Do the characteristics of the board chairman have an effect on corporate performance? Empirical evidence from Saudi Arabia

Yahya Ali Al-Matari*
College of Business Administration, King Faisal University, Saudi Arabia

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ABSTRACT

The purpose of this study is to investigate the impact of corporate governance, especially the characteristics of the chairman of the board of directors (BC) (tenure, expertise and directorships) on corporate performance (CP). It was conducted with data from the 44 companies registered in the financial sector on Bursa, Saudi Arabia, from 2015 to 2019, eventually totalling 195 firm-year observations. The results indicate that the BC’s tenure and expertise are positively associated with the financial firm’s performance. The attribute of multiple directorships held by the BC, on the other hand, has no relationship with corporate performance. The results help policy makers better understand BC characteristics, which can be incorporated into future policy to ensure the protection of shareholder investment and the interests of various stakeholders. The results may also be useful to legislators seeking to improve BC efficiency, overall corporate governance and investor confidence in the organization. To the researcher’s knowledge, the relationship between CP and BC characteristics has not been investigated, even although the chairman is in charge of appointing directors who could expand the company and make contributions not only to the board but also to CP (Owen & Kirchmaier, 2008). Therefore, this article contributes to the limited literature on the impact of BC characteristics on CP in the context of Saudi Arabia.

1. Introduction

Saudi Arabia is the largest economy as it accounts for 38% of GDP in the Middle East and North Africa (MENA) which has the greatest economic and political impact in the region. According to Saudi Arabian Monetary Authority (SAMA), the Saudi economy remains quite resilient against disorder from growing uncertainty in the global economy and made a recognizable recovery in the same period driven by the oil sector though economic growth subsided in both advanced and emerging G20 economies in 2018. The role of financial institutions and leading companies such as Aramco, SABIC in the Saudi economy is becoming incredibly important in alignment with the current development goals of the Saudi Vision 2030 (Park and Alenezi, 2018). Therefore, the current study was carried out on the financial sector companies registered in Bursa, Saudi Arabia as relevant studies in this regard have asserted the significant role played by the financial sector in the economic growth of any country.

Corporate failure (for example Global Crossing, WorldCom, Enron and Tyco), jointly with the 1997 Asian financial crisis, has emphasized the value of good corporate governance on organizations’ long-term performance and existence (Al-Matari et al., 2012). At the start of 2006, the Saudi Stock Market (SSM) was confronted with unexpected circumstances, which drove the Capital Market Authority (CMA) to disbar two companies, the Saad and Al Sanie groups. This questioned the efficiency of various strategies that were intended to defend stockholders’ interests.

The board of directors is one of the main elements of corporate governance (CG), responsible for supervising managers and protecting investors’ interests (Fama and Jensen, 1983). It is also claimed that features of CG, including board tenure, CEO duality, board composition and board size, have an effect on company performance (Coles and Jarrell, 2001; Fama and Jensen, 1983). Following agency theory, studies have claimed that CG mechanisms such as audit committees (ACs), ownership, and the board of directors can reduce agency issues and enhance CG (Jensen and Meckling, 1976; Klein, 2002).

The board chairman (BC) has a significant role on the board of directors. According to Sir Adrian Cadbury, despite the fact that the BC have no legal status, the choice of holder of this position is vital to board efficiency. The chairman’s functions have become more multifaceted in recent decades (Owen and Kirchmaier, 2008; Bezemer et al., 2012).

* Corresponding author.
E-mail address: yalmatari@kfu.edu.sa.
According to Owen and Kirchmaier (2008), the chairman must establish the values not only of the board but also for company performance, for example by retaining directors (executive and non-executive) who make significant contributions to the company. Hence, the efficiency of the board of directors overall, and the chairman in particular, is vital in improving CP.

Researchers have widely investigated the association of the characteristics of the board directors (at board of director’s level) with CP (e.g., Ali and Oudat, 2021; Bawazir et al., 2021; Brahma et al., 2021; Coles et al., 2008; Culasso et al., 2012; Daunfeldt and Rudholm, 2012; Kanakriyah, 2021; Livnat et al., 2021; Misra, 2020; Olsen and Cox, 2001; Vieira, 2018; Ujunwa, 2012) and earnings management (e.g., Alves, 2011; Chaiwut et al., 2020; Coles et al., 2008; Jaggi and Leung, 2007; Kao and Chen, 2004). However, little attention has been devoted to investigate this association at the individual level (BC), particularly the association with corporate performance (Amran et al., 2014; Chandren et al., 2021).

Moreover, few previous studies investigated some of BC characteristics such as age (Amran et al., 2014; Chandren et al., 2021; Waelchli and Zeller, 2013), gender (Amran et al., 2014; Xiong, 2016), tenure (Chandren et al., 2021; Waelchli and Zeller, 2013; Xiong, 2016) and expertise (Amran et al., 2014; Xiong, 2016). However, there is a paucity of research, if any, that none of the studies has examined the effect of BC multiple directorship, particularly on corporate performance and this relationship has not been given the deserved attention.

Remarkably, most of the recently published research works regarding the corporate governance (board of directors) and corporate performance has focused primarily on U.S. companies and other developed countries. However, less attention has been devoted to companies in emerging markets. Hence, there has been an urgent call for more research related to the corporate governance in the developing countries, which have a unique business environment such as Saudi Arabia. Therefore, this study aims to fill the gap in the literature by examining the link between the Chairman as board leader and cooperate performance, particularly, in the context of Saudi Arabia.

Therefore, the findings of the study will contribute to the literature and knowledge by explaining that expert, and a short-tenured Chairman improve cooperate performance. Furthermore, it has important implications to ensure the crucial role of the chairman in achieving positive performance as a good leader will strive to protect the interest of shareholders and other stakeholders and enhance the firm’s value through strong systems incorporating best the corporate governance practices.

2. Literature review and hypothesis development

2.1. Tenure of board chairman

There are two viewpoints on the significance of BC tenure. In favour, seniority enhances their expertise and understanding of best business practices, allowing them to track management choices about financial reporting more efficiently (Vafeas, 2005). However, directors who have been on the board for a long time are more likely to have developed friendships and to be less willing to oversee management (Vafeas, 2005).

Regarding CP, only a few researchers have examined the relationship between tenure and performance. Waelchli and Zeller (2013), for example, found no significant relationship between the BC’s tenure and CP. However, Livnat et al. (2021) found that a board with longer tenure was related with greater market value, improving CP. This supports the stewardship theory which claims that directors who stay longer in their positions perform better than those who stay shorter because the former are more familiar with the affairs of the company. Thus, based on the stewardship theory and above explanation, the first hypothesis is as follows:

H1. There is a positive association between the BC’s tenure and CP.

2.2. Expertise of board chairman

Chairman with a somewhat good education is supposed to have a broader variety of knowledge and a more systematized knowledge system, as well as being thoughtful while dealing with challenges (Hambrick and Mason, 1984). The Saudi Codes of Corporate Governance (Capital Market Authority (CMA), 2017 and Saudi Arabian Monetary Agency (SAMA), 2014) stress that nominating board members and chairman should consider recruiting directors that have skills, experience and qualifications. The issue of BC expertise has not been fully investigated by previous studies. Xiong (2016) found that companies with more highly educated BC have fewer discretionary accruals and lower real earnings management. However, Amran et al. (2014) found no significant association between a BC with a higher educational level and professional qualifications and CP. In line with resources dependency theory and based on the above discussion on a positive association, this research hypothesizes that:

H2. There is a positive association between the BC’s expertise and CP.

2.3. Multiple directorships of board chairman

The CG literature indicates increasing debate about whether directors (e.g., BC) serving on numerous boards are advantageous to the company (Chen et al., 2015; Elyasiani and Zhang, 2015). The reputation hypothesis, like the agency and resource dependency hypotheses, asserts that chairmen and financial experts can increase their knowledge and experience through holding a large number of directorships (Tanyi and Smith, 2014).

However, Ferris et al. (2003), in accordance with the busyness hypothesis, state that board members (e.g., BC) who serve on numerous boards are over-committed, causing them to neglect their obligations as directors. That is, directors who serve on numerous boards may not have the energy or time to adequately oversee and advise management (Elyasiani and Zhang, 2015). This allows managers to accomplish their personal objectives rather than the interests of shareholders (Jiraporn et al., 2008; Tanyi and Smith, 2014).

The Saudi Codes of Corporate Governance (CMA, 2017; Saudi SAMA, 2014) stress that board members and chairman can’t be a member of the boards of directors of more than five listed joint stock companies at the same time. Most prior researches have only examined the impact of multiple directorship (at board of director’s level) on corporate performance (e.g., Jiraporn et al., 2008; Pombo and Gutierrez, 2011; Saleh et al., 2020). However, there is no study has examined the effect of BC multiple directorship, particularly on corporate performance. Thus, this study postulates the following hypothesis:

H3. There is a positive association between a BC’s multiple directorships and CP.

3. Methodology and model

3.1. Sample selection

The target population of this study is all 44 Saudi firms in the financial sector registered with the Saudi Stock Exchange (Tadawul). The sample is made up of 220 company-year observations from 2015 to 2019 (5 years). As stated above, the years 2015–2019 were used in line with the SAMA 2014 and CMA 2017 requirements for the qualification and term
of the members of the board of directors and chairman to strengthen the governance practices. The number of firms was reduced from 44 to 39 due to lack of financial and CG data. As a result, the final sample comprises 195 firm-year observations. The data was gathered by hand from the annual reports provided on Tadawul.

3.2. Measures of BC characteristics

The influence of the BC’s personal characteristics is evaluated using tenure, expertise, and multiple directorships. While it defines these characteristics in line with previous literature (Schmidt and Wilkins, 2013; Sharma and Kuang, 2014; Yang and Krishnan, 2005), it is unique in measuring individual directors rather than groups. The number of years the chair has been a director in the company is used to determine BC tenure. Furthermore, a BC with accounting expertise is defined here as a chair with accounting or financial qualifications and experience. This variable is measured by allocating one for accounting or finance specialist BC and zero otherwise. Finally, multiple directorships is a variable is measured by allocating one for accounting or finance directorships.

3.3. Measures of corporate performance

3.3.1. Measures of corporate performance

The use of ROA as a performance metric is preferable to other accounting measures (ROE, EPS) since the earnings used to assess ROA are not impacted by exceptional circumstances and are also less susceptible to managerial influence (Bushman and Smith, 2001). Many of the earlier studies used ROA as a measure of CP (Al-Matari et al., 2012a, b; Brick and Chidambaran, 2010; Chung et al., 2008; Klein, 2002).

3.4. Measures of control variables

Following the study of Knechel and Sharma (2012), this one has two groups of control variables to enhance predictive capacity and to minimize the effects of factors omitted. The first set relates to CG: the independence of board members (BINDEP), size of the board of directors (FSIZE), meetings of board of directors (BMEET) and accounting expertise of directors (BAFL). The second set of control variables is related to firm-specific characteristics (for example, company size, leverage, and banking sector).

3.5. Model specification

The impact of BC characteristics (tenure, accounting and financial expertise, and directorships) on CP was investigated using regression analysis. The following regression was performed to evaluate the impact of BC attributes on ROA. Table 1 contains detailed information of all the variables.

\[
ROA = \beta_0 + \beta_1 \text{BCTEN} + \beta_2 \text{BCEXP} + \beta_3 \text{BCMD} + \beta_4 \text{BINDEP} + \beta_5 \text{FSIZE} + \beta_6 \text{BMEET} + \beta_7 \text{BAFL} + \beta_8 \text{LEVGE} + \beta_9 \text{BFAL} + \beta_{10} \text{BSECT} + \varepsilon
\]

4. Data analysis and results

4.1. Descriptive statistics

Before the regression analysis, descriptive statistics were analyzed. The mean of BCTEN is 8.014, according to the descriptive data provided in Table 2. The following are the mean values of the control variables: BINDEP, BSIZE, BMEET, and BAFL in board mechanisms are 3.819, 6.078, 4.105, and 4.300, respectively; and the mean values of LEVGE and FSIZE in firm-specific features are 1.943 and 284 million, respectively. According to Table 3, 87 (44.62%) and 112 (57.44%) firm observations, respectively, indicated a BC who is an accounting expert and has two or more seats in other firms. Table 3 further reveals that 55 (28.21%) of companies are banks and 140 (71.79%) are insurance firms.

4.2. Correlation analysis

In order to have an understanding of the relationship between all variables in the study, Pearson correlation analysis was carried out in a systematic manner. Table 4 shows that all correlations are less than 0.90. According to Hair et al. (2010), this shows that multicollinearity or collinearity across variables are not a concern in this study. Furthermore, to assess the normality of the various variables, kurtosis and skewness were calculated as descriptive numerical techniques. Table 2 demonstrates that the dataset of individual variables does not contradict the normality assumption, that is, the skewness is not larger than or less than the threshold of ±3 and the kurtosis is not greater than the threshold of ±10. In addition, the Variance Inflation Factor (VIF) was employed. According to Hair et al. (2010), a VIF greater than 10 indicates a significant multicollinearity problem. However, as shown in Table 2, the values of VIF for all variables were determined to be between 1.051 and 3.134, indicating that the problem of multicollinearity was not present in this study.

4.3. Structural model

Finally, the regression analysis was conducted to examine the hypothesized associations between the study variables. Table 5 shows that the R² value indicates 38.7% of CP variation (ROA as proxy). The findings of the significance of the model with F value is (F = 2.648, p < 0.01) and the adjusted R² 21.8%.

The results in Table 5 reveal that BCTEN has a significantly negative relationship with CP (β = -0.502, t = 1.829, p < 0.05), so hypothesis 1 is not supported. Similarly, BCMD has no significant association with CP (β = 2.231, t = 0.722, p > 0.05), and hypothesis 2 is not supported. On the other hand, the results indicate that BCEXP has a significantly positive association with CP (β = -0.317, t = 2.872, p < 0.05), so hypothesis 3 is supported.

5. Discussion of results

This section discusses the outcomes of the study to examine the CG characteristics of Saudi Arabian financial companies, that is, the relationship between BC characteristics (tenure, expertise, and multiple directorships) and CP. Table 5 shows that BCTEN and CP have a significant negative association, indicating that hypothesis H1 is not supported. That is, a Chairman with shorter tenure appears to be more dynamic and challenging in displaying stewardship to achieve positive performance. This result is consistent with Chandren et al. (2021) findings on the association between BC tenure and operating performance and Waechtl and

| Table 1. Summary of the operationalization of the variables. |
|-----------------|-----------------|
| Variable name   | Variable measure |
|-----------------|-----------------|
| BCTEN           | The number of years the chair has been a director of the company |
| BCEXP           | If the chair of the board has experience in accounting or finance, the response is 1, otherwise it is 0 |
| BCMD            | 1 if the chair of the board has two or more seats on other boards, 0 otherwise |
| ROA             | Net income as a percentage of total assets |
| BINDEP          | The percentage of independent directors on the board (except for the chair) |
| BSIZE           | The number of directors on the board |
| BMEET           | The number of board meetings conducted during the year |
| BAFL            | The proportion of directors (with exception of the chair) on the board with accounting and financial competence |
| FSIZE           | The book value of the company’s entire assets |
| LEVGE           | Total liabilities as a proportion of total assets |
| BSECT           | If a bank, 1, otherwise 0 |
Zeller (2013) findings on the association between BC tenure and CP. However, it contradicts the findings of Livnat et al. (2021) on the association between the tenure of the board’s non-executive directors and higher market valuations, and of Yang and Krishnan (2005) on the tenure of AC directors and EM. An explanation of the current study’s negative findings is that extended tenure may hinder the director’s independence in achieving the firm’s objectives, protecting the interests of management rather than shareholders, and in turn leading to poor CP. Therefore, a Chairman with shorter tenure is considered an important component of board characteristics. Additionally, the result supports the Saudi Codes of Corporate Governance (Capital Market Authority (CMA), 2017 and Saudi Arabian Monetary Agency (SAMA), 2014) which recommend that the term of board members can’t exceed three years in Saudi Arabia.

Regarding BCEXP, the results indicate a significant positive relationship with the CP of finance companies in Saudi Arabia, supporting hypothesis H2. This finding supports the view that a BC with comparatively greater learning has a wider awareness and a more organized understanding of the organization, and is thoughtful in dealing with issues (Hambrick and Mason, 1984). This outcome also supports Xiong (2016), who found a significantly positive relationship between the level of education of the BC and CP (Amran et al., 2014). Therefore, board competency is considered an important component of board characteristics. Additionally, the result supports the Saudi Codes of Corporate Governance (Capital Market Authority (CMA), 2017 and Saudi Arabian Monetary Agency (SAMA), 2014) which recommend that the board members should have the academic qualifications, professional and personal skills related to the current and future businesses of the company in Saudi Arabia.

Lastly, this study finds that BCMD has no relationship with CP, meaning that hypothesis H3 is rejected. This contradicts previous findings (e.g., Elyasiani and Zhang, 2015; Pombo and Gutiérrez, 2011) that indicated a significant positive association between multiple directorships and performance. The results of this study also contradict the findings of Jiraporn et al. (2008), who discovered a significantly negative association between multiple directorships and CP, as well as the findings

**Table 2. Descriptive statistics of study variables.**

| Variable | Obs | Mean | Std. Dev. | Min | Max | Skewness | Kurtosis | VIF |
|----------|-----|------|-----------|-----|-----|----------|----------|-----|
| BCTEN   | 195.00 | 8.014 | 4.129 | 0.498 | 17.251 | -0.521 | 2.312 | 1.051 |
| BINDEP  | 195.00 | 3.819 | 1.302 | 2.000 | 7.000 | 2.040 | 6.043 | 3.003 |
| BSIZE   | 195.00 | 6.078 | 2.650 | 4.000 | 13.000 | 2.642 | 9.295 | 1.154 |
| BMEET   | 195.00 | 4.105 | 0.811 | 3.000 | 15.000 | 1.801 | 5.023 | 3.134 |
| BFAL    | 195.00 | 4.300 | 1.691 | 3.000 | 8.000 | 2.781 | 4.374 | 1.761 |
| ROA     | 195.00 | 0.451 | 4.070 | -0.899 | 45.754 | 1.754 | 3.754 | 2.754 |
| LEVGE   | 195.00 | 1.493 | 0.711 | 0.667 | 5.750 | 0.750 | 5.750 | 1.750 |
| FSIZE   | 195.00 | 284.556 | 329.873 | 3.650 | 3.650 | 3.650 | 2.650 | |

* Note: value of firms in Million.

**Table 3. Descriptive statistics of the dummy variables.**

| Variables | Frequency | Percentage |
|-----------|-----------|------------|
| BCEXP     | 87        | 44.62%     |
| BCMD      | 112       | 57.44%     |
| BSECT     | 55        | 28.21%     |

**Table 4. Results of Pearson correlation analysis.**

| Variables | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  | 11  |
|-----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1) BCTEN  | 1   |     |     |     |     |     |     |     |     |     |     |
| 2) BCEXP  | -178 | 1   |     |     |     |     |     |     |     |     |     |
| 3) BCMD   | 0.148 | 0.054 | 1   |     |     |     |     |     |     |     |     |
| 4) BINDEP | -0.012 | -0.174 | 0.062 | 1   |     |     |     |     |     |     |     |
| 5) BSIZE  | 0.046 | -0.112 | 0.002 | -0.020 | 1   |     |     |     |     |     |     |
| 6) BMEET  | 0.292 | -0.115 | 0.342* | 0.078 | 0.062 | 1   |     |     |     |     |     |
| 7) BFAL   | -0.136 | -0.099 | 0.054 | -0.024 | 0.128 | -0.003 | 1   |     |     |     |     |
| 8) ROA    | 0.163 | 0.168 | 0.227 | 0.123 | -0.073 | 0.646** | 0.046 | 1   |     |     |     |
| 9) FSIZE  | 0.603** | 0.044 | 0.232 | 0.150 | -0.061 | 0.165 | -0.168 | 0.373** | 1   |     |     |
| 10) LEVGE | 0.515** | -0.145 | 0.226 | 0.102 | 0.032 | 0.088 | 0.127 | 0.224 | 0.613** | 1   |     |
| 11) BSECT | 0.404** | -0.103 | -0.207 | 0.136 | 0.143 | -0.086 | -0.080 | -0.017 | 0.461** | 0.158 | 1   |

Notes: ** Correlation is significant at the 0.01 level (2-tailed); * Correlation is significant at the 0.05 level (2-tailed).
of Mohd Saleh et al. (2007), who discovered a significant negative relationship between multiple directorships and EM. It is, however, consistent with the studies of Al-Abisy et al. (2019) and Samsuri (2010), who found no significant relationship between a chairman of the AC with multiple directorships, and EM. This finding contradicts agency theory and dependency resources theory, but it is compatible with the busyness hypothesis, which claims that directors (e.g., BC) who serve on several boards are over-committed, causing them to neglect their obligations as directors. A possible explanation of the result of the current study is that board of directors with multiple directorships in Saudi Arabia are found to be busier than non-multiple directorships. Besides, the BC is expectedly to be busier than other board members.

6. Conclusion

The current study aims at investigating the effects of the characteristics of the chairman of the board of directors (BC) (tenure, expertise and directorships) on corporate performance (CP) in the financial sector on Bursa, Saudi Arabia. The board of directors is one of the main elements of corporate governance and the board chairman has a significant role on the board of directors promotes good corporate governance practices and strengthening stakeholder confidence in the firm. However, few studies have investigated the relationship between the Chairman and performance. To the best of the author’s knowledge, this study is the first to examine the effect of Chairman characteristics (tenure, experience, and directorships) on corporate performance in the context of Saudi Arabia. The results demonstrate that a BC with experience in accounting or finance is associated with improved CP, whereas BC tenure is negatively associated with CP and multiple directorships are not associated with CP.

The results of this study emphasized that expertise and short tenure are important aspects of board chairman that lead to a better firm performance. Possibly this is one of the important areas that CMA and SAMA should stress to the board chairman in Saudi Arabia to focus on. Investors may find this evidence beneficial in terms of governance in making investment decisions in Saudi financial companies. The results also provide guidance in the achievements of financial firms in the Saudi environment through explaining underlying theories (agency theory and resource dependency theory).

The first limitation of this research is that its scope is focused on Saudi listed financial companies. Additional research might be conducted in different contexts. This study is also limited in that it covers only certain BC attributes (tenure, expertise, multiple directorships); additional characteristics such as gender, age, and ethnicity might be studied in the future. The use of ROA as a proxy for performance is likewise limited, and future research may include a variety of accounting and market indicators to offer a more comprehensive picture of company performance.

Declarations

Author contribution statement

Yahya Ali Al-Matari: Conceived of the presented idea; Conceived and designed the analysis; Analyzed and interpreted the data; Contributed analysis tools or data; Wrote the paper.

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Data availability statement

Data will be made available on request.

Declaration of interests statement

The authors declare no conflict of interest.

Additional information

No additional information is available for this paper.

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