

CORPORATE GOVERNANCE AND ITS EFFECT ON FIRM PERFORMANCE IN AN EMERGING ECONOMY

Volume: 2
Number: 3
Page: 281 - 291

Langa Esmael KAREM¹, Hakar Abubakir BAYZ², Hawkar Anwer HAMAD³, Naji Afrasyaw FATAH⁴, Diary Jalal ALI⁵, Znar Nahro AHMED⁶, Bayar GARDI⁷, Khowanass Saeed QADER⁸

^{1,2,4}Technical Accounting Department Technical College of administration, Sulaimani Polytechnic University

³Department of Business Administration, Lebanese French University, Erbil, Iraq

⁵Accounting Department, Kurdistan Technical Institute, Sulaimani

⁶Department of Accounting and Finance, Lebanese French University, Erbil, Iraq

⁷Department of Accounting, College of Administration and Financial Sciences, Knowledge University, Iraq

⁸Department of accounting and finance, College of Administrations and economics, Lebanese French university, Kurdistan region, Iraq

Corresponding author: Hawkar Anwer HAMAD

Email: hawkarlfu@gmail.com

Article History:

Received: 2021-08-09

Revised: 2021-08-16

Accepted: 2021-11-18

Abstract:

The way companies are run can determine whether they are successful or not. Having a board of directors is vital to ensure the smooth running and monitoring of the business. However, its characteristics can have an impact on the financial performance of the firm. This study sought to determine the impact of board characteristics namely board size, board ownership and board composition on the financial performance of organizations as measured by Return on Assets. The study employed a descriptive-explanatory research design based on a cross sectional approach. Correlation and regression analyses were conducted to determine the depth and extent of the relationship between the variables. The study revealed a positive and significant association between the board size and financial performance on an average of 9 board members. However, interestingly, board composition of revealed that having more external directors had no effect on the financial performance, it neither increased it nor decreased it, leading to the rejection of the hypothesis. On the other hand, board ownership was found to be beneficial in terms of having directors as owners of the business, corroborating the Stakeholder Theory. The studies showed that there was still need to select board members with caution striking a balance between the number of directors as well as their composition to ensure that the organization reaps maximum benefits from the board.

Keywords: board characteristics, board size, board composition, board ownership, financial performance

Cite this as: KAREM, L.E, BAYZ, H.A, HAMAD, H.A., FATAH, N.A., ALI, D.J., AHMED, Z.N, GARDI, B., QADER, K.S., (2021). "Corporate Governance and Its Effect On Firm Performance In An Emerging Economy." International Journal of Environmental, Sustainability, and Social Sciences, 2 (3), 281 - 291.



INTRODUCTION

Corporate governance is vital to the well-being of an organization. Since it represents the way, an organization is directed it is imperative that in setting out governance codes, industry specifics be known. According to Doski (2015) one of the problems in Northern Iraq is the lack of laws and regulations for corporate governance. Transparency, accountability and security are some of the key components in corporate governance. It is vital to have all the information available to the stakeholders so that they are well equipped to make informed decisions. Transparency is also essential to provide a way to verify and trace transactions. In addition, accountability ensures that the organization answers to the board and shareholders for their actions. Shareholders are more willing to invest in the organization if they know whom to hold

accountable in case of problems. In addition, it also provides with the management or employees with a measure of autonomy that can be a motivation for performance. A level of security is essential to ensure that company data is only accessed with those given the clearance to do so. Rivals are always interested in what their competition is up to and left unsecured, important data is vulnerable to theft. Therefore, security is to ensure that this problem never arises and to deal with the problem in the case that it does.

In order to ensure that the organization is running smoothly and to uphold the corporate governance codes is the responsibility of the board of directors. That is why they act as agents of the shareholders and are answerable to them. They are essential for ensuring that there is transparency, fairness, security and responsibility in the organization. However, the board of directors have to have certain qualities and attributes themselves that contribute to the success of the organization. There have been many scandals in organizations including big corporations. Some of these scandals were perpetrated at the highest level and under the Board of Directors. These triggered the need for implementation of rules and regulations that form the corporate governance codes that ensure that best practices are observed in the organizations. These relate to the leadership, effectiveness of the boards, accountability, remuneration and shareholder relationships.

The characteristics of the board can thus affect how the organization performs. With the increase in investors in the Northern Iraq region it is important that the investors' investments are protected. The country has also gone through a lot of economic hardships. The board characteristics can thus contribute to the overall performance of the organization. According to different scholars, attributes like the board composition, independence, CEO duality, gender diversity can have a huge bearing on the financial performance of the organization. These play a great role in inspiring investor confidence especially since frauds, scandals, and other unlawful practises are now a common thing in organizations and create an environment that is not lucrative for investment. The role of the board of directors would thus also ensure that the fears of investors and other stakeholders are soothed and assurance is given that the organization is acting in the best interests of all the stakeholders.

According to Odudu et al (2016), the board formulates strategic decisions and corporate policies as well as oversee the management's activities. In light of these major roles, the effectiveness of the board is affected by several elements. The director's objectivity and independence can be affected by how big the board is, how many internal directors there are in comparison with external directors. It can also be affected by whether the CEO performs dual jobs in his capacity as a CEO for the company and as part of the board. In addition, the diversity of a board can be an issue whether there are a lot of women or not, whether the directors are mostly foreign or not.

Studies in Northern Iraq have shown that elements of corporate governance are lagging behind. However, with a lot of investment potential organizations are always aiming to attract investors. Investors feel confident where there are effective boards in place that can ensure the financial well-being of their investment. However, board of directors are constantly subjected to criticisms on their actions and blamed when the organizations fail (Odudu, 2016). Given how important the board of directors is it is imperative that the impact of board characteristics be observed on the financial performance of the organization.

According to Odudu et al (2016) board characteristics show the size, composition, diversity, CEO duality and division of labour across boards. Board size is self-explanatory and reflects the number of directors that make up the board. On the other hand, board composition relates to the different categories of the directors based on whether they are from inside the company or outside. The inside directors play a dual role; that of being employees of the company mostly in their capacity as managers and are part of the daily business activities of the organization. However, the external directors are not involved in the day to day running of the organization

and are in no other way employees of the organization. Gender diversity in the board refers to the number of male and female directors.

According to Kalsie and Shrivastav (2016), the board size simple refers to the overall number of directors that serve on the board. There have long been several arguments with regards to the size of the board of directors. Some scholars argue that a small board can be too easy for the CEO to control (Lipton and Lorsch, 1992). However, others like Vaidya (2019) found that medium sized boards performed better than either small or big ones. The argument for small boards was that bigger boards end up being dysfunctional. However, in smaller boards there are less chances of the directors ganging up on and criticizing the management. According to Pavic et al (2018), there is also a contention between more directors adding value versus costs to the board and having monitoring issues if there are too few members.

So if there are problems small boards are most likely to have a smooth discussion and interaction. Others contend that a larger board has quality and effective decision making (H Hamad 2019). Lipston and Lorch (1992) contended that a board of less than ten members and preferably eight to nine members is the most effective. Other scholars also pointed out that a smaller board size also meant easy monitoring of the management activities (Hassan and Halbouni 2013, Bousseni 2020).

The board of directors is usually made of different types of directors. The internal directors who are also referred to as executive directors or inside directors are involved in the running of the business. According to some scholars (Ongore, 2015, Nicholson and Kiel, 2007), the internal directors are valuable in increasing the shareholders wealth as they are also employees of the organization. They are therefore most likely to want to act in the best interests of the organization hence their association with increased financial performance. On the other hand, the non-executive directors are not involved in the organization in any other way except as directors (Afzalur, 2018). Scholars contend that they do not possess sufficient knowledge on the organization to be competent. However, their distance from the organization increases their independence (Naseem et al, 2017) which in turn leads to less chances of them being involved in illicit activities within the organization (Sharifah et al 2016). It is also said that as they are independent, they are most likely to be effective in decision making process (Mishra and Kapil 2018).

The ownership of the board shows the group of individuals that own the company. There are various types of ownership and all have an impact on how the organization is run. Directors may also be owners as an incentive for them to act in the interests of the shareholders (Goel 2018); as the assumption is that when the directors' interests are aligned with those of the shareholders then they would want to maximize their wealth too (Mahn-Chien et al 2018). This can also encompass other key members of the organization like auditors to form institutional ownership. According to Tariq and Naveed (2016) ownership of board can be familial, governmental or institutional. They also explained that in familial ownership members are united by common vision and objectives; in institutional skilled investors take the lead and in governmental there is more symmetry between owners and managers (Uadiale 2010).

In family owned businesses ownership is usually divided among the family members and maybe their immediate relatives and together they would hold the shares that form the family owned business (Paniagua et al 2018). Sometime the ownership is in the form of foreign investors and the shareholding is usually subject to the local laws. For example, in some countries foreign ownership should not exceed 49% in order to maintain ownership in the hands of locals (Kao, 2019).

There are two theories that resonate with some aspects of board characteristics like the board composition and ownership and these are the Agency theory and the Stakeholder theory. According to the Agency theory directors work for the shareholders (Fama, 1980, Fama and Jensen 1983). The Agency theory sets the relationship between the owners and those in control of

the organization that is the shareholders and directors respectively. It shows how the directors act on behalf of the shareholders and thus as agents. It also highlights that there can be some agent-principal problems in this relationship where the directors or management may want to further their interests at the expense of the shareholders even though they should work to maximize shareholder benefits (Judith et al, 2013).

This can be revealed in various accounting and book and market-based variables like the Return on Investments made (ROE), Return On Capital employed and profit before tax, Tobin's Q and market based method among others. The study will employ the Return on Assets as the measure of financial performance and it reflects the extent to which the business is making profit. Previous studies have however shown that there is no consensus with regards to the effect of corporate governance on financial performance of organizations. According to Verbeeten and Boons (2009) financial measures are a more reliable measurement since they can be verified as well as subjected to scrutiny through their publications hence, they are less likely to be manipulated. However, some scholars contend that since financial measures use outdated and historical data they may not be a true reflection of the financial performance of a business and thus advocate for non-financial measures.

Akinyomi (2013) studied the impact of board structure on corporate financial performance in Nigeria. Their study revealed a positive relationship between the board structure and financial performance. The study used regression analysis to determine the relationship. In terms of the individual variables the study revealed that the CEO duality was negatively associated with financial performance. The CEO working as director on the board as well was found to be negatively associated with the Return on Capital Employed of the organization. The same result was also observed for the increased ownership by directors but on Return on Equity. The relationship with Return on Capital Employed was found to be positive and significant. In addition, results of the study also indicated that a large board resulted in increased effectiveness. An increase in the number of outside directors was also found to have a favourable impact on financial performance.

Kalsie and Shrivastava (2016) conducted a study to determine the effect of board size on financial performance on firms in the financial sector in India for a five-year period. The study utilized data from the databases and annual reports of the organizations. Tobin's Q, ROE and ROCE were employed as the financial performance measurements. The results revealed positive and significant relationships between board size and ROA and Tobin's Q. The relationship between board size and ROCE was found to be a negative one. In case of the control variables, firm size and firm debt were found to be negatively related to measures of performance except Tobin's Q. Firm age was positively associated with Return on Capital Employed. An increase in firm size through the sales was found to lead to an increase in the board size.

On the other hand, Boussenna (2020) used non-financial listed French companies in Algeria to explore the relationship between board size and firm performance. Both accounting and market-based measures were used as measures of financial performance. Panel data regression analysis was used as the data analysis tool for the 12-year period. The results revealed a positive relationship between the relationship and contended that the ideal board was between 13 and 17 members.

Adusei et al (2017) explored board management gender and its relationship to financial performance in different countries in the microfinance industry. The study revealed that diversity was negatively and significantly associated with financial performance with regards to the directors; but when it came to diversity in gender management the effect was insignificant but negative. An interesting observation from this study however, showed that gender diversity was only effective when the female representation did not exceed 50% because if it did then the effect became negative. They therefore advocated that having females on boards should be selected with the utmost caution.

Vaidya (2019) sought to establish the relationship between board size and financial performance on listed companies in India. The study employed financial performance measures that are earnings per share, ROA, ROCE, profit before interest and tax, dividends per share and Tobin's Q. the results revealed that all these measures of financial performance were not affected by board size as the relationships were found to be statistically insignificant. The study also revealed that medium boards of about eight to ten members were found to be the optimum number.

In contrast, a study by Ongore (2015) had different results from most of the literature on the impact of outside directors. The study found that outside directors were not really associated with increased financial performance. The study also revealed that an increase in the size of the board led to decrease in financial performance 41.8% of the time. The study also employed moderating effect using firm performance, age and management efficiency. The results showed that firm characteristics had a moderating effect on the relationship between board characteristics and financial performance.

Afzalur (2018) explored the impact of board independence on firm performance on listed companies in Bangladesh. The study revealed that there was no positive relationship between the two variables. However, the study also found that there was a positive and significant relationship between board size and board independence as well as board size and financial performance. The scholar also pointed out that Bangladesh had a lot of outside directors sitting on boards to increase independence and accountability but this was not really beneficial in terms of financial performance. A study by Mishra and Kapil (2018) on the same aspects on Indian companies on the stock exchange revealed a positive relationship between board size, board independence and financial performance. The study employed both accounting and market value measures of performance.

Ganguli and Guha (2021) explored the impact of board ownership concentration among other variables on the financial performance of different industries in India. The study employed various methods for analysis including the OLS models and the SLS methods. Their study revealed that very low ownership board concentration had a negative impact on the financial performance of the organization and that the ideal ownership concentration was between 25 and 75%. Their study also revealed that board size was positively associated with increased financial performance but board independence had the opposite effect.

Pavic et al (2018) also sought to establish the relationship between board characteristics and financial performance on insurance companies in Croatia. The study employed panel regression for a 7-year period. The study revealed that board size was negatively related to performance. In addition, it revealed that the more women there are on board, the more the Return on Assets of the company decreases.

Tariq and Naveed (2016) sought to determine ownership structure impact on financial performance of Pakistani companies in the textile industry. OLS regression analysis was employed on a period of 6 years. The Economic Added Value method was used to measure financial performance. Familial ownership was found to have positive albeit insignificant association with financial performance. However, government and institutional ownership resulted in worse and decreased financial performance respectively.

Financial performance reflects the financial well-being of the organization. Finance is an important part of the organization and sets the wheels of the business in motion. It is through finances that the organization is able to undertake important activities like fund projects, remunerate employees and so forth. Stakeholders are also interested in the financial activities and performance of the organization as these determine the returns they will get on their investments. Great financial performance translates to great returns.

In view of this the agency theory emphasizes that there should be sufficient compensation to ensure that the directors are motivated in working on behalf of the shareholders (Farheen et al

2020). This also raised the issue of giving the directors a bit of ownership of the company in the form of shares. The idea behind is that if the directors are also owners of the company, they are more likely to work in the interests of the organization because the outcomes concern them personally (Vargas-Hernandez et al 2018).

The Stakeholder theory (Donaldson and David 1989) on the other hand, sought to provide a better and deeper understanding than the agency theory. It argues that not all principal-agent problems are solved through economic benefits. The theory suggested that if the management were committed to the organization and identified with it then they would not need extra incentives to be competent in undertaking their duties. They would simply serve the best interests of the organization because their values and the organizational values are similar (Ghabayen et al 2016).

The major focus of the study is to determine the impact of board characteristics on the financial performance of public companies in Northern Iraq. As the board characteristics encompass several variables these will be formulated as below.

- To determine the impact of board characteristics on the financial performance of an organization.
- To determine the impact of board size on the financial performance of the organization
- To establish the impact of ownership (foreign versus local ownership) on the financial well-being of the organizations.
- To determine the impact of inside versus outside directors on the financial performance of the organization

This study has the potential to offer some valuable insights to organizations. The study is based on companies in different industries and the impact of board characteristics on financial performance can be used to help these companies in promoting the characteristics that are better on performance. In addition, there is not much literature recently on the subject and the addition of this paper is good especially for academia as it can be used as a reference source or foundation for further studies.

METHODS

The researcher used the descriptive research design so as to provide the descriptions of the board characteristics in the listed companies. In addition, the researcher sought further understanding of the dynamics between the board characteristics and financial performance. As a result, the study was also explanatory in nature. Overall, the study used a combination of research designs which is advocated for by scholars like Creswell (2016) as it provides a deeper understanding of a research than a single research design. The study utilized data collected from secondary sources. These consisted of financial statements from the various organizations in the study. The merit of secondary data is that it is conveniently available. The secondary data was used as it was already available and specific to the study. The data was collected from various listed companies in different sectors like banking, technology and manufacturing. The organizations were Al Mansour, IELI, ICCM, IIEW, United Bank, Albatek, Al-Akhair, Baghdad, Iraqi Tufted Carpets and Al-Ameen. The collected data spanned a 10 year period from 2005-2016.

The study was quantitative in nature since it was all in numerical form. The researcher selected this method as the most ideal to the study as he needed to test hypotheses of the relationships between the variables. In addition, a quantitative approach is suitable if one needs to verify and replicate the study in the future. The research employed statistical packages to conduct the data analysis. The researcher used the Statistical Package for Social Sciences (SPSS) to analyse the data. A panel regression analysis was conducted to determine the extent of the relationship between the board characteristics and the financial performance.

The regression model as presented as follows:

$Return\ on\ Assets = \beta_0 i,t + \beta_1 Board\ size\ i,t + \beta_2 Board\ ownership\ i,t + \beta_3 Board\ composition\ i,t + \mu i,t$
representing firm performance for company (i) at time (t)

RESULTS AND DISCUSSION

Table 1. Descriptive statistics

Variable	N	Min	Max	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std Error	Statistic	Std Error
ROA	61	-1.63	1.06	.16111	.457369	-1.784	.306	4.199	.604
Board Size	61	6	12	9.00	1.949	-.070	.306	-1.074	.604
Ownership	61	.00	99.55	72.620	24.595	-.839	.306	-.066	.604
Board Composition	61	33.00	82.00	55.903	17.246	.149	.306	-1.653	.604
LOGAS	61	7.90	10.00	9.153	.523	-.395	.306	-.368	.604
Valid N (listwise)	61								

The table above shows the descriptive statistics for the independent and dependent variables. The table shows that on the highest board ownership was 99.55. The average board ownership is 72.62%. In addition, in relation to board size, the lowest number of members was 6 whilst the highest was 12. The average board size was 9 members. Board composition revealed an average board-members that are non-executive directors as 55.90% and the rest being executive directors which shows that the board has an above normal level of independence. On the other hand, the highest number of board meetings recorded is 8 whilst the least is 2. On average the number of meetings conducted was 4.34, hence the board hold 4 meetings per year on average. The largest return on assets was 1.06 whilst the least was -1.636. The average ROA was 0.16.

Correlation analysis

The researcher also sought to determine the relationship between the independent and dependent variables and this is reflected in the table below.

Table 2 Correlation Analysis

	Description	ROA	BSize	OWN	BCOMP	LOGAS
ROA	Pearson Correlation	1	.178	.289*	-.141	-.198
	Sig. (2-tailed)		.169	.024	.383	.125
	N	61	61	61	61	61
BSize	Pearson Correlation	.178	1	-.262*	.292*	.124
	Sig. (2-tailed)	.169		.042	.022	.339
	N	61	61	61	61	61
OWN	Pearson Correlation	.289	-.262*	1	-.445**	.111
	Sig. (2-tailed)	.024	.042		.000	.396
	N	61	61	61	61	61
BCOMP	Pearson Correlation	-.114	.292*	-.445**	1	.117
	Sig. (2-tailed)	.383	.022	.000		.370
	N	61	61	61	61	61
LOGAS	Pearson Correlation	-.198	.124	.111	.117	1
	Sig. (2-tailed)	.125	.339	.396	.370	
	N	61	61	61	61	61

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

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

The table above shows that financial performance as represented by Return On Assets has a significant association with board ownership, reflected in the figure of 28.9%. On the other hand, the corporate governance aspect of board size was found to be insignificantly related with financial performance. Board size was found to have a positive albeit insignificant relationship with Return on Assets at 0.178. Lastly, the board composition was found to have a negative and significant relationship with financial performance as reflected in the figure if -0.114. This implies that the presence of more non-executive directors than inside ones does not affect the financial performance of the organization.

4.3 Regression analysis

The researcher conducted a regression analysis to determine the extent of the relationship of each of the independent variables with the dependent variable through the regression analysis. It was also conducted to determine if any changes in the independent variable resulted in subsequent changes in the dependent variable.

Table 3 Model Summary^b

	Model R	R Square	Adjusted R	Std. Error of the Estimate
1	.479 ^a	.229	.174	.415583686582191

a. Predictors: (Constant), LOGAS, OWN, BSize, BComp
b. Dependent Variable: ROA

The model above reflects if the model employed predicts the relationship between the independent and dependent variables. The R shows the relationship between board characteristics and financial performance and shows that board characteristics reflect financial performance by 47.9%.

Table 4. ANOVA^a

	Model	Sum of Squares	df	Mean of Square	F	Sig.
1	Regression	2.879	4	.720	4.168	.005 ^b
	Residual	9.672	56	.173		
	Total	12.551	60			

a. dependent Variable: ROA
b. Predictors: (Constant), LOGAS, OWN, BSize, BComp

The analysis of variance shows if the independent variable statistically and significantly predicts the dependent variable, financial performance. The model above shows that board characteristics statistically and significantly predict financial performance as reflected in the 0.005. This is because the figure is less than 0.05 which is the threshold.

Table 5. Coefficients

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.201	.957		1.255	.215
	BSize	.075	.029	.318	2.540	.014
	OWN	.008	.003	.406	3.005	.004
	BCOMP	.000	.004	.007	.054	.957
	LOGAS	-.248	.106	-.284	-2.343	.023

a. Dependent Variable: ROA

The table above shows the effect of corporate governance as portrayed by board characteristics on financial performance. It also provides the results of the hypotheses. A unit increase in board size leads to an increase in financial performance by 0.075. The p value of 0.014 is less than 0.05 which means that the hypothesis that increase in board size has a positive impact on financial performance is true and thus accepted. A unit increase in ownership of the board by directors leads to an increase in financial performance by 0.008. The p value of 0.004 is less than the significant value of 0.05. This therefore means that the hypothesis that increase in ownership by directors' results in increased financial performance was accepted. However, the board composition had a value of 0.000 which means that an increase in non-executive directors leads to no change in financial performance. The p value of is 0.957 which is above the significant value of 0.05. This means that the impact is insignificant and the hypothesis that board independence results in increase in financial performance is therefore rejected.

The results show that the financial performance was negative on average. This reflects the general status of events in Northern Iraq between the years 2005 and 2016 from wars, economic crises to political uprisings. The study also showed mixed results on the impact of board characteristics and financial performance of the organization. Ownership of the board showed that on average 72.6% of the board is owned by directors. This clearly reflects that the general consensus is that of giving ownership to the directors. This practice is more in line with the Stakeholder Theory which supports diminishing agency problems by making directors owners of the company as well so that they are more inclined to work in the best interests of the organization. This also seems to be beneficial to the organizations as the study revealed that board ownership by directors results in increased financial performance.

These findings are in agreement with those found in literature by Ganguli and Guha (2021) who pointed out that medium to high ownership concentration leads to increased financial performance. The correlation results also supported this notion and showed a positive and significant relationship between the two. They were however, in contrast with studies by Akinyomi (2018) and Traiq and Navid (2016) who found a negative relationship between institutional ownership and financial performance.

The descriptive statistics revealed that the average board size is 9 members. The correlation results showed an insignificant but positive association with financial performance. This was also supported by the regression analysis which showed a positive increase in financial performance as a result of an increased board size. These results corroborate results of scholars like Boussena (2020) and Kalsie and Shrivastava (2016) which found that Return on Assets is increased when the board size increases.

Board composition was found to consist of more external directors than inside directors. The average board independence reflected in the board composition showed on average a percentage of outside directors of 55.90%. the study found a negative but insignificant correlation between board composition and financial performance. The regression analysis however, showed that increasing outside directors made no change on financial performance through Return On Assets. These results were in contrast with those of Ongore (2015) who found a decreased financial performance upon increasing outside directors. However, they were in agreement with results by Alfazular (2018) whose study revealed that outside directors did not benefit the organization in as far as finances were concerned.

CONCLUSION

Issues of corporate governance are important to the organization. The results showed that board ownership and board size are crucial as they can increase financial performance. However, care has to be taken to ensure that the board size does not end up becoming too large as this can result in unproductivity as well as increased costs for the organization. The study seems to hold through the theories that point out that directors should be given ownership as this acts as an

incentive to them acting in the best interests of the stakeholders. However, as the study showed no improvement in financial performance in having more outside directors, this should be taken into account when determining the balance between inside and outside directors.

In light of the above-mentioned limitations, the researcher recommends that future studies be based on a comparison of the accounting as well as market-based methods of measuring financial performance. In addition, instead of focusing on various sectors at once, future studies can then focus on the nuances of one particular independent value in particular.

The study was based on only ratios on establishing financial performance which are accounting based. It was also focused on different companies in various sectors like textiles, manufacturing and technology among others. The study was also based on a quantitative approach.

REFERENCE

- Adusei Michael, Samuel Yaw Akomea & Kwasi Poku | David McMillan (Reviewing Editor) (2017) Board and management gender diversity and financial performance of microfinance institutions, *Cogent Business & Management*, 4:1, DOI: 10.1080/23311975.2017.1360030
- Afzalur Rashid,(2018). Board independence and firm performance: Evidence from Bangladesh,. *Future Business Journal* Volume 4, Issue 1 pages 34-49
- Akinyomi John. (2013). Impact of Board Structure on Corporate Financial Performance. *International Journal of Research in Commerce, IT and Management*. 3. 135-139.
- Boussenna,H.(2020).Board of Directors' Size and Firm Performance: Evidence from Non-Financial French Firms Listed on CAC 40. *Studies in Business and Economics*,15(2) 46-61
- Donaldson, L., Davis, J. H. (1989). CEO governance and shareholder returns: Agency theory or stewardship theory. Paper presented at the annual meeting of the Academy of Management, Washington, DC.
- Donaldson, L., Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16(1), 49–64.
- Fama, E, (1980). Agency Problems and Theory of the Firm. *Journal of Political Economy*, 88
- Fama, E. F. and Jensen, M. C. (1983), –Separation of ownership and controll, *Journal of Law and Economics*26 (2), 301-325
- Farheen Akram, Muhammad Abrar ul Haq, Vinodh K Natarajan, R. Stephen Chellakan, David McMillan. (2020) Board heterogeneity and corporate performance: An insight beyond agency issues. *Cogent Business & Management* 7:1.
- Ghabayen, M. A., Mohamad, N. R., & Ahmad, N. (2016). Board characteristics and corporate
- Goel, P (2018). Implications of corporate governance on financial performance: an analytical review of governance and social reporting reforms in India. *AJSSR* 3, 4
- Hassan, Mostafa & Halbouni, Sawsan. (2013). Corporate governance, economic turbulence and financial performance of UAE listed firms. *Studies in Economics and Finance*. 30. 10.1108/10867371311325435.
- HAMAD, H. customer satisfaction in banking sector: the case in north iraq, city of erbil.
- Judith W., Ward A.M., Philip H. (2013) Agency and Corporate Governance. In: Idowu S.O., Capaldi N., Zu L., Gupta A.D. (eds) *Encyclopedia of Corporate Social Responsibility*. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-642-28036-8_659
- Kalsie, Anjala & Shrivastav, Shikha. (2016). Analysis of Board Size and Firm Performance: Evidence from NSE Companies Using Panel Data Approach. *Indian Journal of Corporate Governance*. 9. 148–172. 10.1177/0974686216666456.
- Lipton, M., Lorsch W. J. (1992). “A Modest Proposal for Improved Corporate Governance”. *Business Lawyer*, 48(1), 59-77.

- Manh-Chien Vu, Thanh Tu Phan, Nhu Tuyen Le (2018). Relationship between board ownership structure and firm financial performance in transitional economy: The case of Vietnam,
- Mishra, R.K. and Kapil, S. (2018), "Effect of board characteristics on firm value: evidence from India", *South Asian Journal of Business Studies*, Vol. 7 No. 1, pp. 41-72. <https://doi.org/10.1108/SAJBS-08-2016-0073>
- Naseem, M. A., Rehman, R. U., Ikram, A., & Malik, F. (2017). Impact Of Board Characteristics On Corporate Social Responsibility Disclosure. *Journal of Applied Business Research (JABR)*, 33(4), 801-810. <https://doi.org/10.19030/jabr.v33i4.10001>
- Nicholson, G., Kiel, G. (2007), Can Directors Impact Performance? A Case Based Test of Three Theories of Corporate Governance, *Corporate Governance: An International Review*, 15(4), 585-608.
- Ongore Vincent O. K'Obonyo Peter O, Bosire Eric M (2015). Effects of Board Composition on Financial Performance: Empirical Analysis of Companies Listed at the Nairobi Securities Exchange. *International Journal of Economics and Financial Issues* Vol. 5, No. 1, pp.23-43
- Paniagua, Jordi & Rivelles, Rafael & Sapena, Juan, 2018. "Corporate governance and financial performance: The role of ownership and board structure," *Journal of Business Research*, Elsevier, vol. 89(C), pages 229-234.
- Pavić Kramarić, T., Aleksic, A., & Pejic-Bach, M. (2018). Measuring the impact of board characteristics on the performance of Croatian insurance companies. *International Journal of Engineering Business Management. Research in International Business and Finance*.
- Sharifah Faatihah Syed Fuzi, Syahrina Adliana Abdul Halim, M.K. Julizaerma (2016). Board Independence and Firm Performance, *Procedia Economics and Finance*, Volume 37, Pages 460-465
- Tariq Irsa, Naveed Muhammad (2016). Effects of Board & Ownership Structure on Firm Financial Performance: An Economic Value-Added Perspective. *Developing country studies*, Vol 6 No. 8
- Uadiale Marte Olanyika (2010). The Impact of Board Structure on Corporate Financial Performance in Nigeria. *International Journal of Business and Management Archives* Vol. 5, No. 10.
- Vaidya, N Purushottam, Board Size and Firm Performance: A Study on BSE 100 Companies (2019). *Journal of Management (JOM)*, 6 (3), 2019, pp. 117-123, Available at SSRN: <https://ssrn.com/abstract=3525368>
- Vargas-Hernández, José & Teodoro Cruz, María Elizabeth. (2018). Corporate governance and agency theory: Megacable case. 2. 59-69. 10.22495/cgsrv2i1p5.
- Verbeem, F.H.M. & Boons, A.N.A.M. (2009). Strategic priorities, performance measures and performance: an empirical analysis in Dutch firms. *European Management Journal*, 27: 113-128. Volume 45, pages 512-528