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Board Monitoring Intensity and Firm Performance Nexus: The Moderating Effect of Agency Conflict

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Abstract: The purpose of this paper is to investigate the impact of board monitoring intensity on firm performance and further investigate the moderating effect of agency conflict on the relationship between monitoring intensity and firm performance. This paper uses a panel data of 137 firms listed on stock exchanges in Ghana and Nigeria over a period of seven years. System generalized method of moments and other estimation techniques were adopted for the study. The paper compute agency score using principal factor analysis and examine the moderating effect on the relationship between board composition measures and firm performance. Our findings which are robust across a number of econometric models that deal with different kinds of endogeneities indicate a positive and statistically significant relationship between board monitoring intensity and firm performance. A further examination using the agency score computed from principal factor analysis of the four main agency proxies indicates that agency conflict moderate the relationship between monitoring intensity and firm performance.

Keywords: Monitoring Intensity, Firm Performance, Agency Conflict, Agency Theory

1. Introduction

Agency theory has recommended effective board monitoring to mitigate agency conflicts in which there is a separation between ownership and control [9], [34]. However, while the overall aim for designing corporate governance mechanisms is to realign the interests of managers to that of shareholders, such mechanism could result in additional agency conflicts [3] [11]. Not surprisingly, board monitoring is underpinned by two contrasting theories: Agency theory and stewardship theory [4] [39]. Agency theory posits that when monitoring effectively carried out, board monitoring can serve as tool by which agency conflict can be minimized and aligning the interests of managers and shareholders [44] [43] and improve firm performance hence predicting a positive relationship between board monitoring and firm performance. In a sharp contrast, stewardship theory suggests that manager are trust worthy individuals whose personal utility is maximized when the interest are maximized [44]. [8] [9] thus expecting relatively small amount of monitoring. The results of prior empirical papers that have examined the relationship between board monitoring intensity and firm performance suggests a positive relationship [1] [33] suggesting that the magnitude of the positive relationship depends on the level and nature of agency conflict. Whereas these appear to provide support for the agency theory, it is quite apparent from the analyses of previous studies that a number of other reasons may also account for the magnitude of the positive relationship between board monitoring intensity and firm performance. First, governance mechanism varies cross-sectionally, depending on the demand for better monitoring [10]. Therefore, the quality of governance including board composition may not be uniform across firms. This suggests that the relation between governance and firm performance may depend on the need to realign the interest of management to that of shareholders.

Second, and of close relevance to our study, prior studies that have examined board composition variables and firm performance nexus have often done so by examining direct link between board monitoring intensity and firm performance [23] [21] without considering any potential interactions that may exist between board monitoring and firm performance measures [10]. [10] Observes that one of the reasons accounting for the mixed results is that any relationship between governance mechanisms and firm overall performance is dependent on certain circumstances

such as agency problem. The implication is that failure to recognize and account for these circumstances limit understanding on corporate governance and policy implication doubtful. [10] Further provides evidence that the level of agency conflict account for the mixed relations between governance mechanism and firm performance by examining firms with low and high agency conflict. [33] also observes that relation between governance and performance is prone to the type of agency problems (type 1 and type 2 agency problem). A major methodological implication is that failure to account for the agency conflict in a model estimating the relationship between board composition measures and firm performance can result in endogenous relationships [14] [22]

Finally, similar to most developing countries, Ghanaian and Nigerian firms face unique governance challenges in comparison with their developed counterparts. Concentrated ownership [22] weak investor protection [22] ineffective board structures [13] [32], inactive external governance mechanisms [8] [14] and consequently, lower market valuation of public corporation [22]. In fact, past studies [10]; [6] suggest that board composition varies around the world because of variations in country-level specific factors, such as culture, religious, governance mechanisms, and legal framework and ownership structures. This notwithstanding, prior empirical papers related to this study have been conducted mainly in developed countries [26] [28] in which such contextual factors are relatively different. Therefore, investigating the moderating effect of the nature and level of agency conflict on the relationship between board composition measures and firm performance may provide new insights in less developed and emerging economies there is scarcity of studies.

Consequently, the objective of this paper is to offer both extensions to, and new insights on, existing studies by resolving weaknesses inherent in prior studies. First, the study responds to the call to examine the impact of board composition on firm performance following waves of governance reforms in these countries. Second, using a panel data of 137 firms for seven years, the study provide evidence on relationship between board composition and performance and further provide evidence if agency conflict moderate the relationship between board composition measures and performance. To the best of knowledge, this paper is the first attempt to examine the effect of agency conflict on board composition and performance relationship within a Sub-Saharan African context, with reference to Ghana and Nigeria, and importantly provide nascent literature to the sub-continent. Third, and different from most prior empirical studies, [33] [21]. This study uses estimation techniques that significantly address different forms of endogeneity problems by using System Generalized Method of Moments and other estimation techniques.

The rest of this paper proceeds as follows. Section 2 discuses empirical literature review and hypotheses development. Section 3 considers research design. Empirical results and discussion are captured in sections 4 and section 5 looks at the summary and conclusion.

2. Prior Empirical Literature and Hypotheses Development

2.1. Board Monitoring Intensity and Firm Performance

Board monitoring has received significant attention in Africa following the scandals that has been hitting corporate firms. For instance in Nigeria Leventis Plc, Nigerian Coal Corporation, Asaba Textile Industry, Kaduna Textile Industry are all failed firms attributed to poor board monitoring [8] [25] [24]. From agency theory len, effective board provides the necessary controls on managers [26]. Put differently, boards are required to assess company and management performance and take action to protect the interest of shareholders. This implies that board effectiveness cut across broad range of roles including monitoring and controlling of company performance [8] [25]. [25] highlights the role of governance mechanisms in reducing agency conflicts indicating that boards of directors are one of the most important governance tools. Despite the importance of board monitoring function, there has been mixed theoretical view as to the relationship between board monitoring and firm performance. For instance, there are mixed theoretical views as to the effect of corporate board meetings on corporate performance [31]. [23].

One theoretical viewpoint is that the intensity of board monitoring is associated with firm financial performance. For instance, [26] observe that frequency of board meeting can result in a higher and effective monitoring thereby impacting positively on corporate financial performance. [37] further observe that intense monitoring enable directors to be informed and better understanding of important developments within the firm. Other empirical studies ([36] [37] suggest that board monitoring intensity enables directors to reduce the moral hazards and improve the financial reporting thereby impacting positively on corporate performance. In a similar context [38] observe that high performing firms are usually associated with intense managerial monitoring and such monitoring is an observable attribute of well-governed firms.

By contrast and consistent with the mixed findings, other empirical studies observe that intense monitoring negatively affect performance. For example many empirical studies [1], [23] observe that CEOs are reluctant to share information with the board members when monitoring of managers are intense. This is because sharing such information might threaten their positions. [23] posit that intense monitoring is an example of troubled firm. Empirical findings by [23] support the proposition that monitoring becomes more intense in periods of crisis. Therefore when firms are not in crisis intense monitoring may be detrimental to firm performance. The implication of this suggest that intense monitoring can be costly in the form of managerial time, travel expenses, refreshments and directors' allowances fees [38] and this can negatively influence corporate performance.

Empirical literature indicates that the relationship between boards monitoring intensity is not only conflicting, but also concentrated in a few developed countries with similar institutional context [8]. [7]. [38]. On the other hand, he observes that firm performance improves following a year of abnormal board activity. This seems to suggest that while directors who engage in active monitoring, the potential benefit of such monitoring is expected to be felt in future years' performance. The implication is that there is gestation period in which the benefit of the activity and firm performance. This may also indicate possible presence of endogeneity on the relationship between board monitoring and corporate performance [9]. [11]. [12].

In respect to Ghana and Nigeria, the 2010 and 2011 code of best practices in these countries clearly indicate the function of the board to include monitoring. Though the frequency of monitoring is not comprehensively addressed by these codes, it suggests mechanism to improve upon the monitoring. These codes further suggest that corporate boards are expected to meet at least each quarter to perform board functions including monitoring. Consistent with agency theory, preposition, the code of best practices in these countries expect intense monitoring to impact on firm performance. These arguments supported by previous studies on corporate governance study, this study conjecture that:

H1: Board monitoring intensity is positively related with firm performance.

2.2. The Moderating Effect of Agency Conflict

Two major opposing ideas exist in explaining the relationship between board monitoring intensity and firm performance A major theoretical literature indicates that firms that intensely monitor management tend to be profitable than other firms with low level of monitoring [38]. [43]. [42]. Therefore a positive relation between board monitoring and firm performance is expected.

Another opposing theoretical viewpoint to the positive one is that firms that show greater monitoring tends to be less profitable [14] [7]. First, it can be argued that engaging in intense monitoring is expected to cause management to concede necessary information because it may affect their positions. This is likely to affect the quality of decisions hence firm performance. Second, others for instance [13]; [12] indicate that engaging in intense monitoring is a sign of troubled firm and this may negatively affect the market performance of the firm substantively.

In line with the conflicting theoretical expectations, a number of prior empirical studies that have examined the relationship between board monitoring intensity and firm performance report mixed findings [29]. [40]. [41]. Prior empirical studies have focused almost exclusively in developed economies where other mechanism to mitigate agency cost such as market for corporate control and shareholders. [43] [25] though potential missing and endogenous problems have been cited as the major cause of the conflicting results.

Notwithstanding the mixed and conflicting relationship, large number of empirical study suggests a positive relationship between board monitoring intensity and firm performance. The decision to intensify board monitoring is normally determined by the nature and level of agency conflict. The conjecture of this study is that the nature and the level of agency conflict may have a moderating effect on the relationship between board monitoring intensity and firm performance. The intuition of this study is informed by gradually growing empirical studies that suggest that although provision in the code of best in 2010 and 2011 in Ghana and Nigeria mandates corporate board to monitor management, the intensity of the monitoring is not expected to uniform across firms. This suggests that the relation between monitoring intensity and firm performance should depend on the need to realign the interest of management to that of shareholders.

However, the main limitation of prior literature is that these studies mainly have examined the direct effect of board monitoring intensity on firm performance without considering the possible moderating effect of the nature and the level of agency conflict resulting in comprehensive understanding of how and why board monitoring intensity affect firm performance. This study therefore conjectures that:

H2. Ceteris paribus, the higher (lower) the level agency conflict the more (less) positive is the link between board monitoring intensity and firm performance.

3. Research Design

3.1. Data

The target firms for the study include all companies listed on the stock markets in Ghana and Nigeria. The reason for the selection of these stock markets is two folds. First, Nigeria and Ghana (with the exception of South Africa) stock exchanges are the most active and largest in the sub-Saharan region in terms of the number of companies listed and market capitalization valued at $114.2 and $28.2 billion respectively as at 2015. Second, they share a number of common attributes: (i) they are all countries of Anglo–Saxon origin with similar accounting, auditing, corporate governance mechanisms, and legal systems; (ii) they have adopted the international financial reporting standards; and (iii) they have similar corporate law and ownership structures [30].

In all 224 companies were listed in these two stock markets as at 2013. Consistent with prior studies [1] [14]. [29] Financial and insurance companies are excluded from the sample as well as those that have gone through mergers and acquisitions. The reason for their exclusion is that these industries are tightly regulated and secondly, they are heavily geared. This has proven to have different effects on governance mechanisms and it is appropriate for them to be separately analyzed [27].

The time horizon for the study is 2008- 2014. The reason for the selection of this period is in two folds. First, 2008 is the start period because it was the earliest year for which the

required data was available for all the variables across the two countries and ends in 2014 because it is the most recent period for which data is available. Second, this is to ensure that the results are current and remains relevant. After deleting outliers and companies without data for the period, a sample of 137 companies is obtained resulting in 959 firm-year observations. Information on the variables is obtained from the Nigeria and Ghana Stock Exchange libraries where the required information not reported in the annual reports particularly frequency of board meetings was obtained from the companies through questionnaire. In all questionnaires were sent to eighty- five firms in Ghana and Nigeria of which 80% responded by emails.

3.2. Measurement of Variables

3.2.1. Moderating Variable

According to Dey (2008), measuring agency conflict in a firm is problematic. Prior researchers adopt different measurement since no single proxy can adequately represent the scope of agency conflict. This is because there are different ways or situations where managers have an incentive in maximizing their interest at the expense of shareholders. Theoretical and empirical research [24] indicates four key areas namely moral hazard, earnings retention, risk aversion, and time-horizon. This study include firm specific attributes that are indicative of the existence of agency conflict and allow for more than one proxy in contrast to the one dimensional approach in the previous literature [8]. This enables various agency conflicts unique to the sample to be adequately captured.

Firm complexity, according [11], is a key component of the scope of moral hazard. It measures the number of industries the firm operates in. This study adopts a two digit 2015 industrial classification code to measure the level of organizational complexity. Information asymmetry within the firm results in information aggregation when a firm combines diverse operations in different industries. The study therefore expects high agency conflict in firms that are more complex.

This study also adopts growth opportunity to proxy the volatility in the operating environment of a firm. This is because high growth firms are characterized by higher levels of information asymmetry due to the level of power they control [19]. [20]. Firms pursuing rapid growth agenda tend to retain more profit into the firm. More equity resources are therefore made available for managers to control. This gives managers the opportunity to pursue their own interests.

Ownership structure is measured using the percentage of capital owned by individual shareholders. Consistent with [10], it is computed as one minus the value of shares by executives, directors, and institutional investors divided by the total market capitalization of the firm. This measurement shows how diffuse ownership structure is and therefore the level of control by management and it is seen as a traditional measure of agency conflict. As [5] observe when shareholders are too dispersed, there is a high tendency for the asset of the firm to be deployed to benefit managers at the expense of shareholders. It is expected that a management controlled firm or diffused ownership one has a high level of agency conflict.

We also include free cash flow as a measure of agency conflict [19] observes that when there are substantial free cash flows generated in the organization, conflict of interests between shareholders and managers become severe. Thus, we therefore expect that firms with greater levels of free cash flows will have higher agency conflict.

In addition to presenting separate results for the four measures of agency conflict and perform a more meaningful analysis and present robust results, we perform a principal factor analysis of the four variables used to measure agency conflict and derive an overall agency score for each firm. This serves as an overall measure of the level of agency and uses it in a separate model to estimate the moderating effect of agency conflict on the relationship between board composition and firm performance

3.2.2. Dependent Variable

In general, firm performance is classified mainly into two ways. These are market measure and accounting measures. All these measurements have their own advantages and disadvantages. For instance, the accounting values as a measure of performance is affected by accounting practices and standards. Tobin Q is also criticized as severely suffering from accounting artifacts. In this paper we use return on assets (ROA) and Tobin's Q as a performance measures. This is because the use of only accounting or market based performance measures have been cited to account for mix relationship between corporate governance and firm performance. We measure ROA as the ratio of Earnings before Interest and Taxes to Total Assets (EBIT/TA) and Tobin's Qas (market value of equity plus total debt)/total assets.

3.2.3. Independent Variable

Agency theory and consistent with empirical studies such as (see also [8]. [15]. hold that boards that meet regularly are more likely to perform their monitoring function effectively. Empirically, testing this assertion, [38] find evidence to believe that following years of higher frequency of board meeting, firm's performance tends to improve. Consistent with [37] measurement, frequency of board meeting is measured by the number of formal meetings (excluding telephone meetings) held by the entity in a financial year.

3.2.4. Control Variable

We include control variables that may help mitigate firm performance besides the corporate governance mechanisms. These are demographic (age and size of the firm) and leverage and frequency of board meeting.

Size is measured as the natural logarithm of total assets. Large corporations are more likely to have highly diffused ownership structures that effectively separate ownership of residual claims from control of corporate decisions. Greater scale of operations is normally the characteristic of large forms. There is therefore greater incentive and opportunities for managers to shirk [11]. Also prior research has

established that the size of a firm can influence the level of agency costs in many ways. [14]. observed though large firms can exploit economies of scale, they are likely to be less efficient as a result of possible loss of control by top managers operations of the firm.

Consistent with [10] [9], leverage is measured as long-term debt to total assets. For instance [10] observes that agency costs related to debt are likely to be higher in firms with debt than those without debt. Owner and managers prefer to accept high risk project thereby transferring wealth from creditors to shareholders to reject positive net present value. [9]. Observe that high leverage firm have greater incentive to manage earnings to prevent covenant violation.

3.3. Estimation Technique

The regression model test the moderating effects of agency conflict on the relationship between board monitoring intensity and performance.

$$y_{it} - y_{it-1} = \gamma\left(y_{it-1} - y_{it-2}\right) + \theta_1\left(M_{it} - M_{it-1}\right) + \theta_2\left(AC_{it} - AC_{it-1}\right) + \theta_2\left(M * AC_{it} - M * AC_{it-1}\right) + \beta'\left(X_{it} - X_{it-1}\right) + \left(\varepsilon_{it} - \varepsilon_{it-1}\right)$$

Where:

Y = firm performance proxied by return on asset and Tobin Q

AC = agency conflict proxied by growth opportunity, free cash flow, organizational complexity and ownership structure

M= board monitoring intensity proxied by frequency of board meeting

This study uses System Generalised Method of Moment (GMM) to estimate the Model specified in equation (1). This is selected because the data set has a short time dimension (T=7) and larger firm size (N= 137). This renders other panel data analysis like co-integration unsuitable. Also, this estimate has the tendency of accounting for firm specific effect and endogeneity which are normally ignored in many similar studies.

It can be deduced from the equation that, firm specific effects, is eliminated because of the deficiency in the time series. Because λ_i does not vary with time series the correlation between (- $y_{it-1} - y_{it}$) and (ε_{it} - ε_{it}) still remains. In order to deal with the problem, the first differenced GMM is used. Using this estimator, the lagged levelof the dependent variable and other endogenous explanatory variables as instruments for the first-differenced is used.

This study tests for the presence of endogeneity. This is because the problems of endogeneity have recently received significant attention and awareness within the positive accounting literature [40]. [41] because it can affect the efficiency of empirical models estimated [17]. However, there has been disagreement whether the problem is worth considering in accounting research Empirical studies indicate that endogeneity problem may be caused by problems of omitted variables, reverse causation, measurement errors, and equilibrium conditions. This paper addresses the problem of endogeneity and responds to positive accounting researchers call.

In resolving the above problem, the study follows the steps proposed by [13]. [15]. First, the study use seven year panel data as it has proven to reduce endogeniety [13]. Second, a number of control variables are introduced in our model to reduce omitted variable problem. Third, the presence of endogeneity is tested using Durbin-Wu-Hausmanexogeneity test. The results of the Durbin-Wu-Hausmanexogeneity test show that coefficients of the main variables for under return on assets and Tobin's Q are statistically significant implying that the key board variables are endogenously related firm performance. Accordingly, instrumental estimation technique is appropriate. This implies that the adoption of system GMM described above is influenced by these results.

4. Results and Discussions

4.1. Empirical Results and Discussion

In this section, the empirical results obtained are presented, analyzed and discussed. The discussion begins with the results of the descriptive statistics and this is followed by the system GMM estimator results.

4.2. Descriptive Statistics

Table 1 presents the descriptive statistics of the main variables used for the study. These include the dependent, independent and control variables.

Table 1. *Descriptive Statistics of Variables used in the study.*

Variable	Mean	Standard Dev.	Minimum	Maximum
ROA	0.21	.06	0.12	0.39
Tobins' Q	0.29	1.86	0.18	0.35
Freq. of B. M	9.5	.42	7	12
F. Comp.	2.11	.85	1	7
Firm Age	26.35	63.94	10	46
Firm Size	8.49	2.99	18745	5.75
Ownership Str.	.143	.083	.004	0.4
Leverage	10.13	52.87	5.214	64.13

Referring to table 1 on the ownership structure as a measure of percentage of capital owned by individual shareholders, it can be observed from the sampled firm that maximum capital owned by individual shareholders is 40% and a minimum of 0.04%. However, on the average, 14.73% shares of these companies are owned by individuals. This implies that the remaining 85.27% are owned by blocks. This is relatively lower than what is reported in the UK and US. Following [1] who classifies shareholding by individuals less 20 percent is a concentrated ownership structure. It can also be noticed that the sampled firm operation cut across a maximum of 7 industries and a minimum of 1 industry with an average of 2.11 industries. This average is slightly higher than what is reported by [10].

Most of the sampled firms on the average have been operating on the stock market for 26.35 years. The maximum

years a firm from the sampled firm is listed on the stock market is 46 years. This is relatively lower than what is reported in South African and UK. This is not surprising because the stock markets in these countries relatively young as compared to that of UK and South African. Leverage measured as the ratio long-term debt to total assets. As it can be observed from table 1 most of the organizations depend on debt as against equity for financing, long term debt relatively represents the major component of total debt in the overall sample sampled firm. The leverage level of the sampled firm ranges from maximum of 66% to a minimum of 35% with a mean long-term debt to total assets of 55%.. For the frequency of board meetings, it can be seen from the sampled firms that the board of the sampled firms are having more meetings with a maximum of 12 meetings, minimum of 7 times and mean of 9.5 meetings per year. This result is relatively similar using data from Eastern African. On average the sample firms have an assets size of $4.46 million with a range of $1.87 to $5.75 million

In relation to firm performance measures, two key measures are considered. These are return on asset and Tobin Q. Comparing accounting and market based performance measures, it seems the firms are relatively doing better on the market based measure than the accounting measure. Whereas the mean value of ROA is 0.21 and that of Tobin's Q is 0.29. This result suggests an average return on assets of 21%.

4.3. Regression Results

The overall model is investigated for the presence of multicollinearity by conducting the Pearson correlation tests among the variables and variance inflation factor. For the sake of brevity the results are not reported, (available upon request) but indicate that no significant multicollinearity problems were present among the variables. This implies that it is appropriate to carry out multivariate regression analyses. Table 2 shows the regression results using generalized method of moment.

Table 2. *The moderating effect of agency conflict using system GMM and a two-step multilevel regression.*

Variables	Expected sign	Firm performance Model 1 (step 1)	Firm performance Model 2 (step 2)
Performance (lagged) 1	+/-	0.025 (-2.21)	0.013 (-2.01)
Board Monitoring Intensity	+	0.420 (1.74)	0.325 (0.12)
Agency Conflict	-	-0.005** (0.15)	-0.002** (0.13)
BMI*AC	+/-		-0.109** (1.29)
Firm size	-	0.005 (-1.10)	2.299 (5.43)
Firm age	+/-	0.055** (3.02)	0.123 (2.12)
Leverage	+/-	-0.008 (-1.43)	-0.012 (-1.21)
Country dummy	+/-	4.25 (1.70)	4.23 (1.23)
No of observations		959	959
Number of firms		137	137
Test of autocorrelation		AR (1) -2.12**	AR (1) 1.23**
F-Value		6.341**	7.313**
Sargan test		72.12**	70.56**
Adjusted R^2		.321	.473

***denotes significance at 1% level, ** denotes significance at 5% level, * denotes significance at 10% level. The *t*-statistics are provided in parentheses. All the models passed instruments validity test.

As it can be observed, there is a positive and statistically significant relationship between board monitoring intensity and firm performance. This result indicates that as firm monitoring intensity increases, firm performance improves. This presupposes that as monitoring intensity increases by one percent, firm performance increases by 42%. This result is consistent with agency theoretical viewpoint that the intensity of board monitoring is associated with firm financial performance. For instance, [26]. observe that frequency of board meeting can result in a higher and effective monitoring thereby impacting positively on corporate financial performance. [23] further observe that intense monitoring enable directors to be informed and better understanding of important developments within the firm, and better position to timely take decisions to address emerging critical problems and improve performance. This result support hypothesis five that board monitoring is positively and statistically related to firm performance

Expectedly, agency conflict has negative and statistically significant relationship with firm performance. The results suggest that an increase in level of agency conflict result in reduction in firm performance. This evidence seems to provide support for agency theory which suggests that in firm where interests of managers are not aligned, firm performance is reduced [34] [28].

To test the moderating effect agency conflict on the relationship between board monitoring intensity and performance, board monitoring intensity and agency conflict is interacted (BMI*AGENCY CONFLCIT). From model 2 of table 2, the interaction term is statistically significant suggesting that agency conflict moderate the relationship between board monitoring intensity and firm performance. With this result evidence is obtained to support H2 which suggest that Ceteris paribus, the higher (lower) the level agency conflict the more (less) positive is the link between board monitoring intensity and firm performance. This implies agency conflict influences the strength and the direction of the relationship between board monitoring intensity and firm performance. The result further suggests that in a firm where agency conflict is higher, board

monitoring intensity will enhance firm perform performance since there will be alignment of interest of managers and shareholders. This result is consistent with [10] evidencing that the level of agency conflict account for the mixed relations between governance mechanism and firm performance by examining firms with low and high agency conflict.

We further conduct additional analyses to further validate the robustness of the results. So far the study has estimated the firm performance (see model 2 of table 2) by taking into consideration the predictors, moderators (interaction term) and control variables simultaneously. One limitation of this method is that it makes it difficult to assess the contributions of the moderating variable. Consequently, to ascertain the contributions of the moderating variable I use a two-step multilevel (hierarchical) regression method. At the first step, the researcher regresses the predictors (board monitoring intensity and agency conflict) and control variables on firm performance; and at the second step, I the interaction term as additional independent variables. The results of our hierarchical (multilevel) regressions reported in model 1 and 2 of table 2. The result suggests a statistically significant relationship between the interaction term and firm performance. This implies that the results are insensitive to estimating a hierarchical regression. However, the evidence indicate that our moderating variable thus agency conflict explains the relationship between board monitoring intensity and firm performance accounting for between 15.2% of the variations in firm performance.

5. Summary and Conclusions

This paper specifically examines whether agency conflict can moderate the between board monitoring intensity and firm performance using 137 listed firms in Ghana and Nigeria from 2008 to 2014. Our study, therefore, extends, as well as makes a number of new contributions to the extant literature. First, previous studies examining direct links between board monitoring intensity and performance have generally reported mixed results. Our findings indicate a positive and statistically significant relation between board monitoring intensity and firm performance. The implication of this result is that corporate boards in Ghana and Nigeria that intensely monitor managers significantly improve firm performance. Consistent with our predictions, the findings contribute to the literature by further evidencing that agency conflict moderate the relationship between board monitoring intensity and firm performance from our examination using the agency score computed from principal factor analysis of the four main agency conflict proxies. Specifically, we find that the higher the level of agency conflict, the stronger the positive relationship between board monitoring intensity and firm performance. The results are also robust to a number of estimators that control for different forms of endogeneities in governance studies. The findings of this study lend support for agency theory, which suggest that aligning the interest of shareholders and that of management strongly influence firm performance. In particular, our results make a new contribution to the literature by providing evidence that in a corporate environment dominated by poor governance structures and concentrated ownership agency conflict moderate the relationship between board monitoring intensity and firm performance. Methodologically, the implication of this finding is that future researchers will need to commit to a more complex and dynamic relationship and its antecedent theoretical perspectives instead of the direct relationship in estimating board monitoring and other aspect of the firm. Such a model is able to simultaneously incorporate agency conflict if their evidence is to be robust and policy implication to remain valid.

The study's evidence also has important implications for countries that are currently or contemplating pursuing board reforms to take into consideration the level and the nature of agency conflict in determining the composition of an effective board.

Whilst the results reported are reliable and significant, the limitations associated with the study need to be acknowledged explicitly. The study limited our analysis to board composition as a result of data availability. As more data become available, researchers may include other measures of board monitoring effectiveness. Also, similar to other archival studies, the variables employed as measures for performance, agency conflict may or may not represent how boards, managers and shareholders relationship operate in practice. Methodologically, more insights may be obtained by future studies by conducting in-depth interviews with boards, managers and shareholders.

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