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Analysis of the relationship between corporate board characteristics and corporate performance

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Abstract: *Whether board structure is closely related to company performance has been a conflicting topic for more than 30 years. In this article, the characteristics of the board of directors' composition and corporate performance are examined using relevant literature, and the relationship between the two is sorted out using agency theory and management theory. The frequency of board meetings and the makeup of the board are also rigorously examined, as is the effect of gender analysis on business performance. According to the research for this paper, in order to ensure a stable and sustainable growth of the company's performance, the board of directors' size and composition must be modified in accordance with the company's various industries and levels of technological development. The dual role of CEO may be advantageous for some businesses that require short-term strategic development that moves quickly, while the drawbacks outweigh the benefits for those that require long-term solid strategic direction.*

Keywords: *Board Characteristics; CEO Duality; Corporate performance*

1. Introduction

Studies over the past three decades have provided important information on the link between boards of corporate performance. Professor John mentioned it in his article- The relative power of CEOs and boards of directors, in February 1991[1].A strong board of directors brings excellent performance to the company, which proves that the board of directors is closely related to the corporate performance.

However, Due to the extensive promotion of this result, more and more small and medium-sized enterprises have the tendency to gradually expand the size of the board of directors to improve their performance. This way is obviously not a good way to improve the company's performance. The company's management did not seriously penetrate the impact of the size of the board of directors and the company's performance, but by blindly increasing type of board members, or the structure of board members, or the frequency of board meetings. With the remark de growth of people's living standard, relationship between the board of directors and the company's performance has not been a simple positive correlation for several years. This view was expressed by Professor Y. T Mak in 2005[2]. In addition, Professor Guest P.M' s article published in 2009 also confirmed the accuracy of this conclusion through research for a large sample of 2749 UK firms over 1981-2002.[3]

In this article. It mainly analyzes the characteristics of the board of directors, including the scale of the board of directors, the composition of the board of directors and the duality of the CEO. Make full use of agency theory and management theory to fully understand the relationship between the board of directors and corporate performance and critically discuss the different effects of the change of company meeting characteristics on company performance. Follow the introduction, in the main part, it will analyze the characteristics of the board of directors and the impact on the company's performance, in the next section will analyze the meeting frequency of the board of directors and the internal member structure of the board of directors to explain its impact on the company's performance. The most significant thing is that this part will involve a gender issue of board members. These three sections are the central part of the whole article. In the last section is a final summary of the relationship between the board of directors and corporate performance.

2. Board Characteristics

The Board Characteristics include three aspects: size, composition and CEO duality.[4] These three

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aspects are the primary consideration to study the impact of the board of directors on corporate performance.

2.1 Board Size

In most current studies, the smaller the size of the board of directors, the more conducive to the development of the company's performance, and the larger the size of the board of directors, it is easy to lead to internal governance problems. Lipton and Lorsch a thought that in 1992, for example, the too large size of the board of directors of American companies would make the board of directors not operate in its proper way, The board of directors will not publicly correct the problems made by the general manager for reasons of respect and courtesy. This situation is not conducive to the normal operation of the company and is difficult to lead to the progress of the company. They also pointed out that the size of the board of directors should not exceed 10 people, otherwise it will make the size of the board of directors too large, and the enthusiasm to participate in supervision and decision-making will be weakened, which will lead to some people on the board of directors think their role in the board of directors is a symbol, not a guider.[5]

However, some literatures support the resource dependence theory[6]. Under this theory, the resources of the board of directors can reduce the threat caused by the external environment(Pfeffer and Salacik,1978)[7]. The increase of resources can provide a large amount of necessary resources for the implementation and formulation of strategies by the management[8], which is conducive to the development of the enterprise.[9] To sum up, in order to ensure the sustained and stable growth of the company's technical schools, the size of the board of directors should be controlled within an appropriate range according to different companies. This range depends on the characteristics of the company and the industry in which the company operates. However, it is obvious that the size of the company is not the most influential factor on the company's performance.

2.2 Board Composition

The most basic composition of the board of directors includes executive directors and non-executive directors. The executive director is responsible for the executive tasks of the company, non-executive directors are independent of the company's management and more loyal to make decisions for corporations.[10]

With the GMM methodology for the date of UK firms between 1991- 2001， the proportion of non-executive directors has a significant positive relationship with corporate performance (Roberto Mura，2007）[11]. The results of this study to show that non-executive directors are effective supervisors. Does that mean that companies with a higher proportion of non-executive directors may perform better in terms of corporate performance?

The answer to this question is controversial in the existing literature research. Nuno uses data from the Spanish stock market as a standard for corporate performance, her research results show that the role of non-executive directors in the management is difficult to bring benefits to the company's performance. On the contrary, a company without non-executive directors will actually have fewer agency problems, and it will better realize the consistency of interests between shareholders and managers.[12]

Through the above analysis, although the impact of the composition of the board of directors on corporate performance still have great disputes in various literature studies , more and more research literature shows that the non-executive board brings benefits to corporate performance after 2008[13].This difference seems to be attributed to the aging or incorrect data in the Nuro 's study. After all, his data are made by hand-collection.[14]

2.3 CEO Duality

The duality of CEO means that the CEO can also serve as the chairman of the board of directors.[15] Paula and Dan mentioned in their February 1991 report that after studying 141 companies, they found that the performance of those companies that choose independent leadership is always better than those that choose CEO as chairman. It seems that this result seems to be very far away from current era. In fact,[16] the duality of CEO, and the practice of one person serving as CEO and chairman of the board of directors at the same time, has been one of the topics of high concern in the academic circles for more than 20 years.[17]

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The basic principle of discussing this problem is the agency theory and sterlwardship theory. For the agency theory, because the interests of the principal and the agent are inconsistent, under the agency theory, the agent is likely to do some acts that harm the interests of the principal due to his own interests.[18] For the enterprise level, this phenomenon will separate the ownership and management of the company. In other words, the executive manager may make decisions and operations at the expense of shareholders or with the goal of minimizing risk. Therefore, sometimes the corporate need to implement internal and external supervision mechanisms to reduce the problems under the agency theory.[19]

On the contrary, some researchers will oppose the concept of agency theory and put forward stewardship theory. Under the stewardship theory, CEO is completely trusted.[20] Stewardship theory holds that all managers are conscientious housekeepers, and their interests and goal pursuit are completely consistent with the client. Therefore,[21] the board of directors and CEO should develop into a relationship of mutual cooperation and complete trust.[22] The proposal of stewardship theory improves the stability of the company to a certain extent, stimulates the confidence of the management and enhances the cohesion of the management. At the same time, this incentive improves the efficiency of the company, so as to improve the company's performance. This phenomenon is very obvious in industries with short-term strategies, such as hotel business and game industry or fast fashion production brands, which need response rapidly to change their strategies.[23]

In consequences, it can be imagined that the impact of CEO duality on corporate performance is different according to the characteristics of the company. For those enterprises that need to adjust their strategies in time with the season or the external environment, the duality of CEOs can help them improve the company's performance, because they will respond more quickly in implementing strategies. For those industries that need a long-term and stable development strategy, relying on independent non-executive directors may be more conducive to the long-term growth of corporate performance.

3. Board meeting Characteristics

A large number of existing literatures seem to generally believe that the frequency of board activities is closely related to corporate performance, and there is a positive correlation between them. For example, by analyzing the annual reports of deposit banks listed by Nigerian Securities Exchange Research Institute, it concluded that the meeting frequency of the company's board of directors was basically positively correlated with the company's performance.[24] At the same time, the company's board of directors is the key part to determine the company's performance. Through board's meetings, regular board of directors is very important for the company's overall decision-making and strategy.

As early as this time point, Ntīm and Osei's research,in 2011, has proved that the higher the frequency of the board of directors, the higher the performance level of the company. [25] In the second year, the research of Francis et al. (2012) also proved this. Compared with those with high meeting frequency, the salary performance of those companies with low meeting frequency will be worse.[26]

To sum up, the meeting frequency of the board of directors is generally positively correlated with the company's performance. However, it is still inevitable that the meetings are too frequent, resulting in the meeting members tired of participation. The most important for firm performance is to ensure the efficiency of the contents of the board meeting and help the directors make decisions conducive to the development of the company.

4. Board Member Characteristics

In this section, it will be discussed 2 of board member characterstics. The first is gender diversity, which is a long debated topic in many literatures; The second one is racial diversity, it seems always be limited by culture. However, what is no doubt that both of them will provide a new perspective to impact firm performance. At Last, the education level will be mentioned as a board threshold.

4.1 Gender diversity

In the past several decades, with the development of the times and the improvement of women's status, more and more women have shown their ability not to lose to men in their work and life. Similarly, public opinion is slowly inclined to safeguard women's rights to promote gender equality. When a woman shows her superior and independent ability, she will be more affirmed and trusted by the people around her. Under the pressure of public opinion, various countries have put forward policies to invite women to the

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board of directors of companies like the U.S. (Kevin,2007).

Of course, the most thought-provoking is what benefits can women's presence on the board bring to the company's performance?

First, the most direct change in women's participation in the board of directors is to increase the gender of the board of directors. Women's participation in the board of directors has raised a lot of attention to women's consumer groups in board meetings. Or it will promote the gender structure of the company through the participation of women in the board of directors, so as to promote more female employees to enter the company. In the 2007 study of Brammer et al., they found that the industries with the highest proportion of female directors are generally retail banking or beauty industry, which are closely related to consumers. This is obviously a fact that can enhance the value of the company.

Second, diversification can promote the board's ability to deal with problems better. Gender diversity allows the board to evaluate more excellent programs from different perspectives. An enterprise willing to accept women often has greater tolerance heart and broader perspective to seize future opportunities.

In conclusion, there is no conclusive evidence that women's participation in the board of directors will bring direct benefits to the company's performance. However, the participation of women makes the board of directors become gender diversified. The emergence of this diversification itself has a positive impact on the company's performance, whether from the consideration of meeting decision-making or company structure. At the same time, this means that the most important thing to consider is not make women into the board of directors, whatever under the requirements of social public opinion or the government, but to ensure a balanced proportion of men and women, so as to ensure the development of company performance.

4.2 Racial diversity

Some literatures support the positive correlation between the racial diversity of the board of directors and the development of corporate performance. To take a very simple example, an increase in the racial of the board of directors will lead to an increase in culture differences in the board of directors. The exchange of different cultures can not only improve the company's cultural knowledge, but also improve the company's acceptance of external races, so as to improve the number of consumers. Professor Maran Marimuthu pointed out a relevant article in 2008.[27] By studying the ROA to judge the company's performance and the data of 100 non-financial enterprises , the proportion of Non-Malay directors in the board of directors from 2000 to 2005 (six years). Maran believes that the racial diversity of the board of directors is more likely to lead to better corporate performance.

In addition, Richard gives a resource framework to study the relationship between racial diversity and corporate performance in banking industry. The results show that racial diversity actually increases the value of the company, and in the appropriate context, it also helps to enhance the company's competitive advantage (Richard, 2000).[28] Based on Richard's research, Robertson (2007) further tested the relationship between racial diversity and corporate performance.[29]

Summarily, with a large number of literature studies show that racial diversity has a positive impact on corporate performance. However, the specific research results still need specific circumstances, specific analysis, combined with diversified strategic and psychological perspectives, and accurate research with qualitative methods.

4.3 Education level

The well-known thing is that people with a high level of education are considered smarter and easier to enter the board of directors for leadership and decision-making.[30] Especially those with doctoral degrees. It seems that their arrival will bring a huge promotion to the leadership of the board of directors.

Grace et al. has done some research on the education level of the board of directors and the company's performance in 1995. They found that the more well-educated directors, the worse the company's performance. This result seems to be inconsistent with what people thought. However, except for this experiment, the subsequent results are the same as that of public cognition.[31] Especially in 2008, Bathula further studied that the proportion of PhD members in the board of directors is positively correlated with enterprise performance.[32]

Although different studies have different results, maybe these come from the differences of age and the cultivation of different degrees of moral quality. Therefore, in the current social environment and

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businesses conditions, according to the previous analysis, the education level of the board group usually has a positive correlation with the firm performance.

5. Conclusion

Through the above analysis, it can be found that the characteristics of the board of directors are closely related to the company's performance.

For the characteristics of the board of directors, the size and composition of the board of directors need to be adjusted according to different industries and different degrees of technological development of the company, in this way can ensure a stable and sustainable growth of the company's performance. For the duality of CEO, it may be beneficial for some industries that need short-term strategic rapidly development, but for those industries that need long-term stable strategic direction, the disadvantages outweigh the advantages.

In addition, in the current business context, the frequency of board meetings can be appropriately increased. The higher the participation rate of board members, the greater the board's responsibility to the company, this contributes to motivation and unity within the board. In terms of the internal characteristics of the board of directors, female participants need to achieve gender balance in the board of directors. In addition, board members also need to have a high level of education and racially diversity to enrich the differences culture. All these components can have a positive impact on the corporate performance.

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