Corporate Board Attributes And Agency Cost: Evidence From Listed Companies In Ghana

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Abstract

Using a penal data approach, we aim at finding evidence whether board attributes affect agency cost of listed non-financial companies from 2005-2013 in Ghana. In this paper, concentration was on board attributes ignored by previous studies. Using assets turnover (utilization) as a measure of agency cost and controlling for size, our results reveal that board size and board independence are statistically and inversely related to agency cost. However, board gender diversity was found to be positively related to agency cost. It was also discovered that boards of the listed firms who are being dominated by male directors helped in mitigating the agency cost.

Keywords: Agency Cost, Gender diversity, Board independence, Board Size

1. Introduction

Agency relations within a firm and its associated cost have been extensively investigated in corporate governance literature following separation of ownership and control of companies causing many corporate scandals and failure. Great deal of corporate governance studies have identified a number of mechanisms intended to ensure that management teams act in the best interests of shareholders. These include external mechanisms such as institutional ownership, large creditors, long-term relationships, debt financing, and the market for managerial labor. Internal mechanisms on the other hand include managerial ownership, executive compensation and the board of directors.

Angel et al (2000) and Sign and Davidson (2003) looking at the determinants of agency cost investigated the role of debt and ownership structure in agency cost. They provided evidence that ownership structure reduces agency cost. However, there was no consensus on the role of debt in reducing agency cost. Other previous studies on agency cost have mainly concentrated on compensation contract (Core et al, 2001; Murphy, 1999), executive ownership (Smith and Watts, 1992; Gaver, 1993).

The board is the highest decision-making unit in every company. In the words of Fama and Jensen (1983) and Keasey and Wright (1993) indicated that the board of directors represent the highest form of internal control to monitor top management including the CEO. There are different perspectives on the role of directors. It has been documented empirically that they have the responsibility to protect, safeguard, maximize shareholders wealth, oversee firm performance, and assess managerial efficiency. As part of their responsibility, directors are monitor and assess managerial performance, decide compensation levels of senior managers, provide advice, and provide links to other organizations. They however, assert that the primary responsibility of board of directors involves resolving agency conflicts that arise between shareholders and managers and reducing agency cost. For board of directors to be able to perform their function well their composition and structure is very crucial.

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Even though board of directors are importance mechanism in corporate governance and perhaps the defense against management misbehavior and/or poor management decisions, its role in resolving agency conflict and mitigating agency cost has not been empirically tested especially in economies where agency cost seems to be high because of weak legal and regulatory frame work to protect investors. Accordingly, a study that seeks to clearly establish the board of directors attributes in resolving agency conflict is expected to significantly contribute to literature.

The rest of the paper is organized as follows; section 2 considers related theories as well as the empirical literature. Section 3 presents the data and methodology adopted for the study. The results of the regression are captured in section 4. Section 5 captures the conclusions draw from the studies.

2. Theoretical Consideration and Related Studies

- Agency Theory

Agency theory refers to a set of propositions in governing a modern corporation which is typically characterized by large number of shareholders who allow agents to control and manage their collective capital for future returns. The agent, typically, may not always own shares but may possess relevant professional skills and competence in managing the corporation towards its achievements.

The underlying assumption in the agency theory is that where management and ownership are separated, management as agents of the shareholders may not necessarily act in the best interest of shareholders due to divergence of interests, and therefore, resources may not be expended to maximize the latter’s wealth (Gillan, 2006; Gonzalez & Garay, 2003).

As a result of shareholders dispersion, they are not normally involved in the day to day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010). The agents are hired to manage the day to day operations of the corporation. The separation of ownership and controlling results in conflicts of interest between agent and principal. To align the conflicting interests of managers and owners the company incurs controlling costs including incentives given to managers.

The theory presents many useful ways to examine the relationship between owners and managers and verify how the final objective of maximizing the returns to the owners is achieved, particularly when the managers do not own the corporation’s resources. Agency theory identifies the role of the monitoring mechanism of corporate governance to decrease agency costs and the conflict of interest between managers and owners. It is clear that the principal-agent theory is generally considered as the starting point for any debate on the issue of corporate governance. According to agency theory the agent strive to achieve his personal goals at the expense of the principal. Mangers are mostly motivated by their own personal interests and benefits, and work to maximize their own personal benefit rather than considering shareholders interests and maximizing shareholders wealth. To reduce agency problem there must be better monitoring and controlling mechanisms which helps to ensure that managers pursue the interests of shareholders rather than only their own interests.

Boards of directors are considered as an important device to protect shareholders from being exploited by managers and help to effectively control managers when they try to maximize their self interest at the expense of the company’s profitability. Fama and Jensen (1983) argues that in order to minimize agency problem that emanates from the separation of ownership and control the corporation needs to have a mechanisms that enables to separate the authority of decision management from decision control. This would reduce agency costs and ensures maximization of shareholders wealth by effectively controlling the power and self-centered decisions of management.

- Stakeholders’ Theory

The emergence of stakeholder theory, according was prompted by the growing recognition by boards of the need to take account of the wider interest of the society. It lists the essential premises upon which the
stakeholder theory rests, citing Jones and Wicks (1999); that the corporation has relationships with many constituent groups (stakeholders) that affect, and are affected by its decisions; that the theory is concerned with the nature of these relationships in terms of both processes and outcomes and focuses on managerial decision making; that the interest of all legitimate stakeholders have intrinsic value and no set of intrinsic value is assumed to dominate the other. The stakeholder approach according holds that a range of corporate constituencies – customers, employees, suppliers, creditors and communities should have a say in the running of the firm. A stakeholder, according to this view, is one who has an interest in the enterprise and is at risk if it fails. An employee who may find it difficult to secure another employment if the enterprise closes; a creditor whose claims will not be met in full if the company enters insolvency; suppliers with close ties to a particular producer; and a community which has come to depend upon a large local employer, are all in a position where they have a stake in the enterprise’s sustainability. The corporate enterprise cannot be maintained without the inputs of a series of constituencies; investors, lenders, suppliers, managers, workers, unions, communities. Thus, corporate governance is an exercise in team production, in which the issue is how voluntary cooperation between the different stakeholder groups is to be achieved. This theory maintains that the objectives of the firm should be derived by balancing the conflicting aims of the various stakeholders: managers, workers, stockholders, suppliers, vendors. This theory implies that a board will be mainly interested in performance of the company in terms of meeting the expectations of stakeholders. Such a board should be made up of directors with the right background and experience for effectiveness of their service function. Board human and social capitals become important with the stakeholders ‘theory approach to corporate governance.

- **Resource Dependency Theory**

Whilst the stakeholder theory mainly focuses on relationships with many groups for individual benefits, resource dependency theory focuses on the role of board directors in providing access to resources needed by the firm. According to this theory the main function of the board of directors is to provide resources to the firm. Directors are seen as an important resource to the firm. When directors are considered as resource providers, various dimensions of director diversity clearly become important such as gender, experience, qualification and the like. Boards of directors provide expertise, skills, information and potential linkage with environment for firms (Ayuso & Argandona, 2007). The resource based approach notes that the board of directors could support the management in areas where in-firm knowledge is limited or lacking. The resource dependence model suggests that the board of directors could be used as a mechanism to form links with the external environment in order to support the management in the achievement of organizational goals.

Each of the three theories is useful in considering the efficiency and effectiveness of the monitoring and control functions of corporate governance. But, many of these theoretical perspectives are intended as complements to, not substitutes for, agency theory (Habbash, 2010).

**Board Attributes**

- **Board Size**

Board size refers to the number of directors on the board. According to Kiel and Nicholson (2003) board size is crucial to achieving the board effectiveness. According to Lawal (2012), board size affects the quality of deliberation among members and ability of board to arrived at an optimal corporate decisions. Therefore, identifying the appropriate board size is essential because size can be detrimental to corporate governance effectiveness beyond optimal level. However, determining an ideal size of the board has being an ongoing and controversial debate in corporate governance literature (Lawal, 2012). Whether large or small board help mitigate the agency cost inherent in organization is a debatable issue and researchers found mixed result about the relation between board size and agency cost. Jensen (1993) argues that a larger board leads to less effective monitoring due to coordination and process problems inherent in large board size. Larger boards can be less participative, less cohesive, and less able to reach consensus. Coordination, communication and decision-making problems increasingly impede company performance when the number of directors increases (Yermack, 1996 as cited by Uadiale, 2010). Al-Manaseer et al. (2012) also argues that boards with too many members lead to problems of coordination in decision making. Small board size was favored to
promote critical, genuine and intellectual deliberation and involvement among members which presumably might led to effective corporate decision making, monitoring and improved performance (Lawal, 2012). In contrast Klein (2002) suggested that larger boards able to promote effective monitoring due to their ability to distribute the work load over a greater number of observers.

Evidence from developed countries suggests that large boards can be less effective than small boards in terms of the ability to effectively function as a group (Jensen, 1993). A number of factors were given for this. First, boards are more likely to experience severe agency problems (e.g. directors free-riding) as it increase in size (Hermalin & Weisbach, 2003). Not only that, but they are more likely to encounter difficulties in solving agency problems between its members (Jensen, 1993; Lipton & Lorsch, 1992). As a result boards become passive and less involved in the management of the firm which reduces their ability to effectively carry out their roles. For instance, Hermalin and Weisbach’s (2003) study of market participants suggests that small boards do a better job of monitoring management than larger boards. For example, consistent with Jensen’s (1993) argument that a value-relevant attribute of corporate boards is their size, Yermack (1996) shows that companies with smaller boards have high value. Vafeas (1999) reports a negative relationship between firm value and the number of board meeting. Similar studies also found that an increase in board size negatively influenced strategic change for larger boards (Golden & Zajac, 2001; Goodstein, Guatam & Boeker, 1994). In this regard, smaller boards are likely to create more value than larger boards. Other studies argued that an increase in board size can significantly inhibit the work of the board due to the potential group dynamics associated with larger groups (Forbes & Milliken, 1992; Jensen, 1993).

• Board Composition

Board composition often refers to the proportion of “outside directors” to “inside directors” or “non-executive directors” to “executive directors” (Ayuso & Argandona, 2007; Baysinger & Butler, 1985; Hermalin & Weisbach, 2003). Inside directors are full-time employees of the firm, while outside directors are not employed by the firm. It is the most commonly used indicator for board independence.

The agency theory promotes the need for boards to be independent in order to be effective in monitoring and controlling management (Ayuso & Argandona, 2007; Fama & Jensen, 1983; Hermalin & Weisbach, 1976), and as protectors of the shareholders’ welfare (Fama & Jensen, 1983; Hermalin & Weisbach, 1988). Often, outside directors are taken to be independent or viewed as the key to board independence. This is because outside directors are normally expected to be respectable peers within the business community who are more likely to ask questions that require managers and insiders to be well prepared for board meetings and discussions (Brennan, 2006). Conventional wisdom suggests that outsider-dominated boards are more likely effective in monitoring and control since their motivation are not compromised by dependence on the CEO or inside directors. To this end a large number of codes of conduct for good governance put forth by various countries recommend firms to have a majority of independent directors on their boards. Contrarily, the dominance of inside directors on boards may increase the positional powers of insiders in board decision which affects the board’s ability to effectively monitor and control management behavior (Ayuso & Argandona, 2007).

Some studies claim that board composition is positively related to agency cost (Baysinger & Butler, 1985; Daily & Dalton, 1993; Pearce & Zahra, 1992), and therefore, lower performing firms are more likely to add outside or independent directors to their boards (Bhagat & Black, 2002; Hermalin & Weisbach, 1988). In contrast, other studies revealed a negative relationship (Bhagat & Black, 1999; Yermack, 1996), thus some firms may prefer insider-dominated boards (Bhagat & Black, 1999). This inconsistency is expected given the different proxies by which board composition is defined (Jaskiewicz & Klein, 2007).

A number of academic studies show that board composition varies with both firm specific factors and the institutional environment the firm faces (e.g., Brickley and James, 1987, Denis and Denis, 1994, and Hermalin and Weisbach, 1988), suggesting that imposing a homogeneous board may be optimal for some firms but not for others. In addition, there is evidence that it is not the board of directors per se that reduces the agency conflicts and creates value, but rather its size, number of meeting and its power. The separation of
ownership and control in modern corporations leads to an agency problem where the agent operates the firm in line with their own interests, instead of shareholders (Jensen & Meckling, 1976).

**Board Gender Diversity**

Gender diversity is part of the broader concept of board diversity. Boards are concerned with having right composition to provide diverse perspectives. Greater female representation on boards provides some additional skills and perspectives that may not be possible with all-male boards (Boyle & Jane, 2011). Board diversity promotes more effective monitoring and problem-solving. They suggest that female board members will bring diverse viewpoints to the boardroom and will provoke lively boardroom discussions.

Gender diversity in the board is supported by different theoretical perspectives. Agency theory is mainly concerned about monitoring role of directors. Representation from diverse groups will provide a balanced board so that no individual or group of individuals can dominate the decision-making of the board (Erhardt et al., 2003).

Board gender diversity is considered to improve company performance since it provides new insights and perspectives (Bathula, 2008; Erhardt et al., 2003). Female board members will bring diverse viewpoints to the boardroom that is not possible with all male directors.

### 3. Data and Methodology

**Data**

For our empirical analysis of the role of board attributes on agency cost, we considered companies listed on Ghana Stock Exchange (GSE). This is because listed companies are assumed to have higher levels of agency conflict as the results of separation of ownership from control. The data was obtained from the annual reports of the companies. Financial institution and companies that have gone through mergers and restructuring are excluded from the study. Financial institutions are normally highly regulated which may affect the board attributes. The study therefore used only the companies that have all the required data available. A company with lack of data for the period under consideration was deleted. After deleting the outliers (13) non-financial companies were considered for the period of 2005-2013.

**Dependent Variable**

Following Sign and Davidson (2003) we use ratio of annual sales to total asset (asset turnover) as an inverse proxy for agency cost. The ratio can be explained as asset utilization ratio which shows how efficient management uses the firm assets. For instance low asset turnover ratio may mean poor investment decisions and insufficient effort hence high agency cost. However, Ang et al (2000) considered the difference in ratio of the firm with a certain ownership and management structure. In Ghana data on management structure are not normally reported in the annual report hence asset utilization becomes more appropriate.

**Independent Variables**

In our empirical model various set of board attributes were included. These include board size, board independence, and board gender diversity. The control variables introduced was the log of net assets. The logarithm is employed to normalize the data and make them fit into the regression equation.

**Methodology**

**Model Specification**

The regression equation was used in determining the statistical relationship between the agency cost and board characteristics of the listed firms used in the study. Since this study is panel data in nature, a control variable was introduced into the regression equation.

\[
AC_{it} = \alpha + \beta_1 BSZ + \beta_2 BID + \beta_3 BGD + \beta_4 SIZ + \epsilon_i \tag{1}
\]

Where: $AC$= Agency cost which is measured as assets turnover (utilization).

$BSZ$ = Board size of the selected firms as measured by the number of directors on the board.
BDG = Percentage of female board members
BID = Board independence as measured by percentage of independent directors on the board
SIZ = Logarithm of Net Assets Value of the selected firms.
α = Intercept
β = Coefficients of independent variables
ε = Statistical error

**Estimation Method**

The Ordinary Least Square (OLS) was the estimator to estimate the parameters of the model above. The ordinary least squares obtain the values of the parameters or coefficients that minimises the sum of the square errors.

To determine whether the effect is fit and that the validity of using ordinary least square (OLS) is justified, the null hypothesis was tested and a violation of which the general least squares (GLS) was used. In this way we achieved a more efficient estimator of β.

**Tests for Normality of the Data Distribution**

Table 1: Shapiro-Wilk (SW) test for normality test

<table>
<thead>
<tr>
<th>Variable</th>
<th>W</th>
<th>V</th>
<th>Z</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>0.97845</td>
<td>1.234</td>
<td>0.455</td>
<td>0.32462</td>
</tr>
<tr>
<td>BSZ</td>
<td>0.97067</td>
<td>1.679</td>
<td>1.121</td>
<td>0.13111</td>
</tr>
<tr>
<td>BID</td>
<td>0.92300</td>
<td>4.408</td>
<td>3.210</td>
<td>0.00066</td>
</tr>
<tr>
<td>BGD</td>
<td>0.92028</td>
<td>4.564</td>
<td>3.285</td>
<td>0.00051</td>
</tr>
<tr>
<td>SIZ</td>
<td>0.94741</td>
<td>3.011</td>
<td>2.385</td>
<td>0.00855</td>
</tr>
</tbody>
</table>

Employing SW test which states that data is normally distributed, to evaluate the normality for the variables, AC and BSZ showed (P>0.05) and these means the variables have passed the normality test and is significantly indifferent. However the remaining variables (BID,BGD,SIZ) are significant at 5% (P<0.05) and this means that the variables has failed to fulfill the assumption of normality and since the data distribution is not normally distributed or is significantly different, the estimation method of ordinary least square (OLS) to analyze the sample data would produce bias result. Therefore, the generalized least square (GLS) method of estimation is more appropriate and it is expected to yield a much better result (Gujarati 2003).

**Sample Characteristics**

Table 2: Sample Characteristic

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>4.291972</td>
<td>.3864315</td>
<td>3.1661</td>
<td>5.2279</td>
</tr>
<tr>
<td>BSZ</td>
<td>8.5625</td>
<td>1.892969</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>BID</td>
<td>0.7404</td>
<td>0.1227</td>
<td>0.3636</td>
<td>0.9286</td>
</tr>
<tr>
<td>BGD</td>
<td>.1276047</td>
<td>.0992653</td>
<td>0</td>
<td>.4</td>
</tr>
<tr>
<td>SIZ</td>
<td>7.3938</td>
<td>0.5740</td>
<td>6.20</td>
<td>8.28</td>
</tr>
</tbody>
</table>

Table 2, above defines the descriptive statistics which reveals how the variables used in the study behave in the study. The mean is a simple measure of the central tendency of the data average, standard deviation is the square root of the variance and therefore reflects both the deviation from the mean and the frequency of the deviation and the minimum and the maximum sample are the values of the least and greatest elements of the sample respectively. Agency cost, from the above it is observed that, an average assets utilization of 4.2919 with a minimum of 3.1661 and a maximum of 5.2279 during the period under study. Board size was also measured by the number of directors on the board, it is also observed from the table 2
above, the average number of directors on the boards of the listed non-financial institutions was nine (9) with a minimum of five (5) and a maximum of fourteen (14). Also, Board independence measured by the percentage of non-executive directors or outside directors' to number of directors gave an average of 74.04% with a minimum of 36.36% and a maximum of 92.86%. Again, Board gender diversity was proxy by the number of female on the board of the firms used in the study, from the above table 2, the average number of women on the board on the listed non-financial institutions on Ghana stock exchange is 12.76% with a minimum of 9.93% and a maximum of 40%. Furthermore, using the Logarithm of Net Assets Value of the selected firms listed on the Ghana stock exchange showed an average of 7.3938 with a minimum of 6.20 and a maximum of 8.28.

4. Empirical Result

- Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>AC</th>
<th>BSZ</th>
<th>BID</th>
<th>BGD</th>
<th>SIZ</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSZ</td>
<td>-0.0267</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BID</td>
<td>-0.6424</td>
<td>0.0158</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BGD</td>
<td>0.5263</td>
<td>0.1751</td>
<td>-0.5747</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>SIZ</td>
<td>0.4544</td>
<td>0.4153</td>
<td>-3535</td>
<td>0.1740</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

The Pearson’s co-efficient of correlation is used in order to examine whether multicollinearity exist among the regressors or not, table 3 shows the results. Technique for detecting multi-collinearity is through the use of a correlation matrix. There exist the problem of multi-collinearity between independent variables when a serious correlation is found between them, however, there is disagree that at what specific point a correlation is considered as a high correlation. A correlation is said high correlation when it exceeds 0.80 or 0.90 according to Kennedy (1998). But Brayman and Cramer (2001) peg it at 0.80 or higher then the problem of multi-collinearity has occur whereas 0.70 is used as a bench mark by Anderson et al. (1999), Raza and Hanif (2013) and Ali and Raza (2015) for serious correlation. We can therefore confirm that based on the bench mark set by various researchers there is no serious correlation between any two of the independent variables. It can be observed that, board size, board independence are negatively related to the dependent variable that is agency cost. On the other hand, board gender diversity represented by the number of women on the board and firm size (SIZ,) is positively related to the dependent variable. The Pearson correlation coefficients of board size, board independence, board gender diversity, firm size are 2.67%, 64.24%, 52.63% and 45.44% respectively. From this it can be understood that board independence have relative strong association with agency cost, however, board size has a relatively weak or no association with agency cost but firm size has a medium/minimal relationship with the dependent variable.

- Analysis of Variation (ANOVA)

<table>
<thead>
<tr>
<th>Source</th>
<th>SS</th>
<th>DF</th>
<th>MS</th>
<th>R-squared</th>
<th>Adj R-squared</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>5.9981028</td>
<td>8</td>
<td>.74976285</td>
<td></td>
<td></td>
<td>0.0000</td>
</tr>
<tr>
<td>Residual</td>
<td>3.40964182</td>
<td>55</td>
<td>.061993488</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>9.40774463</td>
<td>63</td>
<td>.14932928</td>
<td>0.6376</td>
<td>0.5849</td>
<td></td>
</tr>
</tbody>
</table>

The table 4 above provides two sources of variation; regression and residual. The regression sources of variation are the portion of the variation in the dependent variables (Agency Cost) that is explained by regression model while the residual variation is what the model could not explain. A model which is reliable will have a higher regression sum of squares than the residual sum of square.
The source of variation of the model yields R square figure of 0.6379 indicating that, dependence on this model will account for 63.76% of the changes in the dependent variable (Agency cost). Or any explanatory variables can explain variation in the dependent variable (Agency Cost) at 63.76%. The Adj R-squared of 0.5849 in the model explain the variables that ought to be added to the model but was not added.

- **Regression Result**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-value</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSZ</td>
<td>-.0542103</td>
<td>-2.57</td>
<td>0.013</td>
</tr>
<tr>
<td>BID</td>
<td>-.8691499</td>
<td>-2.36</td>
<td>0.022</td>
</tr>
<tr>
<td>BGD</td>
<td>1.231733</td>
<td>2.46</td>
<td>0.017</td>
</tr>
<tr>
<td>SIZ</td>
<td>.30668</td>
<td>3.94</td>
<td>0.000</td>
</tr>
<tr>
<td>CONSTANT</td>
<td>3.027081</td>
<td>4.52</td>
<td>0.000</td>
</tr>
</tbody>
</table>

From table 5 above, board size of the companies listed on the Ghana stock exchange has a negative beta coefficient. This means that an increase in board size will cause agency cost to reduce. Our findings depict significant relationship between asset utilization ratio and board size at 5% level of significance. It is realized from table 5 that agency cost enhances significantly by increasing the number of independent directors on the board and with higher boards size. The reason being that the negative association between board size and the agency cost may be as a result of higher boards’ size among firms. In making decisions bigger boards are more effective and functioning as compare to smaller boards, because it is not easy for top management to control larger board membership. We stand to reason with Florakis and Ozkan (2004) who found that larger boards mitigate agency costs as compare to smaller boards which is consistent with our findings. Thus boards with larger size are therefore having lower agency costs. Inconsistent with the findings, Ibrahim and Abdul Samad (2006), where their findings indicate that smaller board size play a significant role in lowering agency costs.

The study showed a negative relationship between agency cost and board independence. It is an indication that when independent or outside director is added to the board, agency cost decrease by 86.91%. The t-value of -2.36 under the BID confirms the assertion that the independent directors play a major role in mitigating the agency cost of organizations at 5% level of significance. Gul et al. (2012) believe that firms with larger number of independent directors will have lower agency costs because independent directors have a significant impact on the performance of the firm. Independent directors are not only protecting the interest of shareholders but also monitor decision making of management so as to mitigate the agency conflict between control and management. Hence, based on our findings we believe that agency cost decreases boards size increase with independent directors. Consistent with Henry (2004) that board independence lowers agency costs. Ang et al. (2000), Singh and Davidson III (2003) and Ibrahim and Abdul Samad (2006) conclude that there is no significant association between agency cost and independent directors or independent directors does not have influence on agency cost, however the reverse is the case, this study shows that independent directors minimize agency costs.

Besides, the study show a positive relationship between board gender diversity (BGD) and agency cost. As woman is appointed to the board, the agency cost of the firm increase by 123.17% at a significant level of 5%. We stand to reason that women on non-financial firm listed board just added up to the number and this will create more agency cost to the owners. Ryan and Haslam (2005) found that during a period of overall stock-market decline, companies which appointed women to their boards were more likely to have experienced consistently bad performance. They argue that while women are now achieving more high profile positions, they are more likely than men to find themselves on a ‘glass cliff’ such that their positions are risky or precarious. Thus, women may not bring much to the boardroom as we have seen the evidence in this study.
5. Conclusion

We have examine the board attribute in mitigating agency cost of 13 non-financial institutions listed in GSE during the period 2005 to 2013. We used the proxy asset utilization to measure agency cost. Multivariate GLS regression is used to analyze the data. Explanatory variables consist of board attributes such as size of board of directors, board independence, gender diversity and firm size. The results show that high board size and high existence of independent directors reduce the level of agency cost. Higher gender diversity of boards also results in increasing agency cost. This result confirms the recommendations of Ghana’s Corporate Governance Code of Best Practice, where it recommends higher representation of outside directors on corporate board.

In literature, it is realized that more research is needed in pre-board selection, and a system that promises at least some fundamental levels of skill, knowledge and experience. Therefore, it is recommended that future studies should consider the association of agency cost and other types of board attributes particularly unlisted firms.

References


