Board of Director Characteristics and Firm Performance for firms listed on Iraq Stock Exchange

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Abstract

In this project, we evaluate the firm performance and the board, and what make the board and performance, relations in the stock firms, which is owned by more than owner, and we make our research based on Iraq, and we took the firm performance, of the Iraq firms, which are in, Iraq stock exchange, which we took the 2019, for the measuring the firms, performances, and for the board of director, we make three variables, which each having effect on the board, which were the first the size of the board, the second one is the CEO duality in the board, and the third one is the gender diversity, which is focus on the female ratio, and the board make the decision, which the result be the performance of the firm, which the board decision make impact on the performance, in a way which if the performance, doesn't go well, the board will responsible for it. For that we try to find the relation between the effective factor of the board, and their effect on the performance.

Keywords: board size, CEO duality, female member, firm performance

1. Introduction

In any organization, there is an interest issue is based on the separation of ownership and management. Studies have been conducting investigating the separation of interest between management and ownership that creates agency problem. This is having many effects and dimensions but one of the important one is board of director aspect, which simply are the mechanism in the organization which investors have it to safe there interest, and not only investors interest also the organization as whole, through board of director the investors qualify that problem, which through board of director monitoring, the interest of the shareholder who are not in management system will be safe. Because the board of directors is such an important part of corporate governance, it's obvious that its members must be attentive to the basic responsibilities that have been assigned to it.

Board of director are making decision and advice to improve the company which they assigned to monitoring, avoiding, supervising and finding out the opportunities (Borlea, Achim, & Mare, 2017; Cavaco et al. 2017). The role which the board of director have it is active role in the organization (Abdullah and Aziz,2017; Coles et al., 2001) which they can make a platform for the company like we mention through monitoring avoiding, opportunities and supervising they have that kind of authority which can platforms can be provide by them (Aluchna, 2010), which through platform the problems and issues which are between the manager and shareholder which the board director are the shareholder authority in the organization, can be manage (Jensen and Meckling, 1976).

Board of director in the company are having tasks and responsibility, but of their main responsibilities are the firm performance, which is increasing firm performance mean, the overall interest of the firm (Abdullah et al., 2020; Stiles and Taylor, 2001). The board which it's mentioned is mechanism for the shareholder, which through their right decisions which made can the shareholder maximize their wealth. (O'Connell and Cramer, 2010; Knauer et al., 2018). The agency problem is separate of owner and management system, the board of director as an indicator solve a part of the problem, but also the board having its complicate and also effects on it, the board of director is composed of containing different characteristics (Kang, Cheng and Gray, 2007). different background and different gender, also the size of the board having effect of the decision which made, the high number member inside the board maybe make the decision-making process more specific and more justice, but also maybe be opposite, which

Making decision making hard (Shakir, 2008), also the gender which we have both male and female could they effect the decision making (Harald Dale-Olsen, 2013) which we know at least both having their specific and nature, which can define as a general, also the C.E.O duality which is important case (Abdullah & Turgut, 2022), if the firm having C.E.O of the board and organization as one person how can that effect?, for example in kind of situation, Which is also issue when the things doesn't go in the right way, it can effect keeping the position. The age also an important issue which there be a two idea, old human having experience, young are pensioned, which in general the two is require, the passion without experience can lead to disaster (Dalton and Dalton, 2005). Which in this article we gone mention the board of director in Iraq? The purpose of the study is to evaluate how board of director effect, especially on the firm performance, and also how the members size, C.E.O duality, gender, independency and age can having their effect on making more effective board for the firm.

Our study consider the companies which contain the board of director in Iraq, the board of director is necessary for both, the stock market corporate, and private property, but for stock market corporation there must be exist, because in the modern corporation firm, there is a separate of owner ship which isn't like private property, the private property owned by more than family or party, which is having more than stakeholder inside and out, the privacy corporate is owned by a person or family (Berle and Means,1932). But the stock market cannot be run because of multi owner in it, which contain shareholder, the shareholder be having one or more share, refer to its advantage in the company (Fama, 1980, Fama and Jensen, 1983). Which the board of director main task is to be carefully about what is going on, to make the maximum return for the shareholders, which the C.E.O, manage, director and etc. are decided by the board, and monitored by them, which by monitoring them they safe, the interest of the share, and also the organization as overall.

Significant of the study of board of director, is how the board member can affect the firm, and how the board member age, gender, size, C.E.O duality can effect that decisions, which effecting the agencies, and the agencies going to make the real work in the firm, and who evaluate it isn't just an owner, is group of owner which are having share and stake in the organization, and there is more than a person and party interest, and through them, the board are selected, and through the board the organization directed, the issue and contribution which in this study we gone talk about, is the board of director in Iraq, and board member measure's effect the directing organization (Abdullah et al., 2021).

2. Literature Review

Corporation governance is mechanism, refers to the means through which a corporation's stakeholders exert control over corporate executives and management in terms of protecting their interests. The corporation of the stakeholder containing creditors, equity holders which both supply capital with other claimants, and also there are other stakeholder, which the corporation governance effected them by any decision, who deals with the organization, inside and out, such as consumer, employee, supplier, and also the other who are inside the organization, like who have the control of the organization, such as the manager and supervisors who also count as an employee but they have a role, in decision making process, influence the corporation's major decisions, which is the key of making decisions inside the organization, by making the separate power of taking decision, which make it more loyalty and not backing to a person, which make the separation between who owned it and who control it, which in the share companies, the owner is by itself is separated, and control is in hand of the management inside the organization, the corporate governance is used by shareholder as a toll, to control management, and the representative of the shareholder are member inside the board of director, which we explained next .

2.1.Board of directors

The main cornerstone in the corporation governance of the organization is the board of director, which is the corporate governance is the mechanism of the stakeholder, and the board of directors represent the stake holder (Jensen, 1993). Which the key of the corporation governance in the organization is the board, the board assigned to some basic functions which are, supervising of the stakeholders property, monitoring what is going on inside the company and how things go on, avoiding risk, fail and loss, which make a damage of the capital of the stakeholder and the organization as a whole, avoiding the behavior of opportunistic, which a person or party, find opportunism inside the organization, to make a profit in the balance of other, and also the board providing the decision maker, the idea, advice, and provide help for them, which help them to make decision, for making the stakeholders as one party, and the organization as a whole, reaching best result increases there productivity, effectively and efficiency. Which overall the decision maker improves the business to the better with better decisions (Borlea et al., 2017, Cavaco et al. 2017).

The significance of a very well board of directors for a firm's effective processing cannot be overstated, as evidenced by the preceding empirical data. Moreover, there are various difficulties with the board's membership, such as the fact that the chairman is a member of the executive board (Abdullah and Tursoy, 2019). The impact of choosing directors who simultaneously serve as executive directors in other companies (Murayev et al., 2016). The directors of development professionals (Andreas, Rapp, & Wolff, 2012), and influencing regarding of advises approximately (McCahery et al., 2016). There are a lot studies before in the recent years, and we are trying to particularly and focus on the issues which are interest, on the board of director composition, which it is possible to be effects, on the value creation and also economic improver, which both profitability, and the board structure having variables, and our aim is to find out these variables, and finding which one is having more effect, which board of director measure by the size of the board (Farag and Mallin, 2017), and as much the board is big in size, effect the decisions and the complicated management of the board (Linck et al., 2008).

2.2. Firm performance

The firm performance is hard to measure in when the firm want the current time, but it can be easy measured, by measure it in the long run, which comparing the performance between years, which is by the comparison that can be made (Budur et al., 2021). The performance is a category in economy, using the martial resources efficiency and using the human as effective rescuer, which through both resources, the organization aim will be achieved, (Abdullah and Fatah, 2020). The firm performance having another important, beside using resources in effective and efficient way, also the performance consider the business efficiency as overall (Demir et al., 2021), which we mean by that, the firm finished good or service, what provide, and from what resources made it,, which is the relation between the input that used, and the output which we got (Truong & Tran, 2009). The variable which is common used, in measuring the firm performance are the,(ROI) which is mean the, return which we get after investment, second one is (ROA), which mean that, the return which we get of the asset which we have, and finally the (ROE), which is the equity return (Nieh et al. (2008), which these three accounting indicators, showing the financial ratio, of the firm performance, of the organization, which is include balance sheet, after that the income statement (Mehran (1995) and (Ang et al. (2000).

2.3. Board characteristics and firm performance

As we explained the board having direct and interest effect on the firm, which effect the management system inside the company, and set the limit to the overall authority, also it provides the profit of shareholder, and an organization as general. However, the fact that there has been a need to reform boards in recent years, both in terms of their composition and the evaluation of their performance, has fueled this desire. (Díaz et al., 2017; Korent et al., 2014). The connection between the board director characteristic, and the performance of the firm, first thing in board characteristic, is the board structure, which there isn't clear and final analysis for it, does it affect the performance, positively or negatively, which first thing is the size structure of the board, which with higher size, we have more member, more diverse inside the board, which effecting the final decisions, which it made, which company need the advices from them, which positively related to the quality decision, which with higher size, there be more argument, and the decision more be, realistic than be, an personal opinions (Coles et al., 2008; Farag & Mallin, 2017).

There are other opinion, which agree with the small boards, which it mentioned that, the large boards, could affect the late decision making, because of the huge diversity, and the information which are asymmetric, also the problem of the communication between the members, imagine when you have four member to decide on issue, and in other hand when you have 45, the meeting be an issue, and also more time needed, to making the final decision, comparing to the small board (Pérez de Toledo, 2010). The independency measure of the board, depend of the percentage of the external director, which is the issue can argued and debated, which the measure is on the percentage of the external director members, inside the board, which there is resources which agree with, the idea of external directors, which can provide more information and experience, than the internal directors, which is another issue, but the main issue is the independency of the firm, on the directors, which the performance depends on them (Krivogorsky, 2006), and its same issue which is same, as the board size, the positive relations with the independent director, is as a positive relation between the board size, and the performance, which the independency not always creating positive value such as same case for the board size (Wintoki et al., 2012; Borlea et al., 2017).

The independency directors negatively effects the performance and also there are other research which finding out that, the independency of director, not creating positive, or negative effect, and cannot have any effect on the performance of the firm, which the directors independency made out of the circle, of the relation with the performance, of the firm, and the its effect of the performance increasing or decreasing, (Rodríguez et al., 2013). Another effect of the performance, which the board effected, is the C.E.O duality or chairman or officer duality, which have analysis with the great fact (Mallin, 2010), the interest of the C.E.O duality, is count as the primarily, which is expected to be, and within international context and discussion on the implication of ownership and separation, the duality became the interest point, the substantial implications for corporate governance and organizational performance (Abdullah, 2013).

There are two opposite idea, and two opposite school, which there benefit are opposing, which are the benefits, and cost which is related to the C.E.O/C.M duality, cm and C.E.O duality, having benefits in management system, for example having problem and miss understanding, cannot be happen, between the C.E.O and cm because of the duality, which one person represent the both, which the employee are not confused, in such problem and disagree times which resuming the performance, of the firm, and protect it from damage e (Li and Li, 2009). And also, duality, provide the cost saving for the firm, and we mean by cost saving the transferring, which transferring the information cost nothing, because both person is same, and also the processing is happens fasters (Yang and Zhao, 2013). Moreover, it is having another benefit which is decision making, the duality making decision making decentralized, which is made by one person, so the process of decision making is faster, and more efficiency (Peng et al., 2009).

3. Methodology

3.1. Sample

data From our previous data, which we took sample of the companies, in our sample, we make all the firms, which are in the stock market exchange, to cover our aim, which were the companies which decide by board of director, we took the Iraq stock exchange, and we used the secondary data, and we take two sector, which were the industry companies, which we took 17 of them, and also the banks in the stock exchange of Iraq, which we took 17 also, we took the active from them, which both 34 firm, which some of them the data which they have, is belong to 2016 or even earlier, and the data after it isn't available, which that mean they broke up, or doesn't exist anymore in a stock market, so we ignore it, and we choose the end of the 2019, because most of the company's annual data, of the end of 2020, and 2021, aren't available, and that is because the performance of the 2020, did not go normal, and that's because the Covid pandemic, which isn't just for Iraq, it was global issue, and for 2021, the most of their annual, isn't ready yet. And we took 2019 for all the 34 firm, in their annual balance sheet. Which we took what we need to determine their performance, and what we need to know about the board.

3.2. Variables

3.2.1. Firm performance

We collect our secondary data, which we took form the annual balance sheet in the firms, which were in stock market, and for evaluating firm performance, we took the equity of the firm, the total annual asset which tell us, the ability and the size of the firm (Akalpler and Abdullah, 2020), and the bet income, which telling us the result which they made, and also the debt to, we took capital as well to determine the size of the company and the stock price which we took the price of 2019, to determine its performance in the stock market. It also determines whether they are new in market, or they have experience, we took the year which they enter the stock exchange. Further, we determine the sector as well, whether its industry or bank. We use these, most of them to calculate the main variables, and some of them as the main variable which we mention the calculation in the method section.

3.2.2. Board of director

As we collect data on the firm performance, we also collect data on the board of director, which we took the variable of board, and the variable were the size first, male gander ratio, and CEO duality, which we mention each in the literature above, as the main variables, which each of them, show us the effected variable, to measure the board, on the performance of the firm, and each having its direct effect, and we make analysis to the 34 firm to see the result, of these variable, how they effected the firm performance.

3.2.3. Control variables

In the variables, which we make the analysis for it, there are 3 main variable which we took it, from the firm performance, first one is the return on asset, which telling us the performance, of making profit in the firm, which is about the percentage of what we make as a profit, from what we have as an asset, and second main variable is the return of equity, which is near by meaning to the return on asset, and having same issue, but with the equity, and the third one is the stock price (Rasul, 2018), which this three variable are called control variables, because they control the result (Torlak et al., 2021), and based on them we calculate and measure the performance of the firm.

3.3. Method

The research which we make, conclude three hypothesis which are the board size and its effect on performance, which is about the decision making in the company, and also the second one is the CEO duality, and its effect on the board and on the firm performance generally, which we mean by that the decision that be made, and the last one is the woman role in the board, which we make it three hypothesis's. And there is equation which based on we make variables, first one is

ROE (return on asset) = Net income / total asset

ROA (return of equity) = Net income / Total equity

LDR (loan to deposit ratio) = Long term debt / Total asset

TDR (Trouble debt restriction) = Total Debt / Total Asset

4. Data analysis and Results

4.1. Descriptive statistics

Table 1: descriptive statistics of the variables

ROA		*ROE*	
Mean	0.084	Mean	0.3038
Standard Error	0.022	Standard Error	0.0414
Standard Deviation	0.1288	Standard Deviation	0.2415
Sample Variance	0.0166	Sample Variance	0.0583
Range	0.6535	Range	0.9132
Minimum	-0.0099	Minimum	0.0045
Maximum	0.6435	Maximum	0.9177
Confidence Level (95.0%)	0.0450	Confidence Level (95.0%)	0.0843
SP		***CAP***	
Mean	0.2071	Mean	1.541470588
Standard Error	0.098572093	Standard Error	0.439518885
Standard Deviation	0.574769134	Standard Deviation	2.562813478
Sample Variance	0.330359557	Sample Variance	6.568012923
Range	3.312943854	Range	12.4
Minimum	-0.018997513	Minimum	0.1
Maximum	3.293946341	Maximum	12.5
Confidence Level (95.0%)	0.200546432	Confidence Level (95.0%)	0.894207896
LDR		***FSIZE***	
Mean	0.303846299	Mean	0.303846299
Standard Error	0.041423822	Standard Error	0.041423822
Median	0.2485781	Median	0.2485781
Standard Deviation	0.241540312	Standard Deviation	0.241540312
Sample Variance	0.058341722	Sample Variance	0.058341722
Range	0.913179892	Range	0.913179892
Minimum	0.00453333	Minimum	0.00453333
Maximum	0.917713222	Maximum	0.917713222
Confidence Level (95.0%)	0.084277399	Confidence Level (95.0%)	0.084277399
AGEISX		***BSIZE***	
Mean	6.411764706	Mean	13.88235294

Standard Error	0.270727702	Standard Error	1.044265135
Standard Deviation	1.578600206	Standard Deviation	6.089059767
Sample Variance	2.49197861	Sample Variance	37.07664884
Range	8	Range	14
Minimum	2	Minimum	5
Maximum	10	Maximum	19
Confidence Level (95.0%)	0.550799651	Confidence Level (95.0%)	2.124573391

FERT	
Mean	0.11372549
Standard Error	0.0295448
Median	0
Standard Deviation	0.172274308
Sample Variance	0.029678437
Range	0.6
Minimum	0
Maximum	0.6
Confidence Level (95.0%)	0.060109348

Which what we made is taking three tests for data, which are the correlation, and descriptive statistic, which first one the descriptive statistic shows us the mean which is the average of each variable, for the Roe is 0.084, which is the control variable, which mean by that the average of the net income, which made by asset, for the companies is 8.4 percent, which is the average rate of profit made, compare with the asset which the company have it, and the Roe which is second control variable the mean for it is 0.2, which s higher rate, net income made according to the equity which the firm have it, the 20 percent, which is good result for the performance and net income which they get, compare to the equity, and size, and the third control variable, is the stock price, which is about the activity, of the firm, in the stock market which the mean of it is 1.54, which is the average of the stock price, of the Iraqi an stock firms.

Size of board which is the mean is 6.4 which is mean, the average member of board, for the Iraq stock companies, are between 6 to 7 member, and also the position which is CEO duality, which is the mean of it is 0.529, which is the CEO duality is fifty fifty(half), in the 34 sample, and for the female ration the mean is, 0.11, which define the 11 percent of the board of directors, are average women, and for average capital it is 123 billion diner, which is the mean of the capital, and the average of entering stock market is 13.8, which is mean the average year of their experience, in stock market is 13 to 14 years, and that became, because of the new firm which they enter. And make the average lower, because most of the industrial firms are entered since 2004, which mean 19 years, but with the firm which, entered the market recently, that average change to be, between 13 to 14 years in stock market.

There is a gap between their average, which is approximately 13 percent, and next one is the roe, which is the standard deviation of roe, is 0.57, which there is a higher gap, between the averages, if we compare it to the ROA, and that is became of the high level, of different between the equity of the companies, which the lower one have 99 million, and the highest one is 366 billion, which there we can find the huge gap, which make the huge different, because of the high different between the equity. And the stock price standard deviation, for the stock price column, is 2.5, which is too high, and huge gap between the average which is 1.54, and that is again refer, to the different firm stock price, which began from 0.1 to 12.5, which that make the huge gap, between the price of each and the average, because they are too far from each other, after that we came to the board size, which is from the board variables.

Female ratio is 0.17, which is low gap between the average, which is normal, because the average is 11 percent female, and the gap is low between the average, the next one is the capital, which the standard deviation is 1.18, which is normal, because same as equity, the capital is start from 180 million to 265 billion, because of it the gap is high. The next the analyses is correlation which first one is between the return on asset and loan to deposit ratio which is - 0.116 which are negatively affect each other, because of the loan to deposit ratio is about the debt, which is count in the return on asset, as an decrees of the value, not exceed it, the next which we explain it in the hypothesis.

4.2. Correlations

Table 2: Correlation coefficient

relation	correlation

roa-ldr =c1	-0.11629
roa - bs =c2	0.10154
roa - bs =c3	0.110216
p - bs =c4	0.100215
roa - bs =c5	0.040351
roe-bs = c6	-0.1259
p - bs = c7	0.38003
roa - ft -c8	-0.1401
roe - ft - c9	0.398662
p - fr - c10	-0.08382

4.3. Hypotheses testing

4.3.1. First hypothesis: board size

correlation which is between the return on asset which is the firm performance variable, and the second variable is the board size, which is the board variable, the correlation between them is 0.10, which is what is our aim is to know the relate between the variable of performance with the, board variables, and the board size were our hypothesis, the impact of board size and the ROA, is positive and it is slightly not bad, but the important are the positive effect on each other, the second variable which the board size have relation with is the return on equity, which is the correlation between them is 0.11, which is slightly higher, comparing to the ROA, and also for the price which is the third variable of performance, which is control variable also, show same result as the ROA, which is 0.10, which that mean the board size effect the three variable of performance, which are the control variable in the data, effecting them slightly equally, for each of them

4.3.2. Second hypothesis: CEO duality

The first correlation which we take in this section, is the correlation between the CEO duality which is, the board variable, with the return on asset, which is firm performance variable, the result of the correlation is0.04, which is mean the relation between the CEO duality, and the return on asset, which is the firm performance variable, is positive, but slightly not bad, not high as the relation between, the board size and the return on asset. And next one is the correlation between the return on equity and the CEO duality, which is surprising, -0.12 the result is negative, so that is mean the relation between them is negative, that mean the return on equity, is negative when the CEO duality are in case, and that maybe refer to the owner ship ratio, which the CEO of board and the company in same time, also be the owner, so the equity most of it related to him or her, so it isn't easy to, separate their personal equity fully, from the calculation. The next correlation is between the CEO duality and the stock price, which as expected the duality effect high on the stock price, which the result is 0.38, and that refer to some reasons, one of them the reputation, in the CEO duality is easier to made, and second when the CEO in board, and the CEO in the company be same, the decision making be more, decentralize, which made good decision faster to apply, and problem accrue easier, and that make the performance high, and gain reputation, also make the investor more likely to invest in such company.

4.3.3. Third hypothesis: female ratio

The first correlation which we take, is between the return of asset, and female ratio, which in the result, we get -0.14, which again surprising, and maybe a question what is the effect, on the female board member on the return of asset negatively, and that is maybe back to the firm overall, which the female ratio is low and they make just 0.11 of the companies, so there relation is weather is they do not effect, or like in the data, they effect negatively, but the suppressing, coming next, which is about the return of equity, which they record a high effect on it 0.398 which is almost, 40 percent, and in this time we can say we ignore the first negative effect, and we take the second effect, because whether they are, having low ratio, but they have huge effect, and positive effect, and when it comes to share price again the correlation show that, -0.08 which that maybe, back to the investors, when they see the women in board, they think negatively, but when it came to equity, they have the effect which other factor doesn't reach that number easily.

5. Conclusion

In first of our topic we start as thinker, and questioned, between the board firm and ownership, which the board having key which the owner ship, does not have it, or reach it easy, and that key is the developing, the board companies, because of they are in stock market, they are developing, because of one simple, thing and that thing is, more than advantage, more than mind, culture, and idea, came together, which the opportunity is higher to develop. And we find out the effect of the board on the stock market price, return of asset and equity, also we find out two important effects, one of them the role of CEO duality in the share price, and the other the role of women in return of equity. Which both having huge effect more than the other variable which we take, finally Iraq also can be a developed country in economy, but the people got through, bad reputation of the companies, and start thing new, to trust them and invest in them, to grow the economy, and be an main input for the population, and maybe they can get the old Iraq when before 80s, were it were.

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