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CORPORATE BOARD MEETINGS AND COMPANY PERFORMANCE: EMPIRICAL EVIDENCE FROM NIGERIAN QUOTED COMPANIES

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Abstract

Most literatures on corporate governance concentrated much on board composition or size as a measure of involvement in monitoring management, while another dimension of board oversight such as board meetings is ignored. This study examined the relationship between frequency of board meetings and company performance using a sample from 79 companies listed on the Nigerian Stock Exchange from 2010 to 2012. The result shows that the board meetings, directors` equity and board size are negatively significant. Audit committee meetings are positively significant while gender diversity and board age are not significant measured with ROE.

Keywords: board meetings, audit committee meetings, directors` equity, company performance.

1. Introduction

In Nigeria, the issue of corporate governance and its best practice is still generating heat especially since the financial crises and the collapse banks, private and public corporations in the past decades. Companies like Leventis Plc, Nigerian Coal Corporation, Asaba Textile Industry, Kaduna Textile Industry all failed because of poor corporate governance (Modum, Ugwoke,& Oniyeanu, 2013). Since ever the collapse of the financial institutions in Nigeria, many researchers like (Sanda, Mikalu & Garba 2005; Kajola 2008; Babatuned & Olaniran, 2009; Semiu & Temitope, 2010) conducted research on corporate governance mechanisms and firm performance in the country. Other researchers examined the effectiveness of audit committee reporting in Nigeria (Okoye & Cletus, 2010; Owolabi & Ogbechia 2010; Madawaki & Amran 2013). None of these studies explored the relationship between board meetings and company performance. Board of directors is appointed by shareholders to oversee the affairs of the company and monitor management on their behalf. For the board of directors and its sub-committees to fulfill its function of monitoring management, boards must frequently meet . Boards that frequently meet have time to set strategy and monitor management (Vafeas, 1999). They are likely to perform their duties in the best interest of the shareholders. On the other hand, frequent meetings result in waste of managerial time, increase financial burden in terms of travel expenses and sitting allowance. Routine tasks also absorb most of the meeting without adequate time left for outside directors to exercise control over the management. According to Vafeas (1999) board meeting, are not useful because outside directors have limited time for meaningful exchange of ideas among themselves. Most corporate governance literatures focused on the size and composition of the board as a measure of it involvement in company financial performance without considering the important of board meetings. Therefore, this study is to examine the relationship between board meetings, audit committee meetings, board size, gender, age, equity and company performance in Nigeria where there is limited empirical evidence. In filling this gap, this study contributes to the literature on board meetings and company performance. The remainder of this paper is structured as follows; section 2 reviews related literature during section 3 discusses data and methodology. Results and discussion are presented in section 4, and section 5 concludes.

2. Literature Review

This portion discusses related literature on board characteristics and company performance. To makes it simple, it is categorized into: company performance, board of directors meetings, audit committee meetings, board size, board age, board equity and gender.

2.1 Firm Performance

Companies through good system of internal governance improve its operations, and at the same time provide useful information to shareholders (Hsiang-Tsai et al., 2005). Studies have shown that good corporate governance directly affect corporate performance. It is evidenced that good corporate governance directly related to company performance. Black, Jang and Kan (2002) found that the company with a good system of corporate always reported better financial performance than those without good corporate governance. Jensen and Meckling (1976) share the same opinion that good corporate governance system result in high financial returns. On the other hand, Daily and Dalton (1994) believe that poor corporate governance may likely result in bankruptcy while good corporate governance helps to increase investor`s confidence.

The previous researchers on corporate governance use different dimension to measure company performance. For example, Klein (1998) uses return on assets (ROA) and Lo (2003) uses return on equity (ROE) as performance indicators. Although other studies have used return on equity, in this study too, return on equity (ROE) is used as performance indicator. This indicator has severally been used by many researchers to examine the effect of board characteristics and company performance. (Heravi et al., 2011; Sanda et al., 2005; Haslindar & Fazilah, 2011; Dagsson, 2011). The use of ROE allows investors to assess how effective companies manage resources to generate income for the shareholders. It is also attractive to shareholders.

2.2 Board Meetings

Every director is expected to attend all board meeting such attendance is one of the criteria for the re-nomination of a director except where there are cogent reasons that the board must notify the shareholders of at annual general meeting (AGM) (SEC 2006). For board to effectively perform its oversight function and monitor management performance, the board must hold a regular meeting. Measuring the intensity and effectiveness of corporate monitoring and discharging is the frequency of board meetings (Jensen 1993). There are mixed views about the effect of board meetings and corporate performance. One supporting point is that the frequency of board meetings is a measure of board activities and effectiveness of its monitoring ability (Conger et al. 1998 and Vefeas 1999) frequent board meetings can result in higher qualities of management monitoring that in turn impact positively on corporate financial performance (Ntim, 2009). Conger et al. (1998) suggest that the board meeting be important resource in improving the effectiveness of the board. It helps directors to be informed and keep abreast with the development with the organization (Mangena & Tauringana 2008). Regular meetings also allow directors to sit and strategize on how to move the organization forward.

According to Lipton and Lorsch (1992) regular meetings enable directors to interact thereby creating and strengthening cohesive bonds among them. However, the opposing view of board meetings is that it is costly in terms of travel expenses, refreshments and sitting allowance to be paid to directors (Vafea, 1999). Board meetings are not necessarily useful because the limited time outside directors meet is not used for meaningful exchange of ideas among themselves and management (Jensen 1993) instead preoccupied with routine tasks and meetings formalities. This reduces the amount of time the board has to monitor management (Lipton & Lorsch 1992).

Empirical findings on the effect of frequent board meetings and corporate performance show mixed results. Vafeas (1999) reports a statistical significance and negative association between frequency board meetings and corporate performance. He also finds that operating performance significantly improves following a year of abnormal board activity. Karamandu and Vafeas (2005) find a positive association between frequency board meeting and management earnings forecasts, using a sample of 157 firms in Zimbabwe from 2001-2003; Mangena and Tauringans (2008) report a positive relationship between the frequency of board meetings and corporate performance. Similarly in a study of the sample of 169 listed corporations from 2002-2007 in South African, a statistical significant and positive association between the frequency of board meeting and corporate performance exist (Ntim & Osei 2011). This implies that the board of directors in South Africa that meet more frequently tend to generate higher financial performance. Another study conducted on public listed companies in Malaysia using five years data 2003 to 2007 of 328 companies, shows that the higher the number of meetings the worse the firm performance. (Amram, 2011).

2.3. Audit Committee Meetings

Audit Committee is one of the subcommittees that are established by the companies with the responsibility of supplying the assurance on financial and compliance issues. Its role includes choice and monitoring of accounting principles and policies, overseeing appointment, dismissal of external auditors, monitoring internal control process, discussing risk management policies and practice with management and overseeing the performance of internal audit function.

In Nigeria, the audit committee is considered as a committee of representatives of both directors and shareholders charged with the responsibility to review the annual statements before being submitted to the board of directors. Audit committee that is active is expected to provide a monitoring mechanism that can improve the reliability and financial reporting of the company. In order to achieve this, must frequency of meetings. Advantages of meeting frequently are; it gives board time to oversee the financial reporting process, identify management risk, provides reliable information to shareholders through proper monitoring of internal control system (Anderson, Mansi, Reeeb, 2004).

Empirical evidence on the relationship between audit committee meetings and company performance are mixed. Anderson et al. (2004) found that the frequency of audit committee meeting reduced cost of debt. Hus (2007) found a positive relationship between audit committee and firm performance. Abbott, Parker, Peters (2004) posited that the audit committee that meets frequently reduced the possibility of financial fraud while Beasley, Carcello, Hermanson, Lapides (2000) found fraudulent earnings with fewer audit meetings.

2.4 Board Size

The number of directors on the board both executive and non-executive is referred to as board size. There are two types of board size - small size and large size. The day-to-day running of the company is the sole responsibilities of board of directors. Therefore, the size of the board could have a significant impact on the performance of the company. At the moment, there are different opinions as to which board size is the better.

Large board size encourages diversity in skills, gender, experience and race of board members (Dalton & Dalton, 2005). One disadvantage of a large board is that it slows down decision making process (Yermack, 1996). When the board is large, it resulted in time consuming and meaningless discussion (Lipton & Lorch, 1992). Moreover, large board can be less efficient (Hermalin & Weisbach, 2003). This also supports the view of Cheng (2008) that it is difficult to organize a meeting and reach agreement quickly with large boards. It can easily be manipulated when it comes to performance assessment of top management (Dalton, Daily, Johnson & Ellstrand, 1999). Also, large board increases agency cost or monitoring expenses, poor communication and co-ordination and all directors may not be carried along (Lipton & Lorsch, 1992; Jensen, 1993). However, another school of thought believes that a small board size positively affect company's performance. Jensen (1993) argued that organizations support smaller board size in order to cut down cost. Smaller boards bring members closer together, easily reach and more easily able to reach consensus (Dalton et al., 1999). It reduces the possibility of free-riding and is more effective at monitoring top managers due to lower co-ordination costs. The disadvantage of small boards is that it lacks the spread of expert advice and opinion. The question one may ask now is "what should be ideal board size?" Lipton and Lorsch (1992) propose an ideal board size to be between seven and nine directions. Board size should be of significant size in relation to company's operations. According SEC (2006) board of directors should be selected in such a way that it will maintain its independence,

integrity and also the ability of members to attend meetings. Jensen (1993) is of the opinion that the maximum board size should be between seven and eight directors. For instance, the mean board size in studies conducted by Yermack (1990) was 12.25% and 16.8% in Cornett, Hovakimian, Palia and Tehranian (2003).

The issue of board size and corporate performance was empirically tested by many researchers with mixed findings. Yermack (1996) using a sample of 452 large US industrial corporations found a negative association between board size and company's value. Another study conducted by Eisenbery, Sundgren and Wells (1998) on small and medium size Finnish firms also found an inverse relationship between board size and profitability. On the other hand, Dalton et al. (1999) found non-zero positive relationship between company performance and board size.

In the same vein, Hermalin and Weisbach (2001) opined that board size corporate performance has a negative relationship. On the other hand, Bhagat and Black (2002) found no association between board size and company performance. Bonn, Yokishawa and Phan (2004) comparing between Japanese and Australian firms, found an inverse relationship between board size and company performance for Japanese firms but found no correlation between them in the case of Australian companies.

However, large board size was found to be positively corrected with company performance in a study conducted by Mak and Li (2001) on 147 Singaporean companies but not supported by regression results. Also, the study of Adam and Mehran (2005) using US financial institutions found a positive association between board size and performance (measured by Tobin's Q). Dalton and Dalton (2005) meta-analysis reported a relationship between larger board's size and company performance which is a direct opposite of an earlier meta-analysis result by Dalton, Daily and Johnson, (1999).

2.5 Age Diversity

Board members age diversity means a good number of young directors and older directors on the board. Age diversity is most helpful when the task at hand is at a complex nature. Complexity according to Dagsson (2011) is defined as a strong demand for complex decision making. When board of directors is faced with complex problems ideas from young and older directors put together can dissolve the complex problem. Age diversity has the potential to enhance board performance, because directors of different ages will have different background, skills, experience and social networks (Dagsson, 2011).

New generation directors have access to information and are better informed while the older generations directors have business experience. Carter, D`Sonda, Simkins and Simpon (2010) argue that "diversity holds the potential to improve the information provided by the board to managers due to the unique information held by diverse directors". Appointing young directors on the board, the board's aggregated human and social capital can be maximized. Boards with older directors negatively affect company performance because they are not willing to accept change easily or implement new strategies (Nguyen et al., 2012). Hambrick and Mason (1984) argue that young managers and always ready to undertake risky venture. Interestingly, companies with young managers experienced higher growth than their counterpart older manager. Also, young managers have a tendency not to accept status quo, but willing to accept new ideas (Cheng et al., 2010).

However, few studies examine the association between board age and financial performance. The outcome of these investigations reports different results. Age diversity significantly and positively affects corporate performance when measured by ROA (Dagsson, 2011). Kilduff et al. (2000) report a significant positive correlation between marketing performance and board age. Aravat et al. (2010) find a positive significant relationship between corporate performance and age of directors on the board when measured by Return on Equity (ROE) but not by Tobin Q. There is a positive relationship between company's performance and the mean age of directors on board (McIntyre et al., 2007). This means that young directors on board correlate positively with companies` financial performance. On the other hand, Eklund et al. (2009) in their study of Swedish companies find no significant effect of board members on Tobins Q in Swedish market.

2.6 Director`s Equity Ownership

There are mixed views about board equity ownership. A director who owns substantial equity in the company he serves might be disqualified from being independent (Bhabra, 2003). With such shares, he earns a status of 'affiliate.' Affiliate means a person who controls and control is defined as the power to direct control. Independent directors should own shares but not substantial. It should not be more than 0.01% of the total paid up capital of the company, and the detail of such holdings must be disclosed in the annual reports of the company (SEC, 2006).

Many researchers are of the opinion that director equity ownership is an incentive to enable directors effectively and efficiently monitor managers (Brickley et al., 1988). Booth et al. (2002) argues that when directors own shares in the company, they are less likely to take actions that would reduce shareholders wealth rather take decisions that will impact both their wealth and that of the shareholders. Studies on the impact of director's equity ownership and firm performance show a significant relationship between substantial director`s share ownership and better monitoring (Bhabra et al., 2003). Bhagat, Carey and Elson (1998) also report significant correlation performance because equity ownership creates better management monitoring on the part of the board and hence improved results.

2.7 Gender Diversity

The issue of women on board is gaining attention globally. Gender composition of the board of directors is one current governance issue facing corporate organization today. It is a common problem that women are likely to be marginalized in terms of appointment into a position of high responsibility. Many countries that are not satisfied with the percentage of female representation on the board, therefore, require a minimum level. Many attempts are being made by many nations in order to have equal representation of different people and groups in the workplace. For example, Norway and Sweden imposed gender quota on boards of directors (Rondoy, Oxelheim & Thomsen, 2006). Also, United States and Australia have established Equal- Opportunity Commissions (Salim, 2011). This commission is imposing a

form of gender quota on major public companies. The United States Securities and Exchange Commission new rule mandated listed companies to consider diversity in board appointment (Upadhyaya & Puthenpyrackal, 2013). In developed and developing countries women, representation on the board is low. The percentage of women in the workplace in United Kingdom (UK) is estimated to be 12%, United States (US) 15.4% and Australia 10.7% (Salim, 2011).

Research conducted on the effect of gender diversity and corporate performance in developed countries include United States (Carter, Simkins & Simpson, 2003), Netherlands (Marinova, Plantenga & Remery, 2010), and some Scandinavian countries (Randoy, 2003). Research in developing countries include Salim (2011) using Indonesian listed companies, Ararat, Akus and Cetin (2010) using Turkey data and Marimuthus (2008) using Malaysian data.

3. Data and Method

This study adopts a cross-sectional research design and quantitative approach method as suggested by previous study (Creswell, 2009). Data for this research work were taken from the companies yearly reports particularly those that are listed in the Nigerian Stock Exchange from 2010 to 2012. These reports were collected from company`s websites, NSE offices and NSE website. Information relating to the characteristics of the board were extracted from the financial statements including the annual reports of the companies that participated in this study. The sample size of the study was 79 companies from the total of 119 companies. Out of these numbers 29 companies belonging to financial institutions (banks) were excluded because of the nature of their financial reporting leaving the total population at 90. The sample size of this study was determined using Krejice and Morgan (1970) rule of thumb with reference to the sample size table. Out of the 90 companies, 79 companies were selected using convenience random sampling technique. This technique has been used by other researchers to select sample for their studies (Al-Khateeb, & Dahalin, 2013; Lin et al., 2010). It makes it easier to obtain sample units that are most conveniently available. The following criteria were applied to select the sample; availability of complete annual report for the period under study and the company must have been actively listed throughout the time. In this study were measured company performance is measured by Return on Equity (ROE), board meeting- the total number of meetings held during the period, audit committee meeting – the number of meeting during the year, board size – the number of directors on the board, gender – number of women directors divide by the total number of directors on the board, board age – the percentage of young directors between the age of 25 and 50 years on the board, director`s equity – proportion of the number of share held directors to the total shares in the company. The model for study is as follows:

$CP = \beta_0 + \beta 1BSIZE + \beta 2BMEET + \beta 3AMEET + \beta 4BAGE + \beta 5BGEND + \beta 6EQUITY + \varepsilon$

4. Results and Discussion

4.1Descriptive Statistics

Examining the model, the proportion of variation of the variables in predicting ROE is 0.117 and adjusted R- square 0.94 which explains the explanatory capacity of board meetings on company performance. The statistical analysis also indicates that the model is significant as evidence by F statistics of 5.089 at $p < 0.01$ for ROE. (see table 1)

Table 1. Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.342[a]	.117	.094	52.01665

a. Predictors: (Constant), EQUITY, AMEET, BGEND, BMEET, BAGE, BSIZE

b. Dependent Variable: ROE

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82623.694	6	13770.616	5.089	.000[b]
	Residual	622318.336	230	2705.732		
	Total	704942.030	236			

a. Dependent Variable: ROE

b. Predictors: (Constant), EQUITY, AMEET, BGEND, BMEET, BAGE, BSIZE

4.2 Descriptive Statistics

Table 2 : Descriptive Statistics

Descriptive Statistics				
	N	Maximum	Mean	Std. Deviation
ROE	237	578.11	9.3993	54.65384
BSIZE	237	15.00	9.0253	2.06653
BMEET	237	12.00	4.7764	1.47169
AMEET	297	6.00	3.2694	1.01418
BAGE	237	60.00	7.9051	12.12392
BGEND	237	40.00	10.2222	8.92439
EQUITY	237	76.32	15.3696	20.92751
Valid N (listwise)	237			

Based on the sample size of 79 companies selected the value of mean and standard deviation of all variables shown in table 2. The ROE mean is 9.4 while standard deviation is 54.65 signifying positive performance of the sampled companies in Nigeria. The mean board size is 9 persons; board meeting is 5 meetings while audit committee meeting is 3

meetings. Board age mean is 7.9 meaning that about 8% of the directors are between 25 and 50 years of age while 10% of directors are women and 15% of the total shares are held by directors.

4.3 Correlation Analysis

Table 3 : Correlation Results

	ROE	BSIZE	BMEET	AMEET	BAGE	BGEND	EQUITY
ROE	1						
BSIZE	-.187**	1					
BMEET	-.139*	.154*	1				
AMEET	.097	.308**	.047	1			
BAGE	-.099	-.204**	.018	-.225**	1		
BGEND	.084	-.107	.032	.005	.177**	1	
EQUITY	-.125	-.170**	-.163*	-.121	.204**	.128*	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The aim of correlation analysis is to detect whether there exist a relationship among variables and also if there is multicollinearity problem. According to Tabachnick & Fidel (2007), this problem exists where correlation between independent variables exceed 0.9. There is no problem of multicorrelinearity in this study as none of the variables is found to be more than 0.5. So the distribution is normal.

4.4 Multiple Regression Analysis

Table 4: Coefficients

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	73.135	20.703		3.533	.000
BSIZE	-6.499	1.776	-.246	-3.660	.000
BMEET	-5.056	2.362	-.136	-2.140	.033
AMEET	6.979	3.398	.136	2.054	.041
BAGE	-.451	.298	-.100	-1.512	.132
BGEND	.616	.390	.101	1.581	.115
EQUITY	-.431	.170	-.165	-2.542	.012

a. Dependent Variable: ROE

Table 4 shows the result of the multiple regression analyses. The findings for board size show a negative significant relationship with company performance. This negative relationship, when measured with ROE, is in line with the finding of Bonn, Yaokishawa and Phan (2004). They found board size negatively correlated with company performance in Japanese companies as measured by market-to-book ratio and return on assets for Japanese listed companies. This negative correlation means that a large board size reduces the return on shareholders' equity, as a result, of increased expenses. This also supports a finding by Jensen (1993) that large board increases agency cost and monitoring expenses. Another implication of the negative relationship between board sizes is that firms cannot improve their financial performance by increasing the directors on its board as increase board size means increased financial commitment on the part of the company. Companies have to make large payments to retiring board members and other financial benefits. Board meetings have negative significant relationship with company performance. This is consistent with Vafeas (1999) that reports a statistical significance and negative association between frequency board meetings and corporate performance. This means that the frequency of meetings reduced shareholders earnings as company incurred more financial expenses in terms of sitting allowance, travelling expenses, hotel accommodation and entertainment during meetings.

Audit committee meetings have a positive significant relationship with company performance. Hus (2007) also found a positive relationship between audit committee and firm performance. This implied that the frequency of audit

committee meetings gives board time to oversee the financial reporting process of the company and also monitor internal control system of the company. The finding for directors` equity is negatively significant, meaning that directors' shareholdings do not affect the company performance positively. Shareholding is not the only way to align the interest of directors with that of the shareholders. Other methods such as a financial bonus, good welfare package, family insurance scheme and non-financial such as vacation, public recognition and adequate control can be employed to handle the agency problem than using shareholdings. Findings on gender and age diversity are not significant. The insignificant relationship of gender with company performance is, as a result, of a small number of women on board. According to the descriptive statistics result only 10% of women are represented on the board, this percentage is too small to make any meaningful impact.

5. Conclusion

The study examined the relationship between board meetings and company performance. It was found that board meetings negatively and significantly relate with company performance during audit committee meetings positively and significantly relate with company performance. On the other hand, board size and equity are also found to be negative and significant with company performance. These results are consistent with previous studies. A limitation of this study is that, data was based on 3 years period which not good enough, therefore; future study to consider a longer period of 5 years and above in order to get a better result than this.

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