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THE MEDIATING EFFECT OF AGENCY COSTS ON THE RELATIONSHIP BETWEEN FREE CASHFLOW AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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ABSTRACT
The study examines the mediating effect of agency costs on the relationship between free cash flow and financial performance of listed consumer goods companies in Nigeria. This study is designed to be descriptive and explanatory in nature, utilizing secondary data from the annual reports and accounts of listed consumer goods companies in Nigeria for a period of ten years (2007-2016). The panel data are analyzed using descriptive statistics, Pearson correlation and regression analyses. The main objective is to assess the relationship between free cash flow, agency costs and financial performance of listed consumer goods companies in Nigeria. The study found that agency costs can partially mediate the relationship between free cash flow and the financial performance. The findings are consistence with both Agency theory and free cash flow hypothesis. One of the major contributions to knowledge is that agency costs can partially mediate the relationship between free cash flow and financial performance of listed consumer goods companies in Nigeria and interest expenses ratio can serve as an agency costs proxy.It is therefore recommended that the regulators should ensure that the companies adhere to strict policy ensure house level of practice of code of corporate governance and make sure they monitor the available cash at the discretion of the managers since agency costs can mediate the relationship between free cash flow and financial performance.

KEYWORDS
Free Cash Flow, Agency Costs and Financial Performance

INTRODUCTION

Financial performance is a practice of measuring effectiveness and efficiency of an action. Efficiency is a measure of how costs effective of the resources are used when providing specified customer service while effectiveness is the extent to which customer needs are met [1]. and[2]. Also, according to [3], is a general term applied to all the activities of an organization over a given period of time. Financial performance represented by profitability (ROA) is the act of performing financial activities and the process of measuring the result of a firm's policies and operations in monetary terms. A company's performance is the fundamental factor that determines how well it is being run and managed. Free cash flow refers to a cash flow in excess of that which is required to fund projects that have a positive net present value (NPV) when discounted at the relevant cost of capital [4]. It is also, a way of looking at a business's cash flow to see what is available for distribution among all the securities holders of a corporate entity or re-invest in a project with positive NPV. Agency costs are a type of internal company expense which comes from the actions of an agent acting on behalf of a principal. Agency costs typically arise in the wake of core inefficiencies, dissatisfactions and disruptions, such as conflicts of interest between shareholders and management. [5], [6] and [4] described three kinds of agency costs as monitoring costs, bonding costs and residual loss.

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Prior empirical literature has been conducted by scholars on financial performance in both developed and emerging economies. These studies include variables such as free cash flow, agency costs and their relationship with financial performance include those of [7] investigated the impact of free cash flow and agency costs on firm performance in China. [8]in Iran. [9] in Pakistan. [10]in French however examined the mediating effect of agency costs on the relationship between free cash flow and financial performance will result to different findings as a result of different in the economy, business structure and environment since findings in other economy may not be applicable to Nigerian economic settings. In Nigerian context, most studies concentrated on direct relationship between the variables free cash flow, agency costs and financial performance and using other sectors of the economy ignoring consumer goods companies. Example of such work include [11], [12] which focuses on Nigerian Tobacco and Beverage companies in Nigeria and [13]centre on Nigerian listed financial sector. The extent to which studies leave a research gap within consumer goods companies in Nigeria, which this present study intended to fill.

The study investigates the mediating effect of agency costs on the relationship between free cash flow and financial performance of listed consumer goods companies in Nigeria which makes it different from the previous research such as those of [7], [8], [9] and [10] that are not Nigerian research. From the analysis of empirical literature, it can simply be seen that there is no Nigerian work thus the need to bridge the gap. This study raises the following research questions; to what extent does free cash flow affect financial performance of listed consumer goods companies in Nigeria? To what extent do agency costs affect financial performance of listed consumer goods in Nigeria? How does free cash flow significantly affect agency costs of listed consumer goods companies in Nigeria? Do agency costs mediate the relationship between free cash flow and financial performance of listed consumer goods companies in Nigeria?

To provide answers to these questions, the objectives of this study focused onassessing relationship between free cash flow, agency costs and the financial performance of listed consumer goods in Nigeria. Based on the objects of this research, the following hypotheses are developed with a view to documenting evidence from listed consumer goods companies in Nigeria.

Ho_1: Free cash flow has no significant impact on the financial performance of the listed consumer goods companies in Nigeria.

Ho_2: Agency costs have no significant impact on financial performance of the listed consumer goods in Nigeria.

Ho_3: Free cash flow has no significant impact on the agency costs of the listed consumer goods companies in Nigeria.

Ho_4: Agency costs have no significant mediating effect on the relationship between free cash flow and the financial performance of the listed consumer goods companies in Nigeria.

Methodology

Descriptive research design was employed for the study. Secondary data for the study were extracted from the annual reports and accounts of the listed consumer good companies in Nigeria for a period of 2007-2016 and the NSE Fact Book 2016 and panel regression technique of data analysis was adopted. The design is believed to be appropriate for the examination of the relationship between free cash flow and financial performance with agency costs as the mediating variable of the listed consumer goods companies in Nigeria. In view of availability of data for all the selected firms census approach was adopted by the research which enables the study to examine all the sampled firms. Based on the positivist paradigm, this study is anchored on the methodological philosophical assumption. As it employs an objectivist approach in studying free cash flow and financial performance in the presence of agency costs as the mediator, it focuses on quantitative analysis.

Model Specification

The current study examined the mediating effect of agency costs on the relationship between free cash flow and financial performance. The model specification is based on Baron and Kenny (1986) causal steps. The steps are represented in the following diagram.

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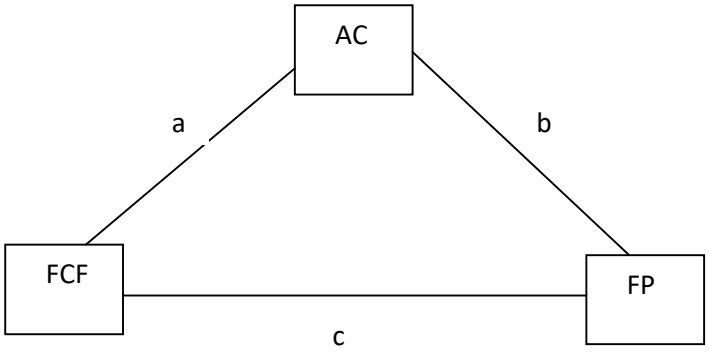

Point (a) represents the direct relationship between free cash flow and agency costs. The relationship between the two is expected to be significant. Point (b) is the direct relationship between agency costs and financial performance. The result is also expected to be significant. Point (c) also represents the direct impingement of the independent variable on the financial performance holding the mediator constant. This effect is also expected to be significant. The mediating effect will be given by (ab). Thus, there will be a partial mediation if after the inclusion of AC, the effect free cash flow on financial performance reduces; and there will also be a complete mediation if after the inclusion of the mediator, the effect turns out to be zero.

FP=f (FCF, firm age, size, board size, board independent, audit committee size, managerial ownership and liquidity) ---------- (1)

FP=f (AC_TATO, AC_OPE, AC_INT , firm age, size, board size, board independent, audit committee size, managerial ownership and liquidity)----------(2)

AC_TATO/AC_OPE/AC_INT= f(FCF, firm age, size, board size, board independent, audit committee size, managerial ownership and liquidity)----------(3)

FP= f (FCF, AC_TATAO, AC_OPE, AC_ INT, firm age, size, board size, board independent, audit committee size, managerial ownership and liquidity) ----------(4)

$FP_{it}=\beta_0+\beta_1 FCF_{it}+\lambda_2 Age_{it}+ \lambda_3 Size_{it}+ \lambda_4 Bs_{it}+ \lambda_5 Bi_{it}+ \lambda_6 Acs_{it}+ \lambda_7 Mown_{it}+ \lambda_8 Ltd_{it} +e_{it}$----------(5)

$FP_{it}=\beta_0+\beta_1 AC_{it}+\lambda_2 Age_{it}+ \lambda_3 Size_{it}+ \lambda_4 Bs_{it}+ \lambda_5 Bi_{it}+ \lambda_6 Acs_{it}+ \lambda_7 Mown_{it}+ \lambda_8 Ltd_{it} +e_{it}$----------(6)

$AC_{it} =\beta_0+\beta_1 FCF_{it}+\beta_2 Age_{it}+ \lambda_3 Size_{it}+ \lambda_4 Bs_{it}+ \lambda_5 Bi_{it}+ \lambda_6 Acs_{it}+ \lambda_7 Mown_{it}+ \lambda_8 Ltd_{it} +e_{it}$---------(7)

$FP_{it}=\beta_0+\beta_1 FCF_{ti}+\beta_2 AC_{it} +\lambda_2 Age_{it}+ \lambda_3 Size_{it}+ \lambda_4 Bs_{it}+ \lambda_5 Bi_{it}+ \lambda_6 Acs_{it}+ \lambda_7 Mown_{it}+ \lambda_8 Ltd_{it}$------(8)

Where: FP_{it} = Financial performance for company$_i$ in period$_t$

FCF_{it} = Free Cash Flow for company$_i$ in period$_t$

$TATO_{it}$ = Total Asset Turn Over for company$_i$ in period$_t$

OPE_{it} = Operating Expenses for company$_i$ in period$_t$

INT_{it}= Interest Expenses for company$_i$ in period$_t$

Age_{it}= Age for company$_i$ in period$_t$

$Size_{it}$= size for company$_i$ in period$_t$

BS_{it}=Board Size for company$i$ in period$t$

BI_{it}=Board Independent for company$i$ in period$t$

ACS_{it}=Audit Committee Size for company$i$ in period$t$

$MOWN_{it}$=Managerial Ownership for company$i$ in period$t$

LTD_{it}=Liquidity for company$i$ in period$t$

e= Error Term

β_{0it}-$\beta_{7it=}$ Regression coefficient of independent variables

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λ_1-λ_2= Regression coefficient of control variables.

Result and Discussion

This presents and interprets the regression results of the study, as shown below:

Table 1 displays the regression result on free cash flow and financial performance (ROA). The result shows a statistically significant relationship between the dependent and independent variables (P value <.001), which confirms the fitness and reliability of the model. The P-value is 0.0000 and the F-statistic value is 5.55, implying that the model is fit and significant at the 1% level of significance. The results show that the cumulative R^2 of 0.0260. The multiple coefficient of determination (R^2 of about 3%) gives a percentage of the total variation in the financial performance explained by explanatory variables jointly. Thus, it signifies that about 3% of total variance in financial performance of listed consumer goods companies in Nigeria is caused by FCF, age, size, BS, BI, ACS, MOWN and LTD while 97% is as a result of other variables not considered in the model. On the test of Hypotheses 1, which states that free cash flow has no significant impact on financial performance of listed consumer goods companies in Nigeria, the result presented in Table 1 provides sufficient statistical evidence that free cash flow has a significant impact on performance. Thus, hypothesis 1 of the study is hereby rejected.

Further, the result reveals a positive and statistically significant effect of free cash flow on financial performance (ROA) (P value = 0.068). The first condition for mediation has been fulfilled, which, as stated by [14] and [15], the relationship between independent and dependent variables must be significant. This result establishes that free cash flow has a positive and significant influence on financial performance (ROA). This is in line with the assumption that a higher free cash flow leads to higher return on asset. The finding of this study is in line with [7], [16], and [17], who obtained a positive and significant relationship between FCF and FP. However, [18] used Tobin's q; [19] used profitability and [13] used cash flow ratios instead of ROA to represents their financial performance. On contrary some scholars found negative relationship between free cash flow and financial performance like [20], [21] and [21] who argued that, higher free cash flow lead to lower return on asset because managers will invest the resources in poor or non-profitable projects.

The researcher believed that these findings depend on the background, market environment, sample determination, variable selection and other factors. Also, the formula for calculating free cash flow is not uniform and may lead to different findings and conclusion. The implication of findings is that there is a need for consumer goods companies to adopt the practice of generating free cash flow through the high sale; also the firms should review their dividend policy payment to encourage the availability of free cash flow in an organization, as revealed by the Model. Furthermore, the result is consistent with Jensen's "agency theory" that says higher free cash flow make managers to invest in a projects with positive net present value indicating positive relationship between the variables which can yield performance.

Table 1: Regression Result on Free Cash Flow and Financial Performance (ROA)

Variables	Coefficient	T-value	Prob.
Constant	-42.162	-1.91	0.058
FCF	3.314	1.84	0.068
Age	-0.870	-3.19	0.002
Size	8.342	2.20	0.029
BS	-0.023	-0.05	0.959
BI	0.039	1.04	0.301
ACS	0.896	0.80	0.423
MOWN	0.076	0.63	0.530
LTD	7.101	4.35	0.000

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R^2	0.0260
F-statistic	5.55
Prob.	0.0000
Observation	162

Source: STATA 14 output, 2019

Table 2 displays the regression result on agency costs (AC_TATO) and financial performance (ROA). The P-value (<.001) indicates fitness and reliability of the model to show a statistically significant relationship between the dependent and independent variables. The results show that the overall R^2 of 0.1242, which signifies that 12% of the total variation in financial performance (ROA) of listed the consumer goods companies in Nigeria is caused by AC_TATO firm age, size, BS, BI, ACS, MOWN and LTD, while 88% of the variation is as a result of other variables not considered in the model. On test of Hypotheses Two that states agency costs has no significant impact on financial performance of listed consumer goods companies in Nigeria, the t-statistic and the P-values of agency costs as presented in Table 2 suggest that agency costs has a significant impact on ROA. The null hypothesis is rejected.

The results as shown above indicates that AC_TATO has a statistically significant positive effect on financial performance (p-value <0.001). This implies that a 1% increase in AC_ TATO leads to an 8.9% increase in ROA of the companies. AC_TATO and ROA are moving in the same direction as predicted by [7]. This relationship suggests that a firm with higher assets turnover has a higher level of return on assets. This is as a result of the argument of[23], who postulated that managers tend to invest lavishly when they have excess cash and hence purchase assets beyond their needs. It also implies that whenever assets turnover is high, companies perform better in obtaining profit. Though the free cash flow hypothesis postulates that agency costs have negative relationship with financial performance [24], yet in this case there is a positive relationship. The finding is in line with that of [7], [25], [8] and [9] who observed positive relationship between agency costs and financial performance.

Furthermore, from regression result, it can be observed that agency costs (AC_OPE) and financial performance (ROA) the P-value indicate fitness and reliability of the model to show statistically significant relationship between dependent and independent variables. The results show an overall R^2 of 0.1046, an indication that approximately 11% of the total variation in the ROA of listed consumer goods companies in Nigeria is caused by AC_OPE, firm age, size, BS, BI, ACS, MOWN and LTD while 89% of the variation is as a result of other variables not considered in the model. The F-statistics of 10.85 and P-value (<.001) indicates that the model is fit and significant at the 5% level of significance and the variables were properly selected and combined.

The result reveals negative relationship between AC_OPE and ROA and is statistically significant at 1% level (p-value <.001). It also implies that AC_OPE influence ROA in the opposite direction, meaning an increase in operating expenses will lead to a decrease in ROA of consumer goods companies in Nigeria. Free cash flow hypothesis suggests a negative relationship between agency costs and financial performance [24]. The variable AC_ OPE representing agency costs is able to influence financial performance in the same way as predicted by the theory. Managers exhibit opportunistic behavior in the presence of excess cash at the detriment of the shareholders, which leads to agency conflict, thus increasing agency costs. This result is in line with the findings of [7], [25], [8] and [9], who found a negative relationship between agency costs and financial performance.

The regression result on agency costs (AC_INT) and financial performance (ROA) revealed a P-value of 0.0000. This indicates the fitness and reliability of the model, which show a statistically significant relationship between the dependent and independent variables. The results show a cumulative R^2 of 0.075 Thus, it signifies that 8% of the total variation in the ROA of the listed consumer goods companies in Nigeria is caused by AC_INT, age, size, BS, BI, ACS, MOWN and LTD while 92% is accounted for by other variables not considered in the model. The p-value of <.001 and the F-statistic of 10.05 show that the model is fit and significant at 1% level of significance and the variables were properly selected and combined.

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Furthermore, the result reveals a statistically significant negative effect of AC_INT on ROA (P-value<.001) For this reason, the second condition for mediating the effect of agency costs on the relationship between free cash flow and financial performance has still been achieved [13]. This result indicates that ROA increases with decrease in AC_INT. The agency theory suggests a negative relationship between agency costs and financial performance [4]. The agency cost represented by interest expenses is able to have effect on financial performance in the same manner as predicted by Agency Theory. The implication of findings is to reduce agency costs by encouraging managerial ownership in firms, it also provided support for the agency theory that agency costs lead to lower performance of an organization, as revealed by the model .

Table 2 Regression Result on Agency Costs and Financial Performance

Variables	**AC_TATO**			**AC_OPE**			**AC_INT**		
	Coeff.	**T-val.**	**Prob.**	**Coeff.**	**Z-val.**	**Prob.**	**Coeff.**	**Z-val.**	**Prob.**
Constant	-120.9	-5.63	0.000	-28.356	-1.26	0.209	-81.362	-3.87	0.000
AC	8.907	6.18	0.000	-0.572	-5.45	0.000	-0.558	-4.99	0.000
Age	-1.007	-3.83	0.000	-0.518	-1.78	0.077	-1.260	-4.60	0.000
Size	19.511	5.35	0.000	7.182	1.88	0.063	15.757	4.27	0.000
BS	-0.149	-0.34	0.736	-0.088	-0.19	0.847	0.000	0.00	0.999
BI	0.007	0.19	0.851	-0.007	-0.18	0.856	0.036	0.94	0.349
ACS	-0.901	-0.79	0.430	0.342	0.30	0.764	0.430	0.37	0.709
MOWN	0.051	0.46	0.648	0.028	0.25	0.806	0.028	0.24	0.812
LTD	10.471	6.45	0.000	9.646	5.86	0.000	6.555	3.84	0.000
			0.1242			0.1046			
R2			12.27			10.85			0.0752
F-Statistic			0.0000			0.0000			10.05
Prob.			168			168			0.0000
Observation									168

Source: STATA 14 output, 2019

Table 3clearly shows R^2 of 0.179 (18%), which signifies the total variation in AC_TATO is caused by changes in FCF, age, size, BS, BI, ACS, MOWN and LTD of the consumer goods companies in Nigeria. This signifies that the model is fit and explanatory variables are carefully selected considering the p-value of 0.0000 and F-statistic of 9.74 Result reveals positive relationship between free cash flow and AC_TATO, which is statistically significant at 1%. The result satisfies the third condition required in testing mediation, which prescribes that there must be a significant relationship between the independent and the mediating variables [14]. It further implies that the relationship between the dependent and independent variable is not by mere chance, as the outcome and the inferences made from the findings could be relied upon by 99.9%. The agency costs theory predicts that companies having excess cash flow encourage the management to invest in projects with negative NPV. The finding is in line with free cash flow hypothesis, as posited by [6]. The idle cash available to management's discretion tends to result in a situation where its decisions on how to utilize the excess cash, which ends up incurring agency costs to the firm. The more the excess cash at the manager's disposal, the more likely the management is in pursuing activities that are sub-optimal for the firm's wellbeing. The finding is consistent with that of [7], [26], [27] and [9], who established positive relationship between AC_TATO and FP.

On the relationship between FCF and agency cost (AC_OPE), the R^2 of 10%, as shown in Table 3, signifies the total variation in AC_OPE caused by changes in FCF, age, size, BS, BI, ACS, MOWN and LTD of consumer goods companies in Nigeria. This confirms that the model is fit and the explanatory variables are carefully selected considering the p-value of 0.0000 and F-statistic of 9.74.

From the results, free cash flow has a significant negative effect on AC_OPE, indicating that the higher the FCF, the lower the agency costs (p-value <.001) .This result also satisfies the condition for mediation (Baron & Kenny,

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1986) that the relationship must be significant. This relationship suggests that free cash flow generated is due to management's operational efficiency, such that there is a negative relationship between free cash flow and AC_OPE. The finding is inconsistent with that of Wang (2010) and Khidmat and Rehman (2014) that document a negative relationship among the variables.

The result in Table 3 shows a negative but insignificant effect of free cash flow on agency costs (AC_INT). This indicates the higher the free cash flow, the lower the agency costs. The findings provide evidence that even if shareholders have the capacity to finance a business entity with equity, they will still prefer to employ debt because of the debt covenants hypothesis relationship, which leverage creates by: (i) monitoring mechanism, which implies getting a third party to monitor the managers and (ii) financial discipline, which arises as a result of payment of meeting debt obligation, failure to meet such target can lead to bond holders forcing for liquidation. The implication of this finding provided support for agency theory and free cash flow hypothesis that availability of free cash flow at the discretion of the managers leads to an increase in agency costs. The regulator should ensure that free cash flow in consumer goods companies should be guided by certain policies on how to use it, when to use it and where to use it for safety, effective and efficient use by the managers. As revealed by the result of the model.

Table 3 Regression Result on Free Cash Flow and Agency Costs

Variables	**AC_TATO**			**AC_OPE**			**AC_INT**		
	Coeff.	**Z-val.**	**Prob.**	**Coeff.**	**Z-val.**	**Prob.**	**Coeff.**	**Z-val.**	**Prob.**
Constant	6.601	5.78	0.000	60.096	3.68	0.000	-17.268	-0.99	0.322
FCF	0.436	4.66	0.000	-7.872	-5.89	0.000	-1.596	-1.12	0.264
Age	-0.006	-0.41	0.680	0.974	4.81	0.000	-0.286	-1.33	0.186
Size	-0.841	-4.28	0.000	-8.621	-3.07	0.003	4.491	1.50	0.135
BS	0.004	0.19	0.849	0.026	0.08	0.939	0.230	0.65	0.519
BI	0.002	1.24	0.217	-0.062	-2.22	0.028	-0.002	-0.08	0.937
ACS	0.172	2.96	0.004	-0.556	-0.67	0.503	-0.638	-0.72	0.470
MOWN	0.002	0.29	0.769	-0.102	-1.14	0.257	-0.094	-0.99	0.324
LTD	-0.279	-3.30	0.001	2.395	1.98	0.050	-3.608	-2.80	0.006
R2			0.1802			0.1025			0.0146
F-Statistic			9.74			9.74			1.88
Prob.			0.0000			0.0000			0.0672
Observation			162			162			162

Source: STATA 14 output, 2019

Table 4 shows the R^2 of 0.1148 for Model (eqn) i, 0.0710 for Model ii, and 0.0545 for Model iii, which signifies that total variation in financial performance (ROA) is as a result of changes in free cash flow, agency costs, age, size, BS, BI, ACS, MOWN and LTD of the listed consumer goods companies in Nigeria. In each of the Models, the p-values are less than .001, and F-statistic of 11.57, 9.66 and 8.96 thus confirming their fitness.

The result establishes a partial mediating effect of agency costs on the relationship between free cash flow and financial performance. Before introducing the mediating variable (agency costs), the relationship between free cash flow and financial performance is positive and significant at 10% with a coefficient value of 3.3, but after introducing the mediating variable, free cash flow and financial performance have a negative and an insignificant relationship (P-value= 0.595, coefficient 0.899), which signifies that FCF has positive insignificant impact on ROA and the mediating variable AC_TATO is positive and significantly impacting on the ROA of the listed consumer goods in Nigeria, hence resulting in partial mediation.

Further, the result of AC_OPE as a mediator reveals a partial mediating effect on the relationship between FCF and ROA. Before the introduction of the mediating variable, the relationship between FCF and ROA is positive and significant with a coefficient value of 3.3 and a 10% level of significance but after mediation FCF and ROA have a

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negative and insignificant relationship with a coefficient value of -1.356, which signifies that FCF has a negative impact on ROA and the relationship is statistically insignificant. More so, the mediating variable AC_OPE has a negative and statistically significant with ROA at the 5% level of significance. Furthermore, AC_INT reveals a partial mediating effect on the relationship between FCF and ROA of the listed consumer goods in Nigeria. Before the introduction of the mediating variable, the relationship between FCF and ROA was found to be positive and significant at 10% level of significant, but after introducing the mediating variable, the FCF and ROA have positive and insignificant relationship with a coefficient value of 2.4, which signifies that FCF have positive impact on ROA and the relationship is insignificant while the mediating variable, AC_INT, is negative and significantly impacts on ROA at the5% level of significance. The implication of this finding is for regulators and researchers; the study has been able to look at free cash flow and financial performance from a different direction by introducing a mediating variable. This would add to the existing body of knowledge within the purview of the subject matter and also will help the regulators in adjusting policies and making sound decisions by laying down some rules and regulations guiding using free cash flow by the managers in listed consumer goods companies in Nigeria in carrying out their businesses in an efficient and effective way.

As reported by Baron and Kenny (1986), mediation can only take place when the four conditions are satisfied, that is, (i) the independent variable significantly affects the dependent variable, (ii) the mediator has a significant effect on the dependent variable (iii), the independent variable significantly affects the mediator, (iv) the effect of independent variable on the dependent variable should be absorbed by the mediating variable upon it inclusion in the model. Satisfying the four conditions above determined the mediation as full or complete while satisfying any 2 or 3out of 4 conditions above determines the mediation to be partial. Contrary to this opinion, [8] is of the view that the determination of mediation as full or partial by [14] is outfaced and should not be based on significance or non-significance. To him, once the mediation occurred to determine the full or partial mediation, it has to be stated in terms of zero and non-zero coefficients, not in terms of statistically significant as opine by [14]. This is because trivially small coefficients can be statistically significant with large sample sizes and very large coefficients can be insignificant with a small sample size. The steps should not be defined in terms of being statistical significance. Statistical significance is informative, but other information should be part of statistical decision making.

Given the preceding position, full mediation is based on zero and non-zero coefficient, which is very rare. No matter what the coefficient is, it should not be zero; rather it should reduce to a certain level because getting full or complete mediation is rare. Therefore, in this study there is partial mediation, since all the four conditions of mediation had been satisfied and the coefficient has reduced from the initial model on the direct relationship between independent and dependent variables but not to zero level when a mediator was introduced.

Table 4 Regression Result on Free Cash Flow and Financial Performance: Mediating Variable of Agency Costs

Variables	**AC_TATO**			**AC_OPE**			**AC_INT**		
	Coeff.	**T-val.**	**Prob.**	**Coeff.**	**T-val.**	**Prob.**	**Coeff.**	**T-val.**	**Prob.**
Constant	-105.91	-4.96	0.000	-6.510	-0.31	0.755	-51.182	-2.53	0.012
FCF	-0.899	-0.53	0.595	-1.356	-0.74	0.458	2.481	1.50	0.137
AC	9.657	6.73	0.000	-0.593	-5.69	0.000	-0.522	-5.25	0.000
Age	-0.814	-3.43	0.001	-0.292	-1.10	0.274	-1.019	-4.06	0.000
Size	16.465	4.70	0.000	3.228	0.91	0.362	10.687	3.06	0.003
BS	-0.066	-0.17	0.866	-0.008	-0.02	0.985	0.097	0.23	0.815
BI	0.016	0.48	0.635	0.002	0.07	0.946	0.037	1.10	0.274
ACS	-0.762	-0.76	0.448	0.569	0.56	0.574	0.566	0.55	0.582
MOWN	0.058	0.56	0.580	0.016	0.14	0.886	0.027	0.24	0.809
LTD	9.798	6.65	0.000	8.523	5.71	0.000	5.217	3.40	0.001

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R2	0.1148	0.0710	0.0545
F-Statistic	11.57	9.66	8.96
Prob.	0.0000	0.0000	0.0000
Observation	162	162	162

Source: STATA14 output, 2019

Conclusion and Recommendations

Based on the analyses and the results obtained from the study, the followings are the conclusions:

A resultant increase in free cash flow will leads to an increase in financial performance of listed consumer goods companies in Nigeria. This means that an increase in free cash flow will lead to an increase in financial performance, also, availability of free cash flow allow managers to search opportunities that increase financial performance of the companies.

Increase in agency costs (total asset turn over) leads to an increase in the financial performance of the listed consumer goods companies in Nigeria. Agency costs (operating expenses ratio and interest expenses ratio) has adverse and significant relationship with financial performance. The positive relationship between agency costs (total asset turn over) and financial performance indicated that the more the assets turn over the better the companies preform in obtaining profit. Agency costs (operating expense ratio and interest expenses ratio) leads to a decrease in financial performance this is as a result of managers' opportunistic behavior in managing resources of an organization.

Free cash flow has a positive and significant relationship with the agency costs (total assets turn over) of the listed consumer goods companies in Nigeria. Free cash flow at the discretion of managers leads to agency costs. Agency costs (operating expenses ratio and interest expenses ratio) affect free cash flow in the opposite direction that the higher the free cash flow the lower the agency costs. Effective and efficient utilization of free cash flow reduces agency costs of listed consumer goods companies in Nigeria. The effect of free cash flow on financial performance with agency costs as a mediator of listed consumer goods companies in Nigeria is insignificant. That agency costs can partially mediate the relationship between free cash flow and financial performance.

The study recommends that, shareholders of listed consumer goods companies in Nigeria through their board of directors should enact policies that will ensure encouraging keeping free cash flow at the discretion of the managers so that financial performance will increase the reason is that there are some conservatives that did not allow managers to use their opportunistic behavior. This could be achieving by following the suggestions of agency theory that free cash flow should be invested in a positive NPV projects which could be done by way of discovering viable investment opportunities through research and development.

The managements of listed consumer goods companies in Nigeria should find a way of laying down rules and regulations that will ensure avoidance of keeping free cash flow at managers' discretion so that agency costs will be minimized. This could be achieved by following suggestions of free cash flow hypothesis paying it out as dividend or committing the firms in to more financial obligations which requires periodic interest payments.

Management of listed consumer goods companies in Nigeria should frame policy in such a way that exceptions can be made to cater for a free-reign provision for the managers to make decision on the free cash flow level, but only where managers have significant stakes in the firm and there is reasonable confidence that they will make the best use of the free cash flow in such a way that will result to reduce agency costs level of the firm. This may be good for firm in as much as these managers are experts on the timing for investment, opportunities available and can identify profitable investment.

The regulators should ensure that the companies adhere to strict policy ensure house level of practice of code of corporate governance and make sure they monitor the available cash at the discretion of the managers because conservatives are present to use their opportunistic behavior in managing the free cash flow at the detriment of the shareholders. Agency costs can partially mediate relationship between free cash flow and financial performance.

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Also, creditors must make sure they introduce debt covenant hypothesis that will regulate managerial behavior by restricting them from making unnecessary investment or selling particular assets.

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