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Does Size of the Board influence Financial Outcomes of Indexed Companies? A Micro-Review Approach

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Abstract

Corporate governance is very immense topic in the field of corporate era. Board characteristics acts as key component in corporate governance which includes board size, board independence, board meetings, CEO duality and many more. In this paper, an attempt has been made to identify the advancement of literature on influence of size of the board on financial outcomes of indexed companies. This study discusses about the important concept of corporate governance which gives an understanding about the influence of board size on firm performance. Using a qualitative approach, reviews on board size and its impact on firm performance has been conducted by analyzing a number of peer-reviewed articles and summarized in the table form. The major findings of the study reveal that firm performance is positively influenced by size of the board.

Keywords -Size of the Board, Financial Outcomes, Indexed Companies, Micro-Review Approach.

Introduction

Corporate Governance plays a dynamic role in the firm's performance which is stated as a mechanism that helps in managing, directing, controlling the activities of various stakeholders (shareholders, board of directors, management, agent, customers, and government) of the companies. Corporate Governance not only looks after the quality of financial statements, also promote the transparency, accountability and fairness in the system which ensure good corporate governance practices *(Sawakar, 2018)*.

Transparency is one of the most important principal of corporate governance mechanism which ensures the rightness of information that is being to be share with the investors. Likewise, accountability ensures the acceptance of the responsibility by organization to answer the investors. Stakeholders are keener to invest in the company when they are properly aware about the accountability whenever they step into difficult circumstances. In addition, fairness in the system is another essential principal of corporate governance mechanism. For the smooth running of the company, transparency, accountability and fairness in the system are must *(Karem et al., 2018)*.

These days corporate governance is becoming massive topic in business world era. In order to ensure success of the company, it must put emphasis on fulfillment of legal obligations and fully disclosures of information for the sake of various investors. Consequently, every company should comply with the rules and regulations made by the government to protect the interest of stakeholders *(Bajpai & Mehta, 2014)*.

Every company has board of directors who perform a number of task which are assigned to them like monitoring, advising, supervising *(Martin & Herrero, 2018)*. The main aim of the board of directors is to monitor and rectify the decision of the management *(Noja et al., 2021)*. The board characteristics are main key component of corporate governance which makes the firms more transparent and accountable. It generally includes board size, board gender diversity, board independence, chief executive officer (CEO)/chairman duality and board meetings. These board characteristics also work towards reducing the agency problems *(Khaireddine et al., 2020)*. The board size refers to the total number of board of directors (inside and outside) on board which is one of the essential aspects of corporate governance mechanism *(Adamu et al., 2020)*.

Systematic Review of Literature

A number of the studies have been carried out by researchers of different-different countries such as India, Malaysia, US, Indonesia, Nigeria, Turkey, Pakistan, Colombia and many more. This micro-review has been discusses through table which presents major findings.

Al-Naimi *et al.* (2021) demonstrated the association among capital structure, board size and firm performance. The study consisted a sample size of fifty-six industrial firms listed on Amman Stock Exchange (ASE), for the financial years from 2013-2017. Generalized least squares method was used to test the hypothesis. The result of the study founded a positive effect of board size among equity ratio and long-term debt (capital structure measures) as well as Tobin's Q (market-based measure).

Namanya *et al.* (2021) identified the firm performance concerning board size and its impact. The study incorporated a sample of forty-two companies indexed on stock exchange market named East African Community. The time period of the study considered for seven years from 2008-2014. Data was analysed by using descriptive statistics, correlation and regression model. The result revealed that there is no existence of relationship among board size and firm performance (total assets and market capitalization).

Shatnawi *et al.* (2021) analysed the association among size, meetings and independence of the board. A sample of data consisted of ninety two non-financial firms indexed on ASE, for the financial years from 2014-2018. The study used Hausman test to choose between fixed effect model and random effect model in regression analysis. Tobin's Q as market-based measure was used to measure the performance. The outcome of the study proven that a positive relationship exists among board size and meetings, while no relationship exist among board independence and market-based measure.

Tidbury *et al.* (2021) aimed to analyse how the influence of board size acquisition alleviate the board faultlines. The study incorporated a sample of one thousand sixty one acquisitions that are announced by seven hundred fifty three distinct US firms, considering the time period from 2007-2016. In the study, descriptive statistics, Pearson correlation and regression model were employed for data analysis. The result of the study concluded that smaller board size acquisition can alleviate the board faultlines as compared to larger board size acquisition for short-term period.

Ebun and Abdullah (2020) conducted a study to analyse the influence concerning board size and independent directors on capital structure of Plantation Malaysian companies. The main purpose of the study was to know the significance of board size component of corporate governance practices in controlling the behavior of managers with regard to decision of capital structure. The study incorporated a sample size of forty-four companies considering for five years from 2013-2017. Descriptive statistics, Pearson correlation analysis were used to analyse the data. The result of the study proven that a positive relationship exists among board size, independent directors and firm's debt, while equity employed by firms does not establish any type of relationship with size of the board.

Ozbek and Boyd (2020) analysed how size of the board and CEO duality affect the market value. The study involved a sample size of one hundred thirty four firms using SDC Platinum database, for the financial years from 2000-2014. Market value of equity was taken as dependent variable as market-based measure and weighted least square regression model was used to test the hypothesis. The findings of the study concluded that size of the board and CEO duality significantly and positively affect the market value.

Shukla *et al.* (2020) identified how size of the board affects the accounting return along with asset quality. A sample of data comprised of twenty nine banks indexed on stock exchange market named National Stock Exchange (NSE), considering the time period from 2009-2016. Return on Assets (ROA) and gross net performing assets to total assets were taken as dependent variables and different statistical techniques such as descriptive statistics, correlation analysis, Ordinary Least Squares (OLS) regression, robust regression, fixed effect model were used to test the hypothesis. The study revealed that board size influence positively return on assets, while no significant association founded among board size and asset quality.

Vaidya (2019) attempted to study the impact of board size on performance of the firm. The study consisted sample from hundred companies listed on Bombay Stock Exchange (BSE) for the financial years from 2018-2019. Return on Equity (ROE), ROA, profit before interest and tax, earning per share and dividend per share were taken as dependent variables along with Tobin's Q. Descriptive statistics, correlation analysis and one-way ANOVA techniques were used to measure the firm performance. The outcomes of the study revealed that size of the board does not influence the performance of the firm.

Qadorah and Fadzil (2018) assessed the association among size of the board and CEO duality. The study incorporated a sample size of sixty-four firms indexed on ASE, for the financial year 2013. ROA was chosen as dependent variable and a number of statistical techniques were used to analyse the data such as descriptive statistics, correlation, multiple regression and ANOVA. The outcome of the study founded that a significant and positive association among board size and return on assets. On the other end, there was no evidence found regarding existence of relationship among CEO duality and return on assets.

Tulung and Ramdani (2018) analysed the association among board independence, board size and its performance. The study included a sample size of twenty-six Indonesian firms involving two hundred and three top executives as members of the board. The time period was taken for the financial year from 2010-2014. ROA, ROE and capital adequacy ratio were taken as dependent variables and OLS regression method was used to measure the performance of the firms. The study founded that a positive and significant relationship exist among board independence, board size and its performance.

Badu and Appiah (2017) studied about the influence of board size towards performance of the firms. A sample size consisted of one hundred thirty-seven firms indexed on Nigeria and Ghana Stock Exchange, for the financial years from 2008-2014. ROA and Tobin's Q were taken as dependent variables and regression model was used to measure the performance. The result of the study concluded that board size depends on firm size which positively influences the firm performance. The study also revealed that one board size not fit the entire situation. It should be decided according to the circumstances.

Goel and Sharma (2017) identified the influence of board size regarding firm's financial performance. Sample size consisted of forty-two companies listed on NSE in India, considering the time period from 2011 to 2015 years. Data was analysed by using regression model and Hausman test. Result of the study revealed that ROA and Return on Capital Employed (ROCE) have not bad effect on performance, whereas Tobin's q and Market-to-Book Value Ratio (MBVR) have negative impact on performance of the companies.

Orozco *et al.* (2017) conducted a study towards the association among board size and corporate financial performance. The study involved a sample size of eighty four top companies of Colombia. The time period of the study considered for seven years from 2008-2012. ROA, ROE and net sales average was taken as dependent variables. Data was analysed by using different statistical methods such as descriptive statistics, spearmen correlation and Chi-square, F-test and ANOVA and cluster analysis. The study showed that larger board size has better performance than small board size and also no relation exist among financial and ranking companies performance.

Riaz *et al.* (2017) inspected the association among board size and corporate performance. Data was collected for the study by taking a sample size of one hundred sixty eight firms indexed on Lahore Stock Exchange for two years. ROA and ROE were taken as dependent variable and policies of board was taken as mediating variables to measure the performance of the companies. Data was analysed with the help of regression model. The result of the study concluded that firm performance is significantly influenced by board size.

ISIK and Riza INCE (2016) investigated the influence of size of the board on bank performance. The study involved a sample size of thirty banks considering the time period from 2008-2012 using data available on web page of the Bank Association of Turkey. Operating return on assets and ROA were taken as dependent variables. Data was analysed with the help of regression model. The outcome of the study proven that there is no existence of significant association among board directors and bank performance. While, significant association found among board size and bank performance.

Ji (2016) demonstrated about the influence of size of the board on efficiency related to capital investment. The study embodied a sample size of one thousand three hundred firms which were indexed on S&P 500, considering the time period for the years from 2006-2011. Capital expenditures were taken as dependent variables and descriptive statistics, Pearson correlation and OLS regression model was used to analyse the data. The study observed that board size act as crucial factor of board effectiveness, and has an inverse influence on cash flow investment efficiency.

Kalsie and Shrivastav (2016) investigated about the relationship among board size and firm performance. Data was taken from one hundred and forty-five non-financial companies indexed on NSE over the period of 2008-2012. Accounting-based measures like ROA and ROCE, while market-based measures like Tobin's Q and MBVR were used to measure the performance. Regression model like random effect, feasible generalised least square and fixed effect model were used to analyse the data. The outcome of the study concluded that size of the board positively influence the firm performance.

Bohdanowicz (2015) assessed the influence of corporate ownership structure on size of the board. The study embodied a sample size of three hundred eighty four firms indexed on stock exchange market named Warsaw Stock Exchange, for the financial years from 2004-2012. Board diversity and board size were taken as dependent variables, whereas different types of ownership structure were taken as independent variables. Data was analysed with the help of descriptive statistics and multivariate analysis. The outcome of the study revealed that both board diversity and board size positively influenced by state, financial investor and foreign ownership except managerial ownership.

Kritika and Choudhary (2015) analysed the firm performance regarding board size and its impact. The study comprised a sample size of three hundred and nineteen BSE listed companies. Time period for the study was taken for the financial years from 2012-2013. ROE and ROA were taken as dependent variables to measure the firm performance along with Tobin's Q. Regression analysis and ANOVA were used for data analysis. In this study, positive impact was found for ROE and ROA, while negative impact was found for market-based measure (Tobin's Q).

Topal and Dogan (2014) attempted to know the influence of size of the board towards firm performance. The study consisted sample size of one hundred and thirty-six firms of Borsa Istanbul (BIST) manufacturing industry, considering the time period for ten years from 2002-2012. ROA, ROE, Z Altman and Tobin's Q were taken as dependent variables and descriptive statistics, robust estimator and correlation method were employed for data analysis. The outcome of the study founded a positive impact of board size on ROA and Z Altman, while board size negatively influenced Tobin's Q and ROE of the firm performance.

Table1:Micro-Reviewon Size of the Board and Financial Outcomes

Sr. No.	Study	Major Findings
1	Al-Naimi *et al.* (2021)	A positive effect found among board size and firm performance
2	Namanya *et al*. (2021)	No existence of association among board size and firm performance
3	Shatnawi *et al.* (2021)	A positive association exists among board size and meetings, while no association exist among board independence and market-based measure.
4	Tidbury *et al.* (2021)	Smaller board size acquisition can alleviate the board faultlines as compared to larger board size acquisition for short-term period
5	Ebun and Abdullah (2020)	A positive association exists among board size, independent directors and firm's debt, while equity employed by firms does not establish any type of relationship with size of the board.
6	Ozbek and Boyd (2020)	Size of the board and CEO duality significantly and positively affect the market value
7	Shukla *et al.* (2020)	Board size influence positively ROA, while no significant association founded among board size and asset quality
8	Vaidya (2019)	Size of the board does not influence the performance of the firm.
9	Qadorah and Fadzil (2018)	A significant and positive association among board size and ROA
10	Tulung and Ramdani (2018)	A positive and significant association exist among board independence, board size and its performance
11	Badu and Appiah (2017)	Board size depends on firm size which positively influences the firm performance
12	Goel and Sharma (2017)	ROA and ROCE have not bad effect on performance, whereas Tobin's q and MBVR have negative impact on performance of the companies
13	Orozco *et al.* (2017)	No relation exist among financial and ranking companies performance
14	Riaz *et al.* (2017)	Firm performance is significantly influenced by board size
15	ISIK and Riza INCE (2016)	A significant association found among board size and bank performance
16	Ji (2016)	Board size has an inverse influence on cash flow investment efficiency
17	Kalsie and	Size of the board positively influenced the firm performance.

	Shrivastav (2016)	
18	Bohdanowicz (2015)	Board diversity and board size positively influenced by state, financial investor and foreign ownership except managerial ownership.
19	Kritika and Choudhary (2015)	A positive impact was found for Return on Equity and Return on Assets, while negative impact was found for Tobin's Q
20	Topal and Dogan (2014)	A positive impact of board size on ROA and Z Altman, while board size negatively influenced Tobin's Q and ROE. On the other side, negative association found among duality and firm performance.

Results and Discussion

As per the table 1, majority of the studies revealed that firm performance is positively influenced by size of the board *(Al-Naimi et al., 2021; Shatnawi et al., 2021; Ozbek & Boyd, 2020; Tulung & Ramdani, 2018; Badu & Appiah, 2017; Riaz et al., 2017; ISIK & Riza INCE, 2016; Kalsie & Shrivastav, 2016)*. While, some of the studies stated that there is no existence of association among board size and firm performance *(Namanya et al., 2021; Vaidya, 2019; Orozco et al., 2017; Ji, 2016)*.

Furthermore, some research studies indicated that Tobin's Q as market-based measure of financial performance is negatively affected by size of the board *(Goel & Sharma, 2017; Kritika & Choudhary, 2015; Topal & Dogan, 2014)*.

Conclusion

Corporate governance is a main instrument for measuring performance of the firm and its success. Therefore, present study analyses the existing research studies regarding influence of size of the board on financial performance of the firms. From this study, it can be concluded that board size positively affected the firm performance. Moreover, mostly studies observed that ROA is one of the accounting-based measures that is positively influenced by board size.

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