BOARD OF DIRECTOR MEETING AND FIRM PERFORMANCE

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ABSTRACT

Evaluating the board meeting of the board of director is the way to measure the effectiveness of work effort of the board director in monitoring and advising the company. This study aims to find the impact of board of director meeting, the board of director join meeting with executives, the board of director meeting attendance, and board of director join meeting attendance on firm performance. The data used in this study consisted of 135 companies during 2013 - 2016. The panel data method used to analyze the model. The findings reveal that the board of director meeting has a positive impact on market value based performance and the board of director meeting attendance has a positive impact on accounting-based performance. Thus, this research found the crucial role of monitoring activities through board meeting in the agency theory.

Keywords: The Board of Director Meeting, Meeting Attendance, Executive Meeting, Executive Meeting Attendance, Firm Performance.

INTRODUCTION

The implementation of good corporate governance in Indonesia is entirely new. The government employs the regulation in the bank industry in 2006 and the recent regulation released in 2013 (Bank Indonesia, 2006; Pusat Riset dan Edukasi Bank Sentral, 2013). In addition, the regulation of capital market decreed the companies to conduct the board of director meeting at least once per 2 (two) months and join meeting between the board of director and executive at least once per 4 (four) months (Financial Service Authority, 2016). Then, the studies for developing the implementation of corporate governance in many sectors is still relevance in Indonesia.

The concept of good corporate governance will be related to the agency theory (John & Senbet, 1998). In this theory, the stakeholder will spend agency cost to keep agents doing the best interests of the principal, including monitoring cost due to limit unwholesome actions by the agent, bonding costs to ensure the agent will not take actions that harm the principal, and residual costs because of some differences between decisions made by agents with the best decisions that will maximize the richer of the principal (Jensen & Meckling, 1976). Moreover, It is noted that monitoring activities and incentives for an agent are crucial for the company to achieve the goals (Madison et al., 2015). However, it will be difficult to unite the desires between principal and agent due to the differences risk attitude in making a business decision between stakeholder and agent (Tan, 2014).

This study will propose one way of monitoring the agent through the board of directors meeting. As it is mentioned in previous research that evaluating board meeting is one of the effective ways to examine the board attribute effectiveness (Conger et al., 1998). Board meeting is also important for helping the directors to obtain the information and the development within the company (Eluyela et al., 2018). Moreover, it is mentioned that the way to identify director behavior and work effort is to examine the board meeting attendance (Chou et al., 2013).

Regarding the impact of board meeting on firm performance, it is mentioned that the annual number of board of director meeting is an inverse impact on firm value (Vafeas, 1999). The abnormal monitoring by board indicates the poor performance of the firm in the previous year that will improve the firm performance next year (Brick & Chidambaran, 2010). However, some research found a positive impact of the board meeting on firm performance (Abdul Gafoor et al., 2018; Buchdadi & Chou, 2017; Chou et al., 2013; Eluyela et al., 2018; Liang et al., 2013).

This study will make a confirmation study on examining the board of director meeting association to the firm performance. This study is also important for evaluating the regulation of Indonesia government that ask the number of meeting of the board of directors. Furthermore, this study will be one of the pioneers in examining the impact on the board meeting for manufacture companies in Indonesia. It will also help to develop corporate governance implementation in emerging countries.

LITERATURE REVIEW

One of the first study examining the impact of the board meeting on firm performance was conducted in 1999 using data 307 firms over 1990-1994 (Vafeas, 1999). The findings show the inverse relation between the number of the board meeting and firm value. It is noted that the increases in board activity due to the poor performance of recent years. Then, the next year firm performance will be better than the previous year. In addition, the research on insurance in Thailand indicated that more meeting times of the board increased the cost of management, thus, decreasing the profitability ratio (Petchsakulwong & Jansakul, 2018).

However the recent study found the positive impact of the board meeting and firm performance, such as the number of meeting will enhance the performance of 36 commercial banks in India (Abdul Gafoor et al., 2018), the number of board meeting also will improve the performance of 15 banks in Nigeria over 2011-2016 (Eluyela et al., 2018), and for the data of 50 largest Chinese banks over 2003-2010, it is implied that the number of board meetings have significantly positive impacts on the bank performance. Moreover, the research regarding the attendance of board of director found that the attendance level of the board meeting on the performance of Taiwanese listed corporations (647 and 661 firms in 2006 and 2007) can enhance a firm’s performance (Chou et al., 2013). In addition, the recent study on 38 listed banks in Indonesia over 2013-2015 the attendance level of the board meeting on small banks have a positive impact on accounting-based performance. Yet, the findings were not found on the big asset banks nor market value-based performance.

Inspired to the finding of previous research as well as to make confirmation research on manufacture industry in an emerging market, we will examine the impact of the number of the board meeting and the attendance level of the board meeting on firm performance.

METHODOLOGY

Data and Regression Techniques

Data is obtained from the Jakarta Stock Exchange with company samples recorded during 2013-2016. This research also conducts a series of preliminary tests such as Pearson's correlation test, heteroscedasticity test, and autocorrelation test. Regarding the panel regression method, the Chow test and Housman test will also be conducted.

Variables

This study will used Return on Asset (ROA) for accounting-based performance and Tobin’s Q for market value based performance as it commonly used in the recent study in good corporate governance (Abdul Gafoor et al., 2018; Brick & Chidambaran, 2010; Chou & Buchdadi, 2018; Liang et al., 2013; Petchsakulwong & Jansakul, 2018) (Table 1). For the Board Meeting (BM) and the board of director-executive joint meeting, the number of the annual meeting per year is used following the previous research (Brick & Chidambaran, 2010). Moreover, the meeting attendance is measured by summing all people present at the meetings.

In this research company size (LN Asset) will be used as a control variable considering that this variable is widely used in similar (Al-Najjar, 2014; Black & Kim, 2012; Chou & Buchdadi, 2017; Duru et al., 2015; Eluyela et al., 2018; Liang et al., 2013; Makhlouf et al., 2018; Mashayekhi & Bazaz, 2008; Müller, 2014; Zhu et al., 2016)

Equation Model

The model compiled in this study:

$$ROA=\alpha+\beta 1\times BEM+\beta 2\times BEMA+\beta 3\times LN\ (Asset)+\varepsilon \quad (1)$$

$$ROA=\alpha+\beta 1\times BM+\beta 2\times BMA+\beta 3\times LN\ (Asset)+\varepsilon \quad (2)$$

$$Tobins'\ Q=\alpha+\beta 1\times BEM+\beta 2\times BEMA+\beta 3\times LN\ (Asset)+\varepsilon \quad (3)$$

$$Tobins'\ Q=\alpha+\beta 1\times BM+\beta 2\times BMA+\beta 3\times LN\ (Asset)+\varepsilon \quad (4)$$

Variables Definition

Table 1
DEFINITION OF VARIABLES

Variable	Definition
Return on Assets (ROA)	The ratio between income and company assets.
Tobin's Q	The ratio between the company's market value and the book value of the company.
Board of Directors Meeting (BM)	Number of the board of director meetings per year (Brick & Chidambaran, 2010).
Board of Directors-Executive joint meeting (BEM)	Number of the board of director-executive joint meetings per year (Chou et al., 2013).
The presence of the board of Directors meeting (BMA)	The number of people present in all meetings a year.
The presence of a board of Directors and executives	Total number of people in all joint meetings a year.

joint meeting (BEMA)	

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics are presented in the following Table 2 which shows a summary of each data in this study:

Table 2
DESCRIPTIVE STATISTICS

Item	N	Average	St. Dev	Maximum	Minimum
Company Performance					
Tobin's Q	540	1.93	2.67	24.43	0.06
ROA	540	0.04	0.12	0.80	-1.28
Variable for Good Corporate Governance					
Board of Directors Meeting (BM)	422	6.19	5.22	32	1
Attendance of the Board of Directors Meeting (BMA)	422	23.49	21.01	181	2
Joint Board of Directors Meeting (BEM)	276	5.46	3.63	28	1
Attendance of the Joint Board of Directors Meeting (BEMA)	276	45.78	45.05	478	7

(Source: Data processed)

The data used in this study consisted of 135 companies during 2013-2016. The number of data obtained was different as some of the annual reports do not provide the whole data needed. Then, the data processing will use the unbalanced panel regression. In addition, the performance of the company based on market value (Tobin’s Q) has a higher standard deviation than the accounting based performance.

The data shows that companies on average conducted the Board Meeting (BM) 6.19 times a year. In accordance with the regulation of Indonesia Capital market that listed companies have to conduct Board Meeting (BM) once every 2 months (6 times per year). The data shows that most of the manufacture companies (55.45%) only conducted less than 6 (six) meeting per year. Perhaps, the companies still try to adjust pursuing the recent regulation in 2014 regarding the number of board of director meeting. It is also noted that companies in the metal industry such as Alumindo Light Metal Industry, Tbk., Indal Aluminum Industry, Tbk., and Krakatau Steel Tbk. conducted the board meeting that was quite intense, around 30 times per year.

Meanwhile, the companies conducted the board of directors joint meeting in vary from 1 to 28 per year. On average, the companies conducted the board of director-executive join meeting (BEM) was 5.46 a year. The regulation that the companies have to conduct the join meeting (BEM) once every 4 months (3 times per year). As most of the company (92%) conducted the board of director-executive join meeting (BEM) at least 3 (three) times per year, it seems the companies already utilize the joint meeting in their operation implementation.

Data Analysis

The results of the multicollinearity test show that the variable variables used in this study are free from this phenomenon. This is obtained by referring to the results in Table 3 where the Pearson's correlation value is smaller than the value of 0.9.

Table 3
MULTICOLLINEARITY TEST

	Tobins Q	ROA	BMA	BM	BEMA	BEM
Tobins Q	1					
ROA	0.449159	1				
BMA	-0.01608	0.026601	1			
BM	-0.0602	-0.02977	0.869276	1		
BEMA	0.215303	0.176733	0.292924	0.205025	1	
BEM	0.172853	0.119856	0.264192	0.332639	0.829856	1

(Source: Data processed)

Data Analysis

Regression results from each model are presented in the following Table 4.

Table 4
REGRESSION RESULTS

Test results	Model 1 (Y=ROA)	Model 2 (Y=ROA)	Model 3 (Y=Tobins' Q)	Model 4 (Y=Tobins' Q)
N	224	312	224	312
Model	Fixed	Fixed	Fixed	Fixed
Constants	-0.4763 (-1.21)	0.0103 (0.10)	**39.5907 (3.68)*****	2.2019 (0.79)
BEM	-0.0067 (-1.27)	-	(-0.1177) (-0.81)	-
BEMA	0.002 (0.70)	-	0.0088 (0.92)	-
BM	-	-0.0036 (-1.55)	-	**0.1598 (2.45)****
BMA	-	**0.0013 (2.51) ****	-	**-0.0281 (-1.91)***
Ln (Asset)	0.0207 (1.40)	0.0011 (0.29)	**-1.395 (-3.47)*****	0.0027 (0.02)
R Square	0.86	0.88	0.87	0.90
F test	**7.50*****	**11.06*****	**8.23*****	**13.91*****
Notes: *p<0.10; **p<0.05; ***p<0.01				

(Source: Data processed)

This research contributes to discovering the critical role of the Board of director Meetings (BM) on company performance. The number of Board of director Meetings (BM) will significantly improve company performance based on market value. Then this finding support Brick & Chidambaran (2010) that found that only Tobin’s Q will be higher when board monitoring is higher, but it does not impact on ROA. The findings also support the previous research in Banking industry that found the positive association of board meeting and bank performance (Buchdadi & Chou, 2017; Eluyela et al., 2018). The result also does not support the argument that more board meeting will increase the monitoring cost that reduces the profitability (Petchsakulwong & Jansakul, 2018) and also gives a bad signal in the capital market (Vafeas, 1999).

While the attendance level of the board of director meetings (BMA) significantly improves company performance based on accounting ratios. Thus this study supports the previous findings that board meetings and their attendance levels had a positive impact on company performance. This finding supports the argument that the better quality of the meeting will have an impact on firm performance. Chou et al. (2013) mentioned that the board of director have to attend the meeting for the better quality of the board meeting. However, our findings for the meeting attendance were not robust due it was only statistically significant on accounting-based performance.

Finally, this study could not found evidence of the impact of the joint board of Director Executive Meeting (BEM) on the performance. The result also shows that the attendance rate of the board of directors and executive board (BEMA) joint meetings did not have a significant effect on the company's performance. It seems it will need more research in confirming the result due it is one of the pioneer in examinig the director-executive meeting variable.

CONCLUSIONS

The conclusions that can be taken in this study are confirmation of the importance of the role of control in agency theory which is measured by the board of director meetings on company performance. This study found that the number of Board of director Meetings (BM) will significantly improve company performance based on market value. While the attendance level of the board of director meetings (BMA) significantly improves company performance based on accounting ratios. Thus, the better the control carried out by the board of director the better the performance of the company. Then, It implies to suggest the government to keep the regulation regarding the required number of the board meeting per year and embody the required attendance of the member of the board of director in the meeting.

However, this research still has several limitations that are expected to be improved in the future. The first thing in this study is to combine all manufacturing sectors in one model. Future research is expected to group manufacturing sectors considering the characteristics of companies in each sector are different. Furthermore, the future study has to use lag performance to confirm the argument that the board meeting will positively be associated with future performance. So, the comprehensive description of the implementation of good corporate governance in emerging will be acquired.

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