

BOARD MEETING FREQUENCY AND FINANCIAL PERFORMANCE: A CASE OF LISTED FIRMS IN VIETNAM

Le Thi My Hanh*

Ton Duc Thang University

Irene Wei Kiong Ting

Universiti Malaysia Pahang

Qian Long Kweh

Canadian University Dubai

Lam Thi Hoang Hoanh

Ton Duc Thang University

ABSTRACT

This study investigates the effect of board meeting frequency on the financial performance of listed firms in a fiscal year. We use 94 firms listed on Ho Chi Minh Stock Exchange from 2013 to 2015. Financial performance is measured as returns on asset, equity and sales. Results show that board meeting frequency exerts a negative effect on the financial performance of the sample firms. High board meeting frequency equates to low returns on asset, equity and sales. Overall, the quality of board meetings is an important factor that contributes to financial performance.

Keywords: Board meeting frequency; Firm performance; Regression analysis; Listed firms; Vietnam.

1. INTRODUCTION

Since Vietnam became a member of the Association of Southeast Asian Nations in 1995, the Vietnamese government has been striving to achieve openness, and thereby catching up with other economies. Owing to the entry of foreign direct investments in the country's corporate sector, Vietnam has exhibited remarkable economic development in the past 25 years. Economic and political reforms have spurred rapid economic growth and development in Vietnam (World Bank, 2016), given that the Vietnamese government has shown determination to achieve revolution that focuses on structural reforms, environmental sustainability, social equity and emerging macroeconomic stability issues (Vietnam's 2011–2020 Socio-Economic Development Strategy) (World Bank, 2016). These reforms in the economic sector have made effective resource allocation possible. One of the fundamental factors is the performance of public corporations, which has become a central issue in increasing social equity's attraction in the financial and academic press. In this case, board control activities become important. Several previous studies have focused on board diversity in earnings quality (Hoang *et al.*, 2017), board diversity and corporate social disclosure (Hoang *et al.*,

* Corresponding author: Benchmarking Research Group, Faculty of Accounting, Ton Duc Thang University, Ho Chi Minh City, Vietnam. Email: lethimyhanh@tdt.edu.vn

2016), ownership structure and firm performance (Le & Nguyen, 2012; Nguyen *et al.*, 2014). However, given the conflicting views on the nature of board activity, the importance of board meeting frequency is an open question.

Firm performance is one of the top targets of firms regardless of their size, business sector or purpose of establishment. Firm managers consistently strive to identify opportunities and focus intelligence, manpower and resources to create high profits for their firms. Many recent studies have investigated the factors that affect firm performance under various views and have provided different results. Factors that are usually investigated include board size (Jensen, 1993; Yermack, 1996; Hermlin & Weisbach, 2003), gender diversity in boards (Adams & Ferreira, 2009; Hoang & Vo, 2014), board structure (Arosa *et al.*, 2013; Tsegba *et al.*, 2014; Orazalin *et al.*, 2014) and board meeting frequency. Jensen (1993) argued that the board of a firm with good performance rarely experiences conflicts. The role of a firm's board becomes increasingly important in crisis periods. Hence, board meetings play a vital role in the survival and development of a company. When board members regularly meet, they have plenty of time to exchange, discuss and share ideas and plan strategies for the firm.

In this study, we investigate the relationship between board meeting frequency and the performance of firms listed on the Vietnamese stock market. Specifically, we examine the importance of board meeting frequency by testing if firms with boards that meet frequently perform better financially than firms with inactive boards and if poor-performing firms meet more frequently than their counterparts that are more profitable.

The second part of this paper presents a review of previous studies on the relationship between board meeting frequency and the performance of firms listed in global and Vietnamese markets. The research hypothesis is also stated in this part. The research methodology is presented in the third part, and the results are discussed in the fourth part. The last part provides the conclusion.

2. LITERATURE REVIEW

2.1. *Previous Studies on Board Meeting and Financial Performance*

Board meeting frequency negatively affects firm performance in the current year because board meetings are costly in terms of time and costs incurred in relation to the meetings (Vafeas, 1999). However, Vafeas (1999) also discovered that firm performance improves significantly a year later. This finding shows that frequent discussions of board members result in good decisions and increase the board members' ability to supervise firm activities. These findings are similar to those of Kyereboah (2008), Johl *et al.* (2015) and Mangena and Tauringana (2008). Ntim and Osei (2011) found a positive relationship between board meeting frequency and firm performance in their study on South African listed firms for the period of 2002 to 2007. The board members' capacity for consultation, supervision and management increased because they met regularly through meetings, and this situation resulted in good firm financial performance. Similarly, Irshad and Ali (2015) discovered that independent directors, board meeting frequency and board size exert a positive effect on firm performance measured through coefficients of Q and returns on asset (ROA). Akpan (2015) obtained similar results in his study on 79 listed companies in Nigeria from 2010 to 2012.

However, a study conducted with a sample of 328 Malaysian listed companies from 2003 to 2007 reported that high board meeting frequency causes low firm performance (Amran, 2011). Francis *et al.* (2012) used a financial crisis as a sample period to examine the extent to which corporate boards affect firm performance. The results showed that board meeting frequency and directors' attendance behaviour and age affect firm performance during a crisis. Unlike previous studies, the study of Horváth and Spirollari (2012) used a sample of 136 firms traded on S&P 500 Index from 2005 to 2009 to examine the relationship between firm performance and several factors related to the characteristics of the board of directors, including board meeting frequency. They found no relationship between firm performance and board meeting frequency.

The impact of board meetings on firm performance is an important issue in transition literature. A different view is that board meetings are not necessarily useful because the limited time external directors spend together is not used for the meaningful exchange of ideas among themselves or with the management (Jensen, 1993).

How is this study derived from previous ones? First, in Vietnam, researchers have devoted much attention to empirical studies on firm performance in recent years (Hoang *et al.*, 2015; 2016; Le & Nguyen, 2012; Nguyen *et al.*, 2014). Several studies have shown that financial institutions with high management points exhibit better performance, expressed by returns on equity (ROE) and ROA indicators, than other financial institutions (Le & Nguyen, 2012). However, to the best of our knowledge, no study has investigated the relation between board meeting frequency and firm performance in Vietnam. This study seeks to fill this gap. It uses the work of Vafeas (1999) and Ntim (2009) as a reference to examine the relationship between board meeting frequency and firm financial performance in Vietnam.

Second, we utilised a unique sample, the Top 100 publicly listed Vietnamese (VN100) companies, to represent the Vietnamese stock market because these companies have large market capitalisation and high liquidity levels. Moreover, three financial performance measures, namely, ROA, ROE and returns on sales, were used to provide the public and policymakers an improved understanding of the effect of board meetings on financial performance in Vietnam.

2.2. Hypothesis Development

Regular board meetings are important because they provide a means to cope with the difficult times experienced by firms. Vafeas (1999) and Ntim (2009) found that frequent board meeting results in good management and supervision quality and therefore positively influences the economic performance of firms. Mangena and Taurigana (2008) stated that board meetings can help managers understand the problems of their firms and produce quick solutions to solve emerging problems. Firms proficient in setting an appropriate frequency of board meetings can reduce related costs and experience increased economic efficiency (Vafeas, 1999). The study of Conger *et al.* (1998) indicated that board meetings are important in enhancing the effectiveness of the board. The study also explored whether board meeting frequency in the previous year affects firm performance in the current financial year or not. Short- and long-term operational strategies for firms are often established during meetings. Board members require time to enforce their ideas during meetings and to determine the extent to which this would bring results for the firm in the future (Vafeas, 1999). On the basis of this discussion, we state our first hypothesis.

H1: Board meeting frequency in the current year affects the financial performance of firms in the following year.

A relationship exists between past performance and changes in board activity (Vafeas, 1999). Boards meet often following poor performance (Vafeas, 1999). Boards respond to poor performance by raising their level of board activity, which in turn is associated with improved operating performance (Weisbach, 1988; Gilson, 1990). Thus, we state our second hypothesis.

H2: Poor financial performance in the current year results in frequent board meetings in the following year.

3. THEORETICAL FRAMEWORK AND RESEARCH METHOD

3.1. Sample

The study sample consisted of listed firms, with focus on the Top VN100 companies in terms of market capitalisation. According to a report by the Vietnamese Central Bank in 2017, the Top VN100 companies provide a significant contribution, with their fund certificate value reaching 3.36 quadrillion VND (148.17 billion USD) in 2017, which is equivalent to 74.6 percent of the country's GDP. These firms represent the Vietnamese stock market because of their large capitalisation and high liquidity level. The Top 10 largest market capitalisation stocks alone accounted for 56 percent of the market value¹ in 2017. In the sample of Top VN100, we used 94 listed firms (six banks that are inconsistent with the research data were removed) corresponding to 188 observations in a period of three years (2013 to 2015). Annual reports and information data were obtained from the websites of Ho Chi Minh Stock Exchange (HOSE) and the firms.

3.2. Measurement of variables in the model

The dependent variable, firm performance (*FP*), was measured with three metrics: *ROA*, *ROE* and returns on sales (*ROS*). The measurement of variables is provided in Table 1.

Table 1: Measurement of Variables in the Model

Variable	Measurement
$ROA_{t, t+1}$	The ratio of earnings to total assets of the current year and next year.
$ROE_{t, t+1}$	The ratio of earnings to equity of the current year and next year.
$ROS_{t, t+1}$	The ratio of earnings to sales of the current year and next year.
$FBMs_t$	Total number of board meetings of the firm in the current year.
$FBMs_{t+1}$	Total number of board meetings of the firm in the next year.
Control Variables:	
$SIZE_{t, t+1}$	The natural logarithm of total assets in the current year and next year.
$DEBT_{t, t+1}$	The ratio of total liabilities to equity in the current year and next year.

¹ Source: HCM Stock Exchange. Available at: <https://www.talkvietnam.com/2017/12/market-capitalisation-hits-74-6-percent-of-vietnams-gdp>

3.3. Regression models

The regression model for H1 is $FP_{i,t+1} = \beta_0 + \beta_1(FBMs)_{i,t} + \beta_2(SIZE)_{i,t} + \beta_3(DEBT)_{i,t} + \varepsilon_{i,t}$.

The regression model for H2 is $FBMs_{i,t+1} = \beta_0 + \beta_1(FP)_{i,t} + \beta_2(SIZE)_{i,t} + \beta_3(DEBT)_{i,t} + \varepsilon_{i,t}$.

4. RESULTS AND DISCUSSION

Table 2 describes in detail the business fields of 94 listed firms on HOSE. The processing and manufacturing industry, which consists of 32 companies, has the largest number of firms. In this group, the highest board meeting frequency is 101 times (TuongAn Vegetable Oil Joint Stock Company), whereas the lowest is 4 times (Viet Nam Dairy Products Joint Stock Company, Vinh Hoan Corporation, Japan Vietnam Medical Instrument Joint Stock Company and Lam Son Sugar Joint Stock Corporation). The average board meeting frequency is 14 times.

Table 2: Sample Description by Industry

Industry	Number of firms
Wholesale and retail trade	7
Real estate	16
Processing and manufacturing	31
Administrative activity and support services	1
Finance and insurance services	10
Extractive	1
Agriculture, forestry and fisheries	6
Production and distribution of electricity	8
Information and communication	1
Total	94

Table 3 shows data on firm performance, firm size and debt ratio of firms (*ROA*, *ROE*, *ROS*, *SIZE*, *DEBT*) and the frequency of board meetings (*FBMs*) that we obtained from the annual reports and financial statements of firms. The univariate result in Table 3 indicates that the Top VN100 companies have 12 to 13 board meetings per year on the average. The annual minimum and maximum board meetings are 2 and 101, respectively. The results were hand collected from the annual reports of companies by calculating the total number of their board meetings in the current year. In addition, the minimum value of *ROE*, *ROA* and *ROS* is -2.40, -1.59 and -75.86, respectively, indicating that although the stocks of firms in the Top VN100 have the highest trading values in ranking, certain firms still suffer from losses.

Table 3: Descriptive Statistics

	Min.	Max.	Mean	SD
<i>FBMs</i>	2	101	12.60	15.12
<i>ROE</i>	-2.40	0.98	0.12	0.23
<i>ROA</i>	-1.59	0.78	0.07	0.17
<i>ROS</i>	-75.86	99	7.52	15.03
<i>SIZE</i>	24.04	32.14	28.83	1.13
<i>DEBT</i>	0.04	12.81	1.27	1.42

The untabulated results of the correlation analysis showed that no correlation exists among the coefficients of variables higher than 0.8 (the highest is 0.787). We confirmed that using the regression model reduces multicollinearity. For further verification, a re-test was conducted using the variance inflation factor (VIF) coefficient when running the regression, and the results revealed no multicollinearity (VIF < 5).

Table 4 presents the results of our multiple regression analysis using pooled ordinary least squares (OLS)² regression. Table 4 shows the regression results for the dependent variable of *FBMs* and independent variables of *ROA*, *ROE* and *ROS* in H₁. The results showed that board meeting frequency negatively affected *ROA*, *ROE* and *ROS* at the 1% significance level. Specifically, the higher the board meeting frequency was, the lower *ROA*, *ROE* and *ROS* were.

Table 4: Firm Performance and Frequency of Board Meeting

Dependent Variable	<i>ROA</i> _{<i>i,t+1</i>}	<i>ROE</i> _{<i>i,t+1</i>}	<i>ROS</i> _{<i>i,t+1</i>}
<i>FBMs</i> _{<i>i,t</i>}	-0.299* (0.000)		
<i>FBMs</i> _{<i>i,t</i>}		-0.435* (0.000)	
<i>FBMs</i> _{<i>i,t</i>}			-0.526* (0.001)
<i>SIZE</i> _{<i>i,t+1</i>}	0.870 (0.341)	1.477 (0.280)	0.230 (0.913)
<i>DEBT</i> _{<i>i,t+1</i>}	-0.229 (0.754)	0.245 (0.823)	-2.954*** (0.008)
Constant	-18.022	-32.037	18.310
Adjusted R ²	0.092	0.087	0.068
F Statistic	7.304	6.944	5.555
P – Value	0.000	0.000	0.001
Mean VIF	1.008	1.008	1.008

Note: Statistical significance is indicated by ***, ** and * for 1%, 5% and 10%, respectively.

Table 5 presents the regression results for the dependent variables of *ROA*, *ROE* and *ROS* and independent variable of *FBMs* in H₂. The results showed that *ROA*, *ROE* and *ROS* negatively affected board meeting frequency at the 1% significance level. Specifically, the lower *ROA*, *ROE* and *ROS* were, the higher the board meeting frequency was.

² Diagnostic tests (not reported) indicated that fixed (F test) or random effect (Hausman test) panel methods are redundant, suggesting that the extent of within-panel correlation of observations is negligibly small. Therefore, the OLS regression results provide consistent estimations in this study. Moreover, we found no heteroscedasticity problem.

Table 5: Board Meeting Frequency (the current year) and Financial Performance (the next year)

Dependent Variable:	$FBMS_{i,t+1}$	$FBMS_{i,t+1}$	$FBMS_{i,t+1}$
$ROA_{i,t}$	-0.341* (0.000)		
$ROE_{i,t}$		-0.223* (0.000)	
$ROS_{i,t}$			-0.118* (0.001)
$SIZE_{i,t}$	0.427 (0.662)	0.460 (0.638)	0.164 (0.869)
$DEBT_{i,t}$	0.721 (0.354)	0.858 (0.271)	0.486 (0.545)
Constant	0.397	-0.55	8.987
Adjusted R ²	0.094	0.089	0.054
F Statistic	7.494	7.097	4.563
P – Value	0.000	0.000	0.004
Mean VIF	1.100	1.101	1.096

Note: Statistical significance is indicated by ***, ** and * for 1%, 5% and 10%, respectively

5. CONCLUSION

This study investigated the relationship between firm financial performance and board meeting frequency by considering firms with the largest capitalisation and high liquidity listed on HOSE and by using 188 observations from 2013 to 2015. The study also explored the relationship between board meeting frequency in the current year and firm performance in the following year. Our findings suggested that board meeting frequency in the current year negatively affects firm financial performance in the following year. This result contradicts the findings of Vafeas (1999), Ntim (2004) and Irshad and Ali (2015) but is consistent with the findings of Jensen (1993), who investigated another country. We also discovered that boards meet often following poor financial performance, but doing so does not improve financial performance. This result may be due to the condition that frequent organised meetings result in high energy costs, travel expenses and expenses incurred for such meetings. Therefore, firms suffer because these costs negatively influence firm performance. These results also suggest policies for firms to review their meeting schedules and durations and their agenda innovation to bring added benefits to their firms. The findings of this study can help Vietnamese firms and investors review the implications of current board activities and improve the quality of board meetings to increase firm financial performance. Future studies may expand the sample size and study period in combination with other related variables, such as ratio of board attendance or examining the effect of various kinds of meetings on firm performance, to obtain valuable research results or a result that returns a higher adjusted R-squared of regression models than the one in this study.

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