International Journal of Scientific Research in Engineering and Management (IJSREM)
Volume: 08 Issue: 04 | April - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

Corporate Governance and Financial Performance: A Longitudinal Analysis of the Impact of Board Structures

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Abstract: The conducted study associated with the longitudinal analysis of the impacts of corporate governance especially board of structure on the financial performances of the organisations. The aim of the study is to understand the longitudinal impact of board structures on the financial performance of companies. Here, the dynamic changes in board structure discussed where leadership style and board size play vital roles. In this study, the primary method was used where data collected by using Google Form. In that case, a total of 70 respondents from different organisations who offered their experience. In this study, a primary data analysis method was used that helped to analyse all the data which helped in data interpretation aspects.
Keywords: ***Corporate Governance, Board Diversity, Board Structures, Financial performance, Transparency and decision-making etc.***

Introduction

Background of the Study

In the business world, corporate governance plays a crucial role in giving proper structure to performance and sustainability in the financial aspects. In that case, the board structure of an organisation plays a vital role that not only influences the financial performance but also helps in the decision-making process (Uyar et al. 2021).

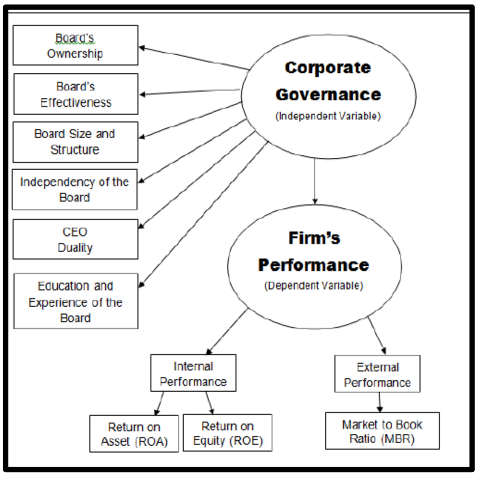

Figure 1: Impact of Corporate Governance on financial performance
(Source: Puni & Angelina, 2020)

Through the help of this decision-making process, an organisation can maintain their effectiveness. In this 21st century, corporate governance plays an important role in maintaining ethical as well as transparent and effective business. In this evolving nature of corporate governance, it is important to understand the impacts of board structure on the financial performance of an organisation (Pekovic & Vogt, 2021).

Problem Statement

Over time, gaps have been created in corporate governance where it is important to understand the impacts on financial performance due to the changes in board structure.

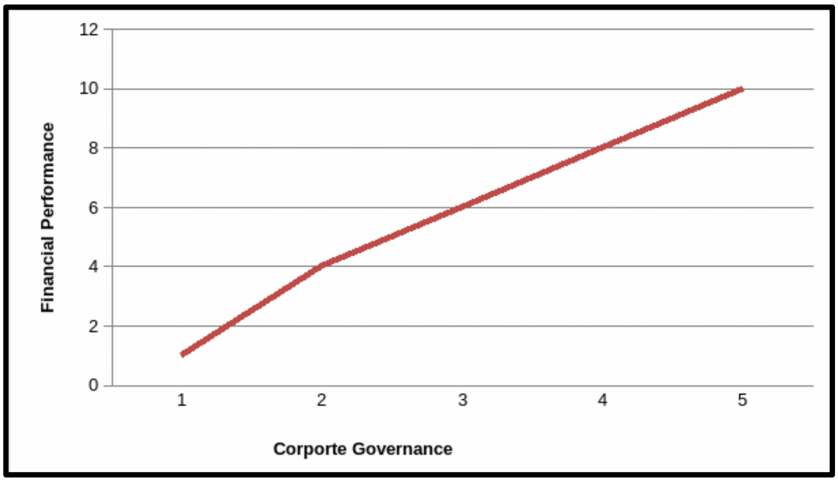

Figure 2: Relationship between corporate governance and financial performances

(Source: ivypanda.com, 2023)

In that case, it is important to understand the relationship between board structure as well as financial performance in the evolving business environment. Through the help of this study, a complete assessment has been conducted to examine the trends and patterns between board structures and financial results of an organisation.

Research Aim and Objectives

Research Aim

The primary aim of this study is to examine the longitudinal impact of board structures on the financial performance of companies.

Research Objectives

RO1: To analyse the evolution of board structures in a selected sample of companies over a specified period.

RO2: To identify key factors within board structures that significantly influence financial performance.

RO3: To identify correlations between specific board structures (e.g., size, composition, diversity) and financial performance indicators.

RO4: To Analyse the long-term implications of effective board governance on overall corporate success.

Research Questions

RQ1: In what ways have board structures changed within the selected companies over the specified longitudinal period?

RQ2: What are key factors within board structures that significantly influence financial performance?

RQ3: What are the correlations between specific board structures and financial performance indicators?

RQ4: What long-term effects does effective board governance have on the overall success of the company?

Significance of the Study

Through the help of this study, policymakers as well as corporate leaders and researchers get crucial information about the relationship between board structure and financial performance. In that case, by understanding the impacts of board structure on financial performance, an organisation can enhance their corporate governance practices (Puni & Angelina, 2020). Through the help of these practices, an organisation can achieve positive success in the future.

Literature Review

Evolution of Board Structures

The changing nature of corporate governance brings changes in the board structures of the selected companies during the specified longitudinal period. In that case, through the help of the strategic adjustment, evaluation in board composition has been observed. For example, by appointing independent directors, an organisation has a diversified board structure that helps to achieve organisational goals (Ben Rejeb, Berraies & Talbi, 2020).

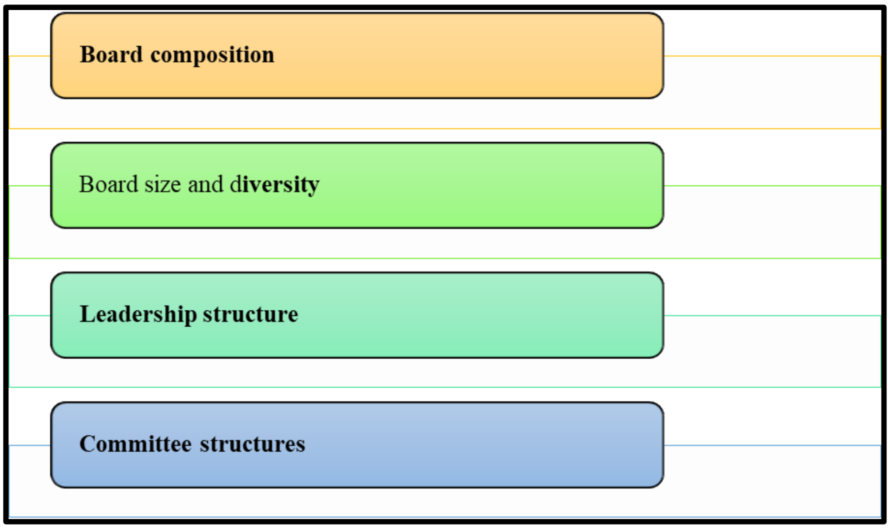

Figure 3: "Evolution of Board Structures"

(Source: Tabassum & Singh, 2020)

Various factors such as organisational growth, mergers, or restructuring bring changes in board size. In that case, a large number of board members offer diversified perspectives that help in decision-making (Nahum & Carmeli, 2020). On the other hand, in corporate governance, changes in gender and ethnic diversity, as well as professional backgrounds also influence the decision making which helps to make changes in the board structure. On the other hand, these changes also help to maintain innovation in the workplace that brings effective financial performance.

Key Factors within Board Structures Influencing Financial Performance

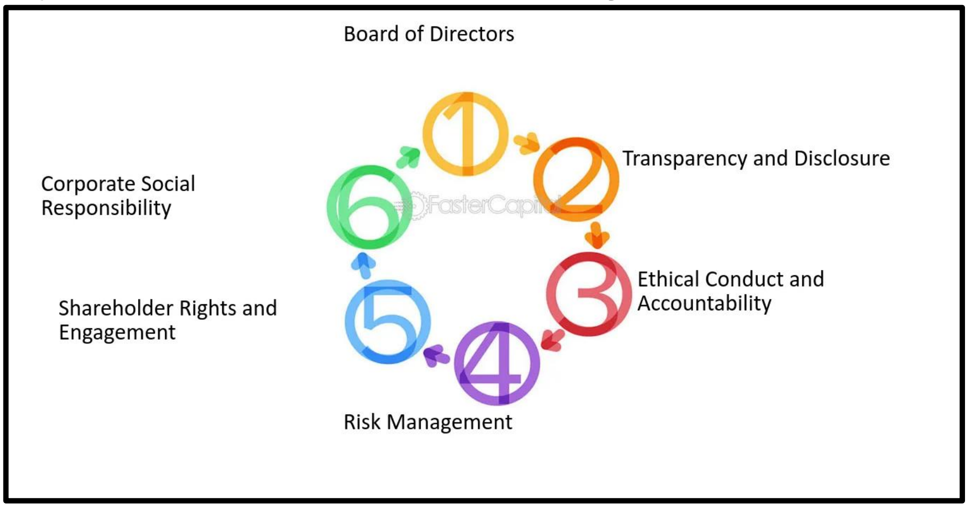

Figure 4: "Key Factors within Board Structures Influencing Financial Performance"

(Source: Cumming & Leung, 2021)

There are various key factors within board structures that influence financial performance. As per the study by Okpamen & Ogbeide (2020), competency and expertise of board members are the major key factors that bring more productivity which brings effective financial performances. In that case, through the help of expertise, all the issues are mitigated with the help of the effective decision. On the other hand, independence of directors is also a key factor that plays a vital role in financial performances. Here, diversity within board structures also influences the financial performances of an organisation where a diverse board brings innovations (Cumming & Leung, 2021). Through the help of the innovations, board member can mitigate complexities in business activities which provide effective business environment. Similarly, board dynamics also another important factor including effective communication, collaboration, and decision-making processes that offers effective financial performances.

Correlations Between Board Structures and Financial Performance

There is a dependent relationship has been observed between board structures and financial performance. In this case, the presence of independent directors in a balanced composition that not only creates positive impacts on decision-making but also improves financial results. On the other hand, due to the diversification in board structure, there is innovation taking place which enhances the financial performances (Konadu et al. 2022). Streamlined governance and financial success are facilitated by the strategic combination of the ideal board size and effective committee structures. Due to the different types of external factors these correlations can be changed.

Long-Term Effects of Effective Board Governance

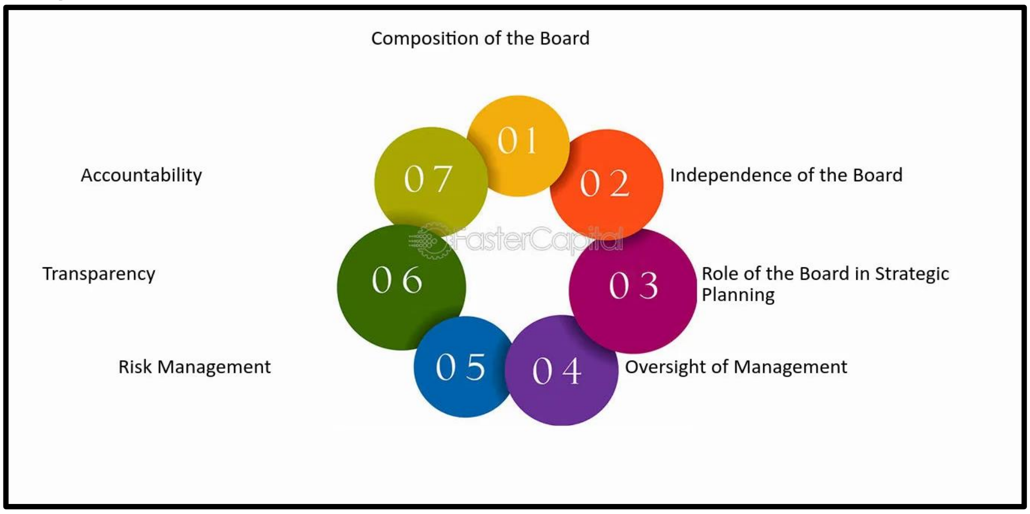

Figure 5: "Long-Term Effects of Effective Board Governance"

(Source: Villela et al. 2021)

Due to the effective board governance, an organisation gets different long-term benefits. In that case, board structure offers strategies to the business as per the changes in business context. In that case, due to effective board structure, an organisation develops trust with investors and customers that brings more business opportunities in future (Villela et al. 2021). On the other hand, through this, an organisation enhances brand reputation and customer loyalty that improves business performance. Similarly, effective boards bring innovation and adaptability that help in long-term success.

Methodology

Primary research method was used in this study that helped to increase the reliability as well as validity of the result statistically. To assess the evidence, this study used positivism research philosophy. On the other hand, to develop hypotheses, this study used a deductive approach which helps to understand the relationship between board structure and financial performances. In terms of data collection process, primary data collection process was used which included an online survey (Bahasoan et al. 2020). In this survey, a total of 70 respondents who are board members of different companies participated. Quantitative analysis was used to analyse data collected through the

Volume: 08 Issue: 04 | April - 2024 SJIF Rating: 8.448 ISSN: 2582-3930

online survey. In that case, IBM SPSS tool was used where descriptive as well as frequency test, regression analysis and correlation analysis were performed.

Development of hypotheses

H1: There is a significant positive correlation between a higher proportion of independent directors on the board and improved financial performance.

H2: Increased diversity within the board positively correlates with enhanced financial performance.

H3: Companies with more effective board committees demonstrate a significant positive correlation with improved financial performance.

Findings

Demographic analysis

Age of the respondents

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	10	14.3	14.3	14.3
	2	31	44.3	44.3	58.6
	3	9	12.9	12.9	71.4
	4	20	28.6	28.6	100.0
	Total	70	100.0	100.0	

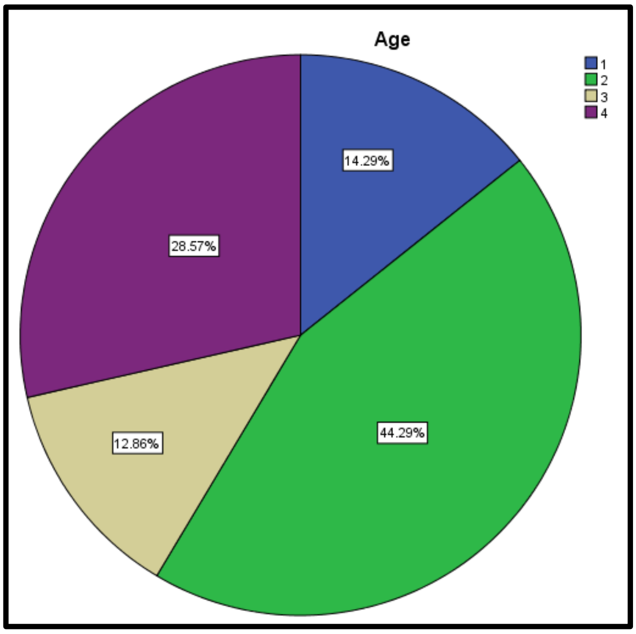

Figure 6: Age Distribution

(Source: SPSS)

The above pie chart offers results of frequency tests to understand the age of participants. In that case, out of 70 respondents, 31 respondents were aged 36 to 40 years whereas 20 participants aged 51 to 60 years. On the other hand, 10 participants who were aged between 25 years to 35 years provide valuable information for this study.

Gender of the respondents

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	41	58.6	58.6	58.6
	2	20	28.6	28.6	87.1
	9	9	12.9	12.9	100.0
	Total	70	100.0	100.0	

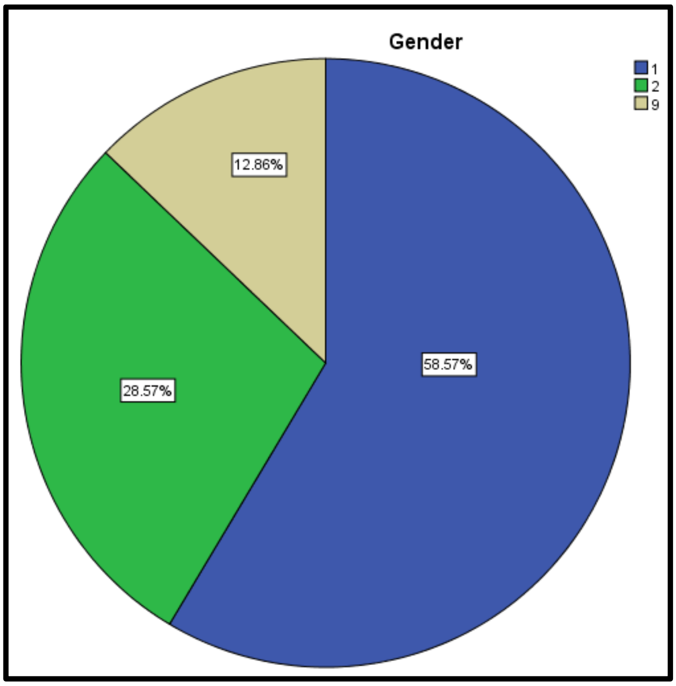

Figure 7: Gender Distribution
(Source: SPSS)

The above graphical representation provides information about the gender of participants where 41 participants are male. On the other hand, 20 respondents are female whereas 9 respondents did not state an intention to reveal their gender. In that case, all participants provide information about the impacts of board structure associated with corporate governance on financial services for organisations.

Academic Qualification

Academic_Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	20	28.6	28.6	28.6
	2	20	28.6	28.6	57.1
	3	9	12.9	12.9	70.0
	4	21	30.0	30.0	100.0
	Total	70	100.0	100.0	

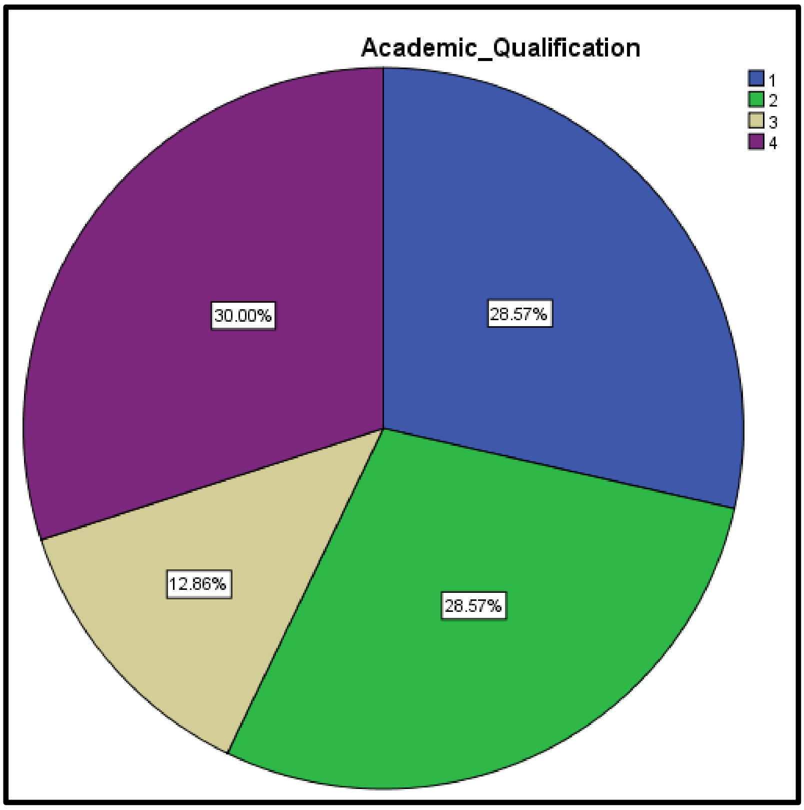

Figure 8: Experiences as financial experts

(Source: SPSS)

The above pie chart provides information of academic qualification which is important to provide valuable experiences in this study. Here, out of 70 respondents, graduate and postgraduate respondents are 20 respectively. On the other hand, 21 respondents have completed their MBA degrees whereas 9 participants have Ph.D.

Variable-related analysis

Descriptive test

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
DV	70	3.00	14.00	6.7429	4.00248	.739	.287	-.948	.566
IV1	70	3.00	13.00	7.7143	4.31426	.212	.287	-1.802	.566
IV2	70	3.00	14.00	6.7429	3.81715	.944	.287	-.604	.566
Valid N (listwise)	70								

Table 1: Descriptive analysis

(Source: SPSS)

The above descriptive statistics provide insights into the distribution and characteristics of the variables in your dataset. Here. The average value of the dependent variable is 6.74. In that case, the values of the dependent variable range from 3.00 to 14.00. In that case, the sample size for the analysis is 70 where there are no missing values observed in the variables used for this descriptive analysis.

Validity Test

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.528
Bartlett's Test of Sphericity	Approx. Chi-Square	390.386
	df	3
	Sig.	.000

Table 2: Validity Test
(Source: SPSS)

The KMO measure of sampling adequacy whereas Bartlett's Test of Sphericity are commonly used to assess the appropriateness of data for factor analysis. In that case, the KMO value is approximately 0.528, indicating that the data are moderately suitable for factor analysis. In this case, the range of KMO values is 0 to 1 (Shrestha, 2021).

Linear Regression Analysis

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.995[a]	.989	.989	.42055	.329

a. Predictors: (Constant), IV2, IV1

b. Dependent Variable: DV

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1093.522	2	546.761	3091.478	.000[b]
	Residual	11.850	67	.177		
	Total	1105.371	69			

a. Dependent Variable: DV

b. Predictors: (Constant), IV2, IV1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.588	.106		-5.534	.000
	IV1	.365	.022	.394	16.432	.000
	IV2	.670	.025	.639	26.664	.000

a. Dependent Variable: DV

Table 3: Linear Regression Test
(Source: SPSS)

The above table provides key information about the regression model. Here, the independent variables explain nearly 98.9 percent of the variance in the dependent variable. On the other hand, the Durbin-Watson value is 0.329 which takes place in the range indicating that autocorrelations have been observed between different variables. In the ANOVA test, the F value is 3091.47 which is higher. The higher F value signified the overall model. In terms of coefficient test, the t value for IV1 and IV2 are 16.432, and 26.664, respectively where higher t-values indicate greater significance for the model. In that case, the positive coefficients for both IV1 and IV2 suggest that as either variable increase, there is an increase in value seen in the dependent variable.

Correlation test

Correlations

		DV	IV1	IV2
DV	Pearson Correlation	1	.936**	.973**
	Sig. (2-tailed)		.000	.000
	N	70	70	70
IV1	Pearson Correlation	.936**	1	.849**
	Sig. (2-tailed)	.000		.000
	N	70	70	70
IV2	Pearson Correlation	.973**	.849**	1
	Sig. (2-tailed)	.000	.000	
	N	70	70	70

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4: Pearson Correlation test
(Source: SPSS)

The above correlation table represents the Pearson correlation coefficients between the variables. In that case, there are high positive correlations between DV and both IV1 and IV2 have been observed indicating that direct relationship is observed between variables. On the other hand, if the board structure is appropriate, an organisation gets an effective decision-making process that not only improves the financial performances but also improves the brand visibility (Puni & Angelina, 2020). Here, the correlation value between IV1 and IV2 is 0.849 which is also strong. In that case, all correlations are highly significant at the 0.01 level.

Discussion

The above findings show there is positive relationship has been observed between board structures and financial performance. In that case, independent directors as well as diverse compositions and effective governance regulation brings success in financial performances. On the other hand, regression analysis provides information where 98.9 percent of the variance in the dependent variable has been seen in the independent variables which help to understand the relationships. In that case, these quantitative analyses not only help to fulfil the hypotheses but also help to uncover correlations between specific board structures and financial performance for an organisation. There are several factors that influence the structure of the board in corporate governance where effective committee structures improve the organisational reputation. By maintaining reputation, organisations not only increase their business activities but also increase the performance level for the organisation that helps in the future development (Uyar et al. 2021). Some specific internal as well as external economic factors such as inflation, recession also influence financial performances.

Conclusion

In the end, it can be concluded that the complete study on relationships between corporate governance and financial performance provided effective information where changes in the business environment, the corporate governance brings changes in board structure that help to achieve the success in the financial aspects. In that case, the evaluation in broad structure is influenced by different factors that are associated with committee structure as well as leadership style and diversity on board. On the other hand, through the help of diverse board members, an organisation gets different types of competitive advantages where maintaining innovation in the workplace takes place that brings financial success properly.

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Appendices

Appendix 1: Survey Questionnaire

1. What is your age?

25-35
36-40
41-50
51-60

2. What is your gender?

Male
Female
Others

3. What is your academic qualification?

Graduation
Post-Graduation
Ph.D.
MBA

4. The proportion of independent directors on the board changed within the selected companies over the specified longitudinal period
5. The changes in board composition be linked to variations in financial performance indicators
6. Specific roles do independent directors play in influencing financial decision-making within the companies under study
7. Diversity within the board, including gender, ethnicity, and professional backgrounds, evolved over the specified longitudinal period
8. There are discernible patterns indicating a correlation between increased board diversity and improved financial performance
9. Challenges or benefits associated with diverse board structures concerning financial outcomes
10. The structures and effectiveness of board committees (e.g., audit, compensation, nomination) changed over the specified time frame
11. A correlation between the effectiveness of board committees and financial performance metrics
12. Effective board committees contribute to or hinder the overall financial success of the companies in focus

Survey link:https://docs.google.com/forms/d/e/1FAIpQLSdY_lX3D9F1_7Pj28v6fpdFUlOJGssyEwOOVwVyoKXf7lQphw/viewform?usp=sf_link