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Does Board Characteristics Enhance Firm Performance? Evidence from Palestinian Listed Companies

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Abstract: This study examines the effects of board characteristics and firm performance. The board characteristics are the board gender diversity, the board size, frequency of meetings held during a year by the board of directors and the board financial knowledge.
Design/methodology/approach – Based on panel data of 150 observations from non-financial firms listed on the Palestine Security Exchange (PSE) during the period from 2011 to 2016. This study utilises panel data to examine the effect of the predictors on firm performance. The analysis was repeated after using Random-effect and Fixed-effect analysis to make sure that the main results are robust and accurate.
Findings – The results show that the larger the board size the better firm's performance. Moreover, the frequency of meetings is found to be positively associated with firm performance. Likewise, the board financial knowledge has a positive relationship with firm performance. However, the result does not find any relationship between the board gender and firm performance. Overall, the results suggest that board's effectiveness tend to improve firms' performance. **Originality/value** – The study is timely given that the board of directors play pivotal roles in determining the performance in term of monitoring and controlling. The prior research in Palestine has not investigated the effect of board gender diversity. As such, Palestine has not established a legal quota of minimum female representation on boards, and because of it, the country has weak women's representation among firms. It therefore becomes a necessity to examine the influence of board gender diversity on the financial performance of listed firms in Palestine.

Keywords: Board Meeting; Board Financial Knowledge; Firm Performance

1. Introduction

One of the top crucial internal governance mechanisms used for monitoring and controlling organizational management among managers and to safeguard the interests of stakeholders is the board of directors (BOD). It is used for monitoring the firm's strategic plans and ensuring that management is working towards achieving the aims of the organization. There are several corporate governance codes that have been established all over the world that advocates the board of director's service as an active and committed entity that is responsible to ensure that firms have good corporate governance. In relation to this, the Palestinian Corporate Governance Code (PCCG, 2009) states the empowerment of the BOD to function as the establishers of good governance and required its members to serve in achieving the firm's aims and objectives, which in turn, will improve firm performance. As such, to understand the BOD characteristics becomes a necessity in determining how they can impact the performance of firms. Therefore, this study fills the literature gaps by focusing on the board gender diversity, board size, board meetings, and board financial knowledge, more specifically in Palestine where literature of the kind is lacking (Saleh, Abdul Latif & Abu Bakar, 2018a). Globally, these issues have been widely studied, however, an in-depth study requires in the context of Palestine to examine which board characteristics could improve a firm's performance, taking into account that the political and economic issues that facing countries like Palestine

may have a tremendous impact on the application of corporate governance, which could provide different results (Ararat, El-Helaly & Shehata, 2017; Saleh, Abdul Latif & Abu Bakar, 2018c).

With regards to diversity of board gender, Norway is considered as the pioneering country to require the minimum female representation level in the public firms' corporate boards, with a quota of 40% (Hoel, 2008), following which other countries set up their own quota in different levels. For instance, Spain and France require a minimum level of 40% female representation in board of large listed firms, while Italy and the Netherlands require a minimum of 30% (De Cabo, Gimeno & Nieto, 2012). Notably, such quotas and average representations are increasing in Europe and the whole world.

In the Malaysian context, the women's role in the country's development has been acknowledged by the government by issuing a ruling in June 2011, establishing a 30% minimum level of decision-making positions in the corporations to women in the hopes of achieving diversity of gender in corporate governance structures (The Star Online, 20 Nov 2016). The premise that advocate corporate governance positions for women assume that higher representation of women enhances the performance of the firm. But previous evidence shows that the relationship between female representation and the performance of firms are still few and far between, with some researchers reporting a positive relationship between the two variables (Adams, 2016; Christiansen, Pereira & Topalova, 2016), and other reporting a lack of relationship (Rose, 2007).

Studies dedicated to this topic have been carried out mostly in developed nations, with just a few focusing in developing ones. In the Palestinian context, the relationship between women's presence in corporate governance structures and firm performance has been generally ignored. As such, Palestine has not established a legal quota of minimum female representation on boards, and because of it, the country has weak women's representation among firms. Based on the data collected from the listed firms' annual reports, during 2011-2016, women only represented 9% of the boards, making Palestinian boards biased against women. It therefore becomes a necessity to examine the influence of board gender diversity on the financial performance of listed firms in Palestine. The findings of such examination can assist policy makers to set up suitable policies on the representatives of females on corporate boards.

Moving on to board size, two varying perspectives exist on the board size-firm's performance relationship. The first is, according to the agency theory, the larger the size of the board, the higher will be the conflicts-of-interest in decision making (Fama & Jensen, 1983), while the second relates to the resource dependence theory. The resource dependence theory assumes that the bigger the board, the higher the advantages it provides (Pfeffer & Salancik, 1978). Owing to the mixed results, the relationship is inconclusive and the topic calls for more studies to investigate the relationship between the two variables.
As for the frequency of BOD meetings, both the agency theory and the resource dependence theory lay stress on the assumption that the higher the board meetings frequency, the greater the capabilities of the board to advice, discipline and monitor managers, and hence the better the performance of the firm. Nevertheless, literature findings show that the relationship between board meetings frequency and firm performance is still mixed both in developed and developing nations (Johl, Kaur & Cooper, 2015).

With regards to the financial knowledge of the board – although it is a significant variable in light of providing a source of knowledge and experience that could assist in enhancing the performance of the firm (Pfeffer & Salancik, 1979), only few studies have been dedicated to the board financial knowledge-firm performance relationship and thus, this study examines the relationship in the context of Palestine to minimize the literature gap.

The remaining sections of the study are arranged as follows – the second section contains the literature review. The third section is dedicated to data and methodology, followed by the fourth section that provides a descriptive analysis. The fifth one presents the results. The last section provides a presentation and discussion of conclusions and recommendations for future avenues of research.

2. Literature Review and Hypothesis Development

2.1 Board Gender Diversity

On the basis of the surveys conducted on women's board members, women generally have underrepresentation on board of majority of companies judging from their numbers (Mc Kinsey, 2007). However, majority of countries around the globe, including Malaysia, the U.K., and the U.S. are proactive in addressing issues concerning gender. In Europe, the participation of women in the board of top firms showed an increase from 8-12% (2004-2010). Similar to the U.S., Malaysian females in senior management level constitute 23%, and is relatively higher compared to the U.K., which was approximately 19% (Kamardin et al., 2014). In the Palestinian case, observations for the years 2009 to 2016 indicated that female participation in the boards of non-financial listed firms constituted 9%.

Moreover, both the agency theory and the resource dependence theory posit that the positive effect of gender diversity on the firm's performance effectiveness. More specifically, the agency theory by Jensen and Meckling (1976) has become the platform for examining the effect of corporate governance mechanisms and the practices of the board. The theory posits that women, similar to external shareholders, ethnic minorities and foreigners, are capable of bringing a new point of view to complicated issues and this can rectify informational biases in developing strategy and in solving problems (Francoeur, Labelle & Sinclair-Desgagne, 2008; Zaid, Wang, Adib, Sahyouni & Abuhijleh, 2019).

Added to the above, the assumption in the resource dependence theory shows that the greater the gender diversity on the board, the higher its independence per se, and the independence of its decision-making processes. Consistent with the resource dependence theory, board independence provides invaluable knowledge and relationship resources like social connections and a source of specific expertise (Pfeffer & Salancik, 2003).

Despite the impacts of gender diversity have been widely discussed in the literature, authors have yet to reach a consensus as highlighted by Adams (2016) and Christiansen et al. (2016). Evidence indicates that with the roles quality and external experiences, the female presence on the board could be a source of experiences for the board members (Kopczuk, Saez & Song, 2010). Additionally, Miller and Triana (2009) discussed that the presence of female directors may contribute to the ability of the firm to produce profits by leveraging its assets as well as its investments. Besides, female directors contribute to the decision-making ability of the firm when it comes to enhancing financial performance. In this regard, the presence of varying viewpoints (female's point of view), has a tendency to enhance the decision quality of the firm (Loyd et al., 2013). Based on the European Comission (2012), if the listed European firms embrace gender diversification, then they will be able to realize higher, sustainable economic growth levels (Adams, 2016). Lastly, Christiansen et al. (2016) revealed a two-way causality on the positive relationship between women participation on the board and firm performance, with the authors arguing that an optimally performing firm has the ability to attract the female gender and boost their board participation. Meanwhile, Rose (2007) revealed that representation of female board members did not significantly affect the performance of firms (Tobin's Q as proxy) in the context of firms in Denmark. Furthermore, Zhong, Faff, Hodgson and Yao (2014) found that the more women sitting on the BOD, the lower is the profitability of the companies. Accordingly, the hypothesis is formulated as:

H1: Board gender diversity of non-financial companies listed on PSE is associated with firm performance.

2.2 Board Size

Board size is the number of directors on the board (Mohammed, Ahmed & Ji, 2017), who may or may not own or manage the firm (Azeez, 2015). In Palestine, the PCCG (2009) claimed that the firm's board should at least comprise of 5 members and not exceed 11 members. The functions of the board are

the primary internal governance mechanism that controls the manager's decisions (Rachdi & Ameur, 2011; Saleh, Abdul Latif & Abu Bakar, 2018b).

The relationship between board size and the financial performance of the firm has been discussed based on two major perspectives namely, the agency theory and the resource dependence theory perspectives. According to the agency theory, the bigger the size of the board, the higher the conflict of interest when it comes to decision making, and the higher the inattentiveness and lackadaisical work of majority of its members (Fama & Jensen, 1983). In contrast, the resource dependence theory posits that greater directors on the board are relatively better than smaller numbers of directors because the former provides higher benefits (Pfeffer & Salancik, 1978).

Majority of prior studies evidenced that large-sized boards contribute to enhancing the performance of firms; for instance, in Tunis, Mnasri (2015) reported that bigger boards are more able to provide monitoring and advising to management in firms, while in Lebanon, Azoury, Jreitiny and Azzi (2015), using a questionnaire distributed to 40 Lebanese firms, related that the size of the board has a significant effect on the financial performance of the firm and its profitability. Moreover, Elmagrhi, Ntim, Crossley, Malagila, Fosu and Vu (2017) suggested that the larger board size help the directors to enhance the monitoring role and encouraging managers to follow wealth maximising policies. Other studies found contrasting results, in that they found a negative relationship. This holds true for a sample that included the GCC banking firms, where Naushad and Malik (2015) found that smaller-sized firms were better at monitoring and controlling firms. Additionally, a negative relationship was reported by Alhumoudi (2016) between the size of the board and Tobin's Q (performance). The authors argued that large-sized boards found it difficult to control the board members. Similarly, in Arunruangsirilert and Chonglerttham's (2017) study, smaller-sized boards were found to be more adept at overseeing the strategic operation of the firm and in bringing about timely decision making compared to their large-sized counterparts.

H2: Board size of non-financial companies listed on PSE is associated with firm performance.

2.3 Board Meeting

The frequency of the board meeting is described as the number of meetings that the board members hold annually (Hsu & Petchsakulwong, 2010). In some studies, board meetings frequency has been related to board members' interest in that if the meetings are less frequent, then this is indicative of the members' lack of interest in their responsibilities (Aggarwal, 2013). In Palestine, the PCCG (2009) and the Palestinian Companies Act 2008 established that the board meetings have to be held at least 6 times annually based on approved legal dates.

The resource dependence theory posits that the meetings held by the board of directors drives its functionality and its pursuant of business from one period to the next, solving difficulties along the way (Pfeffer, 1978). Similarly, the agency theory lays stress on the fact that frequent board meetings indicate greater capabilities of the boards to advice, discipline and monitor management, and eventually enhance the performance of the firm (Jensen & Meckling, 1976). The directors' diligence on their responsibilities is a reflection of their commitment to their role as the company's agent (Jensen & Meckling, 1976). Makki and Lodhi (2014) stated that the board meetings assist in the preparation of plans and with this, the board gains greater experience.

Empirically, the relationship between board meeting frequency and firm performance has also been explored. Among the studies of this caliber, Xie, Davidson and DaDalt (2003) found that frequent meetings assist board members to monitor and assist the managers in generating information, and similarly, Hsu and Petchsakulwong (2010) indicated that frequent meetings provide opportunities for the board to monitor and review the performance of management and as such, the board's productivity is linked to the board's number of meetings.

In other contrasting findings, a negative relationship was evidenced between the two variables; this was noted in Johl et al.'s (2015) study, whose findings indicated that frequent board meetings had an adverse impact on the Malaysian public listed firms' performance. This is attributed to the argument that the greater the meetings of the board, more resources are directed towards less productive activities. Furthermore, in a study by Brown, Beekes and Verhoeven (2011), the authors revealed that frequent board meetings contributed to operating costs. As evident from the above findings in literature, the relationship between board meetings frequency and firm performance is still inconclusive.
H3: Board meeting of non-financial companies listed on PSE is associated with firm performance.

2.4 Board Financial Knowledge

Fama and Jensen (1983) explained that based on the agency theory, members of the board with long tenure as managers are invaluable to the formulation of strategies as they are capable of evaluating the process of management. In fact, prior studies advocating the agency theory, like Kim and Lim (2010) showed that the expertise of directors in accounting and finance can work as company resources. Along a similar line of finding, Adams and Jiang (2017) revealed that expert members of the board can have an advantageous impact on the insurers' performance outcomes.

On the contrary, other studies' findings went against the agency theory, including those reported by Shan and McIver (2011), who related that the proportion of board members holding professional knowledge/enriching experience had no effect on firm performance enhancement. Also, expert board members did not have significant effect on PSE listed firms in (Kutum, 2015) study.

H4: Board financial knowledge of non-financial companies listed on PSE is associated with firm performance.

3. Data and Methods

In the present study, secondary data was obtained from annual reports and Data Stream for a 6-year span (2011-2016). This period was chosen because of the relatively stable economic and political situation in Palestine following the Palestine-Israel occupation. As Palestine faced an improvement in the economic and political situation after 2010 (Dwaikat & Queiri, 2014). The study gathered data specifically for non-financial listed firms comprising of 25 companies, with 12 categorized under the service sector and the remaining (13 firms) from the industrial sector. The dependent variable Return on Equity (ROE) is the ratio of net income to the total equity. ROE is a useful indicator which can provide managers with a valuable tool to measure a profitability of investing in the companies for the shareholders. The following model is estimated to examine the effects of lack thereof of the board characteristics on the performance of the companies,

3.1 First Model:

$$FP_{it} = \beta_0 + \beta_1 \text{ BOARDGDR}_{it} + \beta_2 \text{ BOARDSIZ}_{it} + \beta_3 \text{ BOARDMET}_{it} + \beta_4 \text{ BOARDEXP}_{it} + \beta_5 \text{ FSIZ}_{it} + \beta_6 \text{ LEVG}_{it} + \beta_7 \text{ EXAQ}_{it} + \varepsilon_{it}.$$

3.2 Second Model:

Where *i* refers to company, *t* refers to year and

FP : Firm Performance represented by return on equity (ROE).
E : Error term.

BOARDGDR : The percentage of the women's representation on the board (the number of women directors scaled by the number of total directors).
BOARDSIZ : The total number of directors available on the board.
BOARDMET : Frequency of meetings held during a year by the board of directors.
BOARDEXP : Board financial knowledge = The percentage of qualified board members in accountancy or finance on the board divided by total directors.

3.3 Control Variables:
FSIZ : Firm Size = natural log of total assets.
LEVG : leverage = the ratio of total liabilities to total assets.
EXAQ : External audit quality = 1 if the firms use Big 4 and 0 for non-Big 4 firms. The big 4 companies are Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young.

4. Analysis

4.1 Descriptive Analysis

Table 1
Summary Statistics

Variable	Observations	Mean	Min	Max	Std. Dev
ROE	150	0.021	-0.30	0.32	0.0999
BOARDGDR	150	0.091	0.00	0.40	3.3095
BOARDSIZ	150	8.593	6.00	13.0	2.1795
BOARDMET	150	6.053	3.00	12.0	8.5972
BOARDEXP	150	0.238	0.00	0.50	1.6438
FSIZ	150	9.741	7.90	12.2	2.3825
LEVG	150	0.319	0.03	0.62	1.9519
EXAQ	150	0.680	0.00	1.00	1.5956

ROE is return on equity, BOARDGDR is board size, BOARDSIZ is board size, BOARDMET is board meeting, BOARDEXP is board financial knowledge, FSIZ is firm size, LEVG is leverage and EXAQ is external audit quality.

Table 1 tabulates the study variables mean, minimum, maximum and standard deviation. From the table, it is evident that financial performance (ROE as proxy) obtained the following values; mean of 0.021, minimum of -0.30, maximum of 0.32 and standard deviation of 0.0999. The values show that the PSE listed firms (2011-2016) had an average ROE of 2%, which is deemed to be indicative of low return in comparison to the listed firms of emerging markets' average ROE. For example, Uddin, Halbouni, and Raj (2014) found that the average ROE in the United Arab Emirates was 11%.

With regards to board gender (BOARDGDR), the obtained values are, mean 0.091, minimum 0.00, maximum 0.40, and standard deviation 3.3095. A mean of 9% shows that the Palestinian listed firms' boards reflect lack of board gender diversity, with minimal representation of female board members. Considering the board size (BOARDSIZ), the obtained mean is 8.59, the minimum is 6.00, with maximum of 13.00 and standard deviation of 2.18, indicating that the listed PSE firms averaged nine board members.

Based on the Table 1, the board members meetings for the time period (2011-2016) averaged six times. And the expert members on the board obtained a mean of 0.238, minimum of 0.00, maximum of

0.50 and standard deviation of 1.6438. With a mean of 24%, the listed firms had an average of one financial expert in every four board members.

Moving on to the control variables, for the firm size (FSIZ), the mean is 9.74, minimum is 7.90, and maximum is 12.2, with standard deviation of 2.382. Firm leverage had a mean of 32% shows that the listed PSE firms had a moderate gearing ratio. Lastly, for the variable external audit quality (EXAQ), the obtained mean is 0.68, minimum is 0.00 and maximum is 1.00, with standard deviation of 1.596. A mean score of 68% indicates that the PSE listed firms had Big-4 auditing them, which implies their higher quality of financial reporting.

4.2 Univariate Analysis

The correlation between the study variables was tested by using univariate analysis and the results from the analysis revealed the absence of severe multicollinearity issues, with all of the variables significant correlation not exceeding 0.60. Moreover, the variance inflation factors (VIF) obtained did not exceed 10. Meanwhile, heteroscedasticity was tested for the variance behaves using the Breausch-Pagan/Cook-Weisberg test. The results showed the absence of heteroscedasticity in data (chi2 (1) = 2.23, prob> chi2 = 0.1358). The entire variables were winsorized at 1% from top to bottom to mitigate the extreme values bias.

4.3 Regression Analysis

A panel data regression analysis based on three OLS models, namely the pooled model, the fixed-effects model, and the random-effects models were conducted in this study. The best model was chosen by using Hausman test and Breusch-Pagan Lagrangian Multiplier (LM) tests. The results showed that pooled OLS model was the most appropriate model. Table 2 shows the results of the regression.

Table 2
Results of the Regression (N = 150)

Variables	**Coef.**	**Z**	**P>|z|**
BOARDGDR	-0.03861	-0.67	0.501
BOARDSIZ	0.00601	1.82	0.070 *
BOARDMET	0.00790	1.85	0.066 *
BOARDEXP	0.30566	7.30	0.000 ***
FSIZ	0.00772	1.20	0.232
LEVG	-0.19398	-5.10	0.000 ***
EXAQ	-0.01033	-0.71	0.482
Constant	-0.15386	-2.42	0.017
R2			0.4620

Note: *, **, *** significance levels of 10%, 5%, and 1% respectively using 2-tailed.

BOARDGDR is board size, BOARDSIZ is board size, BOARDMET is board meeting, BOARDEXP is board financial knowledge, FSIZ is firm size, LEVG is leverage and EXAQ is external audit quality.

The regression's results which presented in Table 2 show that the board gender was found to be an insignificant and positive predictor of return on equity. A possible reason for the insignificant relationship between board gender and firm performance can be related to the weak or the near absence of women

directors among the Palestinian listed companies. The mean of just 9% and a minimum of 0% of women as presented in the summary statistics indicate the lack of this form of diversity among the Palestinian listed companies. The small number of women on the board is due to the customs and traditions of Arab countries that do not give women the chance to hold managerial positions (Saleh, Abdul Latif, Abu Bakar & Maigoshi, 2020).

In addition, the results show that the board size and the board meeting are significant and positively related to performance ($p < 0.10$). This means that the greater board size the better performance. This is in line with the resource dependence theory, that a larger number of directors on a board is better than a small number of directors because the bigger the board size, the more diversity of expertise the board has. Besides, this result is consistent with Azoury et al. (2015), Elmagrhi et al. (2017), and Mnasri (2015) that the bigger board size contributes to enhancing the profitability. As for the board meeting, the result show that the frequency of meetings helps to enhance the performance. This is in line with the agency theory that emphasizes that when there is a greater frequency in board meetings, company boards show greater capabilities in terms of advising, disciplining and monitoring management, and thus improving performance (Jensen & Meckling, 1976).

On the other hand, the board financial expertise had a strong positive relationship with financial performance ($p < 0.01$). The result suggests that a high ratio of members with financial expertise on the corporate board improves firm performance. This finding is in line with both agency and resource dependency theory that expert managers can give valuable advice on strategy formulation stages because they can accommodate an effective evaluation of the management process (Jensen & Meckling, 1976). Moreover, the finding of this study is in line with Adams and Jiang (2017), and Kim and Lim (2010) that indicated the expertise for the director can be useful resources to improve the firms.

4.4 Additional Analysis

This study carried out additional analysis to make sure that the main results are robust and accurate. Accordingly, two regression analyses namely Random-effects and Fixed-effects to evaluate the robustness of prior analyses. Tables 2 and 3 indicate that the finding have a very little dissimilarity, more specifically the only difference is noted in the board size. Table 2 shows that the board size (BSIZ) have a significant result at 10% level, however, Table 3 indicates that the (BSIZ) in an insignificant. Table 2 and 3, shows that the remaining variables obtained the same results. This little dissimilarity may be related to the suitable application of OLS model as recommended by Hausman test, enabling the study to steer clear of estimation bias.

Table 3
Comparison of robust analysis using Random-effect and Fixed-effect analysis

VARIABLES	Random-effect Regression Analysis Coefficient (p-value)	Fixed-effect Regression Coefficient (p-value)
BOARDGDR	0.03771	0.0687
	(0.552)	(0.326)
BOARDSIZ	0.00247	0.0016
	(0.448)	(0.643)
BOARDMET	0.0070*	0.0078*
	(0.072)	(0.061)
BOARDEXP	0.1951***	0.1665***

	(0.000)	(0.000)
FSIZ	0.0043	-0.0013
	(0.593)	(0.892)
LEVG	-0.1123***	-0.0956**
	(0.001)	(0.010)
EXAQ	-0.0039	-0.0039
	(0.906)	(0.900)
Constant	-0.0966	-0.0429
	(0.397)	(0.696)
R^2	0.443	0.385
Prob (F)	0.000	0.000
Observations	150	150

Note: *, **, *** significance levels of 10%, 5%, and 1% respectively using 2-tailed.

BOARDGDR is board size, BOARDSIZ is board size, BOARDMET is board meeting, BOARDEXP is board financial knowledge, FSIZ is firm size, LEVG is leverage and EXAQ is external audit quality.

5. Conclusion

This study explains the relationship between board's characteristics and firm performance in Palestine. The results found that there is a positive relationship between board size, board meeting, and board financial knowledge with firm performance. Accordingly, the result of this study is largely consistent with the agency theory and the resource dependency theory, as well as consistent with the results of previous studies which show that the importance of board's characteristics should be emphasized in order to improve the firm performance.

This study has several limitations due to the availability of data. First, the sample size utilized in this study is small although all efforts have been considered to include all non-financial listed companies on the PSE. Future research can focus on a larger sample so that the results are more comprehensive. Second, this study uses a few variables from the board characteristics. It is possible that other corporate governance mechanisms such as board multiple directorships, board member tenure, board chairman busyness, audit committee characteristics, CEO characteristics, and internal control systems that are not considered in this study influence the performance of Palestinian firms. The findings have important implications for practitioners and policymakers for future research with respects to the effectiveness of internal corporate governance mechanisms toward firm performance.

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