Board size versus Financial Performance: A Thematic approach

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Abstract

This paper seeks to examine the effects of board size upon firm's financial performance. Board characteristics include outside directors, board size, gender diversity and board diligence. This paper concentrated upon the board size's effect upon firm performance. The two corporate governance theories: namely, stewardship theory; and resource dependence theory were utilised. This paper made use of analysing and synthesising literature from various sources in a bid to expose the views of various writers upon the effects of Board size on firms' financial performance. The qualitative methodology was applied through the thematic analysis approach. Both the deductive and inductiv e approaches were utilized to enjoy the benefits of the thematic approach. This enabled robust coding technique.

Key words: Board Size , Firm Performance, Corporate governance, Thematic analysis

1. Introduction

There are many studies that involved analysing the relationship between corporate governance and performance of the firm. Most of these studies are oriented towards ascertaining the impact of board size which is another dimension of corporate governance on the performance of firms. Some of these studies reveal an increase in the effectiveness of the firm as the board size grows while others suggest the opposite, i.e., a decrease in the effectiveness of the firm as the board size grows.

Boards are the top decision-making organs of every organization, whether they are public or private, quoted, or unquoted, profit-oriented, or not. The reasons of having the boards might be the result of coercive action or the formation of a rule or code that must be obeyed (Druzin, 2017). Global recognition of the importance of the board to an organisation's performance is growing, and several nations have adopted corporate governance guidelines (Aguilera et al, 2018). To counter the rampant organizational failures that continue to occur globally a majority of business entities prefer having this practice (Maeda & Khatami, 2018). According to the World Bank Reports (2016), good corporate governance practices are essential since they lower borrowing costs, provide value to the company, and enhance risk management. All this results in sustainable growth and enhanced business performance. The current study sought to evaluate the impact of board size on financial performance basing upon the gathered literature.

1.1. Background of the study

The increasing instances of board member corruption and corporate governance violations inside Zimbabwe's parastatals, a problem that is spreading like cancer throughout all government departments and institutions, has forced the conduct of this research. According to a study by Adam and Adam (2021) as conducted in Afghanistan, good board characteristics boost a company's success. Other studies have shown the opposite to be true, and others have been unable to establish a statistically significant relationship between the variables (Ghabayen et al., 2016). Studies on board qualities and businesses' performance, such as those by Bathula (2018) and Ghabayen et al (2016), have yielded varied findings, from supporting to opposing a positive link, resulting in a contradicting empiric on board attributes and firm's success. As a result, the problem of figuring out and explaining the relationship between board characteristics and success of Zimbabwean businesses persists.

According to research by Sadgrove (2016) in Mauritius, every organisation should be headed by an effective Board of Directors (BOD), which is jointly and severally accountable for the performance of the company. The BOD should oversee managing the company's values, strategic objectives, and managerial performance, as well as risk management, risk assessment, and management performance (Sadgrove, 2016). Due to the differing opinions of studies, there is currently no agreement on how BOD qualities affect financial performance. According to Khanh et al. (2020), the size of the board of directors is inversely related to the firm's market value. Companies with smaller boards had greater Return on Assets (ROA), according to research by Zabri et al. (2016). According to Marinova, Plantenga & Remery, (2016), having a larger board in a high-performing firm hindered future performance improvement while having a larger board in a firm with bad performance related to future performance improvement. In this context large BOD levels are seen to be relevant when a firm is distressed. Possibly the varied expertise brought about by the larger number of the BOD brings forth economies of scale benefits.

1.2. Objectives of the Study

The following objective guided this research:

I. To assess the relationship between Board Size and Firm Performance of parastatals

1.3. Board Size and Firm Performance

Board size and corporate performance

Based on agency theory, researchers believe that the relationship between board size and company performance is negative (Chu yan, Zhi hui & Xin, 2021). A larger board size will have more agency costs, and as the board becomes larger, issues such as coordination and communication costs will increase (Chu yan et al, 2021). On the contrary these writers went on to posit that based on the resource dependence theory, the relationship between board size and corporate governance is positive. Thus, they were of the notion that the reason for support is that a larger board of directors can ensure that more non-executive directors can better supervise managers, while a larger board of directors will include more professionals from different fields. Basically (Chu yan et al, 2021) recognised the perspective that high-quality board members from different backgrounds can make better decisions for the board.

The study by Yusuf and Mesut (nd) aimed to test the impact of the board size on the financial performance of the firms. The study's sample utilises data from 2002-2012 belonging to 136 firms operating in the manufacturing industry section of Borsa Istanbul (BIST). In empirical analyses, Robust estimator developed by Beck-Katz (1995) was used. The results of the conducted analysis suggest a positive relation between the board size and Return on Asset and Z Altman score.

Board size has an impact on the effectiveness of member discussion and the board's capacity to make the best corporate decisions. But there is ongoing and contentious discussion regarding the appropriate board size in the literature on corporate governance. In the literature, there are several disagreements over whether the size of corporate boards affects business performance. Due to the board members' strategic stance regarding corporate policies and strategies, this argument consistently wins. In Zimbabwe according to the (Ministry of State Enterprises and Parastatals, 2010), the size of and composition of the Board is in accordance with the provisions of the enabling Acts or Articles of Association. The Board ought to comprise the executive and non-executive directors, a majority of whom shall be non-executive. This is seen to be fit to warrant effectiveness given that it reduces potential conflict of interest.

According to Sandada, Chitambara and Shamhuyenhanzva (2014) a suitable board size is crucial for the achievement of lucrative organisational performance. Thus, Sandada et al (2014) were of the notion that a large sized board of directors has benefits which include enhanced monitoring of a firm's activities. On the contrary the same proponents posited that a larger board may lead to agency problems attributable to some directors who may take advantage of the large number and become free riders offering very little benefit.

Ruigrok et al (2006) noted that having large boards increase the chances of connecting the organisation to the lucrative external environment. This therefore invites external information from the outside to help in decision making. A study by Andres and Vallelado (2008) involved 69 commercial banks in Spain, Italy, US, Canada, UK and France during the era 1995-2005. These writers concluded that the inclusion of more directors in boards is positively correlated with increased firm performance, as measured by ROA. On the other hand, (Neill & Dulewicz, 2010) came up with a different perspective. They noted that large boards would negatively affect the general team cohesion prevalent of the respective functions of the management structure. In Thailand, Pathan et al (2007) did a study on commercial banks and gathered that there exists a negative relationship between board size and performance measured by ROA and ROE. Also, in support of Pathan et al (2007) was the notion that a strong possibility exists that a large board will not be as effective as a smaller board (Hermalin and Weisbach, 2003). Another view was that large boards are associated with ineffective.

business communication and decision making because of a larger number of board members (Brickley, Coles and Jarrell, 2007).

Another perspective involved the indifferent proponents. Thus, Zulkafli and Samad (2007) in their analysis of a sample of 107 listed banks in nine countries of Asian Emerging markets (India, Singapore, Taiwan, Korea, Indonesia, Malaysia, Philippines, Thailand, Hong Kong), concluded that board size is not significantly correlated with performance measures such as ROA. Sikomwe and Kandufa (2014) noted that the Board of Directors of Trust Bank of Zimbabwe in 2004 though large claimed that they were unaware of a scenario where a significant amount of bank loans was non-performing and got granted without any formal agreement facilities. Sikomwe et al (2014), thus came up with the hypothesis that there is no significant relationship between board size and the performance of Banking and Financial firms.

1.4. Research methodology

The researchers made use of qualitative research methodology. To enhance the success of the study the thematic approach was utilized. This required a robust Literature review analysis and synthesis. Literature review was gathered from various sources. The views of the writers were classified, and the general trend of the data was extrapolated. According to Dawadi (2020), thematic analysis is a qualitative research method that researchers use to systematically organise and analyse complex data sets. It is a search for themes that can capture the narratives available in the account of data sets. Thus, thematic analysis involves the identification of themes through careful reading and re-reading of the transcribed data (King, 2004).

To maximise the overall depths of the analysis, both deductive and inductive approaches can be utilised (Dawadi, 2020) Thus a deductive approach was used as the starting point which allowed analysing data in relation to the themes that emerged through the review of literature done for the study or the research questions designed for the study. The researchers came up with the following themes:

i) positive correlation between BOD size and firm financial performance,
ii) ii) negative correlation between BOD and firm performance
iii) iii) no correlation between BOD size and Financial Performance.

Relative extent to which each of the themes was prevalent were then calculated and percentages were extrapolated for each theme.

1.5 Data presentation and analysis

Various writers who wrote about the relationship between Board size and firm performance were made use of in writing up this paper. Using the thematic approach

Table 1.1: Correlation of Board Size and Firm Performance

Theme	Author of the notion that there is a positive correlation between BOD size and Financial Performance	Author of the notion that there is a negative correlation between BOD size and Financial Performance	Author of the notion that there is no correlation between BOD size and Financial Performance
1.	Adam and Adam (2021)	Ghabayen et al., 2016).	Zulkafli and Samad (2007)
2.	Sadgrove (2016)	Khanh et al. (2020)	Sikomwe et al (2014)
3.	World Bank Reports (2016),	Zabri et al. (2016	
4.	(Aguilera et al (2018).	Marinova, Plantenga & Remery, (2016)	
5.	Maeda & Khatami, 2018).	Chu yan, Zhi hui & Xin (2021).	
6.	Chu yan et al, 2021)	Neill & Dulewicz (2010)	

7.	Yusuf and Mesut (nd)	Pathan et al (2007)	
8.	Beck-Katz (1995)	Thailand, Pathan et al (2007)	
9.	(Ministry of State Enterprises and Parastatals (2010)	Hermalin and Weisbach (2003)	
10.	Sandada, Chitambara and Shamhuyenhanzva (2014)	(Brickley, Coles and Jarrell (2007)	
11.	Ruigrok et al (2006)	Dang et al., (2022	
12.	Vallelado (2008	Musallam, (2020).	
13	Buallay and Al-Ajmi (2019)	Fariha et al., (202)	
14	Karamanou and Vafeas(2015).		
15	Detthamrong et al. (2017).		
16	Al-ahdal and Hashim (2022)		

Source: Literature Review referenced journals

The size of the corporate board is a reliable sign of a company's corporate governance success. The result is consistent with the claims made by the resource dependency hypothesis, according to which the corporate board becomes more effective as it gets bigger because more people from different backgrounds attend meetings and contribute their knowledge and skills (Buallay and Al-Ajmi, 2019; Karamanou and Vafeas, 2015).

A larger corporate board is more likely to look at how companies portray their financial situation, increasing the possibility that financial fraud will be reduced, according to studies by Al-ahdal and Hashim (2022) and Detthamrong et al. (2017). This agrees with the findings of this current paper where 51.6% of the writers that were referenced in this paper were of the notion that there is a positive correlation between BOD size and financial performance.

Only 6.5 % of the writers referenced in this paper were of the notion that there is totally no relationship between BOD size and firm financial performance. Thus, only Zulkafli and Samad (2007) and Sikomwe et al (2014) were of that notion.

The viewpoint of Dang et al., (2022), which contends that a larger corporate board has a negative impact on firms' performance, is different. According to the agency theorists (Dang et al., 2022; Haji, 2015), larger companies have a propensity for more disagreements and less coherence, which results in subpar corporate governance. Thus, as per table 1.2 below 41.9% of the writers that were referenced in this paper were of the notion that large boards result in reduced financial efficiency. The efficacy of a corporate board in evaluating the financial reporting of firms is also said to be increased with a smaller corporate board size (Fariha et al., 2021; Klein, 2012). According to several empirical studies, the size of the corporate board and financial performance are negatively correlated (Fariha et al., 2021; Musallam, 2020).

Table 1.2: Correlation of Board Size and Firm Performance

Theme	Positive Correlation	No Correlation	Negative Correlation
Number of Authors for the theme	16	2	13
Relative Percentage (%)	51.6	6.5	41.9

Source: Literature Review referenced journals

Data on table 1.1 was analysed as shown on table 1.2.

1.6. Conclusions

The researcher managed to draw conclusions upon the study objective. Below are the conclusions drawn for the study:

There is a significant correlation between board size and financial performance implying that board size effectively predicts financial performance. This implies that the size of the corporate board is a reliable sign of a company's corporate governance success.

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