The impact of the Board of Directors on Company Financial Performance in the UK firms. (FTSE-100)

تأثير مجالس الإدارة على الأداء المالي للشركات البريطانية المدرجة في سوق (FTSE-100)

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Abstract:
The purpose of this study is to examine the impact of management board on its performance in the UK. It studies the link between financial performance using ROA and NEDs, size and board meetings. The secondary data was used by collecting it directly from annual reports. The sample consists of 25 firms listed on London Stock Exchange within FTSE-100 over 2010 to 2014 period. The findings show an inverse association between both board size, board meetings and firm performance. Based on that, UK firms need to assign small board because it has more effective communication and coordination than a larger board. Therefore, firms do not need to meet more than usual every year. However, the results reveal a positive association between NEDs and company performance. Proper representation of external directors mitigates conflict of interest between shareholders and management since they monitor companies' performance. This leads to obligate managers working on maximising shareholders' worth.

Keywords: Board of Directors, Board Size, Board Meeting, Non-Executive Directors, Financial Performance, Return on Assets.
JEL Classification Codes: G1

ملخص:
تهدف هذه الورقة إلى دراسة تأثير مكونات مجلس الإدارة مثل حجم المجلس، عدد الاجتماعات السنوية لأعضاء المجلس و عدد المدراء غير التنفيذيين المكونين للمجلس على الأداء المالي للشركات البريطانية. تتكون عينة الدراسة من 25 شركة مدرجة في بورصة لندن ضمن مؤشر *FTSE-100* خلال الفترة من 2010 إلى 2014. تم تجميع بيانات الدراسة من التقارير المالية للشركات البريطانية. تظهر النتائج ارتباطًا عكسيًا بين حجم مجلس الإدارة وعدد اجتماعات مجلس الإدارة وأداء الشركة. بناءً على ذلك ، تحتاج الشركات البريطانية إلى تعيين مجلس إدارة صغير لأنه يتمتع بتواصل وتنسيق أكثر فاعلية من مجلس إدارة أكبر. لذلك ، لا تحتاج الشركات إلى الاجتماع أكثر من المعتاد كل عام. ومع ذلك ، تكشف النتائج عن وجود علاقة إيجابية بين نسبة المدراء غير التنفيذيين المكونين للمجلس وأداء الشركة وبالتالي فإن التمثيل الصحيح للمديرين الخارجيين يخفف من تضارب المصالح بين المساهمين والإدارة لأنهم يراقبون أداء الشركات ويؤدي إلى إلزام المديرين بالعمل على تعظيم قيمة المساهمين.

كلمات مفتاحية: مجلس الإدارة ، حجم مجلس الإدارة ، اجتماع مجلس الإدارة ، أعضاء مجلس الإدارة غير التنفيذيين ، الأداء المالي ، العائد على الأصول
تصنيفات JEL : G1

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1-Introduction:

From the conceptual perspective, the system through which firms are guided and managed is called corporate governance (Cadbury Report, 1992, p.5). Corporate governance has acquired a critical position in the current corporate world by supporting the creation of company value and improving financial performance, particularly in the wake of persistent corporate scams that have continuously characterised global corporate entities (Rose, 2005, p.691). Over recent years, several corporate entities such as Rank Xerox, Qwest and Tyco, WorldCom, Lehman Brothers and Enron have collapsed. Consequently, as a response mechanism to the scandals rocking the corporate sector, global agencies and countries started initiating guidelines and laws called codes for best practices of corporate governance. Such guidelines constitute several rules, which control the corporate board's structure and behaviour in exercising supervisory and oversight roles (Cuervo, 2002, p.84).

The U.S. Sarbanes-Oxley Act (2002); Russian CG Code, (2002); OECD Principles of Corporate Governance (1999) and UK Cadbury Code (1992) are some of the existing international codes. Although the codes are similar with regard to the need of aligning parties' interests (management and shareholders), they are characterised by differences that emanate from the fact that they have different corporate environment and corporate nature.

However, many challenges have arisen because of the separation of management from shareholders and the opportunistic decisions that may be taken by managers to inflate their personal gains. In such a circumstance, directors may influence a company's performance, profit figures or some other component of annual reports to ensure a seat in a company board. (Cuervo, 2002, p.87). This forces shareholders to pay additional costs, known as agency costs, for the purpose of supporting governance mechanisms to enhance the role of the board of directors in resolving the problem of conflict of interest between the personal interests of managers and the interests of the shareholders. (Mallin, 2004, p.78)

Based on the above, various suggestions on the way to improve governance in firms to enhance trust have been advanced. The focus of reforming corporate governance has been directed towards the structure and how the board functions (Van den Berghe, Levrau, 2004, p.465). There is a need to understand how the board operates because it constitutes a critical part of the way companies are governed (Ogbechie, 2012, p.275). This study will contribute to understanding the optimal composition of board directors in terms of the typical number of board members and required annual meetings which help to increase shareholders' worth.

The management board is tasked with the duty of ensuring proper governance is exercised within firms. Such responsibilities encompass briefing company owners about their stewardship, recruiting or dismissing the management team, setting the firms' strategic goals (Cadbury Report, 1992, p.12). Therefore, NEDs advice could help to improve financial performance by providing tips to board members about how to improve corporate governance system.

The problem of the study arose when there was no agreement in the previous literature about the optimal size of board members, the optimal number of meetings, or the extent of non-executive directors 'participation in maximizing the financial performance of companies. When the board size is greater than it should, it costs the company extra fees that reduce the profitability of the companies, while when the board size is less than it should be, the board may lose competence in choosing the right decisions. The same applies to other variables, so the results of this study may help British companies to determine the optimal size for each variable.

For example, many previous studies (Arosa and others, 2013, p.128; Bouaziz, Triki, 2012, p.60; Uadiale, 2010, p.156; Nicholson, Kiel 2007, p.586) observed debates concerning the way the director board affects the company's value are not conclusive and provide varied results. Some researchers claimed that the reason for variation these results might be related to the fact that previous researches interested in examining specific board of directors' variables.

To fill this gap in previous literature and to measure the composition of firms' board director on financial performance, the present study would join the debate to investigate the effects emanating from board decisions, determined by its meetings' frequency concerning the firm's financial performance based on returns on assets (ROA), typical board size and NEDs participations. (Habbash, 2010, p.17).

A quantitative research will be carried out for study sample and the secondary data will be collected from companies' annual reports on each selected firm's website. In general, this study is aimed at exploring the correlation between the company's financial performance and corporate board in 25 FTSE-100 firms listed on the London Stock Exchange (LSE) from 2010-2014. However, the objectives of current study are to investigate how financial performance is related to board size, NEDs and board meetings' frequency. Based on that, there will be three essential hypotheses, and will be teseted on multiple regression analysis provided by SPSS in order to predict the outcome of variables study. These hypotheses are:

H1: A positive correlation exists between financial performance and board size.

H2: Financial performance is negatively related to numbers of board meetings.

H3: A statistically positive correlation exists between financial performance and the number of non-executive directors.

2-Literature Review

This Literature review gives confirmations concerning the influence of the board of managers on the company's performance. This section offers a broad variety of pertinent literature that has been analysed to offer fitting information concerning the study objectives. This section demonstrates hypothetical considerations and substantiates facts that have progressed to analyse and discuss the director's board from the literature concerning the topic under study. Even though these hypothetical frameworks of corporate governance are slightly dissimilar and employ different terminology, each one tries to examine and describe the same issues from different standpoints. Subsequently, an analysis of pertinent literature was carried out in an attempt to investigate influence of the board of directors on company performance by pointing out the connections between the board size, composition, number of board meetings, and firm performance.

2-1The Board size and Financial Performance :

Board size refers to the total figure of directors in board structure with voting privileges on the board of directors. (Pugliese, Wenstop, 2007, p.387). However, the number of members in the U.K. differs from firm to another, depending on firms' activities, nature of industry and services, etc.

A review of the empirical findings around the world on the effect of board size on company performance shows mixed results. Some studies have found a positive link between board size and

its performance. However, other researchers have found a negative link and no relationship between the variables.

According to Guest (2009, p.388) argues that a larger board is a typical size for a company to perform their responsibilities and roles than a smaller one. More specific; first, corporate boards with a larger numbers of members such as outside or non-executive directors (NEDs) can be seen as beneficial that shows a greater range of independent and better placed to effectively advise, monitor (control) and discipline management(Ntim and others, 2014, p.29), second, a board with many members can be beneficial to companies as long as it has diversity in experience, skills, information, and efforts, as well as a better chance to secure critical resources and monitoring company's activities. (Nicholson, Kiel, 2007, p. 588; Ntim and others., 2014, p.28).

Muller (2014, p.970) indicated a significant strong positive correlation between the total number of directors on the board and its performance. The researcher investigated that increasing board size within the largest European stock market is essential to improving performance. In this vein, agency theory supports this result in controlling directors' activities, since such boards are relied upon to employ experienced, proficient and specific managers (Tulung, Ramdani, 2018, p.15). Therefore, larger boards may improve monetary performance and limit any unilateral decisions that influence owners' riches (Rubino and others, 2017, p.626). In line with this argument, Uadiale (2010, p.157) found that firms should encourage to create large board size and the composition of external managers as a member of the boardroom should be improved in order to enhance its performance. Likewise, bigger boards showed more cohesive and competence in enhancing firms' performance. (Singh and others, 2018, p.175; Mohapatra, 2017, p.22).

In contrast, a board with small numbers may be better for firm valuation. First, company board with a small number of members consume less financial and non-financial resources in the form of remuneration and bonuses than larger boards. Second, coordination and communication become more difficult with a larger board (Ntim and others, 2014, p.22)

Consistent with this view, Arosa and others (2013, p.130) found a negative relationship between the size of the board and firm value. The study explained that the problems that come from lack of coordination, flexibility and communication in large boards more significant than better director control by the boardroom, which may lead to poor decision-making.

In the same context, Liang and others (2013, p.37) revealed that size of board has a significantly negative impact on bank performance. The researcher concluded that smaller boards tend to be more efficient in supervising and advising functions, and the boardroom plays an essential and important role in Chinese banking.

Di Pietra and others (2008, p.77) revealed no evidence between board size and firm value. The study explained that the number of directors does not influence company performance. Further research by Johl and others (2015, p.241) indicated that no evidence was found for board size and firm performance measured by ROA, by analysing the financial and non-financial data drawn from a sample of all Malaysian companies (700) listed on the Bursa Malaysia for the year 2009. The researcher explained that increasing or decreasing the number of directors does not improve boards' performance effectiveness. The following hypothesis is therefore proposed:

H1: A positive correlation exists between financial performance and board size

2-2 The Board meetings and Financial Performance :

The board meetings played an essential role in the firms' governance and performance and regarded as an important factor in the scope of companies' effective performance. Taliyang and Jusop (2011, p.109) argued that the effectiveness of board is influenced when boards have not met one time every three months, more clearly no less than four times a year. The key goal to increase the transparency and to encourage the members to exchange of views provide some advice and opinions between parties (Mahmudi, Nurhayati,2014, p.417) However, Suhardjanto and others (2012, p.20) argued that the increasing number of meetings between members would contribute to increasing the performance. When the board members have to meet more than necessary, it can increase meeting costs such as managerial time, travel expenses, and directors' meeting fees. (Vafeas, 1999, p.55)

In general, previous studies provide mixed results regarding the effect of board member meetings on firm performance. For instance, Ntim and Kofi (2011, p.195) showed a significant positive link between board meetings and corporate financial performance. This research explains that frequency board meetings tend to generate higher corporate financial performance. Furthermore, increasing the ability to control and monitor the management, provide good advice, and improve corporate financial performance.

Likewise, a research conducted by Modum and others (2013, p.188) who studied the effect of frequency meetings and regularity in attendance at meetings on financial performance. The study explained that a large number of necessary management meetings lead to a performance improvement mechanism. The results provided evidence of a clear positive association between frequency meetings and corporate performance. In addition, boards with regular meetings showed an integrated awareness regarding their operational choices to support financial performance. At the same time, Mangena and Tauringana (2008, p.28) revealed a positive link between the variables. The findings support the idea that firms with more frequency meeting gain better performance because active boards are more experienced in dealing with management discussions and providing solutions than non-active boards.

In contrast, Danoshana and Ravivathani (2013, p.16) revealed a negative association between the two variables, explaining that increasing board meetings will result in poor firm performance, because of rises in management costs. In the same context, Hahn and Lasfer (2007, p.14) showed a strong negative relationship between the variables. This research explains that the decrease in board meetings' frequency might lie in the expansion representation of foreign NED who might be dependent on board meetings by only accepting and agreeing to provide some service.

Overall, the researcher concluded that the trade-off between increase the amount of advise and decreased monitoring and controlling (lower meetings) has a weakened internal mechanism for governance in the U.K. Supporting same findings, Azar and others (2014, p.29) showed that boards that met more or less than necessary reduce the effectiveness of the board. The study concluded that board frequency is important for profit-seeking as boards have extra time to discuss strategy setting. The following hypothesis is therefore proposed:

H2: Financial performance is negatively related to numbers of board meetings.

2-3 Non-Executive Directors and Financial Performance:

Board in the U.K. firms consists of two types of managers, executive and non-executive. Executive directors are responsible for all affairs of the firm. The most important duties are direct responsibilities for management functions, such as finance and marketing (Weir, Laing, 2001, p.90). Executive directors are employees of the firm with full time working and have some roles and duties. However, they do not have a term of reference to monitor or discipline the CEO (Daily, Dalton, 1993, p.377). Thus, the mechanism to monitor the conduct or behaviours of the CEO and executive directors is important to confirm that they aim to achieve shareholder interest.

Saravanan (2012, p.11) stated that non-executive directors are effective monitors and do not have personal interests in the company. The most important advantage of NEDs that they are able to use independent judgement when transact with the executive directors in many scopes for example, remunerations, executive directors dismissals and appointments. In contrast, the main disadvantage of non-executive directors is part-time employees of the firm. These lead not to gain sufficient information when decision making.

This study will examine the effect of board composition in terms of the percentage of non-executive directors (NEDs) on the board on its performance. Furthermore, a review of the empirical findings around the world on the effect of board composition on company performance and these studies show varied results. The literature reviewed showed a positive, negative, and no association between NEDs and company value.

Beginning with those studies providing a positive correlation, Mura (2007, p.92) shows that the proportion of non-executives on the board has significantly and positively related to firm performance. The study's findings support and similar the Cadbury report and U.K. code corporate governance that mentioned the U.K. companies' boards had been more effective controls and monitors on behalf of their shareholders. While other supporting studies find firms achieve better performance when its board dominated by outsiders (Pfeffer, Salancik, 2003, p.265; Vafeas, 1999, p.54)

Contrariwise, some studies find the opposite result; for example, Puni and others (2014, p.170) showed that the inside directors positively influence corporate performance. At the same time, outside directors have a negative link. The study explained that companies to be more effective should look at how to continuously delegate inside managers to be able to perform their duties well instead of bringing in more outside directors.

Furthermore, Rashid and others (2010, p.81) showed also a negative but not significant association between the variables. Results of the study reveal that the number of outside directors does not enhance the board independence and cannot add potential and expected value to the firms' performance. The result reveals the idea of the introduction of outside directors may increase transparency, but that need to consider the various cultures in an emerging economy.

Latif and others (2013, p.2957) indicated an insignificant impact of board composition on ROA. It explains an adverse link between performance and board composition, therefore increasing the number of non-executive directors sits on the board leads to decreased performance.

Several other relevant studies have shown no evidence of a significant relationship between NEDs and company financial performance (Weisbach, 1988, p.450; Mehran 1995, p.167; Klein ,1998, p.286; Bolton, 2005, p.341). For example, Paul and others (2011, p.66) showed no significant link between the percentage of NEDs on the board and the firm value. This research stated that although outside non-executive directors have some benefit to a company such as providing independent

advice, such advice may not be significant enough to create any economic value added to firm performance. The following hypothesis is therefore proposed:

H3: A statistically positive correlation exists between financial performance and the number of non-executive directors.

3- Research Methodology :

3-1 Research Sample

As quantitative research was carried out regarding the evaluation of the correlation between management board and performance of firms in the United Kingdom, the population for the analysis was formed by taking the firms listed on the London Stock Exchange (LSE) into account, and the sample included 25 firms categorised in the Financial Times Stock Exchange, (FT-SE 100) during 2010 to 2014. FT-SE 100 market consists of the most 100 valuable firms in the UK. The secondary data has been collected from companies' annual reports on each selected firm's website and it has been launched on SPSS programme Mehran and others (2011, p.7) argue that there are two reasons for the difference corporate governance of banks to other institutions. Firstly, a banks' activities are more complicated and could change rapidly compared to other sectors. Secondly, a banks' stakeholders are much more than non-financial firms. Therefore, this study excludes all banks that relate to the services sector.

In accordance with the opinion of Ntim and Kofi (2011, p.197), if a firm wants itself to be included in the final sample, it has to fulfil the following two criteria: Firstly, a business's full five-year yearly reports (In the current study from 2010 to 2014) all-encompassing must be available either in Perfect Information or through other media used, as the official company website. Secondly, its equivalent five-year stock market and financial accounting information must also be presented in DataStream.

The criteria mentioned above were used for the following reasons: First, it helped meet the conditions for a well-adjusted panel data analysis, which helps in considering those firms with numerous successive years of data (Yermack, 1996, p.205; Cheng, 2008, p.170). It should be noted here that there are several benefits of employing panel data. According to Gujarati (2003, p.145), if the time series of cross-sectional observations is joined, balance panel provides: More extents of freedom, less collinearity amongst variables, more cross-sectional and time-series inconsistency, more asymptotic competence, more useful data, and represents observable and unobservable company-level heterogeneity in individual-specific variables.

Second, it is in line with preceding corporate governance researchers who have employed panel data (e.g., Yermack, 1996, p.206; Gompers and others, 2003, p.115; Bhagat, Bolton, 2008, p.231), and particularly five-year balanced panel (e.g., Boyd, 1995, p303; Gani, Jermias, 2006, p.298; Haniffa, Hudaib, 2006, p.1037). Therefore, this study will depend on this information to answer the research questions.

3-2Variables Measurements

In this research, financial performance is the dependent variable. There are many ratios for measuring performance. In effect, the most commonly used measurement is the Return on Assets (ROA). The ROA was adopted earlier by several researchers, and it has been employed in this research to evaluate financial performance. Other studies that employed this variable include (Muller, 2014, p.972; Brick, Chidambaram, 2010, p.534; Arosa and others 2013, p.130; Liang and others 2013, p.38; Ntim, Kofi, 2011, p.197 ; Kiel, Nicholson, 2003, p.587; Puni and others 2014, p.171; Shrader and others, 1997, p.360; Gompers and others, 2003, p.116; Klapper, Love, 2004,

p.710 ; Core and others, 2006, p.658; Haniffa, Hudaib, 2006, p.1039; Cui, 2008, p.150 amongst others).

Board size (BSIZE) is estimated through a total number of members serving in the company' board. Board meeting (BMEET) is estimated by the number of yearly meetings held by a firm' board. Non-executive directors (NEDS) is measured by total number of NEDs over total number of members serving in the company' board.

Consistent with prior studies, and to capture the impact of firms' specific characteristics, a control variable is used in this study. This control variable called firm size (FSIZE) which measured by the natural logarithm of the total assets of the firm.

The researcher established the model of the association between the board of directors and financial performance to study the relationship between the study variables. This model is given below:

$$ROA_{it} = \beta_0 + \beta_1 BCOMP_{it} + \beta_2 BSIZE_{it} + \beta_3 BMEET_{it} + \beta_4 FSIZE_{it} + \varepsilon_{it}$$

Where:

ROA= the dependent variable, Returns on assets (ROA)

β_0 = Intercept coefficient

β_1 = Coefficient for each of the independent and control variables

BSIZE = Sum of managers on the board

NEDS = The percentage of NEDs on the board

BMEET= Board meeting which denotes the sum of meetings held by the board per year.

FSIZE= Firm size measured by the natural logarithm of the total assets of the firm.

t =shows time period, and i = represents cross sectional units (firms).

ε= random error.

4-Results :

4-1 Descriptive Statistics

According to Table 1, the average ROA for the firms chosen for the research is 9.0294. The sample firms' ROA appeared to be influenced by the 2008 economic crisis and its consequences. Since the lowest value for ROA was -3.18 and a large number of companies sampled experienced some losses in the period 2008 and 2009. This is supported by Tong and Wei (2009), who argue that the financial crisis has affected countries' real economies and that the repercussions reached markets around the world. The result was that firms took time to resolve the effects of this financial shock. The largest value for ROA shown in the table was 48.86, which depicted a big disparity between the firms regarding their performance, can be linked to several factors and not just the financial crisis. For example, the kind of sector and the company size were also factors to be considered.

Table1: Descriptive Statistics						
Variables		**BSIZE**	**NEDS**	**BMEET**	**FSIZE**	**ROA**
N	**Valid**	**125**	**125**	**125**	**125**	**125**
	Missing	**0**	**0**	**0**	**0**	**0**
Mean		**11.2960**	**62.5592**	**7.8960**	**6.9841**	**9.0294**
Median		**11.0000**	**62.5000**	**8.0000**	**6.7302**	**7.9000**
Std. Deviation		**2.62747**	**12.21660**	**1.99525**	**.79309**	**9.22415**
Minimum		**5.00**	**33.00**	**4.00**	**5.28**	**-3.18**
Maximum		**19.00**	**88.23**	**16.00**	**8.71**	**48.86**

(Source IBM Corp. Released 2017. IBM SPSS Statistics for Windows, Version 25.0. Armonk, NY: IBM Corp.)

Notes: This Table shows the descriptive statistics for the dependent, independent, and control variables of FTSE-100 firms sample from 2011 to 2014.

Further, the standard deviation of the sample ROA was 9.22. This depicted a spaced distribution of the ROA figures around their average due to the big disparities in ROA values among the sample components. On the part of the NEDs on the board, table 1 depicts that the firms picked took into consideration the suggestions of the U.K. corporate governance Code 2014 and the Cadbury Report 1992. They argued that there ought to be numbers of individuals on the board of directors who are NEDs. This touches on the suitable representation of NEDs on the board. The average percentage of NEDs to the sum number of directors was 62.5%. These results focus on the high consistency rate by U.K. firms with mechanisms of corporate governance that advises the majority of members of aboard ought to be NEDs, while the minimum percentage was 33% in our sample, and the maximum percentage was 88%. The corporate governance code stressed that NEDs ought to have a high level of trustworthiness and fidelity. The large value of the standard deviation, i.e. 12.21 showed that most of the sample companies utilising different sections of NEDs on the board were 62.5% which is the mean of the entire sample.

In this study, the average size of a board of directors is approximately 11 members. U.K.'s board size seems to correspond to that of U.S. companies as seen by Bhagat & Black (2002, p.232), but Australian firms seem to have a smaller average board size of seven as indicated in Kiel and Nicholson (2003, p589). The prior research in the U.K. by Peasnell and others (2005, p.1320) found an average board size of about eight members. There could be various reasons to explain the discrepancies in these findings regarding average board sizes. First, there could be a possible increase in board sizes of U.K. firms over the last decade, because the companies increased their responsibility to stakeholders and governance, for example, companies nowadays are interested in environmental issues and sustainability which explains the variations between the durations of the two studies. Second, the average board size could have increased because of the study sample by

Bhagat and Black (2002, p.235) seems to have included larger firms compared to the sample by Peasnell and others (2005, p.1315). The previous study applied to the FTSE 100 Index, which has bigger companies, while Peasnell and others (2005, p1316) used all listed companies in the U.K. This implies that their research incorporated a mix of large and smaller companies.

That is a range of 4 to 16 meetings. The mean value of the sample members meetings is suitably in line with the Cadbury Report's suggestions (1992, p.12). It stated that the board ought to have a minimum of two meetings every year. The spread of the sample members meetings' figures was more or less near the average value. Since the standard deviation had a quite small value at 1.99, the companies picked upheld a suitable number of members meetings that were close to eight meetings every year. This was in line with the U.K. (2014) Code and the Cadbury Report (1992) advice.

According to Habbash (2010, p.18), the frequency of board meetings should be a minimum of four times annually so that members can approve the quarterly financial reports. The frequency of board meetings seems to be considered indicators of the diligence of a board of directors because non-active boards are likely to be poor at monitoring the management. Some studies suggest that directors whose boards meet tend to perform their roles and responsibilities in the best interests of the shareholders because they dedicate more time in their meetings to looking after the interest of shareholders and in controlling aspects such as monitoring management and revenue management.

4-2 Verification of Multi-Collinearity

Concerning the multicollinearity problem, Naser (2007, p.243) had the opinion that because the correlation value does not go beyond %80. By looking at table 3, the highest correlation is %62. Based on that, the multicollinearity is not considered a threat to the regression's results. Draper and Smith (1998, p.139) also put forward that the maximum tolerable value of the correlation coefficient among the independent variables for regression analysis is 0.8. Alternatively, Neter and others. (1993, p.315) stated that because the value of VIF is lower than ten, the multicollinearity problem is though to be as a significant problem. Therefore, the value of VIF is presumed to be lower than 2.5, which implies that the multicollinearity problem in this study is not a significant problem.

In the application of the tolerance coefficient and change inflation component VIF for the independent variables, Sweet and Martin (2008, p.189) declared that if the tolerance value for every indicator was bigger than 0.1, and the VIF value was less than ten, this implied that there was no collinearity between the indicators. Similarly, table 2 shows that all indicators' tolerance coefficients are inside the range of 0.55 and 0.85. Further, VIF falls between 1.8 and 1.1, which shows small collinearity from the indicators.

Table2; Verification of Multi-Collinearity

Variables	Tolerance	VIF
BSIZE	**.613**	**1.632**
NEDS	**.854**	**1.171**
BMEET	**.758**	**1.319**
FSIZE	**.556**	**1.799**

(Source IBM Corp. Released 2017. IBM SPSS Statistics for Windows, Version 25.0. Armonk, NY: IBM Corp.)

4-3 Correlation Results :

Table 3 depicts the correlation between board size and ROA is -.302** thus a considerable negative relationship with a significant extent at the 0.01 level. Therefore, the size of the board signifies a major factor that can be utilised in explaining the variation of companies' performance. This result pointed out that a small board size could be more efficient and effective than a bigger one. They argue that bigger boards have problems involving communication and cooperation, leading to declines in the performance and the effectiveness of boards. The correlation coefficient among the proportion of NEDs and the dependent variable (ROA) was -.002. This negative correlation is expected as non-executive directors is that they are the part-time staff. Therefore, these employees have inadequate knowledge of the company which in turn affects their decision making.

A negative correlation appeared to exist between members meetings the financial performance depicted by the ROA, which has a correlation coefficient of -.407**. This negative correlation is expected as boards that held meetings more often than needed lowered the board's effectiveness. Because of allocation of constrained time on frequency meetings, managers cannot trade their thoughts fundamentally, so it diminishes the efficiency of the board. In this manner, frequency meetings are imperative as the board has additional time to talk about strategy setting.

Table 3: CORRELATION MATRIX OF PEARSON COEFFICIENTS

	BSIZE	NEDS	BMEET	FSIZE	ROA
BSIZE	**1.000**				
NEDS	**.320****	**1.000**			
BMEET	**-.065**	**-.195***	**1.000**		
FSIZE	**.543****	**.194***	**.340****	**1.000**	
ROA	**-.302****	**-.002**	**-.407****	**-.620****	**1.000**

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

(Source IBM Corp. Released 2017. IBM SPSS Statistics for Windows, Version 25.0. Armonk, NY: IBM Corp.)

4-4 Results of the Multiple Linear Regression:

As demonstrated by Table 4, the model's indicators' regression coefficients and their measurable noteworthiness were given. The empirical discoveries demonstrated that the board size is contrarily influencing firms' performance with a $\beta = -.050$. However, it is interesting that the outcomes demonstrate that NEDs are positively connected with firms' performance ($\beta = .076$, sig. = 0.3%). In addition, the model affirms that the recurrence of board meetings has a negative effect on corporate firms' performance with regression coefficient, $\beta = -.213$, which is statistically critical at 0.08.

Table 4: RESULTS OF THE ASSOCIATION BETWEEN THE BOARD ATTRIBUTES AND ROA					
Hypothesis	**Variable**	**Predicted Sign**	**Coefficients**	**Sig.**	**Results**
H1	**BSIZE**	**-**	**-.050**	**.574**	**Not accepted**
H2	**NEDS**	**+**	**.076**	**.309**	**Accepted**
H3	**BMEET**	**-**	**-.213**	**.008**	**Accepted**
-	**FSIZE**	**-**	**-.535**	**.000**	**-**
Adjusted R2			**.414**		
P-value			**0.000**		

(Source IBM Corp. Released 2017. IBM SPSS Statistics for Windows, Version 25.0. Armonk, NY: IBM Corp.)

Sweet and Martin (2008, p.190) stated the adjusted R square is utilised to recognise how much the dependent variable can be clarified by the examination's independent variables so, in a case where the estimation of adjusted R2 gets below 10%, the regression model is considered to be frail especially in examining the information. In this study the Adjusted R2 was 41%, this outcome demonstrated that the model is fit to examine the connection that exists between the indicators and the ROA.

5- Discussion

From the research, the size of the board of directors has an inverse relationship to financial performance. The implication of these results is that monitoring of financial results becomes more challenging as boards grow larger. Therefore, smaller boards are considered more efficient and a higher possibility of them being better at enhancing company value. First, a firm with a small board of directors seems to minimise costs in terms of resources used in the form of compensation and bonuses. Second, according to Ntim and others (2014, p.25), smaller boards have more effective communication and coordination than larger boards. This result, however, is in line with some of the previous studies, like Arosa and others (2013, p.130); Liang and others (2013, p.38) which maintain that organisational challenges result from poor coordination, lack of flexibility and inefficient communication in large boards and such a situation leads to problems in making decisions in the boardroom.

Further, the results establish a positive association between the number of external directors and a firm's financial performance determined by ROA. This finding stresses the significance of non-executive directors (NEDs) in boosting the board's effectiveness by bringing their autonomy and competence to the boardroom. Proper representation of external directors mitigates the conflict of interest between shareholders and the management since they monitor performance (Solomon, 2010, p.152). NEDs are effective in monitoring and do not show personal interests in the firm (Saravanan, 2012, p.13). One vital advantage of NEDs is that they can apply autonomous judgement when transacting with executive directors in various aspects such as compensation as well as the appointment and dismissal of executive directors. According to Mura (2007, p.92); Pfeffer and Salancik, (2003, p.55); Vafeas (1999, p.55), the proportion of NEDs on the board has a substantial

positive link to the performance of a firm. The research findings correspond to the Cadbury report and U.K. code (2018) of corporate governance that argued that the boards of U.K. firms are more effective in monitoring and control.

There is some controversy in previous studies about whether or not frequently board meetings can enhance its use of firm' resources. However, this study shows an inverse link between the members' meetings and a firm's performance. This implies that it is not the number of board meeting per se could generate o high level of performance, but rather the effective participation and the right decisions taken by the board members. This result is also supported by some of the previous studies like Hahn and Lasfer (2007, p.15); Azar and others (2014, p.32); Danoshana and Ravivathani (2013, p.17). Also, an excess number of board meetings lead to poor performance because of increased management costs. The reason may be due to board members' competence as they do not need to meet frequently because they committed to developing and implementing plans in an efficient and transparent manner and following it through the internal company's system.

6- Conclusion

The scandals that rocked the corporate world in the early 1990-2000s, such as Polly Peck International, Worldcom and Enron, resulted in the introduction of regulatory measures that sought to prevent future scandals. These regulatory measures were aimed at improving the situation of firms' governance. This was commonly characterised by implementing the guidelines on the board of directors' autonomy and typical composition. This resulted in firms' governance's systematic reviews and constant upgrading. This could contribute to positively associated with higher levels of financial performance.

The current research sought to investigate the effect emanating from the main mechanism of corporate governance, particularly the directors of the board on the financial performance of the firm. The directors of the board are tasked with the responsibility of ensuring that the firm is governed properly. They provide reports to the company owners on their stewardship, supervision of the management team, dismissal or recruitment of the management members and unveiling the firm's strategic goals.

Because the quantitative research was undertaken based on the assessment of the correlation that exists between financial performance and board of directors of U.K. firms, the analysed sample was created by obtaining companies listed on the LSE and this sample contained 25 companies classified within the Financial Times Stock Exchange, (FT-SE 100) between 2010 and 2014. To achieve of the research objectives, this study used secondary data. The data was obtained from annual reports of selected firms. To analyse the data, the study utilised several statistical approaches that included multiple linear regression model, correlation coefficients and descriptive statistics when answering the research questions.

Based on the research, it can be inferred that an inverse correlation exists between financial performance and board size. The implication from such outcomes is that tracking financial

performance becomes complicated because of boards' huge composition. In view of this, company value can be determined easily when the composition of boards is smaller.

In addition, the outcomes reveal the existence of a positive correlation between the financial performance and number of non-executive directors (NEDs) on the board. Such findings emphasise the importance of NEDs in promoting the board's efficiency by introducing their competency and independence to the board. The conflict pitting the management against shareholders can be mitigated through proper external director representation since they monitor performance (Solomon, 2010, p.154). This study's findings also revealed an inverse correlation between the firm's financial performance and the frequency of board meetings. This supports the idea that boards that meet more frequently than required carry the management more costs and affect firms' performance.

7. Limitation and Recommendation

Further research is required to overcome the limitations that feature in this study. Firstly, the researcher stresses that several factors that influence financial performance are not included amongst the examined variables. Such variables include Tobin's Q, industry effect, and gender diversity among others, which might have had an effect on the results of the study. Due to time constraints, the researcher selected one control variable and three variables ; this implies that the researcher, omitted other control variables, which might have affected the outcomes. Another critical factor that might require future research is that in the literature review process on the board of directors, this study discovered that the effect caused by ethical conduct board of director on its efficiency was overlooked. Another area for further research is that the study sample used FTSE 100 firms. In this respect, the researcher recommends that to do further research could use FTSE 350 with regard to the manner in which financial performance is affected by their board makeup.

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