# IS THE FINANCIAL PERFORMANCE AFFECTED BY BOARD CHARACTERISTICS DURING COVID-19? EVIDENCE FROM THE ENERGY INDUSTRY

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**Abstract:** *This paper aims to examine the impact of board's characteristics on the financial performance of firms operating in the energy industry, during a certain and uncertain time. For this purpose, we chose four board's characteristics: duality of the CEO, size of the board, the board meetings and board's independence, which represent our independent variables. For measuring financial performance, we chose the Return of Assets (ROA) and Return of Equity (ROE) ratios. The data used was collected from Refinitiv Eikon database and includes a sample of 359 companies, for the period 2018-2021. The SPSS statistical program was used to run the regression model on the selected sample. This study provides mixed results on the impact on board's characteristics on the financial performance of companies operating in the energy industry. During certain time, CEO duality and board's meetings are negatively correlated with ROE, but positively correlated with ROA. The size and board's independence negatively affect the financial performance of companies for both ROA and ROE before and during COVID-19. This article contributes to previous studies conducted on the link between corporate governance and firm financial performance, showing mixed results. The results obtained may help management companies to carry out their corporate governance.*

**Keywords:** board characteristics, corporate governance, COVID-19, energy industry, financial performance

**JEL classification:** M41, G34.

## 1. Introduction

Over the last few years, there have been numerous debates on corporate governance matters and its relationship with company-related metrics, such as equity prices (Hamza and Mselmi, 2017), human resources management (Ibrahim and Zulkafli, 2016), earnings management (El Diri, 2020, Jessica, 2020), company value (Mendra et al., 2021; Jannah and Sartika, 2022), corporate social responsibility (Yahaya and Apochi, 2021) and financial performance (Shahwan et al. 2015; Paniagua et al., 2018; Yilmaz, 2018; Karem et al., 2021; Farhan et al., 2022). The link between corporate governance and corporate financial performance has been widely debated by scholars. This topic used different metrics for corporate governance such as board independence, board size, board gender diversity, CEO-chair duality, and for company financial performance Return on Assets (ROA) or Return on Equity (ROE), as Lungu et al. (2020) and Mititean and Constantinescu (2020) highlighted in their studies. Results obtained by the authors are mixed. Borlea et al. (2017) did not show any correlation between corporate governance characteristics and corporate performance. Conversely, Bhatt and Bhatt (2017) and Arora and Bodhanwala (2018)

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identified that corporate performance is positively correlated to corporate governance mechanisms, while Detthamrong et al. (2017) found a negative correlation.
This study aims to investigate the possible correlations between board's characteristics, defined as CEO duality, board size, board meetings, and board independence, and financial performance, measured by return of assets and return of equity ratios.
Our sample consists of 359 companies operating in the energy sector, from 10 energy sub-sectors, during 2018 - 2021 period. The research method includes descriptive statistics, correlation matrix and linear regressions.
Furthermore, relying upon Khatib and Nour (2021) study, this study analysed the possible impact of board's characteristics on corporate financial performance before and during COVID-19 pandemic. The analysis period was divided into two-time frames: 2018 – 2019 and 2020 – 2021, the first representing the period before the coronavirus outbreak, while the latter the period under the pandemic.
This paper is organized as follows: first, a review of the recent literature on the research topic was conducted and then defined the research design and methods, variables, and data sample. The last part of the paper includes the results obtained and final conclusions reached.

## 2. Literature review and hypotheses development

Over time, the relationship between corporate governance and corporate performance has been examined by researchers both nationally and internationally. Caraiman (2020) studied the relationship between risk management and corporate governance, while Stanila (2019) analysed the impact of corporate governance on foreign direct investments in Romania. Shen and Chih (2007) studied the impact of corporate governance on earnings management. Bhagat and Bolton (2008), Borlea et al. (2017) and Arora and Bodhanwala (2018) studied the relationship between corporate governance and corporate performance.
Many studies highlighted the idea that the board's chairman is a factor influencing corporate performance. Hsu et al. (2019) investigated the effects of CEO duality on corporate performance of Taiwanese companies, for the 2000-2012 period. Using the quantitative research method, the authors found that CEO duality has a negative impact on corporate performance when information costs are high. Guillet et al. (2013) examined the impact of CEO duality on corporate performance for companies in the US hospitality sector, for the 1992–2008 period. The results revealed that CEO duality helps restaurants improve their performance. Other authors such as Duru et al. (2016), Tang (2017), and Wijethilake and Ekanayake (2019) concluded that CEO duality has a negative impact on corporate performance. Following the review of the specialized literature, the first hypothesis is developed:

*H1. Duality of the CEO has a positive impact on corporate financial performance.*

The influence of the size of the board of directors on corporate performance was debated in the specialized literature. Boussenna (2020) studied the relationship between board size and financial performance for a sample of non-financial French companies, which were listed on the stock exchange, during 2005-2017. The author used ROA and ROE ratios as metrics for corporate performance, while the total number of board members was used for corporate governance. The results suggest that the size of the board has a positive effect on financial performance. Handriani and Robiyanto (2018), Badu and Appiah (2017), Alqatan et al. (2019) and Yilmaz (2018) identified that board's size influences significantly the financial performance of companies. The size of the board plays an important role in public companies in Northern Iraq and is crucial in increasing financial performance (Karem et al., 2021). In order with the previous literature presented, the second hypothesis is developed:

*H2. The size of the board has a positive impact on corporate financial performance.*

Vafeas (2019) explored the impact of board meetings frequency on corporate performance for a sample of 307 firms. The period under analysis was 1990-1994. The results indicated that the frequency of the board's meetings are inversely correlated with the companies' value. Hanh et al. (2018) study showed that the frequency of the board's meetings has a negative impact on corporate performance. At the opposite pole, the studies of Eluyela et al. (2018) and Idris and Ousama (2021) identified that board meetings have a positive impact on firm performance. Thus, the third hypothesis is developed:

*H3. Board meetings have a positive impact on the corporate financial performance*

Merendino and Melville (2019) studied the impact of the board of directors' structure on financial performance. The sample included 731 observations from Italian listed companies, during the period 2003-2015. The results showed that the percentage of independent directors out of the total number of directors has a positive effect on financial performance. The research of Kyere and Ausloos (2020) indicated that a statistically significant effect was found for ROA ratio while, in terms of Tobin's Q ratio, the independent board of directors has no effect on financial performance as it is statistically insignificant. Rashid (2018) and Shan (2019) argued that the board's structure has no positive impact on companies' financial performance, while the study of Uribe-Bohorquez et al. (2020) argued the contrary. Based on prior literature, our fourth hypothesis is developed in the following.

*H4. Board independence has a positive impact on company financial performance.*

## 3. Research method

This paper aims to examine the impact of corporate governance mechanisms on the performance of companies operating in the energy sector. Data for both corporate governance and corporate performance mechanisms were collected from Refinitiv Eikon database. Data collected cover the 2018-2021 period. The search initially generated data for 23.648 observations. Those companies were eliminated which present no data for the 2021 reporting period. The final sample consists of 359 companies operating globally and 11.488 observations, distributed in ten categories, as presented in Table 1 and Table 2. Moreover, 63% of the companies included in the sample operate in North America (227 companies per year), followed by companies from Europe (14,8% of total, 53 companies) and Asia (13,6% of total, 49 companies). Furthermore, 101 companies operate in the oil and gas exploration sector (28% of our sample).

**Table 1:** Sample structure based on headquarter and observation period

| Year / Headquarter | 2021 | 2020 | 2019 | 2018 | Total | % |
|---|---|---|---|---|---|---|
| Africa | 1 | 1 | 1 | 1 | 4 | 0,3% |
| Asia | 49 | 49 | 49 | 49 | 196 | 13,6% |
| Central America | 7 | 7 | 7 | 7 | 28 | 1,9% |
| Europe | 53 | 53 | 53 | 53 | 212 | 14,8% |
| North America | 227 | 227 | 227 | 227 | 908 | 63,2% |
| Oceania | 7 | 7 | 7 | 7 | 28 | 1,9% |
| South America | 15 | 15 | 15 | 15 | 60 | 4,2% |
| Total | 359 | 359 | 359 | 359 | 1.436 | 100,0% |

Source: Authors' own analysis

**Table 2:** Sample structure based on activity sector

| Year / Energy Sector | 2021 | 2020 | 2019 | 2018 | Total | % |
|---|---|---|---|---|---|---|
| Coal | 18 | 18 | 18 | 18 | 72 | 5,0% |
| Integrated Oil & Gas | 17 | 17 | 17 | 17 | 68 | 4,7% |
| Oil & Gas Drilling | 14 | 14 | 14 | 14 | 56 | 3,9% |
| Oil & Gas Exploration | 101 | 101 | 101 | 101 | 404 | 28,1% |
| Oil & Gas Refining | 71 | 71 | 71 | 71 | 284 | 19,8% |
| Oil & Gas Transportation | 42 | 42 | 42 | 42 | 168 | 11,7% |
| Oil Related Services | 59 | 59 | 59 | 59 | 236 | 16,4% |
| Renewable energy equipment | 21 | 21 | 21 | 21 | 84 | 5,8% |
| Renewable fuels | 7 | 7 | 7 | 7 | 28 | 1,9% |
| Uranium | 9 | 9 | 9 | 9 | 36 | 2,5% |
| Total | 359 | 359 | 359 | 359 | 1.436 | 100,0% |

Source: Authors' own analysis

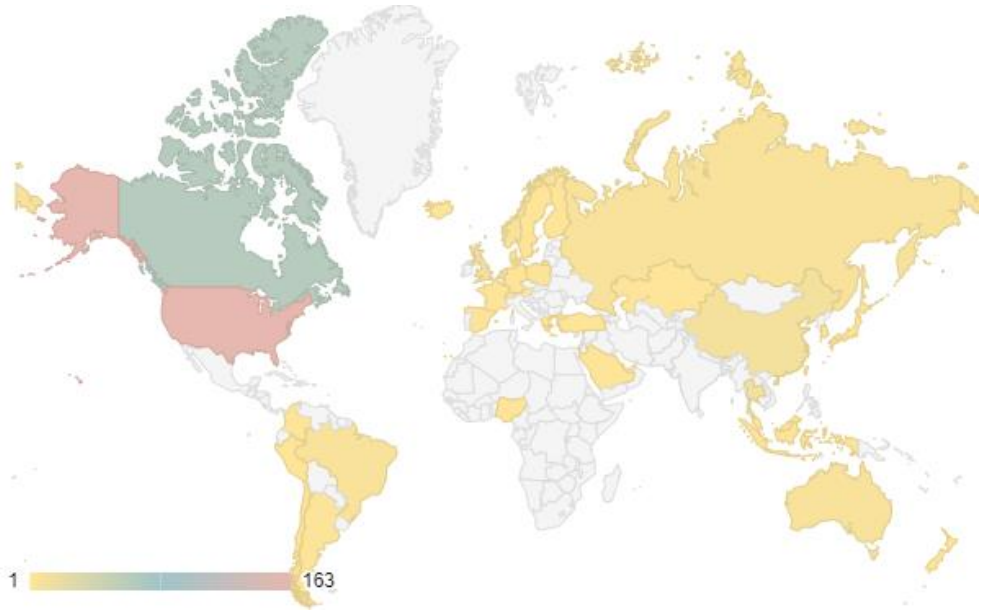


**Figure 1:** Geographic distribution of the sample based on headquarter
Source: Authors' own analysis

Financial Performance is defined as a dependent variable which will take subsequently the value of Return of Assets (ROA) and the value of Return of Equity (ROE) for which data was downloaded from Refinitiv Eikon. ROA is computed as the ratio between earnings before interest and taxes and total assets, while ROE is the ratio between profit after tax and total equity. These ratios were widely used by authors to measure financial performance: Bachmann et al. (2019); Ciftci et al. (2019); Wang et al. (2017); Detthamrong et al. (2017); Gaur et al. (2015); Koji et al. (2020) or Kyere and Ausloos (2020).
The independent variables are represented by the corporate governance mechanisms. As many other authors, Arora and Sharma (2016); Bachmann et al. (2019); Christensen et al. (2010); Wijethilake and Ekanayake (2019) and Kyere and Ausloos (2020), in this study four variables for corporate governance measurement were defined: CEO Duality (CEO), board size (BZ), board meetings (BM), and board independence (BI). CEO Duality expressed as a dummy variable equals 1 when CEO doubles as board chair and 0 otherwise. The size of the board is measured as the total number of board members. The board meetings variable is

expressed as the number of board meetings taken place every year. The board independence is calculated as the number of independent directors on the board divided by the total number of directors on the board. Furthermore, two control variables were defined: the firm size (FZ) and leverage (LV). These measures were also used by Kyere and Ausloos (2020); Mishra et al. (2021); Din et al. (2021) and Khatib and Nour (2021) in their studies. The firm size is calculated as a natural logarithm of the total assets, while the leverage is computed as a ratio between total debt and total assets.

To run the regression model, which was used by various scholars such as Ciftci et al. (2019), Wang et al. (2017), Detthamrong et al. (2017), Klç and Kuzey (2016) or Papangkorn et al. (2019), the SPSS statistical program was used. The equation model used to analyse the influence of corporate governance mechanisms on corporate financial performance is expressed as follows:

$$FP = \beta_0 + \beta_1 CEO_i + \beta_2 BZ_i + \beta_3 BM_i + \beta 4 BI_i + \beta_5 FZ_i + \beta_5 FZ_i + \xi_i$$

where:

FP = Firm performance is the dependent variable, which will subsequently take the value of ROA and ROE

CEOi = CEO duality (independent variable)

BZi = Board size (independent variable)

BMi = Board meetings (independent variable)

BIi = Board independence (independent variable)

FZi = Firm size (control variable)

LVi = Leverage (control variable)

## 4. Results and Discussion

In Table 3 a descriptive analysis was performed for the dependent and independent variables included in the study, as well as for the control variables. The mean value of the sample for ROA and ROE is 2,29% and 5,75%. The minimum size of the board for the companies from the Energy Sector is 1 while the maximum is 21 with a mean of 8.88. Furthermore, the maximum number of meetings per year is 66 with a minimum of 0 meetings and a mean of 9.60. The mean percentage of independent members of the board is 59.83, which means that almost 60% of the board members are independent with a minimum of 0 and a maximum of 100.00.

**Table 3:** Descriptive statistics of variables

| Variables | N | Min | Max | Mean | SE | Skewness | | Kurtosis | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | S | SE | S | SE |
| CEO | 1.258 | 0 | 1 | 0.349 | 0.477 | 0.634 | 0.069 | -1.600 | 0.138 |
| BZ | 1.257 | 1 | 21 | 8.881 | 2.691 | 0.789 | 0.069 | 1.586 | 0.138 |
| BM | 1.043 | 0 | 66 | 9.596 | 6.112 | 3.452 | 0.076 | 20.008 | 0.151 |
| BI | 1.436 | 0.00% | 100.00% | 0.598 | 0.311 | -0.846 | 0.065 | -0.598 | 0.129 |
| ROA | 896 | -62.4% | 68.4% | 0.023 | 0.095 | -0.671 | 0.082 | 10.834 | 0.163 |
| ROE | 1.032 | -251.8% | 264.1% | 0.058 | 0.319 | -0.079 | 0.076 | 20.278 | 0.152 |
| FZ | 1.434 | 16.28 | 27.08 | 21.949 | 1.807 | 0.149 | 0.065 | 0.026 | 0.129 |
| LV | 1.434 | 0.0% | 219.9% | 0.302 | 0.223 | 1.933 | 0.065 | 11.025 | 0.129 |

Notes: S – Statistic; SE - strd. Error
Source: Author`s computed

The Pearson (below) and Spearman (above) correlation matrix for all variables included in this study is presented in Table 4. CEO duality is negatively correlated with ROA and ROE at the level of 0.05 and 0.01. The size of the board is positively correlated with ROE and ROA at level 0.05. Furthermore, a strong positive correlation was found for board meetings with

ROA at the level of 0.01 and negatively correlated with ROE at the level 0.01. Board independence is negatively corelated with ROA and ROE at levels 0.05 and 0.01. As Shan (2015) and Wang et al. (2019) noticed in their articles, the multicollinearity potential issues were checked by performing the variance inflation factor (VIF) for both ROA and ROE, presented in Table 4. The authors noticed that if the de VIFs results are below 10, and the tolerance is greater than 0.1 then the multicollinearity does not exist. As presented below, in this study there are no multicollinearity issues.

**Table 4:** Pearson and Spearman correlation matrix

| Variables | CEO | BZ | BM | BI | FZ | LV | ROA | ROE |
|---|---|---|---|---|---|---|---|---|
| **CEO** | 1 | 0.077** | -0.192** | 0.041 | -0.007 | -0.034 | -0.008 | -0.050 |
| **BZ** | 0.051 | 1 | 0.088** | -0.001 | 0.509** | 0.051 | 0.041 | 0.068* |
| **BM** | -0.170** | 0.074* | 1 | 0.001 | 0.120** | 0.027 | 0.081* | 0.052 |
| **BI** | 0.104** | -.109** | -.116** | 1 | .079** | 0.032 | -0.073* | -.082** |
| **ROA** | -0.023 | 0.485** | 0.082** | 0.072** | 1 | 0.265** | 0.199** | 0.228** |
| **ROE** | -0.005 | 0.016 | -0.010 | -0.025 | 0.148** | 1 | -0.122** | -0.030 |
| **FZ** | 0.007 | 0.036 | 0.030 | -0.115** | 0.180** | -.132** | 1 | 0.880** |
| **LV** | -0.037 | 0.011 | 0.005 | -0.098** | 0.131** | -0.064* | 0.657** | 1 |
| **Tolerance** | 0.969 | 0.732 | 0.954 | 0.952 | 0.731 | 0.969 | - | |
| **VIF** | 1.032 | 1.366 | 1.048 | 1.050 | 1.368 | 1.032 | - | |
| **Tolerance** | 0.959 | 0.704 | 0.927 | 0.943 | 0.706 | 0.958 | | - |
| **VIF** | 1.043 | 1.420 | 1.078 | 1.060 | 1.417 | 1.043 | | - |

Notes. *. The correlation is significant at the 0.05 level (2-tailed). **. The correlation is significant at the 0.01 level (2-tailed).
Source: Authors computed

In Table 5 the results of the regression model for the period 2018-2021 is presented. The impact of corporate governance mechanisms on the financial performance of the firm was presented in Table 5. The duality of the CEO has a positive impact on ROA's ratio and a negative impact on ROE ratio, both being insignificant. These results are mixed, similarly with the results of the studies conducted by Wijethilake and Ekanayake (2019) or Merendino and Melville (2019).

**Table 5:** The Impact of Board Characteristics on ROA and ROE ratios

| Variables | ROA | | ROE | |
|---|---|---|---|---|
| | B | Sig. | B | Sig. |
| **(Constant)** | -29.210 | 0.000 | -66.909 | 0.000 |
| **CEO** | 0.236 | 0.743 | -2.035 | 0.361 |
| **BZ** | -0.399 | 0.009 | -0.654 | 0.170 |
| **BM** | 0.029 | 0.662 | -0.157 | 0.398 |
| **BI** | -0.036 | 0.035 | -0.112 | 0.034 |
| **FZ** | 1.742 | 0.000 | 4.172 | 0.000 |
| **LV** | -0.081 | 0.000 | -0.243 | 0.000 |
| **F statistic** | 12.126 | | 8.871 | |
| **Durbin-Waston** | 1.817 | | 1.978 | |
| **Adjusted R-square** | 0.096 | | 0.066 | |
| **ANOVA Sig** | <.001[b] | | <.001[b] | |

Source: Author`s computed

Second, the size of the board has an insignificant negative impact on ROE ratio and a negative significant impact at level of 0.01 on ROA ratio. These results are contrary with the previous results of Khatib and Nour (2021) and Merendino and Melville (2019), who identified a positive impact of the board size on financial performance of the companies.

Third, mixed results for the number of board meetings were found. Board meetings have an insignificant negative impact on ROE ratio and an insignificant positive impact on ROA ratio. These results are contrary with the results of Idris and Ousama (2021) and in concordance with the study conducted by Hanh et al. (2018). Finally, a negative and significant impact of board independence on both ROA and ROE ratios was identifed. These results being similar to the results of Merendino and Melville (2019) and Kyere and Ausloos (2020).

**Table 6:** The Impact of Board Characteristics on ROA and ROE ratios-Year Subsample

| Variables | ROA-NON-COVID | | ROA – COVID | | ROE-NON-COVID | | ROE - COVID | |
|---|---|---|---|---|---|---|---|---|
| | B | Sig. | B | Sig. | B | Sig. | B | Sig. |
| (Constant) | -19.145 | 0.001 | -91.594 | 0.000 | -40.973 | 0.031 | -39.082 | 0.000 |
| CEO | 0.524 | 0.513 | -3.273 | 0.340 | -0.011 | 0.997 | 0.162 | 0.890 |
| BZ | -0.482 | 0.005 | -0.753 | 0.301 | -0.594 | 0.320 | -0.341 | 0.168 |
| BM | 0.110 | 0.294 | -0.055 | 0.840 | -0.077 | 0.760 | 0.054 | 0.546 |
| BI | -0.032 | 0.110 | -0.135 | 0.091 | -0.077 | 0.253 | -0.041 | 0.135 |
| FZ | 1.318 | 0.000 | 5.071 | 0.000 | 3.089 | 0.001 | 2.104 | 0.000 |
| LV | -0.067 | 0.002 | -0.113 | 0.204 | -0.370 | 0.000 | -0.078 | 0.008 |
| F statistic | 5.714 | | 7.123 | | 6.090 | | 4.597 | |
| Durbin-Waston | 1.908 | | 1.823 | | 1.839 | | 2.057 | |
| Adjusted R-square | 0.079 | | 0.093 | | 0.077 | | 0.052 | |
| ANOVA Sig | <.001[b] | | <.001[b] | | <.001[b] | | <.001[b] | |

Source: Authors computed

Table 6 presents an additional analysis of thesample, which refers to the impact of board characteristics on firm financial performance before and during COVID-19. The duality of CEOs and board meetings during uncertain times has a negative impact on ROA ratio and a positive impact on ROE ratio, both insignificant. During a certain time, the effect is inverse. This study found no differences on the impact of board size and board independence on financial performance of the companies from the Energy Industry, before and after COVID-19.

## 5. Conclusions

The purpose of this study is to analyse the impact of CEO duality, board size, board meetings, and board independence on the company's financial performance measured by ROA and ROE ratios using SPSS software and performing a linear regression analysis. Furthermore, an additional analysis was conducted to find if any differences exist on the impact of board characteristics on financial performance of companies before and during the COVID-19 period.

The results obtained in this study are mixed. The results for the first hypothesis are supported in proportion of 50%, CEO's duality is negatively associated with ROE ratio while with ROA ratio is positively associated. The same results were established for the third hypothesis of the study, referring to the impact of board meetings on the financial performance of companies. The second and fourth hypotheses, which reffer to the impact of board size and board independence on company financial performance, are rejected. The results show a negative impact for both board size and board independence on ROA and ROE ratios.

Analyzing the impact of CEOs duality, board size, board meetings, and board independence on ROA and ROE ratios before and during COVID-19 outbreak, mixed results were founded. An inverse relationship was identified for CEO duality and board meetings with ROE and ROA ratios. Before Covid-19 outbreak, CEO duality and board meetings were positively

associated with ROA ratio and negatively associated with ROE ratio while during COVID-19 outback the effects are inversely. The size and independence of the board have a negative impact on the financial performance of companies prior to and after COVID-19 outbreak.
This study may play an important role for the shareholders of the companies or other related parties by helping them to see whether they will invest in the companies from energy industry or not. This study contributes to the literature by offering new insights on the link between corporate governance and firm performance.
This study has some limitations. First, few data were founded for the energy industry, and secondly, the numbers of characteristics included in this study are restricted to the board characteristics and one industry. Future research may be extended to more corporate governance mechanisms such as: the percentage of women on the board or the independence of the audit committee and more firm financial performance measurements such as sales return or Tobin's Q ratio. The future studies may include more control variables such as firm size measured as the total number of employees or others.

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**Bio-note**

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