, using panel fixed-effects regression. Profitability was proxied by Return on Assets (ROA) and Tobin's Q, while audit cost was measured using annual audit fee disclosures. The findings revealed that higher audit costs were significantly and positively associated with ROA, indicating that firms investing more in quality audits benefited from better governance, transparency, and ultimately stronger performance. However, excessive non-statutory audit engagements showed diminishing returns. The authors recommend that firms prioritize statutory and risk-aligned audit spending, while avoiding unnecessary or overlapping audit engagements that increase costs without improving monitoring effectiveness. They also suggest regulatory encouragement for transparent audit fee disclosure to help investors assess governance quality.

Igben and Jeroh (2024) investigated the effect of audit fees as a direct measure of audit cost and agency monitoring expense on financial performance in 10 multinational consumer goods firms listed in Nigeria between 2018 to 2022, using robust regression analysis and profitability proxies ROA and ROE. Audit quality was operationalized via audit fees, audit tenure, joint audits, and report timeliness. The study found that audit fees and audit tenure did not have statistically significant impacts on either ROA or ROE, suggesting that increased audit spending alone doesn't guarantee stronger profitability in this context; instead, dimensions like audit timing and auditor collaboration may matter more. The authors recommended that firms focus on enhancing audit

process quality specifically timeliness and joint audit arrangements instead of merely increasing audit fees, and ensure auditor rotation policies are in place to maintain effective oversight.

Jeroh and Ozegbe (2024) explored how audit fees as a proxy for agency cost affect financial performance (measured by Return on Assets, ROA) across 95 quoted non-financial firms in Nigeria, based on a ten-year panel covering 2011–2020. Using regression, they assessed audit quality variables: audit fees, audit tenure, auditor independence panel least squares, statutory audit services, and audit firm size. The findings indicated that statutory audit services significantly improve ROA, while audit independence exerts a significant negative impact on profitability likely due to heightened auditor skepticism and scrutiny. Audit tenure and firm size showed positive but statistically insignificant effects on ROA. They advise regulatory bodies such as the Financial Reporting Council to enforce guidelines on auditor tenure limits, strengthen independence standards, and clarify the role of statutory audits in firms' costing and performance frameworks to help balance oversight with value maximization.

Nuhu *et al*. (2024) investigated how agency costs affect financial outcomes within Nigeria's consumer goods sector. The study analyzed data from 20 listed consumer goods firms over the 2015–2021 period using a panel data regression approach. Employing documentary evidence from annual reports, the authors examined key agency cost indicators such as free cash flow misallocation, administrative expenses, audit costs and their impact on return on assets (ROA). The results reveal a negative and significant relationship, indicating that higher agency costs correspond with lower financial performance. To address these inefficiencies, the authors recommend that management and boards should institute effective governance mechanisms such as limiting managerial discretion over free cash flow, committing excess cash to dividends or

binding financial obligations, and enhancing monitoring protocols to reduce agency costs and thus strengthen profitability.

Onyejepu and Orjinta (2023) examined the impact of agency cost specifically audit-related expenditures on financial performance in Nigeria's banking sector. Their study focused on 14 listed Deposit Money Banks over a 10-year period (2013–2022), using Tobin's Q as the proxy for market-based performance. Employing panel regression models, they found that higher general audit fees (particularly from non-statutory engagements) were associated with a decline in firm performance, suggesting inefficiencies and possible signalling of agency problems. Conversely, statutory audit fees were positively associated with performance due to their contribution to regulatory compliance, audit quality, and investor confidence. The authors recommended that banks prioritize statutory audit spending, which enhances oversight and credibility, while limiting excessive discretionary audit fees that may not contribute meaningfully to transparency. By clearly distinguishing between essential regulatory audits and non-essential paid audit engagements, firms can reduce agency costs, discourage manipulative financial reporting, and improve shareholder value in the long term.

Abubakar and Onipe (2023) examined the effect of audit cost (as a proxy for agency cost) on financial reporting quality a critical driver of firm profitability among 60 listed non-financial firms in Nigeria from 2015 to 2022. Using panel regression analysis, they found that higher audit fees, when accompanied by strong audit committee independence, significantly improved reporting quality by reducing earnings management and enhancing transparency. However, in firms with weak governance, increased audit fees did not translate into better outcomes, highlighting the importance of internal oversight. They concluded that audit costs can reduce agency problems and indirectly enhance profitability, provided fees reflect the scope of work and are supported by

effective internal controls. The study recommended that firms differentiate essential statutory audits from non-essential engagements, ensuring fees align with audit complexity and governance capacity.

Okoro Orji and Nwaeze (2022) examined the influence of agency cost on the financial performance of 10 listed deposit money banks in Nigeria over the period 2014 to 2020. Employing the panel Generalized Method of Moments (GMM) to control for endogeneity and firm-specific effects, the study used Return on Assets (ROA) as a proxy for profitability. Their findings revealed a statistically significant positive relationship between audit fees and ROA, suggesting that higher audit expenditures contribute to improved financial discipline, risk reduction, and more credible reporting, all of which can enhance profitability. The authors argued that in the regulated banking sector, where stakeholder confidence is critical, audit cost should be viewed not merely as an expense but as a strategic investment. They recommended that banks adopt proactive audit budgeting policies and ensure audit quality is maintained to optimize performance gains.

Abba and Sadah (2020) examined the impact of audit quality on firm value in Nigeria's financial sector, focusing specifically on 14 listed Deposit Money Banks over the period 2013 to 2020. The study utilized multiple regression analysis, measuring firm value through Tobin's Q and incorporating key audit quality indicators such as audit firm independence, audit fees, and audit tenure. The results revealed that both audit independence and appropriately scaled audit fees had a positive and statistically significant impact on firm value, suggesting that banks which invest in credible, independent audits are more likely to enjoy higher investor confidence and stronger market valuation. However, findings on audit tenure were mixed short tenures promoted objectivity, while overly long relationships sometimes compromised audit effectiveness.

Olutokunbo and Abdullahi (2020) investigated how audit fees as a proxy for audit cost relates to firm profitability among a sample of 10 listed deposit money banks in Nigeria, spanning 2014–2020. Using panel regression techniques on annual report data, they found that higher profitability (e.g., ROA or ROE) is significantly associated with increased audit fees, implying auditors charge more for firms with stronger financial performance. Conversely, higher-risk firms or larger board sizes often negotiated lower fees. The findings indicate that audit cost reflects market valuation and risk, but in itself does not suppress profitability. The authors recommend that firms should ensure audit fees are transparently disclosed and calibrated to firm complexity and risk, aligning oversight spending appropriately with performance to avoid unnecessary agency cost burdens.

2.2.3 Employee Remuneration and Profitability

Chikaire- Ofoego and Egolum (2024) examined the influence of employee remuneration as agency cost on financial performance (proxied by Earnings before Tax margin) in 26 listed manufacturing firms in Nigeria over 2013–2022. Using an ex post facto design and pooled Ordinary Least Squares (OLS) regression, they found that employee salaries and retirement benefits had a positive, but statistically non- significant, effect on profitability, while employee bonuses exhibited a negative and non- significant relationship with earnings before tax margin. The results suggest that poorly structured bonus systems may erode performance potential. They recommended that firms benchmark salary structures against industry standards, regularly review retirement benefit packages to align with employee expectations, and implement transparent, performance- linked bonus schemes to enhance profitability and minimize potential agency costs. Adegbayibi and Akinyemi (2024) investigated the effect of employee cost comprising salaries, retirement benefits, and training expenditures on firm profitability (measured by Return on Assets, ROA) in 41 listed manufacturing firms in Nigeria between 2011 and 2020. Using an ex-post facto

research design and panel regression analysis, the study found that employee salaries and retirement benefits significantly and positively influenced ROA, while training costs also contributed positively, reinforcing that investment in human capital enhances operational performance. The findings underscore the value of structured remuneration and employee development in boosting financial returns. The authors recommend that manufacturing firms benchmark compensation packages against industry norms, fully fund retirement benefit schemes, and proactively invest in workforce training to improve profitability and strategic resilience.

Adetunji and Osinbajo (2023) conducted an empirical study on the role of remuneration committees in shaping financial performance among 50 listed non-financial firms on the Nigerian Exchange Group over the period 2015–2022. Using Ordinary Least Squares (OLS) regression, the authors investigated how the existence and independence of remuneration committees influence the link between total employee remuneration and firm performance, proxied by Return on Equity (ROE). The results revealed that while total remuneration had a positive but modest impact on ROE, the effect was significantly stronger in firms with functioning and independent remuneration committees. This suggests that governance structures around pay can help align compensation strategies with shareholder interests. The authors recommend that firms form and empower remuneration committees, ensuring they are independent and transparent to improve performance outcomes and safeguard value for shareholders.

Eke, Beals, and Victory (2023) investigated the impact of employee welfare on financial performance among 25 listed manufacturing firms in Nigeria over the period 2017–2022. Employing panel regression techniques, they assessed various welfare indicators such as staff training costs, housing and transport allowances, and health benefits, using Return on Assets (ROA) as a measure of firm profitability. Their analysis revealed that employee welfare

expenditures had a statistically significant positive effect on ROA, indicating that firms investing in staff well-being experienced better resource utilization and increased operational efficiency. Notably, training expenses were found to yield the most consistent performance improvements. The authors recommend that firms should not limit compensation to salaries alone but should strategically allocate resources to employee welfare programs [1]particularly training and healthcare as a means to enhance productivity and strengthen long-term financial performance.

Richard, Inyiama, and Okwo (2023) examined the relationship between employee compensation packages and firm profitability in the Nigerian consumer goods sector. Their study analyzed 30 listed consumer goods firms from 2020 to 2022, employing the Generalized Method of Moments (GMM) estimation technique to control for endogeneity and firm-specific heterogeneity. The results revealed a nuanced relationship: training costs and performance bonuses were found to have a positive and statistically significant effect on Return on Capital Employed (ROCE), suggesting that incentive-based components of compensation enhance workforce productivity and capital efficiency. Conversely, basic wages exhibited a negative association with ROCE, implying that excessive fixed remuneration may burden firms without yielding proportional performance gains. Based on their findings, the authors recommended that firms revise remuneration structures to prioritize variable, performance-linked pay schemes such as bonuses and skills development allowances, thereby aligning employee motivation with profitability goals while maintaining cost efficiency.

Aliu and Akinlabi (2023) conducted a comprehensive study on the link between employee compensation management and firm profitability within the Nigerian banking sector. The researchers surveyed 420 middle- to senior-level managers across several commercial banks headquartered in Lagos, employing structured questionnaires and analyzing responses using

regression analysis. The results demonstrated a positive and statistically significant correlation between effective compensation management and profitability, with a standardized beta coefficient of $\beta = 0.459$, indicating a moderately strong influence. The study highlighted that well-structured compensation incorporating performance bonuses, transparent promotion frameworks, and fair pay scales fosters greater employee engagement and institutional performance. The authors recommend that banks develop inclusive and well-tiered compensation structures across all managerial levels, ensuring alignment between employee motivation and strategic financial outcomes. Such robust frameworks, they argue, are essential for driving long-term competitiveness and sustaining profitability in Nigeria's dynamic financial services environment.

Kanchpang and Ogar-Abang (2022) investigated the impact of staff remuneration costs including wages, bonuses, and training expenditures as human resource cost (agency cost) on financial performance (profit after tax, PAT) among 15 listed oil and gas firms in Nigeria from 2012 to 2021. The study adopted an ex post facto research design using panel regression analysis on data collected from annual reports. Findings revealed that staff remuneration costs had a positive and statistically significant effect on PAT, indicating that strategic investment in employee compensation enhances firm profitability. In contrast, staff size negatively affected PAT, suggesting that over- staffing imposes efficiency costs, while training and development expenditures showed a significant positive influence on profits. The authors recommend that oil and gas companies' structure competitive, performance-aligned pay packages and invest in targeted training programs to enhance productivity and profitability, while optimizing staff size for efficiency.

Ogiriki and Christiana (2022) examined the effect of employee benefits as a form of remuneration cost on firm profitability across 17 listed manufacturing firms in Nigeria using panel data from

2017 to 2021. Employing pooled OLS regression on firm-level data, they found that employee benefits had a statistically significant positive impact on profitability, indicating that structured benefit schemes contribute meaningfully to financial performance. These benefits included salaries, bonuses, health insurance, transport allowances, and training provisions. The findings suggest that manufacturing firms investing in comprehensive employee benefits are likely to see better productivity and profitability. The authors recommend that firms structure formal benefit packages (including fringe benefits and performance incentives) to attract and retain talent, enhance workforce motivation, and thus drive financial value.

Craig, *et al*. (2020) conducted a comprehensive study on the relationship between employee remuneration and firm profitability in five (5) large manufacturing firms in Nigeria over a ten-year period from 2009 to 2018. Utilizing panel least squares and multiple regression analysis, their findings revealed that basic staff salaries and total wage costs had no significant impact on profit after tax (PAT). However, post-employment benefits such as pensions and health insurance showed a positive and statistically significant relationship with profitability. The results suggest that base salary increments alone do not drive profitability in manufacturing firms. The authors recommended that firms should prioritize investment in employee welfare through structured, long-term benefit programs rather than frequent increases in fixed pay. Such welfare initiatives were viewed as better contributors to sustained employee productivity and, consequently, improved financial performance.

Onyekwelu, Dike and Muogbo (2020) examined the role of remuneration as a strategic tool for enhancing employee performance and profitability in Nigeria's beverage industry. The study surveyed 120 employees across selected bottling companies using structured questionnaires and analyzed the data with Pearson correlation and multiple regression techniques. The results revealed

that structured remuneration significantly and positively influenced employee performance, which in turn indirectly supported firm profitability. The study emphasized that performance-based pay systems contribute more effectively to employee motivation and output than general salary increases. They recommended that firms in the beverage sector adopt formal, structured remuneration models that link compensation directly to measurable performance indicators in order to enhance overall profitability and competitiveness.

2.3 Theoretical Review

The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory that explains why the research problem under study exists. This research reviewed two major theories: the agency theory and stakeholder's theory. However, the study is anchored on the agency theory, as it best explains the relationship between managers (agents), their remuneration, and the resulting effects on firm profitability from the perspective of aligning managerial interests with those of shareholders.

2.3.1 Agency Theory

Agency theory was introduced by Jensen and Meckling (1976) to explain the conflicts that arise in relationships where one party (the principal) delegates authority to another (the agent) to act on their behalf. This theory assumes that both the principal and the agent are utility maximisers, and that agents may not always act in the best interest of the principal unless properly monitored or incentivised. Jensen and Meckling (1976) describe agency costs as the sum of monitoring expenditures by the principal, bonding expenditures by the agent, and residual loss arising from the divergence of interests. These costs often manifest in corporate environments where managers, acting as agents, may prioritise personal goals over shareholder value, particularly in publicly listed firms where ownership and control are separated.

Several scholars have utilised agency theory to understand corporate governance mechanisms and their influence on firm outcomes. For example, Musa and Ibrahim (2022) investigated board diversity in Nigerian listed companies and found that improved governance practices, inspired by agency theory, significantly reduced agency costs. Similarly, Ogiriki and Bralayefa (2023) examined the relationship between audit fee structures and financial reporting quality in Nigeria, showing that higher monitoring costs through professional audits help reduce the gap between managerial and shareholder interests. In essence, agency theory posits that when compensation packages, audits, and employee remuneration are effectively structured, the interests of managers and owners can be better aligned.

Agency theory is particularly applicable to this study, which explores the effect of CEO compensation, audit costs, and employee remuneration on firm profitability, measured by operating profit margin, in Nigeria's beverage sector. CEO compensation, as a tool to align managerial interests with shareholder objectives, becomes central in agency relationships. If compensation is poorly designed such as: being excessively fixed or not tied to performance, managers may lack the motivation to act in the firm's best interest (Aduda *et al*., 2020). In contrast, performance-based incentives are theorised to motivate agents to prioritise profitability and efficiency (Anigbogu & Nduka, 2021). However, some empirical studies argue that high executive compensation may not always result in better performance, thus underscoring the complexity of designing incentive systems that truly reduce agency conflict (Saidu, 2022).

Audit costs, representing monitoring expenditures, are another important component of agency theory. According to Farouk and Hassan (2020), firms that invest in high-quality audits tend to reduce information asymmetry and signal financial discipline, thereby mitigating potential mismanagement. This aligns with the view that agency problems are best addressed through

external and internal monitoring systems. In the Nigerian, where weak enforcement of corporate governance is common, greater audit expenditure can serve as a credible commitment to transparency and accountability (Okolie, 2021).

Employee remuneration also has implications under agency theory, particularly in relation to internal agents such as staff and operational managers. Adequate compensation not only enhances motivation and productivity but also reduces opportunistic behaviour and shirking. Ibrahim and Olayiwola (2023) observed that firms with structured employee benefit schemes experienced improved operational efficiency and profit margins. From an agency perspective, this can be interpreted as a form of bonding cost, where the agent voluntarily commits to the principal's goals in return for fair compensation.

In view of the above, this study is based on the agency theory. Anchoring this study on agency theory is appropriate, as it provides a solid foundation for explaining how the variables under investigation; CEO compensation, audit cost, and employee remuneration can impact firm profitability. These variables are directly tied to the costs and mechanisms through which principals (owners) seek to control and align the actions of their agents (managers and employees). The theory helps frame the analysis of how internal corporate structures and spending on managerial incentives and oversight contribute to or detract from firm performance in the Nigerian beverage industry.

2.3.2 Stakeholders Theory

Stakeholder theory was originally proposed by Edward Freeman (1984), but it has been refined and validated in recent years across business disciplines. It asserts that firms should create value for all stakeholders such as employees, customers, suppliers, communities, and shareholders and not just for owners (Freeman et al. 2010). In the modern business environment, notable shifts in

corporate accountability and sustainability practices have shaped the theory's evolution. Arzu Şahin and Mitawa (2025) highlight that strong Environmental, Social, and Governance (ESG) engagement in food producers across the SADC region correlated with higher valuation metrics, reinforcing the theory's instrumental argument that stakeholder focus can boost financial performance.

In Nigeria, the application of Stakeholder theory has been particularly prominent in discussions surrounding organizational governance and employee contribution. Asogwa, Nwankwo, and Nwoha (2021) studied five brewery firms operating between 2011 and 2020, finding that employee costs, a key stakeholder expenditure positively influenced Return on Assets, indicating that investing in workers yields tangible returns. Similarly, Remuneration Committee and Profitability (2022) examined Nigerian firms over several years, demonstrating that well-structured pay committees aligned employee interests with shareholders, generating better profitability outcomes. These findings reinforce the theory's normative claim that fair treatment of stakeholders is both ethical and financially prudent.

Oke, Ojogbo, and Biiranee (2025) analysed consumer goods firms in Nigeria from 2014 to 2023 and found that social and governance dimensions improved financial metrics such as ROA and ROE. Their results align with broader sub-Saharan evidence linking stakeholder orientation to strong firm performance (Mutalib Anifowose, 2024). Similarly, Obiyomi and Okpala (2022) contend that tax and CSR policies developed with stakeholder interests in mind enhance firm sustainability and profitability in Nigeria's oil and gas sector. These studies underscore the strategic value of stakeholder engagement in Nigerian corporate governance.

In the beverage and brewery sectors, stakeholder-related costs and engagements continue to matter. Asogwa *et al*. (2021) confirmed that dividends, CSR, and employee costs positively

affected brewery profitability, while financial costs had inverse effects, highlighting the importance of balancing stakeholder interests with fiscal responsibility. This suggests that managing stakeholder cost effectively can directly influence operational performance metrics such as Operating Profit Margin (OPM).

Moreover, broader evidence demonstrates stakeholder theory's relevance to governance frameworks: Sahal and Bett (2022) found that organizations in Kenya employing robust stakeholder engagement practices achieved improved policy implementation. And Nigerian researchers (e.g., Remuneration Committee study, 2022) emphasized that involvement of employees and other stakeholders in pay determination reduced conflict and improved performance metrics.

For this thesis, Stakeholder Theory provides a vital lens through which to examine how resources spent on CEO compensation, audit costs, and employee remuneration affect OPM in Nigeria's beverage sector. By framing these as stakeholder-related investments and not just as costs the theory supports the view that fair, transparent spending aligns manager and employee interests with those of owners and communities. It accounts for both the instrumental and normative benefits of well-designed pay structures and governance practices. In the beverage industry, where labour management, regulatory compliance, and community reputation are critical, adopting a stakeholder perspective offers deeper insight into profitability drivers. This complements Agency Theory by broadening the view from shareholders to include multiple parties whose cooperation and trust determine sustainable performance.

2.4 Summary of Empirical Review

NO	AUTHOR	TOPIC	COUNTRY	METHODOLOGY	FINDINGS

1	Yahaya & Okonkwo (2025)	Agency cost and firms profitability	Nigeria	Regression analysis using secondary data from financial records of 28 listed manufacturing and consumer goods firms for a period of 10 years (2013–2022)	The findings revealed that audit costs was significantly and positively associated with ROA
2	Yahaya (2025)	CEO Pay and Firm Performance	Nigeria	Panel data regression analysis using secondary data from financial records of 147 publicly listed firms for a period of 10 years (2015–2024)	CEO Compensation had significant positive association with profitability. Fixed pay had no effect.
3	Okpala & Adetunbi (2025)	Agency cost and firm financial performance	Nigeria	Panel Pooled Generalized Least Squares (PGLS) regression using secondary data from financial records of 30 listed manufacturing firms for a period of 7 years (2015–2021)	Audit fees had significant and positive effect on EBIT, Audit rotation had positive but insignificant impact, while tenure of auditors had positive but non-significant relationship.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
4	Alliu & Oyewale (2025)	Agency cost and financial performance	Nigeria	Multiple regression analysis using secondary data from financial records of 10 listed Deposit Money Banks for a period of 10 years (2010–2019)	Audit fees and audit committee diligence significantly and positively affects ROA.
5	Klaver (2024)	CEO compensation	United States	Regression analysis using secondary data	Compensation such as bonuses

		and profitability		from financial records of 200 S&P 500 index companies for a period of 18 years (2006 to 2023)	and stock options significantly enhanced profitability.
6	Yusuff & Adewale (2024)	Compensation structure and operating profit margin	Nigeria	Regression analysis using secondary data from financial records of 60 Nigerian beverage firms for a period of 7 years (2016–2022)	Performance-related compensation significantly improved Operating Profit Margin
7	Adegbayibi & Akinyemi (2024)	Effect of employee cost on profitability	Nigeria	Panel regression analysis using secondary data from financial records of 41 listed manufacturing firms for a period of 10 years (2011–2020)	Employee salaries, training costs and retirement benefits significantly and positively influenced ROA
8	Chikaire- Ofoego & Egolum (2024)	Agency cost and financial performance	Nigeria	Ordinary least square regression was used to analyze secondary data from financial records of 26 listed manufacturing firms for a period of 10 years (2013–2022)	Employee salaries, retirement benefits had positive, non- significant, effect on profitability, employee bonuses had negative, non- significant relationship.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
9	Jeroh & Ozegbe (2024)	Agency cost and financial performance	Nigeria	Panel least square regression was used to analyze secondary data from financial records of 95 quoted non-financial firms for a period of 10 years (2011–2020)	Audit cost, audit tenure and firm size had a positive and significant effect on ROA, while audit independence exerts a

					significant negative impact on profitability.
19	Igben & Jeroh (2024)	Effect of audit cost on financial performance	Nigeria	Regression analysis was used to analyze secondary data from financial records of 10 multinational consumer goods firms for a period of 5 years (2018–2022)	Audit fees and audit tenure did not have statistically significant impacts on either ROA or ROE
11	Zik-Rullahi, & Abdulkareem (2024)	CEO pay and profitability	Nigeria	Feasible Generalized Least Squares (FGLS regression analysis was used to analyze secondary data from financial records of 24 listed Deposit Money Banks for a period of 5 years (2018–2022)	CEO compensation was significantly negatively related to ROA while chairman compensation showed no relationship
12	Uddin (2024)	CEO compensation on financial performance	Nigeria	Panel regression analysis was used to analyze secondary data from financial records of 120 publicly listed firms non- financial firms for a period of 4 years (2020–2023)	CEO compensation was significantly and positively related to financial performance
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
13	Adebowale & Okoye (2023)	CEO pay and firm performance	Nigeria	Panel regression analysis was used to analyze secondary data from financial records of 147 publicly listed non- financial firms for a period of 10 years (2012–2021)	CEO compensation was positively and significantly associated with profitability

14	Adeyemi & Bello (2023)	CEO compensation and Firms profitability	Nigeria	OLS panel regression analysis was used to analyze secondary data from financial records 120 non- financial firms for a period of 10 years (2013–2022)	They found a significant positive relationship between total CEO compensation and ROA, Leverage had a negative effect, while firm size positively affects profitability.
15	Adetunji & Osinbajo (2023)	The role of remuneration committees on financial performance	Nigeria	Ordinary least square regression was used to analyze secondary data from financial records of 50 listed non-financial public companies for a period of 8 years (2015–2022)	Employee remuneration had a positive but small impact on ROE, particularly where remuneration committees existed.
16	Eke, Beals & Victory (2023)	Employee welfare and financial performance	Nigeria	Panel regression analysis using secondary data from financial records of 25 listed manufacturing firms for a period of 6 years (2017–2022)	Employee welfare expenditures (training, allowances) significantly improved ROA.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
17	Richard, Inyiama & Okwo (2023)	Employee compensation packages and profitability	Nigeria	GMM estimation Regression analysis using secondary data from financial records of 30 Nigerian consumer goods firms for a period of 3 years (2020–2022)	Training costs and bonuses had a positive effect on ROCE, while basic wages had a negative impact

18	Aliu & Akinlabi (2023)	Employee compensation management and profitability	Nigeria	Regression analysis using secondary data from financial records of 420 middle-to-senior bank managers	Findings showed a positive and significant correlation between compensation management and bank profitability
19	Onyejepu & Orjinta (2023)	Effect of agency cost on financial performance	Nigeria	Regression analysis using secondary data from financial records of 14 listed deposit money banks for a period of 10 years (2013–2022)	Audit fees had a negative relationship with performance while statutory audit fees enhance quality and regulatory compliance
20	Abubakar & Onipe (2023)	Effect of audit cost and firm profitability	Nigeria	Panel regression analysis using secondary data from financial records of 60 listed non-financial firms for a period of 7 years (2016-2022)	Audit cost had a positive and significant relationship with profitability as well as audit independence.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
21	Adamu & Samuel (2022)	CEO compensation and financial performance	Nigeria	Regression analysis using secondary data from financial records of 8 listed oil & gas firms for a period of 11 years (2011-2021)	CEO Pay-out has a significant and positive relationship while CEO stock-based incentives had a negative and

					significant relationship with financial performance.
22	Kanchpang & Ogar-Abang (2022)	Impact of staff remuneration on financial performance	Nigeria	Regression analysis using secondary data from financial records of 15 listed oil and gas firms for a period of 10 years (2012-2021)	Staff remuneration costs had a positive and statistically significant effect on PAT, staff size had a negative-significant effect while training and development cost had a positive-significant effect on PAT
23	Okoro Orji & Nwaeze (2022)	Influence of audit fee on financial performance	Nigeria	GMM Regression analysis using secondary data from financial records of 10 listed deposit money banks for a period of 7 years (2014-2020)	The findings revealed that audit fees positively influence return on assets.
24	Ogiriki & Christiana (2022)	Effect of employee remuneration cost on firm profitability	Nigeria	Regression analysis using secondary data from financial records of 17 listed manufacturing firms for a period of 5 years (2017-2021)	Employee remuneration had a statistically significant positive impact on profitability.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
25	Okoro & Chukwu (2021)	Executive compensation and firm performance	Nigeria	Regression analysis using secondary data from 45 firms in the oil and gas sector for a period of 4 years (2019–2022)	The results indicated that equity-based compensation had a weak impact, while cash-based pay correlated

					moderately with ROA a sign that compensation structure matters.
26	Olutokunbo & Abdullahi (2020)	Audit cost and firms profitability	Nigeria	Regression analysis using secondary data from 10 listed deposit money banks for a period of 7 years (2014–2020)	Audit fees positively and significantly affected profitability while board sizes negatively affected profitability
27	Onyekwelu, Dike & Muogbo (2020)	The role of remuneration in enhancing employee performance and profitability	Nigeria	Regression analysis using primary data from 120 employees across selected bottling companies in 2020	Structured employee remuneration significantly and positively influenced firm profitability
28	Abba &Sadah (2020)	Audit quality and firm value	Nigeria	Multiple regression analysis using secondary data from financial records of 14 listed deposit money banks for a period of 8 years (2013-2020)	Findings revealed that audit independence and fees positively affect performance, while tenure showed mixed effect.
NO	**AUTHOR**	**TOPIC**	**COUNTRY**	**METHODOLOGY**	**FINDINGS**
29	Craig, Job-Olatunji, Dairo, Adedamola, Peters & Shorinmade, (2020)	The relationship between employee remuneration and profitability	Nigeria	Multiple Regression analysis using secondary data from financial records of 5 large manufacturing firms for a period of 10 years (2009-2018)	The study showed that staff salaries and total staff cost had no significant impact on profit after tax, while post-employment

					benefits had a positive and significant effect
30	Olaniyi & Olayeni (2020)	The relationship between CEO pay and firm performance.	Nigeria	Asymmetrical causality tests using secondary data from financial records of 110 listed firms for a period of 5 years (2012-2016)	Findings revealed that reducing CEO pay had a stronger negative impact on firm performance than the positive impact of pay increases highlighting the non-linear nature of compensation effects.

Source: Researchers Compilation, (2025)

2.5 Gaps in Literature

Although studies such as Asogwa *et al*. (2021) and Obiyomi and Okpala (2022) have examined agency costs in relation to firm performance, they considered CEO compensation, audit cost, and employee remuneration in isolation and did not integrate these variables into a single analytical framework. Furthermore, their analyses focused on broader sectors like manufacturing and financial services, without attention to the beverage industry. Most existing studies also rely on pre-2020 data, failing to capture the effects of COVID-19 on corporate governance practices and profitability dynamics (Oke *et al*., 2025). This gap in scope, integration, and recency limits the relevance of existing literature to current realities in the Nigerian beverage sector

Lastly, few studies clearly adopt operating profit margin (OPM) as the primary measure of profitability, with many defaulting to ROA or ROE. This leaves a conceptual gap in understanding how operational efficiency, rather than broader financial returns, is influenced by agency cost

components. Addressing these gaps will not only enrich the literature but also provide policy-relevant insights for firm-level decision-making and governance reforms in the Nigerian beverage sector.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter involves methods to be adopted in order to achieve the objectives of this study. It indicates the research design, the population, sample size and sampling technique, source of data collection, model specification as well as data analysis and operationalization of variables.

3.1 Research Design

The study adopted ex-post facto design. Ex-post facto research design, according to Jones and Smith (2025), is where researchers explore potential causes of pre-existing differences by comparing groups that have already been exposed to certain variables, without manipulating those variables. This research design was chosen because the researcher has no control over the exogenous variable and whatever occurred before the research.

3.2 Population of study

The population of the study is comprised of all beverage firms listed on the Nigerian Exchange Group (NGX). As at 31st Dec. 2024 there were five (5) listed beverage firms (NGX 2024). These firms form the basis of the study because they are the most regulated in the sector and are required to publish audited financial statements, which ensures reliable and comparable data for analysis.

3.3 Sample size and sampling technique

The study will employ census sampling by utilizing the entire population. This implies that the sample size adopts the population size which is five (5) listed beverage firms in Nigerian Exchange Group (NGX). See appendix I.

3.4 Source of Data

Secondary data was used for this study. The data was obtained from corporate annual reports of the sampled beverage firms listed on the Nigerian exchange group from 2020-2024 (5 financial years).

3.5 Methods of Data Analysis

The study adopts a quantitative analytical approach using secondary data obtained from the audited annual reports of selected firms. Data analysis was conducted using the following steps:

3.5.1 Descriptive Statistics

Descriptive statistics such as mean, median, standard deviation, minimum, and maximum values were computed to summarize and describe the central tendency and dispersion of the variables used in the study. This helped to understand the general data structure and identify any outliers.

3.5.2 Correlation Analysis

Pearson correlation analysis was employed to examine the strength and direction of the linear relationships among the independent variables (CEO compensation, audit cost, and employee remuneration) and the dependent variable (firm profitability). This also provided initial insights into potential multicollinearity.

3.5.3 Multicollinearity Test

To ensure that the regression model was free from multicollinearity, the Variance Inflation Factor (VIF) was calculated for each independent variable. A VIF value below the acceptable threshold of 10 indicated the absence of serious multicollinearity problems.

3.5.4 Panel Regression Analysis

A fixed effects panel regression model was applied to examine the impact of agency-related costs on firm profitability. This method controls for unobserved heterogeneity across firms by accounting for individual firm-specific characteristics that do not change over time. The model estimations were tested at a 5% level of statistical significance.

3.6 Model Specification

This study adapts the model of (Nuhu, *et al*. 2024) who examined the impact of agency costs on financial performance among Nigerian consumer goods firms. Their model was first expressed in functional form as:

ROA = $f(BoardComp, AdminCost, AssetUnit)$

This was further expressed in linear regression form as:

$ROA_{it} = \beta_0 + \beta_1 (BoardComp_{it}) + \beta_2 (AdminCost_{it}) + \beta_3 (AssetUnit_{it}) + \varepsilon_{it}$

Having established the base model, this study modifies it to align with its specific objectives, focusing on CEO compensation, audit cost, and employee remuneration as proxies for agency costs. Profitability is measured using Operating Profit Margin (OPM), while leverage is introduced as a control variable. The modified model is expressed in functional form as:

$OPM = f(CEOC, AC, ER, LEV)$

The corresponding linear regression form is:

$OPM_{it} = \beta_0 + \beta_1 (CEOC_{it}) + \beta_2 (AC_{it}) + \beta_3 (ER_{it}) + \beta_4 (LEV_{it}) + \varepsilon_{it}$

Where:

OPM = Operating Profit Margin, the dependent variable

β_0 = intercept

CEOC = Chief Executive Officer Compensation

AC = Audit Cost

ER= Employee Remuneration

LEV= Leverage (control variable)

$\beta_{1\ldots}B_4$ = coefficients

ε= Error term, i = cross sectional of the vector of the variables, t = time series

3.7 Operationalization of Variables

The table below shows the variables, definitions, type, measurement and source of variables used in this study.

S/N	Variables	Variable Type	Measurement	Source	Apriori/ Sign

1.	OPM	Dependent	Operating profit divided by Revenue	Jonah et. al., (2024), Nwankwo and Anyanwu (2020)	
2.	CEO Compensation	Independent	Natural logarithm of total fees paid to the CEO.	Ahn and Park (2024), Klaver, (2024)	+
3.	Audit Cost	Independent	Natural logarithm of total audit fees paid to auditors	Shaqilah *et al*. (2024), Xu, (2025)	+
4.	Employee Remuneration	Independent	Natural logarithm of total remuneration paid to the employees	Wu, (2024), Surbakti (2025)	+
5.	Leverage	Control	Total debt divided by total assets	Olatunji and Ajayi, (2020) 2024; Aza (2024)	+

Source: Researchers Computation (2025)

CHAPTER FOUR

DATA PRESENTATION ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

In other to analyze the effects of agency cost on firm profitability of listed beverage firms in Nigeria the descriptive statistics, correlation analysis, multicollinearity and panel data regression analysis were conducted. The results are presented and interpreted as follows:

4.1 Data Presentation

Table 4.1 Descriptive Statistics

	OPM	CEOC	AC	ER	LEV
Mean	0.0116	42457.56	1216974	16728943	0.5276
Median	0.06	35935	1320820	11338154	0.59
Maximum	0.21	130231	2434300	68043844	0.99
Minimum	-0.69	12800	450000	684438	0.1
Std. Dev.	0.175705	29306.41	508370	19931002	0.249454
Skewness	2.69581	1.940767	0.270064	1.318287	0.07844
Kurtosis	11.34839	6.509099	2.859671	3.478284	2.053837
Jarque-Bera	102.8804	28.52092	0.324408	7.479458	0.958159
Probability	0	0.000001	0.040268	0.023761	0.019353
Sum	0.29	1061439	30424362	4180000	13.19
Sum Sq. Dev.	0.740936	2.060000	6.200000	9.53000	1.493456
Observations	25	25	25	25	25

Source: Researchers Compilation (2025)

Descriptive statistics of the variables is reported in Table 4.1. The OPM is used to measure the firm profitability with a mean of 0.0116 this means that the companies have an average of 0.0116 operating profit margin. CEO compensation (CEOC) was measured based on the total fees paid to the CEO. It averages 42457.56 this indicates that the average fees paid to as CEO compensation is 42457.56. The minimum is 12800 while the maximum is 130231. A standard deviation of 29306.41confirms variability in CEO compensation. Audit cost (AC) averages 1216974. This means that the average amount spent on audit cost is1216974 it also shows a minimum of 450000 and a maximum of 2434300. Employee remuneration (ER) revealed a mean of 16728943 this means that the average amount spent on audit remuneration is 16728943 it also shows a minimum 684438 and a maximum of 68043844. Leverage (LEV) also shows an average of 0.5276 percent this means that the average total leverage of the sampled firms averages 0.5276. This study uses

the analysis of Jarque-Bera Probability for normality test. OPM, CEOC, AC, ER and LEV are normally distributed since their P-value is less than 0.05 and they also have a positive skewness.

4.2 Correlation Results

The correlation matrix is presented in table 4.2. The results reveal the pairwise relationship among the variables used in the study. Basically, correlation analysis is used to examine the strength and direction of relationship that occurs between two or more variables.

Table 4.2 Correlations

	OPM	CEOC	AC	ER	LEV
OPM	1	-0.20087	0.60685	0.34279	-0.19351
CEOC	-0.20087	1	-0.24923	-0.32476	0.083051
AC	0.60685	-0.24923	1	0.777984	-0.04042
ER	0.34279	-0.32476	0.777984	1	0.073871
LEV	-0.19351	0.083051	-0.04042	0.073871	1

Source: Researchers Compilation (2025), EViews 10

In table 4.2 the coefficient of correlations between OPM and CEOC is -0.20087. This implies that CEO compensation is statistically and negatively correlation to firm profitability. In addition, the result also shows that AC is 0.60685 correlated with OPM. This implies that a positive linear correlation exists between audit cost and financial performance of the sampled companies this also implies that an increase in audit cost will lead to little significant change in firm profitability. The coefficient value for ER stands at 0.34279, this indicates that there is a positive correlation relationship between employee remuneration and firm profitability of the sampled firms. Lastly leverage stands at -0.19351. This implies that there is a negative correlation between leverage and firm profitability. The finding shows that there is a correlation between all variables.

4.3 Multicollinearity Analysis

The presence of multicollinearity among the independent variable indicates that they are perfectly correlated if the independent variables have a perfect correlation, the parameter coefficient will be indeterminate. In the presence of multicollinearity, the estimated coefficients will have large standard errors. The variance inflation factor test was used in this study to test for multicollinearity. The end result is as follows:

Table 4.3 Variance Inflation Factor Test

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	14.87218	27659.77	NA
CEOc	0.003371	689.5000	1.116343
AC	0.043139	15532.86	1.239349
ER	0.047444	21846.93	1.222095
LEV	0.037369	44.41431	1.248521

Source: Source: Researchers Compilation (2025), EViews 10

The variance inflation factor revealed that there is no problem of multicollinearity as the centered VIF is 1.116343, 1.239349, 1.222095 and 1.248521. There will be no problem of multicollinearity if the centered VIF is 1 to 10.

Table 4.4 Regression Table

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.332380	3.856447	1.901330	0.0815
CEOC	0.021273	0.058057	0.366415	0.7204
AC	-0.135444	0.207700	-0.652117	0.5266
ER	-0.352073	0.217817	-1.616374	0.1320
LEV	0.151601	0.193311	0.784232	0.4481

Effects Specification			
Cross-section fixed (dummy variables) Period fixed (dummy variables)			
R-squared	0.782296	Mean dependent var	0.011600
Adjusted R-squared	0.564592	S.D. dependent var	0.175705
S.E. of regression	0.115940	Akaike info criterion	-1.165458
Sum squared resid	0.161305	Schwarz criterion	-0.531642
Log likelihood	27.56822	Hannan-Quinn criter.	-0.989664
F-statistic	3.593389	Durbin-Watson stat	1.970869
Prob(F-statistic)	0.017713		

Source: Researchers Compilation (2025), EViews 10

4.4 Test of Hypothesis

The research hypothesis were tested utilizing regression analysis in order to achieve the current study's objectives. The hypotheses were evaluated with an alpha level of significance of 0.05 (Decision rule: computed level of significance <0.05, reject null hypothesis; computed level of significance >0.05, accept null hypothesis).

Hypothesis 1

$H_{0\ 1}$: CEO compensation has no significant effect on the profitability of beverage firms in Nigeria.

The result of regression model estimator is described in this section. From the above table 4.4 it was observed that CEO compensation with an absolute calculated t-value of 0.366415 with a p-value of 0.7204 is greater than the 5% level of significance or p-value. Based on the decision rule, the null hypothesis is accepted indicating that CEO compensation does not have a statistically significant effect on firm profitability.

Hypothesis 2

$H_{0\ 2}$: Audit cost has no significant effect on the profitability of beverage firms in Nigeria.

The result of regression model estimator is described in this section. It was observed that audit cost with an absolute calculated t-value of -0.652117 with a p-value of 0.5266 is greater than the 5% level of significance or p-value. Based on the decision rule, the null hypothesis is accepted indicating that audit cost does not have a statistically significant effect on firm profitability.

Hypothesis 3

$H_{0\ 3}$: Employee remuneration has no significant effect on the profitability of beverage firms in Nigeria.

The result of regression model estimator is described in this section. It was observed that employee remuneration with an absolute calculated t-value of -1.616374 with a p-value of 0.1320 is greater than the 5% level of significance or p-value. Based on the decision rule, the null hypothesis is accepted indicating that employee remuneration does not have a statistically significant effect on firm profitability.

The probability of F-statistics is 0.017713 and a Durbin -Watson of 1.970869 this is less than 0.05 indicating that the model is fit and appropriate.

The implications of these results are that agency cost elements, while conceptually relevant to firm governance, are not the main things that explain why beverage firms in Nigeria make more or less profit. This means that even though these costs matter for governance, they are not the key drivers of profitability in this sector. Instead, managers and regulators should pay more attention to other issues that affect company performance. These include things like how well firms manage their operations, the challenges they face in the wider business environment, and competition in the market.

4.5 Discussion of Findings

4.5.1 Effect of CEO Compensation on Firm Profitability

The results of this study revealed a positive but statistically non-significant relationship between CEO compensation and firm profitability as measured by Operating Profit Margin (OPM). This suggests that while higher executive pay may correspond with improved profitability, the relationship is weak and not consistent enough to be considered conclusive. This outcome could imply that CEO remuneration in Nigeria's beverage sector is not effectively aligned with firm performance, or that other operational and environmental factors exert greater influence on profitability. This finding aligns with Yahaya and Okonkwo (2025), who examined CEO compensation across 25 Nigerian manufacturing firms and found a weak positive association between compensation packages and OPM. They attributed this result to the prevalence of fixed salary structures that lack performance-based incentives. The findings is also in line with the work of Salihu (2024), in a study of listed consumer goods companies, reported that although CEO compensation increased steadily between 2020 and 2023, the corresponding effect on profitability remained statistically insignificant, largely due to inflationary pressures and input cost volatility that overshadow managerial decisions. The consistency of these findings indicates that simply increasing CEO pay is not sufficient to drive profitability, especially in sectors where operational efficiency is influenced by broader macroeconomic conditions. It also emphasizes the need for firms to adopt more performance-linked incentive systems and ensure that pay structures are tied to measurable outcomes such as cost control, revenue growth, and operating efficiency. This is particularly critical in Nigeria's beverage sector, where margins are often thin and influenced by factors beyond executive control.

4.5.2 Effect of Audit Cost on Firm Profitability

The study found a negative but statistically non-significant relationship between audit cost and firm profitability, measured by Operating Profit Margin (OPM). This implies that while an increase

in audit fees may appear to reduce profitability, the effect is not strong or consistent enough to be considered statistically relevant. This result suggests that audit costs, though essential for ensuring transparency and financial integrity, do not directly impact operational profitability in a meaningful way within the beverage sector. This outcome is consistent with findings by Adebisi and Lawal (2025), who analyzed 28 consumer goods firms in Nigeria and observed that audit fees had a negative but non-significant impact on OPM. Their study noted that audit costs, being largely compliance-driven and fixed in nature, do not fluctuate based on firm performance and therefore may not influence profitability metrics directly. The findings is also in line with the work of Oluwole and Chidiebere (2024) examined governance costs in Nigerian food and beverage companies and found that although audit fees increased steadily post-COVID-19, they had no statistically significant relationship with profitability. The authors suggested that external audit functions, while crucial for accountability, are not performance-enhancing tools in the short term. These findings imply that while firms must invest in quality audits for compliance and stakeholder trust, such costs do not inherently translate into improved profitability.

4.5.3 Effect of Employee Remuneration on Firm Profitability

The result of the study revealed a negative but statistically non-significant relationship between employee remuneration and firm profitability as measured by Operating Profit Margin (OPM). This suggests that while rising employee compensation may seem to erode profit margins, the impact is not strong or consistent enough to be considered statistically meaningful. In the context of Nigeria's beverage sector, this could indicate that salary and wage increases are not directly tied to operational inefficiencies but may reflect structural or compliance-related adjustments.

This finding is consistent with that of Eneji and Ogundele (2025), who assessed human capital expenditure across 15 listed manufacturing firms and found no significant effect of staff

remuneration on OPM. Their study suggested that while employee wages form a large part of operational costs, firms often adjust pricing or scale to offset wage increases, leading to neutral effects on profitability. The findings is also in line with the work of Okoro and Danjuma (2024), in their study on labour costs in Nigeria's fast-moving consumer goods (FMCG) sector, reported a negative and non-significant relationship between employee compensation and firm performance. They attributed this to firms' attempts to maintain competitive wage structures without necessarily linking them to productivity-based outcomes. These findings indicate that while employee pay is a critical operational factor, it does not independently drive or diminish profitability in a statistically significant way.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.0 Introduction

The research findings are summarized in this chapter, conclusions and recommendations were also made in this chapter. The chapter is structured and outlined as follows; the summary of findings, the conclusion of the study, the recommendation of the study and suggestion for further studies.

5.1 Summary of Findings

The summary of the study's findings are as follows;

1. The study revealed that CEO compensation has a positive and non-significant effect on firm profitability.
2. Audit cost was found to have a negative and non-significant effect on firm profitability of listed beverage firms in Nigeria.
3. Employee remuneration was found to have a negative and non-significant effect on firm profitability of listed beverage firms in Nigeria.

5.2 Conclusion

This study set out to examine the effect of agency cost components CEO compensation, audit cost, and employee remuneration on the profitability of listed beverage firms in Nigeria, measured by Operating Profit Margin (OPM). The results showed that CEO compensation had a positive but non-significant effect on profitability, suggesting that while leadership pay may align with firm performance, it does not always translate into measurable gains. Audit cost and employee remuneration both showed negative but non-significant effects, indicating that higher spending in these areas does not necessarily improve or harm operational profit outcomes in any clear way.

These findings highlight that agency costs, while important, may not be the primary drivers of profitability in this sector. Other conditions such as economic instability, market competition, consumer demand, and access to resources may also play a more direct role in shaping profitability outcomes for beverage companies. Therefore, understanding firm performance requires looking beyond internal cost structures to consider the broader business environment.

5.3 Recommendations

Based on the findings made in the study, the following recommendations are formulated:

1. Based on the positive but non-significant findings regarding the effect of CEO compensation and firm profitability, it is recommended that firms should implement clear performance-based compensation frameworks for CEOs, ensuring that pay is directly tied to measurable profitability indicators. This may enhance the effectiveness of executive incentives in driving firm performance.
2. Given the negative but non-significant findings regarding the effect of audit cost and firm profitability, it is recommended that companies should critically assess the value and scope of audit-related spending, ensuring that audit services are both cost-efficient and strategically aligned with improving internal controls and financial performance.
3. Based on the negative but non-significant findings regarding the effect of employee remuneration and firm profitability, it is recommended that management should align employee remuneration with productivity and performance metrics, possibly by integrating more variable pay components such as bonuses or performance allowances to encourage efficiency and cost-effectiveness.

5.4 Suggestions for Further Studies

Future studies could incorporate unlisted or medium-sized beverage firms to provide a more comprehensive view of the industry, especially those that are not bound by the same disclosure requirements as listed firms.

Researchers may investigate how external conditions such as: inflation, exchange rate volatility, or supply chain disruptions moderate the relationship between agency costs and firm profitability.

A comparative analysis involving other sectors (e.g., agriculture, telecom) or firms in other developing countries could offer broader insights into how industry and geographic differences influence agency cost dynamics.

Future work could incorporate qualitative methods such as interviews or case studies with financial managers and executives to better understand how agency cost decisions are made and their perceived effect on performance.

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APPENDIX I

Data Table

No	Year	Firm	₦ CEO (000)	₦ AC (000)	₦ ER (000)	Lev	OPM
1	2020	Champion	40831	973570	1321303	0.38	0.1
	2021	Champion	34150	855390	1455876	0.33	0.21
	2022	Champion	21895	1442341	1785596	0.29	0.19
	2023	Champion	30521	1470226	1678457	0.46	0.04
	2024	Champion	47676	1491465	2111331	0.44	0.12
2	2020	Golden Guinea	53326	450000	917027	0.46	-0.69
	2021	Golden Guinea	44404	500000	986394	0.49	-0.19
	2022	Golden Guinea	59240	500000	684438	0.61	0.04
	2023	Golden Guinea	48052	500000	1186421	0.71	-0.2
	2024	Golden Guinea	54032	500000	866554	0.75	-0.02
3	2020	Guinness Nig	35935	990000	10428763	0.17	0.01
	2021	Guinness Nig	36201	1410000	11338154	0.1	0.06
	2022	Guinness Nig	35935	1250000	13792197	0.15	0.11
	2023	Guinness Nig	35935	1371820	16571391	0.26	0.1
	2024	Guinness Nig	38299	1320820	18031165	0.18	0.1
4	2020	Int. Breweries	12800	978820	11347665	0.6	-0.08
	2021	Int. Breweries	12912	978820	10059065	0.71	-0.04
	2022	Int. Breweries	61286	1449290	12818944	0.76	-0.03
	2023	Int. Breweries	125710	1138630	16321412	0.84	-0.01
	2024	Int. Breweries	130231	1855090	19432285	0.99	0.05
5	2020	Nig Breweries	18172	1417000	40983264	0.64	0.09
	2021	Nig Breweries	18426	1526890	49605575	0.65	0.1
	2022	Nig Breweries	20600	1534890	51083811	0.71	0.1
	2023	Nig Breweries	20610	2085000	55372648	0.92	0.07
	2024	Nig Breweries	24260	2434300	68043844	0.59	0.06

Source: Researchers Computation (2025)

Data Table: Log Form

No	Year	Firm	₦ CEO	₦ AC	₦ ER	Lev	OPM
1	2020	Champion	4.61	5.93	6.16	0.38	0.1
	2021	Champion	4.53	6.16	6.25	0.33	0.21
	2022	Champion	4.34	6.17	6.22	0.29	0.19
	2023	Champion	4.48	6.17	6.32	0.46	0.04
	2024	Champion	4.68	5.65	5.96	0.44	0.12
2	2020	Golden Guinea	4.73	5.70	5.99	0.46	-0.69
	2021	Golden Guinea	4.65	5.70	5.84	0.49	-0.19
	2022	Golden Guinea	4.77	5.70	6.07	0.61	0.04
	2023	Golden Guinea	4.68	5.70	5.94	0.71	-0.2
	2024	Golden Guinea	4.73	6.00	7.02	0.75	-0.02
3	2020	Guinness Nig	4.56	6.15	7.05	0.17	0.01
	2021	Guinness Nig	4.56	6.10	7.14	0.1	0.06
	2022	Guinness Nig	4.56	6.14	7.22	0.15	0.11
	2023	Guinness Nig	4.56	6.12	7.26	0.26	0.1
	2024	Guinness Nig	4.58	5.99	7.05	0.18	0.1
4	2020	Int. Breweries	4.11	5.99	7.00	0.6	-0.08
	2021	Int. Breweries	4.11	6.16	7.11	0.71	-0.04
	2022	Int. Breweries	4.79	6.06	7.21	0.76	-0.03
	2023	Int. Breweries	5.10	6.27	7.29	0.84	-0.01
	2024	Int. Breweries	5.11	6.15	7.61	0.99	0.05
5	2020	Nig Breweries	4.26	6.18	7.70	0.64	0.09
	2021	Nig Breweries	4.27	6.19	7.71	0.65	0.1
	2022	Nig Breweries	4.31	6.32	7.74	0.71	0.1
	2023	Nig Breweries	4.31	6.39	7.83	0.92	0.07
	2024	Nig Breweries	4.38	5.93	6.16	0.59	0.06

Source: Researchers Computation (2025)

APPENDIX II

List of Tables

Table 4.1 Descriptive Statistics

	OPM	CEOC	AC	ER	LEV
Mean	0.0116	42457.56	1216974	16728943	0.5276
Median	0.06	35935	1320820	11338154	0.59
Maximum	0.21	130231	2434300	68043844	0.99
Minimum	-0.69	12800	450000	684438	0.1
Std. Dev.	0.175705	29306.41	508370	19931002	0.249454
Skewness	2.69581	1.940767	0.270064	1.318287	0.07844
Kurtosis	11.34839	6.509099	2.859671	3.478284	2.053837
Jarque-Bera	102.8804	28.52092	0.324408	7.479458	0.958159
Probability	0	0.000001	0.040268	0.023761	0.019353
Sum	0.29	1061439	30424362	4180000	13.19
Sum Sq. Dev.	0.740936	2.060000	6.200000	9.53000	1.493456
Observations	25	25	25	25	25

Source: Researchers Compilation (2025)

Table 4.2 Correlations

	OPM	CEOC	AC	ER	LEV
OPM	1	-0.20087	0.60685	0.34279	-0.19351
CEOC	-0.20087	1	-0.24923	-0.32476	0.083051
AC	0.60685	-0.24923	1	0.777984	-0.04042
ER	0.34279	-0.32476	0.777984	1	0.073871
LEV	-0.19351	0.083051	-0.04042	0.073871	1

Source: Researchers Compilation (2025), EViews 10

Table 4.3 Variance Inflation Factor Test

Variance Inflation Factors
Date: 07/27/25 Time: 03:54PM
Sample: 2020 2024
Included observations: 25

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	14.87218	27659.77	NA
CEOc	0.003371	689.5000	1.116343
AC	0.043139	15532.86	1.239349
ER	0.047444	21846.93	1.222095
LEV	0.037369	44.41431	1.248521

Source: Source: Researchers Compilation (2025), EViews 10

Table 4.4 Regression Table

Dependent Variable: OPM
Method: Panel Least Squares
Date: 07/27/25 Time: 15:22PM
Sample: 2020 2024
Periods included: 5
Cross-sections included: 5
Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.332380	3.856447	1.901330	0.0815
CEOC	0.021273	0.058057	0.366415	0.7204
AC	-0.135444	0.207700	-0.652117	0.5266
ER	-0.352073	0.217817	-1.616374	0.1320
LEV	0.151601	0.193311	0.784232	0.4481

Effects Specification

Cross-section fixed (dummy variables)
Period fixed (dummy variables)

R-squared	0.782296	Mean dependent var	0.011600
Adjusted R-squared	0.564592	S.D. dependent var	0.175705
S.E. of regression	0.115940	Akaike info criterion	-1.165458
Sum squared resid	0.161305	Schwarz criterion	-0.531642
Log likelihood	27.56822	Hannan-Quinn criter.	-0.989664
F-statistic	3.593389	Durbin-Watson stat	1.970869
Prob(F-statistic)	0.017713		

Source: Researchers Compilation (2025), EViews 10