



BOARD MEETING FREQUENCY AND FIRM PERFORMANCE: EVIDENCE FROM NIGERIA

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ABSTRACT

The purpose of this study is to examine the effect of frequent board meetings on firm performance of listed firms in Nigeria. The study utilized panel data regression analysis of 560 firm-year observations, from the year 2011 to 2020. Data were extracted from annual reports of 56 sampled non-financial services firms, listed on the Nigerian Exchange Group (NGX). We find that board meeting frequency is positive and is significant in affecting firm performance in Nigeria. We find no basis to associate improvement in firm performance with board size. These findings have policy implications for regulatory agencies. It means board meetings' current average of 4 times per year for Nigerian firms should at least be sustained, if not increased. Future studies could examine whether board meetings held virtually could improve firm performance. Those studies could further investigate the indirect effect of board meetings on firm performance. Such studies could also explore other corporate governance variables, like the geographical location of board members, board members on other firms' boards, and foreign directors.

Keywords: Firm performance, board Meeting frequency, board size, ROE, firm size

1. INTRODUCTION

Firm performance is the most important singular economic indicator of companies' ability in utilizing their resources. Financial ratios like return on equity (ROE), and return on asset (ROA) among others, are used as proxies to determine firm performance (Eluyela et al., 2018). Besides, there is literature evidence of several determinants of this performance outcome, and one of them is the frequency of board meetings (Eluyela et al., 2018; Puni & Anlesinya, 2020). Board meetings remain an important activity for firm effectiveness, and their frequency has continued to sustain interest in the literature (Kouaib et al., 2020). The Nigerian



corporate governance regulations provide that board meeting frequency takes place at least four times a year - with a sitting in each quarter. But does that enhance firm performance? In this study, we attempt to answer this question, specifically for listed non-financial services firms in Nigeria.

Motivated by a series of corporate governance regulatory interventions, and the increase in literature, as well as change in board meetings, held virtually, we examine how board meetings affect firm performance. Board meeting frequency is determined by the number of meetings held in a year by board members. Board meetings are means for effective consensus and harmony of opinions aimed at achieving organizational objectives. Boards that frequently meet have time to set strategies and monitor management (Vafeas, 1999).

This study focuses on Nigeria because corporate governance issues are still hot, and are of great interest to policymakers, practitioners, and academics. Accordingly, the issues have continued to dominate the corporate discourse, following the recent release of the Companies and Allied Matters Act (CAMA) 2020 and the Nigerian Code of Corporate Governance (NCCG) 2018 (Akinleye et al., 2019).

The purpose of this study is to examine the practice of board meetings in Nigeria as stipulated in the NCCG and its relationship with the firm performance. Specifically, this study examines the nexus between the frequency of board meetings and firm performance. In this study, we find that board meeting frequency as a corporate governance mechanism enhances firm performance in a manner that is consistent with the agency theory.

The remainder of this paper is as follows: section 2 is the literature review and hypotheses development. In section 3 we present the methodology. This is followed by the results and discussion in section 4, and section 5 is the conclusion and recommendation.

2. REVIEW OF RELATED STUDIES

This section is a critical, conceptual, and theoretical review of literature relevant to this study. It discusses related literature on firm performance, board meetings, the board size, and firm size. These give the theoretical basis to develop the hypotheses of the study. The write-up also utilised the agency theory to explain our outcome.



Firm Performance

Firm performance is a profitability measure of how well resources are utilized. It serves as the basis on which companies fundamentals are evaluated by investors. From the investors' perspective, firm performance are in form of return on asset (ROA) and return on equity (ROE) (Albawwat et al., 2020; Puni & Anlesinya, 2020). Specifically, the return on equity measures a firm's profitability by indicating how much profit a firm earns with shareholders' funds (Khatab et al., 2011). It is a hybrid measure of firm financial performance because it has the feature of both profit (accounting-based) and equity (market-based). Yet, ROE is not just a profit measure, it measures efficiency as well. It is an indication of how well the directors deploy shareholders' capital. This study utilises ROE for these reasons.

Corporate governance literature used several dimensions to measure firm performance. For example, Albawwat et al. (2020) utilised ROA (which is accounting-based), Khatab et al. (2011) used ROE (which is also accounting-based), and others (Eluyela et al., 2018; Puni & Anlesinya, 2020) used Tobin's Q (which is market-based) as performance indicators, and some others (Kafidipe et al., 2021; Palaniappan, 2017) a combination of all. However, the use of ROE allows investors to assess firms' resource management in generating income, as this measure is easily understood by shareholders in the market.

Board Meeting Frequency

Board meeting frequency is a measure of board activities, effectiveness, and efficiency in its monitoring role. It helps corporate boards to keep abreast with the developments both within and outside the firm. Regular meetings afford the board to strategize and plan financial-wise. Although, a cost-benefit analysis of board meeting frequency shows the benefits are more than costs such as sitting allowances, travel expenses, and meeting expenses (Puni & Anlesinya, 2020), the frequency of board meetings has no relationship with shareholder value maximization (Vafeas, 1999).

Results are mixed about the effect of board meeting frequency on firm performance. Hossain and Oon (2022) find that more frequent board meetings give rise to better firm performance in Indonesia but not in Germany. Similarly, board meeting frequency positively and significantly affects firm performance (Sial et al.,



2018). In contrast, Albawwat et al. (2020) and Qadorah and Fadzil (2018a), and Qadorah and Fadzil (2018b) found no significance in the relationship. This stance is asserted by Hanh et al. (2018) who conclude that board meeting only becomes frequent when financial performance is poor. And that the frequency of board meetings does not improve financial performance. Moreover, the result may be because frequently organised meetings lead to the high cost of energy, travelling expenses, and other incidental meeting expenses. Therefore, firms suffer losses because these costs reduce profits ultimately affecting firm performance. On the basis of the foregoing argument, we hypothesize as follows:

H₁: Board meeting frequency is significant and positively affects firm performance of listed companies.

Board Size

Board size denotes the number of directors on a corporate board. The nexus between board size and firm financial performance is premised on a major perspective, the agency theory (Saleh & Islam, 2020). The agency theory holds that larger boards potentially lead to a higher conflict of interest, in terms of decision-making, and slow down the process. It can also be time-consuming in a lengthy meaningless discussion. Notwithstanding, a large board size encourages diversity in skills, gender, and experience, and encourages firm performance (Koji et al., 2020). Meanwhile, a small board size cuts down costs, minimizes the possibility of free-riding, and can better monitor top managers because of lower coordination costs. Yet, small boards lack the spread of expertise and opinions. Board size should proportionally reflect the firm's strategic needs and operations.

There are inconsistencies in the findings of the relationship between board size and firm performance. Puni and Anlesinya (2020) find that board size has a significant positive impact on financial performance. And in some cases board size, though positive, was insignificant (Eluyela et al., 2018). On the other hand, Kafidipe et al. (2021) reported a negative nexus between board size and firm performance. These inconsistencies might be due to regulatory specificities and differences.

Firm Size

Puni and Anlesinya (2020) posit that firm size has the potential to significantly affect firm performance. Firm size is usually measured in terms of total assets as well as in terms of total sales. It is a known fact that larger firms earn higher



profits, and vice versa. But, when these profits are measured against shareholders' equity, the return on each share determines the profitability of the firm.

Empirical evidence shows mixed results on the relationship between firm size and firm performance. Firm size was found to be positive and significantly associated with firm performance (Koji et al., 2020). Again, firm size has a significant and positive relationship with return on equity (Palaniappan, 2017). On the contrary, firm size had a negative and significant effect (Eluyela et al., 2018).

Agency Theory

The agency theory is premised on the relationship between principals and the agents which necessitates the separation of ownership from control of a business. This is necessary because there is a conflict of interest. The conflict between the principal and agent happens if the incentive structure imposes personal costs on the agent if the actions taken maximizes the principal's objective without benefit to the agent. However, frequent board meetings can potentially improve firm performance by providing opportunities to assess and recommend policies initiated by management, which help mitigate agency costs and conflicts of interest (Puni & Anlesinya, 2020). Agency issues arise when the actions of the agent and the expectations of the principal are at variance. These agency problems should serve as a clarion call to shareholders, regulatory agencies, and all stakeholders (Eluyela et al., 2018).

3. METHODOLOGY

Research Design

This study employs the quantitative research approach in a panel data regression analysis technique. We pooled observations in both cross-sections and time series for several firm-years (Baltagi, 2005). Panel study allows for measuring the pattern of change and obtaining factual information requiring collection regularly. Data were extracted from the annual financial reports and accounts of the listed non-financial firms in the Nigerian Exchange Group (NGX). We further excluded firms from the services, and the ICT sectors, reducing our sample to 56 firms. We employ Stata 15 statistical package in running our regression analysis. The study utilized 560 firm-year observations, from the year 2011 to 2020.



Consistent with Puni and Anlesinya (2020), we carried out diagnostic tests. We showed a descriptive statistic of all the variables, and a correlation analysis to determine the strength of relationships among the variables to detect whether multicollinearity exists. The dependent variable is firm performance proxied by return on equity. The independent and control variables are board meeting frequency, the board size, and firm size. Table 1 below shows the measurement of variables.

Table 1
Variable Measurement

Variable name	Variable acronym	Variable type	Measurement	Source
Return on equity	ROE	Dependent	Net income divided by equity	Khatab et al. (2011)
Board meeting frequency	LBMF	Independent	Natural log of the number of meetings held by the board in a financial year	Eluyela et al. (2018)
Board size	BFSIZE	Control	Total number of board members	Kyere and Ausloos (2021)
Firm size	LFSIZE	Control	Natural log of total assets	Kyere and Ausloos (2021)

Model Specification

The model utilized in this study is described below. It was adapted from the works of Eluyela et al. (2018), as follows:

$$ROE_{it} = \alpha_0 + \beta LBMF_{t-1} + \beta BFSIZE_{t-1} + \beta FFSIZE_{t-1} + \epsilon_{t-1}$$

Where;

ROE = Net income divided by equity

LBMF_{t-1} = Lagged value of log of board meeting frequency

BFSIZE_{t-1} = Lagged value of Board size

LFSIZE_{t-1} = Lagged value of log of firm size

0 = Parameter coefficient

ε_{t-1} = Lagged value of error term

i = denotes firms specific

t = denotes the deterministic time trend



4. RESULT AND DISCUSSION

Descriptive Statistics

Utilising panel data analysis of a static model, we examine the relationship between frequent board meetings and firm performance. The descriptive statistics are presented in Table 2.

Table 2
Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
ROE	560	-.4355	.8177	.1615	.2214	.5353	3.221
LBMF	560	.6931	2.197	1.515	.2999	-.6840	3.416
BSIZE	560	4.00	15.00	8.885	2.250	.4518	2.762
LFSIZE	560	4.762	14.56	9.568	2.024	.0520	2.225

Source: Stata 15 output

In Table 2, we present the summary statistics of the variables under consideration. The result shows that ROE has a mean of 0.1615 with values ranging from -0.4355 to .8177. The standard deviation is .2214. Also, ROE has an average of 16%, meaning that for Nigerian listed firms to perform well they must have an average return on equity of 16%. The minimum ROE is -43% which shows that some of the firms perform poorly, while the maximum ROE is 81% which signifies that some of the firms perform excellently by maintaining their ROE far above the industry average. The standard deviation is .22 showing the level to which Nigerian firms can vary their ROE.

Board meeting frequency has maximum and minimum values of 2.197 and .6931 respectively with an average value of 1.515. Frequent board meetings have an average of 51% representing the average number of meetings held on board in a year. This means that for the board of directors in Nigerian firms to influence or affect performance positively it should have an average meeting of 51%. The Board Size has an average value of 8 with minimum and maximum values of 4 and 15 respectively. This means that the level to which the board of directors on board can increase or reduce is by 4 directors. The minimum number of directors on board in listed firms in Nigerian is 4. This shows that some firms have directors below the average on their board. The maximum number of directors is 15. The standard



deviation of frequent board meetings is 29%, representing the extent to which board meetings vary. Firm size has a mean value of 9.568 with a standard deviation of 2.024 while the minimum and maximum are 4.762 and 14.56 respectively.

Correlation Analysis

Table 3 contains the correlation output between the dependent (ROE) and the explanatory variables (Board Meeting Frequency, Board Size, and Firm Size) as well as between the explanatory variables themselves.

Table 3
Correlation Matrix

	ROE	LBMF	BSIZE	LFSIZE
ROE	1.00			
LBMF	.242*	1.00		
BSIZE	.118*	.232*	1.00	
LFSIZE	.191*	.292*	.457*	1.00

Source: Stata 15 output at 5% significance

Table 3 shows a positive relationship between board meeting frequency (LBMF) and Return on Equity (ROE). This means that the correlation coefficient, though low at 0.242 affects firm performance. However, Board size (BSIZE) correlation with ROE shows a coefficient of 0.118. That implies higher board size leads to lower firm performance, and vice versa. This points to the fact that larger boards are more difficult to coordinate and may experience problems with communication and organization. As such, smaller boards are more effective in ensuring decisions are promptly taken to enhance favourable performance. Similarly, Firm size (LFSIZE) indicates a low correlation with ROE having a coefficient of 0.191. This means that the higher the equity held by Nigerian firms the lower the firm performance and the lower the size of the firms the higher performance. This signifies that Nigerian firms might be holding redundant equity thereby putting pressure on the firms' profit resulting in poor performance of such firms.

Regression Result of Board Meeting and Firm Performance

This section presents and discusses the result between the independent variables and the dependent variable. Our diagnostics tests indicate that fixed effect is appropriate for our analysis as the hausman specification test gives 0.0094 value,



which is lower than the 0.10 level. The skewness values (-0.68 to 0.53) and kurtosis (2.2 to 3.4) in Table 2 are within the normality range (Hair et al., 2019). The variance inflation factor (VIF) is 1.24 indicates no multicollinearity, and the Breusch-Pagan test of 0.1657 shows no heteroscedasticity.

Table 4
Regression Results

Variables	Coefficient	t-stats	p-values	Collinearity VIF
Board meeting frequency	0.084	1.97	0.050**	1.11
Board size	0.000	0.03	0.976	1.28
Firm size	0.077	4.79	0.000***	1.33
Mean VIF				1.24
Number of observations	560			
Number of groups	56			
F-statistics	10.11			
R ²	0.16			
P-Value	0.0000			

Source: Stata 15 output

Note: ***, **, and * is significant at the 0.01, 0.05, and 0.1 levels.

In Table 4, the result indicates that board meeting frequency affects firm performance positively at 0.050 significance. This is consistent with the findings of Palaniappan (2017), at 0.047 significance. This implies that board meetings are an important aspect of board activity. The average board meetings per year of Nigerian firms which stood at 4 at the moment should be maintained. Contrariwise, the result also indicates that board size with a coefficient of 0.976 has insignificant effect on firm performance. It means board size does not improve the firm performance of listed firms. The table also shows that firm size has a positive and significant effect on the firm performance of the firms with a p-value of 0.000 which is statistically significant in determining firm performance. This result shows that any increase in firm size affects firm performance. The coefficient of determination shows a value at 0.16 indicating that our explanatory variables explain up to 16% of the variation in firm performance of listed companies in Nigeria, while the remaining 84% are covered by other factors not accounted for by the combined effect of the explanatory variables. Finally, the f-statistics of 10.11 significant at 0.000 shows the model fitness.



5. CONCLUSION

This study examines the relationship between board meeting frequency and firm performance of listed non-financial services firms in Nigeria. From our results, frequent board meeting is positive and significantly affect firm performance. It means that board meeting is a key determinant of firm performance, as major policy decisions are usually taken during meetings (Hossain & Oon, 2022). Regular and timely board meetings are essential to a firm's efficiency and effectiveness (Altawalbeh, 2020). This claim is asserted and supported by the works of Boshnak (2021) where he suggested that corporate governance regulations should recognise the role of more frequent board meetings. The result provides an empirical support in which the agency theory implies that a board that meets frequently increases its ability for effective monitoring and control, thereby improving firm performance.

This study contributes to existing literature on the effect of corporate board on firm performance. Further studies could examine whether board meetings held virtually improves firm performance. Such studies could also explore other corporate governance variables, such as the geographical location of board members, board members on other firms' boards, and foreign directors. And, board meeting frequency can serve as a moderator in corporate governance research (Palaniappan, 2017).

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