

Impact of Corporate Board Characteristics on Financial Firms' Reputation: A Cross-Sectional Study

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Abstract

A firm's reputation is a critical intangible asset that affects its competitive advantage, stakeholder trust, and long-term sustainability. The contents and attributes of a company's "board of directors" are very important, especially in shaping its reputation in the financial industry. As the governing body responsible for strategic decision-making and oversight, the corporate board shows a significant exertion on shaping the firm's operations, policies, and its reputation. The expertise and qualifications of board members, particularly in financial matters, instill confidence in stakeholders, demonstrating the firm's commitment to sound governance and risk management. This paper explores the association between "corporate board characteristics" and the reputation of "financial firms". The findings of this study can help with further research and guide policymakers, executives, and stakeholders in their efforts to enhance financial firms' reputations through effective board governance. The study survey was conducted among 190 people working in the financial sector to know the role and impact of Corporate Board Characteristics on Financial Firms' Reputation. The study concludes that there is significant impact of Corporate Board Characteristics on Financial Firms' Reputation.

Keywords: Corporate Board Characteristics, Financial Firms' Reputation, Profit and Loss, Governance, Corporate Governance

Introduction

Corporate boards play a crucial role in organizations by overseeing management activities and providing necessary resources. The effectiveness of board monitoring depends on the incentives they possess, while the provision of resources relies on their board capital. Board capital, which includes expertise, experience, and connections to relevant organizations, directly impacts monitoring and resource provision. Elements of board capital that facilitate resource provision also enhance monitoring, suggesting that emphasizing board capital in

board composition can positively influence both functions. In contrast to traditional agency theory, board incentives indirectly affect monitoring and are constrained by board capital. Equity compensation also strengthens the relationship between board capital and resource provision/monitoring, while board dependence has a positive effect on resource provision but a negative impact on monitoring (Hillman & Dalziel, 2003). Numerous variables influence financial performance, making it difficult to distinguish the influence of "board composition" alone. Changes in board composition may coincide with economic booms or downturns, further complicating the analysis. Different companies with different board structures are not identical in other aspects, which makes it challenging to attribute financial performance solely to board characteristics. And also, upholding and making sure that the integrity and accuracy is maintained in business reporting and practices are considered significant goals for boards. Improving corporate performance was mentioned as a lesser concern compared to rebuilding corporate reputation and reforming "board structure", "CEO pay", and auditing (Bosner, 2011).

The focus of corporate governance has shifted towards board diversity and its influence on firm performance. Despite Denmark's progress in promoting gender equality, men still dominate Danish boardrooms. Surprisingly, Rose (2007) finds no significant correlation of firm reputation to the number of women on boards. The same holds true for board members' educational backgrounds and the inclusivity of foreigners. The study suggests that "board members" with non-traditional backgrounds tend to adopt the majority's conventional ideas unconsciously, preventing any potential performance impact. It is also revealed that the general educational background of board members does not affect firm performance significantly. Corporate boards with their working may not demand educational qualifications as long as they possess a university degree or equivalent credible skills. "Human capital" can be acquired through prior experience as a CEO or substantial business expertise.

Wellalage et al. (2012) examined how corporate board characteristics influence on the reputation of financial firms and found that family firms with boards that are open to non-family members, diverse, and have lower insider ownership tend to have lower financial performance. This suggests that a one-size-fits-all approach to corporate governance is not suitable for family businesses. The findings also indicate a very large association between family firms' "board characteristics" and "financial performance", even after accounting for potential endogeneity.

Literature Review

In their study conducted in 2017, Suganya and Kengatharan explored the influence of various attributes of corporate boards on the financial performance of companies in Sri Lanka. Their investigation focused on companies listed on the Sri Lankan stock exchange and employed return on assets (ROA) as a measure of financial performance. The study revealed that both the size of the board and the presence of non-executive directors had a notable impact on ROA. But the researchers did not find any significant correlation between the presence of female board members or CEO duality and ROA. These findings suggest that board size and the involvement of non-executive directors are key factors influencing the financial performance of Sri Lankan companies, while the presence of female members or CEO duality may not have a substantial effect in this context.

Unlisted firms, although having better average governance practices, exhibited lower risk-adjusted returns compared to listed firms. Having highly connected directors on the board (network centrality) was shown to be related to increased entrenchment, indicated by higher cash holdings and lower leverage. Established CEOs tend to populate the board with qualified and connected individuals, but these directors may not effectively constrain CEO entrenchment. There is also little evidence to suggest that the type of firm (publicly traded or privately held) or country-level variations significantly influenced the relationships between board characteristics and accounting outcomes (Mateus et al., 2015).

Bear et al. (2010) focused on the diversity of boards and the presence of women on boards, and how these factors influence the firms' "corporate social responsibility (CSR)" identity. The larger the number of women in the board, the better the CSR strength ratings are. Women contribute unique characteristics to the chair, such as "increased sensitivity to CSR" and decision-making criteria that is participatory, which all lead to enhanced CSR. As the number of female directors increases, communication barriers decrease, and their voices are more assertive and influential. The study discovered that the proportion of women on the board has a favorable influence on the company's image

In a comprehensive examination conducted by Bravo et al. (2015), the relationship between distinct attributes of corporate boards and the reputation of financial firms was explored, albeit indirectly addressing the subject matter. The analysis, which focused on Spanish companies, shed light on the interplay between reputation rankings and key factors associated with corporate boards. The findings indicated that financial firms with higher standings in the reputation index exhibited a more favorable composition of independent directors and female directors within their board structures. Moreover, the study revealed that the size of the company and the perception surrounding the company's president were also linked to corporate reputation. The study also highlighted the significance of the board of directors, emphasizing that companies with a stronger reputation tended to feature a greater presence of female directors and a higher proportion of independent directors. It was also observed that firm size and the reputation of the company's president played pivotal roles in shaping corporate reputation.

de Villiers et al. (2011) investigated the correlation between a company's strong "environmental performance" and the board of directors, which holds a critical role in overseeing and providing resources. The study explored two theoretical frameworks: agency theory and resource dependence theory. According to agency theory, the higher the board's autonomy and the lower the pressure from the CEO, the better the environmental performance. Conversely, resource dependence theory posits that a larger board size, more active CEO involvement on the board, and the presence of legal advisors contribute to an elevated level of environmental performance. The findings of the study reveal that the characteristics of the board have a notable impact on environmental performance. Certain board attributes facilitate effective monitoring and promotion of environmental practices, while others ensure the provision of essential resources to implement a robust environmental strategy. These results suggest that a well-structured board can play a pivotal role in driving environmental sustainability within a company.

Australian corporate boards adhere closely to best practices in corporate governance compared to boards in other Western countries and Kiel & Nicholson (2003) explored this connection and the study revealed that a larger board size is shows better firm value, even after accounting for firm size. At the same time, a higher ratio of internal directors correlates with improved performance. Larger companies, the ones with a lot of assets experienced performance.

Regarding board demographics, the market-based performance measure favors larger boards with a relatively lower proportion of outside directors, supporting stewardship theory. Conversely, the accounting-based performance measure does not show a similar relationship.

Perrault (2014) studied the influence of women on "corporate boards" from a social network and institutional perspective. By introducing gender diversity and breaking up male-dominated networks, women contribute to the effectiveness of the board. Their presence enhances the board's characteristics such as relations, and legitimacy, resulting in a higher level of trustworthiness and trust from shareholders. This is seen as an institutional change, with shareholder activists and legislative support playing a crucial role in dismantling old boys' networks and promoting gender diversity on boards. It emphasizes that women on boards have a substantial role in increasing the board's legitimacy, thereby bettering trust from shareholders.

Zhang et al. (2013) explored the impact of "board composition" on "corporate social responsibility (CSR)" performance and it is inferred that a higher input of external and women directors is associated with comparatively increased "CSR performance" within a firm's industry. "CSR performance" is seen as an indicator of a company's ethical and moral inclusivity. The findings are significant given the increased presence of outside and women directors on corporate boards in the "post-SOX era".

Objective

To compute the role and impact of Corporate Board Characteristics on Financial Firms' Reputation.

Methodology

The study survey was conducted among 190 people working in the financial sector to know the role and impact of Corporate Board Characteristics on Financial Firms' Reputation. The survey was conducted with the help of a structured questionnaire. The researcher had collected the primary data through convenient sampling method and analyzed it using mean and t-test statistical tools.

Findings

Table 1 Role and Impact of Corporate Board Characteristics on Financial Firms' Reputation

S. No.	Statements	Mean Value	t value	Sig.
1.	Corporate Board Characteristics help to shape operations, policies, and reputation of the firm	3.16	2.244	0.013
2.	Women in corporate board contribute to increase sensitivity to corporate social responsibility	3.12	1.694	0.046
3.	Female directors decrease communication barriers, and their voices are more assertive and influential	3.14	2.008	0.023
4.	Firm size and reputation of company's president played key role in shaping firm reputation	3.18	2.529	0.006
5.	Board attributes facilitate effective monitoring and promotion of environmental practices	3.13	1.857	0.032
6.	Corporate board ensure the provision of essential resources to implement a robust environmental strategy	3.17	2.387	0.009

Table 1 shows Role and Impact of Corporate Board Characteristics on Financial Firms' Reputation. The respondent says that Firm size and reputation of company's president played key role in shaping firm reputation with mean value 3.18, Corporate board ensure the provision of essential resources to implement a robust environmental strategy with mean value 3.17 and Corporate Board Characteristics help to shape operations, policies and reputation of the firm with mean value 3.16. The respondent also says that Female directors decrease communication barriers, and their voices are more assertive and influential with mean value 3.14, Board attributes facilitate effective monitoring and promotion of environmental practices with mean value 3.13 and Women in corporate board contribute to increase sensitivity to corporate social responsibility with mean value 3.12. The value under significant column for all the statements related to role of corporate board characteristics and its impact are significant with value below 0.05 after applying t-test.

Conclusion

The composition and attributes of the board, including diversity, independence, expertise, and size, have been identified as potential determinants of a financial firm's image. A well-balanced and diverse board with independent directors possessing relevant expertise contributes to effective decision-making, risk management, and governance practices, which in turn enhance stakeholders' perception of a financial company's fame. These findings underscore the importance of board composition and governance practices in maintaining and improving the reputation of financial institutions, highlighting the need for organizations to prioritize the selection and composition of their boards to ensure long-term success and stakeholder confidence. The study was conducted to know the role and impact of Corporate Board Characteristics on Financial Firms' Reputation and found that Firm size and reputation of company's president played key role in shaping firm reputation, corporate board ensure the provision of essential resources to implement a robust environmental strategy and Corporate Board Characteristics help to shape operations, policies and reputation of the firm. The study concludes that there is significant impact of Corporate Board Characteristics on Financial Firms' Reputation.

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