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Literature Review on the Relationship between Board Structure and Firm Performance

Shubhi Agarwal*, Archna Singh**

Abstract *Corporate governance plays a significant role in eliminating agency costs. Corporate boards have the main role of monitoring the management; they help in aligning the interests of principals and agents. Boards are responsible for care and diligence that brings financial control, so that profitability can be ensured in the corporate firms. This paper focuses on reviewing the literature on board structure extensively. This paper reviews many aspects of board structure, i.e. board size, board meeting frequency, board independence, board ownership and composition, board education, audit committee, and so on. Further, this paper furnishes the type of board structure that will contribute towards increasing firm performance, thereby helping in mitigating agency costs. This research study uses a descriptive research design. Random sampling is used while selecting different kinds of literature review of board structure. This study takes the 1991-2019 time period for reviewing of literature. The period is selected based on convenience sampling. The results depict that reasonable frequency of board meetings, the board size, independence of directors, well-educated board members, audit committee, board composition, and ownership make a positive impact on firm performance, thereby reducing agency costs.*

Keywords *Agency Cost, Board Structure, Corporate Governance, Firm Performance*

INTRODUCTION

Corporate boards are the prime and supreme part of the internal corporate governance mechanism. Corporate boards have the main role of monitoring the management. They help in aligning the interests of principals and agents. Boards are responsible for care and diligence that brings financial control, so that profitability can be ensured in the corporate firms. Corporate boards provide strategic rules to the management and ratify the proposals of the latter. In addition, boards point out problems in the corporate firms and prepare proposals regarding their correction.

There are two lines of actions, evidenced by researchers, in exploring the link between board structure and corporate performance. The most prominent way is to monitor the management by the board of directors on behalf of shareholders; effective monitoring can bring an increase in firm performance, which helps in reducing agency costs that were proposed by the agency theory. The second line of action is relatively less explored and is based on the resource dependence theory that examines the link between the financial resources and talent of the board and corporate performance. In a practical sense, boards both carry out monitoring functions and resource providing tasks, and theoretically, both are correlated with corporate firm performance. It is contended that there is a need for the integration of the agency theory as well as the resource dependence theory. The integration of the two theories can help to limit the current short-sightedness in these two fields of research. Both aspects of theories are studied at the expense of the other, which provides insufficient knowledge of what the board structure contributes towards increasing firm performance and reducing agency costs.

The monitoring function of boards can be elucidated by a term called 'control role'. Many corporate governance researchers belonging to multiple-disciplines like finance, management, law, sociology, and economics, have focused on the monitoring role of boards for several years. The theoretical aspect of the monitoring function of boards is originated from the agency model that furnishes the conflicting interests between principals and agents due to the separation of ownership from management. The agency model always assumes the basic function of boards as monitoring the actions of agents (managers) for protecting the interests of principals (shareholders). As far as the legal aspect is concerned, there is a fiduciary responsibility of directors to guarantee that agents are working in the bests interests of their principals. When ownership and management are separated, as is the case in modern corporate firms, managers may be concerned with their self-interest

* Ph.D. Scholar, Dept. of Economics, Meerut College, Ch. Charan Singh University, Meerut, Uttar Pradesh, India.
Email: shubhiagarwal1001@gmail.com
** Associate Professor, Dept. of Economics, Meerut College, Ch. Charan Singh University, Meerut, Uttar Pradesh, India.
Email: drarchnasingh@yahoo.com

at the expense of the profit maximisation principle, which gives rise to agency costs as explained by Berle and Means (1932). Agency costs can be eliminated by monitoring board members, which is inherent in the very separation of ownership from management as described by Fama (1980), Mizruchi (1983), and Zahra and Pearce (1989). According to the agency model, the basic aspect of the monitoring function is board incentives. The board members vary in their incentives to monitor and check activities going on in the corporate firm so that protection of the shareholder's interest is ensured. As a result of this, incentives are the kingpin of efficient monitoring. When incentives are linked to the interests of principals, boards will be more efficient and energetic in the monitoring of management, bringing an improvement in the financial firm performance (Fama, 1980; Jensen and Meckling, 1976). On the other hand, the theoretical aspect of the resource dependency model was stated by Pfeffer and Salancik (1978). Pfeffer and Salancik stated that "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it". Boards can offer four basic advantages, which are legitimacy; medium for communicating and transmitting information between the corporate firm and external organisations; preferential access to commitments or support from essential elements outside the firm; and advice and counsel. This point of view was defined broadly, initially elucidating the provision of resources available to board members. There is another theoretical aspect that depicts the optimistic view of human behaviour, called the stewardship theory, where agents are not exactly influenced by an individual's objectives and aims, but are trustworthy for corporate firms. These stewards are not vulnerable to misappropriate and misuse corporate financial resources and are motivated to work in the interests of their principals. The stewardship theory expresses the consolidation of authority by the insiders. This theory tries to show that the board has the ultimate authority and power, only when optimal stewardship roles can be employed. Further, this theory elucidates that outside independent directors, who are not required to be appointed as agents, are the best stewards for the corporate firm and they are not influenced by their objectives. Although, several research make an argument that individuals are self-motivated and opportunistic rather than altruistic; this creates a need for monitoring by independent directors (Rashid, 2018). An essential contribution of this research paper is to review the rich literature on board structure and firm performance. This research study shows and reviews literature depicting the impact of board size, board independence, frequency of board meetings, and board ownership on firm performance, as well as on agency cost.

OBJECTIVE OF THE STUDY

- To review the literature on board structure and firm performance.
- To depict the connection between board structure and the corporate performance of companies, which helps in mitigating the agency cost.

REVIEW OF LITERATURE

Board Size

Yermack (1996) tried to examine the relationship between board size and firm value. This study took a sample of 452 large US industrial corporations from 1984 to 1991. This study used a regression model with fixed effects, random effects, and OLS estimates. This study used Tobin Q, return on assets, return on sales, and sales/assets for measuring the value of the firm. The results showed that there was a positive link between small-size boards and the value of the firm. This study also suggested that there was a positive relationship between small board size and firm performance. This study concluded that companies with small boards could achieve the highest market value. Study findings revealed that there was a negative relationship between operating efficiency and profitability and board size. Stock returns of a set of companies showed a significant change in board size that indicated a negative reaction of investors when the size of boards was large and a positive reaction of investors when board size was small.

Vafeas (2000) tried to investigate the link between the size of the board and the earnings of the firm. The results explained that there was a direct and significant link between small board size and earnings of the firm, but there was an inverse link between board size and firm performance. This study suggested that the ideal number of board size is around five. This study suggested that corporate firms can possess better monitoring abilities with smaller boards rather than with big-board firms.

Mak and Li (2001) attempted to investigate the impact of board structure on the firm financial performance. The study took a sample size of 147 Singaporean firms for 1995. The study used the ordinary least square method to analyse the data. This research showed that the board structure was determined endogenously. The study took board size, leadership structure, and firm size as independent variables. The results indicated that there was a positive association between board size, leadership structure, firm size, and firm performance. The research used a two-stage least square regression model for data analysis. The results revealed a negative and significant impact of board size, firm size, and leadership structure on the firm financial performance.

Florackis and Ozkan (2004) tried to examine the impact of board size in reducing the agency cost of the corporate firm. This study used a sample of public listed companies in the UK for 1999. The research found a negative and significant impact of board size on agency costs. The study used asset turnover for measuring agency costs as the dependent variable. The research showed a positive and significant impact of board size on agency costs, because larger boards led to less efficiency and more conflict among the board members.

Raheja (2005) tried to explore the impact of optimal board size on the performance of the firm. This research stated that corporate firms should maintain optimal board size and its composition in the corporate firm. The study stated that the boards are responsible for monitoring projects and making CEO succession decisions. The research showed that the optimal board structure was determined by incentives given to the insiders, as they decide about the expenditure and profitability of the company. The results revealed that there was a need to make a proper verification of private information and costs minimisation so that decisions regarding acceptance or rejection of the project can be undertaken.

Mak and Kusnadi (2005) tried to discover the impact of board size on the value of the firm. This study took a sample of Singaporean and Malaysian firms. The results found a negative impact of board size on the firm value. The results showed that various corporate governance systems were applied to the findings. This research reflected that large boards were less effective than smaller boards from a decision-making perspective. The study observed that larger boards cost more in terms of remuneration of directors and have a tendency to add more directors instead of replacing existing ones.

Drakos and Bekir (2010) tried to examine the relationship between board structure and firm performance. This research board independence, leadership structure, and board size to measure board structure as independent variables. The study used a simultaneous equations system for data interpretation. The research used the database composed of firms quoted in the Athens Stock Exchange during the period 2000-06. In this research, data were manually collected from company annual reports. This research used the number of independent outside directors on the board as an independent variable to measure board independence. This research considered board size as an endogenous variable. Board size was measured by the total number of directors on the board. This research study used the leadership structure as a dummy variable. The study used the Tobin Q ratio for measuring corporate performance as a dependent variable. The results suggested that board independence and leadership structure had an insignificant impact on firm financial performance. The results concluded that there was an inverse relationship between board size and firm performance.

Arosa, Iturralde and Maseda (2013) attempted to examine the impact of tools of corporate governance mechanisms on the board structure of the corporate firm. The study used a sample size of 307 Spanish non-listed firms. This study used data that were collected through telephone interviews and financial reporting information obtained from the database. This study used return on assets as a dependent variable to measure firm profitability and performance. The study used board size, board activity, leadership structure, and CEO tenure as independent variables to measure board structure. This study used firm size, growth opportunities, borrowing level, firm age, and the sector as control variables. This study applied a cross-sectional ordinary least-square (OLS) regression model for data analysis. The results showed a negative impact of outside directors and board size on firm performance and profitability. The study observed that there was an insignificant impact by outside directors on improvement in firm performance. The results showed a positive and significant impact of inside directors on firm financial performance. The results explained that there was a negative and significant impact of large-size boards on firm performance. It was stated that large boards create problems of co-ordination, lack of flexibility and communication gaps, and delays in decisions.

Azutoru, Obinne and Chinelo (2017) explained the impact of mechanisms of corporate governance on the firm financial performance. This study took a sample of 20 listed insurance companies in Nigeria from 2011-15. This research employed board size, independence, remuneration of executives, director's ownership, and institutional ownership as corporate governance mechanisms. This study used firm size as a control variable. This study used an ex-post facto research design and used panel data. The fixed-effects model was used for data interpretation. Firm performance was measured by return on assets in this research study. The results showed that there is a negative link between board size, non-executive directors' remuneration, and firm performance, but there was a positive relationship between board independence, institutional ownership, and firm performance. These research findings supported the agency model. This research recommended a manageable size of the board and performance-based remuneration to the executive directors. This study added that the appointment of non-executive directors would increase the effectiveness of the board and help in mitigating agency costs.

Rohani Md Rus (2018) tried to examine the impact of board structure on the financial performance of the corporate firm. This study took a sample of 589 observations for distress firms from the period 2004-09. This research study employed univariate as well as multi-period logistic regression methods. This study considered board size, percentage of inside directors, CEO founder, and the duality of CEO/chairman. This study took leverage, market return, and lagged market return, and GDP growth for measuring financial distress. The results depicted a negative relationship between board size and CEO founder with financial distress. As founders are personally connected to their corporate firms, they have more incentives to care about the survival of the firm. The results showed a positive link between a fraction of independent directors and CEO duality that explains distress. The results stated that market and economic variables did not have a significant influence on the probability of distress.

Frequency of Board Meetings

Amran (2011) attempted to explore the relationship between frequency of board meetings and firm financial performance. A sample size of 328 Malaysian listed companies from the period 2003-2007 was taken. The results showed that there was an inverse relationship between frequency of board meetings and firm financial performance.

Ntim and Osei (2011) attempted to investigate the relationship between frequency of board meetings and firm financial performance. The study used a sample of South African listed firms for the period 2002-2007. The results showed that there was a positive relationship between frequency of board meetings and firm financial performance. Further, the results explained the fact that the capacity of board members to consult, supervise, and manage increased when they met regularly through meetings, and it helped to improve firm financial performance.

Horvath and Spirollari (2012) tried to create a link between firm performance and board meeting frequency. The study took a sample size of 136 firms traded on the Standard and Poors 500 Index from the period 2005-2009. The results concluded that there was an insignificant relationship between firm performance and board meeting frequency.

Akpan (2015) tried to examine the relationship between board composition and firm performance. This study took a sample size of 79 listed companies in Nigeria from the period 2010-12. This research used Tobin Q and return on assets as dependent variables to measure firm performance. This study used board size, independent directors, and frequency of board meetings as independent variables to depict board composition. The results found a direct and significant impact of board size, independent directors, and board meeting frequency on the firm performance.

Adebiyi (2017) explored the impact of board composition on the financial reporting quality of the corporate firm. The study used a sample size of 20 deposit money banks, of which 15 were selected. These were listed on the Nigeria Stock Exchange. This study used financial reports of the banks for the period 2005-2016. The study used independent variables, dependent variables, and control variables. This study used board composition attributes, i.e. board size, board independence, and board meetings as the independent variables. This study used financial reporting quality as the dependent variable. Bank size was used as a control variable in this research study. This study used ordinary least square (OLS) regression method for data analysis. The results found a positive and significant impact of financial reporting quality on board size and board independence. The results further showed a negative impact of financial reporting quality on the frequency of board meetings. This study concluded that board composition is a key component of the quality of financial reporting. The study recommended small board size and regular meetings to carry out their functions.

Hanh, Ting, Kweh and Hoanh (2018) examined the impact of frequency of board meetings on the firm performance. This study used 94 corporate firms listed on the Ho Chi Minh Stock Exchange from the period 2013-15. This research employed return on assets, equity, and sales for measuring firm performance. The study used the regression method for data interpretation and STATA software for the analysis of data. The results depicted that there is a negative relationship between frequency of board meetings and firm performance.

Board Independence

Mishra and Nielsen (2000) attempted to explore the association between firm financial performance and organisational structure of the company. This study took a sample size of 100 of the largest commercial bank holding companies in 1990. This study used secondary data, which was collected through annual reports of commercial banks and financial statements. This study reduced its sample size from 100 to 89 as 11 banks belonged to foreign corporations. This study further reduced its sample by another 22 banks because it was not possible to obtain pay-performance sensitivity data. The study enlarged its sample size to 40 non-financial corporate firms that were selected on a random basis. This research study took firm accounting performance to measure firm performance. This study took board independence and CEO pay-performance as independent variables. This study considered other organisational features as control variables. The results depicted that there is a positive impact of CEO pay-performance on firm performance. The result also showed that there is a direct link between the tenure of independent outside directors and accounting performance. There were endogeneity issues, but the results were found to be robust in a simultaneous equation framework. The research found a positive and significant relation between independent outside directors and CEO pay-performance in the corporate firm.

Prevost, Rao and Hossain (2002) attempted to discover the relationship between board independence and firm financial performance. This research study applied the simultaneous equation model for data analysis. The study used two equations model. This study used outside board representation and firm performance as dependent variables. This study focused on simultaneous equation methods by using a three-stage least square (3-SLS) model. This study used several independent variables, i.e. board size, board meeting frequency, CEO duality, CEO power, insider ownership, debt ratio, firm age, firm size, firm growth, and firm risk. This study used variables such as CEO gender, institutional ownership, and liquidity in the equation of the firm performance; CEO tenure was included in the board independence equation. The study concluded that profitable firms include outside directors on the board for political or other reasons.

Li, Wang and Deng (2008) tried to investigate the link between independent directors and firm performance. This study used a sample of some listed Chinese firms. The results showed that a higher proportion of independent directors made a positive impact on firm performance. The results concluded that more independent directors caused less financial distress to corporate firms. The results supported that independent directors play a significant role in the monitoring of the corporate firm.

Alves (2014) tried to explore the impact of board independence on the earning management of corporate firms. This study used a sample of all companies whose stocks are listed in the Euronext Lisbon Exchange Market. This study used a sample size of 33 non-financial companies. This study collected data from the annual report and corporate governance report, so it applied secondary data. This study used receivables, operational cash flows, number of independent directors, total assets, leverage, and net income as independent variables. This study used stock price data to measure the firm size and investment opportunities. This research stressed the importance of independent outside board members for monitoring the financial reporting of a corporate firm. The results showed that monitoring increased when boards consist of more independent directors. The results further added that there was a direct and significant impact of independent directors on the better earnings quality. This study examined the difference between the relationship between board independence and the quality of earnings in Portugal and Anglo- Saxon countries concerning the institutional and legal aspect. This study used ordinary least squares (OLS) and two-stage least squares (2SLS) techniques to analyse the data. The results found a positive and significant impact of independent board members on the improved earnings quality. This result suggested that more independent directors should be appointed on the board, which will bring improvement in earning quality.

Bertoni, Meoli and Vismara (2014) attempted to explore the impact of board independence on the value of the corporate firm. This study used a sample size of 969 IPO firms, which were listed in France, Germany, and Italy from 1995 to 2011. This study used board independence as an independent variable. This study took a combination of two approaches of the board of directors, namely value creation and value protection. The results supported both approaches towards the mentioned roles of the board of directors. The relative importance of the two roles of the board varied from time to time. The role of the board is based on the nature of the corporate firm, whether it is a young or matured one as given in this research study. This study tried to give a comprehensive theoretical framework towards agency theory and resource dependency theory. This research also showed the impact of board independence on the valuation of firms that were based on the importance of the two roles played by the board members. This study showed that there was a U-shaped curve that depicted the link between board independence and firm age because of changes in the roles of the board of directors. This study stated that the importance of board independence varied with the knowledge intensity of the industry and the age of the listing company.

Wu and Li (2015) tried to investigate the impact of independent directors on firm financial performance. This study used return on assets and stock market return to measure firm performance as a dependent variable. The results showed a direct and significant impact of more outside directors on the firm performance. This study showed that there was a negative opinion of auditors about financial statement fraud and asset misappropriation on financial reports of the firm. The results indicated a positive and significant impact of more independent directors on corporate financial performance. The study suggested the appointment of more independent directors on the board to increase firm performance. The results added that more independent directors will help to enhance the quality of board monitoring and ensure sound corporate governance.

Shaifali and Mittal (2019) tried to depict the impact of corporate governance mechanisms on agency cost. This study took a sample of 380 firms from B.S.E. that consisted of 20 industries, and the selection was based on market capitalisation. This study used secondary data taken from the PROWESS database and CMIE. The period 2012-17 was taken into consideration for the research study. This study employed a panel regression method for data interpretation. Agency costs were measured by Tobin Q and free cash flow. The results depicted that there is a positive and significant link between board size and agency costs. The results added that there was a negative association of agency costs with promoter's shareholdings, independent directors, executive directors, duality of CEO/chairman, audit and shareholders committees, nomination and remuneration committees, and firm size.

Board Composition and Ownership

Hermalin and Michael (1991) attempted to explore the impact of board composition on corporate financial performance. This study used a sample size of 142 firms listed on the New York Stock Exchange. This research used the Baker Library of Harvard for collecting the data on board composition and corporate ownership. This study used inside directors, outside directors, CEO-chairman duality, family ownership, research and development, and advertisement expenditure to measure board composition, which was considered an independent variable. This study used Tobin Q for measurement of firm profitability, which was considered a dependent variable. This study used a linear regression model for data analysis. The most striking result was an insignificant connection between board composition and firm performance. This could be due to insufficient powerful tests.

Barnhart, Marr and Rosenstein (1994) tried to investigate the relationship between board composition and corporate performance. This research took managerial ownership and other key variables as control variables. This study used industrial databases for the collection of financial data. This study obtained corporate governance data, i.e. board composition and managerial ownership from a database supplied by institutional shareholders. This study was different from two important perspectives. This study depicted that board composition and managerial ownership may be endogenous to performance. This research used market value to book value ratio and common stock equity for measuring firm performance as the dependent variable. This study used board composition and managerial ownership as independent variables. This study used both the ordinary least square method and IV estimates for data interpretation. The results indicated that there was a significant and curvilinear relationship between board composition and corporate financial performance. This study showed that there were moderate differences in first-stage regressions results. This research also pointed towards the small changes to first-stage R-square, which led to the wide variation in the overall results of a corporate firm. The results further suggested that IV estimates and similar techniques, i.e. two- and three-stage least squares methods are required to be used, after taking proper precautions for data analysis.

Klien (1998) tried to examine a link between firm performance and board composition and the role of directors in the board committee structure. This study used proxy statements, 10K filings, and annual reports from all US firms listed on the S&P 500 from 1991 to 1993. This study excluded foreign companies listed on the S&P 500. This research found that there is little association between firm performance and board composition. This study found that there is a significant link between firm performance and board structure by examining the internal workings of the board. The results depicted that there is a direct relationship between the percentage of insider's directors and investment committees, and accounting and stock market performance. The study suggested that corporate firms significantly rise inside the director's representation board structure as well as investment committees.

Bhagat and Black (2002) tried to analyse the relationship between board composition and corporate performance. This research took a sample size of 828 US corporate firms for 1991. This research used Tobin Q, return on assets, sales/assets, and long-term stock returns as dependent variables to measure firm performance. The research reported that poor-performing corporate firms have appointed more outside directors. This study also depicted that the efficiency of board members did not always lead to an improvement in corporate performance. The results showed an insignificant impact of board composition on the long-term corporate financial performance.

Kiel and Nicholson (2003) attempted to explore the impact of board composition on the performance of corporate firms. This study reviewed and discussed the theories of corporate governance. This study took a sample size of the top 500 companies listed on the Australian securities exchange for 1996. The study used three simple correlations model for data interpretation. The research took board demographics, the proportion of outside directors, CEO duality, and the number of interlocks as independent variables. The results depicted that there was a significant impact of board composition on corporate performance.

Truong (2006) tried to investigate the link between board composition, ownership structure, and agency costs. This study took a sample size of 500 Australian companies for 2004. This study used assets turnover ratio and operational expenses to sales ratio to measure agency costs. The results depicted that there was a positive and significant relationship between management ownership and assets turnover ratio. The results showed that there was an insignificant relationship between ownership concentration and board composition and agency costs.

Meng Zhou Podjaman Panbunyuen (2008) attempted to discover the relationship between board composition and voluntary disclosure requirements of the corporate firm. This study used a sample of companies listed on the Shanghai Stock Exchange of China and the Stockholm Stock Exchange of Sweden. This research used independent directors as an independent variable to measure the board composition. This study used voluntary disclosure as the dependent variable and it also described the division of voluntary disclosure requirement into strategic information, non-financial information, and financial information. The results showed an insignificant impact of board composition on the voluntary disclosure requirement of the firm. This study found that there was a negative association between different types of voluntary disclosure of corporate firms and board composition. This research found a significant negative impact of financial information on equity-based management compensation of companies listed in Sweden. This study concluded that there was an increasing trend to disclose more financial information in Swedish companies. The results revealed that there was a decreasing trend of highlighting financial information in Chinese companies. The results further showed that Chinese companies tended to disclose more strategic information. There was also fewer strategic information disclosed by Swedish corporate firms.

Aduda et al. (2013) tried to establish a link between firm performance and board composition. This study conducted an empirical test of competing for corporate governance theories on the performance of firms. This study took a sample of companies listed at the Nairobi Securities Exchange. This study included board size, the proportion of outside directors, and the role of CEO in board composition as independent variables. This study used a regression model for results analysis. The study used Tobin Q and return on assets for measuring firm performance as a dependent variable. The results found that the relationship between board composition and firm performance was found to be significant.

Kumar and Singh (2013) tried to examine the relationship between ownership structure and the value of the firm. This research explored the size of the board and ownership of promoters in the ownership structure. This study took a sample size of 176 Indian firms listed on the Bombay Stock Exchange. This study used the regression model for data analysis. The results showed that there was a negative relationship between corporate board size and the value of the corporate firm. The results also concluded that there was a positive and significant impact of promoter ownership on the value of the corporate firm. The results suggested that if ownership of promoters exceeded 40%, it will have a positive and significant impact on the value of the corporate firm.

Herdjiono and Sari (2017) attempted to explore the impact of ownership structure on the financial performance of manufacturing firms. This study used board size, managerial ownership, audit committee, and institutional ownership as independent variables. This study used a sample size of 156 Indonesian corporate firms listed on the Indonesia Stock Exchange. This research applied a linear regression model for data interpretation. The results showed a positive impact of board size on financial firm performance. The results further added that there was an insignificant impact of the size of the audit committee, institutional ownership, and managerial ownership on the financial firm performance. This study concluded that the size of the board, audit committee size, institutional ownership, and managerial ownership all had a significant influence on financial performance when simultaneous equations tests were used. This research was mainly focused on the manufacturing sector of Indonesian companies. This study paid keen attention to the internal mechanism of corporate governance in Indonesia. This study suggested that the external mechanism of corporate governance was a predictor variable. This study added to the literature on corporate governance and firm performance in emerging countries. The results showed no improvement in company performance by tools of corporate governance mechanisms, i.e. audit committee, managerial ownership, and institutional ownership.

Ibrahim and Jehu (2018) tried to examine the impact of board composition on the financial reporting quality (FRQ) of the corporate firm. This research took a sample size of 576 non-financial firms listed on the Nigerian Stock Exchange between 2011 and 2016. This research used abnormal accruals to measure the financial reporting quality of the corporate firm. Financial reporting quality was measured by the firm performance that matched with the cross-sectional version of the modified Jones model in this study. This research used board size, non-executive directors, independent directors, leverage, return on assets, firm age, and year as independent variables. A multivariate regression model was used for data interpretation. The results showed a negative and significant impact of non-executive directors and independent non-executive directors on the abnormal accruals, which led to improvements in the quality of financial reporting of a corporate firm. This study showed that there was an insignificant relationship between board size and financial reporting quality.

RESEARCH METHODOLOGY

This section depicts the research methodology, the research design, sample design, and data collection method used in this study. Research Design: The research has a descriptive research design. Sample Design: Random sampling is used while selecting different kinds of literature review of board structure. The selection of board structure, among various aspects of corporate governance, is based on simple random sampling. Target Population: The target population is to consider research studies conducted worldwide. Study Period: This research took the 1991-2019 time period for reviewing of literature. The period is selected based on convenience sampling. Data Collection Method: Secondary data was used. The literature review of board structure is collected from various research papers that are available on different platforms like JSTOR, National Digital Library, and so on.

ANALYSIS AND CONCLUSION

Based on the above reviews of literature regarding the relationship among board size, board independence, board ownership, frequency of board meetings, corporate performance, earning management, and quality of accounting information, conclusions from this research can be deduced easily.

As far as the size of the board is concerned, it is clearly shown that the small size of boards will make a positive impact and contribution towards corporate performance, which helps in mitigating agency cost or the conflict of interests between principals and agents; this was supported in the studies by Yermack (1996); Vafeas (2000); Florackis and Ozkan (2004); Mak and Kusnadi (2005); Drakos and Bekir (2010); Arosa, B., Iturralde, T., and Maseda, A. (2013); Azutoru, I. H. C, Obinne, U. G., and Chinelo, O. O. (2017); and Rohani Md Rus (2018). More members on the board lead to a conflict of interest among them, as well as with principals, which further worsens the firm performance and increases agency cost. The results of the above reviews of literature match with the agency theory as well as the stewardship theory. Large board size will increase agency cost, as it will lead to more conflicts, lower efficiency, lack of co-ordination, adds cost in the form of more remuneration and sitting fees, instigates different opinions resulting in more clashes, communication gaps, and delays in decisions. Larger boards will reduce the return on assets (firm performance), which will aggravate agency costs and agency problems. Larger boards face problems of social loafing and free riding. As the board increases in size, free riding increases and the efficiency of the board decreases.

On the other hand, there are some benefits, which are also depicted by various research studies, which give a positive view of large boards. Larger boards will bring deep intellectual knowledge, improve the quality of strategic decisions, increase human capital, increase board information, and provide specific knowledge about business, flexibility, and efficiency in an advisory role. Large boards will make a direct impact on the performance of corporate firms. The results of the given studies, i.e. Eisenberg et al. (1998); Dalton and Dalton (2005); and Cheng (2008) support resource dependency theory. This shows that a larger board increases the chances for more connections to other organisations, thus improving access to external resources such as legitimacy, advice, and counsel.

As far as the frequency of board meetings is concerned, it is depicted that less frequent board meetings is essential for the improvement of corporate financial performance. There is a negative link between the frequency of board meetings and corporate performance. Fewer number of board meetings are preferred because of reduced expenses involved in conducting fewer meetings; only important issues are discussed, whereas conducting frequent meetings will lead to wastage of energy, time, and financial resources. Again and again, monitoring and reviewing the performance of agents will create a lack of trust between principals and agents, which can lead to a reduction in the performance of corporate firms and encourages the agency problem in the working organisation. The results agree with the studies conducted by Amran (2011); Adebiyi (2017); and Hanh, Ting, Kweh and Hoanh (2018). On the other hand, some research studies showed a positive association between frequency of board meetings and firm financial performance. Higher frequency of board meetings leads to more consultation, supervision, and management of managers and supervisors by principals, which improves the quality of working in the firm, and also raises firm performance and profitability ratios that ultimately mitigate agency costs. The above-mentioned results are in support of the following mentioned pieces of literature: Ntim and Osei (2011) and Akpan (2015). Although, Horvath and Spirollari (2012) depicted that there is an insignificant link between the frequency of board meetings and firm performance of the corporate organisation.

As far as independent boards are concerned, it is observed that more independent directors should be appointed to the board, which makes a positive contribution towards the enhancement of firm performance. Independent boards raise the quality of board monitoring and improve earning quality. The research by Li, Wang and Deng (2008); Alves (2014); Bertoni, Meoli and Vismara (2014); Wu and Li (2015); Rohani Md Rus (2018); and Shaifali, and Mittal (2019) depict a positive and significant link between board independence and the quality of financial reporting of the corporate firms. The research concluded that an increase in the number of independent directors on the board will enhance the monitoring of management, making them accountable to act in the best interests of the principals and objectives of the firm. Their role helps in improving corporate reliability and corporate governance standards by working as a watchdog and managing risk. Independent directors are responsible for securing good governance, by establishing various committees of the company. They help in eliminating agency costs, which improves return on assets (firm performance). The results agree with the monitoring theory as well as the agency model, which says that inclusion of more independent directors in total board members will increase monitoring of management, making them accountable to act in the best interests of the shareholders and other stakeholders. Thus, it helps improve the financial performance of the corporate firm.

As far as the board composition and board ownership are concerned, it is depicted that there is a direct link between board composition and ownership, and corporate financial performance. The higher the insider (promoter) ownership, the higher the performance of corporate firms, which serves in mitigating agency cost. If insider board ownership exceeds 40%, it will bring a positive outcome in the corporate firm because board members treat the company as their own; they will, therefore, contribute their full efficiency and take prompt decisions, and embark on fruitful investment projects that will bring a reasonable and handsome rate of return with minimum risk involved. The research by Barnhart, Marr and Rosenstein (1994); Klien, (1994); Kiel and Nicholson (2003); Aduda et al. (2013); and Kumar and Singh (2013) concluded that there is a significant impact of board composition and board ownership on firm performance, which helps in the reduction of agency costs. Literature from Bhagat and Black (2002); Truong (2006); and Meng Zhou Podjaman Panbunyuen (2008) depicted that there is an insignificant link between board composition, ownership concentration, and long-term corporate firm performance.

As far as board education and audit committee are concerned, it is stated that there is a direct and significant link between board age, audit committee, and firm performance. Education of board members and audit committee will lead to checking, monitoring, and cross-examination of the books of accounts, profit, and loss account, which furnishes financial reporting quality, fair, and transparent accounting information. Haniffa and Cooke (2002) depicted a direct link between information disclosure and accounting education of the board. Yermack (2006) showed a direct reaction of the director's professional qualification on share prices of corporate firms. A positive and significant relationship link was established between directors having a Ph.D. and the financial performance of Nigerian companies that used 122 corporate firms listed on the Nigerian Stock Exchange from 1991 to 2008 (Ujunwa, 2012). The research also stated that there is a direct and significant relevance of strong governance structures and the quality of accounting information. Strong governance structures are followed when boards are highly educated and understand the importance of it.

CONTRIBUTION OF THE STUDY

The research has essential implications for the research scholars, academicians, company directors, and policymakers that are engaged in framing different rules and guidelines for corporate governance in emerging countries like India. The results, based on pieces of various literature, depict that corporate firms that comply with sound corporate governance frameworks can expect to attain improved financial performance and help in mitigating agency costs. Hence, policy framers may be able to provide an appropriate contribution to the efficient functioning of the country by making optimal guidelines for corporate governance. These kinds of reviews stress that to attain sound and efficient standards of corporate governance, the policymakers should focus on the smaller size of the board, increasing board independence and education, and reducing ownership concentration. Besides this, codes and regulations of corporate governance should focus on appropriate and relevant numbers of board meetings, larger board committees, and reasonable compensation packages to agents, which creates a link in the long-term value maximisation of the corporate firm.

The study provides different pieces of literature review of board structure and agency costs. It elucidates that the size of boards can contribute to the reduction of agency costs. There is no ideal size of the board which can be stated firmly. However, the issue of what size constitutes the ideal board size is still being debated among research scholars to date. The research shows that the frequencies of board meetings can reduce agency costs. More or fewer board meetings have their merits and demerits of their own. Similarly, it tries to depict the role of independent boards and board composition in mitigating agency costs. Ownership by board members also creates a significant influence on the reduction of agency costs, as concluded by different pieces of literature. Higher education in board members and the presence of audit committees in the corporate firms play a key role in ensuring accountability, and checking, monitoring, and cross-questioning activities performed in the corporate firm that ultimately bring efficiency.

FUTURE SUGGESTIONS

This research can be further reviewed and explored by taking more pieces of literature variables, such as firm structure and ownership structure, i.e. firm age, firm size, growth of the firm, institutional ownership, non-institutional ownership, Indian promoter ownership, foreign promoter ownership, and so on, which can make an impact on agency costs. This research can be expanded by considering a wider period.

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